# Evaluating and Calculating Borrower Income

**Variable Income** 

**Presented by Sandra Sweeney** 

**MGIC** 



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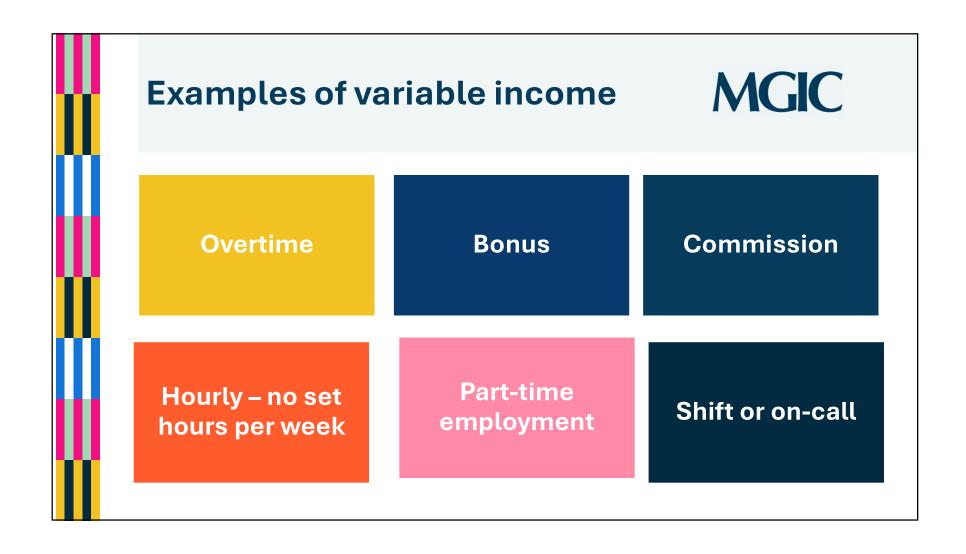


# Advanced variable income - Agenda

- Defining variable income
- Guidelines and rules
- Analyzing overall risk
- Calculation of income
  - 3 case studies
  - Secondary or part-time income
  - 1099 Borrowers
- Your questions



# Variable income Fluctuating earnings Amount is NOT predetermined, does NOT occur with regular frequency and a definite amount is NOT documentable mortgage guaranty insurance corporation



# Calculate by income trend



- When should I average?
- Can I use the YTD income in my calculation?
- Why isn't it always the same in every file?





## Remember The 4 Cs

#### Credit

• Borrower's willingness to repay a loan

#### Capacity

• Borrower's ability to repay based on the amount & stability of income

#### Capital

• Borrower's investment in the property from savings & other sources

#### Collateral

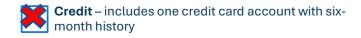
• Property's value & marketability to provide adequate security for the loan based on an appraisal

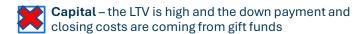
## Assessing the overall risk



#### Loan file #1









#### Loan file #2









### Variable income rules



- 24-month history is recommended in no event should employment history be less than 12 months
- Calculation of income will be determined based on whether earning trend is consistent, increasing or decreasing
- Additional analysis should be done when the income fluctuates more than 10% from year to year

### Freddie Mac - Degree of fluctuation



#### ≤ 10% fluctuation

The income trend is considered consistent when the increase YTD and prior year(s) is less than or equal to 10%

No additional analysis or docs are required

#### 10 - 30% fluctuation

No additional analysis or documentation is required with a documented verification of a pay raise

#### > 30% fluctuation

If the increase is >30%, additional analysis is required to determine income stability and develop an accurate calculation of income

Freddie Mac selling guide sections 5303.2 and 5303.3

#### **Word Bank:**

higher

averaged

lower

disregarded

- 1. If the trend in the amount of income is stable or increasing, the income amount should be
- 2. If the trend is declining but has since stabilized and there's no reason to believe the borrower will not continue to be employed at the current level, the \_\_\_\_\_ amount of income must be used.
- 3. If the trend is declining the income may not be stable. Additional analysis must be conducted to determine if any income should be used but in no instance may it be over the period when the decline occurred.





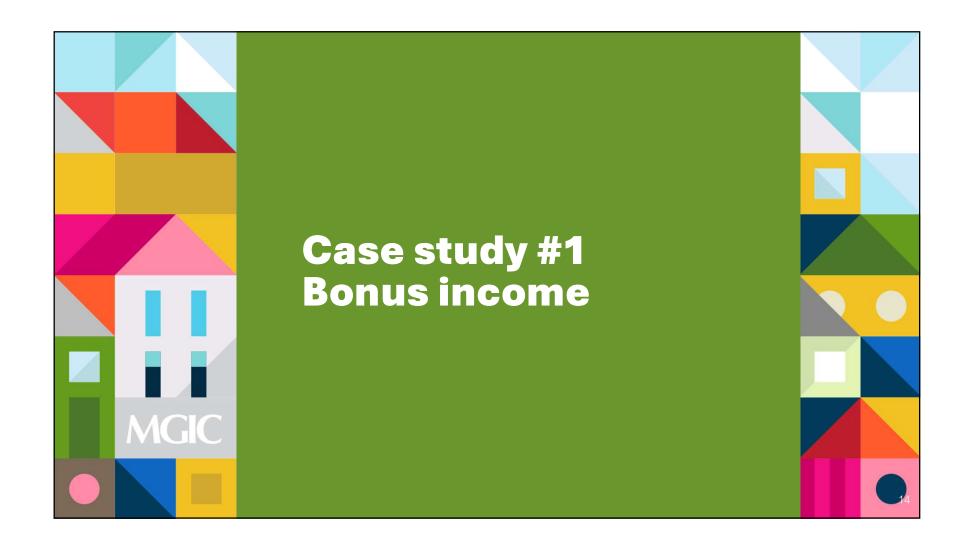
# Beware of recent changes

**CHANGE** in compensation

**CHANGE** in position

**CHANGE** in employment

**CHANGE** in pay structure

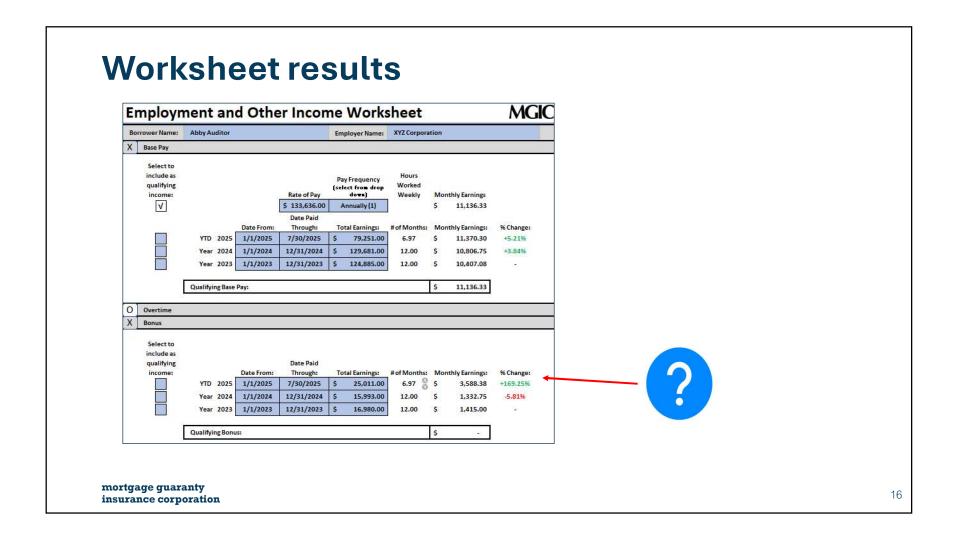


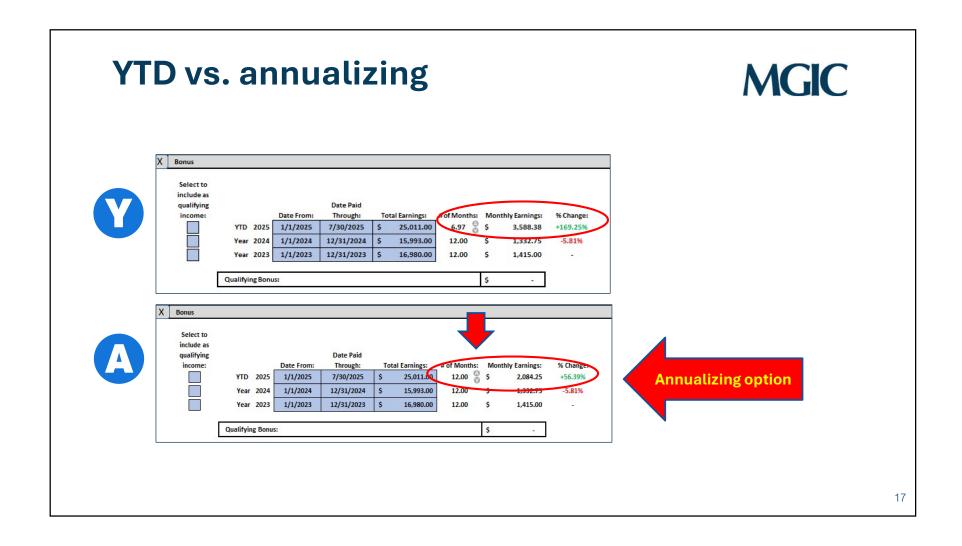
# **VOE** for Abby Auditor

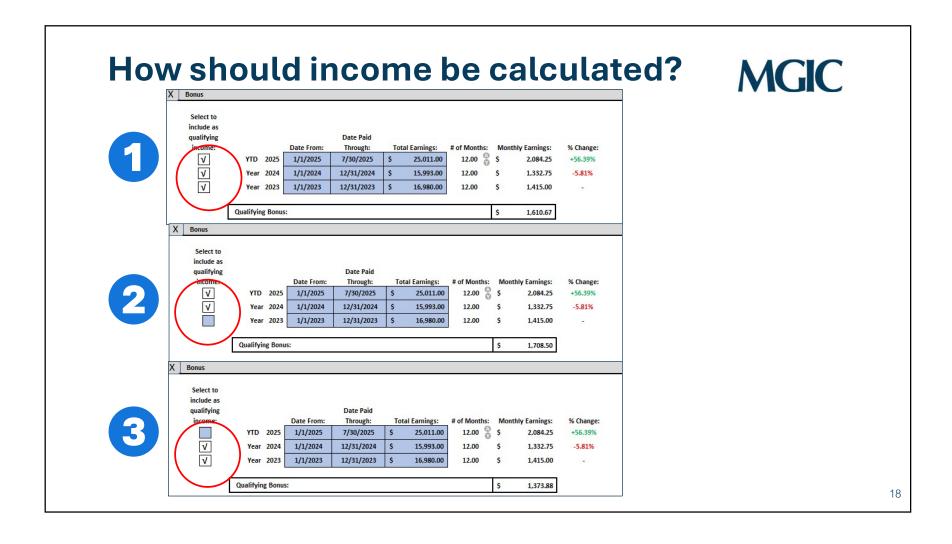


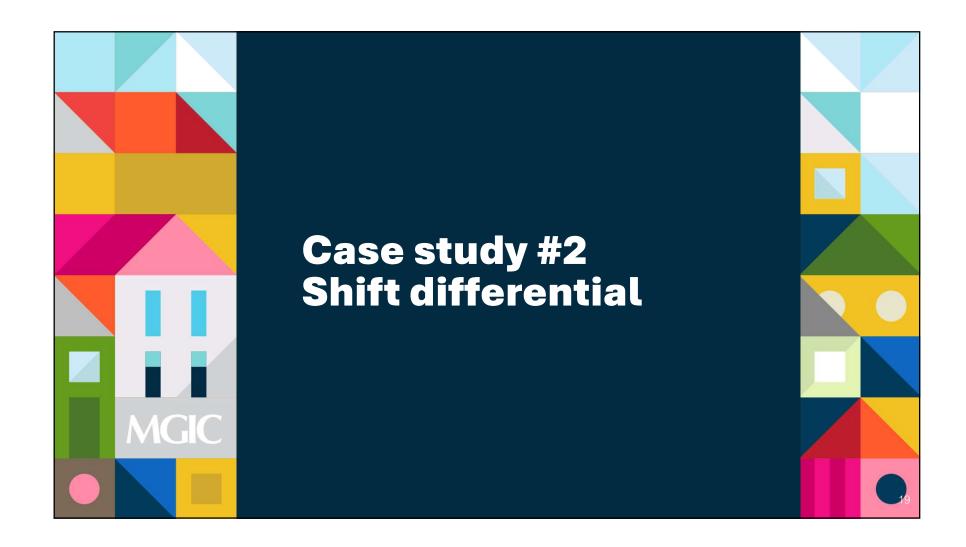
Auc		10. Present	73.00.000.000.000.000.000.000.000.000.00			11. Probability of Continued Employment  Excellent		
09/30/2020								
12A. Current Gross Base Pay (Enter Amount and Check Period)    Annual				13. For Military Personnel Only		14. If Overtime or Bonus is Applica	hla	
				Pay Grade		Is Its Continuance Likely?		
\$ 133,636.00			Туре	Monthly Am				
			- Base Pay	2	Bonus 🗓 Yes 🔝	No		
12B. Gross Earnings				\$		15. If paid hourly - average hours per		
Туре	Year To Date	Past Year 2024	Past Year	Rations	\$	week		
Base Pay	Thru //3U/25 \$ 79,251.00	\$ 129,681.00	s 124,885.00	Flight or Hazard	\$	16. Date of applicant's next pay in	16. Date of applicant's next pay increase	
				Clothing	8	31		
Overtime	\$	\$	\$		100	17. Projected amount of next pay i	ncrea	
				Quarters	\$			
Commissions	ş	\$	s	Pro Pay	\$	18. Date of applicant's last pay inc	rease	
	Overseas or	6/1/25						
Bonus	\$ 25,011.00	\$ 15,993.00	s 16,980.00	Combat	\$	19. Amount of last pay increase	19. Amount of last pay increase \$5320	
Total	\$ 104,262.00	s 145,674.00	s 141,865.00	Variable Housing Allowance	\$	\$5320		

15









# Variable income calculation – Shift differential Verification date of 7/15/25



#### **EMPLOYMENT**

 Division
 EHC1

 Employment Status
 Active

 Most Recent Start Date
 9/24/20

 Original Hire Date
 8/25/14

Total Time With Employer 5 Years, 10 months

Job Title Radiology Tech – PRN

#### INCOME

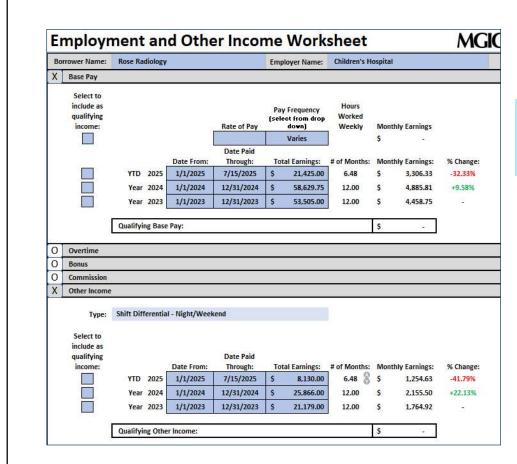
Employee Rate of pay \$48.20
Employee Pay Frequency Hourly
Avg. Hrs. Worked/Pay Period 60
Pay Period Frequency Biweekly



#### ANNUAL INCOME SUMMARY

	Base Salary	Overtime	Commissions	Bonus	Other	Total
2025	\$21,425.00	\$0	\$0	\$ 5,586.00	\$2,544.00	\$29,555.00
2024	\$58,629.75	\$0	\$0	\$20,710.00	\$5,156.75	\$84,496.50
2023	\$53,505.00	\$997.71	\$0	\$16,850.00	\$4,329.75	\$74,684.75





**MGIC** 

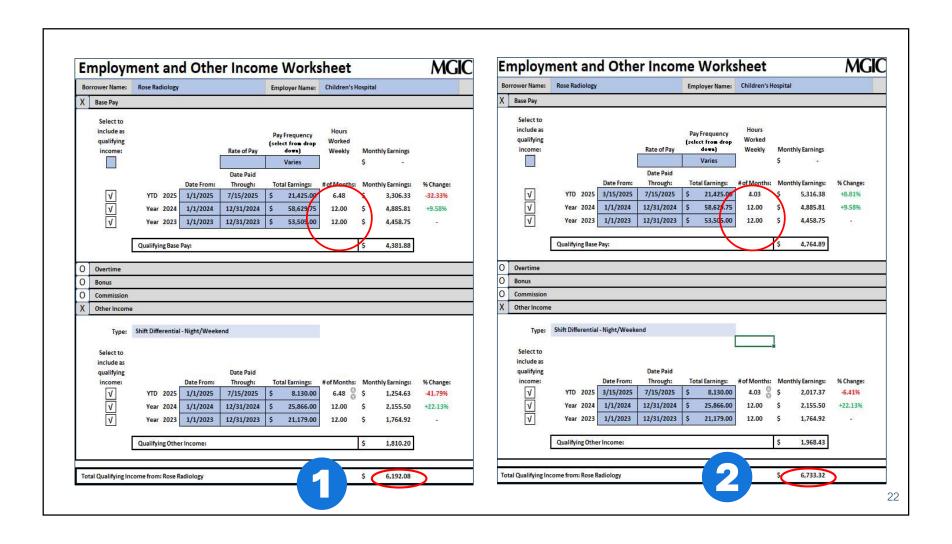
**LOX & Docs** 

Borrower was out on leave from 1/1/25 – 3/15/25. LOX from borrower and copy of current paystub were obtained.

Borrower has returned to full-time employment. LOX from employer was obtained.

Borrower had a part-time job several months during 2023 and then transitioned into only working at current employment. 2023 W2s were obtained.

21



# Can a LOE from employer be used to calculate income with a raise?

Borrower works fluctuating hours and recently received a raise. Can a LOE from the employer which indicates the average hours worked be used to calculate income?

#### **Answers:**

A: Yes, if the employment is arms-length

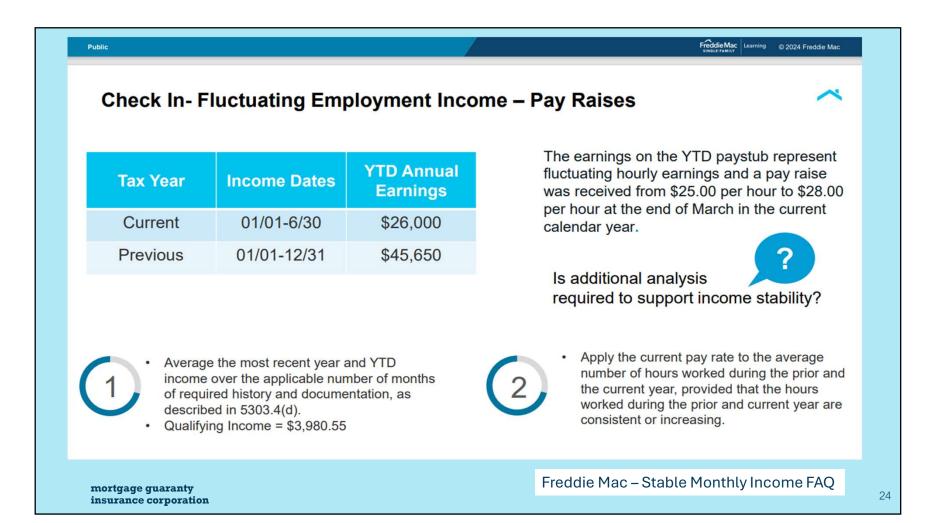
B: The earnings should be averaged

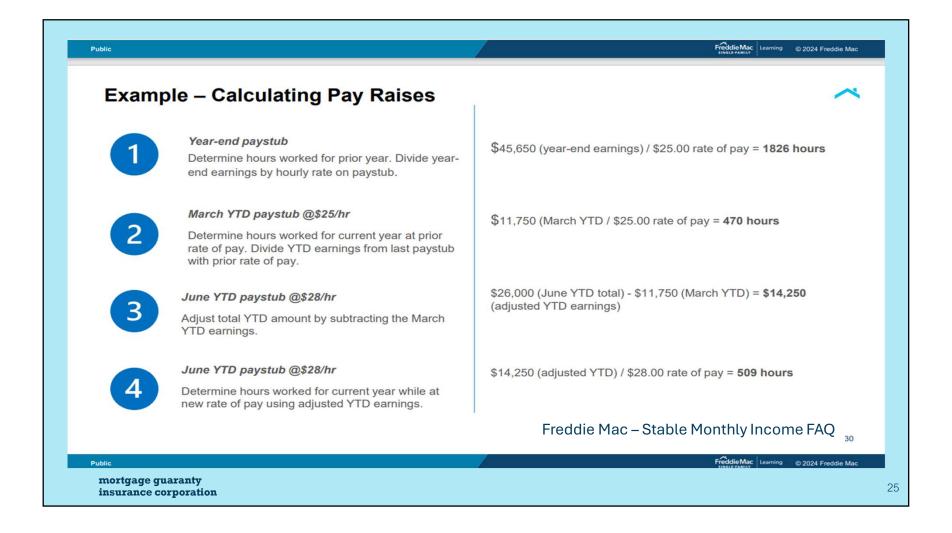
C: Lender should calculate hours worked YTD and

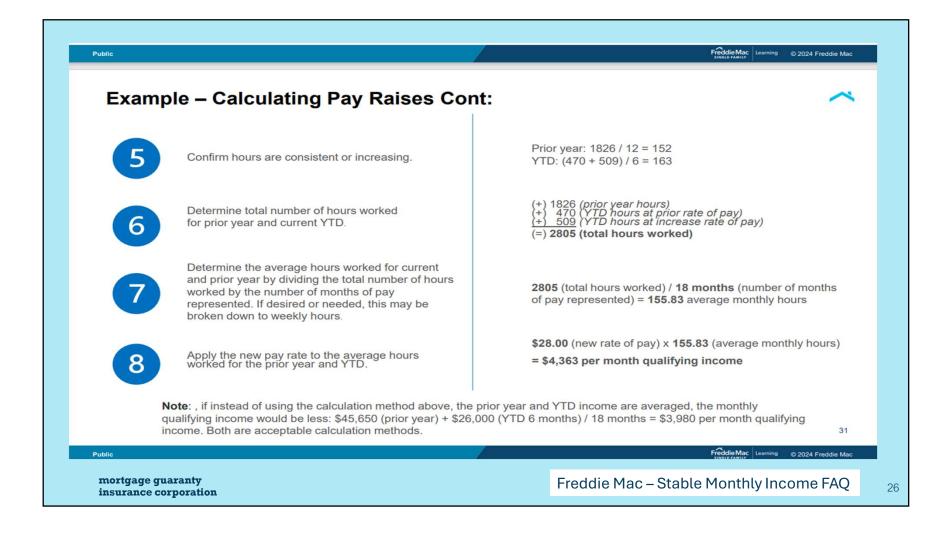
prior years and multiply by new hourly rate

D: Either B and C are acceptable











# New job with fluctuating income

Borrower recently started a new job 9/1/24 and has been on their current job for 10 months. Borrower's previous job was in the same field.

Tax Year	Dates	Earnings
Current Job - YTD	01/01/25 – 07/01/25	\$36,726
Current Job – prior year	09/01/24 – 12/31/24	\$23,980
Previous Job – prior year	01/01/24 – 08/30/24	\$38,450

Is additional analysis required?

# New job with fluctuating income - Earning trends

Tax Year	Dates	Earnings
Current Job - YTD	01/01/25 - 07/01/25	\$36,726
Current Job – prior year	09/01/24 - 12/31/24	\$23,980
Previous Job – prior year	01/01/24 - 08/30/24	\$38,450

- Current job \$23,980 plus \$36.726 = \$60,706/10 = \$6,070.60 Current job annualized = \$72,847.20
- Prior job = \$38,450 /8 = \$4,306.25 Prior job annualized = \$51,675.00

insurance corporation

- Calculate difference = \$72,847.20 \$51,675.00 = \$21,172.20
- Divide the difference by prior year earnings amount x 100 \$21,172.20 /\$51,675.00 = 40.97%

# Can an hourly employee use an employment offer or contract?

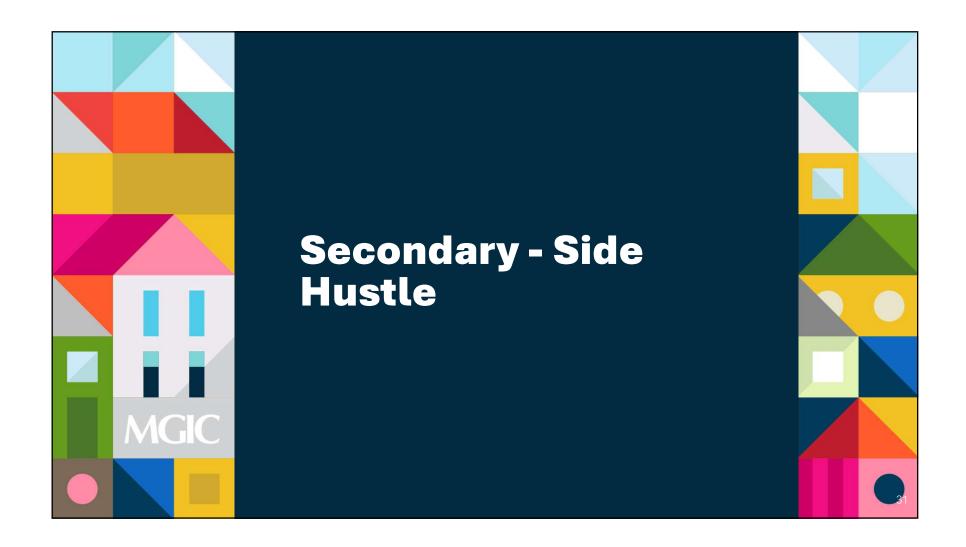
Borrower has a job offer in hand and will not receive a paystub until after the loan has been delivered to Fannie Mae.

#### **Answers:**

A: Yes, if the offer states that hours are fixed (e.g. guaranteed 40 hours/week)

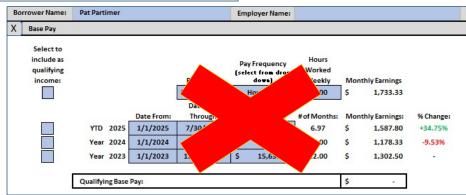
B: No, borrower must wait to receive first paystub

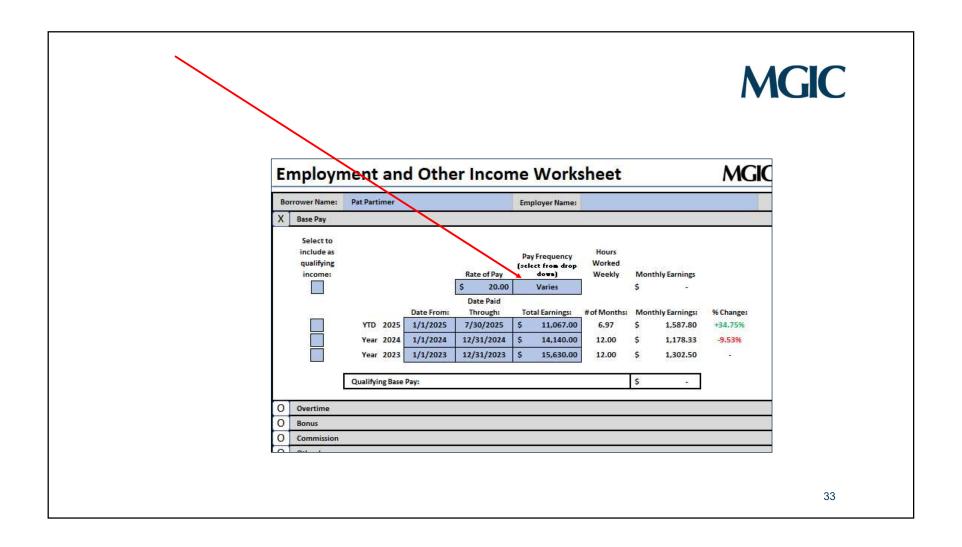


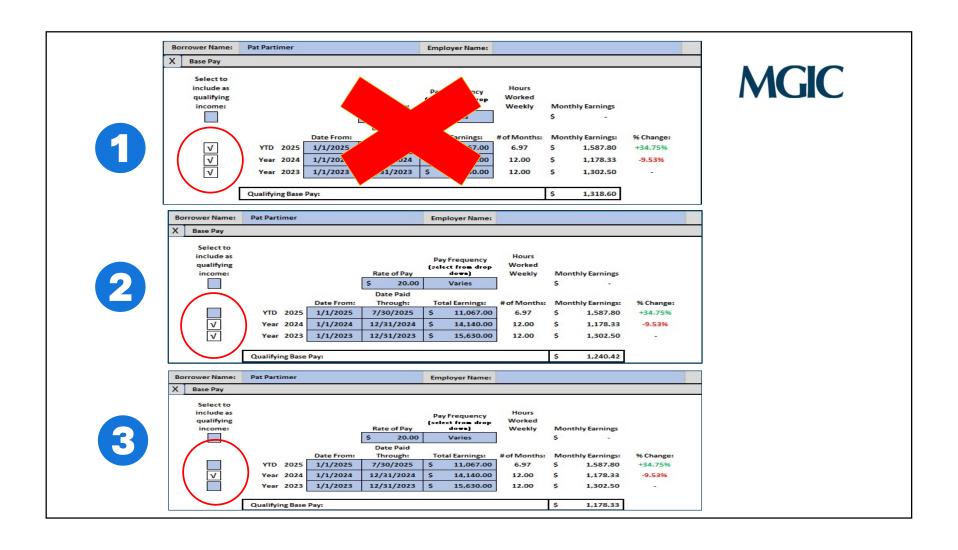


## **Secondary or part-time income**









Is there anything else we need to consider when using secondary income?



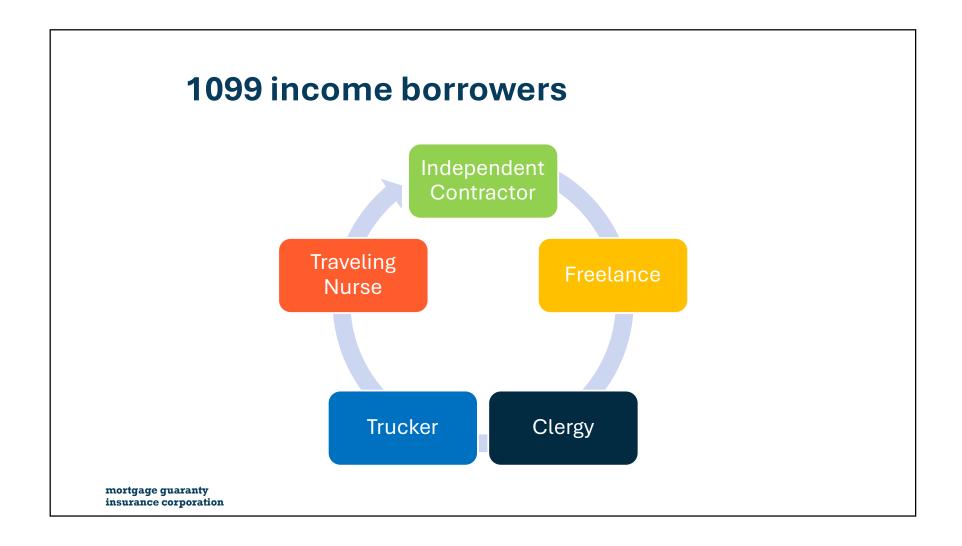
#### **MGIC History of primary employment** Part II — Verification of Present Employment 9. Applicant's Date of Employment 10. Present Position 11. Probability of Continued Employmen Marketing Specialist Good 04/01/2025 13. For Military Personnel Only ☐ Annual ☐ Hourly Monthly Yes No Weekly Year To Date Thru //30/25 s 12,832.40 16. Date of applicant's next pay incre Base Pav \$4583.33 per month 18. Date of applicant's last pay incre s 12,832.40 Total Part III - Verification of Previous Employment W2 shows an average 21. Date Hired 03/15/2000 23. Salary/Wage at Termination Per (Year) (Month) (Week) 22. Date Terminated 03/30/2025 of \$1646.67 per month 24. Reason for Leaving To obtain full-time employment 25. Position Held Marketing Assistant **Prior Year** 2025 -Primary = \$1646.67 Primary = \$4583,33

Secondary = \$12 42

Secondary = \$1240.42

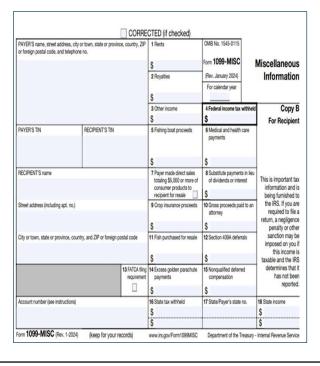
36





# Income reported on 1099





### Challenge:

- Borrower receives income via Form 1099 but is not considered an employee or selfemployed
- · Documentation path is undetermined

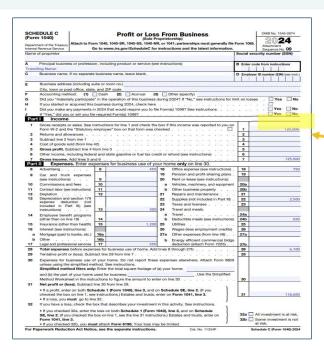
# Determine how the borrower reports income

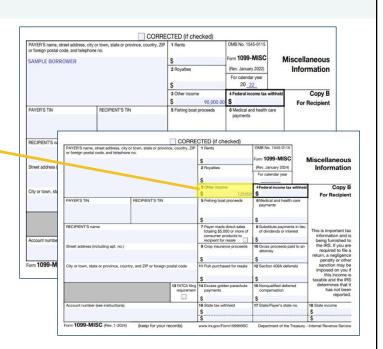
- Schedule 1 of 1040s as other income
- On Schedule C

#### **MGIC** Reported on Schedule 1 OMB No. 1545-0115 m 1099-MISC Miscellaneous SCHEDULE 1 SAMPLE BORROWER Additional Income and Adjustments to Income 2024 (Rev. January 2022) Information Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the lates Sequence No. 01 For calendar year 20 22 Copy B For Recipient Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k. PAYER'S TIN RECIPIENT'S TIN Part I Additional Income 1 Taxable refunds, credits, or offsets of state and local income taxes 2a Allimony received. Allmony received Date of original divorce or separation agreement (see instructions): Business income or (loss), Attach Schedule C Other gains or (losses), Attach Form 4797 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E Farm income or loss), Attach Schedule F CORRECTED (if checked) RECIPIENT'S orm 1099-MISC Miscellaneous Net operating loss . Gambling . . . Cancellation of debt b Gambling. C Cancellation of detame exclusion from Form 2555 c Income from Form 8883 d Income from Form 8889 g Alaska Parmanent Fund dividends Juny duly pay Activity not engaged in for profit income k Stock options I income from the rental of personal property if you engaged in the rental for I income from the rental of personal property if you engaged in the rental for I income from the rental of personal property if you engaged in the rental for I income from the rental of personal property if you engaged in the rental for I option and Paralympic medals and USGC prize money (see instructions) Section 951(a) inclusion (see instr Copy B 7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported. RECIPIENT'S name rm 1099-M Total other income. Add lines 8a through 8z Constinue lines 1 through 7 and 9. This is your additional income. Enter here and on Form 1040. 1040-SR, or 1040-NR, line 1040 Form 1099-MISC (Rev. 1-2024) (keep for your records)

# Reported on Schedule C







# Can this income be used?

Borrower was a salaried employee for four years in receipt of a W-2. Borrower changed jobs five months ago and will be paid with a 1099 but is performing similar work in the same industry.

#### **Answers:**

A: It depends

B: Yes, because it's in the same industry

C: No, we need at least a 12-month history

mortgage guaranty insurance corporation



# Tip income

mortgage guaranty insurance corporation

- History of receipt two consecutive years
- Calculation average of most recent year(s) and YTD income over the applicable number of months

#### Reported by employer **Reported on IRS Form 4137** • YTD paystub(s), W-2 for the • IRS Form 4137 for most most recent 2 years recent 2 years OR Complete individual tax Written VOE returns covering the most recent 2 years

43

### **Trust income**

### **Fixed income**

- Copy of fully executed trust agreement specifying fixed payment
- Copy of bank statements or equivalent showing receipt of fixed payment for most recent one year \*
- Evidence of sufficient assets to support continuance \*
- Use the fixed payment amount

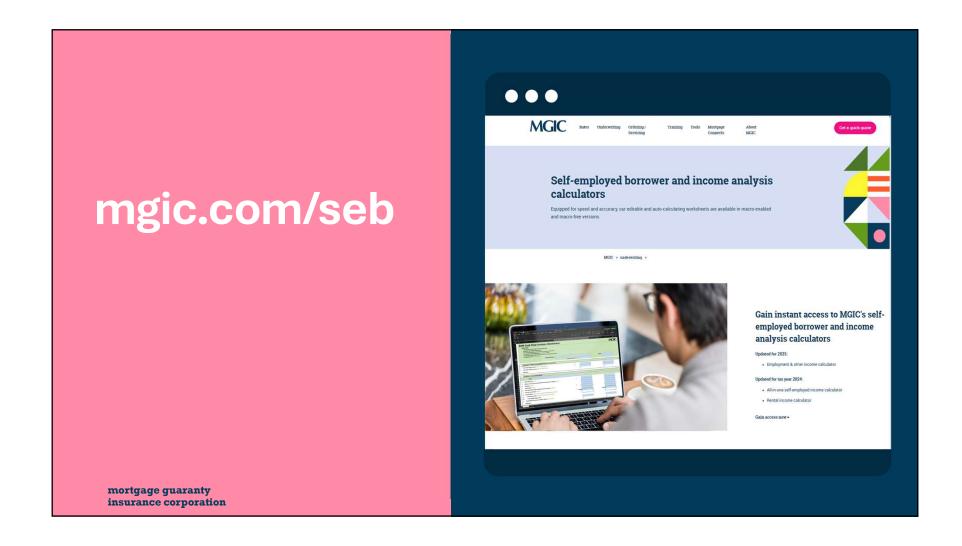
### Fluctuating income

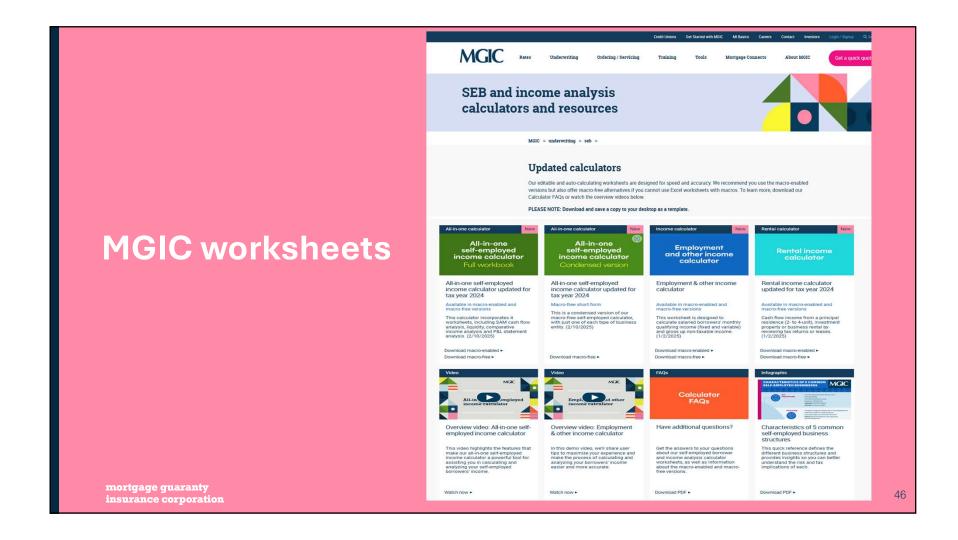
- Copy of fully executed trust agreement outlining payment terms
- Complete tax returns for most recent 2 years
- Evidence of sufficient assets to support continuance\*
- Use a 24-month average based on the most recent 2-years tax returns

\*When borrower is the trustee, a letter from the trustee is not acceptable

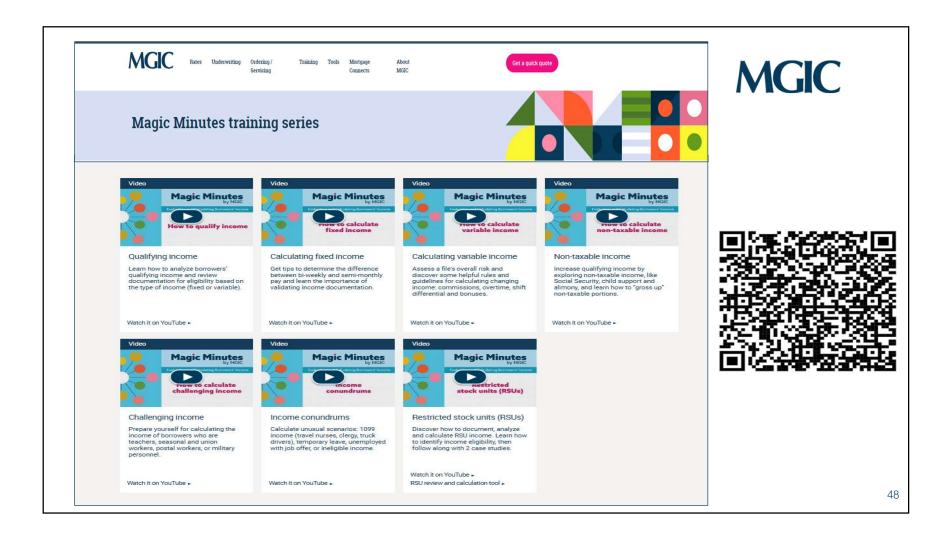
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44











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