

## Shelsie Crawford

---

**From:** Wayne Pierce  
**Sent:** Monday, July 19, 2021 12:09 PM  
**To:** Sales; Mortgage Support Center  
**Cc:** Kristen Snethen  
**Subject:** Stable Income  
**Attachments:** Guide Section 5303.2.pdf

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

Good morning. We have been seeing quite a few Conventional Loans that the borrower is starting a new job or has been on their current job for a short amount of time. We wanted to make sure that everyone understood that you need to confirm that the current job is stable. This is especially important with a borrower that is hourly. With sporadic hours we need to confirm that they are going to continue to earn the amount we are qualifying them with. The guideline is very specific on this and requires no less than 12 months on the job. I am attaching the guideline for review. You will see where we have highlighted the 12 month section for you to review.

We understand that pre-Covid these issues were not as big of a deal, but since COVID Freddie and Fannie have really been pushing these items due to the increased amount of delinquencies. Please feel free to contact me with any questions or concerns.

Thanks,

Wayne Pierce  
Operations Manager  
NMLS #1487019  
[www.fsbtpo.com](http://www.fsbtpo.com)  
815-676-0987 Direct Office  
815-676-0990 Office  
815-901-7148 Cell



5303.2

## Primary and secondary employment and income

Effective 07/02/2020

Primary employment is considered as the Borrower's primary source of employed income whether derived from employment such as full-time employment, part-time employment, full-time and/or part-time seasonal employment.

Secondary employment is considered as any type of employment (e.g., second part-time job or multiple jobs) that is in addition to the Borrower's primary employment.

### (a) Employment history requirements – primary and secondary employment

#### (i) Primary employment

In most instances, the Borrower should have at least a two-year history of primary employment documented on Form 65, Uniform Residential Loan Application and verified in accordance with Topic 5300.

For Borrowers who are active-duty members of the United States Armed Forces, a history of military employment is not required for the employment to be considered stable.

The tenure of the Borrower's employment with the same employer or in the same or similar industry lends support to the analysis of employment stability.

When a Borrower has less than a two-year history of primary employment, the Seller must provide its justification for determining that the employment is stable. When making this determination, the Seller must take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the Borrower's demonstrated ability to repay obligations.

Examples that may support less than a two-year history of primary employment include, but are not limited to, the following:

- For a Borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence
- For a Borrower new to the workforce, documentation is provided that supports the Borrower's recent attendance at school or in a training program prior to their current employment

When the Borrower's employed income is derived from fluctuating hourly employment earnings, in no event may the employment history be less than 12 months.

#### (ii) Secondary employment

In most instances, the Borrower should have at least a two-year history of secondary employment for the employment to be considered stable. Under certain circumstances, when a Borrower has less than a two-year secondary employment history but has at least a 12-month history, the Seller may be able to justify and determine the employment is stable. Examples that may support less than a two-year history of secondary employment include, but are not limited to, the following:

- The Borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years; however, due to reasons such as position elimination, work force reduction, or illness, the Borrower is no longer employed at this job and is now working at multiple part-time jobs that are similar in hours and pay, when combined, to the previous full-time job. Since the Borrower's full-time employment ended 18 months ago, the length of employment at each part-time job is in the range of 13 to 15 months. In this scenario, the Seller may be able to justify an employment history of less than two years for the secondary and additional jobs provided the earnings are consistent and the Borrower has exhibited the ability to repay obligations.

- The Borrower is employed in the educational system as a teacher. During the previous summer the Borrower taught summer school within the same educational system and is now starting summer school teaching for the current year. Although the two-year history is not yet fully developed, given the job type and current employment situation, the Seller may be able to justify including the summer school income provided an accurate qualifying amount can be established and documented based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate (e.g., how many classes, how much, is it similar to prior year).

The requirements and guidance in this section are to be used in conjunction with the requirements and guidance in this chapter and in [Section 5301.1](#).

## (b) Earnings types – requirements and guidance

The following requirements and guidance apply to all primary and secondary employed income and all applicable employment characteristics including, but not limited to, full-time, part-time and seasonal employment.

Refer to [Section 5303.4](#) for information about income calculation requirements and guidance.

Earnings type	Requirements and guidance
Base non-fluctuating employment earnings	<p>For the purpose of determining stable monthly income, base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period.</p> <ul style="list-style-type: none"> <li>▪ The pay rate and number of hours worked must be reflected on an ongoing consistent basis for each pay period and be fully supported by the year-to-date income. In addition, if the annual salary is reported on the income verification documentation, that may be considered additional confirmation of base non-fluctuating earnings.</li> <li>▪ Base non-fluctuating earnings may include both salaried and hourly earnings; however, the pay rate and number of hours worked must not fluctuate between pay periods</li> <li>▪ Base non-fluctuating earnings may include military base (basic) pay. For members of the United States Armed Forces, active-duty pay is considered base non-fluctuating earnings.</li> <li>▪ Base non-fluctuating earnings may include part-time earnings, provided the number of hours worked each pay period are pre-determined and the same, as outlined above</li> </ul> <p>Base non-fluctuating earnings do not include additional employed income (e.g., commission, bonus, overtime, tips). Refer to <a href="#">Section 5303.3</a> for requirements and guidance pertaining to additional employed income.</p>
Fluctuating hourly employment earnings	<p>For the purpose of determining stable monthly income, fluctuating hourly employment earnings are considered to be wages that are based on an hourly rate of pay and where the number of hours fluctuate each pay period. The required minimum 12-month history must be derived from either the Borrower's current hourly employment or a combination of current and prior hourly employment. Fluctuating hourly employment earnings are typically representative of non-exempt earnings.</p> <p>Fluctuating hourly earnings do not include additional employed income (e.g., commission, bonus, overtime, tips). Refer to <a href="#">Section 5303.3</a> for requirements and guidance pertaining to additional employed income.</p>

## (c) Documentation requirements

This chart contains documentation requirements pertaining to earnings types for primary and secondary employment.

Refer to:

- [Section 5303.2\(b\)](#) for additional information about base non-fluctuating and fluctuating hourly earnings types
- [Section 5303.2\(d\)](#) for additional documentation that may be required based on employment characteristics
- [Section 5303.4](#) for additional information about income calculation requirements and guidance

Primary and secondary	Documentation requirements

employment earnings types	Streamlined Accept and Standard Documentation Level(s)
Primary and secondary	Streamlined Accept and Standard Documentation Level(s)
employment earnings types	Streamlined Accept and Standard Documentation Level(s)
Primary employment earnings:	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>YTD paystub(s) documenting all YTD earnings, W-2 form(s) for the most recent calendar year, and a 10-day pre-closing verification (10-day PCV) (refer to <a href="#">Section 5302.2(d)</a>)</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV (refer to <a href="#">Section 5302.2(d)</a>)</li> </ul>
Primary employment earnings: Military base (basic) pay	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>YTD Military Leave and Earnings Statement and W-2 form(s) for the most recent calendar year</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>Written VOE documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV</li> </ul>
Secondary employment earnings:	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</li> </ul>
Secondary employment earnings:	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV</li> </ul>
<ul style="list-style-type: none"> <li>Base non-fluctuating earnings and</li> <li>Fluctuating hourly earnings</li> </ul>	

## (d) Employment characteristics

For all employment characteristics below, the Seller must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation in this chapter and in conjunction with [Chapters 5301](#) and [5302](#), unless specifically stated otherwise. For certain employment characteristics, additional documentation and/or analysis may be needed, as described below.

Employment characteristics		Additional requirements
<b>Full-time and part-time employment</b>	Full-time and part-time employment may be either primary or secondary employment, and may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.	None

Employment characteristics		Additional requirements
<b>Seasonal employment</b>	<p>Seasonal employment may be primary employment (e.g., highway construction and road work in colder regions) or secondary employment (e.g., educators teaching summer school). The Borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.</p>	<p>When unemployment income associated with the seasonal employment is being used as stable monthly income:</p> <ul style="list-style-type: none"> <li>▪ A documented two-year history of seasonal employment and income receipt is required, and</li> <li>▪ The requirements for unemployment income associated with seasonal employment in <u>Section 5303.3</u> must be met</li> </ul>
<b>Union members</b>	<p>Certain union members may work in industries where they may switch employers frequently and the union facilitates the next position. In that case, the Borrower may have multiple YTD paystubs and W-2s, all of which can be used for the verification and calculation of stable monthly income. The Borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.</p> <p>A Borrower may exhibit a stable and consistent employment and income history, regardless of the number of employers.</p> <p>The Borrower may or may not be in between employers at the time of closing. If the Seller determines that the Borrower's employment and income history is stable and it is documented that the Borrower has multiple jobs as described above, it may be acceptable to obtain the 10-day PCV (refer to <u>Section 5302.2(d)</u>) from the union. The Seller must make this determination based on a review of all employment and income characteristics.</p>	None
<b>Borrower employed by a family member or by the property seller, real estate broker or other interested party to the transaction</b>	<p>When a Borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length transactions, further in-depth analysis is required to determine stability of the income.</p>	Complete signed federal individual income tax return for the most recent year

Employment characteristics		Additional requirements
<b>Employed income from a foreign source</b>	<p>When a Borrower receives employed income from a foreign source, the income may be considered for qualifying income provided the income is reported on the Borrower's U.S. federal individual income tax return for the most recent year, in addition to meeting the requirements in <a href="#">Chapter 5303</a>.</p> <p>Refer to <a href="#">Chapter 5305</a> for all other non-employment/non-self-employment income from a foreign source.</p>	Complete signed U.S. federal individual income tax return for the most recent year
<b>Employment contracts</b>	<p>i. Employment contracts in the educational industry:</p> <p>It is common for Borrowers who work in the educational industry, such as teachers, to be employed under renewable or term employment contracts. For the educational field, if the Borrower provides an annually renewable or term contract, it is reasonable to consider continuance of receipt, provided the Seller does not have knowledge or documentation to the contrary.</p>	None
	<p>ii. Employment contracts in other industries:</p> <p>If an employment contract is provided, it may also be considered for the purposes of determining stable monthly income. When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as whether or not employment contracts are reasonably common to the particular employment field and/or region, the pay structure outlined within the terms of the contract and whether the Borrower has demonstrated the ability to maintain consistent employment and income with this form or a similar form of pay structure over the most recent two years.</p>	Obtain a documented two-year history of income and employment in the same or a similar employment field or industry when the terms of the employment contract do not include a base non-fluctuating pay structure
<b>Temporary help services employment</b>	<p>Some contract firms and temporary staffing firms contract out the services of their employees to other employers.</p> <p>When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as whether the Borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure over the most recent two-year period.</p>	W-2 forms from the contract and/or temporary staffing firm for the most recent two-year period

Employment characteristics		Additional requirements
<b>Income reported on Internal Revenue Service (IRS) Form 1099</b>	<p>At times, Borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.</p> <p>Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. If the Seller determines that the Borrower is a sole proprietor, refer to the requirements and guidance in <u>Chapter 5304</u>. Factors the Seller may consider when determining whether income reported on Schedule C is representative of a sole proprietorship include, but are not limited to, the principal business or profession, gross receipts or sales, cost of goods sold and the type and level of expenses reported.</p>	<ul style="list-style-type: none"> <li>▪ All 1099s for the most recent two-year period, and</li> <li>▪ YTD paystubs or YTD earnings statements received by the Borrower, and</li> <li>▪ Complete federal individual income tax returns covering the most recent one-year period, and</li> </ul> <p>The Seller must determine if more information and documentation is needed for determining stable monthly income.</p>

## (e) Income commencing after the Note Date

For Borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided that either all requirements for option one, or all requirements for option two in the following table are met.

Subject	Option one	Option two
<b>Eligible employment and income</b>	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> <li>▪ Income must be from new primary employment or a future salary increase with the current primary employer</li> <li>▪ Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and</li> <li>▪ The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction</li> </ul>	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> <li>▪ Income must be from new primary employment</li> <li>▪ Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and</li> <li>▪ The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction</li> <li>▪ As of the Delivery Date, the income must be no less than that used to qualify the Borrower for the Mortgage</li> </ul>

Subject	Option one	Option two
<b>Start date of the new employment or future salary increase, as applicable</b>	<ul style="list-style-type: none"> <li>▪ Must be no later than 90 days after the Note Date</li> <li>▪ May be before or after the Delivery Date</li> </ul>	<ul style="list-style-type: none"> <li>▪ No limit on the number of days after the Note Date</li> <li>▪ Must be before the Delivery Date</li> </ul>
<b>Eligible loan purpose</b>	<p>The Mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> <li>▪ Purchase transaction</li> <li>▪ "No cash-out" refinance</li> </ul>	<p>The Mortgage must be originated for one of the following purposes:</p> <ul style="list-style-type: none"> <li>▪ Purchase transaction</li> <li>▪ "No cash-out" refinance</li> <li>▪ Cash-out refinance</li> </ul>
<b>Eligible Mortgaged Premises</b>	<p>The Mortgaged Premises must be a 1-unit Primary Residence</p>	<p>The Mortgaged Premises must be one of the following:</p> <ul style="list-style-type: none"> <li>▪ 1- to 4-unit Primary Residence</li> <li>▪ Second home</li> <li>▪ 1- to 4-unit Investment Property</li> </ul>
<b>Verification of additional funds</b>	<p>In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in <a href="#">Section 5401.1</a>, and other monthly liabilities, as described in <a href="#">Section 5401.2</a>, multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation.</p> <p>The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.</p>	<p>The following requirements apply when there are more than 15 calendar days between the Note Date and the start date of the new employment:</p> <p>In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in <a href="#">Section 5401.1</a>, and other monthly liabilities, as described in <a href="#">Section 5401.2</a>, multiplied by the number of months between the Note Date and the start date of the new employment, plus one additional month. A partial month is counted as one month for the purpose of this calculation.</p> <p>The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment.</p>
Sellers may use the following worksheet to assist with the additional funds calculation:		
<b>Calculation for Verification of Additional Funds Worksheet</b>		
1. Total monthly housing expense ( <a href="#">Section 5401.1</a> )		\$ _____
2. Monthly debt payment ( <a href="#">Section 5401.2</a> )		\$ _____



Subject	Option one	Option two
	3. Line 1 + Line 2	\$ _____
	4. Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	\$ _____
	5. (Line 3) x (Line 4)	\$ _____
	6. Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____
	7. Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)
<b>Required documentation</b>	<p>The following documentation is required:</p> <ul style="list-style-type: none"> <li>▪ Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that: <ul style="list-style-type: none"> <li>▪ Is fully executed and accepted by the Borrower</li> <li>▪ Is non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared, and</li> <li>▪ Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings</li> </ul> </li> <li>▪ For a future salary increase provided by the Borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the Borrower</li> <li>▪ A 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed (refer to <u>Section 5302.2(d)</u>)</li> <li>▪ Documentation of additional funds, as required above</li> </ul>	<p>The following documentation is required:</p> <ul style="list-style-type: none"> <li>▪ Copy of the employment offer letter or employment contract that: <ul style="list-style-type: none"> <li>▪ Is fully executed and accepted by the Borrower, and</li> <li>▪ Includes the terms of employment, including but not limited to, employment start date and annual income based on non-fluctuating earnings</li> </ul> </li> <li>▪ Paystub, written verification of employment (VOE) or a third-party employment verification supporting the income used for qualifying the Borrower</li> <li>▪ Documentation of additional funds, as required above</li> </ul>

