

Toni Pierce

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Sent: Wednesday, September 1, 2021 4:01 PM
To: Sales; Mortgage Support Center
Cc: Joshua Heinrich; Justin Yahnig; Wayne Pierce; Robert Anderson
Subject: Mtg Support Update - Income Stability

Good afternoon! Income stability is a HOT Topic right now for all the agencies. Mtg Support gets see income stability issues every day and we wanted to provide a bit of insight into this topic.

We are checking for income stability when we review the income. We will do our best to identify if there appears to be a potential problem. However, we cannot always tell due to the data not being fully entered into Mortgagebot or it is entered in the wrong order. Income history should be listed in chronological order to show the history from most recent to less recent.

When an income calc request comes in and the borrower/co-borrower documentation shows that the they have not been on the position for 12 months, we start looking further into this to see what we can see. Keep in mind this is REGARDLESS OF COVID! And, we know that is rough to have to review it this way. But, underwriting will be in the same boat of proving income stability. We are trying to help the Loan Officers get ahead of the issue or see the issue before the loan gets too far into the process, if it cannot be resolved.

Here are the basics we look for:

USDA

Income Type	Annual	Repayment
Base Wages (Hourly or Salary)	<p>Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</p> <p>Full time students age 18 and above that are not an applicant, co-applicant, or spouse of an applicant will only have \$480 of their earnings included in the annual income calculation. These household members are not required to present income documentation.</p>	<p>Required History: One year Income must be received at the time of loan application.</p> <p>The one year of required history may be met through a combination of employers, education, or military service. This history does not have to be with the same or current employer. Applicants that were on leave with their employer due to maternity/paternity leave, medical leave, relocation, etc. remain employed.</p> <p>Underwriters may use discretion for applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc. for an extended time of one year or greater.</p>

FHA -

How are gaps in employment considered when analyzing income stability?

For borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the borrower's current income as effective income if it can verify and document:

- the borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

For additional information see Handbook 4000.1 II.A.4.c.xi(B) or II.A.5.b.xi(B) available at https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsgb

VA

b. Effective Income

Income is considered effective when it is determined to be verifiable, stable and reliable, and anticipated to continue for the foreseeable future. Income analysis is not an exact science. It requires the lender to underwrite each loan on a case-by-case basis, using good judgement and flexibility when warranted.

To determine whether income is stable and reliable, the probability of continued employment must be determined through examination of the:

- borrower's past employment record,
- borrower's training, education, and qualifications for his or her current position, and/or
- type of employment.

Only verified income can be considered in the repayment calculation.

Conventional

(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 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 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 itself to 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:

- 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 shall the Borrower's employment history be less than 12 months.

It is the Loan Officer, LOA and Processor that must provide documentation to support income stability. If the information provided shows sporadic and varied hours, please go the extra mile and help underwriting understand how the income can be considered stable. Mtg Support can review this documentation prior to it going to the underwriter and help confirm it works. If necessary, we can get it in front of the underwriting department for review at the beginning of the loan during processing. VOE's from the Work Number will need a bit more information as the Work Number does not confirm continuation of employment, recent raises, # hours worked and other info that helps support stability! Letters from the employers containing this information and gaps in employment noted with comments/explanations will go a long way to helping support the stability of the income. Unfortunately, this is not a one size fits all answer and each loan will have to be analyzed and have its own set of documentation that will hopefully support the stability question.

I hope this information was helpful for all to see the challenges we are facing with income. Questions? Feel free to ask! Let's work together to get as many loans done as possible!

Please allow 24 hours for a full response from Mtg Support!

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