MGIC

How to Evaluate and Calculate Borrower Income

PART ONE: FIXED INCOME
PART TWO: VARIABLE INCOME

Legal Disclaimer

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Objectives

Learn about what income can be used for qualifying purposes

Understand some common income types and review documentation requirements

Discuss how to review income to calculate qualifying income and to determine eligibility

Part One – Fixed Income

- Risk assessment of income
- Types of income
- General documentation requirements
- Calculation of base income
- Non-taxable income
- Less than 2-year history of employment

Risk Assessment and Income

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Do the borrowers demonstrate the capacity to repay the mortgage and other monthly obligations?

- How long have they been in their current job or field?
- Will there be the potential for increased earnings?
- Do they have residual income?
- Is there other household income?
- Will the housing payment remain about the same?
- Was the borrower's income impacted by extenuating circumstances - COVID-19?

Income Analysis

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History –
Do the borrowers have a history of being employed for the last 2 years?

Consistency/stability –
Has the borrower's income been stable in the last 2 years?

Continuance –
Will the borrower's income continue for at least 3 years?

Is the Income Likely to Continue?

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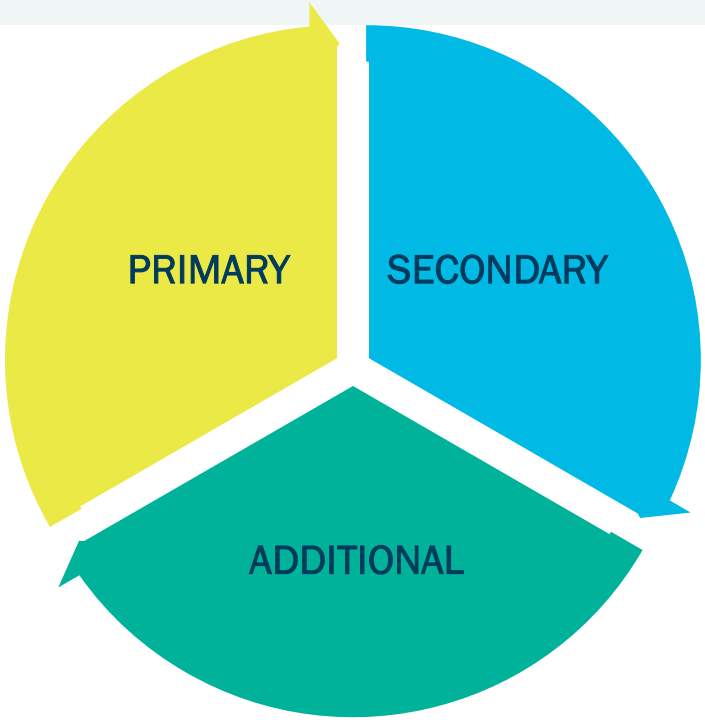
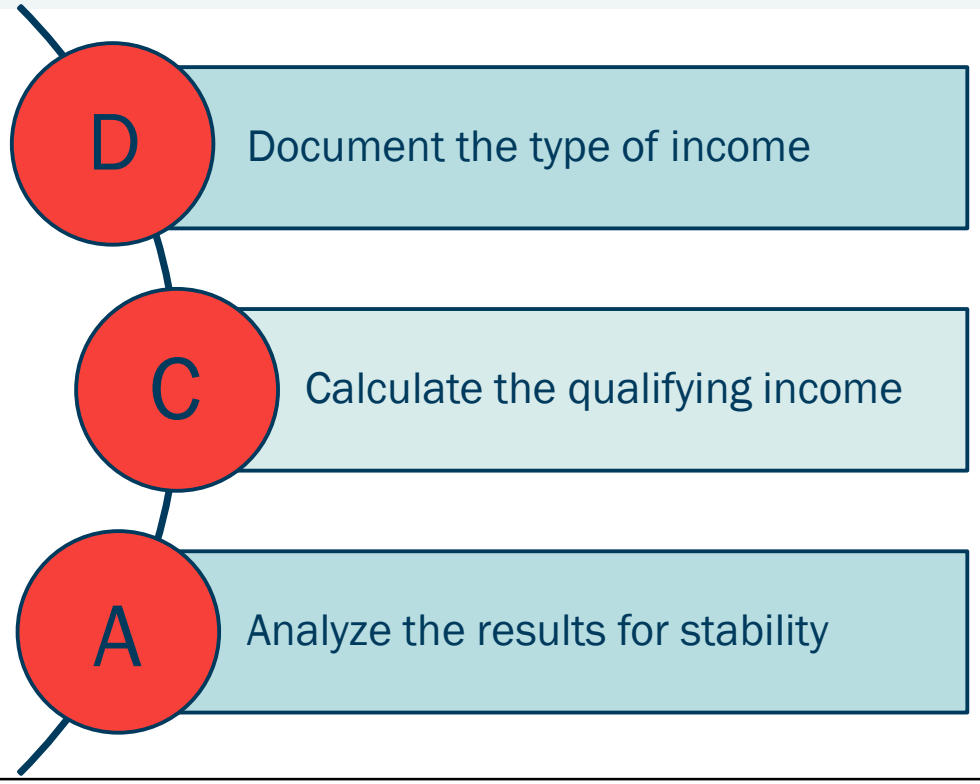
Likely to continue	Defined end date
• Base/salary • Commission • Foster care • Corporate pension • Social security – retirement	• Child support • Alimony • IRA distributions • Social security for benefit of a minor • Trust income • Note receivable

Income Sources



DCAs of Capacity



Non-Variable or Fixed Income

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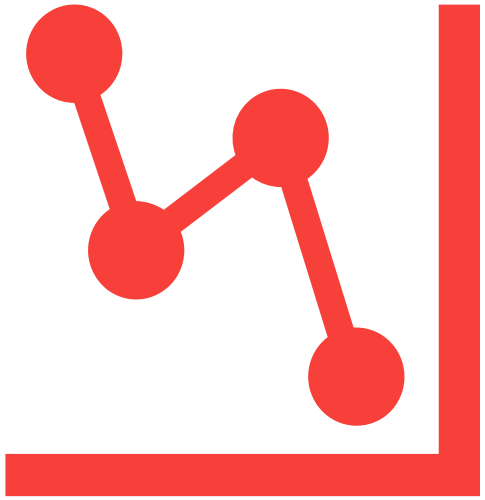
Stable, predictable and likely to continue

Income with a predetermined amount that occurs with a regular frequency and has a defined documentable term

Variable Income



Fluctuating earnings

Amount is NOT predetermined, does NOT occur with regular frequency and a definite amount is NOT documentable

Income Documentation

- Paystub dated within 30 days of initial loan application
- W-2s for the prior 2 years

OR

- Verification of employment (VOE), including year-to-date and prior year's earnings

AND

- Verbal VOE for each borrower must be obtained within 10 business days prior to the note date

Income Documentation

Alternative ways to document income:

- Third party vendors
- Through AUS systems
  - Desktop Underwriter ® Day 1 Certainty ®
  - Loan Product Advisor® AIM

Tax returns may be required for certain income types

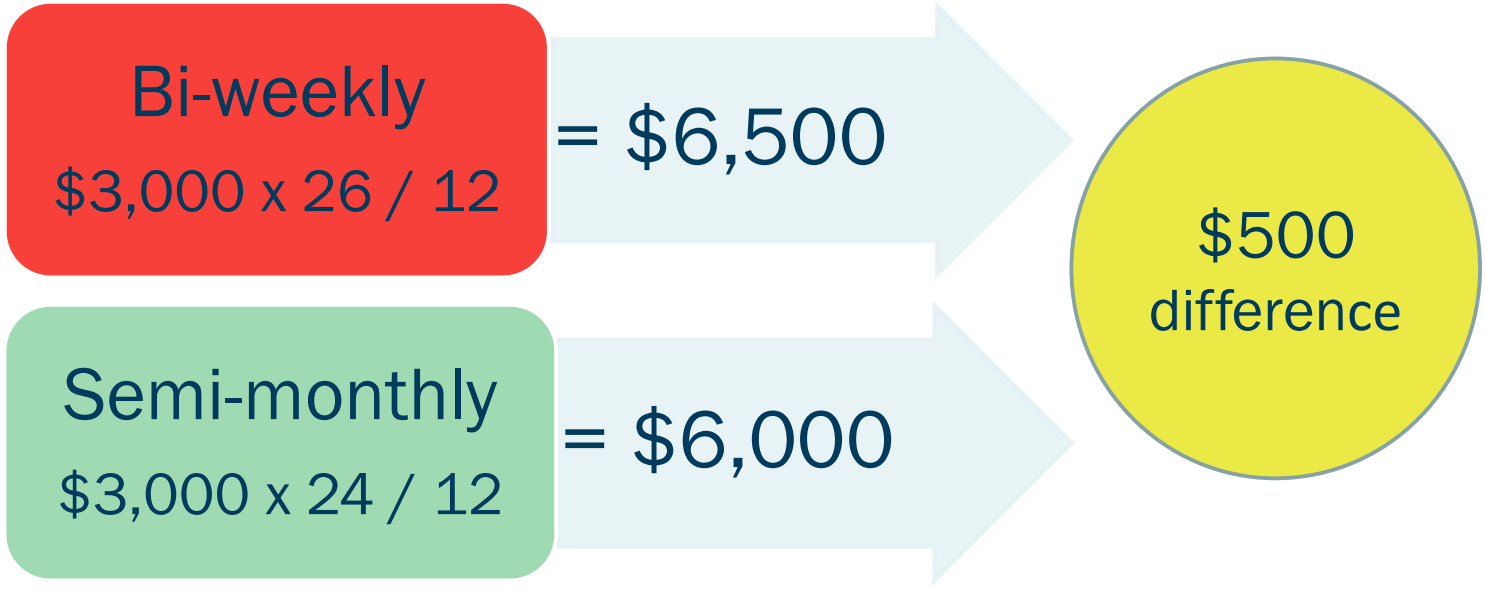
Income Requiring Tax Returns

- Employed by family
- Employed by interested party to the transaction
- Interest/dividend income
- Foreign income
- Self-employed
- Rental income

Calculation of Income

Pay period	Calculation
Hourly	((Hourly rate x number of hours per week) x 52) divided by 12
Weekly	(Weekly amount x 52) divided by 12
Bi-Weekly	(Bi-weekly amount x 26) divided by 12
Semi-Monthly	(Semi-monthly amount x 24) divided by 12
Annual	Annual salary divided by 12

Calculating Monthly Income Example



Meet the Borrowers

Peter and Elizabeth Simon

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information

Name *(First, Middle, Last, Suffix)*
Peter Simon

Alternate Names – *List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix)*

Social Security Number – – 2030
(or Individual Taxpayer Identification Number)

Date of Birth *(mm/dd/yyyy)*
03 / 06 / 1970

Citizenship
- (●) U.S. Citizen
- ( ) Permanent Resident Alien
- ( ) Non-Permanent Resident Alien

Type of Credit

List Name(s) of Other Borrower(s) Applying for this Loan

1b. Current Employment/Self-Employment and Income ☐ *Does not apply*

Employer or Business Name Franklin Elementary School Phone (713) 497 –
Street 17 Barker Rd Unit #
City Pleasant Valley State ZIP 99999 Country USA

Position or Title Music Teacher
Start Date 09 / 01 / 2010 *(mm/dd/yyyy)*
How long in this line of work? 20 Years ___ Months

Check if this statement applies:
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed**
( ) I have an ownership share of less than 25%.
( ) I have an ownership share of 25% or more.
Monthly Income (or Loss) $

Gross Monthly Income

Base	$ 3,708.00	/month
Overtime	$	/month
Bonus	$	/month
Commission	$	/month
Military Entitlements	$	/month
Other	$	/month
TOTAL $	**3,708.00**	**/month**

Uniform Residential Loan Application
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 9/2020

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Employer or Business Name Franklin Elementary School Phone (713) 497 –
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TOTAL $	**3,708.00**	**/month**

Uniform Residential Loan Application
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Effective 9/2020

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information

Name *(First, Middle, Last, Suffix)*
Elizabeth Simon

Alternate Names – *List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix)*
Elizabeth Jones

Social Security Number ___ – ___ – 9652
(or Individual Taxpayer Identification Number)

Date of Birth *(mm/dd/yyyy)*
08 / 01 / 1974

Citizenship
- (•) U.S. Citizen
- ( ) Permanent Resident Alien
- ( ) Non-Permanent Resident Alien

Type of Credit
( ) I am applying for **individual credit.**

List Name(s) of Other Borrower(s) Applying for this Loan
(First, Middle, Last, Suffix) – Use a separator between names

1b. Current Employment/Self-Employment and Income ☐ **Does not apply**

Employer or Business Name Web Vision Inc. Phone (713) 493 –
Street 314 Forest Ave Unit #
City Pleasant Valley State ZIP 99999 Country USA

Position or Title Program Designer Technology
Start Date 05 / 10 / 2002 *(mm/dd/yyyy)*
How long in this line of work? 20 Years __ Months

Check if this statement applies:
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed**
( ) I have an ownership share of less than 25%.
( ) I have an ownership share of 25% or more.
Monthly Income (or Loss) $

Gross Monthly Income

Base	$ 5,000.00	/month
Overtime	$	/month
Bonus	$	/month
Commission	$	/month
Military Entitlements	$	/month
Other	$	/month
TOTAL $	**5,000.00**	**/month**

Uniform Residential Loan Application — Additional Borrower
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 9/2020

1b. Current Employment/Self-Employment and Income ☐ **Does not apply**

Employer or Business Name Web Vision Inc. Phone (713) 493 –
Street 314 Forest Ave Unit #
City Pleasant Valley State ZIP 99999 Country USA

Position or Title Program Designer Technology
Start Date 05 / 10 / 2002 *(mm/dd/yyyy)*
How long in this line of work? 20 Years __ Months

Check if this statement applies:
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ **Check if you are the Business Owner or Self-Employed**
( ) I have an ownership share of less than 25%.
( ) I have an ownership share of 25% or more.
Monthly Income (or Loss) $

Gross Monthly Income

Base	$ 5,000.00	/month
Overtime	$	/month
Bonus	$	/month
Commission	$	/month
Military Entitlements	$	/month
Other	$	/month
TOTAL $	**5,000.00**	**/month**

Uniform Residential Loan Application — Additional Borrower

Let's Calculate Income

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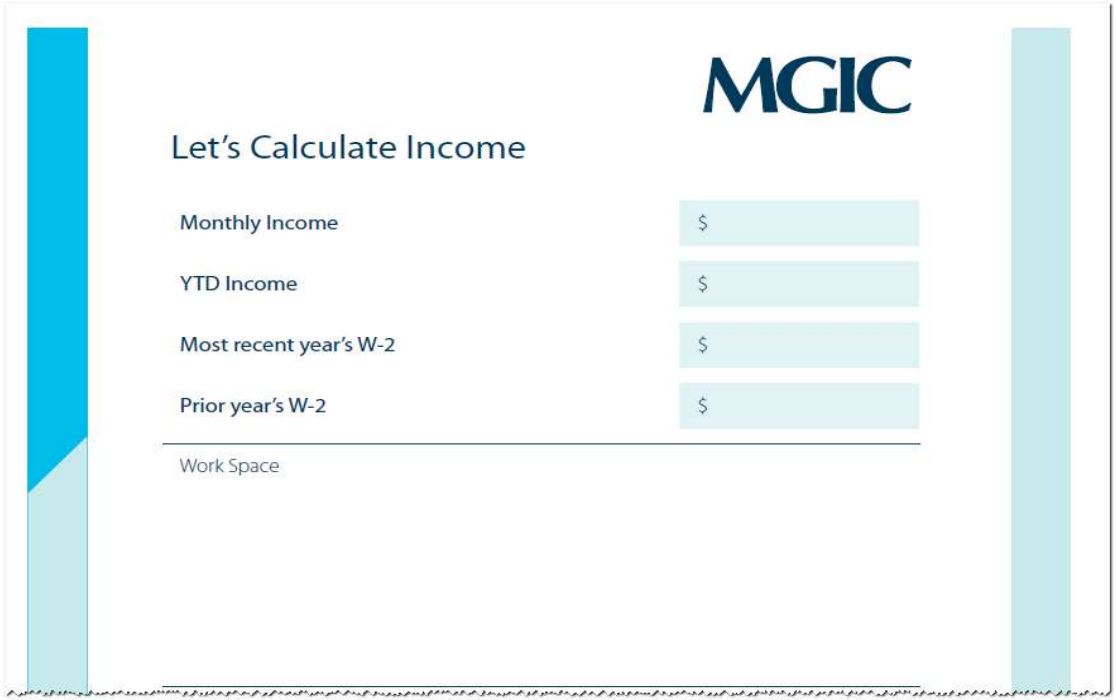
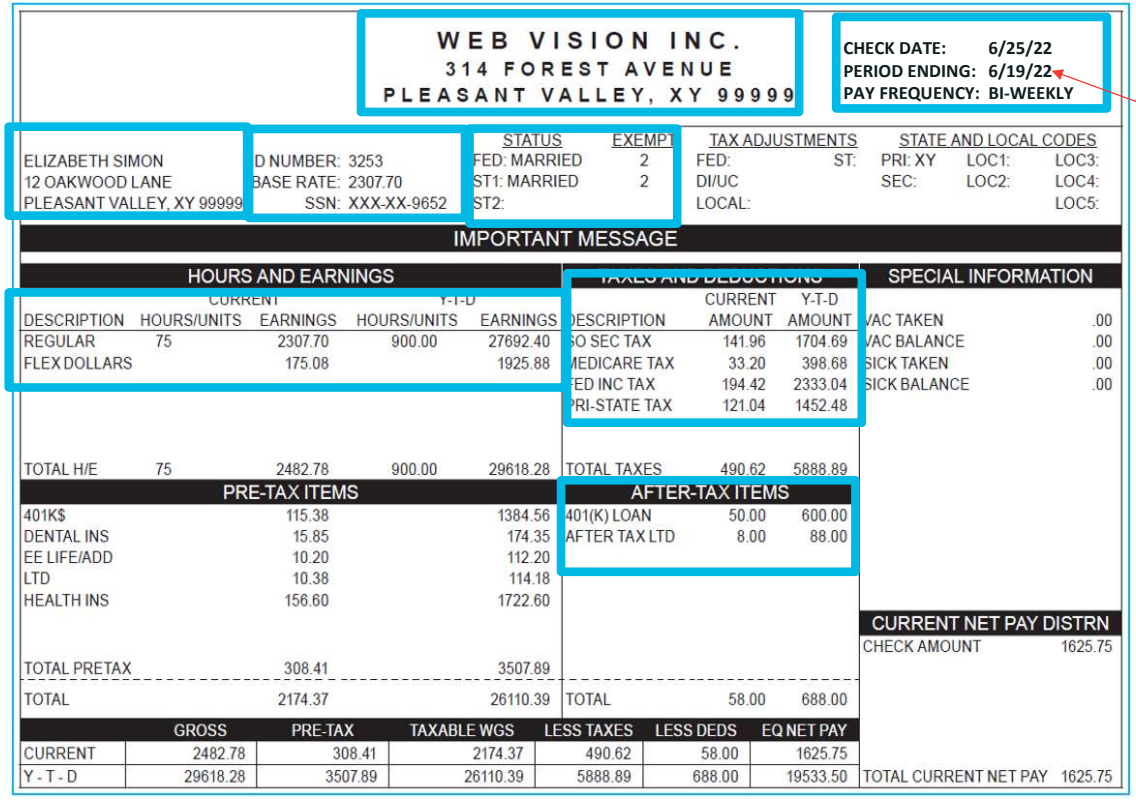


Base Income – Elizabeth



WEB VISION INC.
314 FOREST AVENUE
PLEASANT VALLEY, XY 99999

CHECK DATE: 6/25/22
PERIOD ENDING: 6/19/22
PAY FREQUENCY: BI-WEEKLY

ELIZABETH SIMON
12 OAKWOOD LANE
PLEASANT VALLEY, XY 99999

D NUMBER: 3253
BASE RATE: 2307.70
SSN: XXX-XX-9652

STATUS	EXEMPT
FED: MARRIED	2
ST1: MARRIED	2
ST2:	

TAX ADJUSTMENTS
FED: ST:
DI/UC
LOCAL:

STATE AND LOCAL CODES
PRI: XY LOC1: LOC3:
SEC: LOC2: LOC4:
LOC5:

IMPORTANT MESSAGE

HOURS AND EARNINGS

DESCRIPTION	CURRENT HOURS/UNITS	CURRENT EARNINGS	Y-T-D HOURS/UNITS	Y-T-D EARNINGS
REGULAR	75	2307.70	900.00	27692.40
FLEX DOLLARS		175.08		1925.88
TOTAL H/E	75	2482.78	900.00	29618.28

TAXES AND DEDUCTIONS

DESCRIPTION	CURRENT AMOUNT	Y-T-D AMOUNT
SO SEC TAX	141.96	1704.69
MEDICARE TAX	33.20	398.68
FED INC TAX	194.42	2333.04
PRI-STATE TAX	121.04	1452.48
TOTAL TAXES	490.62	5888.89

SPECIAL INFORMATION

VAC TAKEN	.00
VAC BALANCE	.00
SICK TAKEN	.00
SICK BALANCE	.00

PRE-TAX ITEMS

401K$	115.38	1384.56
DENTAL INS	15.85	174.35
EE LIFE/ADD	10.20	112.20
LTD	10.38	114.18
HEALTH INS	156.60	1722.60
TOTAL PRETAX	308.41	3507.89
TOTAL	2174.37	26110.39

AFTER-TAX ITEMS

401(K) LOAN	50.00	600.00
AFTER TAX LTD	8.00	88.00
TOTAL	58.00	688.00

CURRENT NET PAY DISTRN

CHECK AMOUNT	1625.75
TOTAL CURRENT NET PAY	1625.75

	GROSS	PRE-TAX	TAXABLE WGS	LESS TAXES	LESS DEDS	EQ NET PAY
CURRENT	2482.78	308.41	2174.37	490.62	58.00	1625.75
Y-T-D	29618.28	3507.89	26110.39	5888.89	688.00	19533.50

Use period ending date

Base Income Calculation

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WEB VISION INC.
314 FOREST AVENUE
PLEASANT VALLEY, XY 99999

CHECK DATE: 6/25/22
PERIOD ENDING: 6/19/22
PAY FREQUENCY: BI-WEEKLY

			STATUS	EXEMPT	TAX ADJUSTMENTS		STATE AND LOCAL CODES		
ELIZABETH SIMON	ID NUMBER:	3253	FED: MARRIED	2	FED:	ST:	PRI: XY	LOC1:	LOC3:
12 OAKWOOD LANE	BASE RATE:	2307.70	ST1: MARRIED	2	DI/UC		SEC:	LOC2:	LOC4:
PLEASANT VALLEY, XY 99999	SSN:	XXX-XX-9652	ST2:		LOCAL:				LOC5:

IMPORTANT MESSAGE

HOURS AND EARNINGS

DESCRIPTION	CURRENT HOURS/UNITS	CURRENT EARNINGS	Y-T-D HOURS/UNITS	Y-T-D EARNINGS
REGULAR	75	2307.70	900.00	27692.40
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TOTAL TAXES	490.62	5888.89

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SICK TAKEN	.00
SICK BALANCE	.00

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TOTAL PRETAX	308.41	3507.89
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TOTAL CURRENT NET PAY	1625.75

	GROSS	PRE-TAX	TAXABLE WGS	LESS TAXES	LESS DEDS	EQ NET PAY
CURRENT	2482.78	308.41	2174.37	490.62	58.00	1625.75
Y-T-D	29618.28	3507.89	26110.39	5888.89	688.00	19533.50

Calculate Elizabeth's:

- Monthly income
- YTD average

Let's Calculate Income

Monthly income:	$
YTD income:	$
Period decimal calculation =	

What's the monthly qualifying income? Why?

Base Income – continued

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a Employee's social security number: xxx-xx-9652

OMB No. 1545-0008

This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.

b Employer identification number (EIN): 12-3456789

c Employer's name, address, and ZIP code:
Web Vision Inc.
314 Forest Avenue
Pleasant Valley, XY 99999

d Control number

e Employee's first name and initial: Elizabeth Last name: Simon Suff.
12 Oakwood Lane
Pleasant Valley, XY 99999

f Employee's address and ZIP code

1 Wages, tips, other compensation	54,530.19
2 Federal income tax withheld	5,536.19
3 Social security wages	57,400.20
4 Social security tax withheld	3,558.81
5 Medicare wages and tips	57,400.20
6 Medicare tax withheld	832.31
7 Social security tips	
8 Allocated tips	
9	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12 Code D	2,870.01
13 Statutory employee / Retirement plan / Third-party sick pay	
12b Code	
14 Other	
12c Code	
12d Code	

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
XY	555571-1	54,530.19	3,272.19			

Form W-2 Wage and Tax Statement 2021 Department of the Treasury—Internal Revenue Service

Safe, accurate, FAST! Use IRS e-file

Base Income – continued

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	a Employee's social security number: xxx-xx-9652	OMB No. 1545-0008	This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.
b Employer identification number (EIN): 12-3456789		1 Wages, tips, other compensation: 52,440.70	2 Federal income tax withheld: 5,398.64
c Employer's name, address, and ZIP code: Web Vision Inc. 314 Forest Avenue Pleasant Valley, XY 99999		3 Social security wages: 55,200.60	4 Social security tax withheld: 3,422.44
		5 Medicare wages and tips: 55,200.60	6 Medicare tax withheld: 800.41
		7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits
e Employee's first name and initial: Elizabeth Last name: Simon Suff. 12 Oakwood Lane Pleasant Valley, XY 99999		11 Nonqualified plans	12a See instructions for box 12: D 2,759.90
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
		14 Other	12c
			12d
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
XY	555571-1	52,440.70	3,178.50			

Form **W-2** Wage and Tax Statement 2020 Department of the Treasury—Internal Revenue Service

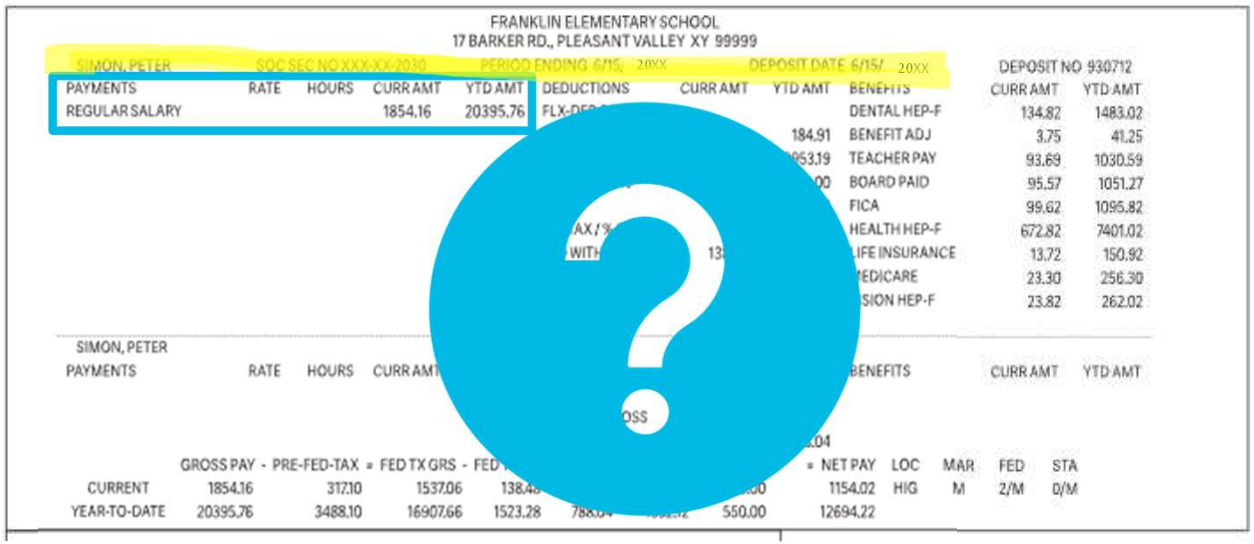
Safe, accurate, FAST! Use IRS e-file

Let's calculate income

Monthly income: $2,308 x 26 / 12	$5,001
YTD income: $27,692 / 5.63 months	$4,919
Most recent year's W-2: $57,400 / 12	$4,783
Prior year's W-2: $55,201 / 12	$4,600

What's the monthly qualifying income? Why?

Base Income – Peter



FRANKLIN ELEMENTARY SCHOOL
17 BARKER RD., PLEASANT VALLEY XY 99999

SIMON, PETER SOC SEC NO XXX-XX-2030 PERIOD ENDING 6/15/ 20XX DEPOSIT DATE 6/15/ 20XX DEPOSIT NO 930712

PAYMENTS	RATE	HOURS	CURR AMT	YTD AMT
REGULAR SALARY			1854.16	20395.76

DEDUCTIONS	CURR AMT	YTD AMT
FLX-DEP		
		184.91
		053.19
		00
TAX / %		
WITH	13	

BENEFITS	CURR AMT	YTD AMT
DENTAL HEP-F	134.82	1483.02
BENEFIT ADJ	3.75	41.25
TEACHER PAY	93.69	1030.59
BOARD PAID	95.57	1051.27
FICA	99.62	1095.82
HEALTH HEP-F	672.82	7401.02
LIFE INSURANCE	13.72	150.92
MEDICARE	23.30	256.30
SION HEP-F	23.82	262.02

SIMON, PETER

PAYMENTS	RATE	HOURS	CURR AMT

BENEFITS CURR AMT YTD AMT

OSS

.04

	GROSS PAY	- PRE-FED-TAX	= FED TX GRS	- FED		= NET PAY	LOC	MAR	FED	STA
CURRENT	1854.16	317.10	1537.06	138.45	.00	1154.02	HIG	M	2/M	0/M
YEAR-TO-DATE	20395.76	3488.10	16907.66	1523.28	550.00	12694.22				

Teachers

Challenge: determining whether a teacher is a 12-month or 10-month employee:

- VOE
- Teacher's contract
- County website
- Verify with HR department

Income calculation for 10-month employee
If paid semi-monthly = (base x 2) x 10 /12 = monthly qualifying income
If paid bi-weekly = (base x 22) /12 = monthly qualifying income

Base Income Calculation

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FRANKLIN ELEMENTARY SCHOOL
17 BARKER RD., PLEASANT VALLEY XY 99999

SIMON, PETER SOC SEC NO XXX-XX-2030 PERIOD ENDING 6/15/20 DEPOSIT DATE 6/15/20 DEPOSIT NO 930712

PAYMENTS	RATE	HOURS	CURR AMT	YTD AMT	DEDUCTIONS	CURR AMT	YTD AMT	BENEFITS	CURR AMT	YTD AMT
REGULAR SALARY			1854.16	20395.76	FLX-DEP CARE			DENTAL HEP-F	134.82	1483.02
					FLX-HLTH CONTR	16.81	184.91	BENEFIT ADJ	3.75	41.25
					FLX-MED E 20XX	250.29	2953.19	20XX	93.69	1030.59
					AETNA LIF INS	50.00	550.00	BOARD PAID	95.57	1051.27
					FICA	99.62	1095.82	FICA	99.62	1095.82
					FEDTAX / % GROSS			HEALTH HEP-F	672.82	7401.02
					FED WITH TAX	138.48	1523.28	LIFE INSURANCE	13.72	150.92
					HLTH INS			MEDICARE	23.30	256.30
					LTS INS DED	12.25	134.75	VISION HEP-F	23.82	262.02
					MEDICARE	23.30	256.30			

SIMON, PETER

PAYMENTS	RATE	HOURS	CURR AMT	YTD AMT	DEDUCTIONS	CURR AMT	YTD AMT	BENEFITS	CURR AMT	YTD AMT
					OEA DUES	31.27	343.97			
					XY TAX % GROSS					
					XY STATE TAX	71.64	788.04			

	GROSS PAY	- PRE-FED-TAX	= FED TX GRS	- FED TAX	- STA TAX	- FICA/MED	- OTH DED	= NET PAY	LOC	MAR	FE
CURRENT	1854.16	317.10	1537.06	138.48	71.64	122.92	50.00	1154.02	HIG	M	2/
YEAR-TO-DATE	20395.76	3488.10	16907.66	1523.28	788.04	1352.12	550.00	12694.22			

Calculate Peter's:

- Monthly income
- YTD average

Let's Calculate Income

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Monthly income:	$
YTD income:	$
Most recent year's W-2:	$
Prior year's W-2:	$

What's the monthly qualifying income? Why?

Base Income – continued

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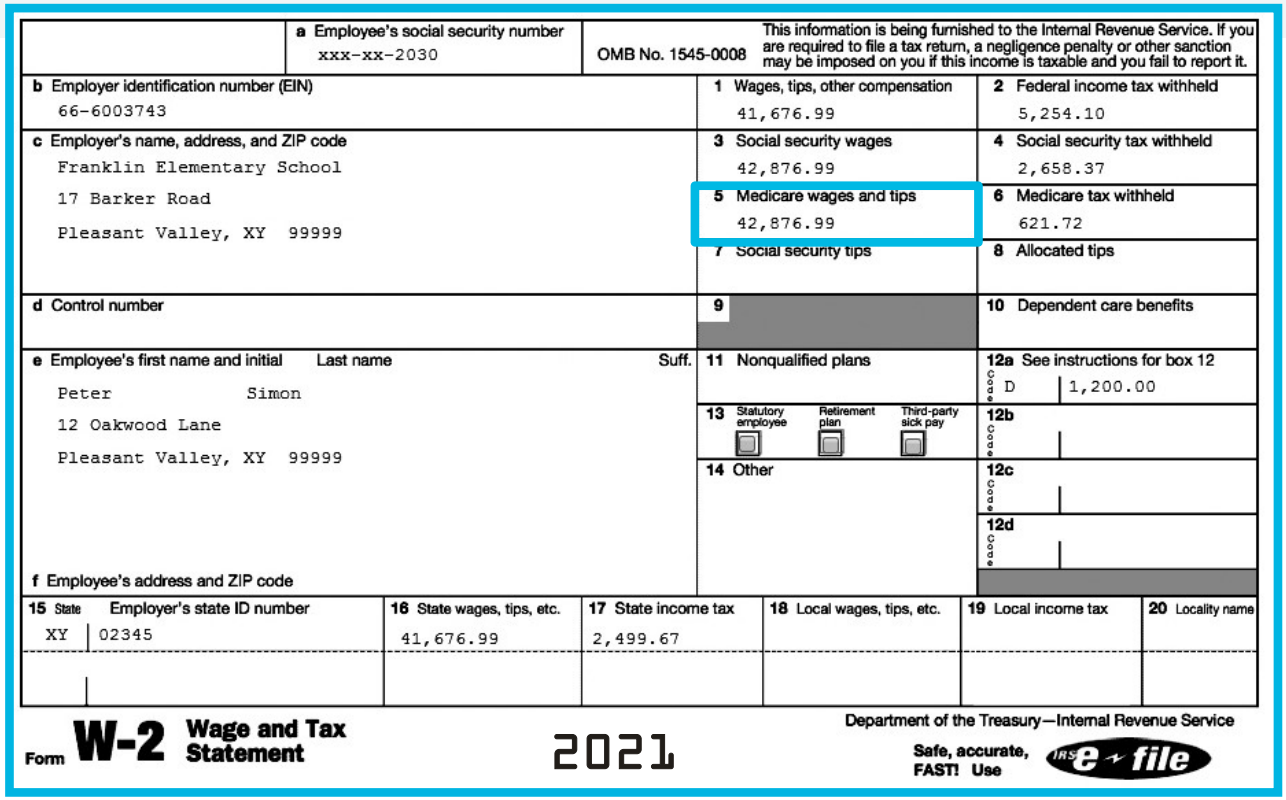

a Employee's social security number: xxx-xx-2030

OMB No. 1545-0008

This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.

b Employer identification number (EIN): 66-6003743

c Employer's name, address, and ZIP code:
Franklin Elementary School
17 Barker Road
Pleasant Valley, XY 99999

d Control number

e Employee's first name and initial: Peter Last name: Simon Suff.
12 Oakwood Lane
Pleasant Valley, XY 99999

f Employee's address and ZIP code

1 Wages, tips, other compensation: 41,676.99
2 Federal income tax withheld: 5,254.10
3 Social security wages: 42,876.99
4 Social security tax withheld: 2,658.37
5 Medicare wages and tips: 42,876.99
6 Medicare tax withheld: 621.72
7 Social security tips
8 Allocated tips
9
10 Dependent care benefits
11 Nonqualified plans
12a See instructions for box 12: Code D 1,200.00
13 Statutory employee / Retirement plan / Third-party sick pay
12b Code
14 Other
12c Code
12d Code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
XY	02345	41,676.99	2,499.67			

Form W-2 Wage and Tax Statement 2021 Department of the Treasury—Internal Revenue Service

Safe, accurate, FAST! Use IRS e-file

Base Income – continued

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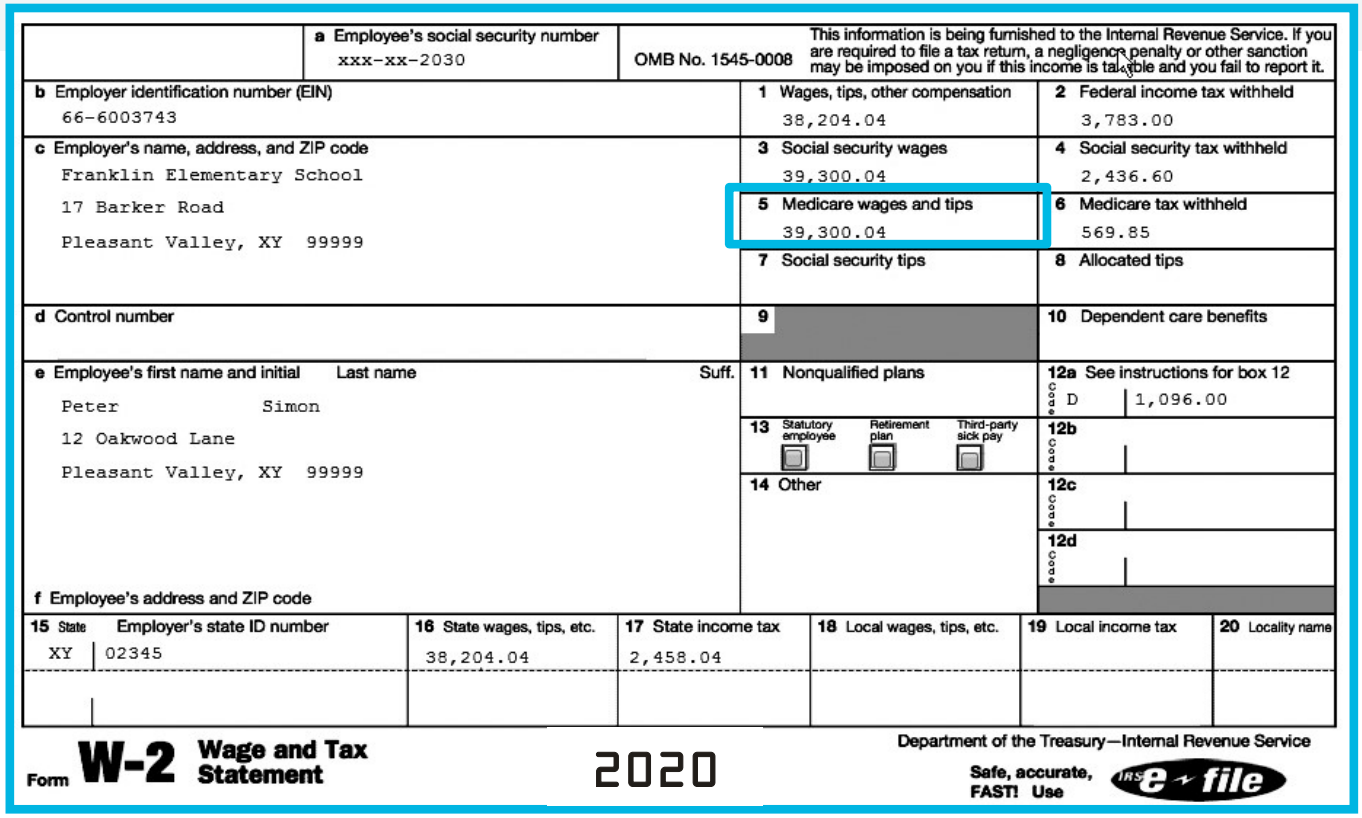

	a Employee's social security number: xxx-xx-2030	OMB No. 1545-0008	This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.
b Employer identification number (EIN): 66-6003743		1 Wages, tips, other compensation: 38,204.04	2 Federal income tax withheld: 3,783.00
c Employer's name, address, and ZIP code: Franklin Elementary School, 17 Barker Road, Pleasant Valley, XY 99999		3 Social security wages: 39,300.04	4 Social security tax withheld: 2,436.60
		5 Medicare wages and tips: 39,300.04	6 Medicare tax withheld: 569.85
		7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits
e Employee's first name and initial: Peter; Last name: Simon; Suff.		11 Nonqualified plans	12a See instructions for box 12: Code D 1,096.00
12 Oakwood Lane, Pleasant Valley, XY 99999		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State / Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
XY 02345	38,204.04	2,458.04			

Form **W-2** Wage and Tax Statement — 2020 — Department of the Treasury—Internal Revenue Service

Safe, accurate, FAST! Use IRS e-file

Let's Calculate Income

Monthly income: $1,854 x 24 / 12	$3,708
YTD income: $20,396 / 5.50 months	$3,708
Most recent year's W-2: $42,877 / 12	$3,573
Prior year's W-2: $39,300 / 12	$3,275

What's the monthly qualifying income? Why?

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Employment and Other Income Analysis Worksheet

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User Tips:

- Add borrower information in blue-shaded fields
- Click the "O" button to expand income source section
- Update YTD Monthly Earnings:
  - Select "A" for Annualized YTD Monthly Earnings
  - Select "Y" for YTD Monthly Earnings
  - Select the Reset Workbook button on top to clear all information

Reset Workbook

Income analysis may vary by investor. FOLLOW INVESTOR GUIDELINES.

File Name: | Prepared by: | Date:

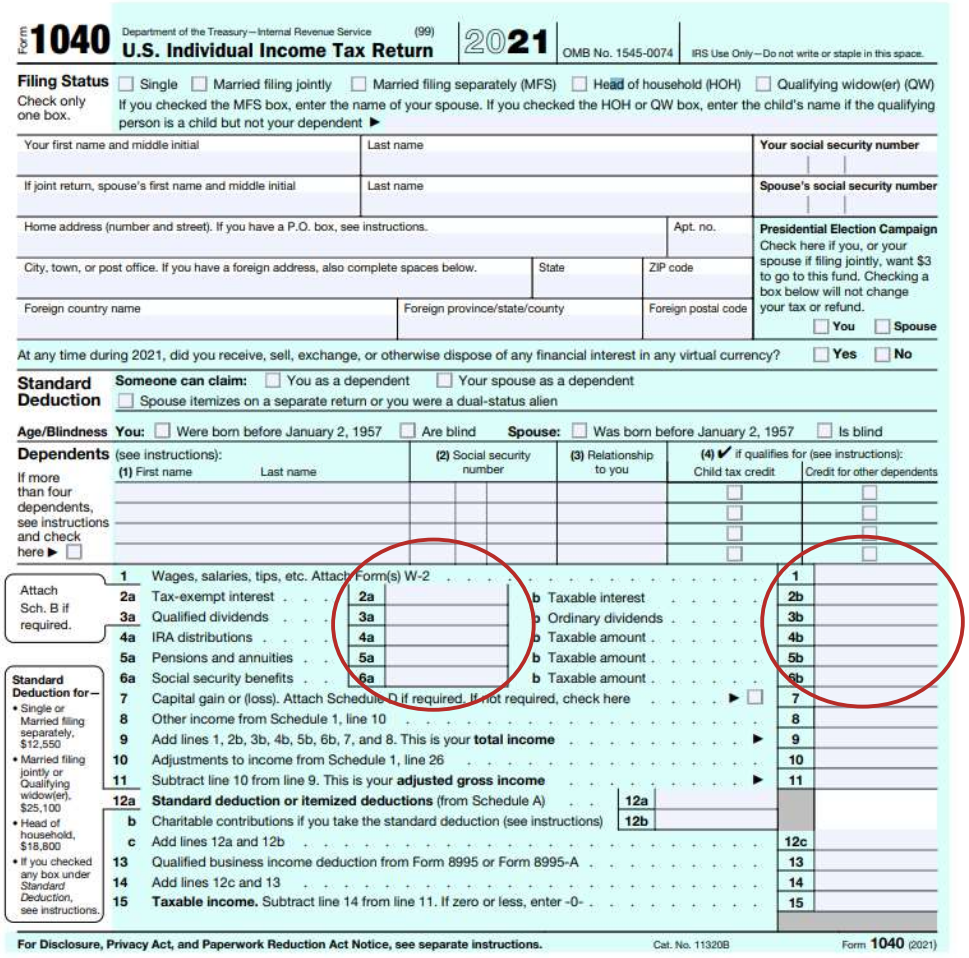
Borrower Name:		Employer Name:	
O	Base Pay		
O	Overtime		
O	Bonus		
O	Commission		
O	Other Income		

Borrower Name:		Employer Name:	
O	Base Pay		
O	Overtime		
O	Bonus		

Non-Taxable Income

- Certain income may be non-taxable
- Must verify what the source is and that its tax-exempt status is likely to continue
- May adjust income up 25% OR
  if the borrower is in a more than 25% tax bracket, the actual tax bracket % may be developed

For FHLMC - Social security income (i.e., retirement, disability, survivor and SSI), you may gross up 15% of the income by 25% without obtaining evidence the income is tax-exempt.



Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** 2021 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
City, town, or post office. If you have a foreign address, also complete spaces below.	State / ZIP code	
Foreign country name / Foreign province/state/county / Foreign postal code		

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? ☐ Yes ☐ No

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1957 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1957 ☐ Is blind

Dependents (see instructions): If more than four dependents, see instructions and check here ▶ ☐

(1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✔ if qualifies for (see instructions): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Attach Sch. B if required.

1	Wages, salaries, tips, etc. Attach Form(s) W-2				1
2a	Tax-exempt interest	2a		b Taxable interest	2b
3a	Qualified dividends	3a		b Ordinary dividends	3b
4a	IRA distributions	4a		b Taxable amount	4b
5a	Pensions and annuities	5a		b Taxable amount	5b
6a	Social security benefits	6a		b Taxable amount	6b
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐				7
8	Other income from Schedule 1, line 10				8
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income** ▶				9
10	Adjustments to income from Schedule 1, line 26				10
11	Subtract line 10 from line 9. This is your **adjusted gross income** ▶				11
12a	**Standard deduction or itemized deductions** (from Schedule A)	12a			
b	Charitable contributions if you take the standard deduction (see instructions)	12b			
c	Add lines 12a and 12b				12c
13	Qualified business income deduction from Form 8995 or Form 8995-A				13
14	Add lines 12c and 13				14
15	**Taxable income.** Subtract line 14 from line 11. If zero or less, enter -0-				15

Standard Deduction for—
- Single or Married filing separately, $12,550
- Married filing jointly or Qualifying widow(er), $25,100
- Head of household, $18,800
- If you checked any box under *Standard Deduction*, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2021)

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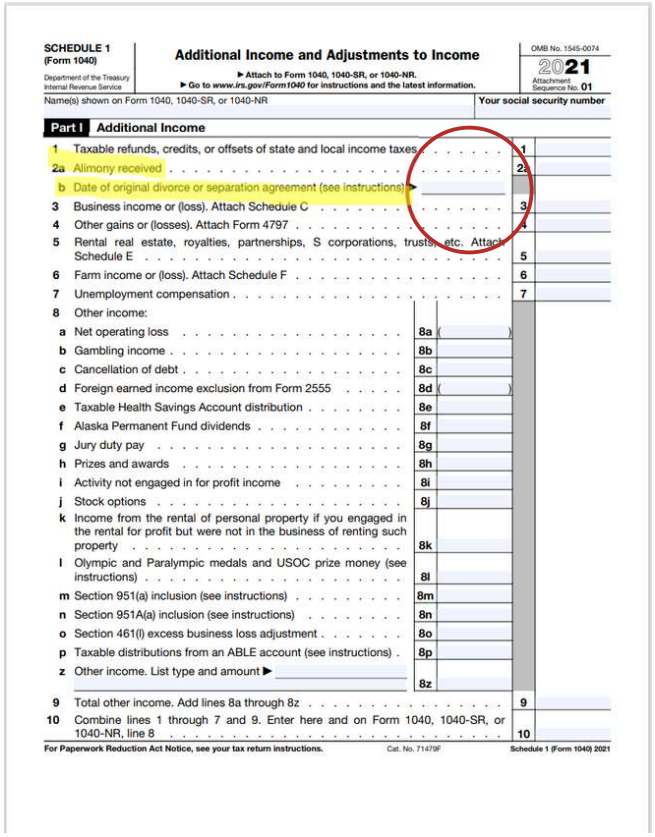
6a minus 6b = non-taxable

What About Alimony?



SCHEDULE 1 (Form 1040)
Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ Attach to Form 1040, 1040-SR, or 1040-NR.
▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074
2021
Attachment Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | Your social security number

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes		1
2a	Alimony received		2a
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C		3
4	Other gains or (losses). Attach Form 4797		4
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		5
6	Farm income or (loss). Attach Schedule F		6
7	Unemployment compensation		7
8	Other income:		
a	Net operating loss	8a ( )	
b	Gambling income	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d ( )	
e	Taxable Health Savings Account distribution	8e	
f	Alaska Permanent Fund dividends	8f	
g	Jury duty pay	8g	
h	Prizes and awards	8h	
i	Activity not engaged in for profit income	8i	
j	Stock options	8j	
k	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8k	
l	Olympic and Paralympic medals and USOC prize money (see instructions)	8l	
m	Section 951(a) inclusion (see instructions)	8m	
n	Section 951A(a) inclusion (see instructions)	8n	
o	Section 461(l) excess business loss adjustment	8o	
p	Taxable distributions from an ABLE account (see instructions)	8p	
z	Other income. List type and amount ▶	8z	
9	Total other income. Add lines 8a through 8z		9
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8		10

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2021

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Alimony payments are no longer tax deductible, and the receipt of alimony isn't taxable as income for divorces entered into after **Dec. 31, 2018**.

Employment and Other Income Analysis Worksheet

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X | Is the Source Non-Taxable?

Select to include as qualifying income:			Annual Amount		Monthly Amount
☐	Gross amount reported on personal tax return or Form 1099		$ 20,000.00	Gross amount = 100%	$ 1,666.67
√	Taxable amount reported on personal tax return		$ 8,000.00	Taxable portion = 40.00%	$ 666.67
√	Amount eligible for gross-up	25%	$ 12,000.00	Non-taxable portion = 60.00%	$ 1,250.00
☐	Current MONTHLY amount (to gross-up; enter personal tax return information above)				
☐	Taxable amount (based on entry above)				$ -
☐	Amount eligible for gross-up (based on entry above)				$ -
	Qualifying Income from:				$ 1,916.67

< 2 Year Employment History – Primary Employer

- New to the workforce
- Returning after extended absence
- Recent employment gap

Part II – Verification of Present Employment

9. Applicant's Date of Employment	10. Present Position	11. Probability of Continued Employment
04/01/2022	Quality Control Auditor	Good

12A. Current **Gross** Base Pay (Enter Amount and Check Period)

$ 6,000.00 ☐ Annual ☐ Hourly ☑ Monthly ☐ Other (Specify) ☐ Weekly

12B. **Gross** Earnings

Type	Year To Date	Past Year	Past Year
Base Pay	Thru 8/30/22 $ 30,000.00	$	$
Overtime	$	$	$
Commissions	$	$	$
Bonus	$	$	$
Total	$ 30,000.00	$ 0.00	$ 0.00

13. For Military Personnel Only

Pay Grade

Type	Monthly Amount
Base Pay	$
Rations	$
Flight or Hazard	$
Clothing	$
Quarters	$
Pro Pay	$
Overseas or Combat	$
Variable Housing Allowance	$

14. If Overtime or Bonus is Applicable, Is Its Continuance Likely?

Overtime ☐ Yes ☐ No

Bonus ☐ Yes ☐ No

15. If paid hourly – average hours per week

16. Date of applicant's next pay increase

17. Projected amount of next pay increase

18. Date of applicant's last pay increase

19. Amount of last

20. Remarks (If employee was off work for any length of time, please indicate time period and reason)

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LOE

1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income ☐ *Does not apply*

Provide at least 2 years of current and previous employment and income.

Employer or Business Name 123 Business

Street _____ Unit # _____

City _____ State _____ ZIP _____ Country _____

Previous Gross Monthly Income $ 5500 **/month**

Position or Title Analyst - Quality Control

Start Date 3 / 1 / 2015 *(mm/dd/yyyy)*

End Date 8 / 15 / 2018 *(mm/dd/yyyy)*

☐ **Check if you were the Business Owner or Self-Employed**

Part Two – Variable Income

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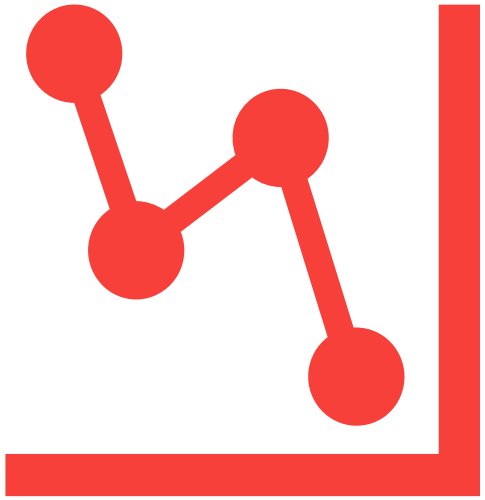
- Variable income rules
- Calculation of income
  - Secondary or part-time income
  - Three case studies for variable income
- Less than 2-year history for secondary income

Variable Income



Fluctuating earnings

Amount is NOT predetermined, does NOT occur with regular frequency and a definite amount is NOT documentable

Examples of Variable Income

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- Hourly – no set hours per week
- Part-time employment
- Shift or on-call
- Overtime
- Bonus
- Commission

Variable Income Rules

- 24-month history is recommended – in no event should employment history be less than 12 months
- Calculation of income will be determined based on whether income trend is consistent, increasing or decreasing
- Additional analysis should be done when the income fluctuates more than 10% from year to year

Calculate by Income Trend

- When should I average?
- Can I use the YTD income in my calculation?
- Why isn't it always the same in every file?

RISK VARIES

Remember The 4 Cs

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Credit

- Borrower's willingness to repay a loan

Capacity

- Borrower's ability to repay based on the amount & stability of income

Capital

- Borrower's investment in the property from savings & other sources

Collateral

- Property's value & marketability to provide adequate security for the loan based on an appraisal

Word Bank:

- higher
- averaged
- lower
- disregarded

1. If the trend in the amount of income is stable or increasing, the income amount should be __averaged__.

2. If the trend is declining but has since stabilized and there's no reason to believe the borrower will not continue to be employed at the current level, the __lower__ amount of income must be used.

3. If the trend is declining the income may not be stable. Additional analysis must be conducted to determine if any income should be used but in no instance may it be __averaged__ over the period when the decline occurred

Secondary or Part-Time Income

Part II – Verification of Present Employment

9. Applicant's Date of Employment	10. Present Position	11. Probability of Continued Employment
02/15/2018	Cabinet Maker	Good

12A. Current **Gross** Base Pay (Enter Amount and Check Period)

$ 20.00 — ☐ Annual ☑ Hourly ☐ Monthly ☐ Other (Specify) ☐ Weekly

12B. **Gross** Earnings

Type	Year To Date	Past Year 2021	Past Year 2020
Base Pay	Thru 8/15/22 $ 10,150.00	$ 14,340.00	$ 15,630.00
Overtime	$	$	$
Commissions	$	$	$
Bonus	$	$	$
Total	$ 10,150.00	$ 14,340.00	$ 15,630.00

13. For Military Personnel Only

Pay Grade

Type	Monthly Amount
Base Pay	$
Rations	$
Flight or Hazard	$
Clothing	$
Quarters	$
Pro Pay	$
Overseas or Combat	$
Variable Housing Allowance	$

14. If Overtime or Bonus is Applicable, Is Its Continuance Likely?

Overtime ☐ Yes ☐ No

Bonus ☐ Yes ☐ No

15. If paid hourly – average hours per week 20

16. Date of applicant's next pay increase

17. Projected amount of next pay increase

18. Date of applicant's last pay increase

19. Amount of last pay increase

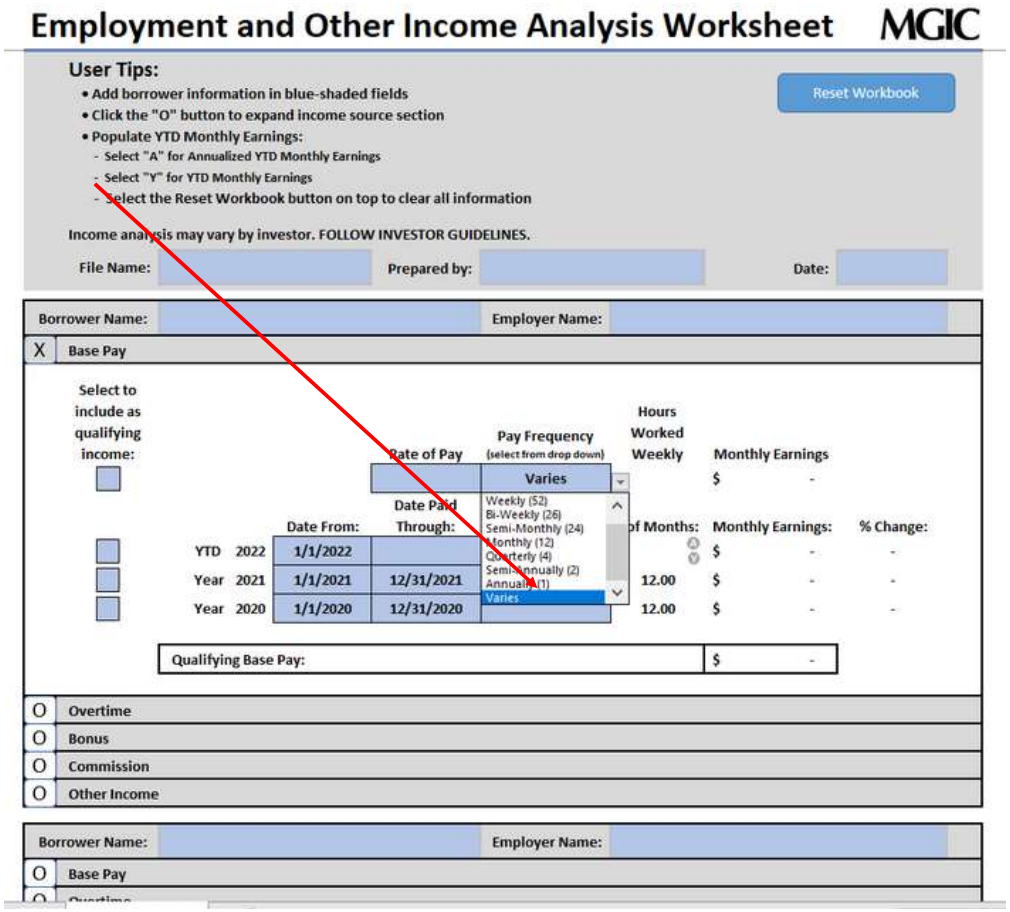
X **Base Pay**

Select to include as qualifying income:

			Hours Worked Weekly	Monthly Earnings
☐	$	ly (H)	20.00	$ 1,733.33

		Date From:		# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	22	7.48	$ 1,356.95	+13.55%
☐	Year 2021	1/1/2021	/31/2021	12.00	$ 1,195.00	-8.25%
☐	Year 2020	1/1/2020	12/31/2020	12.00	$ 1,302.50	-

Qualifying Base Pay: $ -



Employment and Other Income Analysis Worksheet

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User Tips:

- Add borrower information in blue-shaded fields
- Click the "O" button to expand income source section
- Populate YTD Monthly Earnings:
  - Select "A" for Annualized YTD Monthly Earnings
  - Select "Y" for YTD Monthly Earnings
  - Select the Reset Workbook button on top to clear all information

Reset Workbook

Income analysis may vary by investor. FOLLOW INVESTOR GUIDELINES.

File Name: | Prepared by: | Date:

Borrower Name: | Employer Name:

X Base Pay

Select to include as qualifying income:		Date From:	Date Paid Through:	Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
					Varies		$ -
	YTD 2022	1/1/2022				of Months:	Monthly Earnings: $ - % Change: -
	Year 2021	1/1/2021	12/31/2021			12.00	$ - -
	Year 2020	1/1/2020	12/31/2020			12.00	$ - -

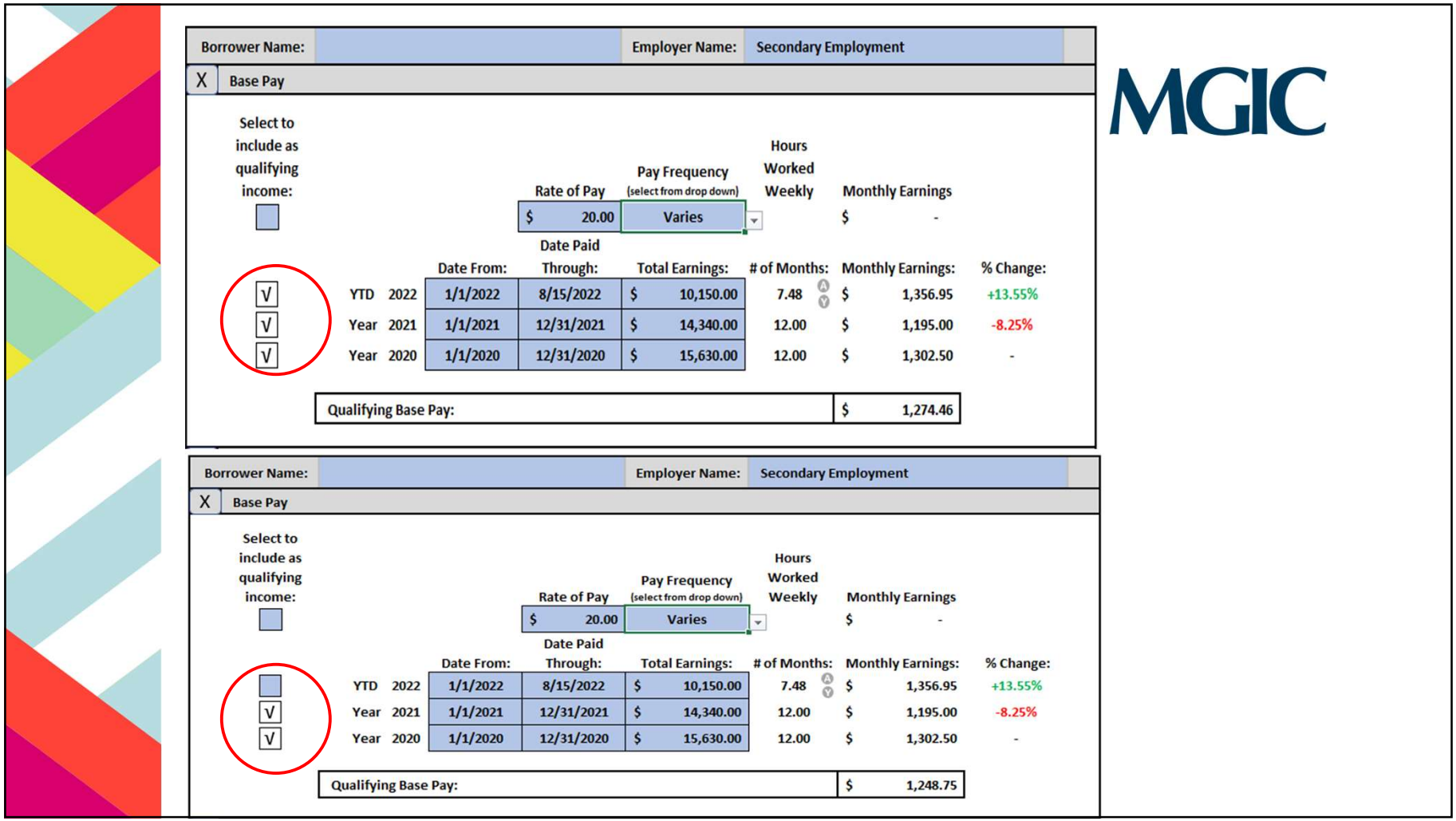
Weekly (52)
Bi-Weekly (26)
Semi-Monthly (24)
Monthly (12)
Quarterly (4)
Semi-Annually (2)
Annually (1)
Varies

Qualifying Base Pay: $ -

O Overtime
O Bonus
O Commission
O Other Income

Borrower Name: | Employer Name:

O Base Pay



Borrower Name:		Employer Name:	Secondary Employment

X Base Pay

Select to include as qualifying income: ☐

	Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
	$ 20.00	Varies		$ -

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☑	YTD 2022	1/1/2022	8/15/2022	$ 10,150.00	7.48	$ 1,356.95	+13.55%
☑	Year 2021	1/1/2021	12/31/2021	$ 14,340.00	12.00	$ 1,195.00	-8.25%
☑	Year 2020	1/1/2020	12/31/2020	$ 15,630.00	12.00	$ 1,302.50	-

Qualifying Base Pay:	$ 1,274.46

Borrower Name:		Employer Name:	Secondary Employment

X Base Pay

Select to include as qualifying income: ☐

	Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
	$ 20.00	Varies		$ -

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	8/15/2022	$ 10,150.00	7.48	$ 1,356.95	+13.55%
☑	Year 2021	1/1/2021	12/31/2021	$ 14,340.00	12.00	$ 1,195.00	-8.25%
☑	Year 2020	1/1/2020	12/31/2020	$ 15,630.00	12.00	$ 1,302.50	-

Qualifying Base Pay:	$ 1,248.75

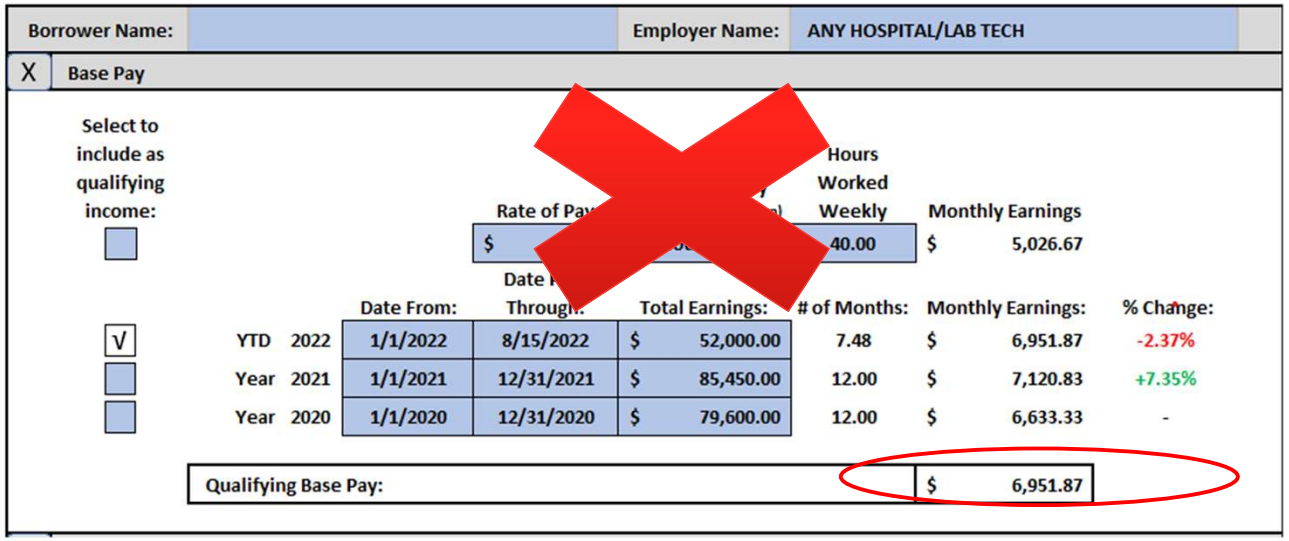
Case #1: Varied Hours

Borrower is employed in healthcare and has been at their current employment with Any Hospital for 4.5 years. Paystubs show the borrower does not work set hours and is paid shift/weekend differential.

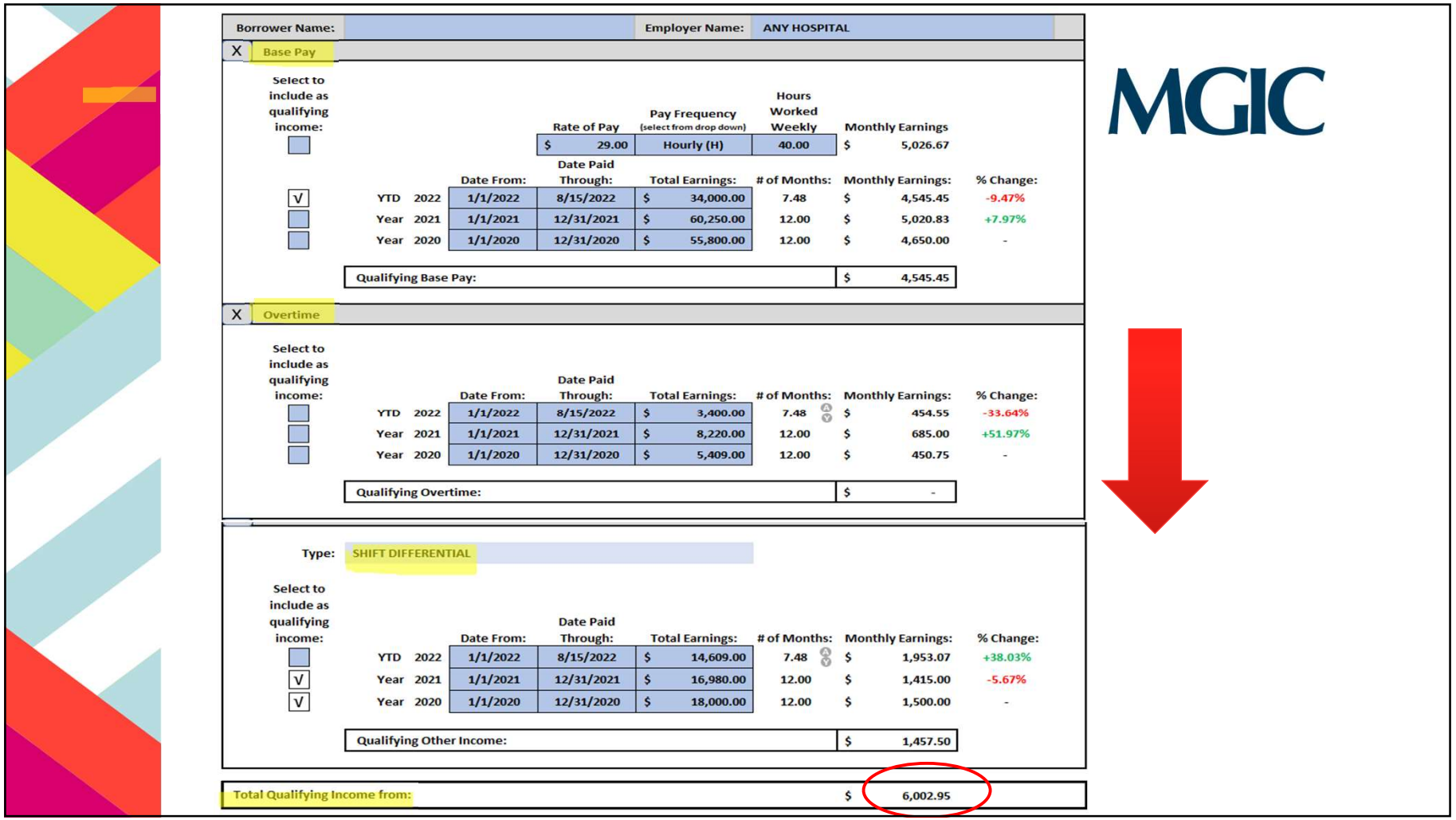
How would you calculate the qualifying income?

What other questions might you have?

Lumping All Income Together



Borrower Name:		Employer Name:	ANY HOSPITAL/LAB TECH				
X	Base Pay						
Select to include as qualifying income:		Rate of Pay		Hours Worked Weekly	Monthly Earnings		
		$		40.00	$	5,026.67	
		Date From:	Date Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
√	YTD 2022	1/1/2022	8/15/2022	$ 52,000.00	7.48	$ 6,951.87	-2.37%
	Year 2021	1/1/2021	12/31/2021	$ 85,450.00	12.00	$ 7,120.83	+7.35%
	Year 2020	1/1/2020	12/31/2020	$ 79,600.00	12.00	$ 6,633.33	-
	Qualifying Base Pay:					$ 6,951.87	



Borrower Name:		Employer Name:	ANY HOSPITAL

X Base Pay

Select to include as qualifying income:		Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
☐		$ 29.00	Hourly (H)	40.00	$ 5,026.67

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
√	YTD 2022	1/1/2022	8/15/2022	$ 34,000.00	7.48	$ 4,545.45	-9.47%
☐	Year 2021	1/1/2021	12/31/2021	$ 60,250.00	12.00	$ 5,020.83	+7.97%
☐	Year 2020	1/1/2020	12/31/2020	$ 55,800.00	12.00	$ 4,650.00	-

Qualifying Base Pay:	$ 4,545.45

X Overtime

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	8/15/2022	$ 3,400.00	7.48	$ 454.55	-33.64%
☐	Year 2021	1/1/2021	12/31/2021	$ 8,220.00	12.00	$ 685.00	+51.97%
☐	Year 2020	1/1/2020	12/31/2020	$ 5,409.00	12.00	$ 450.75	-

Qualifying Overtime:	$ -

Type: SHIFT DIFFERENTIAL

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	8/15/2022	$ 14,609.00	7.48	$ 1,953.07	+38.03%
√	Year 2021	1/1/2021	12/31/2021	$ 16,980.00	12.00	$ 1,415.00	-5.67%
√	Year 2020	1/1/2020	12/31/2020	$ 18,000.00	12.00	$ 1,500.00	-

Qualifying Other Income:	$ 1,457.50

Total Qualifying Income from:	$ 6,002.95

Case #2: Commissions

Borrower has been employed in the same position with the same employer for 15+ years. He receives a monthly base income of $5,500 that is supported by an electronic VOE.

Commission earnings need to be included and shown on the worksheet from his job as an Account Executive for the largest liquor vendor for restaurants in his city.

What concerns would you have based on the following?

Borrower Name:		Employer Name:	Beverage AE

X Base Pay

Select to include as qualifying income:		Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
√		$ 5,500.00	Monthly (12)		$ 5,500.00

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
	YTD 2022	1/1/2022	8/15/2022	$ 42,000.00	7.48	$ 5,614.97	+20.43%
	Year 2021	1/1/2021	12/31/2021	$ 55,950.00	12.00	$ 4,662.50	+7.60%
	Year 2020	1/1/2020	12/31/2020	$ 52,000.00	12.00	$ 4,333.33	-

Qualifying Base Pay:	$ 5,500.00

O Overtime

O Bonus

X Commission

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
	YTD 2022	1/1/2022	8/15/2022	$ 12,971.00	7.48	$ 1,734.09	-37.42%
	Year 2021	1/1/2021	12/31/2021	$ 33,251.00	12.00	$ 2,770.92	-6.00%
	Year 2020	1/1/2020	12/31/2020	$ 35,375.00	12.00	$ 2,947.92	-

Qualifying Commission:	$ -

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Decreasing

55

X Commission

Select to include as qualifying income:

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
√	YTD 2022	1/1/2022	8/15/2022	$ 12,971.00	7.48	$ 1,734.09	-37.42%
√	Year 2021	1/1/2021	12/31/2021	$ 33,251.00	12.00	$ 2,770.92	-6.00%
	Year 2020	1/1/2020	12/31/2020	$ 35,375.00	12.00	$ 2,947.92	-

Qualifying Commission: $ 1,734.09

X Commission

Select to include as qualifying income:

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
√	YTD 2022	1/1/2022	8/15/2022	$ 12,971.00	7.48	$ 1,734.09	-37.42%
√	Year 2021	1/1/2021	12/31/2021	$ 33,251.00	12.00	$ 2,770.92	-6.00%
	Year 2020	1/1/	12/31/2020	$ 35,375.00	2.00	$ 2,947.92	-

Qualifying Comm $ 2,372.79

X Commission

Select to include as qualifying income:

						Monthly Earnings:	% Change:
√	YTD 2022		15/2022	$ 12,	8	$ 1,734.09	-37.42%
√	Year 2021	1/1/	12/31/2021	$ 33,251.00	2.00	$ 2,770.92	-6.00%
√	Year 2020	1/1/2020	12/31/2020	$ 35,375.00	12.00	$ 2,947.92	-

Qualifying Commission: $ 2,592.03

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Is it okay to average declining income?

Could we use this income without an explanation?

Case #3: Overtime

Borrower started at Amazon in 11/2020 working in inventory control. They worked in a similar position for a previous employer for 10 years. **Borrower is paid base plus overtime and needs both sources to qualify.**

VOE in file shows the following earnings

Would you use overtime income?
If so, how would you calculate it?

Borrower Name:		Employer Name:	AMAZON

X **Base Pay**

Select to include as qualifying income:		Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings
√		$ 18.79	Hourly (H)	40.00	$ 3,256.93

		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	6/30/2022	$ 19,542.00	6.00	$ 3,257.00	+0.00%
☐	Year 2021	1/1/2021	12/31/2021	$ 39,083.00	12.00	$ 3,256.92	+0.21%
☐	Year 2020	11/1/2020	12/31/2020	$ 6,500.00	2.00	$ 3,250.00	-

Qualifying Base Pay:	$ 3,256.93

X **Overtime**

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	6/30/2022	$ 16,511.00	6.00	$ 2,751.83	+156.98%
☐	Year 2021	1/1/2021	12/31/2021	$ 12,850.00	12.00	$ 1,070.83	-45.09%
☐	Year 2020	11/1/2020	12/31/2020	$ 3,900.00	2.00	$ 1,950.00	-

Qualifying Overtime:	$ -

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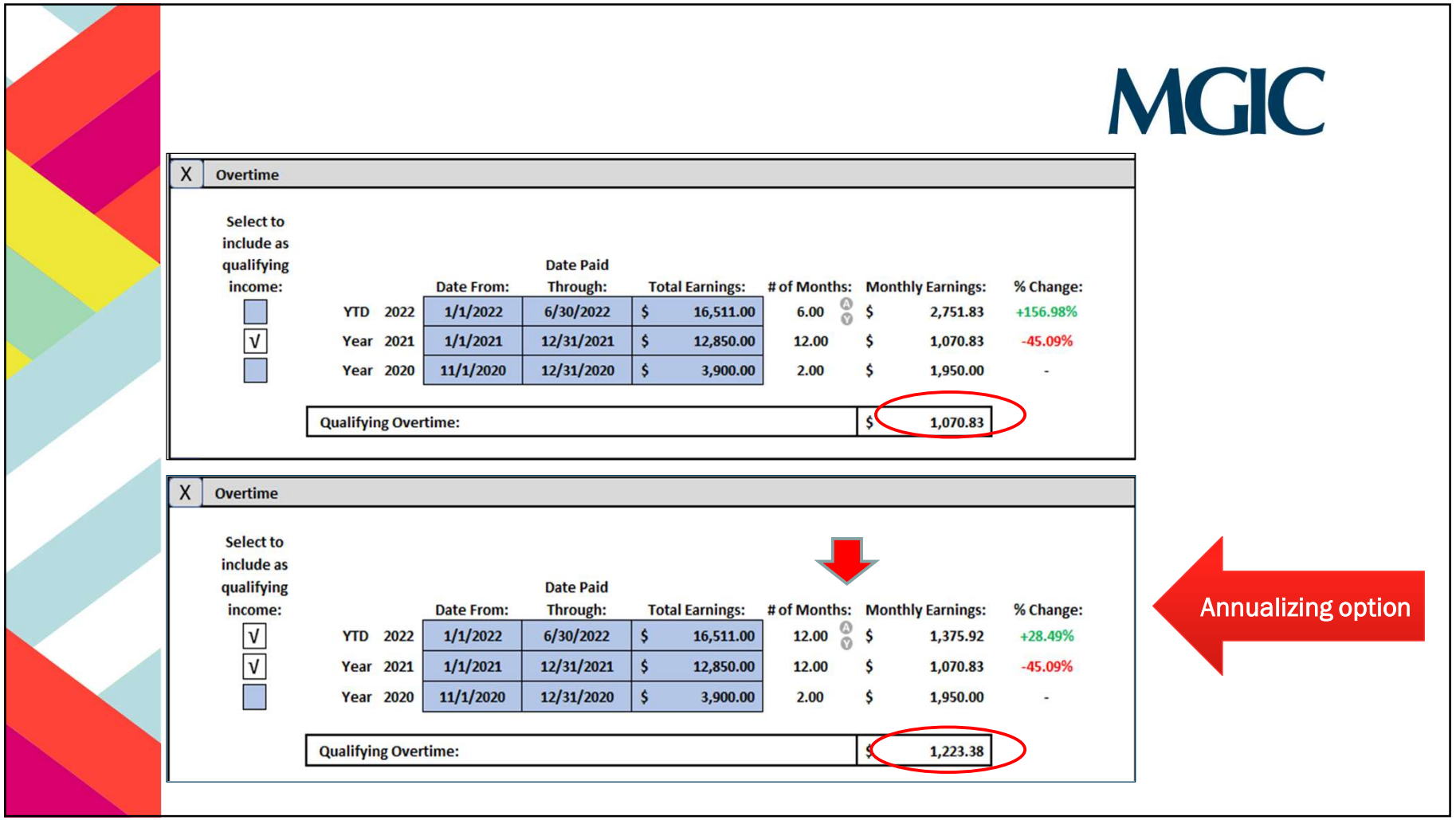
Do you have 24-month history of variable income?

Is the overtime income consistent/stable?



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X Overtime

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☐	YTD 2022	1/1/2022	6/30/2022	$ 16,511.00	6.00	$ 2,751.83	+156.98%
☑	Year 2021	1/1/2021	12/31/2021	$ 12,850.00	12.00	$ 1,070.83	-45.09%
☐	Year 2020	11/1/2020	12/31/2020	$ 3,900.00	2.00	$ 1,950.00	-

Qualifying Overtime: $ 1,070.83

X Overtime

Select to include as qualifying income:		Date From:	Date Paid Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
☑	YTD 2022	1/1/2022	6/30/2022	$ 16,511.00	12.00	$ 1,375.92	+28.49%
☑	Year 2021	1/1/2021	12/31/2021	$ 12,850.00	12.00	$ 1,070.83	-45.09%
☐	Year 2020	11/1/2020	12/31/2020	$ 3,900.00	2.00	$ 1,950.00	-

Qualifying Overtime: $ 1,223.38

Annualizing option

<2 Year History – Secondary

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- Primary employment
  - Same field
  - Related field

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Updates

Tools

Resources

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Summary

- Discussed different income types
- Reviewed documentation requirements
- Learned how to review income documentation to determine what income can be considered for underwriting purposes

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Thank you!

Answer –
Elizabeth's income (Slide 23)

Monthly income: $2,308 x 26 / 12	$5,001
YTD income: $27,692 / 5.63 months	$4,919

Period decimal calculation = days in period / days in month

For this example: 19 days into June / 30 days in June = .63 of June

Answer –
Peter's income (Slide 30)

Monthly income: $1,854 x 24 / 12	**$3,708**
YTD income: $20,396 / 5.50 months	**$3,708**
Most recent year's W-2:	**$**
Prior year's W-2:	**$**