

Restricted Stock Units are a form of compensation in which a company pledges to issue shares to an employee in the future based on a vesting schedule. Unlike immediate stock issuance, RSUs have the following characteristics:

- » Employees must wait until the shares are fully vested to access them
- » Vesting occurs after a set time or performance milestone
- » Once vested, RSUs convert into regular company shares with all associated rights
- » Details of the vesting schedule are typically outlined in an RSU agreement

Fannie Mae Guidelines for RSUs

Qualifying Income Requirements

For RSUs to be considered qualifying income under Fannie Mae guidelines:

- » The restricted stock must have vested
- » The shares must have been distributed to the borrower without restrictions

Performance-Based Awards

- » Recommended minimum history: 24 months of restricted stock income from the current employer
- » Income received for 12 to 24 months may be acceptable with positive offsetting factors such as:
- » Future vesting equal to or greater than previous vesting, continuing for at least 24 months
- » Restricted stock income received for the previous 5 years from any employer

Time-Based Awards

- » Minimum history required: 12 months of restricted stock income from the current employer
- » Continuance of Income
- » Lenders must confirm income continuance for 3 years per Continuity of Income Guidelines

Important Note

Sign-on bonuses in the form of restricted stock that vest over time cannot be considered qualifying income.

Documentation Requirements

Lenders must obtain all of the following:

- » Evidence that the stock is publicly traded
- » Current vesting schedule reflecting past and future vesting
- » Brokerage or bank statement showing receipt of previous year(s) distribution
- » Verification of Employment form or recent paystub showing receipt of restricted stock income
- » W2s covering the most recent two-year period

Calculation Methods

Income Paid in Shares

- » $(200\text{-day moving average share price} \times \text{total number of vested, pre-tax shares over past 24 months}) \div 24$

Note: The 200-day moving average is calculated by summing the closing prices for the last 200 days and dividing by 200.

Income Paid in Cash

- » $\text{Total pre-tax cash distributed from vested shares over 24 months} \div 24$

Note: For borrowers with 12-24 months of income history, lenders may use the actual duration instead of a full 24 months.

Freddie Mac Guidelines for RSUs

Freddie Mac distinguishes between RSUs subject to performance-based and time-based vesting provisions.

Performance-Based Vesting

Requirements:

- » History of two consecutive years of income receipt (one year may be acceptable under certain conditions)
- » Income likely to continue for the next three years

Documentation required:

- » YTD paystub(s) documenting all YTD earnings, including RSU payouts
- » W-2 forms for the most recent two calendar years
- » 10-day Pre-Closing Verification

Alternatively:

- » Written VOE documenting all YTD earnings (including RSU payouts) and earnings for the most recent calendar year
- » 10-day Pre-Closing Verification

Time-Based Vesting

Requirements:

- » One-year history of income receipt
- » Evidence that income will continue for at least the next three years
- » Same documentation required as for Performance-Based Vesting

Calculation Methods

Income Paid in Shares

- » $(52\text{-week average share price} \times \text{total number of vested shares in the past year}) \div 12$

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Income Paid in Cash

Total pre-tax cash distributed from vested shares in the past year ÷ 12

Conclusion

When dealing with RSUs in mortgage lending, it's crucial to:

- » Review Fannie Mae and Freddie Mac guidelines thoroughly
- » Understand the differences between performance-based and time-based awards
- » Ensure all necessary documentation is provided to support the income
- » Be familiar with lender and investor guidelines before proceeding with the transaction

By mastering these aspects of RSU income, mortgage professionals can better serve their clients and navigate the complexities of modern compensation structures in loan applications.

Example Scenario

Different Share Prices

Background: A borrower has 300 shares of restricted stock units already vested during their employment period. The 200-day moving average share price is \$25, while the 52-week average share price is \$20.

Question: How would the RSU income be calculated under Fannie Mae and Freddie Mac guidelines?

Explanation:

Fannie Mae Calculation:

- » $(\$25 \times 300) \div 24 = \312.50 per month

Freddie Mac Calculation:

- » $(\$20 \times 300) \div 12 = \500 per month

In this scenario, the income amount used for qualification differs between Fannie Mae (\$312.50 per month) and Freddie Mac (\$500 per month). This difference reflects the impact of the vesting period and the method of calculation on the final figures.

These scenarios illustrate how the calculation methods and share prices can significantly affect the RSU income used for mortgage qualification purposes.

Resources

→ [Fannie Mae Selling Guide: B3-3.1-09, Other Sources of Income - Restricted Stock Units and Restricted Stock Employment Income](#)

→ [Fannie Mae Selling Guide: B3-3.1-01, General Income Information - Continuity of Income](#)

→ [Freddie Mac Seller/Servicer Guide: 5303.1, Employed income](#)

→ [Stockopedia: 200 Day Moving Average](#)