

## BOND COMPLIANCE UNDERWRITING

Underwriters should remember that CALCULATION OF PROGRAM (COMPLIANCE) INCOME IS DIFFERENT THAN CALCULATION OF INCOME FOR CREDIT PURPOSES. The Bond program requires that underwriters consider the income of borrowers and their spouses (including a non-borrowing spouse if occupying the property). Use the information below as a general guide. Because each case is different, please contact Bond Compliance if you have questions.

Unlike income that is averaged for credit underwriting, the bond program is concerned with **actual current income**. You should be reviewing the YTD income, the income of the last 4 months and the income shown on previous tax returns for consistency. You should not be averaging income. If there are not inconsistencies in earnings, use the guidelines for each loan type to determine current gross monthly income. **For the tax year in which the closing occurs, consider YTD income.** Then establish current base income for the balance of the year using the guidelines for each type of income. Then consider any additional income. For assistance, contact the Compliance Office.

Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments, continuation of which is probable based on foreseeable economic circumstances based upon the Affidavit of Eligible Borrower (to such effect), all as computed at the time of application for a mortgage loan and confirmed at the time of closing. We will check information with respect to gross monthly income obtained from the reservation form, Underwriter's Certification and applicable certificates and affidavits executed the date of the Closing of the Mortgage Loan, provided that any gross monthly income not included for credit underwriting purposes must be included in determining gross monthly income. Do not include income of co-signors. The Affidavit of Eligible Borrower, executed by the borrower(s), and certified by the lender, must include the total verified annual family income.

**This program considers FAMILY INCOME not just the income of the borrower. Family income includes: the income of all persons who are expected to reside in and have an ownership interest in the Residence and, for purposes of qualifying, be secondarily liable on the mortgage loan. Family income also includes the income of a borrower's spouse if the spouse is occupying the property even if the spouse is a non-borrowing spouse.**

Questions regarding the calculation of income for bond program purposes should be directed to the Compliance office at [services@ehousingplus.com](mailto:services@ehousingplus.com) or 954-217-0817. So that you have an answer in writing we suggest you email your question. Then you can simply print a copy of the response and add to your file. There are many variables and the Compliance office will be pleased to assist.

Information acceptable to FHA and secondary market entities is acceptable Mortgage Lender verification for compliance purposes, provided that such documentation includes the necessary, acceptable income tax returns. The Servicer requires a credit package as indicated on the various loan delivery checklists. However, the Servicer does not re-underwrite the loans for credit purposes.

Although reference is made to VOE's and VOD's in the guidelines below, they are not required if not required by the appropriate Agency. This documentation includes, but may not be limited to, current pay stubs which delineate "current period", W-2's, for all borrowers and all employers, and bank statements to verify assets. If W-2's are present in the loan file, lending personnel should verify that the total of W-2's presented equals the total income shown on borrower's tax returns. If a VOE is in the file, the borrower does not have to provide W-2's unless the underwriter deems this necessary for prudent underwriting. Figures shown on all documents should be consistent.

Because a program qualifier is "income", even if not required for credit purposes (i.e. automated underwriting), you should be seeking the two most current paystubs with YTD. Do not include in the compliance file, keep copies for your records.

**Although reference is made to the last 4 to 6 weeks income, Underwriters should be reviewing the income tax returns submitted to verify that there are no unexplained and/or unacceptable differences in current income to past income.**

**Examples below not intended to serve as exclusive methodology. Please contact the Compliance office 954-217-0817 with questions regarding individual cases. See our online contact directory for email addresses.**

**Please note that the income reported for bond income calculation CAN NEVER BE LOWER THAN THE INCOME USED TO QUALIFY FOR CREDIT PURPOSES.**

### **Hourly Employees**

For the tax year in which the loan is closing, use the Year to Date base income. If consistent, utilize the base to determine the balance of the year or for balance of year.

1. Using last 4 to 6 weeks' pay stubs, identify hourly rate of pay and average number of regular hours worked per week. Multiply hourly rate times regular weekly hours. Multiply result times number of weeks for balance of year and add to YTD for an annualized base salary.

2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.

3. Compare the total annual income in #2 above to available paystubs, VOE's, previous year's income per W2's and tax returns. You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

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### **Salaried Employees**

For the tax year in which the loan is closing, use the Year to Date base income. If consistent, utilize the base to determine the balance of the year or for balance of year.

1. Using last 4 to 6 weeks' pay stubs, identify weekly (or other frequency) rate of pay. Multiply rate times the number of regular pay periods in the year (52 weeks, 12 months, 24 semi-months)
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to available paystubs, VOE's, previous year's income per W2's and tax returns. You should not find significant differences. In some cases, the Current Total Annual Income will be higher than the previous year's income. Variances should be attributable to increases/decreases in pay or number of hours worked.

### **Business, Self Employment**

Use the quarterly tax returns and financial statements to identify the current NET year to date income.

1. Divide the year to date income by the number of months during which it was earned and multiply times remaining number of months in year. Add to actual YTD. **ADD DEPRECIATION.**
2. If the person has no other sources of income (for example: overtime, bonus, commissions, second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
3. Compare the total annual income in #2 above to the previous year's income per W2's and tax returns.

You should not find significant differences.

### **Verified Termination of Overtime, Commission, Bonus, Seasonal, Periodic, One Time Overtime, Bonus, Commissions**

Using last 4 to 6 weeks' pay stubs, identify the year to date total earnings of the borrower. Subtract the Current Total Base Income (see above) to arrive at the total year to date extraordinary income. If verification of termination of overtime, commission or bonus is provided in writing (i.e. a letter from an employer) or such termination is due

to a change of employment, use the current YTD overtime, commission or bonus, do not annualize and add as a lump sum to the Current Total Annual Income.

### **Regular Overtime, Bonus, Commissions**

1. Using last 4 to 6 weeks' pay stubs, identify the year to date total earnings of the borrower. Subtract the Current Total Base Income (see above) to arrive at the total year to date extraordinary income.
2. Divide the year to date extraordinary income by the number of pay periods during which it was earned (to obtain an average). Multiply times the appropriate factor (Balance of year weeks, months, semi- months, etc.) for balance of year figure and add to actual YTD extraordinary income for annual income.
3. If the person has no other sources of income (for example: second jobs, interest, dividends, child support, alimony, public assistance), this will be the Current Total Annual Income.
4. Compare the total annual income in #2 above to available paystubs, VOE's, previous year's income per W2's and tax returns. You should not find significant differences. In most cases, the Current Total Annual Income will be higher than the previous year's income. It will also generally be higher than the annualized year to date income. The variances should be attributable to increases/decreases in pay.

### **Interest, Dividends**

1. Use current earnings statements issued by the bank, investment broker or agent. Identify the year to date interest or dividend earnings. Divide by the investment term year to date (for an average) and multiply times appropriate factor to annualize the earnings.
2. If statements are not available, and the terms of the investment agreement are available, multiply the principal amount of the asset times the annual interest yield factor for a projected interest earnings amount.
3. If neither are available, use the previous year's earnings statements or tax returns to identify total annual interest and dividend income. If the assets are still invested in the same instruments, use the previous year's figure.
4. Add the result of the computation in either #1, #2 or #3 above to the Current Total Annual Income.

### **Alimony, Child Support**

1. Use the monthly amount appearing in the divorce decree, separation agreement or other support document.
2. If the borrower receives more than the amount stipulated in the agreements, use the monthly figure that the borrower declares and can be verified.
3. If the borrower receives less than the amount stipulated in the agreements and there is a verifiable history of the underpayments for at least 2 years (as evidenced by Court records), then use the past 2 years' historical monthly earnings. If there is no such history that can be verified, use the amount stipulated in #1 above.
4. Multiply the monthly amount of alimony or child support times 12. Add to the Current Total Annual Income (plus any other income sources).

### **Pensions, Temporary Payments**

1. Use the benefits statement issued by the benefits provider (pensions, workers compensation, disability compensation, social security, AFDC, etc.) to identify the amount of the benefit, payment frequency and expected term of the benefit.
2. Multiply the amount of the benefit times the payment frequency for the balance of year and add to actual YTD for an annualized amount. Add to the Current Total Annual Income (plus any other income sources).
3. If the benefit is absolutely not payable to the recipient beyond a given date (that means a complete and permanent stop of benefits without extensions, exceptions, waivers or other conditions) and such date is within 12 calendar months of the anticipated closing date, then calculate the benefits expected through the end of the benefits term. That will be the total annual income amount from the specific benefits source. Add to the Current Total Annual Income (plus any other income sources).

Please contact the Compliance Office to discuss rental income from rental properties owned or for boarder income and rent, Please ask questions via email so that you receive a written response that may be retained in your file. The Compliance Office email is [services@ehousingplus.com](mailto:services@ehousingplus.com)