

## What is Parsonage Income?

Parsonage income, also referred to as a "housing allowance," is a sum of money provided by the leadership of a house of worship to its minister, pastor or similar religious role. This allowance offsets housing expenses and does not apply to any specific religion. It may be applicable based on how the house of worship compensates their minister or religious leader.

It's important to note that while similar allowances exist in military pay (known as Basic Allowance for Housing or BAH), the guidelines for these are different from those for parsonage allowance.

### Why is Parsonage Income Different?

One key aspect that sets parsonage income apart from other types of income is that it may be exempt from taxes. This can benefit the mortgage transaction as the recipient's income could be supplemented by the parsonage allowance to gross-up or support a higher earnings figure and potentially lower their Debt-to-Income (DTI) ratio.

However, eligibility for non-taxable status should be determined according to GSE guidelines. If eligible, this non-taxable portion can be verified with:

- » Paystubs
- » W2s – in Box 14
- » Verification of employment (VOE)

It's worth noting that if the borrower is considered self-employed, then this income isn't eligible to be grossed up, as it would reflect on their schedule C of personal tax returns.

### How Do GSEs Treat Parsonage Income?

**Both Fannie Mae and Freddie Mac require:**

- » A documented 12-month history of receipt
- » Evidence that the income is likely to continue for at least three years

However, while this type of income can count toward the borrower's monthly earnings for DTI purposes, it cannot offset the proposed monthly housing payment.

To document parsonage income, lenders must obtain a written VOE, an employer letter or paystubs documenting both its amount and payout terms. The documentation should address both history and likelihood of continuance.

## Example Scenarios

### Scenario 1: Insufficient History

In our first scenario, we have a minister who has been working at his local church for 10 months. He has provided six months' worth bank statements verifying separate deposits made for his primary earnings and his parsonage income. The underwriter received written VOE from his employer confirming these details.

**Can this parsonage income be considered part of his earnings?**

**The answer is no** because he does not have sufficient 12-month history earning this allowance before it can be considered usable according to GSE guidelines.

### Scenario 2: Uncertain Continuance

In our second scenario, a minister with five years' job history and a history of receiving parsonage income payments faces budget cuts at his church. His employer notes on the written VOE that although they hope to continue providing this allowance, it is no longer guaranteed.

**Can this parsonage income be considered part of his earnings?**

**The answer is also no** because despite having a history of receipt, there's no guarantee for its continuance, which is a requirement according to GSEs.

### Scenario 3: Stable History and Evidence of Continuance

In our third scenario, we have a Rabbi who has been working full time at a synagogue for six years. He has been receiving a housing allowance of \$1,500 per month for the past four years. This information is verified through paystubs and a Verification of Employment (VOE). The VOE also indicates that the continuance of this allowance is likely. Tax returns confirm that there are no tax deductions related to this income.

**Can this income be considered part of his earnings? And if so, can it be grossed up?**

**The answer is yes**, this income can be used because we've confirmed a stable history and evidence of continuance. Furthermore, because the income documents confirm it is not taxed, we can gross the income up. Using standard calculation for grossing up of 25%, the borrower could qualify using an additional \$375 (\$1500 x 25%) per month in usable housing allowance for DTI calculation. Therefore, the total amount that could be used would be \$1875 per month in parsonage income.

## Resources

### GSE Guidelines

- [Fannie Mae Selling Guide B3-3.1-01, General Income Information - Using Nontaxable Income to Adjust the Borrower's Gross Income](#)
- [Fannie Mae Selling Guide, What is required for housing or parsonage allowance?](#)
- [Fannie Mae Selling Guide B3-3.1-09, Other Sources of Income- Housing or Parsonage Allowance](#)
- [Freddie Mac Selling Guide 5305.2, Specific requirements for other income types](#)
- [Freddie Mac Selling Guide 9202.3, Borrower income documentation for workout or relief options](#)

### Learn More About Non-Taxable Income

- [Foundations On Demand Course: Not Your Ordinary Income](#)

Explore more complex income types, including non-taxable sources, social security income, child support and alimony.

- [Not Your Ordinary Income: Social Security Benefits](#)
- [Not Your Ordinary Income: Military Pay](#)

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