

If the income relates to the borrower's spouse who is employed by another company and the income will be used in qualifying for the mortgage, the spouse's income must be verified directly with their employer since it may be more appropriate to use the spouse's current earnings in underwriting the mortgage. Any income that is based on current earnings or that will not be used for qualifying purposes should be deducted from the borrower's cash flow.

## Interest and Dividend Income

The taxable interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow.

Tax-exempt interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the borrower's cash flow.

## State and Local Tax Refunds

Taxable state and local tax refunds, credits, or offsets of state and local income taxes should not be used as qualifying income since the income was accounted for in the previous year's tax returns. Therefore, the borrower's cash flow must be adjusted accordingly.

## Alimony Received

Alimony may be accepted as qualifying income if it meets the requirements described in [B3-3.1-09, Other Sources of Income](#). Any reported alimony received that is determined to be nonrecurring must be deducted from the borrower's total income reported on IRS Form 1040.

## IRA Distributions, Pensions and Annuities, and Social Security Benefits

Income received from IRA distributions, pensions, annuities, and Social Security benefits may be accepted as qualifying income. See [B3-3.1-09, Other Sources of Income](#), for specific requirements.

The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in [B3-3.1-01, General Income Information](#). If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

## Unemployment Compensation

Unemployment compensation may be considered as acceptable qualifying income if it meets the requirements described in [B3-3.1-09, Other Sources of Income](#). Any reported unemployment compensation that is determined