

## FHA INCOME DOCS OVERVIEW

### FHA Total Scorecard & Manual

This does not encompass every type of income, but the more common forms of income we see. The FHA FAQ is an excellent resource for many FHA questions [hud4.my.site.com/FHA/s/](http://hud4.my.site.com/FHA/s/)

If you do not need tax returns, OBSOLETE! Less documentation is more. Only require tax returns if the income requires tax returns. FHA includes most losses on tax returns -

- **W2s** must be issued by employers by January 31<sup>st</sup>
- **K1s** typically issued by March 15<sup>th</sup>
- **6 month Gap of Employment** ONLY applies to the borrower's current position. They must be on his/her current job 6 months at time of case assignment if they had a gap between the last and current jobs 6 months or greater.
- **Non- taxable income** is grossed up max **115%**
- **Capital Gains** losses must be considered if borrower has a constant turnover of assets. One time Cap Gains should not be considered in effective income

**\*\*\*CAN USE 3<sup>RD</sup> PARTY VOE ONLY IF INCOME IS STRAIGHT FORWARD. HANDWRITTEN VOE'S REQUIRE PAYSTUB. THINGS LIKE "OTHER INCOME ON A VOE WITHOUT A PAYSTUB WILL REQUIRE AN EMPLOYER EXPLANATION\*\*\***

### Base Pay (Salary or Hourly)

- **Total Scorecard** – most recent paystub and previous two years W2s, W2 transcripts or 2 year written VOE. For past employment documentation, can document one of the following: W2(s) or VOE(s) or evidence supporting school enrollment or military
- **Manual** - most recent paystub covering a minimum of 30 consecutive days (28 for weekly or biweekly) and previous two years W2s, W2 transcripts or 2 year written VOE. For past employment documentation, can document one of the following: W2(s) or VOE(s) or evidence supporting school enrollment or military

### Part-time Employment (Second Job) – Paystub(s), Two years W2s

- Considered effective income if the borrower has worked a part time job uninterrupted for the past two years and is likely to continue.
- This can also mean, your borrower worked one part time job for a period less than two years, but switched to another part time job to complete a two year history of working two jobs. That combination is still an uninterrupted history.

**Overtime, Bonus and Tips** – requires Paystub, Two years written VOE. Effective Income by using the lesser of:

- the average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus, or Tip Income has been earned; or
- the average Overtime, Bonus, or Tip Income earned over the previous year.

**Commission Income** - requires Paystub, Two years written VOE. Effective Income for commission by using the lesser of:

- the average Commission Income earned over either;

- the previous two years; or
- the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

**Self Employed Income –**

- FHA requires **two years** most recent personal & business returns.
- Self-employment income may be considered between **one and two years** IF the borrower was previously employed in the same line of work or related occupation at least two years
- **Greater than 20% decline** in effective income must be **manually down graded**
- Schedule C requires personal return(s), Profit and Loss required if more than one calendar quarter has elapsed since date of most recent tax return filed. Depreciation, depletion, amortization, casualty losses & business use of home may be added back to gross income
- S Corporation 1120S requires personal return(s), W2(s), 1120S business return(s), K-1(s), Profit and Loss AND Balance Sheet required if more than one calendar quarter has elapsed since date of most recent tax return filed
- Partnership 1065 requires personal return(s), 1065 business return(s), K-1(s), Profit and Loss AND Balance Sheet required if more than one calendar quarter has elapsed since date of most recent tax return filed
- Corporation requires personal returns, W2(s), business return(s), Profit and Loss AND Balance Sheet required if more than one calendar quarter has elapsed since date of most recent tax return filed

**\*\*\*Federal Returns ONLY. The Agencies do not underwrite State returns.**

**Other income Total Scorecard & Manual –**

**Alimony, Child Support, and Maintenance Income**

- Final divorce decree, legal separation agreement, court order or voluntary payment agreement with documented receipt
- 3 months receipt for consistent payments
- Inconsistent payments must be averaged
- 12 months for voluntary payments
- Prove 3 years continuance

**Social Security Income or Supplemental SSI, Social Security disability income**

- Obtain one of the following: Tax returns, most recent bank statement showing receipt of SSI, proof of income letter (Budget or Benefits Letter), OR SSA 1099/1042S Social Security Benefit Statement
- Document continuance with award letter or equivalent document that established award benefits
- IF there is no defined expiration date, we must consider the income effective and likely to continue for SSI (retirement) & supplement SSI
- SSI Disability or Private Disability set to expire within 3 years cannot be used to qualify

**Pension** - Obtain one of the following: Tax returns, most recent bank statement showing receipt or copy of Pension/retirement letter WITH proof will continue at least 3 years

**\*\*\*Non Taxable income requires proof its non taxable income – Most commonly with tax returns. OR if a Google search verifies, can use other proof. When a borrower who only receives non taxable income and does not file tax returns, we must have a letter from the borrower stating they do not file along with a 1040 transcript showing No Record of Return**

**\*\*\*A 1099 alone does NOT prove income is non taxable**