

Other Sources of Income Documentation and Analysis

November 2024



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Other Income

1e. Income from Other Sources

☐ Does not apply

Include income from other sources below. Under Income Source, choose from the sources listed here:

• Alimony

• Automobile Allowance

• Boarder Income

• Capital Gains

• Child Support

• Disability

• Foster Care

• Housing or Parsonage

• Interest and Dividends

• Mortgage Credit Certificate

• Mortgage Differential

• Payments

• Notes Receivable

• Public Assistance

• Retirement

(e.g., Pension, IRA)

• Royalty Payments

• Separate Maintenance

• Social Security

• Trust

• Unemployment Benefits

• VA Compensation

• Other

NOTE: Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.

Income Source – use list above	Monthly Income
	\$
	\$
	\$
Amount Here	\$ 0.00

MPF® Traditional Product Selling Guide: 5.3.9
Fannie Mae Selling Guide: B3-3.1-09
Freddie Mac Selling Guide: 5305.2

Social Security

Social Security

How many types of Social Security exist?

Retirement

Benefits can begin as early as age 62
No defined expiration date

Disability Benefits

Available to those who are unable to work
for a minimum of 12 months
No defined expiration date

Survivor Benefits

In some situations, benefits may be paid to
spouses, ex-spouses, or children of a
deceased individual
May have a defined expiration date

Supplemental Security Income (SSI)

Paid to people with disabilities or older
adults with little or no income resources

Social Security Documentation

Documentation may vary due to the underwriting method and the type of benefit

- DU and LPA will indicate the required documentation
- An SSA Award Letter may be used if the borrower is already receiving retirement payments or will begin receiving payments on or before the first payment date
- When the borrower receives payments on behalf of another (minor or disabled dependent), a SSA Award letter, proof of receipt, and a three-year continuance is required
- If joint tax returns include income not associated with a borrower on the transaction, documentation to support the amount of SS income used must be obtained (i.e., SSA-1099)

**SSA Award
Letter**

1099-SSA

**Three-year
Continuance**

**Evidence of
Current Receipt**

Social Security Documentation

Nontaxable Social Security Income

- Nontaxable SS may be grossed-up by 25%
- You may gross-up 15% of the borrower's SS without providing documentation evidencing it is non-taxable
- If you opt to gross-up more than 15% of the borrower's SS, the borrower's most recent individual tax return is required to confirm the actual non-taxable dollar amount



Grossing-up Example

How to gross-up 15% of a borrower's SS benefit

Monthly SS benefit amount: **\$2,363.**

Determine 15% of the total monthly benefit: **15% of 2,363. = \$354.45**

Gross up \$354* by 25% : **25% of 354. = \$88.61**

Add to the monthly SS benefit: **\$2,363.+ \$89.* = \$2,452**

*Rounded to the nearest dollar



Alimony, Child Support, and Separate Maintenance

Alimony, Child Support, or Separate Maintenance

Alimony, child support, or separate maintenance must continue for at least three years from the date of the [application](#)

Documentation options to verify payments*:

- Divorce decree
- Separation agreement
- Written legal agreement
- Other documentation that verifies any state law that mandates payments and outlines the specifics under which the payments must be made



**DU or LPA findings will provide messaging to indicate the required documentation*

Alimony, Child Support, or Separate Maintenance

Check the applicable document for limitations on the continuance of payments such as the age of the children or the duration of alimony payments

Document no less than 6 months of the borrower's most recent receipt of the full payment

- ***Income received for less than six months is considered unstable and may not be used for qualifying***
- ***If full or partial payments are made on an inconsistent basis, the income is not acceptable for qualifying***

Child Support Payments

Eligible child support payments may be grossed-up by 25%

True or False.

Documentation to support that the income is nontaxable is required

False.

The full amount of documented qualifying child support is nontaxable and may be grossed-up by 25%



Automobile Allowances

Automobile Allowances

An automobile allowance can be considered as acceptable stable income if it has been received for a minimum of two years

The full amount of the allowance may be added to the borrower's qualifying income

Do not offset any car loan or lease payments by the amount of the allowance

The full amount of any car loan or lease payment must be considered as a liability



Restricted Stock Units (RSUs)

What are RSUs?

RSUs are a type of employee compensation paid in the form of company stock

- **Not immediately available as the shares vest based on certain conditions such as:**
 - **Length of service**
 - **Performance**
- **Vesting may be based on a schedule. For example, an employee may receive 400 shares of stock with a vesting schedule of 100 shares per year**
- **After shares vest, the employee may sell the shares at current price or hold them for future sale**



RSUs as Income

To be used as qualifying income, RSUs must have vested and distributed to the borrower without restrictions

Performance-Based Awards

- A minimum of 24-month history is recommended
- 12-24 months may be considered with positive factors such as:
 - Future vesting equal to or greater than previous vesting that will continue for at least 24 months
 - RSUs received for previous 5 years with previous employer(s)

Time-Based Awards

- Minimum history of 12 months from the current employer is required
- Lender must confirm continuance of income

Documenting RSUs

Documentation needed to verify RSUs

- Evidence that the stock is publicly traded (company website, ticker symbol)
- Current vesting schedule reflecting past and future vesting
- Brokerage or bank account showing the receipt of the previous year(s) distribution, the number of shares or cash equivalent
- A completed Verification of Employment (VOE) that shows restricted stock distributions [or](#)
- Borrower's recent paystub showing receipt of RSUs and W2s covering the past two years



Retirement, Government Annuities, and Pensions

Retirement Income

Different forms of retirement income includes:

- **Distributions from 401(k)s, IRAs, and Keogh retirement accounts**
- **Pensions**
- **Government Annuities**
- **Annuities (insurance products)**

Document current receipt with one or more of the following items:

- Statement from the organization providing the income
- Copy of the retirement award letter or benefit statement
- Copy of financial or bank account statement
- Copy of signed federal tax return
- IRS W-2 or IRS 1099 form

Retirement Income

What if the income is scheduled to start on or before the first payment date?

- Obtain a benefit statement from the organization providing the income
- The statement should include the income type, amount, payment frequency, and the start date

If the payments are paid in the form of a distribution from a 401(k), IRA, or Keogh, determine if the income will continue for at least three years

- Balances may be combined for the purpose of determining whether the three-year continuance requirement is met

Employment-Related Assets as Income

(MPF Traditional and Fannie Mae Guidelines)

Using Employment-Related Assets as Income

Employment-related assets are defined as money saved in a retirement account while working, regardless of employment status

- 401(k)
- IRA, Roth IRA
- Keogh
- Simplified Employee Pension (SEP) IRA
- Lump sum funds received from a non-self-employed severance or retirement package
 - Document with a distribution letter from the employer and evidence deposit to a verified asset account

Examples of assets that are not employment-related

- Stocks, mutual funds
- Non-vested restricted stock
- Lottery winnings
- Proceeds from the sale of real estate
- Virtual currency
- Divorce proceeds
- Other assets (CDs, etc.)

Income Stream Requirements

- The borrower must have unrestricted access to the asset(s), with the ability to request a distribution of all funds in the account (regardless of tax withholdings or applicable penalties)
- The borrower must own the asset individually or if there's a co-owner, the co-owner must be a co-borrower.
- Creating an income stream from an eligible asset may only occur if:
 - The borrower is not presently taking a distribution
 - The amount of the borrower's current distribution does not provide enough income to qualify



Income Stream Requirements

If you need to create an income stream, the following general guidelines apply:

- Purchases and limited cash-out refinances only
- 1-4 unit primary and 1-unit second homes are eligible
- Max LTV/CLTV is **70%**
- Up to **80%** LTV/CLTV is permitted if the owner of the asset is at least 62 years old at the time of closing.
 - If the asset is jointly owned, all owners must be at least 62 years-old



Creating Income Streams

Assuming Ben has unrestricted access to his 401(k), can you build an income stream? **Yes.**

Is Ben subject to a penalty? If so, how much?

Yes. A 10% penalty applies because Bob is younger than 59 ½ years old.

Considering the 401(k), how much additional monthly income can you give Ben? **\$1,850**

\$740,000 401(k) balance

-\$74,000 (10% penalty)

= \$666,000

$\$666,000 \div 360 = \$1,850$

- **Ben is 57 years-old and wants to purchase a second home**
- **His down payment is coming from savings, the LTV is 70%**
- **He has significant retirement assets, including \$740,000 in his 401(k)**

With a 30-year fixed mortgage, his total DTI ratio is 66%

MPF Traditional: Using LPA/Freddie Mac

Freddie Mac does permit the depletion of assets as for qualifying purposes

- Not just restricted to retirement assets
- Borrower must be over the age of 62
- 1-2-unit primary residence or second home
- Purchase or limited cash-out refinances
- Max CLTV of 80%
- Net eligible assets divided by 240

The loan application must include information pertaining the borrower's employment and income even if they qualify solely based on assets

Refer to Freddie Mac's Selling Guide for more details about asset eligibility and documentation requirements

Less Common Income Sources

Mortgage Differential Payments

In relocation situations, an employer may subsidize an employee's payments by paying all or a portion of the difference between the borrower's present and proposed mortgage payment

Mortgage differential payments should be added to the borrower's gross monthly income

- Obtain written verification from the employer to confirm the subsidy amount and duration of the payments
- Must continue for a minimum of three years from the application date
- If the subsidy is transferring as part of a refinance, documentation of receipt must comply with the allowable age of credit document requirements

Disability Payments (not Social Security)

Long-Term Disability

True or False?

Long-term disability generally does not have an expiration date and must be expected to continue

True

Document with a copy of the borrower's disability policy or benefits statement from the benefits payer

Determine the following:

- The borrower's current eligibility for the benefits
- The amount and frequency of the payments
- If there is a contractually established termination or modification date*

**The requirement to re-evaluate the benefit is not considered a defined expiration date*

Temporary Leave Income

Examples of employee-initiated leaves of absence:

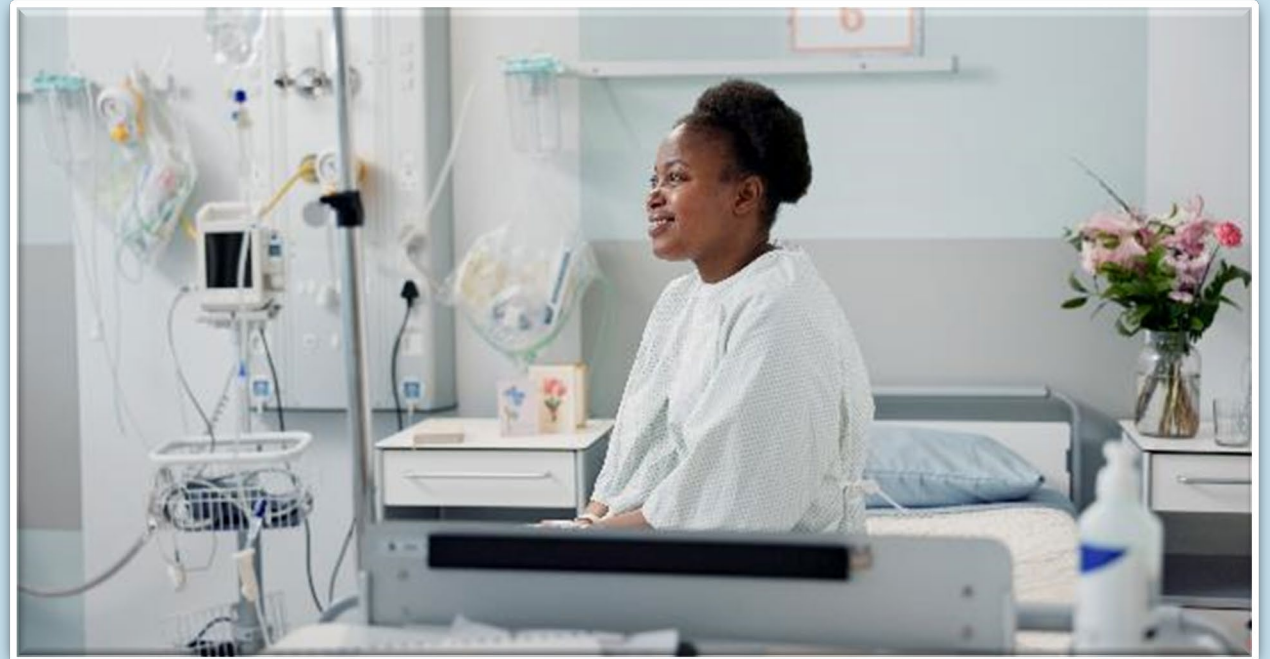
- Maternity or paternity
- Adoption
- Short-term medical
- Other forms of leave acceptable by law and the borrower's employer

Documentation

- Borrower's written confirmation of their intent to return to work
- Document the agreed upon return-to-work date from the employer
- Verbal VOE
- Verify the borrower's temporary leave income and its duration
- Also verify their regular employment income

Temporary Leave Income

- If the borrower will be back at work as of their first payment date, you may consider their regular employment income for qualifying
- If not, use the lesser of their temporary leave income (if any) or regular employment income
- If the borrower's temporary leave income is less than their regular employment income, you may supplement the temporary leave income with available liquid financial reserves



Calculating Supplemental Temporary Leave Income

Felix was in a car accident and is returning to work on April 1, 2025

- His regular income: **\$5,000** per month
- His temporary leave income: **\$2,000** per month
- Total verified liquid assets: **\$64,700**
- Funds/reserves needed to close: **\$51,580**
- First payment due date **January 1, 2025**

Remaining liquid reserves: **\$13,120**

Divide by the number of months between the first payment date and his return-to-work date*

$$\text{\$13,120} \div 3 = \text{\$4,373}$$

Add the result to his temporary leave income

$$\text{\$4,373} + \text{\$2,000} = \text{\$6,373}$$

Use the lesser amount which is his regular pay of **\$5,000**

* Round up if a partial month

MPF Contacts and Resources

MPF Service Center

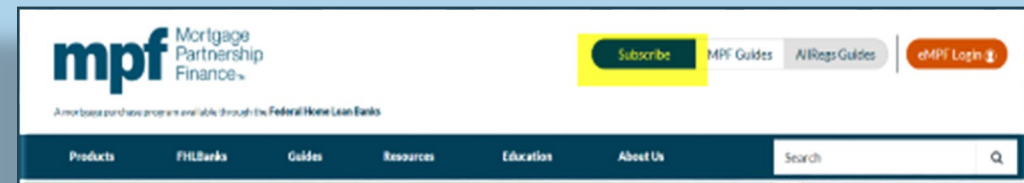
Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 pm CST

Phone: (877) 345-2673

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