



Basics of Income

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This course will discuss:

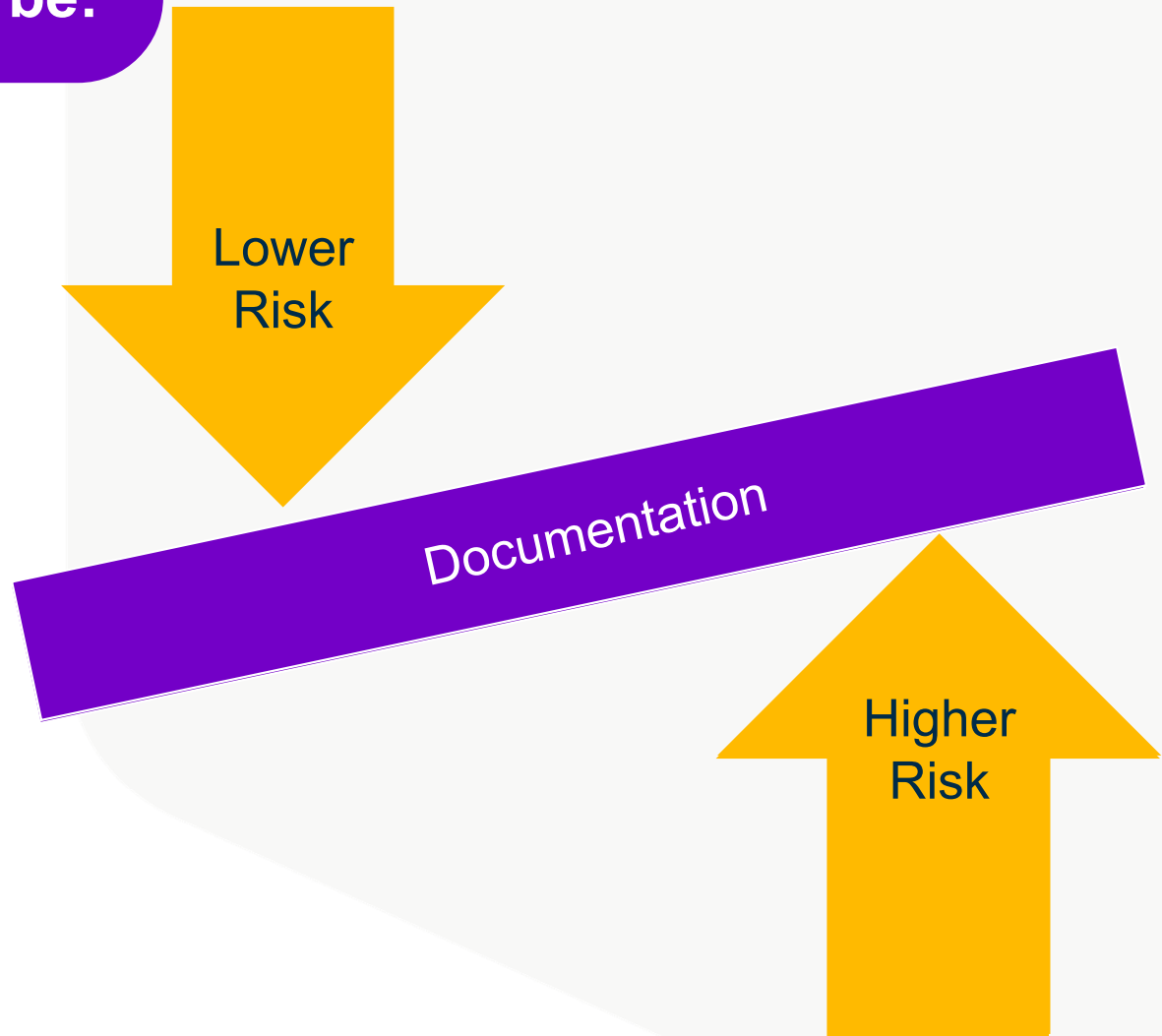
Establishing stability and predictability of employment and income.

Converting various pay structures to a usable monthly average salary.

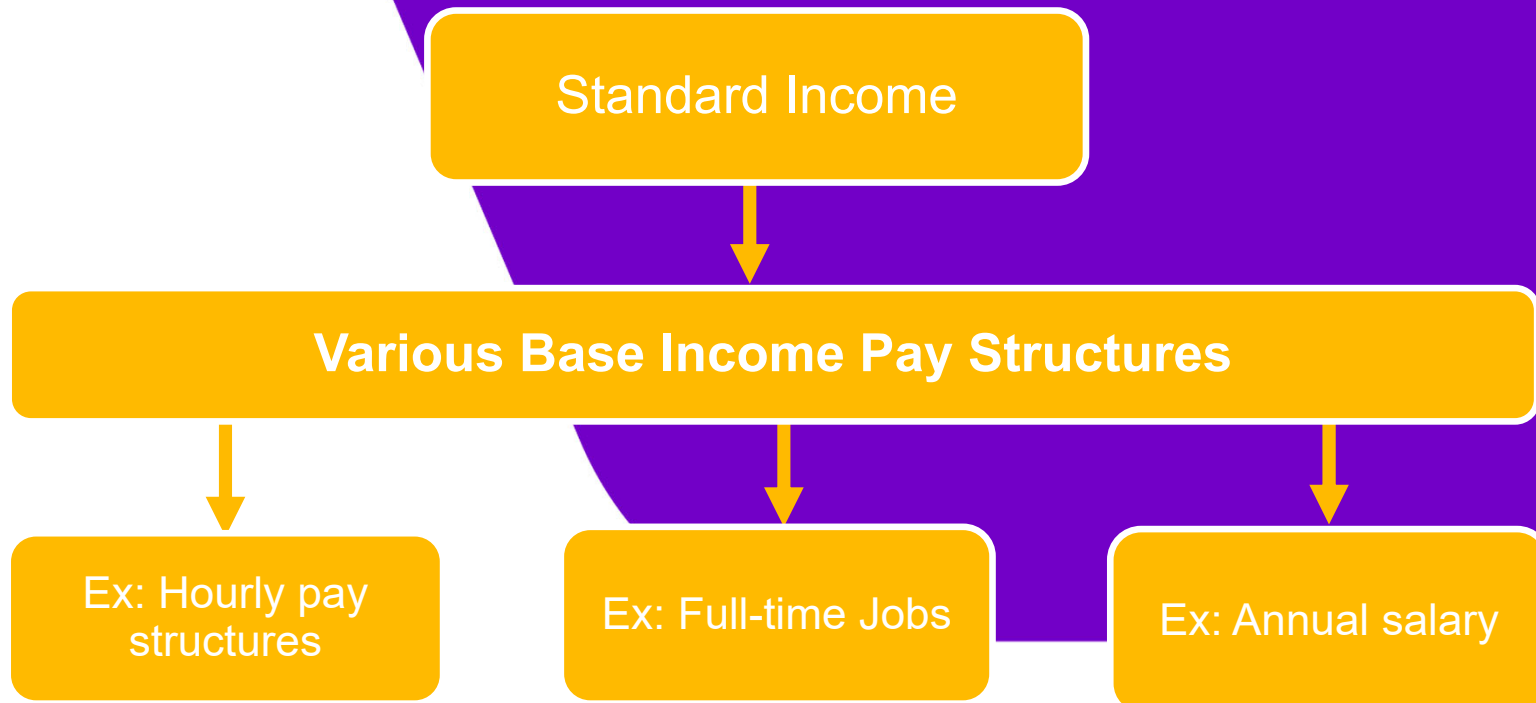
Using various types of income to qualify a borrower.

Employment & income must be:

- 1: Stable
- 2: Predictable
- 3: Likely to continue for at least three years



Overview:
Converting various pay structures
to a usable monthly income



Overview:

Converting various pay structures into a usable monthly income

What are some other ways borrowers can earn income?



Using the Verification of Employment (VOE) Form

Calculating average monthly pay & establishing borrower stability

Part II – Verification of Present Employment

9. Applicant's Date of Employment _____ 10. Present Position _____ 11. Probability of Continued Employment _____

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

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 pay increase _____

12B. Gross Earnings

Type	Year To Date	Past Year	Past Year
Base Pay	Thru \$ _____	\$ _____	\$ _____
Overtime	\$ _____	\$ _____	\$ _____
Commissions	\$ _____	\$ _____	\$ _____
Bonus	\$ _____	\$ _____	\$ _____
Total	\$ 0.00	\$ 0.00	\$ 0.00

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


Part III – Verification of Previous Employment

21. Date Hired _____ 23. Salary/Wage at Termination Per (Year) (Month) (Week)
 Base _____ Overtime _____ Commissions _____ Bonus _____

22. Date Terminated _____

24. Reason for Leaving _____ 25. Position Held _____


Verifying Employment & Income

 **Form 90**
Verbal Verification of Employment


Borrower name: _____

Employer name: _____

Employer contact: _____

 VERIFICATION SERVICES

[Home](#) Commercial Verifier Social Service Verifier Employee Employer



VERIFICATION SERVICES FOR ALL

GET STARTED NOW

Form **4506-C**
(September 2020)

Department of the Treasury - Internal Revenue Service
IVES Request for Transcript of Tax Return

▶ Do not sign this form unless all applicable lines have been completed.
▶ Request may be rejected if the form is incomplete or illegible.
▶ For more information about Form 4506-C, visit www.irs.gov and search IVES.

1a. Name shown on tax return (if a joint return, enter the name shown first)	1b. First social security number on tax return, individual number, or employer identification number (see instructions)
2a. If a joint return, enter spouse's name shown on tax return	2b. Second social security number or individual taxpayer identification number if joint tax return
3. Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)	
4. Previous address shown on the last return filed if different from line 3 (see instructions)	
5a. IVES participant name, address, and SOR mailbox ID	
5b. Customer file number (if applicable) (see instructions)	

Caution: This tax transcript is being sent to the third party entered on Line 5a. Ensure that lines 5 through 8 are completed before signing. (see instructions)

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

Annual Hourly
 Monthly Other (Specify)
 Weekly

\$

Pay Schedule	Converting various payment schedules into a usable monthly income figure	Formula	Various pay schedules for an approx. \$5000 monthly income
Annually	Divide annual income by 12 months	$[\text{Annual Salary}] \div 12$	$\$60,000 \div 12$
Monthly	Use monthly figure		
Weekly	Multiply weekly salary by 52 weeks to get the annual salary, then divide by 12 for the monthly figure	$[\text{Amount/ week}] \times 52 \text{ weeks} \div 12$	$\$1,150 \times 52 \div 12$
Hourly	Confirm that the amount of weekly hours, convert to weekly salary, convert to yearly, divide to obtain the monthly figure	$[\# \text{ weekly hours}] \times [\text{hourly wage}] \times 52 \text{ weeks} \div 12$	$40 \times \$28.75 \times 52 \div 12$
Bi-Weekly	Multiply the bi-weekly amount by the number of pays per year (26) to get the yearly earnings, then divide by 12 months	$[\text{Bi-weekly wage}] \times [26 \text{ pays}] \div 12$	$\$2307.69 \times 26 \div 12$
Bi-Monthly	Multiply the bi-monthly amount by the number of pays per year (24) to get the yearly earnings, then divide by 12 months	$[\text{Bi-monthly wage}] \times [24 \text{ pays}] \div 12$	$\$2500 \times 24 \div 12$
Teacher Pay	Determine whether the teacher is paid for 12 months or 9 months. If they're paid for 9 months take the monthly income, multiply by 9 to get the yearly income, then divide by 12	If a 9-month pay schedule: $[\text{monthly wage}] \times [9 \text{ months}] \div 12$	$\$6,666 \times 9 \div 12$

Chart of formulas and examples to calculate monthly income.

Base Pay Activity

?

May Johnson makes \$210,000/ year.
[Annual Salary] \div 12

?

José Mendez makes \$850 weekly.
[Amount/ week] \times 52 weeks \div 12

?

Ashley Summers makes \$1,300 bi-weekly.
[Bi-weekly wage] \times [26 pays] \div 12

?

Jamie Patel makes \$900 bi-monthly.
[Bi-monthly wage] \times [24 pays] \div 12

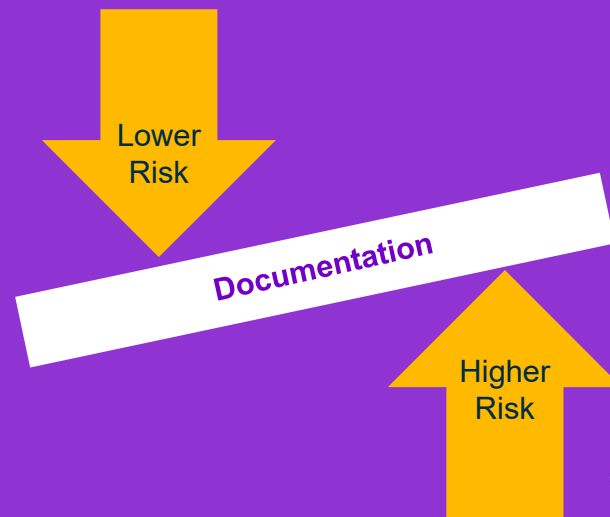
?

Sarah Kurtz is a teacher who is paid over 9 months.
She is paid \$3,100 bi-monthly.

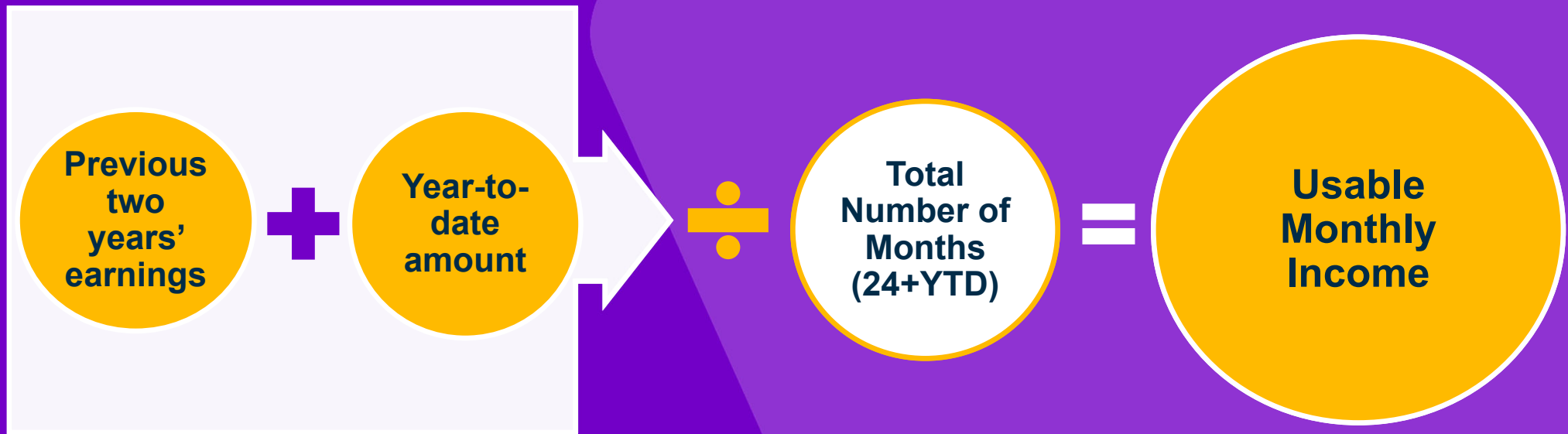
Quick Review: Base Pay to Usable Monthly Income

Pay Schedule	Formula
Annually	$[\text{Annual Salary}] \div 12$
Monthly	
Weekly	$[\text{Amount/ week}] \times 52 \text{ weeks} \div 12$
Hourly	$[\# \text{ weekly hours}] \times [\text{hourly wage}] \times 52 \text{ weeks} \div 12$
Bi-Weekly	$[\text{Bi-weekly wage}] \times [26 \text{ pays}] \div 12$
Bi-Monthly	$[\text{Bi-monthly wage}] \times [24 \text{ pays}] \div 12$
Teacher Pay	Varies based on pay schedule for school district

Next:
Applying the framework to other types of earnings....



Applying the framework to other earnings



How do you use **Tip and Gratuity Income** to qualify a borrower?

$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

Confirm:

- Tip income is **fully reported** on documents
- Income is **stable or increasing**
- Income fits borrower occupation
- “Projected Tips” cannot be used





How do you qualify a borrower who has **Part-Time Income only**?

$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

Consider:

- Part-time income as only income earner has two years of stable or increasing wages
- Less than 24 months may be considered if there is evidence income is likely to continue
- Less than 12 months may be considered with other positive factors
- If part-time full-time job status changes, obtain an employer letter

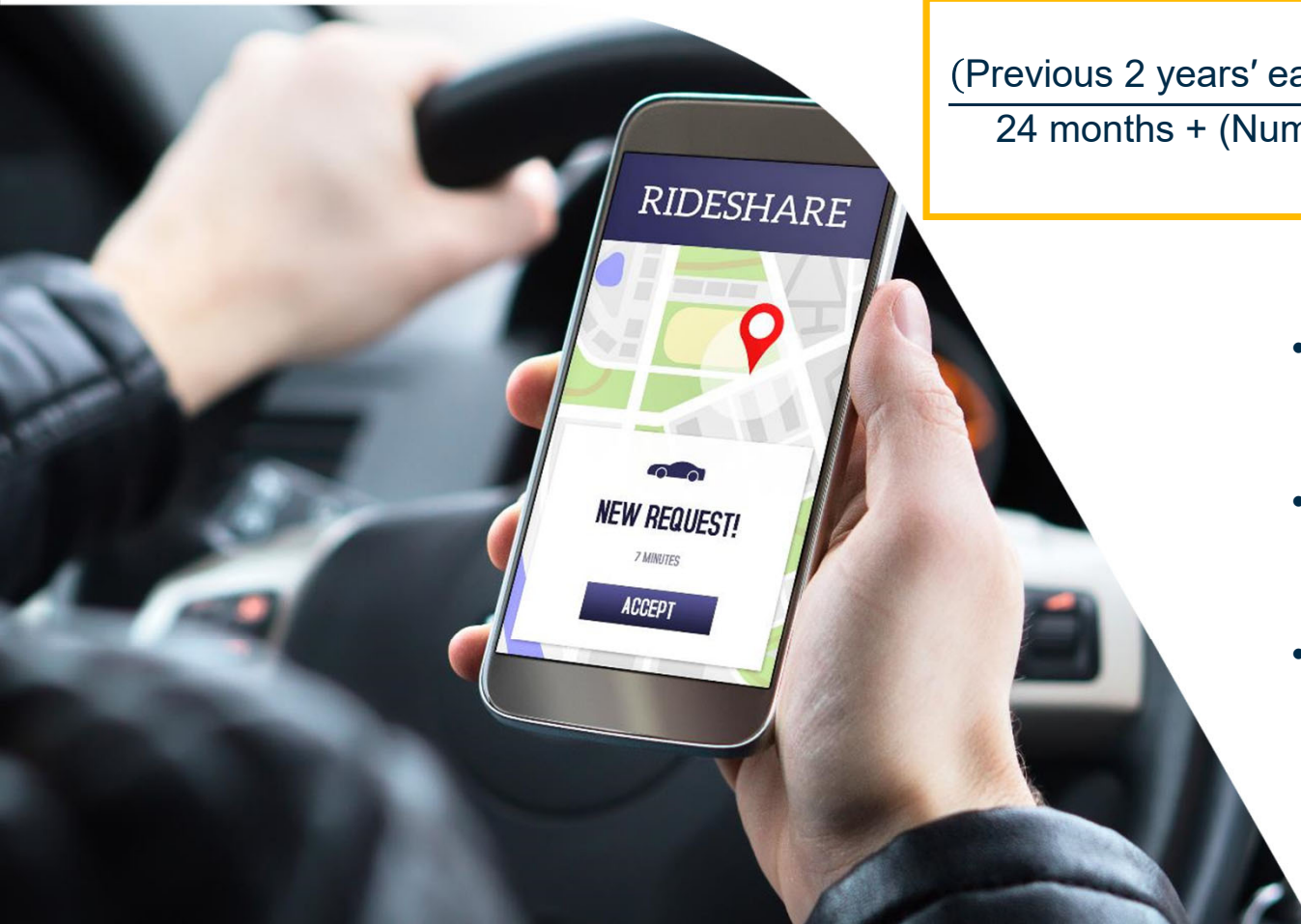
Part-Time Income Only

Example:

- Sarah is applying for a mortgage with her husband. She had been working full-time as a dance teacher for the previous five years and made \$40,000/ year. Recently she had a baby and has now been working only part-time in the studio for the past 14 months. Her dance-teacher earnings last year was \$10,000 and her YTD earnings are \$4,000.
- Would you use this income? Why?



Qualifying borrowers with **Second Jobs & Multiple Jobs**



$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

Consider:

- Employment history shows borrower will sustain the difficult working arrangement
- Less than two-year history (**at least 12 months**) only if income likely sustainable
- Written VOE, contracts or employer letters

Second Job Example



NJ borrower moonlights as snowplow operator

- Mortgage Application April 30th
- \$50/hour
- \$1,000 earned last year
- \$12,000 earned YTD
- City indicates employment will continue

Would you consider this income?
Why or why not?

Part II – Verification of Present Employment

9. Applicant's Date of Employment _____	10. Present Position _____	11. Probability of Continued Employment _____
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12A. Current Gross Base Pay (Enter Amount and Check Period) <input type="checkbox"/> Annual <input type="checkbox"/> Hourly <input type="checkbox"/> Monthly <input type="checkbox"/> Other (Specify) _____ <input type="checkbox"/> Weekly \$ _____	13. For Military Personnel Only Pay Grade _____	14. If Overtime or Bonus is Applicable, Is Its Continuance Likely? Overtime <input type="checkbox"/> Yes <input type="checkbox"/> No Bonus <input type="checkbox"/> Yes <input type="checkbox"/> No
	Type _____ Monthly Amount _____	

12B. Gross Earnings			
Type	Year To Date	Past Year	Past Year
Base Pay	Thru _____ \$ _____	\$ _____	\$ _____
Overtime	\$ _____	\$ _____	\$ _____
Commissions	\$ _____	\$ _____	\$ _____
Bonus	\$ _____	\$ _____	\$ _____
Total	\$ 0.00	\$ 0.00	\$ 0.00

Base Pay	\$ _____	16. Date of applicant's next pay increase _____
Rations	\$ _____	
Flight or Hazard	\$ _____	17. Projected amount of next pay increase _____
Clothing	\$ _____	
Quarters	\$ _____	18. Date of applicant's last pay increase _____
Pro Pay	\$ _____	
Overseas or Combat	\$ _____	19. Amount of last pay increase _____
Variable Housing Allowance	\$ _____	

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

Part III – Verification of Previous Employment

21. Date Hired _____	23. Salary/Wage at Termination Per (Year) (Month) (Week)		
22. Date Terminated _____	Base _____	Overtime _____	Bonus _____
24. Reason for Leaving _____	25. Position Held _____		

Stability of Employment and Income

- Cross reference with W2s, Paystubs and tax returns.
- What are some other documents you could use to verify stability?

12B. Gross Earnings			
Type	Year To Date	Past Year	Past Year
	Thru		
Base Pay	\$	\$	\$
Overtime	\$	\$	\$
Commissions	\$	\$	\$
Bonus	\$	\$	\$
Total	\$ 0.00	\$ 0.00	\$ 0.00

Using **Overtime** to qualify

Are overtime wages stable or increasing?

$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

Consider:

- Lender can assume the income is stable unless red flags
- Trend should be even or increasing – declining overtime income is a red flag
- Hourly pay structures can vary



Using Overtime to qualify

Are overtime wages stable or increasing?

$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

12B. Gross Earnings			
Type	Year-to-Date: May	Past year:	Past year:
Base Pay	\$22,500	\$50,000	\$50,000
Overtime	\$2,719	\$8,967	\$8,350
Total	\$25,219	\$57,967	\$58,350





Commission

$$\frac{(\text{Previous 2 years' earnings}) + (\text{Earnings YTD})}{24 \text{ months} + (\text{Number of months in YTD})} = \text{Useable monthly income}$$

Consider:

- Written VOE or employer letters
- Should show 24-month earning history
- Must show consistent or positive trend
- Compensating factors may allow use if only 12-24 months of qualifying income is present



Using Bonus Income

Evidence of at least a two-year, stable or increasing earning trend?

$$\frac{(\text{Previous 2 years' earnings})+(\text{Earnings YTD})}{24 \text{ months}+(\text{Number of months in YTD})} = \text{Useable monthly income}$$

Consider:

- Must have two-year history verified by written employment verification, or YTD paystubs
- Evidence income is likely to continue
- Bonus income is earned due to employee performance or company performance?



Using Bonus Income

Evidence of at least a two-year, stable or increasing earning trend?

12B. Gross Earnings			
Type	Year-to-Date: 5/ 15/ 19	Past year: 2018	Past year: 2017
Base Pay	54,0000	50,000	50,000
Overtime			
Commissions			
Bonus	n/a	\$15,000	\$12,000



**Documentation
must show:**

Written employer
confirmation of
seasonal rehire

Income shows in tax
returns

Same job for prior
two years

Using Unemployment Income:
Must be due to **seasonal layoff**

Using Contractual Employees' income

Wages Consistent or Increasing?

- Type of work
- Length of time at the job
- Documentation of contract renewal
- Likelihood it will continue
- Contract exceptions or exclusions?
- Expiration date?
- Must use average income, but YTD amounts must not be less than average



Using Contractual Employees' income

Scenario

- Mortgage underwriter for five years at ABC Bank receiving stable wages
- Working for past 17 months at XYZ lender as contract underwriter
- Pay is per file as a contractor
- Per VOE and paystubs, income is fluctuating as contractor
- Is this income usable?



Employment Gaps & Job Changes

- Provide written explanation

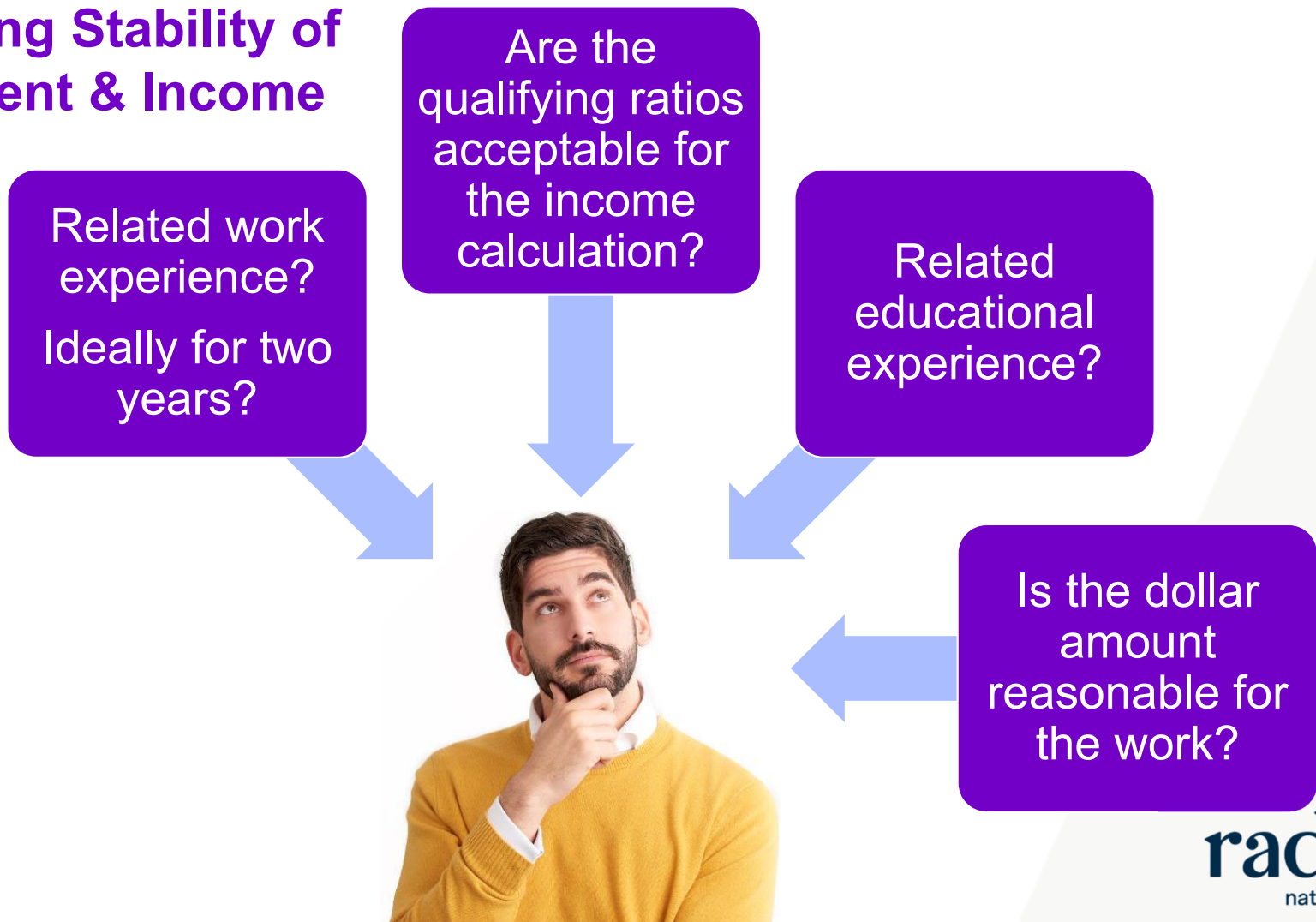
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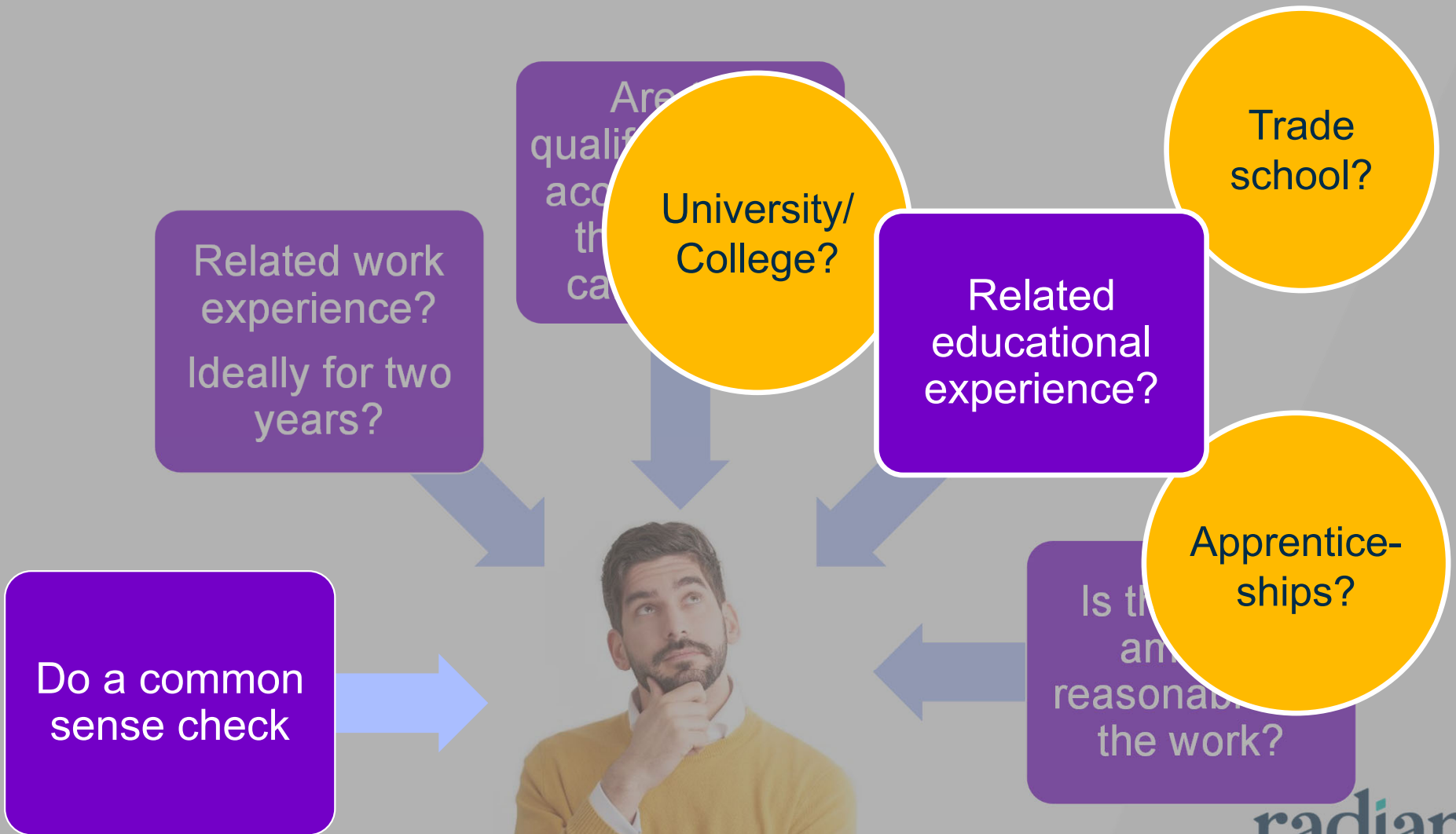
21. Date Hired		23. Salary/Wage at Termination Per (Year) (Month) (Week)			
22. Date Terminated		Base	Overtime	Commissions	Bonus
24. Reason for Leaving					
		25. Position Held			

Considerations

- Isolated incident?
- Returned stability?
- Good credit history during gap?
- Borrower still qualifies using an income average?

Establishing Stability of Employment & Income





Compensating Factors



Factors adversely impacting borrower's stability

Good credit maintained during unemployment period

Long-term contract

Long-term employment

Upward trend in income

Documented future pay increases



Thank you for attending this Radian webinar.

Look for additional resources, updates, and training in the **follow-up email.**

Have questions about **Radian** or **MI**?

Contact your local **Radian Account Manager.**

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