Conventional Lending Guide

Chapter 8 | Employment and Income

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB

Cardinal requires that the income used to qualify for the transaction be verified to document a history of receipt and reasonable expectation of continuance. The income must be stable, predictable, and expected to continue.

The underwriter must determine if the borrower's monthly income is stable based on the type of income received, the length of time received, and whether or not the income is likely to continue. For salaried borrowers, considerations in determining stable income are both the length of time employed in the current position and in a current profession.

Some sources of income are variable in nature and thus are less predictable. Examples of variable income include commissions, bonuses, substantial overtime, contract employees or tradesmen. The underwriter must obtain and analyze information about prior earnings to determine the likelihood of a consistent level of continued income.

Borrowers who change jobs frequently but are able to earn consistent and predictable income may be considered to have a reliable flow of income. The underwriter is responsible for determining if the borrower's income is consistent based on past history and likely to continue at the same level.

Generally speaking, a two-year history of receiving income is required in order for the income to be considered stable and used for qualifying purposes. If a borrower has less than a two year history of receiving income, the underwriter must provide a written analysis showing their determination that the income is stable.

For a borrower who has less than a two-year employment and income history, the borrower's income may be used as qualifying income if the file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history.

If a borrower has a gap in employment of greater than 60 days an explanation is required only if required by the AUS system or at the discretion of the underwriter if in their determination the borrower's credit risk profile warrants an explanation.

Continuity of Income

For all income used to qualify the borrower, the income must be reasonably expected to continue. This determination must focus on the borrower's past employment/self-employment history, history of receipt of other income and the probability of continued consistent receipt of the income used to qualify.

If the borrower's income does not have a defined expiration date, the underwriter is not aware of any facts that could impair the future of the income and the applicable history of receipt of the income is documented (per the specific income type), the underwriter may conclude that the income is stable, predictable, and likely to continue.

If the borrower's income source has 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. If the majority of the borrower's income comes from a source with a defined expiration date, care must be taken to ensure that the borrower will have the capacity to repay the loan when the income source expires or the assets are depleted prior to the maturity of the mortgage loan.

Determination of Expiration Date According to Agency

Agency	Determination of Expiration Date
Fannie Mae	When three-year continuance must be verified, measure from the **Mortgage Application Date** *(Disclosure Mode Date)*
Freddie Mac	When three-year continuance must be verified, measure from the **Note Date**

Defined Expiration Date According to Income Type

The below sections detail common sources of income that have an undefined expiration date and a defined expiration date. The list is not all-inclusive, the underwriter must use their judgment when reviewing borrower's income on every transaction.

Refer to the Determination of Expiration Date According to Agency section above when determining dates for continuance of income as required by the Agencies.

Fannie Mae

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 the specific income type), the underwriter may conclude that the income is stable, predictable, and likely to continue; the underwriter is not expected to request additional documentation.

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 years.

Income sources not listed will require underwriter judgment to determine if documentation of continuance must be obtained.

Examples of income types without a defined expiration date	Examples of income types with a defined expiration date
Income must be reasonably likely to continue, Underwriter does not need to document 3-year continuance	Underwriter must document a 3-year continuance
Automobile allowance	Alimony, Separate Maintenance, or Child Support
Base salary	Distributions from a retirement account - eg. 401K, IRA, SEP, Keogh
Bonus, overtime, commission or tip income	Mortgage differential payments
Capital Gains income	Note receivable
Corporate retirement or pension	Per Diem
Disability income — long-term	Public assistance / Adoption Assistance
Foster-care income	Royalty payments
Interest and dividend income - unless there is evidence it will be depleted	Social Security - not including retirement or long term disability

Military income	Time-based restricted stock units or restricted stock income when receipt was a one-time event
Mortgage credit certificates	Trust income • Continuity of income for trust income must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined
Part-time job, seasonal job, or seasonal income	VA benefits - not including retirement or long term disability
Rental income	
Self-Employment	
Social Security, VA, or other governmental retirement or annuity	
Time-based restricted stock units or restricted stock income when awarded in multiple consecutive years	
Note: Assets used to establish continuance for certain income types cannot be in the form of virtual currency	

Freddie Mac

Examples of income types without a defined expiration date Income must be reasonably likely to continue, Underwriter does not need to document 3-year continuance	**Examples of income types with a defined expiration date** Underwriter must document a 3-year continuance
Automobile allowance	Alimony, Separate Maintenance, or Child Support
Base non-fluctuating employment earnings	Capital gains

Fluctuation hourly employment earnings	Dividends and Interest
Bonus, overtime, commission or tip income	Distributions from a retirement account - eg. 401K, IRA, SEP, Keogh
Foster-care income	Homeownership Voucher Income
Housing or Parsonage allowance	Long-term disability income*
Military income	Mortgage differential payments
Mortgage credit certificates	Note receivable
Rental income	Per Diem
Restricted Stock and restricted stock units subject to performance based vesting	Public Assistance Income*
Royalty Payments (two year history)	Retirement Income*
Self-Employment	Royalty Payments (one year history)
Tax-exempt income	Social Security Supplemental Security Income (SSI)*
Unemployment associated with seasonal employment	Survivor and dependent benefits*
	Trust income
*Certain income types are comprised of multiple income sources, each of which may have specific requirements with respect to continuance, whether defined or undefined. For this reason, this grouping of income types may or may not have documentable continuance. Refer to individual income guidelines for determination.	
Note: Assets used to establish continuance for certain income types cannot be in the form of virtual currency	

Unacceptable Income Sources

Cardinal will not consider the following income types as qualifying income:

- Income based on trailing spouse income
- Draw income

- VA education benefits
- Illegal income, including income sources that are legal by state law but not federal law
- Taxable income not claimed on tax returns
- Any income that cannot be documented and/or verified
- Passive income from partnerships and S corporations
- Income that is not stable
- Grants
- Lottery income without evidence of historical receipt and a documented source of continuance
- Health and Wellness income
- Estate or Trust Income reported on IRS Form 1041

Determining the Need for Federal Income Tax Returns

The underwriter must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past two years for the following sources of income or employment. If the borrower:

- Is employed by interested parties to the property sale or purchase
- Receives rental income from an investment property
    - only one year of tax returns is required unless the borrower meets one or more of the other conditions in this list
- Receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman
- Receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099
- Receives income that cannot otherwise be verified by an independent and knowledgeable source
- Uses foreign income to qualify

- Uses interest and dividend income to qualify
- Uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify
- Receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed.

General Documentation Requirements Employed Borrowers

Cardinal requires that all employment income be verified if it is being used to qualify for the transaction. This verification can be provided by the borrower, the borrower's employer, or a third party employment verification vendor.

Smart Document Reference 269.600 Verbal Verification of Employment - Third Party Verification Vendor

Verbal Verification of Employment

In addition to any other income documentation requirements, a verbal verification of employment (VVOE) is required for all employed borrowers. The VVOE must be dated within 10 calendar days of closing (Note date).

Refer to Chapter 2 | Documentation Standards Lending Guide for Cardinal Financial's Verification of Employment Policy.

Military Personnel

In lieu of a verbal or written VOE for military personnel, Cardinal may either obtain a Military Leave and Earnings Statement or a verification of employment through the Defense Manpower Data Center.

The Military Leave and Earnings Statement must be dated within 120 days prior to the note date.

Tax Return and Transcript Policy

When the current year's tax returns reflect federal taxes due, evidence of payment must be documented; refer to the Tax Documentation Policy located in Chapter 2 | Documentation Standards for guidance. Please refer to the same document for guidance on the requirements and dates for W-2, tax returns, amended tax returns, and transcripts.

Verification of Base Pay, Bonus and Overtime

A minimum history of two years of employment income is recommended, underwriters may qualify borrowers whose employment history is less than two years as long as the borrower's income and employment profile demonstrates positive factors to offset the shorter history.

Documentation Required

- A written Verification of Employment (VOE), or
- Pay stubs covering the most recent 30-day period and W-2 forms for the past two years

Any Bonus or Overtime income should be calculated using the Variable Income guidelines.

If the borrower has recently changed positions with their employer a careful analysis of any bonus or overtime should be made to ensure whether it will continue in the future.

If the borrower has been a part-time employee and now indicates that they will be full-time, a written verification of employment is required.

Base Income Calculation

The underwriter must calculate the borrower's base income and compare it to the borrower's year-to-date income and previous year's income (if applicable) to determine if the income is consistent.

Pay Interval	Calculation
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12
Weekly	(Weekly gross pay x 52 pay periods) / 12
Biweekly	(Biweekly gross pay x 26 pay periods) / 12
Semi-Monthly	(Semi-monthly pay x 24 pay periods) / 12
Monthly	Use gross monthly payment amount
Annually	(Annual gross pay) / 12

Variable income components (bonus and overtime) should each be calculated separately using the above calculations. The underwriter should then determine the consistency using the variable income guidelines.

Note: The borrower may provide either pay stubs covering the most recent 30-day period and W-2 forms for the past two years or a written VOE.

Military Income

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.

Income paid to military reservists while they are satisfying their reserve obligations is also acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

Location of Employer

If the Fraud Report reflects the distance between the borrower's place of employment and their primary residence as within an unreasonable commuting distance, supporting documentation addressing the borrower's ability to commute must be provided.

If the borrower is working remotely, support for the ability to work in this capacity must be provided in accordance with the below guidance (applicable for Purchase transactions only):

- Regardless of time on their current job, written confirmation directly from the employer addressing the ability to work remotely must be obtained

Borrower Relocating with the Same Employer

When the borrower is relocating to a different area while remaining employed with the same employer, the stability and continuance of the income must be supported.

Verification from the employer must be provided to support the borrower will remain employed in the same capacity without a change to income or pay structure. If there will be a change in the borrower's income or pay structure, documentation addressing the change must be provided directly from the employer; further analysis may be performed by the underwriter and additional conditions may apply.

The employer must also confirm the location of the new place of employment and address any interruption to employment, if applicable.

Newly Employed Borrower

For borrowers who have recently started employment with a new employer and have been on the new job less than 6 months, the below requirements apply. Borrowers changing from 1099 or self-employment to a W-2 position must also adhere to this guidance.

In addition to AUS requirements, the following must be provided:

- A Standard Verification of Employment (VOE) with income from an acceptable third-party employment verification vendor such as TheWorkNumber, or
- Documentation reflecting the borrower has enrolled in direct deposit with the new employer and evidence to show the receipt and regular deposit of the net pay from the paystubs
- Note: if either of the above requirements can be met, the underwriter may review and approve the income without an exception request.

If a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, the following documentation must be provided:

- Provide documentation from the employer showing payroll dates, and
- Provide copies of paystubs* for six months, and
- Provide actual bank statements for the 6 month time period to show the receipt and regular deposit of the net pay from the pay stubs. Deposit dates must coincide with payroll dates as documented above.

If the borrower has been on the job less than six months and a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, an exception request may be submitted to the Credit Committee for review.

Please note: These guidelines may not apply to a Seasonal or Union worker whose employment typically changes periodically. Refer to Seasonal Income / Seasonal Unemployment and Union Members for additional guidance.

*Pay Stubs from the employer should show standard payroll deductions as required by law. Deductions include but are not limited to:

- Federal Income Tax
- State Income Tax
- Social Security (FICA)
- Medicare Tax (FICA)
- Insurance Policies
- Retirement

Borrower Converting from 1099 to W-2 with the Same Employer

If a borrower has previously been working for an employer being paid on a 1099 but converts to a W-2 wage earner, the following additional documentation is required:

- W-2 wages must have been received for a minimum of 6 months as documented with 6 months complete pay stubs, and
- Provide actual bank statements for the 6 month time period to show the receipt and regular deposit of the net pay from the pay stubs.
  - Direct deposit is a common form of payroll distribution and will support regular deposits into a borrower's account. In the absence of direct deposit, the borrower's bank statements should reflect regular deposits consistent with payroll dates. In some cases, copies of the canceled payroll checks may be required.
- Exceptions to the full 6 month time frame may be granted for some professions. Please submit a Credit Committee ticket for full review.

Non-Taxable Income

The underwriter should give special consideration to regular sources of income that may be nontaxable, such as certain military allowances, social security, disability retirement payments, child and spousal support payments, workers' compensation benefits, and certain types of public assistance payments.

The underwriter must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, income tax returns, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable portion of the income to the borrower's qualifying income. See the specific income type for further guidance.

Documentation to support that the income is nontaxable is not required for the following:

Fannie Mae	• Child support income: The full amount of qualifying child support income may be treated as nontaxable and grossed-up as described above • Social Security income: The underwriter may treat 15% of the income as nontaxable and gross-up the income as described above; refer to the Non-Taxable Social Security Income section for calculation details
Freddie Mac	• Social Security income: The underwriter may treat 15% of the income as nontaxable and gross-up the income as described above; refer to the Non-Taxable Social Security Income section for calculation details

Commission Income

A minimum history of two years commission income is recommended, if the borrower has less than a two year history it may be acceptable if there are positive factors to offset the shorter time period. Regardless of the percentage of total income from commission, the commission income will be calculated the same. See the Variable/Fluctuating Income section for more detail.

The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio. (Note that a history of receipt of this income continues to be required.)

Loans Utilizing DU Findings

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

Loans Utilizing LPA Findings

Commission income must be received for a minimum of 24 months to be considered acceptable. An average commission earnings of the last two years must be analyzed and calculated to determine the qualifying income amount.

Employed by Family

The stability and expected continuance of income must be supported.

FNMA

- A two year history of working for family is required supported by two years of signed federal income tax returns.

Freddie Mac

- Complete signed federal individual income tax returns for the most recent year are required. The tax returns must reflect the income earned working for family.

Rental Income

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years. For each income source used to qualify the borrower, it must be determined that both the source and the amount of the income are stable.

Eligible Properties

If the rental income is derived from the subject property, the property must be one of the following:

- A 1-unit principal residence (income is eligible from a live-in aide)
- A 2-4 unit principal residence property in which the borrower occupies one of the units
- A 1-4 unit investment property

If the rental 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.

Appraisal Forms

Appraisal Forms- Comparable Rent Data

FNMA	• Form 1007 Single Family Comparable Rent Schedule • Form 1025 Small Residential Income Property Appraisal Report
Freddie Mac	• Form 1000 Single Family Comparable Rent Schedule • Form 72 Small Residential Income Property Appraisal Report

The Resource | Rental Income Matrix will provide helpful information related to when rental income can be used for Fannie Mae and Freddie Mac programs related to the type of transaction, primary residence ownership and property management experience.

FNMA

Rental Income from the Borrower's Principal Residence

Generally, rental income from the borrower's principal residence (a 1-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. Fannie Mae does allow certain exceptions to this policy for income received from:

- A Live-in Personal Assistant or Aide or,
- Boarder Income and properties with accessory units (HomeReady only)

This restriction applies whether or not the income is reported on the borrower's tax returns.

Rental Income from Live -in Personal Assistant or Aide

- When a borrower with disabilities receives rental income from a live-in personal assistant or aide (sometimes referred to as a boarder) 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 or aides are typically paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower

  Note: income is not determined by using a standard vacancy factor, see Example Calculations below

Documentation Requirements

- 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
- For purchase transactions, provide evidence the boarder will be moving with the borrower to the new residence. Evidence can be in the form of a signed letter from either the borrower or the boarder verifying the move.

HomeReady

Accessory Unit

Income from a 1-unit principal residence with an accessory unit is permissible in accordance with the following requirements:

- Units must meet Accessory Unit requirements per FNMA's Improvement Section of the Appraisal guidelines
- Income must be calculated using standard rental income calculations per this section
- Rental income must considered as part of the program AMI
- Transaction may be a refinance or a purchase

Boarder Income

- The rental payments that any borrower receives from one or more individuals who reside with the borrower (who may or may not be related to the borrower) may be considered as acceptable stable income.
- This applies for a 1-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if the boarder
    - Note, income is not determined by using a standard vacancy factor, see Example Calculations below

- Verify the boarder is not obligated on the mortgage loan and does not have an ownership interest in the property
- Verify the boarder has lived with the borrower for the last 12 months
- Provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address), and
- Provide evidence of rental payments (such as with copies of canceled checks) to the borrower for
    - the last 12 months, or
    - at least 9 of the most recent 12 months provided the rental income is averaged over a 12–month period
- For purchase transactions, provide evidence the boarder will be moving with the borrower to the new residence. Evidence can be in the form of a signed letter from either the borrower or the boarder verifying the move
- Payment of rent by the boarder directly to a third party is not acceptable

Example Calculation

The following examples demonstrate how to calculate eligible income, not to exceed 30% of the total gross income

- Example 1
    - Borrower's total income without the consideration of Boarder Income is $3,000 per month
    - 30% of the borrower's qualifying income of $3,000 (without consideration of Boarder Income) equals $900
    - Boarder documented rents received total $1200 per month
    - The maximum amount of boarder income considered towards qualifying income may not exceed $900

- Example 2
    - Borrower's total income without the consideration of Boarder Income is $3,000 per month
    - 30% of the borrower's qualifying income of $3,000 (without consideration of Boarder Income) equals $900
    - Boarder documented rents received total $800 per month
    - The full amount of rent received of $800 may be considered towards qualifying income

General Requirements for Documenting Rental Income (Subject and Non-Subject Property)

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return.

If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the underwriter may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are:

- Purchase transactions where there is an existing lease on the property that will transfer to the borrower;
- Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing;
- Refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income); and
- Transactions where rental income is being used to qualify for any property placed in service in the current calendar year, for example, when converting a principal residence to an investment property

When the subject property will generate rental income and it is used for qualifying purposes, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:

- For one-unit properties: *Single-Family Comparable Rent Schedule* (Form 1007) (provided in conjunction with the applicable appraisal report), or
- For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Form 1025).

Note: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

The Resource | Rental Income Matrix will provide helpful information related to when rental income can be used for Fannie Mae and Freddie Mac programs related to the type of transaction, primary residence ownership and property management experience.

Rental Income Received from a Family Member

Fannie Mae does not have restrictions or additional requirements when using rental income derived from a property that is being rented to a family member.

Documenting Rental Income from Subject Property

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 of 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 below).
No	Purchase	Form 1007 or Form 1025, as applicable, *and*

		• copies of the current lease agreement(s) if transferred to the borrower. If the property is not currently rented, lease agreements are not required and Form 1007 or Form 1025 may be used. If there is a lease on the property that is being transferred to the borrower, the lender is responsible for ensuring clear title and first lien enforceability
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. See *Reporting of Gross Monthly Rent* below for details.		

Documenting Rental Income from Property Other than the Subject Property

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

Reconciling Partial or No Rental History on Tax Returns (Including a Retained Departure Residence)

In order to determine qualifying rental income, it must be determined whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the underwriter may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental property or to other rental properties owned by the borrower.

- Departure Residence Definition: A departure residence is a home that is currently owned and occupied by the borrower that they are planning to move out of and convert to an investment property.
  - Note: If the borrower chooses to convert that home to an investment property after acquisition of a new home or establishment of a new residence, the property no longer meets the definition of a departure residence.

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, qualifying rental income may be determined 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 ...
The property was acquired during the most recent tax filing year Note: this is relating to the required tax filing with no account for a tax extension	• The underwriter must confirm the purchase date using the settlement statement or closing disclosure, and • Fair rental days on Schedule E of the most recently filed tax return must confirm partial year rental income
The property was acquired or placed into service subsequent to the most recent tax filing year	• Confirm the purchase date using the settlement statement or other documentation, if applicable, and • Schedule E or the most recently filed tax return must confirm no rental income or expenses for this property
The rental property was out of service for an extended period	• Repair expenses on Schedule E will reflect the costs for renovation or rehabilitation. Additional documentation may be required to ensure that the expenses support a significant renovation that 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.
The underwriter determines that some other situation warrants an exception to use a lease agreement	The underwriter must provide an explanation and justification in the loan file
If the borrower is converting a principal residence to an investment property, see Qualifying Impact of Other Real Estate Owned below for guidance in using that rental income to qualify the borrower.	

Qualifying Impact of Other Real Estate Owned

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is:

- An existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, Rental Income, Minimum Reserve and Multiple Financed Property requirements (if applicable),
- An existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
- The borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the lender must comply with the policies in this topic

Calculating Monthly Qualifying Rental Income (or Loss)

Fannie Mae published updated guidance related to the calculation of monthly qualifying income applicable for applications dated on or after January 1st, 2024, changes of which are reflected below. For current guidelines, which may be utilized until December 31st, 2023, refer to The Resource | Rental Income Matrix.

To determine the amount of rental income from the subject property that can be used for qualifying purposes, the underwriter must consider the following:

<table>
<tr><th>If the borrower...</th><th>And rental income is from the...</th><th>Then for qualifying purposes...</th></tr>
<tr><td>• Currently owns a principal residence (or has a current housing expense), and
• Has at least a one-year history of receiving rental income or at least one year of documented property management experience</td><td>• Subject property or Non-subject property</td><td rowspan="2">• There is no restriction on the amount of rental income that can be used</td></tr>
<tr><td>• Does not currently have a housing expense, and
• Has at least one-year of receiving rental income from the property</td><td>• Non-subject property (in service for at least one year)</td></tr>
<tr><td>• Currently owns a principal residence (or has a current housing expense), and
• Has less than one-year history of receiving rental income from the related property or documented property management experience</td><td>• Subject property</td><td>• 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 (in other words, is limited to zero cash flow)</td></tr>
</table>

	• Non-subject property (new or newly placed in service less than a year)	• For a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property • For an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow)
• Does not own a principal residence, and • Does not have a current housing expense	• Subject property	• Rental income from the subject property cannot be used
	• Non-subject property (new or newly placed in service less than a year)	• Rental income from the property cannot be used

The underwriter 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 and Fair Rental Days of 365;
- 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 reflected on the lease

Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

Method for Calculating the Income

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

- Federal Income Tax Returns, Schedule E
  - When Schedule E is used to calculate qualifying rental income, any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses must be added back to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.
  - If the property was in service
    - for the entire tax year, the rental income must be averaged over 12 months; or
    - for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit
  - See Treatment of the Income (or Loss) below for further instructions
- Lease Agreements or Form 1007 or Form 1025
  - Permitted documentation (Lease or 1007/1025) differs between rental income derived from the subject property and rental income derived from the non-subject property; refer to the following sections for clarification
    - Documenting Rental Income from Subject Property
    - Documenting Rental Income from Property Other than the Subject Property
  - When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, calculate the rental income by multiplying the gross monthly rent(s) by 75%

(This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses

- When using a lease agreement, the lease agreement amount must be supported by
  - Form 1007 or Form 1025, as applicable, or
  - Evidence the terms of the lease have gone into effect. Evidence may include:
    - two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
    - copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements

See Treatment of the Income (or Loss) below for further instructions.

Treatment of the Income (or Loss)

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) — and its treatment in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as his or her principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation

- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation

Note: When a borrower owns multiple rental properties, the rental income for all non-subject properties is first calculated for each property, then aggregated. The aggregate total of the income (or loss) is then added to the borrower's total monthly income or included in their monthly obligations, as applicable.

Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S-Corporation

If the borrower is personally obligated on the mortgage debt (as evidenced 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:

- Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year,
- Evaluate each property listed on Form 8825, as shown below:
    - From total gross rents, subtract 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
- If the resulting net cash flow is **positive**, the underwriter may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio.
- 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.

Note: For DU loan casefiles, the term “subject net cash flow” applies to net rental income from the subject property, and the term “net rental income” applies to rental income from properties other than the subject property.

Reporting of Gross Monthly Rent

Eligible rents on the subject property (gross monthly rent) must be reported to Fannie Mae in the loan delivery data for all two-to four-unit principal residence properties and investment properties, *regardless* of whether the borrower is using rental income to qualify for the loan.

If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower may provide one of the following sources (listed in order of preference):

- The appraisal report for a 1-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;
- If the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
- If an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
    - a written statement from the borrower, or
    - an addition to the *Uniform Residential Loan Application* (Form 1003)
- Borrower’s Personal Tax Returns, Schedule E if the subject property and amount of rental income is listed
- Zestimate from Zillow.com; the Zestimate must be retained in the mortgage file
- Signed Letter from seller or realtor indicating the estimated market rent

Short-Term Rental Income

Short term rental income is acceptable and must be supported by a minimum of one year tax returns; refer to DU for the required number of years of completed tax returns to be provided. A lease agreement may not be used to determine qualifying income.

Follow all remaining standard Rental Income requirements as noted within the sections above.

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Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:

- 1-unit Primary Residence (rental income is eligible from a live-in aide)
- 2-4 unit Primary Residence (rental income is eligible from units that are not occupied by the Borrower)
- Subject 1-4 unit Investment Property
- Non-subject investment property owned by the Borrower (not restricted to residential property (e.g., commercial permitted)
- Rental income from a second home may not be used as stable income.

The Resource | Rental Income Matrix will provide helpful information related to when rental income can be used for Fannie Mae and Freddie Mac programs related to the type of transaction, primary residence ownership and property management experience.

Rental Income Received from a Family Member

Freddie Mac does not have restrictions or additional requirements when using rental income derived from a property that is being rented to a family member.

Rental Income from 1-Unit Primary Residence

Rental income from a 1-Unit Primary Residence may be considered as stable monthly income provided it meets the following requirements:

- Rental income is from a Live-in Personal Assistant or Aide or,

- Rental income is generated from an Accessory Unit

Rental Income from Live-in Personal Assistant or Aide

Eligibility	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
Documentation	Evidence that the Borrower has received stable rental income from a live-in aide for the most recent 12 months
Qualification	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 for the Mortgage. Refer to Example Calculations below
Example Calculation	The following examples demonstrate how to calculate eligible income, not to exceed 30% of the total gross income. • Example 1 ○ Borrower's total income without the consideration of Boarder Income is $3,000 per month ○ 30% of the borrower's qualifying income of $3,000 (without consideration of Boarder Income) equals $900 ○ Boarder documented rents received total $1200 per month ○ The maximum amount of boarder income considered towards qualifying income may not exceed $900 • Example 2 ○ Borrower's total income without the consideration of Boarder Income is $3,000 per month ○ 30% of the borrower's qualifying income of $3,000 (without consideration of Boarder Income) equals $900 ○ Boarder documented rents received total $800 per month ○ The full amount of rent received of $800 may be considered towards qualifying income

Rental Income from Accessory Units

The following chart contains minimum documentation required to establish net rental income from an ADU on a 1-unit Primary Residence. Note, although Freddie Mac permits ADU's on 1, 2 and 3-unit properties, only rental income may be considered when the property is a 1-unit dwelling.

Purchase transactions	"No cash-out" refinance transactions
The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method. If a lease is available, then: • The lease must be used to determine the net rental income. and • ADU rental analysis must support the income reflected on the lease If a lease is not available, the ADU rental analysis must be used to determine the net rental income.	• The Borrower's complete federal income tax returns (IRS Form 1040), including Schedule E, for the most recent year must be used to determine the net rental income, except as stated below • A lease and ADU rental analysis may be used if the ADU rental analysis supports the rental income reflected on the lease and one of the following are met: ◦ The property was out of service for any time period in the prior year and the Mortgage file contains a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or ◦ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use; or ◦ The property was placed in service in the current calendar year as documented in the Mortgage file

Lease Requirements

When a lease is obtained in accordance with the minimum income documentation requirements above, the lease must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the Mortgage.

Additional Appraisal Requirements

The following information on the ADU is required within the appraisal report:

- Information on the ADU must include the:
    - General condition of unit
    - Square feet of finished area
    - Total number of rooms including number of bedrooms and baths
- The appraisal report must indicate the ADU is allowed per zoning and land use requirements (i.e., legal, legal non-conforming, no zoning)
- Comparable sales within the Sales Comparison Approach section must include at least one comparable sale with an ADU.
- The rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.
- Note: When rental income generated from an ADU on a subject 1-unit Primary Residence is used to qualify the Borrower, Sellers must ignore the ACE appraisal waiver message and the corresponding data in the Assessment Summary of the Feedback Certificate that indicates ACE eligibility, if offered, because an appraisal report must be obtained.

Net Rental Income Calculation Requirements

The following chart contains requirements for calculating net rental income used for qualifying the Borrower.

<table>
<tr><th>Rental income documentation</th><th>Net rental income calculation requirements</th></tr>
<tr><td>Lease</td><td rowspan="2">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 any other unexpected expenses.</td></tr>
<tr><td>ADU rental analysis</td></tr>
</table>

Schedule E	Calculate the net rental income from Schedule E using Form 92, Net Rental Income Calculations – Schedule E, or a similar alternative form.
The rental income generated from an ADU may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the Borrower for the Mortgage.	

Landlord Education

For purchase transactions, at least one qualifying Borrower must participate in a landlord education program prior to the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, unless the Borrower has a minimum of one-year Investment Property management experience or ADU rental management experience. Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.

Smart Document Reference 108.100 - Certificate of Completion of Landlord Education Counseling

HomePossible

Additional requirements when considering rental income from a 1-unit primary residence on a HomePossible mortgage apply as listed below.

Rental income from a 1-unit Primary Residence may be considered as stable monthly income provided it meets the following:

- The person providing the rental income:
    - Is not obligated on the Mortgage and does not have an ownership interest in the Mortgaged Premises
    - Has resided with the Borrower for at least one year
    - Will continue residing with the Borrower in the new residence

- Provides appropriate documentation to evidence residency with the Borrower (i.e., copy of a driver's license, bill, bank statement, etc., that shows the address of that person to be the same as the Borrower's address)
- Is not the Borrower's spouse or domestic partner

- Rental income from the person residing in the Mortgaged Premises:
  - Has been paid to the Borrower for the past 12 months
  - Can be verified by the Borrower with evidence showing receipt of regular payments of rental income to the Borrower for at least nine of the past 12 months (i.e., copies of canceled checks)
  - Must be averaged over 12 months for qualifying purposes when fewer than 12 months of payments are documented
  - Does not exceed 30% of total income used to qualify for the Mortgage
- The Mortgage file must contain a written statement in the form of a signed letter or email directly from the Borrower affirming:
  - The source of the rental income
  - The fact that the person providing the rental income has resided with the Borrower for the past year and intends to continue residing with the Borrower in the new residence for the foreseeable future

Rental income that meets the above requirements may be generated from an accessory unit.

Rental Income from the Borrower's 2-4 unit Primary Residence, Subject 1-4 unit Investment Property and Non-Subject Investment Property

Net Rental Income Calculation Requirements

Net Rental Income	
Rental Income Source	**Calculation Requirements**
Lease	

Forms 72 or 100	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 any other unexpected expenses.
Schedule E	The net rental income for each individual property is determined based on the history of income and expenses reported 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 (e.g., casualty loss due to documented catastrophic event) + Non-cash deductions (e.g., amortization) Result = Net rental income (calculated to a monthly amount) Note: 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

Documentation, History and Analysis (Including Retained Departure Residence)

- Departure Residence Definition: A departure residence is a home that is currently owned and occupied by the borrower that they are planning to move out of and convert to an investment property.
    - Note: If the borrower chooses to convert that home to an investment property after acquisition of a new home or establishment of a new residence, the property no longer meets the definition of a departure residence.

Rental Income from Purchases and Property Acquired or Placed in Service in the Current Calendar Year		
Topic	**Subject Property Purchase Transaction**	**Subject property refinance transaction or non-subject property:** • **Purchased in the current calendar year; or** • **Placed in service as a rental property in the current calendar year**

Documentation and Analysis	• 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 Borrower and/or any other applicable and reasonable method.
	or
	• If a lease is not available, Forms 72 or 1000, as applicable, may be used to determine the net rental income
		Lease must be used to determine the net rental income; ***and***
		• Form 72 or 1000 supporting the income reflected on the lease; ***or***
		• Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment [1]. Documentation must include:
		  ○ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks), or
		  ○ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screen shot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screen shot that evidences transfer of the

		- payments and ties the account to the Borrowers bank account), or - For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution Purchase date or conversion date, as applicable, must be documented
Lease Requirements	Leases must be current and fully executed in the property seller's name as the landlord	- The lease must be current and fully executed - For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage
Maximum eligible amount of net rental income	- 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, net 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 (retained departure residence), net rental income can only offset the full monthly payment of that Primary Residence. - If the net rental income exceeds the full monthly payment of the *new rental investment 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. * When the subject property purchase transaction is the purchase of a 2-4 unit primary residence, there are no additional requirements/restrictions for management experience or previous primary residence ownership.	

[1]Form 72 or 1000 is always required for the subject property

Topic	Rental Income from Property Owned in the Prior Calendar Year
Documentation	The Borrower's complete federal income tax returns including the

	Schedule E for the most recent year must be obtained
	• 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, Schedule E must be used to determine the net rental income or loss.
	• A signed lease may be used if:
	    ○ The property was out of service for any time period in the prior year and the Mortgage file contains a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or
	    ○ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use;
	    ○ And, in either of the above instances, additional documentation provided as follows
	        ■ Form 72 or 1000 supporting the income reflected on the lease; or
	        ■ Documentation verifying two months of receipt of rental payments, or the security deposit and receipt of the first month's rental payment[1]. Documentation must include:
	            • Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks), or
	            • Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screen shot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screen shot that evidences transfer of the payments and ties the account to the Borrowers bank account), or
	            • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution
	• 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.

Lease Requirements	Leases must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject Mortgage.

[1]Form 72 or 1000 is always required for the subject property

Establishing DTI

Topic	Requirements
2-4 unit Primary Residence	• The monthly housing expense must be calculated without the use of rental income • The net rental income may be added to the stable monthly income
Subject 1-4 unit Investment Property	Subtract the monthly payment amount from the net rental income: • If the result is **positive**, add it to the stable monthly income • If the result is **negative**, add it to the monthly liabilities
Rental income from non-subject investment property owned by the Borrower	Subtract the monthly payment amount from the net rental income: • If the result is **positive**, add it to the stable monthly income • If the result is **negative**, add it to the monthly liabilities For multiple non-subject investment properties, apply the calculation above to each property, and: • If the combined result is **positive**, add it to the stable monthly income • If the combined result is **negative**, add it to the monthly liabilities

Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation

The below requirements are applicable regardless of the Borrower's percentage of ownership interest in the partnership or S corporation and regardless of whether the Borrower is personally obligated on the Note.

Rental Real Estate Income and Expenses Reported on Form 8825

All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the Borrower is personally obligated on the Note and regardless of the Borrower's percentage of ownership interest in the partnership or S corporation.

Refer to Freddie Mac Form 91 for the appropriate treatment and calculation of the Borrower's proportionate share of the net rental real estate income or loss.

Data Delivery Requirements

Regardless of whether rental income from the subject Investment Property is being used to qualify the Borrower, the ULDD Data Point Property Dwelling Unit Eligible Rent Amount must be delivered for:

- Subject 1-unit Investment Property
- Each non-owner occupied unit in a 2-4 unit Primary Residence
- Each unit in a subject 2-4 unit Investment Property

For two-to four-unit properties, the gross monthly rental income for each non-owner occupied dwelling unit can be determined using one of the following:

- Signed lease agreement
- Appraisal Form 1007/1000
- Signed Letter from seller, realtor, or borrower indicating the estimated market rent
- Borrower's Personal Tax Returns, Schedule E if the subject property and amount of rental income is listed
- Zestimate from Zillow.com; the Zestimate must be retained in the mortgage file

If there is no active lease for a unit, or the Borrower rents the unit to a family member, the gross monthly rental income is determined per the applicable appraisal report or addenda.

Short-Term Rentals Airbnb or Similar Income

Borrowers who generate rental income from renting out properties via Airbnb, Vacation Rentals by Owner (VRBO) and the like, may use the rental income if a two-year history of rental income is documented on Schedule E of the borrower's tax return (or one year if LPA directs). Short-term rental income from a single family residence in which the borrower resides is not acceptable. Short-term rental income is typically fluctuating so historical analysis of the associated degree of volatility and/or irregularity is necessary to determine income stability; rental income must be annualized for qualifying purposes.

If the property is a condominium or PUD the underwriter must verify that short-term rentals are allowed by the Homeowner's Association and there must not be a local ordinance prohibiting the short-term rental of the property.

Follow all remaining standard Rental Income requirements as noted within the sections above.

Restricted Stock Unit (RSU) Income

Restricted Stock Unit income is considered a form of compensation. Depending on each employer's benefits program, the units will take a period of time to vest after they are awarded (i.e. % of units over a set number of years). RSUs are assigned a fair market value when they vest and are not considered income until they vest and the value of the stock units are reported to the borrower as income for tax filing purposes.

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Verification of Restricted Stock Income

Performance-based Award	A minimum history of 24 months restricted stock income from the current employer is recommended. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as: • Future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or • Restricted stock income received for the previous 5 years from any employer
Time-based Awards	A minimum history of 12 months restricted stock income from the current employer is required
• To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions • Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered as qualifying income	
Documentation	• Evidence stock is publicly traded; • Current vesting schedule reflecting past and future vesting;

	• Brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and, at a minimum, the number of vested shares or cash equivalent; • A completed Request for Verification of Employment (Form 1005) that shows restricted stock distributions, or the borrowers recent paystub showing receipt of restricted stock income; and • The borrower's IRS W-2 forms covering the most recent two-year period
Continuance	The underwriter must confirm continuance of income per Continuity of Income

Calculation Method

The calculation method for restricted stock income will vary depending on whether payment is made in shares or cash.

Income paid in shares	• (200-Day Moving Average of share price x total number of distributed vested shares (pre-tax) in most recent 24 months) / 24 months
Income paid in cash	• Total cash distributed (pre-tax) equal to the total value of vested shares in the most recent 24 months / 24 months
When the borrower has a history of income ranging from 12-24 months, the underwriter must use the actual number of months the borrower has received the income rather than 24 months.	

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RSU Subject to Performance-Based Vesting Provisions	
History of Receipt	• Two consecutive years; • To be considered for history of receipt, RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction
Continuance	Must be likely to continue for at least the next three (3) years

Documentation Requirements	• All of the following:
	  ○ YTD paystub(s) documenting all YTD earnings, including payout(s) of RSU;
	  ○ W-2 forms for the most recent two (2) calendar years; and
	  ○ 10-day Verbal VOE
	• Or, all of the following:
	  ○ Written VOE documenting all YTD earnings (including payout(s) of RSU) as well as earnings for the most recent two calendar years;
	  ○ 10-day Verbal VOE
	• Provide evidence the stock is publicly traded
	• Documentation verifying that the vesting provisions are performance-based (e.g., RSU agreement or offer letter)
	• Vesting schedule(s) currently in effect detailing past and future vesting
	• Evidence of receipt of previous year(s) payout(s) of RSU (e.g., year-end pay stub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax)

Calculation	• RSU distributed as shares:
	  ○ Multiply the 52-week average stock price as of the application received date (disclosure mode date) by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24
	    ■ Example: If 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the application date is $10, multiply 200 x $10, then divide by 24 = $83.33 monthly income
	• RSU distributed as cash equivalent:
	  ○ Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24

RSU Subject to Time-Based Vesting Provisions	
History of receipt:	• One year; • To be considered for history of receipt, RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction

Continuance	Must be likely to continue for at least the next three (3) years
Documentation Requirements	• All of the following: ◦ YTD paystub(s) documenting all YTD earnings, including payout(s) of RSU; ◦ W-2 forms for the most recent one (1) calendar year; and ◦ 10-day Verbal VOE • Or, all of the following: ◦ Written VOE documenting all YTD earnings (including payout(s) of RSU) as well as earnings for the most recent one calendar years; ◦ 10-day Verbal VOE; ◦ Income verifications obtained through a third-party verification service provider are permitted provided that the documentation clearly identifies and distinguishes the payout(s) of RSU income • Evidence the stock is publicly traded • Documentation verifying that the vesting provisions are time-based (e.g., RSU agreement or offer letter) • Vesting schedule(s) currently in effect detailing past and future vesting • Evidence of receipt of previous year's payout(s) of RSU (e.g., year-end pay stub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax)
Calculation	• RSU distributed as shares, or its cash equivalent: ◦ Multiply the 52-week average stock price as of the application received date (disclosure mode date) by the number of vested shares distributed (pre-tax) to the borrower in the past years, then divide by 12 ▪ Example: If 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the application date is \$10, multiply 50 x \$10, then divide by 12 = \$41.67 monthly income • RSU distributed as cash equivalent: ◦ Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12

Secondary Employment Income (Second Job) and Seasonal Income

These types of income may be hourly or seasonal, refer to the applicable section for information on how to calculate the borrower's income depending on the source.

Documentation Requirements

The following documentation is required:

- A Written Verification of Employment (VOE), or
- Pay stubs covering the most recent 30-day period and W-2 forms for the past two years

A verbal verification of employment is required from each employer within 10 calendar days of the loan closing (Note date).

Secondary or Part-Time Income

Secondary income is income that the borrower derives from a second job or multiple jobs. Verification of history of two years of uninterrupted secondary income is recommended. The underwriter may use income received for less than two years but it must be received for at least 12 months. The underwriter must determine if 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 the income has been consistently received. The borrower may not have any gap in employment greater than one month in the most recent 12-month period, unless the secondary employment is considered Seasonal Income.

Seasonal Income / Seasonal Unemployment

Seasonal Employment refers to employment that is not year-round, regardless of the number of hours per week the Borrower works on the job. Employment Income from Seasonal Employment may be considered as effective income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season.

Seasonal unemployment benefits are payments made by the state or other jurisdiction to borrowers during seasonal layoffs. Unemployment income may be used as effective income for those individuals with effective income from Seasonal Employment.

Required Documentation

- For seasonal employees with unemployment income, the unemployment income for two full years must be demonstrated with the following documentation and there must be reasonable assurance that this income will continue.
    - Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years;
    - Verify that the seasonal unemployment compensation is reported on the borrower's signed federal income tax returns;
    - Verify that the seasonal unemployment compensation is reported on the corresponding personal tax return Record of Account or personal income tax return transcripts;
    - Verify that the borrower is currently receiving unemployment compensation associated with seasonal layoffs if the borrower is not currently employed with the seasonal employer;
    - If currently employed, document seasonal employment per AUS requirements;
    - If not currently employed with the seasonal employment, confirm with the borrower's employer using a standard Verification of Employment that there is a reasonable expectation that the borrower will be rehired for the next season.

Calculation of Effective Income

- For employees with Employment Income from Seasonal Employment, an average of the income earned over the previous two full years from both the seasonal employment AND unemployment may be used to calculate Effective Income.
- When a borrower's employee income from a seasonal employer has decreased but the unemployment for the same time period has increased, consideration is provided to the reason for the seasonal employment income decline. The income from the seasonal employment

income will be averaged as will the unemployment income to develop an average for both income sources and provide fair consideration for the declining income source.

Income Received from Arts, Film, and Theatre

For borrowers who are employed in the Arts, Film, or Theatre industry and are receiving income on a seasonal or on a per-job basis, either Seasonal Income or Variable Income guidelines may be followed depending on the history, nature, and receipt of wages.

To consider income from these sources, the underwriter must be able to demonstrate that the income is stable and predictable, and is likely to continue.

Seasonal Income

One of the key components for seasonal employment is that the employment opportunity is cyclical; as the cycle opens up, the borrower returns to work and therefore, the cycle is predictable. If it cannot be supported that the borrower is employed, or guaranteed employment, on a year-round basis, it may not be possible to qualify the borrower under Seasonal Income guidelines.

Variable Income

If the borrower finds work on an 'as-is available' status and does not have a current source of income, the income cannot be used for qualifying. If currently employed, the income may be reviewed as Variable Income.

Traveling Nurses

Travel nursing is a nursing assignment concept that developed in response to the nursing shortage. The industry supplies nurses who travel to work in temporary nursing positions, mostly in hospitals. While travel nursing traditionally refers specifically to the nursing profession, it can also be used as a blanket term to refer to nursing and allied healthcare professionals, physicians, advanced practice nurses, physician assistants, dentists and other support staff including certified nursing assistants.

Nurses may be paid as a contract employee and receive either a W2 or 1099 wage. Employment can also be offered under short or long-term assignments. As wages are typically fluctuating, the income should be assessed under Variable/Fluctuating Income guidelines.

Please note, Variable/Fluctuating Income guidelines require a minimum of a 12 month history be documented. In the instance where a borrower may have less than a 12 month history of employment as a traveling nurse receiving variable wages, employment may still be considered acceptable if the borrower:

- Can demonstrate an employment history in the same line of work, and
- Can qualify using a 12 to 24 month income average from the prior employer without consideration for wages from new employment as a traveling nurse

The Underwriter must use the most conservative income between the prior wages and current income received. A Loan Level Review may be submitted if additional guidance is needed when reviewing the length of the borrower's employment history, or to support Occupancy.

History of Employment

The degree of fluctuation and the length of receipt of the type of wages (or similar earnings) must be considered when calculating income used to qualify for the Mortgage. The Seller must evaluate the income trend and use the amount that is most likely to continue for the next three years.

The stability of income is determined based primarily upon historical earnings, thus a sufficient income history must be established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if a written analysis and sufficient supporting documentation is provided to justify the stability of income.

If needed, a combination of employers or assignments may be used to establish a 12-24 month employment history.

Variable / Fluctuating Income

Income sources that are variable in nature are calculated by an averaging method to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

Two 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 acceptable income if there are positive factors that reasonably offset the shorter income history.

Under no circumstances may the history be less than 12 months.

Non-Fluctuating vs. Fluctuating Hourly Wages

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.

- The pay rate and number of hours worked are reflected on an ongoing consistent basis for each pay period and are fully supported by the year-to-date income. In addition, if the annual salary is reported on the income verification documentation, that may be considered additional confirmation of base non-fluctuating earnings.
- Base non-fluctuating earnings may include both exempt (salaried) and non-exempt (hourly) earnings; however, the pay rate and number of hours worked do not fluctuate between pay periods

Fluctuating hourly employment earnings (also considered Variable) are considered to be earnings that are based on a pre-determined and agreed upon hourly rate of pay, however, the hours worked are not pre-determined and may fluctuate each pay period.

Frequency of Payment

The underwriter must 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).

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 three 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 (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 earnings and document the analysis before using the income amount in the trending analysis

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All income that is calculated by 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 commissions, bonuses, or overtime.

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 or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of 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. 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.

Pay Raises

Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the application of the new pay rate to the average hours worked for the prior year and YTD.

If the borrower has received a recent pay raise, the increased rate of pay may be applied to the average number of hours worked when determining qualifying income. Supporting documentation verifying the pay raise must be obtained and justification by the underwriter for the application of the higher wage to the fluctuating hourly earnings must be provided.

For example, if the borrower averages a documented 30 hours per week over a two year period at an hourly rate of $20, then receives a pay increase to $22 per hour, the $22 per hour rate may be applied to the determined weekly average of 30 hours when calculating the qualifying income.

All income being used must be stable, predictable and have continuance.

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When the Borrower's employed income is derived from fluctuating hourly employment earnings, the Borrower must have at least a 12-month history of employment. The required minimum 12-month history must be derived from either:

- The Borrower's current fluctuating hourly employment, or
- A combination of current and prior fluctuating hourly employment, or
- A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on the income trend analysis.

Underwriters are encouraged to reference Freddie Mac's Frequently Asked Questions (FAQ's) for additional guidance related to Employment income Calculation Guidance and Requirements.

Fluctuating Hourly Employment Earnings

The determination of whether the hours fluctuate is based on the review of the YTD and prior year income documentation, including the reported number of hours worked and YTD earnings in relation to base hours worked.

Example 1	The pay frequency is bi-weekly. The current YTD paystub shows 77 hours worked. The prior pay period YTD paystub shows 74 hours worked. The earnings are fluctuating hourly.

Example 2	The pay frequency is weekly. The paystub reflects six months of YTD income showing 37 hours worked at a pay rate of $30.00 per hour. If the Borrower worked 37 hours every week, the YTD earnings are approximately $28,860. However, the YTD base earnings on the paystub are $20,240. This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise. Fluctuating hourly earnings do not include additional employed income (e.g., commission, bonus, overtime, tips)

Documentation Requirements

Primary and Secondary Employment Earnings Types	Streamlined Accept and Standard Documentation Level(s)
Primary employment earnings: • Base non-fluctuating earnings and • Fluctuating hourly earnings	All of the following: • YTD paystub(s) documenting all YTD earnings, W-2 form(s) for the most recent calendar year, and a 10-day pre-closing verification (10-day PCV) Or all of the following: • Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV
Primary employment earnings: Military base (basic) pay	All of the following: • YTD Military Leave and Earnings Statement and W-2 form(s) for the most recent calendar year Or all of the following: • Written VOE documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV
Secondary employment earnings:	All of the following:

• Base non-fluctuating earnings and • Fluctuating hourly earnings	• YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV Or all of the following: • Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV

Consistent and Increasing Income Trends

Income Trend Analysis

- Degree of fluctuation ≤ 10%:
  - The income trend is considered consistent when the increase between YTD and prior year(s)1 is less than or equal to 10%. No additional analysis or documentation is required when calculating the qualifying income.
- Degree of fluctuation > 10% – ≤ 30%:
  - If the increase between the YTD and prior year(s)1 earnings is greater than 10% but less than or equal to 30%, no additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise; see Pay Raises below. Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.
- Degree of fluctuation > 30%:
  - If the increase between the YTD and prior year(s)1 earnings is greater than 30%, additional analysis is required and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.

Declining Trend

- The underwriter must use the year-to-date income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the Borrower from working or earning full income for a period of time and evidence that the Borrower is back to the income amount that was previously earned.
- If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the underwriter must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized.

Pay Raises

Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the application of the new pay rate to the average hours worked for the prior year and YTD.

While documentation to verify pay raises is not required in all instances, it may be used to support a higher amount of qualifying income and/or support fluctuating hourly earnings when the degree of fluctuation exceeds 10%.

Verification method:

- A pay raise, or raises, may be verified using employed income documentation such as written VOEs and paystubs. Paystubs from the current or prior year that show the new and old rates of pay when the raise occurred and/or year-end paystubs will likely be necessary to complete this verification.

Calculation method

- For consistent and increasing income trends, use one of the options below:
    - Option 1: Average the most recent year and YTD income over the applicable number of months of required history and documentation, as described in Section 5303.4(d).
    - Option 2: Apply the current pay rate to the average number of hours worked during the prior year and the current year, provided the hours worked during the prior year and the current year are consistent or increasing, and documented.

Other Sources of Income

Alimony, Child Support and Separate Maintenance

Alimony, Child Support and Separate Maintenance may be used as qualifying income when the borrower has received full, regular, and timely payments and it is evidenced that the support will continue for at least three years.

Documentation Requirements

Provide one of the following:

- Copy of the finalized divorce decree or separation agreement indicating the monthly payment amount and the period of time for which it will be received; if there is not a finalized legal agreement, the income cannot be used to qualify
- Copy of any other type of written, legally binding agreement or court decree describing the the monthly payment amount and the period of time for which it will be received
- Documentation verifying any applicable state law mandating alimony, child support or separate maintenance payments, specifying the conditions under which the payments must be made

The underwriter must verify that there are no limitations on the continuance of payments such as the age of the children for child support or the number of years remaining for any alimony or maintenance payments.

Smart Document Reference 105.001 - Birth Certificate

History of Receipt

Document no less than six months of the borrower's most recent regular receipt of the full payment.

Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six 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 income is not acceptable for the purpose of qualifying the borrower.

Proof of Receipt and Stability

Proof of receipt of the income used to qualify may be evidenced by:

- Evidence the payment(s) was cashed or deposited into the Borrower's depository account at a financial institution, or
- Evidence that the payment(s) was transferred into a third-party money transfer application account that is owned by the Borrower, or
- A statement from a government agency (i.e., child support agency) reflecting the Borrower's name as the recipient and the amounts paid

Continuance of Child Support

Documentation may not always provide for a defined end date for the receipt of child support income. Although laws vary from state to state, the following guidance may be applied in most cases.

Unless a minor is emancipated, child support typically continues until the child is 18 years of age (or has reached the age of majority), or has completed high school, whichever is later. In some cases, the court may order child support to continue after age 18 for a disabled child who remains a dependent.

Separate Maintenance

Separate Maintenance Income refers to income received from a former spouse, partner or from a non-custodial parent of the borrower's minor dependent. Separate Maintenance Agreement Income may be used as qualifying income when the borrower has received full, regular, and timely payments and it is evidenced that the support will continue for at least three years.

Documentation Required

One of the following:

- A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates the monthly payment and states the amount of the award and the period of time over which it will be received
- Any other type of written legally binding agreement or court decree describing the payment terms
- 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
- Note; if there is not a finalized legal agreement, the income cannot be used to qualify

The underwriter must verify that there are no limitations on the continuance of payments such as the age of the children for child support, or the number of years remaining for any alimony or maintenance payments

Automobile Allowance

For automobile allowance to be considered as acceptable and stable income, the borrower must have received payments for at least two consecutive years.

The full amount of the allowance must be added to the Borrower's qualifying income. When calculating the Borrower's debt payment-to-income ratio, the full amount of the monthly automobile financing expense must be included in the calculation of the Borrower's monthly debt payment; the automobile allowance may not be subtracted from the monthly automobile financing expense.

Documentation Required

The following documentation is required to support the use of Automobile Allowance:

- YTD paystub(s) documenting all YTD earnings and W-2 forms for the most recent two calendar years, or
- A Written Verification of Employment documenting all YTD earnings and the earnings for the most recent two calendar years

The above documentation must display the amount of Automobile Allowance broken out from other wage types (i.e. base, overtime commission or bonus) to allow analysis of the income over the required two year period.

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The income must be likely to continue for at least the next three years.

Boarder Income

Income from boarders in the borrower's principal residence or second home is not considered an acceptable source of income.

Exception

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. The underwriter may use the rental payments as qualifying income if the below documentation is obtained.

- Documentation of the boarder's history of shared residency that shows the boarder's address as being the same as the borrower's address, e.g.
    - Copy of a driver's license
    - Copies of bills
    - Bank statements
    - W-2 forms
- Documentation of the boarder's rental payments for the most recent 12 months.
- The HomeReady mortgage eligibility requirements include an additional exception. See the HomeReady Mortgage Product Guide.

Capital Gains Income

Generally income received from capital gains is not an acceptable source of qualifying income. Capital gain income is generally a one-time transaction.

Borrowers who have significant asset portfolios may show capital gains on their federal income tax returns. To use capital gains as qualifying income the underwriter must document and calculate the income as follows:

- Document a two year history of receipt of capital gains by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
- Develop an average income from the last two years according to the variable income section of this guide.
- Use the averaged amount as part of the borrower's qualifying income so long as the borrower provides current evidence that he or she owns additional property or assets that can be sold to generate capital gains in the future for example, brokerage account statements non retirement accounts or proof of substantial real estate holdings not being used to qualify rental income.

Note: Capital losses do not need to be offset or considered when calculating qualifying capital gain income

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 the *documentation used to verify asset ownership* must be in compliance with the Allowable Age of Credit Documents policy.

Refer to the Defined Expiration Date According to Income Type section for continuation of income requirements.

Cryptocurrency

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Income paid in the form of virtual currency may not be considered when qualifying a borrower.

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- Income paid to the Borrower in cryptocurrency may not be used to qualify for the Mortgage
- For income types that require evidence of sufficient remaining assets to establish likely continuance (e.g., retirement account distributions, trust income and dividend and interest income, etc.), those assets may not be in the form of cryptocurrency
- Cryptocurrency may not be included in the calculation of assets as a basis for repayment of obligations

Disability Income - Long Term

Generally, long-term disability does 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.

This section does not apply to disability income that is received from the Social Security Administration. See the Social Security Income section for requirements on Social Security Disability Income.

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A copy of the disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) must be obtained.

The documents must be analyzed to confirm:

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

If a borrower is currently receiving short-term disability payments that will decrease 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.

If documentation is received which details the nature, reason, or severity of a disability of a borrower, this information may not be considered in the qualification process.

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Newly Established Long-term Disability Income

Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first Mortgage payment due date.

The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency, and predetermined 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.

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.

If documentation is received which details the nature, reason, or severity of a disability of a borrower, this information may not be considered in the qualification process.

Employment Offers or Contracts

Eligible for Purchase and Rate and Term Refinance only. Future Income from Contracts or Offers of Employment is not permitted on Cash-Out Refinance transactions without Credit Management approval using the Loan Review Process outlined here Requesting a Loan Review

Cardinal may consider the income of proposed employment on an exception basis. The underwriter may use the future position as qualifying income for the transaction if, at their discretion, the borrower(s) can meet their current and future obligations prior to the beginning of the new position and evidence of the future income can be documented.

The Offer or Contract cannot be for employment by a family member or interested party to the transaction. This requirement applies regardless of whether a paystub is obtained.

Borrower is Due to Start Employment Before First Payment Date

If the borrower is scheduled to begin employment after the loan closes and prior to the first payment on the new mortgage coming due, the underwriter may use the borrower's offer or contract for future employment to qualify the borrower's income if the following conditions are met:

- An executed copy of the borrower's offer or contract for future employment and anticipated income must be provided;
- Prior to delivery, a pay stub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be obtained.

Note: The borrower must sign an affidavit at closing agreeing to provide a copy of their first pay stub to Cardinal within one business day of receipt.

Borrower Employment Begins After First Payment Date

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

- Purchase transaction
- Primary Residence
- 1-unit property, and
- The borrower is qualified using only fixed base income

The underwriter 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. This confirmation must be noted in the loan file.

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, longshoreman, or stagehand), the union may provide the executed employment 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

In addition to the amount of reserves required by AUS or for the transaction, one of the following must be documented:

- Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
- Financial reserves or current income sufficient to cover the monthly liabilities 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.

Current income refers to income that is currently being received by the borrower (or co-borrower)which may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. Current income may be used in lieu of or in addition to financial reserves. For this purpose, the amount of income the borrower is expected to receive between the note date and the employment start date may be used. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a pay stub, and no verification of employment is required. For calculation purposes, consider any portion of a month as a full month.

Note: The borrower must sign an affidavit at closing agreeing to provide a copy of their first pay stub to Cardinal within one business day of receipt.

- A pay stub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be obtained.

Cardinal underwriting reserves the right to require a pay stub prior to closing on any loan with layered risk, even if they meet the guideline criteria described above.

Employment Related Assets as Qualifying Income

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Employment related assets such as 401 K, IRA, Keogh, severance packages or lump sum retirement packages may be used as qualifying income if the requirements below can be met.

Assets used for the 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.

The assets must be liquid and available and documented as follows:

- A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) in a non-retirement brokerage, checking, or savings account, that is documented with a distribution letter from the employer (Form 1099–R).
    - Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax
- A 401(k) or IRA, SEP, Keogh retirement account where the borrower has unrestricted access to the funds in the account and there are no distributions established or the distribution amount is insufficient 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 income stream from these assets.

A borrower shall 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 of any possible tax withholding or applicable penalty applied to such distribution).

Ineligible Assets

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 an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

Income Calculation

Net documented assets are the sum of eligible assets minus:

(a) the amount of any 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

The net documented assets must be divided by the amortization term of the loan in months to calculate the borrower's qualifying monthly income amount.

Example Calculation	
IRA Available Balance (made up of stocks and mutual funds)	$ 500,000
Minus 10% of $500,000 ($500,000 x .10) (assumes the borrower is not yet 59 1/2 years of age at the time this income is being calculated; therefore, it is subject to a 10% penalty for early distribution. This penalty must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) $50,000
Total eligible documented assets	(=) $ 450,000
Minus funds required for closing (down payment, closing costs, reserves)	(-) $100,000
(a) Subtotal	(=) $ 350,000
Monthly qualifying income calculation = Net Documented Assets divided by the loan term in months $350,000/360 (or applicable term of loan in months)	$972.22/month

Eligibility Restrictions

- Maximum LTV/CLTV/HCLTV is 70%, or
- 80% if the asset owner is at least 62 years of age at the time of closing. If the asset is jointly owned, the borrower using the income to qualify must be at least 62 years old at the time of closing.
- Minimum credit score is the higher of 620 or the minimum credit score per the Product Guide
- Loan purpose must be purchase or limited cash-out refinance only. Cash-out transactions are not allowed
- Occupancy must be a primary residence or second home
- Investment properties are not allowed
- Number of units per occupancy type

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.”

Refer to Assets as a Basis for Repayment of Obligations for Freddie Mac requirements.

Assets as a Basis for Repayment of Obligations

Freddie Mac

Assets that will be used by the Borrower for the repayment of their monthly obligations may be used to qualify the Borrower for the Mortgage, provided that the below requirements are met. The Application should include information pertaining to the Borrower's employment and income, even if the Borrower qualifies for the Mortgage solely based on assets.

Income Calculation

To determine the amount used to establish the debt payment-to-income ratio, use the net eligible assets (as described below), divided by 240 (regardless of amortization period of the subject loan).

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 (e.g., 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

Eligibility Restrictions

- Maximum LTV/CLTV/HCLTV is 80%
- Loan purpose must be purchase or limited cash-out refinance only; cash-out transactions are not allowed
- Occupancy must be a primary residence or second home; Investment properties are not allowed
- 1 or 2-unit

Asset Eligibility and Documentation Requirements

Asset Type	Asset Eligibility Requirements	Documentation Requirements (Streamline Accept and Standard)
Retirement Asset	• The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), (IRA) • 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	• 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 assets described above.) • Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a depository or non-retirement securities account • A Borrower must have been the recipient of the lump-sum distribution funds • Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution • 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	• 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 and used for qualification must have been 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 the title to the subject property • 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 for a loan or otherwise 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	• *Streamlined Accept:* Provide an account statement covering a one-month period or a direct account verification (i.e., VOD) • *Standard Documentation*: Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD) *OR*, regardless of the Documentation Level: 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 website

		- Documentation evidencing asset eligibility requirements are met - Sourcing deposits: - The Seller must 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 (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, the Seller is not required to obtain additional documentation
Assets from the sale of the Borrower's business	- The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account - Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business - 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	- Most recent three months' depository or securities account statements - Fully executed closing 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 the sale of the Borrower's business

Foreign Income

Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and paid in a foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Copies of the borrower's signed federal tax returns for the last two years showing the foreign income (Fannie Mae); or Complete U.S. federal individual income tax return for the most recent year (Freddie Mac)
- The income and any statement(s) must be translated into both U.S. Dollars and English.

Furlough Income

A salary furlough is a set period of time during which an employee does not report for work and does not earn a wage, or receives a reduced wage.

Income resulting from a furlough, layoff, or other employer-initiated action is not eligible to be used as qualifying income unless it is associated with seasonal employment.

Foster-Care Income

Income received from a 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:

<u>FNMA</u>

- Verify the foster-care income with a letter of verification from the organization(s) 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 full 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 30% of the total gross income that is used to qualify for the mortgage.

Freddie Mac

- Verify the foster-care income with a letter of verification from the organization(s) providing the income
- Document a two year history of receipt of the income
- Document a three year continuance of the income
- Calculate the income using a 24-month average

If the letter of verification from the organization does not have a defined expiration date, and the borrower(s) have demonstrated an acceptable history of receipt of the foster-care income, the income may be considered likely to continue.

Smart Document Reference Foster Care Income Documentation

Housing or Parsonage Income

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 is likely to continue for the next three years.

- Verify the housing or parsonage income with letter of verification from the entity paying the allowance
- Document proof of receipt for the last 12 months via direct deposits, copies of checks, or through payroll adjustments on the borrower's pay stubs
- Likelihood of continuance can be supported by absence of any knowledge, information or documentation that the income is no longer being received or is likely to cease

The 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. For information on military housing, refer to the Military Income section.

Income from Gambling

Gambling winnings may be considered as acceptable income provided it is regularly received by the borrower and expected to continue.

Documentation

- Two years most recent tax returns reflecting gambling winnings. Gambling losses as itemized on Schedule A must be taken into consideration when determining qualifying income.
- A three year continuance of the income, such as the borrower claiming a casino annuity, must be documented.

Income from Marijuana-Based Employment

Employment income from a marijuana-based business is permitted with DU / FNMA only. Not eligible for LPA / Freddie Mac.

The same employment and income verification processes apply as to borrowers employed in any other business. These borrowers' income can be used for qualification as long as it can be verified in accordance with the Fannie Mae Selling guide requirements. No further investigation beyond that which would apply to any borrower, regardless of business type, into the legality of the business which employs the borrower is required.

If the borrower has ownership in a marijuana-based business that manufactures, distributes, or dispenses marijuana, and if any income or assets from that business is being used in the loan transaction, the loan will be ineligible for both FNMA and Freddie Mac.

Mortgage Insurance Companies Accepting Employment Income from Marijuana-Based Company

The following PMI companies will accept this income per Fannie Mae guidelines:

- Arch
- Essent
- Genworth
- MGIC

- National MI
- Radian

Interest and Dividend Income

Income from Interest and Dividends may be considered as qualifying income if the following requirements are met:

- Provide a current statement to support the borrower's ownership of the asset on which the interest or dividend income was earned
- Document a two-year history of the income, as verified by
  - Copies of the borrower's signed federal income tax returns, *or*
  - Copies of year-end asset account statements evidencing all dividend and interest income for each year for the income-producing asset(s)
- Develop an average of the income received for the most recent two years using variable income guidelines
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income

  Smart Document Reference: 193.000 - Asset Statement - Income Generating

Continuance of Income

FNMA

Three year continuance does not need to be documented; however, if there is evidence the assets will be depleted, the income may not be used.

Freddie Mac

Document that sufficient assets remain after closing to support continuance of the dividend and interest income, at the level used for qualifying, for at least the next three years.

Continuance may be supported with the following documentation:

- Provide the prior year's year-end statement(s) reflecting assets used to generate interest and dividend income as shown on the most recent year's tax return

- Provide a current asset statement; if the balance of the current asset statement is in-line with that of the prior year's year-end statement, it can be assumed interest and dividend earnings at the same level will continue.

Mortgage Credit Certificates

States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs 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 the borrower's 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 or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).

The underwriter must obtain a copy of the MCC along with a documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.

Refinances

The underwriter may use the MCC as qualifying income so long as the entity providing the MCC confirms in writing that the MCC will remain in effect for the subject transaction. The reissue certification must be obtained.

Mortgage Differential Payments Income

Employers may subsidize an employee's mortgage payments by paying all or part of the difference between the employee's present mortgage and proposed mortgage payment.

The differential payments are added to the borrower's qualifying income, they cannot be used to offset the borrower's mortgage payment.

Verification requirements for mortgage differential payment income are as follows:

- A written verification from the borrower's employer confirming the subsidy amount and duration of the payments
- Verify that the income can be expected to continue for at least three years

If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter. For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the Allowable Age of Credit Documents.

Non-Arm's Length Employment

Borrowers employed by a family member, the property seller or real estate broker are subject to the following documentation regardless of AUS findings. The underwriter must obtain and review:

- Complete signed Federal tax returns for the most recent two years
- Pay stubs covering the most recent 30-day period
- W-2 forms for the past two years
- A written verification of employment

The underwriter must verify that the borrower does not have ownership in the business as indicated by the borrower's tax returns.

Non-Occupant Borrower Income

Non-occupant borrower income may be used as qualifying income for principal residences. The AUS system will consider the income with certain LTV ratio limitations. See the product guidelines for more information on maximum LTV/CLTV/HCLTV ratios and other restrictions on Non-occupant borrowers.

For manually underwritten loans, the income from a non-occupant borrower may be considered as qualifying income. The income may also be used to offset weaknesses in the occupying borrower's loan application in the areas of limited income, financial reserves, or limited credit history.

Non-occupant income may not be used as an offset for the derogatory credit of the occupant co-borrower.

The income is subject to all requirements and restrictions as stated in this section of the Guide.

The loan is subject to LTV restrictions of the lesser of the Product Guide or 95% LTV/CLTV/HCLTV, unless the borrower is using a community second which allows for a 105% CLTV or the maximum allowed per the Product Guide.

Notes Receivable, Installment Sales, and Land Contract Income

Notes receivable, Installment Sales, and Land Contracts may be considered qualifying income. The income may be from a secured or unsecured lien, and must continue for at least the next three years.

Obtain the following documentation to support the qualify income:

- A copy of the note verifying the payment amount and the length of payment
- Document regular receipt of the income for the most recent 12 months

Payments on a note executed within the past 12 months, regardless of the remaining length of the note, may not be used.

Per Diem Earnings

Fannie Mae

Reimbursements for expenses (e.g., work-related supplies, travel, meals, and entertainment), are not considered wages as they are provided to the borrower for the purpose of offsetting a specific expense incurred while performing a service for the employer. When income is provided for discretionary use, not for the purpose of offsetting a specific expense, the income may be considered if it can be supported as stable and likely to continue.

The underwriter may consider the income under Variable Income guidelines depending on the frequency and duration of the pay.

Freddie Mac

Per Diem earnings may be considered if the borrower can demonstrate a two year history of receipt along with evidence that the income will continue for three years.

Public Assistance Income

Public assistance income that can be expected to continue for a minimum of three years from the date of the mortgage application is considered qualifying income.

To evidence the receipt of public assistance income, the underwriter must:

- 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.

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

To document Section 8 housing income, the underwriter must:

- 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 underwriter can develop an adjusted gross income for the borrower

State Sponsored Programs

Income generated from state sponsored programs, such as In Home Supportive Services (IHSS) can be considered as qualifying income if a 2-year history of receipt can be documented along with evidence the income is likely to continue. If the documentation does not have a defined expiration date, the income may be considered effective and reasonably likely to continue.

Retirement, Government Annuity, and Pension Income pension

Retirement or pension income is an acceptable source of stable income as long as the underwriter can confirm the source, regular receipt, and payment frequency.

Fannie Mae

Documentation Requirements

Document current receipt of the income as verified by one of more of the following: :

- A statement from the organization providing the income,

- A copy of retirement award letter or benefit statement,
- A copy of financial or bank account statement,
- A copy of signed federal income tax return,
- An IRS W-2 form, or
- An IRS 1099 form

401(k), IRA, or Keogh

If the retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition:

- The borrower must have unrestricted access without penalty to the accounts
  - Access is not necessarily restricted due to age. Careful review of the retirement plan documentation is required to determine specific restrictions. If the borrower does not have unrestricted access to the funds, income from this source is ineligible.
- Funds may be considered acceptable under the requirements noted in the Employment Related Assets section or Assets as a Basis for Repayment of Obligations section;
- 100% of the value may be used to determine the number of distributions remaining; and
- Retirement account balances may be combined for the purpose of determining continuance

Freddie Mac

Retirement Income (e.g., Social Security, pension, annuity, other similar benefits; not including retirement account distributions as income)

Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained. A history of receipt is not required for the income to be considered stable, however the income must be expected to continue for at least three years.

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

- A copy of a benefit verification letter,
- Award letter,

- Pay statement,
- 1099, or
- Bank statement(s) or other equivalent documentation

Retirement Account Distributions as Income (e.g., 401(k), IRA)

Distributions from retirement accounts recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) that are not subject to penalty (e.g., early withdrawal penalty) may be considered stable monthly qualifying income.

Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable) and history of receipt (as applicable), must be documented.

Required Minimum Distributions

If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e., excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.

History and Stability Requirements

Due to the multiple variables inherent with distributions from retirement accounts, including, but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances

A written rationale explaining the analysis used to determine the qualifying income must be provided, regardless of the underwriting path.

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 following the Note date.

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 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.

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.

Documentation

- 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 among all retirement accounts used to support the qualifying income amount and continuance

If the retirement distributions are not scheduled monthly payments (e.g., 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, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income.

First Payment Received Prior to the First Payment Due Date

If the borrower is newly retired and has not yet received a payment, the underwriter may allow an exception if the first payment will be received prior to the first payment date of the subject transaction and the borrower has sufficient reserves to meet any obligations before that date.

If the borrower is newly retired, and income from a government annuity or 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 initial start date. The income must commence prior to or on the first Mortgage payment due date.

DU Validation Services

If a borrower's retirement, annuity, or pension 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.

Royalty Payment Income

Royalty payments may be considered as qualifying income if the receipt and continuance can be documented as stable. The following must be obtained and analyzed:

- Obtain a copy of the royalty contract, agreement or statement confirming the amount, frequency of payment and the duration of the income
- Obtain a copy of the borrower's most recent signed federal tax returns, including the IRS Form 1040 Schedule E
- Confirm the borrower has received the payments for at least the last 12 months via bank statements or other documentation

The underwriter must confirm that the income is expected to continue for at least three years following the mortgage application.

Schedule K-1 Income

If the borrower owns less than 25% of a partnership, S-corporation or a limited liability company (LLC) the ordinary income and net rental income may be qualified using Form 1065 or Form 1120S if the underwriter can confirm the business has adequate liquidity to support the withdrawal of earnings.

- Obtain copies of the borrower's most recent two years signed federal tax returns including the Schedule K-1's
- If the borrower's Schedule K-1's document a stable history of receiving cash distributions consistent with the level of business income being used to qualify, no documentation of business liquidity is needed.
- If the Schedule K-1 does not show a documented stable history of receipt of cash distributions, or the business income does not support the cash distributions, then the underwriter must document that the business has sufficient liquidity to support the withdrawal of earnings.

The underwriter should obtain:

- Business bank statements;
- Profit & Loss;
- Balance Sheet

If the borrower has a two-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.

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, the underwriter may rely on the borrower's guaranteed compensation. .

The following documents must be obtained and must support the qualifying income:

- Copy of the partnership agreement documenting the recent ownership interest
- Verification of the borrower's employment with the partnership and year to date earnings via
    - W-2's and pay stubs to document the employment income
- Verification of receipt of the guarantee

Freddie Mac

In addition to the above, Freddie Mac requires:

- Year to date income documentation. When this is not attainable, the underwriter must be able to document and justify the income stability without the information
- Verification of current existence of business

Social Security Income (SSI)

Social Security Income is an acceptable form of qualifying income. The income documentation required will vary depending on the type of Social Security benefits received.

Social Security income for retirement or long-term disability being paid from the borrower's own account is not considered to have a defined expiration date.

SSI benefits paid as a benefit for a family member may be used as qualifying income if the underwriter documents a remaining term of greater than three years.

- 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 person)
- A borrower may use Social Security Income received by a dependent minor or disabled dependant

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 shown in the table below.

<table>
<tr><th>Type of SSI Benefit</th><th>Borrower is drawing Social Security benefits from own account/work record</th><th>Borrower is drawing Social Security benefits another person’s account/work record</th></tr>
<tr><td>Retirement</td><td rowspan="2">Social Security Administration's (SSA) Award letter OR
Copies of signed federal tax returns, OR
Social Security Benefits Statement (Form SSA-1099) OR
Proof of current receipt</td><td rowspan="3">SSA Award letter
Proof of current receipt using copies of signed federal tax returns, Social Security Benefits Statement (Form SSA-1099) or two most recent bank statements, AND
Proof of three-year continuance (e.g., verification of dependant beneficiary’s age)</td></tr>
<tr><td>Disability</td></tr>
<tr><td>Survivor Benefits</td><td>NA</td></tr>
<tr><td>Supplement Social Security Income (SSI)</td><td>Social Security Administration's (SSA) Award letter, and
Proof of current receipt using copies of signed federal tax returns, Social Security Benefits Statement (Form SSA-1099) or two most recent bank statements</td><td>NA</td></tr>
</table>

Newly Established SSI Benefit

Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first Mortgage payment due date.

The terms that must be verified include, but are not limited to:

- The source,
- Benefit type,
- Effective date of income commencement,
- Payment frequency and
- Predetermined payment amount that will commence prior to or on the first Mortgage payment due date

A copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms must be provided.

Non-Taxable Social Security Income

Social Security benefit income may be Non-Taxable income. The underwriter must determine if the borrower's total income exceeds the threshold where Social Security income would be non-taxable. If the benefit is nontaxable the underwriter may use the Social Security benefit plus 25% as qualifying income for the borrower. To determine if the Social Security benefit income may be taxable, consult the Social Security Benefits Planner.

Documentation Requirements

- Underwriters are required to review the borrower's most recent taxes to determine what portion, if any, of the SSI is non-taxable.

- The underwriter must confirm if the SSI amounts listed on the tax return is solely the borrower's income.

- If the SSI income reported on the Return is a combination of two parties income, the underwriter must determine the portion of SSI on the Returns that belong to the borrower in question.

- If the borrower's most recent Awards Letter shows the SSI the borrower receives has increased since their last tax filing, the underwriter may use the higher amount.

- Borrowers who have not reported Social Security benefits on their latest year's federal tax returns may not use Social Security benefits as non-taxable income.

Social Security income may be automatically grossed up when a borrower is not required to file a return:

- Evidence must be provided that the borrower is not required to file their federal income tax returns; the IRS link Do I Need to File a Tax Return can be used to determine eligibility.

- Tax transcripts must be provided showing 'No Record of Return'.

Fannie Mae and Freddie Mac

For Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income), the income may be grossed up 15% without obtaining additional documentation. For example:

Using 15% of a $1,000 benefit, the underwriter can gross up $150 (15% of $1,000) without obtaining documentation that this portion of the income is tax exempt.

Using 25% as the income adjustment factor, the income is calculated as follows:

- $150 (15% of $1,000) x 25% = $37.50
- $1,000 (initial benefit) + $37.50 = $1,037.50
- $1,037.50 can be used for qualifying without obtaining tax returns or other documentation evidencing that the income is tax exempt.
- The underwriter must obtain additional documentation in order to gross up the entire amount of income (i.e., $1,000) for use in qualifying the Borrower.

When entering the income in Octane, the above calculation will need to be done manually.

Temporary Leave Income

Temporary leave from work is generally short in duration, for reasons of maternity or paternity leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

Note: Mandatory leave initiated by an employer, such as furlough or layoff, is not considered temporary leave regardless of an expected return to work date.

If a borrower is on temporary leave at the time of closing and the underwriter is using the borrower's income to qualify for the loan, the underwriter must determine the allowable income and confirm continued employment.

- The borrower's employment and income must meet standard underwriting guidelines
- The borrower must provide his/her written confirmation of their intent to return to work
- The underwriter must document the borrower's agreed upon return date either from the borrower or directly from the employer (or third party designee). The documentation must evidence the employer agreement and it must be readily apparent that the document is from the employer or designee.
    - This may include but is not limited to, previous correspondence from the employer or designee that specifies the duration of the leave or expected return date or a computer printout from an employer or designee system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy.)
- There must be no indication or evidence from the borrower's employer that the borrower does not have the right to return to work.
- A verbal verification of employment must be obtained. If the employer confirms the borrower is on temporary leave the underwriter must consider the borrower employed.

The underwriter must verify the borrower's income via:

- Verification of the borrower's temporary leave income amount and duration which may be from multiple sources e.g. employer, insurance provider, private short-term disability insurance
- Verification of the borrower's regular employment income received prior to the temporary leave per standard income qualification guidelines

Requirements for Calculating Income Used for Qualifying

If the borrower will return to work as of the first mortgage payment date, the underwriter can consider the borrower's regular employment income in qualifying.

If the borrower will not return to work as of the first mortgage payment date, the underwriter must use the lesser of the borrower's temporary leave income (if any) or regular employment income.

If the borrower's temporary leave income is less than his regular employment income, the underwriter may use available liquid financial reserves to supplement the temporary leave income.

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income needed to reach return to work date

Available liquid reserves

Subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

Number of months of supplemental income

The number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.

Total Qualifying Income

After determining the supplemental income, the underwriter must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income

After determining the supplemental income, the underwriter must calculate the total qualifying income.

The total qualifying income may not exceed the borrower's regular employment income.

Example

Regular income amount: $6,000 per month

Temporary leave income: $2,000 per month

Total verified liquid assets: $30,000

Funds needed to complete the transaction: $18,000

Available liquid reserves: $12,000

First payment date: July 1

Date borrower will begin receiving regular employment income: November 1

Supplemental income: $12,000/4 = $3,000

Total qualifying income: $3,000 + $2,000 = $5,000

Tip Income

Tip income may be acceptable qualifying income if the borrower has received the income for the last two years and the underwriter can document proof of receipt.

The following documentation is required:

- A completed Written Verification of Employment documenting all YTD earnings and the earnings for the most recent two calendar years, *or*
- The borrower's most recent 30 days of paystubs *and*
- W-2 forms from the most recent two year period
- If the tip income (or not all of the tip income) is not reflected on the pay stubs and W-2's, then signed federal income tax returns with Form 4137 are required to document the additional tip income not reported to the borrower's employer.
- A three year continuance of tip income must be documented on LPA/Freddie Mac transactions

The underwriter must confirm the qualifying income as per the variable income section of the guidelines.

Trust Income

For Estate or Trust Income reported on Form 1041 U.S. Income Tax Return for Estates and Trusts, refer to the Trust Income Reported on Form 1041 section below.

FNMA

Obtain a copy of the trust agreement, the trustee's statement, or the trust's federal income tax returns confirming the amount, frequency, and type of income being received. A borrower who is also a trustee may not supply the trustee's statement.

Verify that the trust income will continue for at least three years from the date of the mortgage application. This confirmation must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.

If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the requirement to continue for the three years.

If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the loan's application date, the income calculation requirements in Employment-Related Assets as Qualifying Income apply.

Requirements for Trust with Fixed Payments	Requirements for Trust with Variable Payments
Use the fixed payment amount from the trust agreement as the borrower's qualifying income, converting it to a monthly amount, as applicable. Document current receipt of trust income with one month's bank statement or other equivalent documentation. Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met: • The trust documentation reflects fixed payments, • The borrower is not the grantor, and • At least one payment is received prior to closing.	Calculate the qualifying income amount per the Variable / Fluctuating Income section of this document. Document the following: • A minimum 24-month history of trust income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, and • Current receipt of trust income with one month's bank statement or other equivalent document

Freddie Mac

For Note Date prior to 4.1.24

History of Receipt

- Most recent two-years if the income is based on historical fluctuating payments from a trust asset (e.g., 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 the trust income for at least the next three years. The source of the asset used as income must be managed and owned by the trust.

Calculation

- For fluctuating payments, use a 24-month average
- For pre-determined fixed payments, use the fixed payment amount documented in the trust agreement

Documentation

For trust income based on historical fluctuating payments from a trust asset:

- Copy of fully executed trust agreement outlining 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 (e.g., letter from trustee, bank statements)

For trust income based on a predetermined fixed payment amount:

- Copy of fully executed trust agreement specifying fixed payment amount occurring at set intervals (e.g., 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 (e.g., letter from trustee, bank statements)

Bank statements may be required, in all instances, to provide additional third-party support

For Note Date on or after 4.1.24

	Requirements for Trust with Fixed Payments	Requirements for Trust with Historical Fluctuating Payments
History of Receipt	Most recent one-year when the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years	Most recent two-years when the income is based on historical fluctuating payments from a trust asset (e.g., dividends and interest)
Continuance	Document that sufficient assets remain after closing to support continuance of the trust income for at least the next three years	
Calculation of Income	Use the fixed payment amount documented in the trust agreement	24-month average
Documentation	• Copy of fully executed trust agreement specifying fixed payment amount occurring at set intervals (e.g., monthly, quarterly) and duration of payments, and • Copy of bank statements or equivalent documentation verifying receipt of	• Copy of fully executed trust agreement outlining payment terms, and • Copy of complete federal individual income tax returns for the most recent two-year period verifying receipt of income for the most recent two years, and

	pre-determined fixed payments for the most recent one year, and • Evidence of sufficient assets to support the qualifying income (e.g., bank statements, letter from trustee). When the Borrower is the trustee, a letter from the trustee is not acceptable documentation	• Evidence of sufficient assets to support the qualifying income (e.g., bank statements, letter from trustee). When the Borrower is the trustee, a letter from the trustee is not acceptable documentation

Trust Income Reported on Form 1041

Form 1041 U.S. Income Tax Return for Estates and Trusts is used to report income earned by a trust or estate. Only the share of income reported on a schedule K-1 and carried over from the 1041 to the borrower's Individual Federal Income Tax Return Form 1040 may be considered as eligible income. Income reported on the 1041 and not reflected as a distribution to the borrower is ineligible.

Unemployment Benefits Income

Unemployment compensation may not be used as qualifying income unless it is associated with seasonal employment. Both the seasonal employment and the associated unemployment income must be documented.

Copies of the borrower's signed federal tax returns must be obtained to document two years of consistently receiving payments.

See the Secondary Employment Section for further information. Secondary Employment Income (Second Job) and Seasonal Income

Union Members

For borrowers who work in occupations that result in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), where a union facilitates the borrower's placement in each assignment, the following documentation is required, in addition to standard income documentation:

- The verbal verification of employment for a union member who is currently employed,

- An executed employment offer or contract for future employment for a union member who is not scheduled to begin employment until after the loan closes,
- All previous W-2s for the prior two years,
- All final pay stubs per employer for current year, and
- Letter of good standing from the Union.

Employment Start Date after Loan Closing

Fannie Mae

For a union member who works in an occupation that results in a series of short-term job assignments, the Union may provide an executed employment offer or contract for future employment; refer to the Employment Offers or Contracts section.

Freddie Mac

The Borrower may or may not be in between employers at the time of closing. If it is determined that the Borrower's employment and income history is stable and it is documented that the Borrower has multiple jobs as described above, it may be acceptable to obtain the 10-day Verification of Employment directly from the Union. This determination must be based on a review of all employment and income characteristics.

VA Benefits

VA retirement and VA long-term disability income may be used as qualifying income. VA educational benefits are not an acceptable source of qualifying income.

- A letter or distribution form from the VA documenting the payment amount
- Verification that the income is from either retirement or long term disability is sufficient to establish a stable source of income without a defined expiration date
- If the income is not from retirement or long-term disability, verify that the income will continue for at least three years

Workers Compensation Income

Refer to the section Disability Income - Long Term

Analysis of 1099 Income

Borrowers receiving wages on form 1099 and reported on Schedule C may be considered an independent contractor versus a Self-Employed individual, depending on the source and type of wage remitted.

Certain recipients of a 1099 wage may be paid for contracted services, but do not necessarily have an ownership in the organization providing payment. Examples of professionals receiving a 1099 and reporting on a Schedule C operating as contract employee and without ownership in the company paying the wage include:

- Barbers and aestheticians who receive income on a per job basis, yet have no ownership in the salon where services are rendered
- Licensed Real Estate agents who receive commission income from the brokerage where their license is placed, yet have no ownership in the organization
- Personal Trainer receiving wages paid per session without having ownership in the training facility

When the income is reported on Schedule C, yet the borrower has no ownership in the business, the Evidence of Self-Employed Business Analysis requirements for a Profit & Loss and Business Asset Statements may be waived. Self Employment | Verification of Business Existence may also be waived. Additional documentation reflecting Year-to-Date earnings must be obtained to support the stability of income used to qualify.

FNMA

Documentation requirements include:

- All 1099s for the most recent two-year period, and
- YTD pay stubs or YTD earning statements received by the borrower, and
- Complete federal individual income tax returns covering the most recent two-year period

The Underwriter may request additional information or documentation in order to determine stable monthly income.

Income Calculation

When assessing income from these sources, the underwriter should review guidelines for Variable Income in addition to Self-Employed Income to determine which income analysis would best represent the stability and predictability of the wages.

Freddie Mac

Depending on pay structure, the guidance and requirements for either Self-Employed Income or Income reported on Internal Revenue Service (IRS) form 1099 below should be followed.

Income Reported on Internal Revenue Service (IRS) Form 1099

Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. If it is determined that the Borrower is a sole proprietor, refer to the requirements and guidance in the Self-Employed Income section. Factors to consider when determining whether income reported on Schedule C is representative of a sole proprietorship include, but are not limited to:

- The principal business or profession,
- Gross receipts or sales,
- Cost of goods sold and
- The type and level of expenses reported

If it is determined that wages do not represent a sole proprietorship, the below Documentation Requirements apply.

Documentation Requirements

- All 1099s for the most recent two-year period, and
- YTD pay stubs or YTD earning statements received by the borrower, and
- Complete federal individual income tax returns covering the most recent one-year period

The Underwriter may request additional information or documentation in order to determine stable monthly income.

Income Calculation

If the income on the two-years 1099s is stable and consistent along with the current YTD earnings trend, a one year tax return analysis is acceptable.

- The one year tax return allowance is intended to provide some flexibility with the documentation and income assessment on a contractor that files 1099 Schedule C income.

If the income on the two-years 1099s is not stable and consistent year over year, additional tax returns may be necessary to fully analyze the income and average over a longer period of time.

- When the YTD income trend is supporting the most recent year 1099 but not the prior year *and* a one year average of the tax returns is needed to qualify, an exception may be available with a Loan Review submitted in Octane.

Self-Employed Income

When reviewing qualifying income for self-employed borrowers the underwriter must consider not only the distribution of income on the borrower's individual federal income tax return Form 1040, but also the distribution of income on the business tax returns to ascertain whether the business is able to support the borrower's income as stated on the individual tax returns. The underwriter must also consider whether the business can sustain the current level of business income distributions, or if the business could support greater distributions. Additionally, the borrower's income on their federal tax return Form 1040 may not be representative of all of the business income distributions.

The underwriter must perform a careful analysis of the business to ensure that the qualifying income is stable and that the business can continue to generate sufficient income for the borrower to meet his/her financial obligations.

Factors to Consider

Any individual who has a 25% or greater ownership interest in a business is considered self-employed. The underwriter must analyze the following before considering self-employment income as qualifying income for the transaction:

- The stability of income
- The location and nature of the business
- The demand for the product or service being offered
- The financial strength of the business, and
- The ability of the business to generate and distribute sufficient income to the borrower for them to meet their mortgage payment

Length of Self-Employment

Borrowers who are self-employed should be in business for greater than two (2) years to demonstrate that the business income is stable and likely to continue.

- The underwriter may consider an exception for a borrower who has been self-employed less than two (2) years, as long as the borrower's most recently signed personal and business federal income tax returns reflect a full year (12 months) of self-employment income from the current business.
- The loan file must also contain
    - FNMA (DU):
        - Documentation to support the history of receipt of prior income at the same (or greater) level, and
            - In a field that provides the same products or services as the current business, or
            - In an occupation in which they had similar responsibilities to those undertaken in connection with the current business
        - In such cases, the underwriter must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.
    - Freddie Mac (LPA):
        - Documentation to support that the Borrower has a two-year history of receipt of income at the same or greater level in the same or similar occupation
        - Consider and evaluate the Borrower's experience in the business
        - Consider and evaluate the acceptance of the company's service or products in the marketplace
        - Analysis of current business activity through a review of the year-to date (YTD) financial statement and/or the most recent three months of business bank statements may provide support to this evaluation

Credit Committee approval is not required for these transactions.

Business Relocation

If the borrower is relocating to a different geographic area, the underwriter must consider the acceptance of the company's services or products in the marketplace before considering the income for qualifying purposes. The underwriter must document and explain how they determined that the borrower's income will continue at the same level in the new location.

Foreign Income from Self-Employment

Foreign self-employment income reported on U.S. tax returns may be considered for qualifying purposes. All applicable self-employment documentation requirements must be met including the requirement for business tax returns, where applicable. The underwriter must be able to evaluate and confirm the stability of the business.

All income documentation and any statement(s) must be translated into both U.S. Dollars and English.

Verification of Self-Employment Income

The underwriter must obtain individual income tax returns and in some cases, business returns that were filed with the IRS, including all applicable schedules to analyze the borrower's history or receipt of self-employed income and to calculate the monthly qualifying income amount.

Alternatively, the underwriter may use IRS-issued tax transcripts of the borrower's individual and business federal tax returns for the most recent two years if the transcripts provide the information for the returns and all applicable schedules.

When two years of signed individual tax returns are provided, the underwriter may waive the requirement for business returns if:

- The funds for down payment and closing costs are from the borrower's personal accounts
- The borrower's business has been owned and in existence by the borrower at least five years
- The borrower's individual tax returns show increasing income over the past two years

One-Year Tax Return Eligibility

In certain circumstances the automated underwriting system (AUS) may allow an exception permitting the borrower to qualify with only one year of individual and business tax returns:

<table>
<tr><th>Agency</th><th>Requirement</th></tr>
<tr><td>FNMA</td><td>DU will determine if a loan casefile for a self-employed borrower is eligible for the one-year tax return option based on the overall risk of the loan.

Income must be documented 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 (<u>Form 1084</u>) or any other type of cash flow analysis form that applies the same principles
<u>For Loan Casefiles created on or after 1/1/24</u>:
DU will issue a message permitting only one year of personal federal tax returns if the loan application indicates the borrower is self-employed with an ownership share of 25% or more, and the Start Date for all self-employed businesses is at least five years prior to the Casefile Create Date.
If any of the borrower's self-employed businesses have a Start Date less than five years, DU will require two years of personal tax returns.
DU will issue a separate message listing the requirements for business tax returns for all self-employed businesses, specifying that one- or two-years of tax returns are required based on the number of years the business has been in existence (determined by comparing the Start Date to the Casefile Create Date).</td></tr>
<tr><td>Freddie Mac</td><td>One-year tax return option permitted; borrower must be self-employed in the same business for a full 5 years or greater based on the Note date:
If the business is in existence five years or more, personal and business tax returns for the most recent year are required.
The Borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years
If the business has been in existence for less than five years, provide personal and business tax returns for the most recent two years.</td></tr>
</table>

	Note: If the business structure has changed within the last 5 years but is indeed the same business, the 5 year criteria may still be applied.

Documentation Requirements by Business Type		
Business Structure	**AUS Reduced/Streamlined Documentation**	**AUS Standard Documentation**
Sole Proprietorship	Complete signed federal individual income tax return for the most recent year.	Complete signed federal individual income tax returns for the two most recent years.
Partnership	Complete signed federal individual and Partnership (Form 1065) income tax returns, including K-1(s) for the most recent year.	Complete signed federal individual and Partnership (Form 1065) income tax returns, including K-1(s) for the two most recent years.
S Corporation	Complete signed federal individual and S Corporation (Form 1120S) income tax returns, including K-1(s) for the most recent year.	Complete signed federal individual and S Corporation (Form 1120S) income tax returns, including K-1(s) for the two most recent years.
Corporation	Complete signed federal individual and Corporation (Form 1120) income tax returns, including W-2(s) for the most recent year.	Complete signed federal individual and Corporation (Form 1120) income tax returns, including W-2(s) for the two most recent years.

Business Financial Statements

Business financial statements typically consist of a profit and loss statement and balance sheet for the business that cover a specified period of time (e.g., YTD, annual).

- Financial statements for the business may be prepared by multiple parties, including CPA, accountant or tax preparer that prepares the tax returns for the business or the borrower
- Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, income stability when tax returns are on extension, evaluating a newer business, and the impact of business fund withdrawals.
- Financial statements may not be used for calculation of stable monthly income, except as noted below:

- FHLMC: If the financial statements are audited, they may be used in the income calculation.
- FNMA: Not eligible

Audited Profit & Loss Statement | Definition

An audited profit and loss statement involves a thorough review of each and every item on the financial statement.

- It entails internal protocol testing to ensure money moves about the company in a manner that is reflected in the statement,
- An audited profit and loss statement is proof the financial statements are fully accurate,
- Only a Certified Public Accountant (CPA) can prepare an audited financial statement,
- The CPA must state that the financial statement is Audited and meets generally accepted accounting principles (GAAP),
- An audited profit and loss statement is NOT a compiled or reviewed report.

Analysis of Borrower's Personal Income

The underwriter must prepare a Cash Flow Analysis (Form) of the borrower's personal income, including any business income or losses to determine the borrower's qualifying income. The income must be verified to be stable and continuous.

Self-Employment Income Not Used for Qualification

The underwriter is not required to obtain any additional documentation or evaluate the income *or loss* from the self-employment for each borrower on the mortgage who:

- Has a primary source of income, *other than self-employment,* used for qualifying for the Mortgage (e.g., salaried income from primary employment), *and*
- Is self-employed and that self-employment income is a secondary source of income

If a borrower is using income from a self-employed source to qualify for our transaction, and there are other sources of self-employment evidenced on the tax returns (not used for qualification), those businesses must still be analyzed for any loss which may impact the borrower's ability to repay the loan.

Co-Borrower Self-Employment Income Not Used for Qualification

FNMA

When co-borrower income that is derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income (or loss). Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

Freddie Mac

When co-borrower income that is derived from self-employment is not being used for qualifying purposes, and the co-borrower does not have a primary source of income other than self-employment, the business must be analyzed for any loss.

Analyzing Additional Businesses

If by reviewing the K-1, the borrower does not own more than 25% of the business, the Business Tax Returns do not need to be analyzed, and any additional supporting documentation does not need to be obtained.

If the borrower owns more than 25% of any business, Business Tax Returns must be obtained and a cash flow analysis is to be completed on each business regardless if the business income is being used to qualify. The number of years of business tax returns required will be determined by AUS.

There are times that a positive income cash flow for a secondary business may not be used to qualify for the loan, but this determination can't be made until the business tax returns are analyzed for any non-recurring "other" income, pass-through income sources, mortgages & notes due and payable in less than one year, and meal exclusions. If the income is still positive, and not needed to qualify, the income can be noted as Non-Qualifying in Octane and no evidence of existence of the business will be required. If the income is negative, it must be included in the DTI calculations. YTD Profit and Loss statements and accompanying business bank statements will not be required in these instances.

Self-Employment Required Documentation	
Borrower has Primary source of income, other than self-employment	Self-employment does not need to be evaluated or documented

(i.e. salaried income from primary employment)	
Co-Borrower self-employment not used to qualify	FNMA: Not required to document or evaluate the self-employment income (or loss)
	Freddie Mac: If a co-borrower does not have a primary source of income other than self-employment, the business must be analyzed for any loss.

Business ownership is less than 25%	• Follow AUS for number of years of K-1 statements to provide
	• No business tax returns, Profit and Loss statements, or business bank statements are required
	• If income is being used to qualify:
	  ○ Only distributions or guaranteed payments to partners can be used to qualify
	  ○ Income after the most recent tax return must also be documented
	• If income is not being used to qualify, show income as Non-Qualifying
	• If loss is shown, the loss must be included in the DTI calculation
	
	Refer to the Schedule K-1 Income section for guidance on analysis of income

Primary source of income is Self-Employment with ownership of 25% or greater	• Follow AUS for number of years of personal and business tax returns required • Follow guidance above for YTD P&L and business bank statements
Primary source of income is Self-Employment with ownership of 25% or greater and **additional** self-employed businesses are present	Used to qualify: • Follow AUS for number of years of personal and business tax returns required • Follow guidance above for YTD P&L and business bank statements Not used to qualify: • Follow AUS for number of years of personal and business tax returns required • If positive income but not used to qualify, no YTD Profit and Loss statements or business bank statements are required. Show the income as Non-Qualifying • If negative income, no YTD Profit and Loss statements or business bank statements are required, but the loss must be calculated in the DTI

Analysis of Borrower's Business Income

If a self-employed borrower is relying on income from their business to qualify for the transaction and the product requires business returns, the underwriter must prepare a written evaluation of their analysis of the borrower's business income. The underwriter must use their knowledge of the business type to confirm the stability and potential for long-term income. The analysis must:

- 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;
- Determine a trend for the business based on the change in these percentages over time

Underwriters may average the business income if it is consistent year to year or increasing. In cases where the income is declining, the income should not be averaged and must be carefully assessed for stability.

Cash Flow Analysis Forms

When required, the underwriter must complete a written analysis of the borrower's self-employment income on one or more of the flowing Forms:

- Form 1084 for analysis of personal income - DU
- Form 1088- Business income - DU
- Income Analysis Form 91 for all LPA Findings

Use of Business Assets

When a borrower is using business assets as funds for down payment, closing costs and/or reserves the underwriter must perform a business cash flow analysis to ensure that the withdrawal of the funds will not impact the business income.

The underwriter may at their discretion obtain additional documentation such as business banking and asset statements for several months, an updated profit and loss statement or an updated balance sheet depending on how much time has elapsed since the filing of the last tax returns.

Income Verification for Self-Employed Co-Borrowers

When a non-self-employed borrower 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.

In all cases, any business debt on which the co-borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

Fannie Mae

When co-borrower income derived from self-employment is not being used for qualifying purposes, the co-borrower's self-employment income (or loss) is not required to be documented or evaluated.

Freddie Mac

For each Borrower on the Mortgage who is self-employed and does not have another source of income that is used in qualifying for the Mortgage, the following requirements apply.

The co-borrower must provide pages 1 and 2 of their federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income.

The underwriter 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 additional documentation is not required
- Obtain the most recent year complete individual and/or business tax returns to determine if there was a meaningful loss after adjusting for non-recurring or non-cash expenses. If after evaluation, the underwriter determines there is a meaningful business loss, the qualifying income must be reduced by the amount of the meaningful business loss

Verbal Verification of Employment for Self-Employed Borrower

Verification of the existence of the borrower's business within 120 days of the closing date must be documented in the loan file with one of the following:

- Verification of the existence of the borrower's business from a third party, such as a

  - CPA
  - Regulatory agency
  - The applicable licensing bureau, e.g. Secretary of State
  - Federal Tax ID Certificate
- Verification of a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance
- Verification from the Secretary of State website

Refer to Chapter 2 Documentation Standards for additional verification of employment requirements.

Self-Employed Income Considerations by Business Type

Sole Proprietorship

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual has unlimited personal liability for all debts of the business. If the business fails, the borrower will have to replace their income, as well as 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, the underwriter may take either (or both) to satisfy the borrower's business obligations. The death of the owner terminates the business.

The income, expenses, and taxable profits of a sole proprietorship are reported on Schedule C of the owner's IRS Form 1040, and are taxed at the tax rates that apply to individuals. When evaluating a sole proprietorship, the underwriter 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
- 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.

Evaluating Schedule C Income

The income (loss) from a borrower’s sole proprietorship is calculated on IRS Form 1040, Schedule C then transferred to IRS Form 1040.

The underwriter may need to make adjustments to the net profit or loss shown on the schedule C to arrive at the borrower's cash flow.

Adjustments to Business Cash Flow

The following items can be added back to the business cash flow:

- Depreciation
- Depletion
- Amortization and/or Casualty losses
    - May only add back Amortization/Casualty Losses deductions reflected on page 2, Part V
- Net operating losses
- Other special deductions 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
- Income not obtained from the profits of the business

Mileage Reimbursement

Add back the amount of the depreciation deduction reported on Schedule C; vehicle depreciation included as part of the standard mileage deduction may be added back by multiplying the business miles driven by the depreciation factor for the respective year.

The amount of allowable depreciation related to auto expenses will not correlate directly to the full amount of the current IRS Standard Mileage Rate; only a portion of the rate is considered for automobiles a taxpayer uses for business purposes. The factors listed below may be used when multiplying the business miles driven by the depreciation factor for the respective year.

Tax Year	Portion of Business Standard Mileage
2023	28 cents per mile
2022	26 cents per mile
2021	26 cents per mile

Schedule F - Farm Income / Loss

Income received from farming is calculated on IRS Form 1040, Schedule F.

Note: Other income on Schedule F may represent income that is not obtained from the borrower's farming operations.

Certain adjustments to the net income amount that was transferred to IRS Form 1040 may need to be made. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.

If the net income amounts that were transferred to IRS Form 1040 are determined to be stable, consistent, and continuing, the borrower's cash flow must be adjusted by the non-taxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower's cash flow.

The borrower's cash flow can be adjusted by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of their home. Fannie Mae Form 1084 or Freddie Mac Form 91 can be used to calculate the Schedule F.

6. Schedule F – Profit or Loss from Farming

a.	Net Farm Profit or (Loss)	(+/-)__________	(+/-)__________
b.	Non-Tax Portion Ongoing Coop and CCC Payments	(+)__________	(+) __________
c.	Nonrecurring Other (Income) Loss	(+/-)__________	(+/-)__________
d.	Depreciation	(+) __________	(+) __________
e.	Amortization/Casualty Loss/Depletion	(+) __________	(+) __________
f.	Business Use of Home	(+) __________	(+) __________

7. Schedule F – Profit or Loss from Farming (Chapter 5304)		
Net Farm Profit or Loss	(+/-)	(+/-)
Non-taxable portion of recurring cooperative and CCC payments	(+)	(+)
Non-recurring other income or loss	(+/-)	(+/-)
Depreciation	(+)	(+)
Amortization/Casualty loss/Depletion	(+)	(+)
Business use of home	(+)	(+)
Subtotal from Schedule F, farming	$	$

Helpful Hints	
Net Farm Profit or Loss	Line 34
Non-Tax Portion Ongoing Cooperative and CCC Payments	Lines 3a minus b through 6a minus b
Non-Recurring Other Income or Loss	Line 8
Depreciation	Line 14
Amortization/Casualty Loss/Depletion (only if noted)	Line 32
Business Use of Home (only if noted)	Line 32

Schedule K-1 Requirements

Partnerships, some Limited Liability Companies (LLCs) and S-Corporations use specific IRS forms to file federal income tax returns for the business. The partner's or member-owner's share of income (or loss) is carried over to IRS form 1040, Schedule E using Schedule K-1.

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

Income or Loss Reported on Schedule K-1 Regardless of Ownership Percentage

Use caution when including business income that the borrower draws from the partnership or S-Corporation as qualifying income. Ordinary business income, Net rental income, and Other net rental income reported on the Schedule K-1 may be included in the borrower's cash flow when:

- Borrower documents ownership percentage (from K-1) and provides all required income documentation; and
- The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC; or
- 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.
  - But if the Schedule K-1 does not reflect a documented, stable history, then the lender must confirm adequate business liquidity in order to use the ordinary income, net rental income or other net rental income as qualifying income.

Business Stability and Liquidity

In addition to the requirements to include K-1 income for qualifying, analysis must be performed to ensure the business has adequate liquidity to support the withdrawal of earnings.

Liquidity analysis is not required when:

- K-1 source of income used to qualify consists only of guaranteed payments to the partner,
- Income from partnership, LLC, or S-Corporation is considered salaried income and is reported on W-2,
- A documented history of distributions shown on the K-1, or
- When the borrower qualifies with K-1 loss

Liquidity analysis can be demonstrated using any of the following methods:

- Schedule K-1 income used in qualification is supported by a documented, stable history of receiving cash distributions,
- If the Schedule K-1 does not reflect a documented, stable history of cash distributions that is consistent with the level of business income being used to qualify, then the Liquidity Test is required (Quick Ratio/Acid Test or Current Ratio)
  - FNMA will permit a method other than the Quick Ratio/Acid Test or Current Ratio to confirm business liquidity, as applicable; refer to the individual business structures listed below for guidance.

Partnerships

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 the predetermined proportions detailed in the partnership agreement.

Types of Partnerships

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 upon the death, withdrawal, or insolvency of any of the partners, although the personal liability of partnership creators exists even after the partnership is dissolved because the partnership's assets will first be applied to the creditors of the business. The partner's individual assets will be first 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/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.

To report general and limited partnership income, each partner uses the information from Schedule K-1 to report their share of the partnership's net profit or loss on Schedule E of their Federal Income Tax Returns Form 1040. Partnerships do not pay taxes on partnership income, but instead pass the income or loss through to the individual partners who pay taxes at their individual rates.

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

- Determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecourse 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.

See Analyzing Income from Partnership Returns for a Partnership or LLC section for information on how to assess the Partnership Income

Limited Liability Company

A limited liability company (LLC) is a hybrid business structure which offers 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, there 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, the LLC pays no tax on its income.

Each member-owner uses the information from Schedule K-1 to report his/her share of the LLC's net profit or loss (and special deductions and credits) on his/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
- Whether the borrower has guaranteed any loans obtained by the LLC (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt)

See Analyzing Income from Partnership Returns for a Partnership or LLC section for information on how to assess the Partnership Income

Analyzing Partnership Returns for a Partnership or LLC

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

A borrower with an ownership interest in a partnership or LLC may receive income as wages or other compensation in addition to his/her proportional share of income (loss).

Evaluating the Business Income

When the borrower has a 25% or greater ownership interest in the business and business tax returns are required, the underwriter 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
- Sale and earnings trends are positive

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

Borrower's Proportionate Share of Income of 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 income or loss can only be determined after determining the business cash flow as discussed below.

Adjustments to Business Cash Flow

The following items can be added back to the business cash flow:

- Depreciation
- Depletion
- Amortization
- Casualty losses
- Net operating losses
- Other special deductions 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
- 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.

Income from Partnerships, LLC's, Estates and Trusts

Income from partnerships, LLC's, estates or trusts can only be considered if the lender obtains documentation, such as the Schedule K-1 verifying:

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

The underwriter may use discretion when selecting the method for evaluating liquidity to support the withdrawal of earnings. It is suggested that the underwriter use either the quick ratio or the current ratio in their analysis of the business returns as a standard measure of liquidity.

- Quick Ratio = (current assets-inventory)/current liabilities

- Current Ratio or Working Capital Ratio = current assets/current liabilities

The quick ratio is a better measure in businesses that rely on inventory to generate income. For either ratio, a result of greater than 1 is generally sufficient to confirm business liquidity to support the withdrawal of earnings.

The underwriter must document their analysis on both the Cash Flow Analysis and in their overall assessment of the borrower's qualifying income.

Fannie Mae

In lieu of utilizing the Quick Ratio or Current Ratio test, Fannie Mae will permit an alternative method to calculate adequate liquidity. Rationale for the use of the alternative method must be documented.

In the absence of distributions being present on the Schedule K-1, the actual payment of earnings received by the borrower from the business may be documented to support the business has adequate liquidity to support the withdrawal of earnings.

- If the borrower has 25% or greater ownership in the business, and income (Box 1, 2, or 3) reflected on the Schedule K-1 exceeds distributions, and the business liquidity test (Quick or Current) fails, obtain documentation supporting the borrower's receipt of ordinary income from the business in the calendar year.
- If the borrower has less than 25% ownership in the business, obtain:
    - Schedule K-1 and if income (Box 1, 2, or 3) reflected exceeds distributions, a liquidity test must be performed; business tax return(s), or current Balance Sheet prepared by a CPA, EA or CTEC is required to perform the liquidity test
    - If the business liquidity test fails, documentation must be provided supporting the borrower's receipt of ordinary income from the business in the calendar year.

"S" Corporations

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 the "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, it must be determined whether 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 Tax Returns for an S Corporation

S Corporations and LLCs pass gains and losses on to their shareholders. S Corporations and LLCs use IRS Form 1120S, Schedule K-1's for filing federal tax returns for the corporation. The shareholder's share of income or loss is carried over to the IRS Form 1040 Schedule E.

A borrower with ownership in an S Corporation or LLC may receive income as wages or dividends in addition to his/her proportionate share of the 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 underwriter 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
- 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 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 underwriter obtains documentation verifying that

- The income was actually distributed to the borrower.

- The business has adequate liquidity to support the withdrawal of earnings.

The underwriter may use discretion when selecting the method for evaluating liquidity to support the withdrawal of earnings. It is suggested that the underwriter use either the quick ratio or the current ratio in their analysis of the business returns as a standard measure of liquidity.

- Quick Ratio = (current assets-inventory)/current liabilities
- Current Ratio or Working Capital Ratio = current assets/current liabilities

The quick ratio is a better measure in businesses that rely on inventory to generate income. For either ratio, a result of greater than 1 is generally sufficient to confirm business liquidity to support the withdrawal of earnings.

Fannie Mae

In lieu of utilizing the Quick Ratio or Current Ratio test, Fannie Mae will permit an alternative method to calculate adequate liquidity. Rationale for the use of the alternative method must be documented.

In the absence of distributions being present on the Schedule K-1, the actual payment of earnings received by the borrower from the business may be documented to support the business has adequate liquidity to support the withdrawal of earnings.

- If the borrower has 25% or greater ownership in the business, and income (Box 1, 2, or 3) reflected on the Schedule K-1 exceeds distributions, and the business liquidity test (Quick or Current) fails, obtain documentation supporting the borrower's receipt of ordinary income from the business in the calendar year.
- If the borrower has less than 25% ownership in the business, obtain:
    - Schedule K-1 and if income (Box 1, 2, or 3) reflected exceeds distributions, a liquidity test must be performed; business tax return(s), or current Balance Sheet prepared by a CPA, EA or CTEC is required to perform the liquidity test
    - If the business liquidity test fails, documentation must be provided supporting the borrower's receipt of ordinary income from the business in the calendar year.

Adjustments to Business Cash Flow

The following items can be added back to the business cash flow:

- Depreciation

- Depletion
- Amortization
- Casualty losses
- Net operating losses
- Other special deductions 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
- 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.

The underwriter must document their analysis on both the Cash Flow Analysis and in their overall assessment of the borrower's qualifying income.

Corporations

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 corporation can sue, be sued, hold, convey or receive property, enter into contracts under its own name, and does not dissolve when its ownership changes.

Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business, as they elect a Board of Directors to manage the corporation, and delegate responsibility for the day-to-day operations to the directors and officers of the company. The corporation's Board of Directors or other entities that have a significant financial interest in the business, determines the distribution of profits earned by the business. However, the profits are usually 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 individual investment in the corporation's stock. Dividends are reported by the corporation on the Statements for Recipients of Miscellaneous Income, and the shareholders must then report the dividends as income on their federal income tax returns.

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 Tax Returns for a Corporation

Corporations use IRS Form 1120 to report their taxes.

Fiscal Year

The fiscal year of a corporation can differ from the calendar year, the underwriter must determine the corporate fiscal year and make time adjustments to relate the corporate income to the borrower's federal tax return.

Corporate Financial Position

After determining the income available to the borrower for qualifying purposes, the underwriter 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
- The business must have adequate liquidity to support the borrower's withdrawal of cash without having severe negative effects.

Borrower's Share of Income or Loss

FNMA

The cash flow analysis can only consider 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.

Freddie Mac

The cash flow analysis can only consider the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may be used if the borrower owns less than 100% of the business.

When the borrower is less than 100% owner of the business, the corporate resolution, partnership agreement, or other comparable document must be obtained supporting that the borrower has unrestricted access to the earnings.

Adjustments to Cash Flow

The following items can be added back to the business cash flow:

- Depreciation
- Depletion
- Amortization
- Casualty losses
- Net operating losses
- 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
- 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 assets to cover them.

The underwriter must document their analysis on both the Cash Flow Analysis and in their overall assessment of the borrower's qualifying income. For additional information see - Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 (link)

References

Reference List
Defense Manpower Data Center
Do I Need to File a Tax Return
Form 91
Form 1003
Form 1007
Form 1025
Social Security Benefits Planner

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.

Date	Version	Description	Approver
4.9.24	V68	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon
3.29.24	V67	Added tax year 2023 mileage reimbursement rate	Kristen Bellon
3.18.24	V66	Updated the Trust Income section with guidance from Freddie Mac outlining new requirements when using Trust Income to qualify which includes updates to History of Receipt and Documentation Requirements. Changes are effective with Note date on or after 4.1.24	Kristen Bellon
		Added definition of Departure Residence. This is a clarification and effective immediately	Ellen Clayson
3.14.24	V65	Added guidance for Borrower Relocating with the Same Employer. This change is effective immediately	Kristen Bellon

2.28.24	V64	Added guidance under Self-Employed Income specific to FNMA to allow an alternative method outside of the Quick or Current ratio test to support business liquidity This change is effective immediately	Kristen Bellon
2.20.24	V63	Added clarification and definition of an audited profit and loss statement	Ellen Clayson
1.2.24	V62	Updated Variable Income section to include guidance for Fluctuation Hours. Broke out Fannie Mae and Freddie Mac guidelines	Kristen Bellon
12.21.23	V61	Updated Restricted Stock Unit (RSU) Income section with guidance from Fannie Mae	Kristen Bellon
12.21.23	-	Updated Non-Taxable Income section to reflect changes to Fannie Mae guidance for documentation requirements related to Child Support and Social Security Income	Kristen Bellon
12.20.23	V60	Updated One-Year Tax Return Eligibility section indicating for casefiles created on or after 1.1.24, DU will issue a message permitting only one year of personal federal tax returns if the loan application indicates the borrower is self-employed with an ownership share of 25% or more, and the Start Date for all self-employed businesses is at least five years prior to the Casefile Create Date	Kristen Bellon
11.14.23	V59	Updated Continuity of Income section and broke out income continuance guidance for Fannie Mae and Freddie Mac	Kristen Bellon
11.6.23	V58	Added clarification under Employment Offers or Contracts that the Offer or Contract cannot be for employment by a family member or interested party to the transaction	Kristen Bellon
10.23.23	V57	Added guidance for newly established SSI Award Benefit	Kristen Bellon
10.23.23	V56	Updated Fannie Mae guidance for Trust Income; changes to guidance are effective for applications taken on or after 11.1.2023	Kristen Bellon
10.20.23	V55	Updated FNMA Rental Income section: • Added additional details for documenting rental income used for qualifying • Aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12 months with that of rental income earned from the subject property	Kristen Bellon

		• Clarified that the borrower must have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying • Clarified the treatment of rental income when multiple rental properties are owned • Amended documentation requirements for lease agreements	
10.18.23	V54	Updated Length of Self-Employment section to clarify the underwriter may consider an exception for a borrower who has been self-employed less than two (2) years, as long as the borrower's most recently signed personal and business federal income tax returns reflect a full year (12 months) of self-employment income from the current business	Kristen Bellon
10.17.23	V53	Updated Rental Income section for Freddie Mac to include: • Removing the requirement that a lease must have a minimum original term of one year • Specifying that for newly executed leases, the first rental payment due date must be no later than the first payment due date of the Mortgage • Updating documentation requirements for receipt of two months' rental income to require evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution or transferred into a third-party money transfer application account owned by the Borrower • Permitting documentation of receipt of the security deposit plus first month's rental payment, in lieu of receipt of two months' rental payments • Removing the appraisal requirement that at least one comparable sale must have an ADU that is rented, when rental income generated from an ADU on a subject 1-unit Primary Residence is used to qualify the Borrower • Reformatting the documentation requirements table for rental income generated from an ADU on subject 1-unit Primary Residence "no cash-out" refinance transactions	Kristen Bellon
10.13.23	V52	Added clarification for History of Receipt of Alimony, Child Support and Separate Maintenance Income. Added clarification under Proof of Receipt and Stability outlining which documents are acceptable to document receipt of the income	Kristen Bellon
9.29.23	V51	Updated chapter removing reference to the Temporary Operational Policy and Procedure document	Kristen Bellon

9.25.23	V50	Added clarification for acceptable documentation under the Newly Employed Borrower section	Kristen Bellon
9.10.23	V49	Added Section Schedule F Farm Income and income calculation requirements	Ellen Clayson
8.23.23	V48	Updated Retirement, Government Annuity, and Pension Income section to more closely align with requirements for Fannie Mae and Freddie Mac	Kristen Bellon
6.21.23	V47	Added Capital Gain as an income type which must be documented to continue for Freddie Mac transactions under the Defined Expiration Date According to Income Type section	Kristen Bellon
6.7.23	V46	Added guidance for income received on a Per Diem basis	Kristen Bellon
5.5.23	V45	Added Resource | Rental Income Matrix link to the rental income sections. Also clarified that if two months rental income documentation is provided and one month is the security deposit, it must equal the monthly amount of rent.	Ellen Clayson
3.9.23	V44	Added tax year 2022 mileage reimbursement rate	Kristen Bellon
1.31.23	V43	Updated guidance for income received through IHSS	Kristen Bellon
1.25.23	V42	Added clarification under Documentation requirements for Automobile Allowance	Kristen Bellon
12.19.22	V41	Updated Location of Employer section specifying requirement is applicable to purchase transactions only	Kristen Bellon
12.15.22	V40	Added guidance that mandatory leave initiated by an employer, such as furlough or layoff, may not be considered Temporary Leave income regardless of an expected return to work date	Kristen Bellon
12.14.22	V39	Removed requirement for fully executed lease agreement and evidence of receipt of first month's rent or security deposit on a departure residence and aligned with respective agency's guidance	Kristen Bellon
11.15.22	V38	Removed requirement to provide a lease agreement on any non-subject property for which rental income is being considered for qualifying purposes	Kristen Bellon
11.14.22	V37	Added additional guidance for Freddie Mac transactions when business ownership is less than 25% per the K-1 statement	Kristen Bellon

11.2.22	V36	Added additional guidance for Tip Income	Kristen Bellon
10.11.22	V35	Updated SSI section under Borrower is drawing Social Security benefits from own account/work record to include additional documentation requirements	Kristen Bellon
9.28.22	V34	Added additional guidance for Freddie Mac transactions when earned income is reported on a 1099	Kristen Bellon
9.16.22	V33	Added additional guidance for employment history under the Traveling Nurses section	Kristen Bellon
9.6.22	V32	Added guidance for short-term rental income for FNMA transactions. Clarified short-term rental income requirements for Freddie Mac transactions	Kristen Bellon
8.10.22	V31	Revised Rental Income from an Accessory Unit section for Freddie Mac transactions	Kristen Bellon
5.31.22	V30	Clarified guidelines and requirements surrounding 1099 borrowers reporting income on a Schedule C	Ellen Clayson
5.11.22	V29	Added income paid in the form of virtual currency may not be considered when qualifying a borrower for Fannie Mae Transactions	Kristen Bellon
5.11.22		Added assets used to establish continuance for certain income types cannot be in the form of virtual currency	Kristen Bellon
4.8.22	V28	Added additional guidance for gap in employment under Secondary Employment Income	Kristen Bellon
3.30.22	V27	Added additional guidance for the calculation of Social Security income for Freddie Mac transactions and income is grossed up by 15%	Kristen Bellon
3.22.22	V26	Added clarification under Newly Employed Borrowers that guidelines may not apply for Seasonal and Union Member workers.	Ellen Clayson
2.8.22	V25	Added Rental Income Received from a Family Member section for both Fannie Mae and Freddie Mac	Kristen Bellon
2.8.22	V24	Added tax year 2021 mileage reimbursement rate	Kristen Bellon
1.27.22	V23	Added Analysis of 1099 Income section	Kristen Bellon

1.27.22	V22	Added guidance for Traveling Nurses	Kristen Bellon
12.14.21	V21	Immaterial changes. Corrected grammar and formatting to align with company standards.	N/A
12.8.21	V20	Added guidance for use of Cryptocurrency as a form of income	Kristen Bellon
12.8.21	V19	Aligned FNMA and Freddie Mac guidance for Leave and Earnings Statement used in lieu of a Verification of Employment	Kristen Bellon
10.15.21	V18	Clarified in Rental Income > Freddie Mac section that when the subject property purchase is a 2-4 unit Primary Residence, there are no additional requirements/restrictions for management experience or previous primary residence ownership in order to use rental income to qualify on the additional units.	Ellen Clayson
9.7.21	V17	Added Determination of Expiration Date According to Agency section outlining three year continuance requirement differences between Fannie Mae and Freddie Mac	Kristen Bellon
9.7.21	V16	Added requirement for a current, fully executed lease agreement on any Non-subject property for which rental income is being considered for qualifying purposes	Kristen Bellon
8.9.21	V15	Added Foreign Income from Self-Employment as an eligible income source	Kristen Bellon
8.5.21	V14	Broke out Long Term Disability Income requirements for Fannie Mae and Freddie Mac	Kristen Bellon
7.30.21	V13	Added guidance for borrowers receiving income from the Arts, Film and Theater industries	Kristen Bellon
7.30.21	V12	Clarified and broke out requirements for use of income from IHSS for Fannie Mae and Freddie Mac	Kristen Bellon
3.31.21	V11	Provided clarification for when rental income may be used to offset the proposed mortgage payment on the subject property	Kristen Bellon
3.30.21	V10	Added additional guidance for mileage reimbursement	Kristen Bellon
3.25.21	V9	Added additional guidance for Union Employees when the start date of the current employment begins after the loan closing date	Kristen Bellon

3.12.21	V8	Updated Borrower's Share of Income or Loss section allowing income from a 1120 when the borrower has less than 100% ownership on Freddie Mac (LPA) transactions only	Kristen Bellon
2.25.21	V7	Updated guidance for use of Automobile Allowance	Kristen Bellon
2.18.21	V6	Updated guidance related to the use of retirement, government annuity, and pension income including the removal of the requirement to reduce the value of retirement assets consisting of stocks, bonds and mutual funds by 30% when measuring continuance	Kristen Bellon
2.16.21	V5	Added guidance surrounding Continuance of Child Support income	Kristen Bellon
2.05.21	V4	Clarified that YTD Profit and Loss statements and business bank statements are not required on secondary self-employed businesses if not being used to qualify or if loss is being assessed to the DTI	Ellen Clayson
1.28.21	V3	Clarified for Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income), Freddie Mac will permit the income to be grossed up 15% without obtaining additional documentation. Fannie Mae will require documentation be provided in all cases, regardless of the portion of income being grossed up	Kristen Bellon
1.22.21	V2	Added new income type and clarified requirements for Separate Maintenance	Erica Price
1.13.21	V1	Clarified support for continuance of Housing or Parsonage Income Likelihood can be documented with absence of any knowledge, information or documentation that the income is no longer being received or is likely to cease	Kristen Bellon
12.5.20	-	Added Co-Borrower Self-Employment Income Not Used for Qualification section	Kristen Bellon
11.30.20	-	Clarified differences between FNMA and Freddie Mac when calculating continuance of income from retirement	Kristen Bellon
11.19.20	-	Added Location of Employer section providing guidance for commuting distance and for when a borrower is working remotely	Kristen Bellon
10.29.20	-	Provided clarification for use of Child Support and Alimony for income purposes	Kristen Bellon
10.2.20	-	Clarified if a borrower is using income from a self-employed source to qualify for our transaction, and other sources of self-employment are evidenced in the loan file which are not used	Kristen Bellon

		for qualifying purposes, those businesses must still be analyzed for any loss which may impact the borrower's ability to repay the loan	
9.4.20	-	Provided additional clarification for when an exception request through credit committee is required for a Newly Employed Borrower	Kristen Bellon
8.12.20	-	Updated Income Verification for Self-Employed Co-Borrowers section to include requirements for Fannie Mae and Freddie Mac	Ellen Clayson
7.27.20	-	Added guidance for income reported on Form 1041 U.S. Income Tax Return for Estates and Trusts	Kristen Bellon
7.6.20	-	Added guidance for Freddie Mac loans using variable income	Kristen Bellon
7.6.20	-	Clarified that a two year history of working for family is required for FNMA loans	Kristen Bellon
6.25.20	-	Clarified Future Income from Contracts or Offers of Employment is permitted on Purchase and Rate and Term Refinance transactions only	Kristen Bellon
6.9.20	-	Added guidance for using income from state sponsored programs such as IHSS	Ellen Clayson
6.2.20	-	Added guidance for using income from gambling winnings	Ellen Clayson
4.23.20	-	Added clarification for Seasonal Employment documentation and income calculations along with Unemployment income associated with seasonal layoffs	Ellen Clayson
4.10.20	-	Temporarily suspended Future Income from Contracts or Offers as Qualifying Income	Ellen Clayson
4.3.20	-	Added requirement for when the current year's tax returns reflect federal taxes due, evidence of payment must be documented	Ellen Clayson
4.3.20	-	Updated Rental Income section splitting out FNMA and Freddie Mac requirements. Updated Rental Income section to permit rental income from a 1-unit principal residence with restrictions	Ellen Clayson
3.8.20	-	Added FNMA requirements for lease agreements when used to document rental income	Ellen Clayson
2.2.20	-	Added Section for Tax Return and Transcript Policy	Ellen Clayson
1.25.20	-	Clarified Use of Financial Statements in Income Calculation for Self-Employed Borrowers	Ellen Clayson
1.25.20	-	Clarified Employment Related Asset requirements as specific to FNMA only. Added Freddie Mac Requirements for Assets as a	Ellen Clayson

		Basis for Repayment of Obligations	
1.13.20	-	Added foreign income from a business owned by the borrower as an Unacceptable Income Source	Ellen Clayson
1.6.20	-	Updated requirements under the Employed Borrowers section to permit a military LES, in lieu of a written VOE, dated within 30 days of the Note date on FNMA transactions and 120 days of the Note date on Freddie Mac transactions	Ellen Clayson
1.6.20	-	Updated Employment Related Assets as Qualifying Income section with additional requirements for Freddie Mac transactions. Added Freddie Mac's income calculations permitting the net eligible asset to be divided by 240 months	Ellen Clayson
1.6.20	-	Broke out requirements for documenting rental income between FNMA and Freddie Mac	Ellen Clayson
1.5.20	-	Updated requirements for Interest and Dividend income. Clarified a two-year history of receipt can be documented with either tax returns or copies of year-end asset statements	Ellen Clayson
12.9.19	-	Identified the guidelines for Foster Care Income requirements for Fannie Mae and Freddie Mac. Clarified that Freddie Mac requires a two-year history of receipt of Foster Care income	Ellen Clayson
12.2.19	-	Added Newly Employed Borrower section and provided requirements for borrowers who have recently started employment with a new employer and have been on the new job less than 6 months	Ellen Clayson
11.30.19	-	Updated Social Security Income section with guidance on non-taxable income	Ellen Clayson
11.30.19	-	Updated Borrower Converting from 1099 to W-2 With Same Employer section with additional requirements for borrowers not receiving direct deposit	Ellen Clayson
11.30.19	-	Revised Verbal Verification of Employment section and Verbal Verification of Employment for Self-Employed Borrower section	Ellen Clayson
11.30.19	-	Added Freddie Mac requirements for Lease Agreements	Ellen Clayson
11.30.19	-	Updated Calculating Monthly Qualifying Rental Income section breaking out FNMA and Freddie Mac requirements	Ellen Clayson
11.11.19	-	Updated Documenting Rental Income on the Subject Property section	Ellen Clayson
11.11.19	-	Added Employed by Family section and provided guidance for FNMA and Freddie Mac	Ellen Clayson
11.11.19	-	Updated Verbal Verification of Employment section to include	Ellen

		requirements for source of verifications	Clayson
10.16.19	-	Removed Requirement for 6 months employment history on current job if re-entering the workforce. This is not required by the agencies.	Ellen Clayson
10.8.19	-	Clarified Process and Documentation for Employment Contracts	Ellen Clayson
9.9.19	-	Clarified Documentation for Rental Properties Owned Relating to Tax Return Filing	Ellen Clayson
9.2.19	-	Added Requirements for Borrower Converting from 1099 to W-2 Wage Earner with Same Employer	Ellen Clayson
7.10.19	-	Added Future Earning Income and Documentation Requirements	Ellen Clayson
6.1.19	-	Added Income from Marijuana-Based Employment Eligibility Requirements	Ellen Clayson
5.1.19	-	Added RSU Income Eligibility Requirements	Ellen Clayson
4.1.19	-	Added DU Fannie Mae Self-Employed Borrower reduced documentation that may be eligible	Ellen Clayson
4.1.19	-	Clarified Borrowers with Less than Two Years but Greater than One Year Self-Employment History - Does NOT need Credit Committee Approval	Ellen Clayson
3.1.19	-	Length of Self-Employment	Erica Price
2.1.19	-	Commission Income	Erica Price
11.1.18	-	Income documentation requirements for Union Members	Erica Price
8.1.18	-	Restricted income of employee of Marijuana Business	Erica Price
3.1.18	-	Clarified Unacceptable Income Sources, Addition of Employee Income from Marijuana Business.	Erica Price
1.1.18	-	Removal of 216/998 requirement	Erica Price
10.30.17	-	Short-term rental income clarification. Clarified rental income for properties owned less than one year.	Erica Price
9.1.17	-	Initial Approval	Erica Price