



# Foundations On-Demand

Not Your Ordinary Income  
Workbook

## Introduction

Today we will introduce you to the following types of income that you can use to qualify your borrower.

- Social Security
- Child Support
- Retirement
- Alimony
- Clergy
- Disability
- Military

You will learn to:

- Review additional sources of income, including those that are nontaxable.
- Define why certain types of income are nontaxable.
- Identify the documentation required

In each lesson you will be provided with the guidelines most commonly used for full documentation loan file requirements per Fannie Mae Guidelines. The document requirements and methods for verification may vary based on the specific parameters of a loan file and with the evolution of technology solutions to streamline the mortgage process provided by the government-sponsored enterprises (GSEs). Additionally, be sure you are aware of your company or investor overlays as they pertain to these situations.



**Read Me!**

*Notes:*

# Nontaxable Income

If the 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**” for the borrower by **adding an amount equal to 25% of the nontaxable income to the borrower’s income.**

The 25% is used as a general guideline; this is the most common tax bracket. If the borrower’s tax bracket is more than 25% of the borrower’s income, then you may use that amount to develop the adjusted gross income, when calculated the borrower’s qualifying ratios.

Your IRS tax bracket is the rate you pay on the “last dollar” you earn at the end of the year; but as a percentage of your income.

Here are the tax rates and the income ranges where they apply for the various filing status: Single, Married Filing Jointly and Head of Household.

Sample Tax Brackets:

Taxable Income Brackets				
Tax Rate	Single Filers	Head of Household	Married, Filing Separately	Married, Filing Separately
10%	\$0 to \$9,875	\$0 to \$14,100	\$0 to \$19,750	\$0 to \$9,875
12%	\$9,876 to \$40,125	\$14,101 to \$53,700	\$19,751 to \$80,250	\$9,876 to \$40,125
22%	\$40,126 to \$85,525	\$53,701 to \$85,500	\$80,251 to \$171,050	\$40,126 to \$85,525
24%	\$85,526 to \$163,300	\$85,501 to \$163,300	\$171,051 to \$326,600	\$85,526 to \$163,300
32%	\$163,301 to \$207,350	\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350
35%	\$207,351 to \$518,400	\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$311,025
37%	\$518,401 or more	\$518,401 or more	\$622,051 or more	\$311,026 or more



**Read Me!**

*Notes:*

## Social Security Benefits

Social Security benefits are generally paid for retirement or permanent disability (or to surviving dependents) as provided through a borrower's pension plan. The monies to pay social security benefits are paid through the federal government, known as the Social Security Administration (SSA). Benefits and award statements are issued on a yearly basis to recipients.

? What do you need from a borrower when using Social Security Benefits?

? How many years remaining on the term does a borrower need for this income to be effective?



### Watch Me!

Social Security Benefits



### Answer Me!



### Click Tips

If a borrower cannot find their documents, they can reorder here.

The IRS even has a YouTube channel with tips. Click here to help your borrower find out if their Social Security Income is taxable.

*Notes:*

## Social Security Benefits

Here is a simple example of calculating annual SS income:

\$21,000 Non Taxable Income

$$\$21,000 + 25\% = \$26,250$$

or

$$\$21,000 \times 125\% = \$26,250$$

Try the following examples on your own:

*Please record your answers in the space provided.*

? Calculate the annual SS income if the nontaxable amount is \$40,000.

? What if the nontaxable amount is \$15K?

? How about \$32,500?



Answer Me!

Notes:

## Child Support & Alimony

? How is child support defined?

? How is alimony defined?

The following **formal court orders** must be reviewed for the file. Capture notes on each here:

Divorce Decree:

Separation Agreement:

? What happens if a formal court document does not exist?

**History of receipt:** income could be identified with recent copies of bank statements detailing the payments being received by the borrower or borrower's cancelled checks from the payor or from a payment history statement directly from the court. Tax returns may verify alimony has been received but will not verify the continuity and/ or amounts of the payments.



**Watch Me!**

Child Support/Alimony



**Answer Me!**

*Notes:*

## Child Support & Alimony (cont.)

? What happens if a formal court document does not exist?

? For this type of income, can you use arrangements made by the parents outside of court?

? What is the main difference between child support and alimony?

? Do individuals need to disclose this income to a lender?



### Answer Me!

## Sample Divorce Decree

It is important to always read the entire document to verify BOTH the amount of support and continuance.

Cause Number: \_\_\_\_\_

IN THE MATTER OF THE MARRIAGE OF

Petitioner: \_\_\_\_\_  
*Print first, middle and last name of the spouse filing for divorce.*

And

Respondent: \_\_\_\_\_  
*Print first, middle and last name of other spouse.*

In the \_\_\_\_\_  
*(Court Number)*

District Court  
 County Court at Law

\_\_\_\_\_ County, Texas

### Final Decree of Divorce

A hearing took place on \_\_\_\_\_  
*Date*

There was no jury. Neither the husband nor wife asked for a jury.

#### 1. Appearances

**Petitioner**

The Petitioner's name is: \_\_\_\_\_  
*First Middle Last*

The Petitioner is the: (Check one box.)  Husband.  Wife.

(Check one box.)

The Petitioner **was present**, representing him/herself, and announced ready for trial.

The Petitioner **was present**, representing him/herself, and agreed to the terms of this Final Decree of Divorce (called "Decree throughout this document).

The Petitioner **was not present** but has signed on page 8 agreeing to the terms of this Decree.

**Respondent**

The Respondent's name is: \_\_\_\_\_  
*First Middle Last*

The Respondent is the: (Check one box.)  Husband.  Wife.

(Check one box.)

The Respondent **was present**, representing him/herself, and announced ready for trial.

The Respondent **was present**, representing him/herself, and agreed to the terms of this Decree.

The Respondent **was not present**, but filed an Answer or Waiver of Service and has signed on page 8 agreeing to the terms of this Decree.

The Respondent **was not present**, but filed a Global Waiver that waived Respondent's right to notice of this hearing and did not otherwise appear.

The Respondent **was not present**, but was served and has defaulted. The Petitioner has filed a Certificate of Last Known Address and a Military Status Affidavit.

#### 2. Record (The Court fills out this section.)








A Court reporter recorded today's hearing.

A Court reporter did not record today's hearing because the parties agreed not to make a record.

A Statement of the Evidence was signed by the Court.

## Military income

Capture the definitions of the following:

-  Base Pay:
  
-  Military Allowances:
  
-  What is the major difference between Basic Pay & Military Allowances?
  
-  What is the equivalent of a pay-stub for the military?
  
-  Can you gross up nontaxable military allowances?
  
-  How many years of continuance would you look for?
  
-  Can you use income paid to military reservists?



**Watch Me!**

Military Income



**Answer Me!**

*Notes:*





# Military Income (cont.)

## Sample Leave Earnings Statement

? How can military members choose to receive their pay?

? What is Net Pay Advice?

DEFENSE FINANCE AND ACCOUNTING SERVICE MILITARY LEAVE AND EARNINGS STATEMENT																
ID	NAME (Last, First, MI)	SOC. SEC. NO.	GRADE	PAY DATE	YRS SVC	ETS	BRANCH	ADSN/DSSN	PERIOD COVERED							
			E5	040211	04	100210	AF		1-31 JUL 08							
ENTITLEMENTS				DEDUCTIONS				ALLOTMENTS				SUMMARY				
Type	Amount	Type	Amount	Type	Amount											
A	BASE PAY		2247.30	FEDERAL TAXES	88.48	DISCRETIONARY ALT	1621.00	+Amt Fwd				.00				
B	BAS		294.43	FICA-SOC SECURITY	139.33	TRICARE DENTAL	11.58	+Tot Ent				4266.73				
C	BAH		1725.00	FICA-MEDICARE	32.59			-Tot Ded				1570.22				
D				SGLI	27.00			-Tot Allt				1532.68				
E				AFRH	.50			=Net Amt				1163.93				
F				FAMILY SGLI	5.50			-Cr Fwd				.00				
G				TSP	112.37			=EOM Pay				1163.93				
H				MID-MONTH-PAY	1164.47											
I																
J																
K																
L																
M																
N																
O																
TOTAL			4266.73				1570.22				1532.68					
LEAVE	BF Bal	Emd	Used	Cr Bal	ETS Bal	Lv Lost	Lv Paid	Use/Lose	FED TAXES	Wage Period	Wage YTD	M/S	Ex	Add'l Tax	Tax YTD	
	25.5	25.0	11	39.5	85.5	.0	.0	.0	2134.93	13682.36	M	02		.00	493.01	
FICA TAXES	Wage Period	Soc Wage YTD	Soc Tax YTD	Med Wage YTD	Med Tax YTD	STATE TAXES	St	Wage Period	Wage YTD	M/S	Ex	Tax YTD				
	2247.30	14402.50	892.34	14402.50	208.83	AK		.00	.00	N	00	.00				
PAY DATA	BAQ Type	BAQ Depn	VHA Zip	Rent Amt	Share	Stat	JFTR	Depns	2D JFTR	BAS Type	Charity YTD	TPC	PACIDN			
	WIDEP	SPOUSE	08641	.00	1	R		0			.00					
THRIFT SAVINGS PLAN (TSP)	Base Pay Rate	Base Pay Current	Spec Pay Rate	Spec Pay Current	Inc Pay Current	Inc Pay Current	Inc Pay Current	Bonus Pay Rate	Bonus Pay Current							
	5	.00	0	.00	.00	.00	.00	0	.00							
	TSP YTD Deductions				Deferred		Exempt									
	720.14				720.14		.00									
REMARKS:	YTD ENTITLE				27768.11		YTD DEDUCT				2557.92					
<p>IF TSP ELECTION AMT EXCEEDS NET AMT DUE, TSP WILL NOT BE DEDUCTED.</p> <p>-LEAVE CARRYOVER INCREASED TO 75 DAYS FOR FY08. NO ACTION REQUIRED BY MEMBERS. DFAS WILL BEGIN RESTORING AFTER 1 OCT 08.</p> <p>-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.</p> <p>-IF YOUR SPOUSE WANTS INFO ABOUT THE MILITARY LIFESTYLE WE INVITE HIM/HER TO JOIN US FOR THE NEXT HEART LINK SPOUSES ORIENTATION. LUNCH AND CHILD CARE ARE PROVIDED. CALL YOUR</p> <p>BASE AIRMAN &amp; FAMILY READINESS CTR FOR DETAILS.</p> <p>-IF YOU GAMBLE WITH SAFETY...YOU BET YOUR LIFE.</p> <p>-ELECTIONS ARE COMING! UPDATE YOUR ADDRESS TO GET AN ABSENTEE BALLOT. REQUEST YOUR BALLOT FOR THE PRESIDENTIAL AND STATE ELECTIONS. SEE YOUR VOTING ASST. OFFICER OR WWW.FVAP.GOV.</p> <p>TSP 080701(183)</p> <p>RATE CHG SGLI 080701(183)</p> <p>CHANGE GRADE 080701(164)</p> <p>BAH BASED ON WIDEP, ZIP 08641</p> <p>BANK: [REDACTED]</p> <p>ACCT # [REDACTED]</p>																
DFAS Form 702, Jan 02 <span style="float: right;">WWW.DFAS.MIL</span>																

\*These guidelines in this lesson are based on Fannie Mae guidelines. Documentation for military income calculation for a VA loan may differ significantly. For more questions on this specific topic, go to VA.gov

## Disability Income

Disability benefits are paid to individuals who have a medical condition that prevents them from working. These benefits may be received on either a temporary or permanent basis.

There are several types of Disability:

- Short-Term
- Long-Term/ Permanent (only one that can be used for income)
- Workman's Compensation:

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. This could come from an insurance company or even the borrower's employer.
- Review the document to verify the amount of the disability payments and if the benefits have an end date.
- The benefits must be likely to last for at least three years after the date on the loan application in order to consider them for qualification.

If the borrower is not returning to work and the benefits are temporary, the income is not acceptable.



**Read Me!**

*Notes:*

## 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 for one or more of the following reasons:

- Due to the birth and care of the newborn child of the employee
- Due to the employee adopting a child or choosing to take in a foster child
- Due to the need to care for an immediate family member (such as a spouse, child, or parent) with a serious health condition.

Regular/ full-time pay may only be considered if the borrower has confirmed in writing their intent to return to work.

Documentation must be obtained from the employer evidencing the date the borrower will return to work.

**(Note:** This can be in the form of correspondence between the borrower and the employer or a computer printout from the employer's system evidencing the date of return.)

If the borrower will not return to work before the first mortgage payment, check investor guidelines on how to calculate their income.






**The lender must obtain a verbal verification of employment. If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.**



Read Me!

*Notes:*

# Annuity Income

-  What is an annuity?
  
-  What does the document for an annuity need to describe? (Capture the 3 things here):
  
  
  
  
  
  
  
  
  
  
-  Write the definitions of the different types of annuities below.  
  
Fixed and Variable:  
  
Guaranteed:
  
  
  
  
  
  
  
  
  
  
-  Can annuity payments for life be used as qualifying income?
  
  
  
  
  
  
  
  
  
  
-  Annuity payments set for a specific time need how many years remaining to be considered?



## Watch Me!

Annuity & Retirement Distribution



## Answer Me!

*Notes:*

# Retirement Account Distribution Income

- ? What is retirement account distribution?
- ? What is a “retirement account distribution” also known as?
- ? As a Lender, you need to be able to verify proof of the income AND regular receipt of payments.
- ? What can you use to document proof of the income?
- ? What can you use to document regular receipt of payments?



## Watch Me!

Annuity & Retirement Distribution



## Answer Me!

*Notes:*

## Retirement Account Distribution Income (cont.)

If the borrower is earning retirement income on a monthly basis from a 401K, IRA, or Keogh account, the documentation must be reviewed carefully to determine that the income should continue for three years. Look for the amount of income being drawn from the retirement account to determine if the distributions are consistent (example: \$2,000 per month) or vary from month to month (\$2,000, \$2,000, \$10,000) when considering the continuation of income.

If there is a non-taxable portion of an IRA Distribution, Pension or Annuity, you can gross up the non taxable portion.



**Read Me!**

*Notes:*