



Not Your Ordinary Income

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Objectives



Introduce nontaxable income



Review sources of income that are taxable and nontaxable



Overview of general documentation

Not Your Ordinary Income Types



Employment and Income Must Be...

Stable...Predictable...and Likely to Continue for at Least Three Years

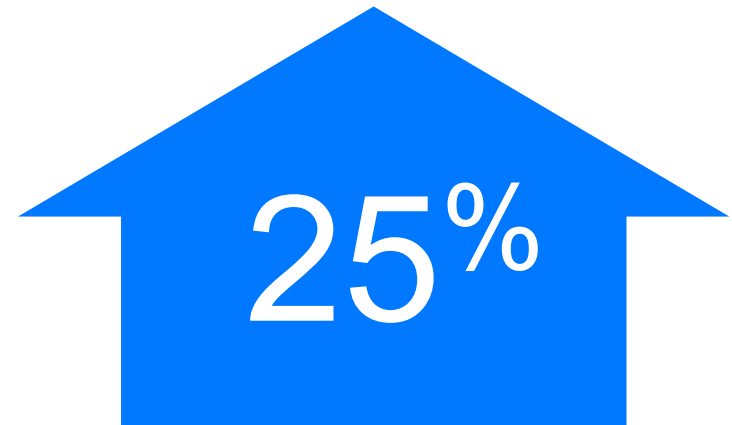


Additional documentation of income and compensating factors is required as risk increases.

Nontaxable Income...What is it?

If Income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, a lender may develop an “adjusted gross income” commonly referred to as “grossing up”.

Adjusting gross
income commonly
referred to as
grossing up.





Social Security Income

Social Security benefits are generally paid for retirement or permanent disability (or to surviving dependent's) as provided through a borrower's pension plan.

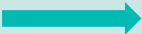

Social Security Income

The regular receipt of payments must be documented in the file.

The following items should be used to authenticate...

- A copy of the Social Security Award Letter (Issued Yearly)
- Copies of the most recent tax return
- The most recent copy of the borrower's SSA 1099 form, or
- Copies of the borrower's recent bank statements clearly identifying the deposit of the social security income

Social Security Examples

Account Summary			
Opening Balance		\$2,289.69	
Deposits and other balances		2,763.81	+
Interest paid		0.11	+
Checks		2,153.70	-
Automated checks		213.14	-
Closing balance		\$2,686.77	
Deposits and Other Credits			
Date		Amount	Description
12/31		91.00	Automated Credit US Treasury 303 Soc Sec CO I.D XXX 6030 091231 PPD
12/31		797.00	Automated Credit US Treasury 303 Soc Sec CO I.D XXX 6030 09123 PPD
1/04		382.78	Teller Deposit
1/21		1,493.03	Teller Deposit
1/21		0.11	Interest from 12/22/2019 through 01/21/2019
Total		\$2,763.92	

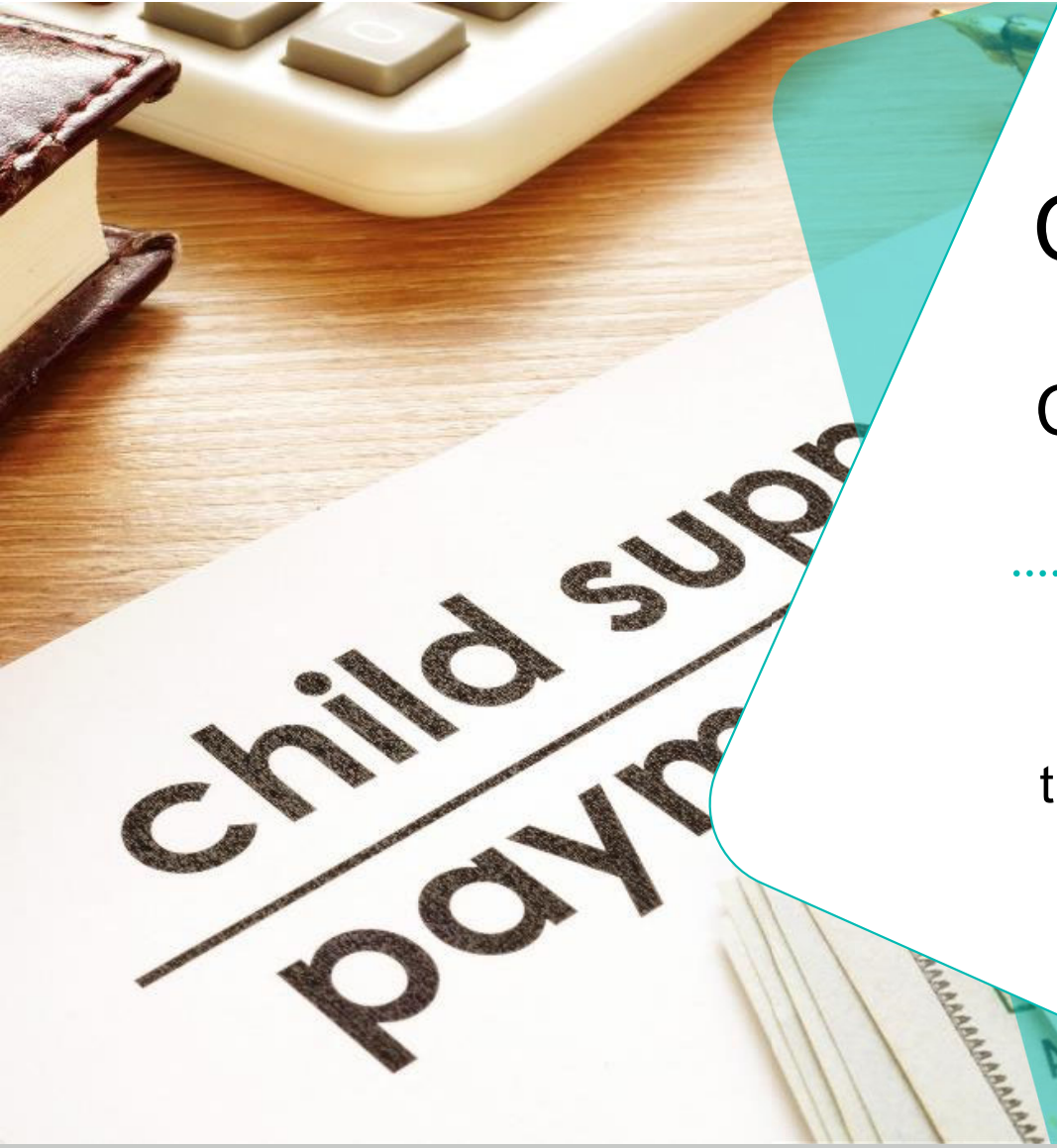
Example on Calculating SS Income

Following the general guideline of 25%...

Income = \$21,000 nontaxable

$\$21,000 + 25\% = \$26,250$ or $\$21,000 \times 125\% = \$26,250$





Child Support / Alimony

Child Support /
Alimony

Ongoing periodic
payment made for
the financial benefit
of a child.

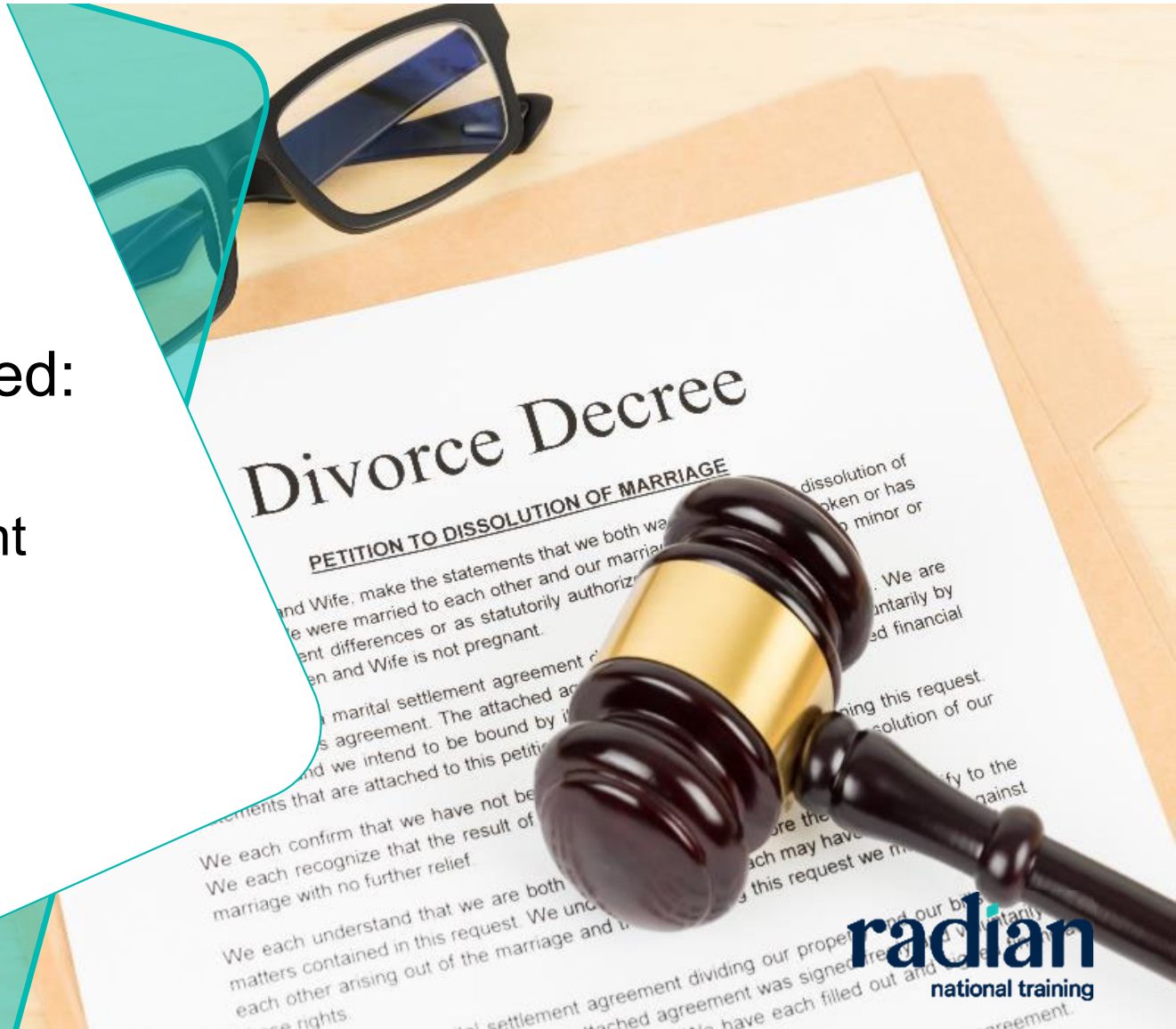
Alimony

Entitlement of
financial
assistance.

Child Support / Alimony

Documentation Required:

- The divorce decree
- Separation agreement
- Other Court issued documents



Divorce Decree Example

8. _____ will pay _____ support in the amount of _____ per week, as shown by the attached child support worksheet, through the County Clerk's office, or by income withholding order if available from the employer, beginning on the first Friday following the date of the decree. Said date is _____.

_____ first _____ will be responsible for the _____ shall be responsible for _____ % of uninsured medical expenses for the minor child(ren). Thereafter, Father _____ % of uninsured medical expenses, and Mother shall be responsible for _____ % of uninsured medical expenses for the minor child(ren).

C. Child Support

Husband will pay to the Wife the amount of \$ _____ each month, etc.) as and for child support

Wife will pay to the Husband the amount of \$ _____ each month, etc.) as and for child support

_____ support the Wife the amount of \$ _____ al support _____ amount of \$ _____



What about
personal
arrangements,
independent of
the court
agreements?

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Child Support / Alimony

Alimony is TYPICALLY* taxable

Child Support generally is not taxable

Necessary Documentation

The borrower's regular receipt of full payment must be verified by...

- Deposit slips
- Court records
- Copies of filed/signed federal income tax returns, or
- Copies of the borrower's bank statements showing regular deposit of these funds

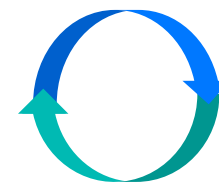
*Beginning in 2020, Alimony is no longer considered taxable income. All Alimony earnings prior to 2020 are taxable.



Clergy Income

Housing allowances are nontaxable for Clergy.

- Represents compensation for ministerial services
- Is used to pay housing expenses



Nontaxable

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The 2 Basic Types of Enlisted Military Pay

1. Basic Pay, sometimes called Base Pay, is the amount you earn per month for your military service. Base Pay is a flat rate based on your time in the military and your current rank.
2. Military allowances.



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DEFENSE FINANCE AND ACCOUNTING SERVICE MILITARY LEAVE AND EARNINGS STATEMENT

NAME (Last, First, MI) [REDACTED] BRANCH AF ADDRESS [REDACTED] PERIOD 1-31 JUL

SOC. SEC. NO. [REDACTED] GRADE E5 PAY DATE 040211 YRS SVC 04 ETS 100210 SUMMARY

ENTITLEMENTS		DEDUCTIONS		ALLOTMENTS	
Type	Amount	Type	Amount	Type	Amount
BASE PAY	2247.30	FEDERAL TAXES	88.40	DISCRETIONARY ALT	1521.00
BAS	204.43	FICA-SOC SECURITY	139.53	TRICARE DENTAL	11.56
BAS	1728.00	FICA-MEDICARE	32.69		
		LI	27.00		
		AFRRH	.20		
		FAMILY SOLI	5.60		
		TSP	112.37		
		MO-MONTH-PAY	1164.47		
TOTAL		1532.98			

REMARKS:
 IF TSP ELECTION AMT EXCEEDS NET AMT DUE, TSP WILL NOT BE DEDUCTED.
 LEAVE CARRYOVER INCREASED TO 75 DAYS FOR FY08. NO ACTION REQUIRED BY MEMBERS. DFAS WILL BEGIN RESTORING MBRS TO ELECT A HARD-MYPAY HAS ALLOWED MBRS TO ELECT A HARD-COPY LES VIA US MAIL. AF POLICY IS TO PROVIDE AN ELECTRONIC LES. EFF 1 OCT (SEP LES). AF WILL NO LONGER PRINT LES STATEMENTS IF AVAILABLE ON MYPAY. THANK YOU FOR YOUR SUPPORT.
 IF YOUR SPOUSE WANTS INFO ABOUT THE MILITARY SERVICE INVITE NUMBER TO JOIN US FOR SPOUSES ORIENTATION, CALL YOUR SPOUSE PROVIDER.

YTD ENTITLE 27768.11 **YTD DEDUCT** 2557.92

BASE AIRMAN & FAMILY REA DETAILS.
 IF YOU GAMBLE WITH SAFE LIFE.
 ELECTIONS ARE COMING UP TO GET AN ABSENTEE BALLOT OR BALLOT FOR THE PRESIDENTIAL ELECTIONS. SEE YOUR VOTING ASST. OR WWW.FVAP.GOV.
 TSP 060701(163) 060701(163)
 RATE CHG SOLI 060701(164)
 CHANGE GRADE 060701(164)
 BAH BASED ON WDEP, ZIP 06041
 BANK [REDACTED]
 ACCT # [REDACTED]

Military Income Example

Disability Income

There are several types of Disability...

Long Term/Permanent disability is the only one that meets guideline requirements

In order to utilize disability as an income source for qualifications, the following items must be present in the file:

- There must be documented evidence the borrower is eligible to receive the disability
- Review the document to verify the amount of the disability payments and if the benefits have an end date.
- If the borrower is not returning to work and the benefits are temporary, the income is not acceptable



Family Medical Leave Act (FMLA)

- Employers may allow for an eligible employee to take up to 12 work weeks of unpaid leave during any 12-month period.
- Regular/full-time pay may only be considered if the borrower intends to return to work before the first mortgage payment date.

Annuity Income

An annuity is a form of investment and is purchased through a life insurance company.

Pay attention to...

- The length of time the payments will continue
- How much the payment will be
- Whether the payment can change





NOTE: If the assets are in the form of stocks, bonds, or mutual funds, please consult current guidelines regarding their use.

Retirement Account & Distribution Income

IRAs, 401Ks and Keoghs these are arrangements to provide individuals with an income once they are no longer earning regular pay from an employer.

To document look for...

- Statement from the organization providing the income
- Copies of the retirement award letters/benefit statements

Then document regular receipt...

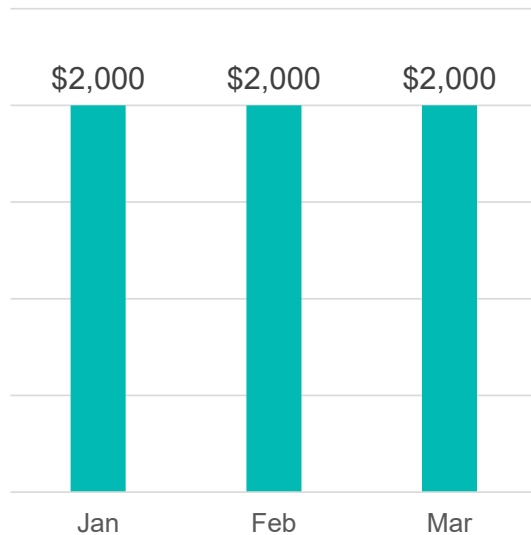
- Copies of the last two years of tax returns
- IRS 1099 forms or W2
- The most recent two months of bank statements

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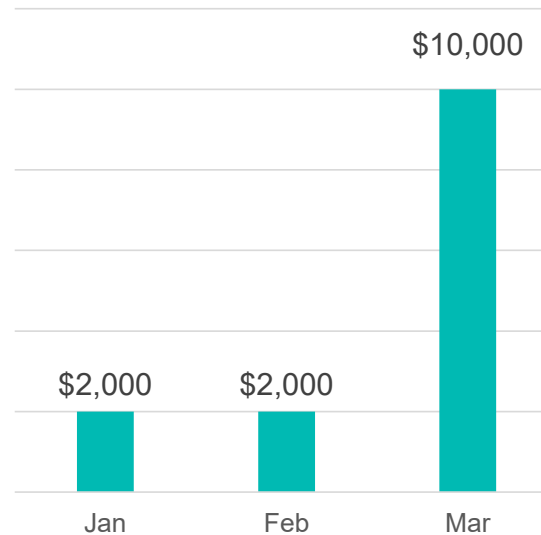
You're Looking for Consistency...

Look for the amount of income being drawn from the retirement account to determine if the distributions are consistent

Are The Payments
Consistent?



Or Do They Vary From
Month to Month?





Look At The Big Picture!

Ask yourself...

- Will my borrower qualify without this income?
- Do I need to “gross-up” the income?
- Are there compensating factors I can use to get an approval?
- Always check your guidelines to ensure they are met.

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Thank you for attending this Radian webinar.

Look for additional **resources, updates** and **training** in the “Thank You” email.
Have questions about Radian or MI?

Contact your local Radian Account Manager.



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