

## VA INCOME DOCS OVERVIEW

### VA Accept/Approve and Refer (manual)

This does not encompass every type of income, but the more common forms of income we see. VA lender handbook can be found @ [http://www.benefits.va.gov/warms/pam26\\_7.asp](http://www.benefits.va.gov/warms/pam26_7.asp); Chapter 4 Credit Underwriting, Section 8 breaks down **Documentation Classification requirements** for both **Refer** (or manual) and **Accept/Approve AUS**. If you ever have a question, our Region is Phoenix and the number is 888-869-0194. VA is vague on many guidelines and it is up to us as a lender to document and back up our decisions.

If you do not need tax returns, OBSOLETE! Less documentation is more. Only require tax returns if the income requires tax returns.

- **W2s** must be issued by employers by January 31<sup>st</sup>
- **K1s** typically issued by March 15<sup>th</sup>
- **Non-taxable income** may be grossed up 125%. This is ONLY for the DTI, not Residual Income. We must subtract the difference between “not grossed up” and “grossed up” income by adding that figure to “other” taxes (Federal, State, SSI) on the VA Loan Analysis
- **SBP Allotments on military Retirement pay** should be deducted from gross income – any deductions that the veteran cannot stop should be deducted. If we can determine the veteran can stop the deduction, it does not need to be deducted from income.
- **12 months on the job** – if the veteran or spouse has not been on the job 12 months, back up a shorter time with training, degrees, previous history in the same line of work to name of few examples
- If we cannot prove income will continue in the foreseeable future, we may offset obligations of 10 to 24 months if reasonable

**\*\*\*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)

- **Most recent paystub** covering a minimum of 30 consecutive days (28 for weekly or biweekly) and previous two years W2s or W2 transcripts.
- **Leave and Earnings Statement (LES)** for Military – If the word “Pay” it attached it’s taxable (Examples -Base pay, flight pay, hazard pay, combat pay)
- **BAH** (Quarters allowance) and **BAS** (Subsistence & Clothing) are always non taxable
- **Other Military Allowance** - (Examples -Base pay, flight pay, hazard pay, combat pay) can only be used to qualify if income is expected to continue
- Identify service members who are **within 12 months of release**
- **No W2** is required for Active Duty IF **AUS is Accept/Approve**. Manual requires W2s.

### Part-time Employment (Second Job)

- Most recent paystub covering a minimum of 30 consecutive days (28 for weekly or biweekly) and previous two years W2s or W2 transcripts.

**Overtime and Bonus** – Requires Two Years – Get written VOE

**Commission Income** – written VOE for two years.

- Commissions less than or equal to 25% of total earnings, may use income documentation described in base pay. No tax returns are required.
- Commission Income greater than 25% of total earnings require tax returns and deduction of any 2106 expense from gross commission income.

**Self Employed Income** –

- VA requires **two years** most recent personal & business returns.
- Schedule C requires personal return(s). 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) if applicable, 1120S business return(s), K-1(s)
- Partnership 1065 requires personal return(s), 1065 business return(s), K-1(s)
- Corporation requires personal returns, W2(s), business return(s)
- Profit & Loss and Balance Sheets are **required if Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income**

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

**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

**Pension or other retirement benefits, Disability income**

- Must determine the income will continue for the foreseeable future. Recommend an award letter or letter from the organization that provides the benefit amount and any termination date, if applicable

**Active Military Borrower's Income** - For active-duty military borrowers, a Leave and Earnings Statement (LES) is required instead of a VOE

In addition, identify service members who are within 12 months of release from active duty or the end of their contract term. For an enlisted service member, find the date of expiration (ETS) of the borrower's current contract for active service on the LES. For National Guard or Reserve members, find the ETS of the borrower's current contract on the LES. Also, if a National Guard or Reserve member is currently serving on active duty, also identify the expiration date of the current active-duty tour. If the date is within 12 months of the projected date that the loan will close, the loan package must also include one of the following items, or combinations of items, to be acceptable:

- documentation that the servicemember has already re-enlisted or extended his/her period of active duty to a date beyond the 12 - month period following the projected closing of the loan, or
- documentation that the servicemember has already re-enlisted or extended his/her period of active-duty service to a date beyond the 12 - month period following the projected closing of the loan, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active - duty service, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- a statement from the servicemember that he/she intends to re-enlist or extend his/her period of active-duty service to a date beyond the 12 - month period, **plus** (1) a statement from the servicemember's commanding officer confirming that the servicemember is eligible to re-enlist or extend his/her active-duty service as indicated, **and** (2) the commanding officer has no reason to believe that such re-enlistment or extension of active-duty service will not be granted, or
- documentation of other unusual strong positive underwriting factors, such as a downpayment of at least 10 percent from the borrower's own assets (not a gift), a minimum of 6 months PITI, in cash, after the downpayment from the borrower's own assets (not a gift) or clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active-duty servicemember is needed to qualify.
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If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

**Example:** An Active Duty Veteran's LES indicates her ETS date listed on her LES is 171031 (October 31, 2017) and the projected date of closing is October 1, 2017. Therefore, one of the above items is needed to verify future income since her ETS date is less than 12 months from the projected date of closing.

**Example:** A member of the Reserves has been called to Active Duty. The ETS date on his LES indicates 181031 (October 31, 2018); however, his active duty orders indicate his active duty tour will not exceed the next 60 days. Therefore, since he will be leaving active duty before 12 months of the projected closing date, the active-duty income cannot be considered, and his civilian employment and drill duty will need to be considered.

**Example:** An Active Duty Veteran's LES indicates his ETS date is less than 1 month from the anticipated date of closing, and he indicates he will be receiving military retirement and has accepted civilian employment. Verify his future retirement income from the Department of Defense and verify future civilian employment with the Veteran's new employer.