



Foundations On-Demand

Basics of Income Workbook

Introduction

This class is part of a series designed to acquaint you to the mortgage banking industry and increase the knowledge of existing staff with usable income types.

Today we will introduce you to the common types of income used to qualify applicants for a mortgage.

Let's begin with our objectives for today's session:

- Introduce Employment and Income
- Understand Stability of Income – what role it plays in the mortgage industry
- Review common type of income:

As part of our review we'll talk about when you can use various types of income to qualify your borrower for a mortgage. The income types we'll discuss are:

- Base Income
- Hourly pay structure
- Full time
- Overtime
- Commission
- Bonus
- Tips & gratuity
- Part time or 2nd jobs
- Unemployment Benefits
- Contractual Employment



Read Me!

During the Basics of Income you will read, watch and do...
Make sure to complete all the activities & videos.

**In each video, you will be provided with the guidelines most commonly used for full documentation loan file requirements. The document requirements and methods for verification may vary based on the specific parameters of a loan file and with the evolution of technology solutions to streamline the mortgage process provided by the government-sponsored enterprises (GSE).*

Notes:

Stable, Predictable & Likely To Continue

Employment and income are essential risk elements in the mortgage loan application process.

When considering qualifying income, it must be stable, predictable, and likely to continue for at least three years beyond the application date.

The borrower must demonstrate the financial means to repay the proposed loan as well as any of his or her other debt obligations. Automated Underwriting Systems cannot assess stability and predictability, which is the underwriter's job. That's why they say AUS systems can't think outside the box!

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The required length of employment and types of supporting income documentation will vary depending on the program selected and the feedback messages from the automated underwriting system. Typically most loans require verification of the most recent two years of income and employment. The lower the risk typically less documentations the higher the risk typically more documentation.



Read Me!

Notes:

Employment and Income must be . . .

- 1) Stable...
- 2) Predictable...
- 3) and Likely to Continue for at Least Three Years

Low Risk

Moderate Risk

High Risk

Additional documentation of income and compensating factors is required as risk increases.

Stable, Predictable & Likely To Continue (cont.)

Recent advances in GSE technology has started to streamline the Income and Employment verification process on some loans. However, it is important that all mortgage professionals are well versed on the flow of the verification of employment form for most of the types of income.

Basics of Income will teach you to find the different types of income on the verification form, what documentation you will look for and how you may or may not be able to use the income for qualification purposes.

Important: FannieMae indicates that the following fields are now optional (6/15) - #11, 14, 16, 17, 18, 19, 24.

We will start with Base Pay. Base pay is found on line 12a of the VOE.

See a sample of the VOE below.



Read Me!

Notes:

Part II – Verification of Present Employment									
9. Applicant's Date of Employment		10. Present Position				11. Probability of Continued Employment			
12A. Current Gross Base Pay (Enter Amount and Check Period)					13. For Military Personnel Only		14. If Overtime or Bonus is Applicable, Is its Continuance Likely?		
☐ Annual ☐ Hourly ☐ Monthly ☐ Other (Specify) _____ \$ _____					Pay Grade _____		Overtime ☐ Yes ☐ No Bonus ☐ Yes ☐ No		
					Type _____ Monthly Amount _____				
12B. Gross Earnings					Base Pay \$ _____				
Type	Year To Date	Past Year	Past Year		Rations	\$ _____	15. If paid hourly – average hours per week _____		
Base Pay	Thru _____	\$ _____	\$ _____		Flight or Hazard	\$ _____	16. Date of applicant's next pay increase _____		
Overtime	\$ _____	\$ _____	\$ _____		Clothing	\$ _____	17. Projected amount of next pay increase _____		
Commissions	\$ _____	\$ _____	\$ _____		Quarters	\$ _____	18. Date of applicant's last pay increase _____		
Bonus	\$ _____	\$ _____	\$ _____		Pro Pay	\$ _____	19. Amount of last pay increase _____		
Total	\$ 0.00	\$ 0.00	\$ 0.00		Overseas or Combat	\$ _____			
					Variable Housing Allowance	\$ _____			
20. Remarks (If employee was off work for any length of time, please indicate time period and reason)									
Part III – Verification of Previous Employment									
21. Date Hired _____		23. Salary/Wage at Termination Per (Year) (Month) (Week)							
		Base _____ Overtime _____ Commissions _____ Bonus _____							
22. Date Terminated _____									
24. Reason for Leaving _____		25. Position Held _____							

Base Pay & Calculations

Documents you need for Base Pay include:

For Overtime, you will need two additional things:

Paystubs may include:

Income	How to Calculate	Example
Annual	Divide annual by 12 months	$60,000 / 12 = 5,000$
Monthly	Use monthly figure	
Week	Convert to yearly then monthly	$1150 \text{ per week} * 52 \text{ weeks per year} / 12 \text{ months}$
Hourly	Convert to weekly, then yearly, then monthly	$28.75 * 40 \text{ hours per week}$ $* 52 \text{ weeks per year} / 12 \text{ months}$
Bi Weekly	Convert to yearly (26 pays per year), then monthly	$*26 \text{ per year} / 12$
Bi Monthly	Convert to yearly (24 pays per year), then monthly	$*24 \text{ per year} / 12$
Teacher Pay	Convert to yearly then monthly	Are they paid 12 months or 9



Watch Me

Watch the Base Pay video & answer as you go.

Additional Information:

Look on the VOE in Box 12b Base pay area for rate.

NOTE: Unless the lender has knowledge to the contrary (ex: Notation on the VOE), if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the selected income type), the lender may conclude that the income is stable, predictable, and likely to continue. Lender is not expected to request additional documentation from borrower.

Also, an alternate method of documenting the W-2 is to obtain an IRS Wage and Income (W-2) transcript.

Notes:

Base Pay Activity

Let's put what you learned into practice. Calculate the answers to the following scenarios and answer the base pay questions. Good luck!

Please Record your answers in the space provided.

-  May Johnson makes \$210,000 a year.
What is her base pay?

-  Jose Mendez makes \$850 weekly.
What is his base pay?

-  Ashley Summers makes \$1,300 bi-weekly.
What is her base pay?

-  Jamie Patel makes \$900 bi-monthly.
What is her base pay?

-  Sarah Kurtz is a teacher who is paid over 9 months. She is paid \$3,100 bi-monthly 2x per month.
What is her base pay?



**Do This Base
Pay Activity!**



Answer Me!

Overtime

Overtime wages are paid to employees who work beyond the normal working hours.

Overtime pay rates will vary. Some companies will pay a normal hourly wage times $1\frac{1}{2}$ for every hour worked beyond 40 hours in a work week.

Holiday pay is important to understand when it impacts overtime. Each employer will set its own rules, but many will follow this general guideline. If a holiday falls on a working day, many employees may not be paid overtime that week unless their total work hours exceed 40.

Example:

- Monday - Paid Holiday
- Tuesday - The employee worked 8 hours
- Wednesday - The employee worked 8 hours
- Thursday - The employee worked 8 hours
- Friday - The employee worked 9 hours. The employer may choose not to pay that extra hour of overtime because their actual work hours equaled 33 that week, not 40. Overtime pay rates may vary by state regulations.



Read Me!

Notes:

Overtime Activity

Please Record your answers in the space provided.

-  Documentation for overtime includes:
-  How do you calculate the usable monthly income for overtime?
-  What do you need to evaluate borrower:
-  If the borrower has recently changed jobs, what should you do?
-  What is NOT an acceptable source of income for overtime?
-  What documentation can be obtained to consider the overtime income?



Watch Me!

Overtime, Commission and Bonuses video & answer as you go. Pause the video at Commissions.



Answer Me!

Notes:

Commission

Commission income is a form of compensation that creates an incentive for employees to perform.

This type of income tends to vary from one pay period to another (or even from year to year); therefore an average of the last two years of earnings is be used to qualify the borrower.

Commission income that has been received between 12 and 24 months may be used for qualifying as long as the file contains compensating factors to help balance the risk of the shorter income history.

- Written verifications of employment or letters from the borrower's employer should be reviewed to determine if the commission earnings have a two-year history.
- Evidence the borrower is still actively employed with proof of year-to-date earnings. We will talk more about this step shortly.

Sometimes borrowers are paid a salary along with commission income. If the commission income totals 25% or more of the borrower's total annual income, these items must be evident in the file:

- The most recent two years of tax returns. In order for the commissions to be considered as qualifying income, the commission income reported on the tax returns must cover at least 12 months
- An earnings trend must be established to show the commission income is remaining consistent or on an upward trend from one year to another. If the trend for commission earnings shows a decline, then it cannot be considered as stable qualifying income.



Read Me!

Notes:

Bonus Income

Bonus income can be paid to a borrower in addition to his or her regular wages and may be paid annually or at different intervals throughout the year.

Bonus income is more difficult than other types of income to see the future income potential. It should be used as a compensating factor whenever possible.

Please Record your answers in the space provided.

Documentation for Bonus Income includes:

-  What is the challenge with qualifying Bonus Income?

-  What information can you obtain to determine if this income could be considered?



Watch Me!

Continue the Overtime, Commission and Bonuses video for Bonus Income



Answer Me!

Notes:

Bonus Income (cont.)

? Review the scenarios below. Please check the box next to the scenario that you feel presents the least amount of risk.

☐ A Senior Vice President at a Pharmaceutical Company with 30% of total income based on bonus, if the bonus is paid on a specific profit for the entire company, the bonus is dependent upon many aspects of the business and possibly not all directly within the borrower's control. (i.e Profit, Company Income, Performance goals may influence the bonus potential and may not be within the borrower's control.)

☐ A Sales Representative at an Telecommunication Company with a 30% bonus if he/she reaches their own personal sales goals, regardless of company profits (volume, market share, performance goals). When supported by a two year history, is this more or less risky than the executive level bonus described in the first example?

? Why?

(Be sure to check your answer by watching the Commission & Bonus Income Video!)



Next Steps

Review your company guidelines regarding the use of bonus income.



Answer Me!

Tips & Gratuity Income

Tip and gratuity income may be acceptable if the receipt of the income corresponds to the borrower's occupation (such as a waiter or waitress, taxi-driver, etc.).

There must be a documented history of the income being earned and no evidence it is not likely to continue.

All tips received by an employee are taxable income. Tips used as eligible income must be reported as income on the borrower's paystubs and W2's. Unreported tips cannot be used.

NOTE: To verify tips not reported by employer (probably a rare instance), you can use IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137 (Social Security & Medicare Tax on Unreported Tip Income)

How do you calculate tip income? Tip income is averaged for the two years verified.



Read Me!

Notes:

Part-Time Income

A borrower's part-time income may be considered for qualification if the following criteria are followed:

- The income must be documented in the file to show it has been received consistently for the most recent two years.
- Part-Time income with less than a two-year history may be considered, provided the borrower will continue to receive this income.
- Income for less than 12 months may be considered if there are positive factors in the loan file to offset the shorter income history.

For example...Sally is self employed and owns a hair and nail salon, she also has been working part-time at Macys for 5 years as an accountant. Her part-time income can be used. Documentation that is typically required include:

- Paystubs!
- IRS W2 forms
- Written VOE

A 24 month average calculation must be used for the part-time job.



Read Me!

If the borrower has demonstrated a history of being employed on a part-time basis and will now be working full-time, this change must be shown in the file by obtaining a letter from the employer certifying this change of status.

Notes:

2nd Job & Multiple Income Borrowers

Please Record your answers in the space provided.

-  What are the 4 main considerations for 2nd job income/Multiple Job Borrowers?
-  What else should you keep in mind?
-  How many months are required to do an income calculation?

Examples of 2nd Jobs:

A Construction worker borrower in NJ moonlights as a snow plow operator for the city he lives in:

-  He is paid \$50/hour during each snow storm he works.
-  Last year, he earned \$1,000 from snow plowing.
-  Year to date, he earned \$12,000 from snow plowing.
-  The city indicates his employment is likely to continue in this capacity.

Would you consider his income?

A loan processor moonlights preparing tax returns for H&R Block during tax season. She is paid \$14/hour.

-  Last year she earned \$3,000 working 15 hours per week for 15 weeks.
-  This year she earned \$2,500 working 15 hours per week for 12 weeks.
-  She plans to return next tax season and H&R Block indicates she is likely to be rehired as a part time employee.

Would you consider her income?



Watch me!

Second job and Multiple Job
video



Answer Me!

Notes:

Gaps In Employment & Job Changes

Please Record your answers in the space provided.

? Which part of the VOE will you use at for Gaps in Employment and Job Changes?

? What questions should you consider as a reason for job change or gap in employment?

? What other questions do you need to ask yourself when verifying this income?



Watch me!

Gaps in Employment
& Job Changes



Answer Me!

Notes:

Stability of Income

Let's learn a bit more about the borrower's income and its stability: Remember how we talked about high and low risk? Stability is a risk factor.

The borrower's employment and income must be stable with at least a two-year history in the same or similar line of work. We all know the loan application must specify the employer's name, the borrower's job title, amount of income and the length of employment to be considered for qualification.

Borrowers who entered the work force with less than two years of employment must provide evidence of extended or higher education (such as college or trade schooling in a related field) immediately before employment in order to complete the two year history requirement. The borrower must supply evidence of the education, such as a diploma, certificate, and/or transcripts.

When determining if income is "stable" you must also consider:

- Is the actual dollar amount used for qualifying reflected in the borrowers recent pay history?
- Is the dollar amount reasonable based on the history, line of work and income potential?
- Are the qualifying ratios acceptable when using a reasonable income calculation?



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Notes:

Unemployment Income

In order to use unemployment income the employment must be seasonal.

Seasonal is defined when a borrower works for a certain period of time, then once the time period has ended, the borrower must wait until they receive the next assignment.

Please Record your answers in the space provided.

-  What are examples of seasonal employees?

-  True or False: Does seasonality vary by region of the country/state?

-  What must appear in the file for Unemployment Income/Benefits?



Watch Me!

Unemployment Income &
Contractual Employees



Answer Me!

Notes:

Contractual Employees

If this is encountered in a loan file, always ask for a copy of the borrower's employment contract for the file. Consideration must be given to the type of work, its stability, and if the earnings are consistent or increasing.

Please Record your answers in the space provided.

? What do you need to watch for when you review a contract for the file?

? What else is important to keep in mind for this type of income?



Answer Me!

Notes:

Contractual Employees

As mentioned, advancements in technology and GSE guidelines have made it possible to leverage third party verification services on some loan files for the purposes of streamlining income and employment verification. To learn more about “Day 1 Certainty” please visit FannieMae.com.

Verbal Verification

The first thing that you need to do is make sure it's a real business and not a made up phone number prior to conducting the verbal verification of employment!

You can confirm the phone number with a third party source and place documentation of this in the loan file. A few examples of third party websites are below.

www.yellowpages.com

www.superpages.com

www.411.com

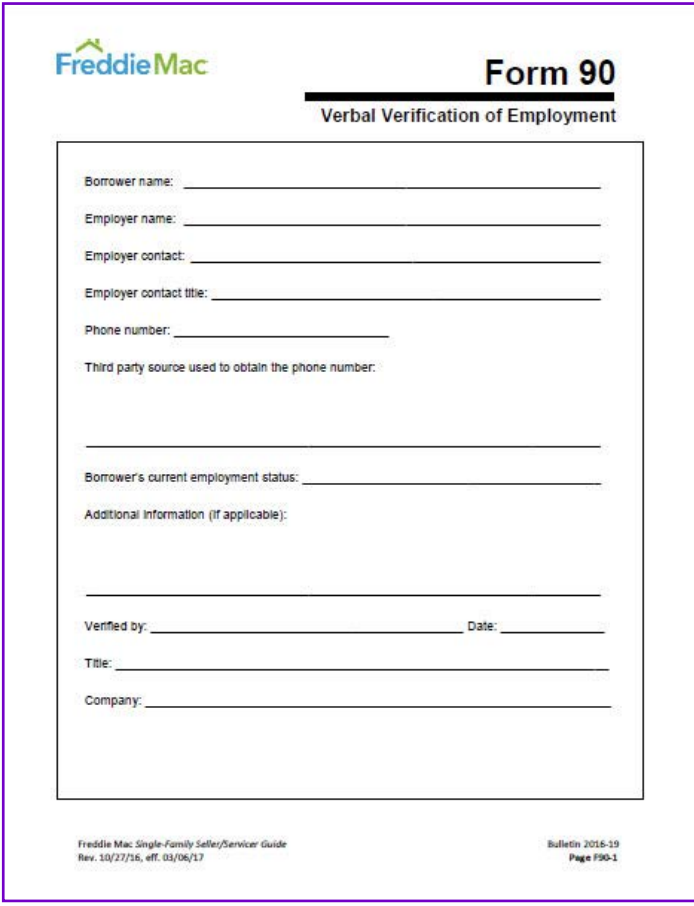
www.searchsystems.com

The information contained on the verbal verification of employment must match the borrower data shown on the loan application. The following items must be confirmed verbally:

- The borrower's current employment status
- The borrower's employment title
- The length of employment, and
- The individual's name and title who is providing this information

The verbal verification of employment must be signed by the person completing the form and must be placed in the loan file.

Sample: FreddieMac Verbal VOE Form 90A along with some examples of websites to use for references.



The image shows a sample of the FreddieMac Form 90, titled "Verbal Verification of Employment". The form is enclosed in a purple border. At the top left is the FreddieMac logo, and at the top right is the title "Form 90" with "Verbal Verification of Employment" underneath. The form contains several fields for data entry, each followed by a horizontal line for a signature or text. The fields are: Borrower name, Employer name, Employer contact, Employer contact title, Phone number, Third party source used to obtain the phone number, Borrower's current employment status, Additional information (if applicable), Verified by, Date, Title, and Company. At the bottom left, it says "Freddie Mac Single-Family Seller/Service Guide Rev. 10/27/16, eff. 03/06/17". At the bottom right, it says "Bulletin 2016-19 Page F90-1".

Additional Ways To Verify

Congratulations!!

You've watched all the videos for Basics of Income and worked through your self-study guide. Before you move on to your next learning experience in the in the Foundation-On-Demand series, check out these additional ways to verify.

3rd Party Verification

Sometimes, employment and income information may be obtained from a third-party employment verification service.

- Review these documents to ensure the borrower provided the proper authorizations to use this type of verification method.
- If this document has any missing information (or something is not clear), additional documentation will have to be gathered from the borrower or his or her employer.

Many employers today use a service called 'The Work Number' (A service of the TALX company; a part of Equifax). If the borrower is employed by a participating firm, the lender can obtain employment verification directly through The Work Number site. The borrower may need to obtain a 'salary key' or 'request number' from The Work Number system and provide this to the lender. Larger lenders may have corporate systems that allow them to access the borrower's information without a request number.



Read Me!

Notes: