



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
- Draws on 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!

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?			
<input type="checkbox"/> Annual <input type="checkbox"/> Hourly			Pay Grade				Overtime <input type="checkbox"/> Yes <input type="checkbox"/> No			
<input type="checkbox"/> Monthly <input type="checkbox"/> Other (Specify)			Type				Bonus <input type="checkbox"/> Yes <input type="checkbox"/> No			
\$			Base Pay				15. If paid hourly — average hours per week			
12B. Gross Earnings			Rations				16. Date of applicant's next pay increase			
Type	Year To Date	Past Year	Past Year	Flight or Hazard				17. Projected amount of next pay increase		
Base Pay	\$	\$	\$	Clothing				18. Date of applicant's last pay increase		
Overtime	\$	\$	\$	Quarters				19. Amount of last pay increase		
Commissions	\$	\$	\$	Pro Pay						
Bonus	\$	\$	\$	Overseas or Combat						
Total	\$ 0.00	\$ 0.00	\$ 0.00	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)							
22. Date Terminated			Base		Overtime		Commissions		Bonus	
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	$28.75 * 40 \text{ hours per week}$ $\bullet 52 \text{ weekper year} / 12 \text{ months}$
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.
- 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 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 Borrowers & Multiple Income Families

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?



Read Me!


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

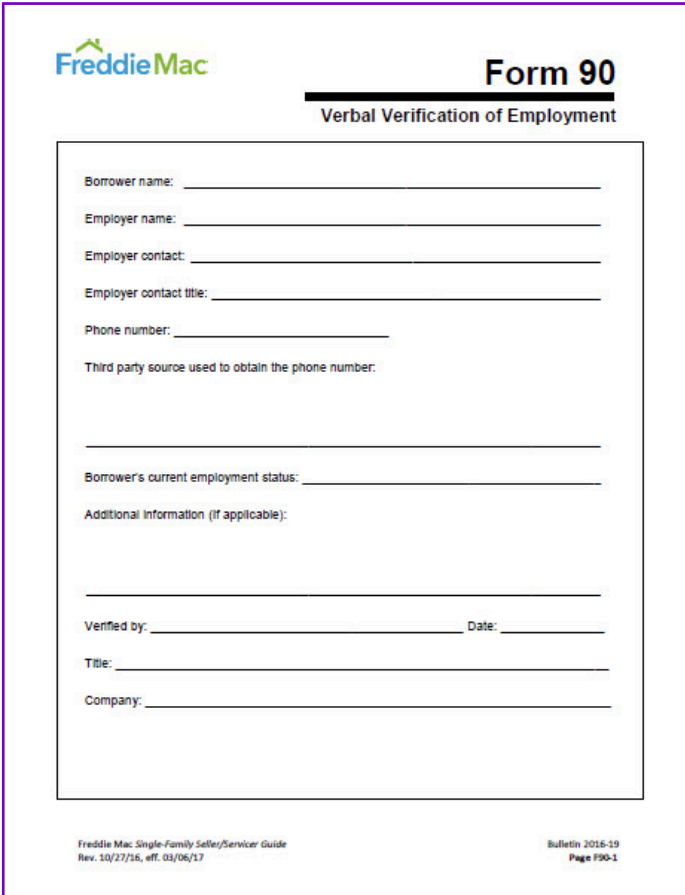
www.searchsystems.com

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 borrower and employer information, including name, contact, title, and phone number. It also has a section for the borrower's current employment status and additional information. At the bottom, there are fields for the verifier's name, title, company, and date. The footer includes the text "Freddie Mac Single-Family Seller/Service Guide Rev. 10/27/16, eff. 03/06/17" and "Bulletin 2016-19 Page F90-1".

FreddieMac

Form 90
Verbal Verification of Employment

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: _____

Company: _____

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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:

Foundations On-Demand

BASICS OF INCOME

Base Pay

You would have captured these notes while watching the Base Pay video.

Q: Documents you need for Base Pay include:

A: Paystubs, W2, IRS wage and income transcript, letter from your employer

Q: For Overtime, you will need two additional things:

A: In most cases, your employer must document that you have received overtime income for the last two years and can expect to receive it for at least the next three years.

Q: May Johnson makes \$210,000 a year? What is her monthly base pay?

A: \$17,500/Month ($\$210,000 / 12 \text{ months} = \$17,500/\text{month}$)

Overtime, Commission and Bonuses

You would have captured these notes while watching the Overtime, Commission and Bonuses Video.

Overtime

Q: Documentation for overtime includes:

A: The borrower must have received the overtime for the last 2 years (24 Months) shown on a written verification of employment form (VOE). Also obtaining paystubs or an explanation from the employer may be used for additional documentation support.

Q: The monthly overtime income for qualification can be calculated by:

A: Monthly qualifying income can be calculated by taking a 24-month average of the overtime average.

Q: This must be evaluated for the borrower:

A: An earnings trend must be evaluated. Look for consistent Overtime earnings. Declining overtime is a sign of instability and should not be used.



Answer Key!

Q: Jose Mendez makes \$850 weekly. What is his monthly base pay?

A: \$3,683.33/Month ($\$850 \times 52 \text{ weeks} / 12 \text{ months} = \$3,683.33/\text{month}$)

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

A: \$2,816.67/Month ($\$1,300 \times 26 \text{ pay periods} / 12 \text{ months} = \$2,816.67/\text{month}$)

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

A: \$1,800/Month ($\$900 \times 24 \text{ pay periods} / 12 \text{ months} = \$1,800/\text{month}$)

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

A: \$4,650/Month (For this, remember you will need to find an annual pay over 12 months before you can complete the calculation. $\$3,100 \times 18 \text{ pay periods} = \$55,800/\text{year} / 12 \text{ months} = \$4,650/\text{month}$)

Q: If the borrower has recently changed jobs, what should you do?:

A: Analyze the effective change of the borrower's eligibility and opportunity to earn overtime income.

Q: What is NOT an acceptable source of income for overtime?:

A: Projected overtime is not acceptable.

Q: What documentation can be obtained to consider the overtime income?:

A: Documents could include: Letter from the employer; Reviewing an employment contract; Verification of Employment form; and Paystubs.

Foundations On-Demand

BASICS OF INCOME

Overtime, Commission and Bonuses (cont.)



Answer Key!

Commission

There are no questions for this section, but check the workbook for more information on Commission income.

Bonus Income

Q: Documentation for Bonus Income includes:

A: The Verification of Employment (VOE) showing a 2 year history should be used. You may also obtain W-2's, paystubs, or a letter from the employer verifying the receipt of this income for at least 2 years.

Q: What is the challenge with qualifying Bonus Income?

A: It is difficult to see the future income potential as it is not often stable and predictable.

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

Tips, Gratuities & Part-Time

There are no questions for this section, but check the workbook for more information on Tips, Gratuities and Part-Time income.

A: To prove stability, you need to see evidence of continuance from the employee contract or a letter from the employer.

Q: Review the scenarios below.

Please check the box next to the scenario that you feel presents the least amount of risk:

Senior Vice President or Sales Representative

A: Sales Representative is less risk because all the factors for the sales person are within their control.



Read Me!

2nd Job Borrowers & Multiple Job Families

You would have captured these notes while watching the 2nd Job Borrowers and Multiple Job Families Video. Check your answers below.

Q: What are the 4 main considerations for 2nd job income/multiple Job borrowers?

A: The income must be documented to show it has been received for the most recent two years: on an exception basis, less than a two-year history may be considered (but not less than a 12-month history) provided the borrower is likely to continue to receive this income. The income must also be documented by IRS W2 forms; the income must be likely to continue.

Q: What else should you keep in mind?

A: Identify if any sort of negative change to the

borrower's overall employment status might affect the continuance of the second job income. Written verifications of employment from both jobs outlining stability would be a suggestion for this item. Employment contracts or even letters from the employers addressing stability of the income could serve to properly document this point.

Q: How many months are required to do an income calculation?

A: To complete an accurate calculation, a 24-month average of monthly income must be used when considering a second job or multiple jobs.

Gaps In Employment & Job Changes

You would have captured these notes while watching the Gaps in Employment and Job Changes Video. Check your answers below.

- Q:** Which part of the VOE will you use for Gaps in Employment and Job Changes?
- A:** Part III line for 21 date hired and line 22 for date terminated which are part of the Previous Employments section of the VOE.



Answer Key!

- Q:** What questions should you consider as a reason for job changes or gaps in employment?
- A:** What is the reason for the job change or the gap of employment? Was it by their choice? Is it because of a medical reason? Was it because of economic conditions and therefore out of their control? Just think of what is going on in the economy now; you may be seeing more gaps / job changes.
- Q:** What other questions do you need to ask yourself when verifying this income?
- A:** Is the gap isolated or is expected to happen again? Does the borrower qualify using an average of income? Has stability of income returned? How was the borrower's credit history during the gap?

Stability Of Income

There are no questions for this section, but check the workbook for more information on Stability of Income.



Read Me!

Unemployment and Contractual

You would have captured these notes while watching the Unemployment and Contractual Video. Check your answers below..

UNEMPLOYMENT INCOME

- Q:** What are examples of seasonal employees?
- A:** Some examples of seasonal workers include those in construction and landscaping.
- Q:** True or False: Does seasonality vary by region of the country/state?
- A:** True: Seasonal occupations will vary by region. Examples of these jobs are: fisherman, ski instructors, agricultural workers, and lifeguards.

- Q:** What must appear in the file for Unemployment Income/Benefits?
- A:** There must be verification in the file to show the borrower has worked in the same job (or the same type of seasonal work) for the most recent two years. The borrower's employer must confirm that the borrower is likely to be rehired for the next season. For seasonal unemployment compensation, documentation must be submitted to show the unemployment pay is linked with seasonal layoffs, it is expected to happen again, and it is reported on the borrower's tax return. If this cannot be clearly shown in the file, the unemployment pay cannot be used for effective income.

Contractual Employees



Answer Key!

- Q:** What do you need to watch for when you review a contract for the file?
- A:** Consideration must be given to the type of work, its stability, and if the earnings are consistent or increasing.

- Q:** What else is important to keep in mind for this type of income?
- A:** Watch for exceptions or exclusions in the contract (such as pending annual drug testing, failure could terminate employment). Many lenders will consider contractual income only on an exception basis. It is best to determine how long this borrower has been completing this type of work and if can be expected to continue.

Additional Ways to Verify

There are no questions for this section, but check the workbook for more information on Additional Ways to Verify income.