



# Evaluating and Calculating Borrower Income

**FOCUS ON VARIABLE INCOME**



## Legal Disclaimer



**MGIC**

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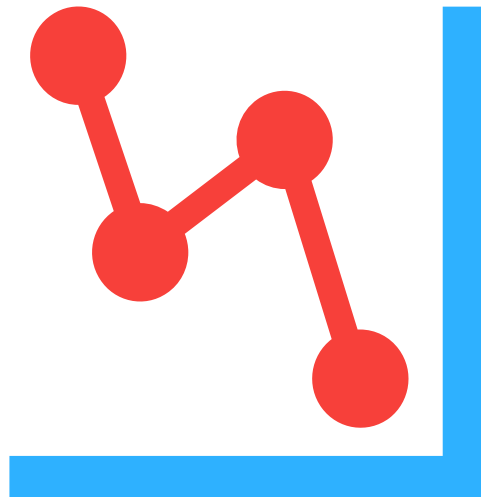
## Variable Income - Agenda

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- Defining variable income
- Guidelines and rules
- Analyzing overall risk
- Calculation of income
  - Secondary or part-time income
  - Four case studies
  - 1099 Borrowers
- Less than 2-year history

## Variable Income

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### Fluctuating earnings

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

# Examples of Variable Income



Hourly – no set hours per week

Part-time employment

Shift or on-call

Overtime

Bonus

Commission



## Variable Income Rules

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- 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 earning 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

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





## Remember The 4 Cs

### 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





# Assessing the Overall Risk


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## Loan File #1




 **Credit** – includes one credit card account with six-month history


 **Capital** – the LTV is high and the down payment and closing costs are coming from gift funds

 **Collateral** – the appraisal identified deferred maintenance

## Loan File #2



 **Credit** – reflects good depth with a stellar payment history

 **Capital** – the LTV is lower and assets to complete the transaction are coming from borrower's own funds

 **Collateral** – the property value is well supported by the 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 \_\_\_\_\_.
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 \_\_\_\_\_ 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 \_\_\_\_\_ over the period when the decline occurred

[mgic.com/seb](http://mgic.com/seb)



**Employment and Other Income Analysis Worksheet** **MGIC**

**User Tips:**

- Add borrower information in blue-shaded fields
- Populate YTD Monthly Earnings:
  - Select "A" for Annualized YTD Monthly Earnings
  - Select "Y" for YTD Monthly Earnings (Default)

Income analysis may vary by investor. FOLLOW INVESTOR GUIDELINES.

File Name:  Prepared by:  Date:

Borrower Name:  Employer Name:

**Base Pay**

Select to include:

Pay Frequency (select from drop down)  #N/A

Rate of Pay  Monthly Earnings \$

Date Paid

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
<input type="checkbox"/> YTD 2023				0.00	\$ -	-
<input type="checkbox"/> Year 2022	1/1/2022	12/31/2022		12.00	\$ -	-
<input type="checkbox"/> Year 2021	1/1/2021	12/31/2021		12.00	\$ -	-

Qualifying Base Pay:  \$

**Overtime**

Select to include:

Date From:  Date Paid Through:  Total Earnings:  # of Months:  A  Y Monthly Earnings:  % Change:

<input type="checkbox"/> YTD 2023	1/1/2023			0.00	\$ -	-
<input type="checkbox"/> Year 2022	2/1/2022	12/31/2022		11.00	\$ -	-
<input type="checkbox"/> Year 2021	1/1/2021	12/31/2021		12.00	\$ -	-

Qualifying Overtime:  \$

**Bonus**

Primary Employment | Additional Employment | Non-taxable Income

# Secondary or Part-Time Income



**Part II – Verification of Present Employment**

9. Applicant's Date of Employment: 02/15/2020  
 10. Present Position: Cabinet Maker  
 11. Probability of Continued Employment: Good

12A. Current Gross Base Pay (Enter Amount and Check Period):  
 Annual  Hourly  
 Monthly  Other (Specify)  
 \$ 20.00  
 Weekly

13. For Military Personnel Only  
 Pay Grade: \_\_\_\_\_  
 Type: \_\_\_\_\_ Monthly Amount: \_\_\_\_\_  
 Base Pay: \$ \_\_\_\_\_  
 Flight or Hazard: \$ \_\_\_\_\_  
 Clothing: \$ \_\_\_\_\_  
 Quarters: \$ \_\_\_\_\_  
 Pro Pay: \$ \_\_\_\_\_

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: \_\_\_\_\_

20. Remarks (If employee): \_\_\_\_\_

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**12B. Gross Earnings**

Type	Year To Date	Past Year 2022	Past Year 2021	Rations	\$
Base Pay	Thru 8/30/23 \$ 12,501.00	\$ 14,140.00	\$ 15,630.00		
Overtime	\$	\$	\$		
Commissions	\$	\$	\$		
Bonus	\$	\$	\$		
Total	\$ 12,501.00				

Borrower Name: \_\_\_\_\_ Employer Name: Secondary Income

Base Pay

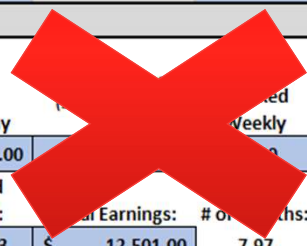
Select to include:

	Rate of Pay	Weekly	Monthly Earnings
<input checked="" type="checkbox"/>	\$ 20.00		\$ 1,733.33

Date Paid

Date From:	Through:	Yearly Earnings:	# of Months:	Monthly Earnings:	% Change:	
YTD 2023	1/1/2023	8/30/2023	\$ 12,501.00	7.97	\$ 1,568.51	+33.11%
Year 2022	1/1/2022	12/31/2022	\$ 14,140.00	12.00	\$ 1,178.33	-9.53%
Year 2021	1/1/2021	12/31/2021	\$ 15,630.00	12.00	\$ 1,302.50	-

Qualifying Base Pay: \$ 1,733.33





## Employment and Other Income Analysis Worksheet MGIC

**User Tips:**

- Add borrower information in blue-shaded fields
- Populate YTD Monthly Earnings:
  - Select "A" for Annualized YTD Monthly Earnings
  - Select "Y" for YTD Monthly Earnings (Default)

Income analysis may vary by investor. FOLLOW INVESTOR GUIDELINES.

File Name:  Prepared by:  Date:

Borrower Name:  Employer Name:

**Base Pay**

Select to include:





Pay Frequency

(select from drop down)

Rate of Pay

\$ 20.00

Monthly Earnings

\$ -

Date Paid

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
YTD 2023	1/1/2023	8/30/2023	\$ 12,501.00	7.97	\$ 1,568.51	+33.11%
Year 2022	1/1/2022	12/31/2022	\$ 14,140.00	12.00	\$ 1,178.33	-9.53%
Year 2021	1/1/2021	12/31/2021	\$ 15,630.00	12.00	\$ 1,302.50	-

Qualifying Base Pay:



**Base Pay**

Select to include:

Pay Frequency (select from drop down): **Varies**

Rate of Pay: \$ **20.00**

Date Paid: **1/1/2023** through **8/30/2023**

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
YTD 2023	1/1/2023	8/30/2023	\$ 12,501.00	7.97	\$ 1,568.51	+33.11%
Year 2022	1/1/2022	12/31/2022	\$ 14,140.00	12.00	\$ 1,178.33	-9.53%
Year 2021	1/1/2021	12/31/2021	\$ 15,630.00	12.00	\$ 1,302.50	-

Qualifying Base Pay: \$ **1,322.21**

**Base Pay**

Select to include:

Pay Frequency (select from drop down): **Varies**

Rate of Pay: \$ **20.00**

Date Paid: **1/1/2023** through **8/30/2023**

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
YTD 2023	1/1/2023	8/30/2023	\$ 12,501.00	7.97	\$ 1,568.51	+33.11%
Year 2022	1/1/2022	12/31/2022	\$ 14,140.00	12.00	\$ 1,178.33	-9.53%
Year 2021	1/1/2021	12/31/2021	\$ 15,630.00	12.00	\$ 1,302.50	-

Qualifying Base Pay: \$ **1,240.42**

**Base Pay**

Select to include:

Pay Frequency (select from drop down): **Varies**

Rate of Pay: \$ **20.00**

Date Paid: **1/1/2023** through **8/30/2023**

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
YTD 2023	1/1/2023	8/30/2023	\$ 12,501.00	7.97	\$ 1,568.51	+33.11%
Year 2022	1/1/2022	12/31/2022	\$ 14,140.00	12.00	\$ 1,178.33	-9.53%
Year 2021	1/1/2021	12/31/2021	\$ 15,630.00	12.00	\$ 1,302.50	-

Qualifying Base Pay: \$ **1,178.33**

## Can Secondary Seasonal Income Be Used?

Borrower has worked as a ski instructor during the winter months for the past 3 years. At the time of application, he is currently not working at this job. Can we use this income?

### Answers:

A: No, he would need to currently be working

B: Yes, with verification of earnings for the previous 2 years along with confirmation that he is hired for the upcoming season





## Case #1: Varied Hours

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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 weekend/night shift differential.

- How would you calculate the qualifying income?
- What other questions might you have?





# Lumping All Income Together



Borrower Name: \_\_\_\_\_ Employer Name: ANY HOSPITAL

Base Pay

Select to include:

	Date From	Date To	Pay Frequency	Hours Worked Weekly	Monthly Earnings	% Change:
<input type="checkbox"/>				40.00	\$ 5,026.67	
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023 - 12/31/2023		7.97	\$ 6,981.30	+0.14%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022 - 12/31/2022		12.00	\$ 6,971.58	-2.10%
<input checked="" type="checkbox"/>	Year 2021	1/1/2021 - 12/31/2021		12.00	\$ 7,120.83	-

Qualifying Base Pay: \$ 7,030.03



<b>Borrower Name:</b>		<b>Employer Name:</b> ANY HOSPITAL				
<b>Base Pay</b>						
Select to include:		<b>Rate of Pay</b>		<b>Pay Frequency</b> (select from drop down)	<b>Hours Worked Weekly</b>	<b>Monthly Earnings</b>
	<input type="checkbox"/>	\$ 29.00	Hourly (H)	40.00		\$ 5,026.67
		<b>Date Paid</b>				
		<b>Date From:</b>	<b>Through:</b>	<b>Total Earnings:</b>	<b># of Months:</b>	<b>Monthly Earnings:</b>
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 41,241.00	7.97	\$ 5,174.53
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 60,250.00	12.00	\$ 5,020.83
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 55,800.00	12.00	\$ 4,650.00
						<b>% Change:</b>
						+3.06%
						+7.97%
						-
<b>Qualifying Base Pay:</b>						\$ 4,919.96
<b>Overtime</b>						
Select to include:		<b>Date Paid</b>		<input type="checkbox"/> A <input checked="" type="checkbox"/> Y		
	<input type="checkbox"/>	<b>Date From:</b>	<b>Through:</b>	<b>Total Earnings:</b>	<b># of Months:</b>	<b>Monthly Earnings:</b>
<input type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 2,450.00	7.97	\$ 307.40
<input type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 5,409.00	12.00	\$ 450.75
<input type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 8,209.00	12.00	\$ 684.08
						<b>% Change:</b>
						-31.80%
						-34.11%
						-
<b>Qualifying Overtime:</b>						\$ -
<b>Other Income</b>						
Type: <b>SHIFT DIFFERENTIAL - NIGHT/WEEKEND</b>						
Select to include:		<b>Date Paid</b>		<input type="checkbox"/> A <input checked="" type="checkbox"/> Y		
	<input checked="" type="checkbox"/>	<b>Date From:</b>	<b>Through:</b>	<b>Total Earnings:</b>	<b># of Months:</b>	<b>Monthly Earnings:</b>
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 11,950.00	7.97	\$ 1,499.37
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 18,000.00	12.00	\$ 1,500.00
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 16,980.00	12.00	\$ 1,415.00
						<b>% Change:</b>
						-0.04%
						+6.01%
						-
<b>Qualifying Other Income:</b>						\$ 1,467.94
<b>Total Qualifying Income from:</b>						\$ 6,387.90

## Case #2: Commissions

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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 a VOE.

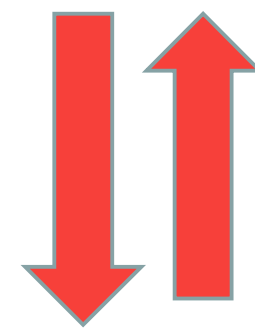
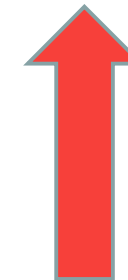
Commission earnings need to be included from his job as an Account Executive for the largest liquor vendor for restaurants in the city.

What concerns would you have based on the following?



Borrower Name:		Employer Name: Beverage AE	
<b>Base Pay</b>			
Select to include:		Rate of Pay	Pay Frequency (select from drop down)
	<input checked="" type="checkbox"/>	\$ 5,500.00	Monthly (12)
		Monthly Earnings	\$ 5,500.00
		Date Paid	
		Date From: Through:	Total Earnings: # of Months: Monthly Earnings: % Change:
<input type="checkbox"/>	YTD 2023	1/1/2023 8/30/2023	\$ 44,251.00 7.97 \$ 5,552.20 +1.33%
<input type="checkbox"/>	Year 2022	1/1/2022 12/31/2022	\$ 65,750.00 12.00 \$ 5,479.17 +32.80%
<input type="checkbox"/>	Year 2021	1/1/2021 12/31/2021	\$ 49,510.00 12.00 \$ 4,125.83 -
Qualifying Base Pay:			\$ 5,500.00

<b>Commission</b>							
Select to include:		Date Paid		<input type="checkbox"/> A <input checked="" type="checkbox"/> Y			
	<input type="checkbox"/>	Date From: Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:	
	YTD 2023	1/1/2023 8/30/2023	\$ 18,125.00	7.97	\$ 2,274.15	+26.48%	
	Year 2022	1/1/2022 12/31/2022	\$ 21,577.00	12.00	\$ 1,798.08	-38.57%	
	Year 2021	1/1/2021 12/31/2021	\$ 35,125.00	12.00	\$ 2,927.08	-	
Qualifying Commission:						\$ -	



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Is it okay to average declining income?

Could we use this income without an explanation?

Commission						
Select to include:		Date From:	Date Paid	Total Earnings	# of Months	Monthly Earnings: % Change:
<input type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 18,125.00	7.97	\$ 2,274.15 +26.48%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 21,577.00	12.00	\$ 1,798.08 -38.57%
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 35,125.00	12.00	\$ 2,927.08 -
Qualifying Commission:						\$ 2,362.58

Commission						
Select to include:		Date From:	Date Paid	Total Earnings	# of Months	Monthly Earnings: % Change:
<input type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 18,125.00	7.97	\$ 2,274.15 +26.48%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 21,577.00	12.00	\$ 1,798.08 -38.57%
<input type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 35,125.00	12.00	\$ 2,927.08 -
Qualifying Commission:						\$ 1,798.08

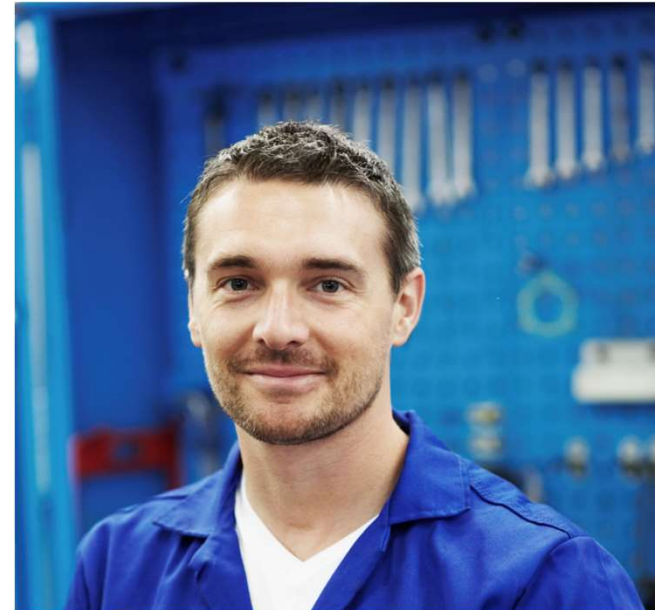
## Case #3: Overtime

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Borrower started at Amazon in 2/1/22 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?





### Employment and Other Income Analysis Worksheet MGIC

**User Tips:**

- Add borrower information in blue-shaded fields
- Populate YTD Monthly Earnings:
  - Select "A" for Annualized YTD Monthly Earnings
  - Select "Y" for YTD Monthly Earnings (Default)

Income analysis may vary by investor. FOLLOW INVESTOR GUIDELINES.

File Name:  Prepared by:  Date:

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Borrower Name:  Employer Name:

---

**Base Pay**

Select to include:

	Rate of Pay	Pay Frequency (select from drop down)	Hours Worked Weekly	Monthly Earnings		
				\$		
	\$ 18.79	Hourly (H)	40.00	\$	3,256.93	

Date Paid

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
<input type="checkbox"/> YTD 2023	1/1/2023	8/30/2023	\$ 25,985.00	7.97	\$ 3,260.35	+2.10%
<input type="checkbox"/> Year 2022	2/1/2022	12/31/2022	\$ 35,125.00	11.00	\$ 3,193.18	-
<input type="checkbox"/> Year 2021	1/1/2021			0.00	\$ -	-

Qualifying Base Pay:

---

**Overtime**

Select to include:

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:		% Change:
					\$		
<input type="checkbox"/> YTD 2023	1/1/2023	8/30/2023	\$ 20,125.00	7.97	\$ 2,525.09	+128.57%	
<input type="checkbox"/> Year 2022	2/1/2022	12/31/2022	\$ 12,152.00	11.00	\$ 1,104.73	-	
<input type="checkbox"/> Year 2021	1/1/2021			0.00	\$ -	-	

Qualifying Overtime:



Do you have 24-month history of variable income?

Is the overtime income consistent/stable?



Overtime							
Select to include:		Date Paid		Total Earnings:	# of Months:	Monthly Earnings:	% Change:
		Date From:	Through:				
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 20,125.00	7.97	\$ 2,525.09	+128.57%
<input checked="" type="checkbox"/>	Year 2022	2/1/2022		\$	11.00	\$ 1,104.73	-
<input type="checkbox"/>	Year 2021	1/1/2021	12/31/2021		12.00	\$ -	-
Qualifying Overtime:						\$ 1,701.48	

Overtime							
Select to include:		Date Paid		Total Earnings:	# of Months:	Monthly Earnings:	% Change:
		Date From:	Through:				
<input type="checkbox"/>	YTD 2023	1/1/2023	8/30/2023	\$ 20,125.00	7.97	\$ 2,525.09	+128.57%
<input checked="" type="checkbox"/>	Year 2022	2/1/2022	12/31/2022	\$ 12,152.00	11.00	\$ 1,104.73	-
<input type="checkbox"/>	Year 2021	1/1/2021	12/31/2021		12.00	\$ -	-
Qualifying Overtime:						\$ 1,104.73	



## Case #4: Bonus Income

**MGIC**



Borrower started their current job as a Marketing Specialist 5/20/2020.

Borrower is paid base plus bonus and needs both sources to qualify.

VOE in file shows the following earnings

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

# Base Plus Bonus



**Part II – Verification of Present Employment**

9. Applicant's Date of Employment: 05/20/2020

10. Present Position: Marketing Specialist

11. Probability of Continued Employment: Good

12A. Current Gross Base Pay (Enter Amount and Check Period)  
 Annual  Hourly  
 Monthly  Other (Specify) \_\_\_\_\_  
 Weekly  
 \$ 1,575.00

13. For Military Personnel Only  
 Pay Grade \_\_\_\_\_  
 Type \_\_\_\_\_ Monthly Amount \_\_\_\_\_  
 Base Pay \$ \_\_\_\_\_

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: \_\_\_\_\_

12B. Gross Earnings				13. For Military Personnel Only	
Type	Year To Date	Past Year 2022	Past Year 2021	Rations	Monthly Amount
Base Pay	Thru 6/30/23 \$ 40,810.00	\$ 82,216.00	\$ 80,095.00	Flight or Hazard	\$ _____
Overtime	\$ _____	\$ _____	\$ _____	Clothing	\$ _____
Commissions	\$ _____	\$ _____	\$ _____	Quarters	\$ _____
Bonus	\$ 12,000.00	\$ 9,500.00	\$ 8,000.00	Pro Pay	\$ _____
Total	\$ 52,810.00	\$ 91,716.00	\$ 88,095.00	Overseas or Combat	\$ _____
				Variable Housing Allowance	\$ _____

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

## Employment and Other Income Analysis Worksheet



Borrower Name:  Employer Name: ANY HOSPITAL

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**Base Pay**

Select to include:

Pay Frequency (select from drop down): **Weekly (52)**

Rate of Pay: \$ 1,575.00

Monthly Earnings: \$ 6,825.00

Date Paid

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:	
<input type="checkbox"/>	YTD 2023	1/1/2023	6/30/2023	\$ 40,810.00	6.00	\$ 6,801.67	-0.72%
<input type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 82,216.00	12.00	\$ 6,851.33	+2.65%
<input type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 80,095.00	12.00	\$ 6,674.58	-

Qualifying Base Pay: \$ 6,825.00

---

**Bonus**

Select to include:

Date Paid

	Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:	
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023	6/30/2023	\$ 10,000.00	6.00	\$ 1,666.67	+110.53%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 9,500.00	12.00	\$ 791.67	+18.75%
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 8,000.00	12.00	\$ 666.67	-

Qualifying Bonus: \$ 916.67





Bonus							
Select to include:		Date Paid					
		Date From:	Date Paid	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023		\$ 12,000.00	6.00	\$ 2,000.00	+152.63%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022		\$ 9,500.00	12.00	\$ 791.67	+18.75%
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 8,000.00	12.00	\$ 666.67	-
Qualifying Bonus:						\$ 983.33	

Bonus							
Select to include:		Date Paid					
		Date From:	Through:	Total Earnings:	# of Months:	Monthly Earnings:	% Change:
<input checked="" type="checkbox"/>	YTD 2023	1/1/2023	6/30/2023	\$ 10,000.00	12.00	\$ 833.33	+5.26%
<input checked="" type="checkbox"/>	Year 2022	1/1/2022	12/31/2022	\$ 9,500.00	12.00	\$ 791.67	+18.75%
<input checked="" type="checkbox"/>	Year 2021	1/1/2021	12/31/2021	\$ 8,000.00	12.00	\$ 666.67	-
Qualifying Bonus:						\$ 763.89	



## How Would You Calculate Variable Income With a Gap?

Borrower was on leave due to COVID-19 in 2022 for two months. Their earnings are 100% commission income.

2022 = \$60,000

2021 = \$50,000

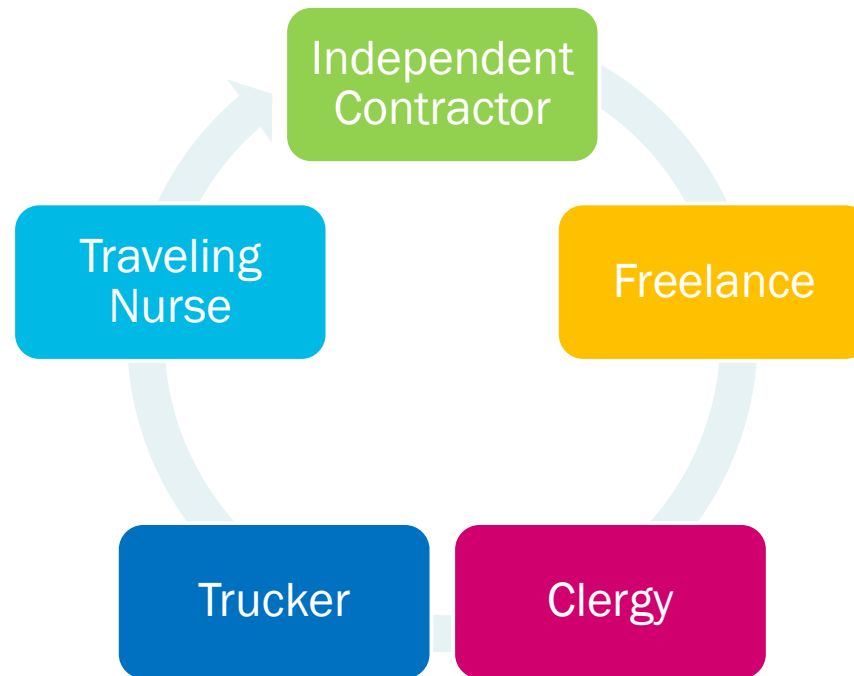
Answers:

A:  $\$110,000/22 = \$5,000.00$

B:  $\$110,000/24 = \$4,583.33$



# 1099 Income Borrowers



# Income Reported on 1099



<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		1 Rents		OMB No. 1545-0115 Form <b>1099-MISC</b> (Rev. January 2022) For calendar year 20____	<b>Miscellaneous Information</b>
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		\$			
		2 Royalties			
		\$			
		3 Other income		4 Federal income tax withheld	
		\$		\$	
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds		6 Medical and health care payments	
		\$		\$	
RECIPIENT'S name		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		8 Substitute payments in lieu of dividends or interest	
Street address (including apt. no.)				\$	
City or town, state or province, country, and ZIP or foreign postal code		9 Crop insurance proceeds		10 Gross proceeds paid to an attorney	
		\$		\$	
		11 Fish purchased for resale		12 Section 409A deferrals	
		\$		\$	
		13 FATCA filing requirement <input type="checkbox"/>		14 Excess golden parachute payments	
		\$		\$	
Account number (see instructions)		16 State tax withheld		17 State/Payer's state no.	
		\$		\$	
		18 State income		\$	
		\$		\$	

Form **1099-MISC** (Rev. 1-2022) [www.irs.gov/Form1099MISC](http://www.irs.gov/Form1099MISC) Department of the Treasury - Internal Revenue Service

## Challenge:

- Borrower receives income via Form 1099 but is not considered an employee or self-employed
- Documentation path is undetermined

## Determine how the borrower reports income

- Schedule 1 of 1040s as other income
- On Schedule C



# Reported on Schedule 1

# MGIC

**SCHEDULE 1**  
**(Form 1040)** **Additional Income and Adjustments to Income**

OMB No. 1545-0074  
**2022**  
Attachment  
Sequence No. **01**

Department of the Treasury  
Internal Revenue Service  
Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

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
3	Date of original divorce or separation agreement (see instructions)	3
4	Business income or (loss). Attach Schedule C	4
5	Other gains or (losses). Attach Form 4797	5
6	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	6
7	Farm income or (loss). Attach Schedule F	7
8	Unemployment compensation	8
9	Other income:	9
9a	Net operating loss	9a
9b	Gambling	9b
9c	Cancellation of debt	9c
9d	Foreign earned income exclusion from Form 2555	9d
9e	Income from Form 8853	9e
9f	Income from Form 8889	9f
9g	Alaska Permanent Fund dividends	9g
9h	Jury duty pay	9h
9i	Prizes and awards	9i
9j	Activity not engaged in for profit income	9j
9k	Stock options	9k
9l	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	9l
9m	Olympic and Paralympic medals and USOC prize money (see instructions)	9m
9n	Section 951(a) inclusion (see instructions)	9n
9o	Section 951A(a) inclusion (see instructions)	9o
9p	Section 461(i) excess business loss adjustment	9p
9q	Taxable distributions from an ABLÉ account (see instructions)	9q
9r	Scholarship and fellowship grants not reported on Form W-2	9r
9s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	9s
9t	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	9t
9u	Wages earned while incarcerated	9u
9z	Other income. List type and amount: <i>Traveling Nurse</i>	9z
0	Total other income. Add lines 9a through 9z	90,000.00
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) 2022

VOID  CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

**SAMPLE BORROWER**

1 Rents \$

2 Royalties \$

3 Other income \$

4 Federal income tax withheld \$

5 Fishing boat proceeds \$

6 Medical and health care payments \$

Form 1099-MISC (Rev. January 2022)  
For calendar year 20 21  
\$ 75,000.00

Miscellaneous Information  
Copy 1 For State Tax Department

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

**SAMPLE BORROWER**

1 Rents \$

2 Royalties \$

3 Other income \$

4 Federal income tax withheld \$

5 Fishing boat proceeds \$

6 Medical and health care payments \$

7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale

8 Substitute payments in lieu of dividends or interest \$

9 Crop insurance proceeds \$

10 Gross proceeds paid to an attorney \$

11 Fish purchased for resale \$

12 Section 409A deferrals \$

13 FATCA filing requirement

14 Excess golden parachute payments \$

15 Nonqualified deferred compensation \$

16 State tax withheld \$

17 State/Payer's state no. \$

18 State income \$

Form 1099-MISC (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Miscellaneous Information  
Copy B For Recipient

This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.



# Reported on Schedule C

# MGIC

**SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)**

OMB No. 1545-0074  
2022 Attachment Sequence No. 09

Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information. Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Name of proprietor: **SAMPLE Contractor** Social security number (SSN): \_\_\_\_\_  
 Principal business or profession, including product or service (see instructions): \_\_\_\_\_  
 Business name, if no separate business name, leave blank: \_\_\_\_\_  
 Business address (including suite or room no.): \_\_\_\_\_  
 City, town or post office, state, and ZIP code: \_\_\_\_\_

Accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) \_\_\_\_\_  
 Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses:  Yes  No  
 Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions:  Yes  No  
 If "Yes," did you or will you file required Form(s) 1099?  Yes  No

**Part I Income**

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked.	1	\$90,000.00
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	\$90,000.00

**Part II Expenses. Enter expenses for business use of your home only on line 30.**

8	Advertising	8	\$4,000.00
9	Car and truck expenses (see instructions)	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	
16	Interest (see instructions):	16	
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	\$500.00
18	Office expense (see instructions)	18	\$750.00
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):	20	
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:	24	
a	Travel	24a	
b	Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28	\$5,250.00
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.	30	
31	Net profit or (loss). Subtract line 30 from line 29.	31	\$84,750.00

**Simplified method filers only:** Enter the total square footage of (a) your home: \_\_\_\_\_ and (b) the part of your home used for business: \_\_\_\_\_. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30.

If a profit, enter on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3.  
 If a loss, you must go to line 32.  
 If you have a loss, check the box that describes your investment in this activity. See instructions.  
 If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3.  
 If you checked 32b, you must attach Form 6198. Your loss may be limited.

32a  All investment is at risk.  
 32b  Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2022

VOID  CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.  
**SAMPLE BORROWER**

1 Rents  
 2 Royalties  
 3 Other income  
 \$ 75,000.00

4 Federal income tax withheld  
 \$

5 Fishing boat proceeds  
 \$

6 Medical and health care  
 \$

Form 1099-MISC (Rev. January 2022)  
 For calendar year 20 22

Miscellaneous Information  
 Copy 1 For State Tax Department

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CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.  
**SAMPLE BORROWER**

1 Rents  
 2 Royalties  
 3 Other income  
 \$ 90,000.00

4 Federal income tax withheld  
 \$

5 Fishing boat proceeds  
 \$

6 Medical and health care payments  
 \$

7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale   
 8 Substitute payments in lieu of dividends or interest  
 \$

9 Crop insurance proceeds  
 \$

10 Gross proceeds paid to an attorney  
 \$

11 Fish purchased for resale  
 \$

12 Section 409A deferrals  
 \$

13 FATCA filing requirement   
 14 Excess golden parachute payments  
 \$

15 Nonqualified deferred compensation  
 \$

16 State tax withheld  
 \$

17 State/Payer's state no.  
 \$

18 State income  
 \$

Miscellaneous Information  
 Copy B For Recipient

This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form 1099-MISC (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

## Can This Income Be Used?

Borrower recently graduated with a nursing degree. They accepted a job working as a traveling nurse and have been working in their current position for 10 months.

### Answers:

A: It depends

B: Yes, with a copy of the nursing degree

C: No, we need at least a 12-month history



## <2 Year History – Secondary

# MGIC

- Primary employment
  - Same field
  - Related field



35

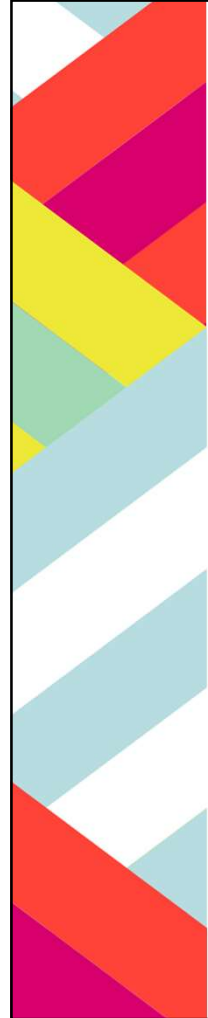


**MGIC**

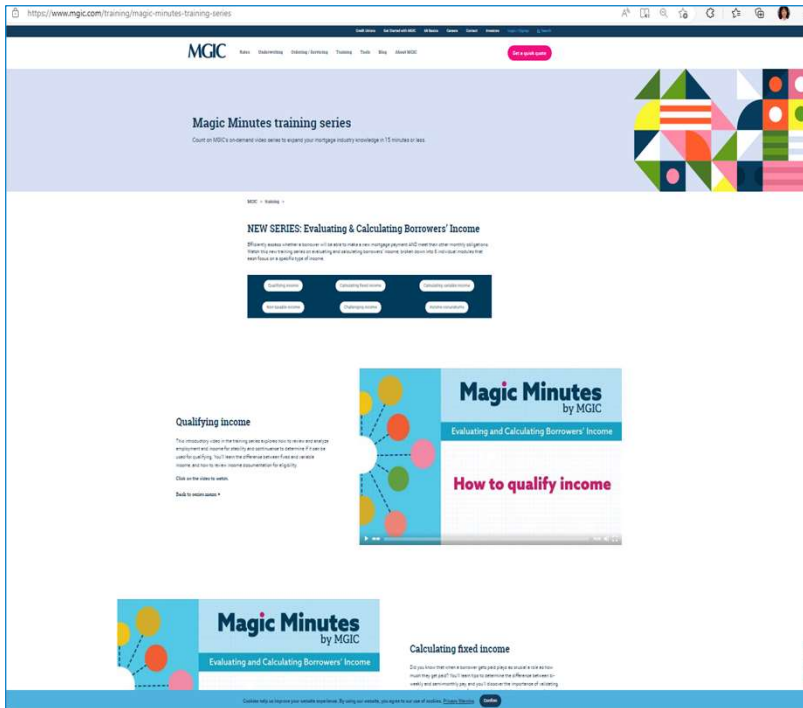
**Updates**

**Tools**

**Resources**



# Dig Deeper



Skill-based

60 minutes

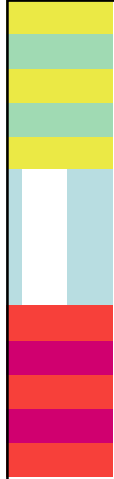
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Thank you!

## ANSWERS – Slide 10

MGIC

### 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

**ANSWER – Slide 15**

## Can Secondary Seasonal Income Be Used?

Borrower has worked as a ski instructor during the winter months for the past 3 years. At the time of application, he is currently not working at this job. Can we use this income?

**Answers:**

A: No, he would need to currently be working

B: Yes, with verification of earnings for the previous 2 years along with confirmation that he is hired for the upcoming season



**ANSWER – Slide 29**

## How Would You Calculate Variable Income With a Gap?

Borrower was on leave due to COVID-19 in 2022 for two months. Their earnings are 100% commission income.

2022 = \$60,000

2021 = \$50,000

Answers:

A:  $\$110,000/22 = \$5,000.00$

B:  $\$110,000/24 = \$4,583.33$



**ANSWER – Slide 34**

## Can This Income Be Used?

Borrower recently graduated with a nursing degree. They accepted a job working as a traveling nurse and have been working in their current position for 10 months.

Answers:

**A: It depends**

B: Yes, with a copy of the nursing degree

C: No, we need at least a 12-month history

