



SPRINGBOARD HOME LOANS

Tips for Evaluating and Documenting Income Sources

Housing counselors and loan officers must demonstrate that the sources of income used to qualify borrowers for a home mortgage are stable and durable and likely to continue for at least three years. Keep in mind that income analysis is always conservative and underwriters use worst-case assumption. All income sources must be documented and verified.

| INCOME SOURCE | GUIDELINE | DOCUMENTATION |
|---|--|--|
| Full-time wage (W-2) Income | <p>Wage, or W-2 income can be counted if the borrower has been employed full-time in the same line of work for at least two years. The two-year period does not need to be continuous or with the same employer.</p> <p>TIP: Did the borrower just receive a raise? You can use the new higher income immediately as long as the employer verifies the new pay rate and the borrower has received his first paycheck at the higher rate.</p> <p>TIP: A wage earner on temporary leave including disability can still be approved for a mortgage loan but must wait to close on their home purchase until they return to work and receive their first paycheck.</p> | <ul style="list-style-type: none">• Paycheck stubs for the past two months.• Verification of employment from current employer and past employers if less than two years with the current employer• Federal tax returns and W-2 for past two years.• Updated verbal verification of employment 10 days before closing. |
| Part-time wage (W-2) Income | <p>Employment income from a part-time job can be counted if the borrower has been employed part-time for at least two years and one-year with the current employer.</p> | <ul style="list-style-type: none">• Paycheck stubs for the past two months.• Verification of employment• Federal tax returns and W-2s for past two years. |
| Bonus, commission and overtime pay | <p>Variable sources of income can be counted using a 24 month average. Employer must verify that income source is likely to continue. If income source is declining or absent in the current year, the underwriter may not consider it usable.</p> <p>TIP: Counsel borrowers to avoid changing their manner of wage income (e.g. salaried to commissioned) even with the same employer prior to closing their purchase.</p> | <ul style="list-style-type: none">• Paycheck stubs for past two months.• Verification of employment (employer to confirm that income source will continue).• Federal tax returns and W-2s for past two years. |

| INCOME SOURCE | GUIDELINE | DOCUMENTATION |
|--|--|---|
| <p>Self-employment or business income</p> | <p>The average of the two most recent years of net business income as reported on the borrower's personal federal income tax returns are used.</p> <p>TIP: <i>Self-employed borrowers who reported low-levels of net self employment income in prior tax years can amend their report prior year returns, report higher net income, pay the increased taxes, the increased income can be used for underwriting purposes.</i></p> <p>TIP: <i>Remind borrowers that if they switch employment status from employee to self-employment, even if in the same line of work - they will have two years to document the self-employment income with filed tax returns (e.g. a W2 Fedex driver with five years on the job who switches to a self-employed Uber driver will have to wait two years.</i></p> | <ul style="list-style-type: none"> • Two most recent years of federal tax returns where business income was reported (usually 1040 with Schedule C). • Year-to-Date Profit and Loss Statement (self prepared OK) • Prior Year and Year-to-Date Balance Sheet (self prepared OK). • Evidence of business identify (e.g. website, business card, business license, yellow pages listing). |
| <p>Permanent government benefits</p> | <p>Social Security, Social Security Disability, and Veterans Disability income can be counted immediately.</p> <p>TIP: <i>If the borrower receives Social Security Disability income on behalf of someone for whom they are parent, guardian or custodian, that income can be counted if it will continue for at least three more years.</i></p> | <ul style="list-style-type: none"> • Award letter that confirms the monthly payment amount. • Evidence of receipt of the first payment. |
| <p>Income from a non-occupant co-buyer</p> | <p>FHA 203(b) underwriting guidelines allow up to 100% of the qualifying income to come from a non-occupant co-buyer.</p> <p>TIP: <i>Be aware that some homebuyer assistance program that have income eligibility requirements, may count the income from the non-occupying co-buyer if that in is being relied upon for underwriting purposes.</i></p> | <ul style="list-style-type: none"> • The non-occupying co-buyer must all of the normal income documentation required of the borrower. |
| <p>Pension Income</p> | <p>Like Social Security Income, income from a private pension or retirement annuity can be counted immediately.</p> | <ul style="list-style-type: none"> • Statement from the pension fund or annuity provider confirming the amount of the monthly payment. • Evidence of receipt of at least one recent payment. • Prior year 1009 forms and tax returns (if available). |
| <p>Short-term workers compensation, unemployment, welfare, and foster care payments</p> | <p>These sources of income can <u>not</u> be used for underwriting purposes because they are not considered stable and durable.</p> <p>TIP: <i>These sources of income even though they may not be counted for underwriting purposes will likely still be considered for eligibility purposes for homebuyer assistance programs.</i></p> | <ul style="list-style-type: none"> • N/A |