

# Chapter 5303: Employed Income

## 5303.1: Employed income (06/04/25)

This section contains requirements and guidance related to:

- [Requirements for all employed income](#)
- [Employment history requirements](#)
- [Non-fluctuating employment earnings \(base, entitlements, military reserve, National Guard\)](#)
- [Fluctuating employment earnings \(base fluctuating hourly earnings, additional fluctuating earnings\)](#)
- [Employment/income characteristics – requirements and guidance](#)

### **(a) Requirements for all employed income**

All employed income used for qualifying must meet the requirements and guidance of this chapter and Section 5301.1 for all stable monthly income.

#### **(i) Stability and continuance of income**

The Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this chapter. The Seller must analyze all income documentation while taking into consideration the characteristics of the employed income (e.g., employment source, earnings type, income type and stability of the employment history, including any gaps in employment).

A Borrower who has had different types of employment in the past may be considered to have stable income if the income amount has remained at a consistent level. When evaluating a Borrower who has frequently changed jobs, the Seller must focus on whether the changes have affected the Borrower's ability to pay their obligations.

## **(ii) Primary and secondary employment types**

Primary employment is the primary source of the Borrower's employed income whether derived from employment such as full-time employment, part-time employment, and/or seasonal employment.

Secondary employment is any type of employment (e.g., second part-time job or multiple jobs) that is in addition to the Borrower's primary employment.

## **(b) Employment history requirements**

### **(i) Primary employment**

In most instances, the Borrower should have at least a two-year history of primary employment documented on Form 65, Uniform Residential Loan Application, and verified in accordance with Topic 5300.

For Borrowers who are active-duty members of the U.S. Armed Forces, a history of military employment is not required for the employment to be considered stable.

Tenure with the same employer or in a similar industry lends support to the analysis of employment stability.

When a Borrower has less than a two-year history of primary employment, the Seller must provide its justification for determining that the employment is stable, taking into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the Borrower's demonstrated ability to repay obligations.

Examples that may support less than a two-year history (see minimum history requirements below):

- **Example 1:** For a Borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence

- **Example 2:** For a Borrower new to the workforce, documentation is provided that supports the Borrower's recent attendance at school or in a training program prior to their current employment

**Minimum history requirements for base fluctuating hourly earnings:** For additional minimum history requirements (e.g., 12 months) for base fluctuating hourly earnings, refer to the history requirements in Section 5303.1(d), below.

## **(ii) Secondary employment**

In most instances, the Borrower should have at least a two-year history of secondary employment for the employment to be considered stable. When a Borrower has less than a two-year secondary employment history but has at least a 12-month history, the Seller may be able to justify and determine the employment is stable.

Examples that may support less than a two-year history:

- **Example 1:** The Borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years; however, due to reasons such as position elimination, work force reduction, or illness, the Borrower is no longer employed at this job and now works at multiple part-time jobs that are similar in hours and pay, when combined, to the previous full-time job. Since the Borrower's full-time employment ended 18 months ago, the length of employment at each part-time job is in the range of 13 to 15 months. In this scenario, the Seller may be able to justify an employment history of less than two years for the secondary and additional jobs provided the earnings are consistent and the Borrower has exhibited the ability to repay obligations.
- **Example 2:** The Borrower is employed as a school teacher. During the previous summer, the Borrower taught summer school and is now starting summer school teaching for the current year. Although the two-year history is not yet fully developed, given the job type and current employment situation, the Seller may be able to justify including the summer school income, provided an accurate qualifying amount can be established and documented based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate (e.g., how many classes, how much, is it similar to prior year).

### **(c) Non-fluctuating employment earnings (base, military, additional fixed earnings)**

Requirements for history, continuance, calculation and documentation for non-fluctuating employment earnings are outlined in the tables below. Additional documentation may be required to determine the stable monthly income amount. Refer to Section 5303.1(e) for additional documentation and requirements that may apply based on employment characteristics.

#### **(i) Base non-fluctuating employment earnings**

**Earnings type:** Base non-fluctuating employment earnings are stable and consistent earnings that may be salaried or hourly.

Base non-fluctuating earnings may include:

- Exempt (salaried)
- Military base (basic) pay
- Non-exempt (hourly) earnings. The pay rate and number of hours are reflected on an ongoing consistent basis for each pay period and must be supported by the year-to-date (YTD) income. If the only reason the earnings fluctuate is because of additional employed income (e.g., overtime), the base earnings are still considered non-fluctuating.

#### **(A) Minor fluctuations in hours**

Minor variations in base hours on paystubs (e.g., Borrower clocked out a few minutes early) are acceptable and may be treated as base non-fluctuating earnings when the variation is no more than an hour per week. Minor variations do not automatically render the base earnings as fluctuating if the historical earnings support the level of pay.

**Example:** The pay frequency is weekly. The current YTD paystub shows 39.78 hours while the prior paystub shows 40 hours. The YTD income reasonably supports 40 hours per week of gross pay and the prior year W-2(s) support a similar amount of pay.

#### **(B) Exception for non-exempt earnings: primary employment earnings with minimum required hours**

For Borrowers with primary employment earnings that fluctuate but have a position with a minimum number of required hours, the earnings may be considered non-fluctuating, and the minimum required hours are acceptable to use for gross pay when following requirements are met:

- The Seller must obtain written documentation from the employer confirming the minimum required hours (i.e., written verification of employment (VOE), offer letter or equivalent documentation)
- The documented minimum required hours must be supported by YTD income and prior year, as applicable

Only the minimum required hours may be considered non-fluctuating. The requirements for fluctuating employment earnings apply to any additional hours used to qualify the Borrower.

**Example (minimum required hours):**

The Borrower has been with the current employer as a nurse with a hospital for four months; prior to that, the Borrower was in nursing school. The written VOE verifies the Borrower works three 12-hour shifts each week, which is common for this profession, and the YTD earnings support at least this level of gross pay. Based on this, it is acceptable to consider these the minimum required hours and use 36 hours weekly gross pay for income calculation.

Base non-fluctuating employment earnings – primary and secondary employment	
Topic	Stable monthly income requirements
Employment history	Refer to the employment history requirements in Section 5303.1(b), above.
Continuance	Must be likely to continue for at least the next three years

Base non-fluctuating employment earnings – primary and secondary employment	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> <li>■ <b>Primary employment earnings: base non-fluctuating earnings</b>  <b>All of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> YTD paystub(s) documenting all YTD earnings</li> <li><input type="checkbox"/> W-2 form(s)<sup>1</sup> for the most recent calendar year</li> <li><input type="checkbox"/> 10-day pre-closing verification (10-day PCV)</li> </ul> <b>Or all of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent calendar year</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> </li> <li>■ <b>Secondary employment earnings: base non-fluctuating earnings</b>  <b>All of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> YTD paystub(s) documenting all YTD earnings</li> <li><input type="checkbox"/> W-2 forms<sup>1</sup> for the most recent two calendar years</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> <b>Or all of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> </li> </ul>
Calculation	For all income used to qualify the Borrower, the Seller must determine the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable

Base non-fluctuating employment earnings – primary and secondary employment															
Topic	Stable monthly income requirements														
	<p>monthly income. All documentation in the Mortgage file must support the Seller’s income analysis and calculation.</p> <p>The following table describes the calculation methods the Seller must use to determine stable monthly income for base non-fluctuating employment earnings, taking into consideration the typical pay periods of weekly, bi-weekly, semi-monthly and monthly.</p> <table> <tr> <th colspan="2">Calculation of base non-fluctuating employment earnings</th></tr> <tr> <th>Pay period type</th><th>Calculation</th></tr> <tr> <td>Weekly</td><td>Multiply the weekly gross pay by 52 and divide by 12.</td></tr> <tr> <td>Bi-weekly (every two weeks)</td><td>Multiply the biweekly gross pay by 26 and divide by 12.</td></tr> <tr> <td>Semi-monthly (twice per month)</td><td>Multiply the semi-monthly gross pay by 24 and divide by 12.</td></tr> <tr> <td>Monthly</td><td>Use the monthly gross pay.</td></tr> <tr> <td>Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)</td><td> <p>Divide annual gross pay by 12</p> <p><b>Example:</b> If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.</p> </td></tr> </table>	Calculation of base non-fluctuating employment earnings		Pay period type	Calculation	Weekly	Multiply the weekly gross pay by 52 and divide by 12.	Bi-weekly (every two weeks)	Multiply the biweekly gross pay by 26 and divide by 12.	Semi-monthly (twice per month)	Multiply the semi-monthly gross pay by 24 and divide by 12.	Monthly	Use the monthly gross pay.	Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)	<p>Divide annual gross pay by 12</p> <p><b>Example:</b> If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.</p>
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Annual base non-fluctuating salary paid out over less than 12 months per year (e.g., teachers)	<p>Divide annual gross pay by 12</p> <p><b>Example:</b> If the annual salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.</p>														

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

**(ii) Military earnings (base, entitlements, reserve, National Guard)**

**(A) Military base (basic) pay**

Base non-fluctuating earnings include military base (basic) pay. For members of the U.S. Armed Forces, active-duty pay is considered base non-fluctuating earnings.

<b>Military base (basic) pay</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>Employment history</b>	For Borrowers who are active-duty members of the U.S. Armed Forces, a history of military employment is not required for the employment to be considered stable.
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	YTD Military Leave and Earnings Statement <b>Or all of the following:</b> <ul style="list-style-type: none"><li>■ Written VOE documenting all YTD earnings</li><li>■ 10-day PCV</li></ul>
<b>Calculation</b>	Refer to calculation guidance and requirements for base non-fluctuating employment earnings in Section 5303.1(c)(i), directly above.

**(B) Military entitlements (e.g., flight or hazard duty, rations, clothing allowance or quarters allowance)**



<b>Military entitlements (e.g., flight or hazard duty, rations, clothing allowance or quarters allowance)</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	A history of receipt is not required for the income to be considered stable
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	YTD Military Leave and Earnings Statement <b>Or all of the following:</b> <ul style="list-style-type: none"> <li>■ Written VOE documenting the current monthly fixed entitlement amount(s) and type(s)</li> <li>■ 10-day PCV</li> </ul>
<b>Calculation</b>	Current fixed monthly amount

**(C) Military reserve and National Guard income**

<b>Military reserve and National Guard income</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	One year
<b>Continuance</b>	Must be likely to continue for at least the next three years

<b>Military reserve and National Guard income</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>Documentation</b>	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>■ YTD Military Leave and Earnings Statement</li> <li>■ W-2 form<sup>1</sup> for the most recent calendar year</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>■ Written VOE documenting all YTD earnings and the earnings for the most recent calendar year</li> <li>■ 10-day PCV</li> </ul>
<b>Calculation</b>	12-month average

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end Military Leave and Earnings Statement).

### **(iii) Additional fixed employment earnings (automobile allowance, mortgage differential)**

For the purposes of determining stable monthly income, additional fixed employment earnings are considered to be earnings that are based on a pre-determined and agreed upon fixed amount of pay that is fully documented, such as an automobile allowance or mortgage differential. Generally, additional employment earnings are received in connection with the primary or secondary employment.

For additional fixed employment earnings used to qualify the Borrower, the Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements below for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this section.

#### **(A) Automobile allowance**

<b>Automobile allowance</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	Two years, consecutive
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>■ YTD paystub(s) documenting all YTD earnings</li> <li>■ W-2 forms<sup>1</sup> for the most recent two calendar years</li> <li>■ 10-day PCV</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>■ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years</li> <li>■ 10-day PCV</li> </ul>
<b>Calculation</b>	<p>Add the full amount of the allowance to the qualifying income.</p> <p>Note: The Seller may not subtract the automobile allowance from the monthly automobile financing expense.</p>

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

## **(B) Mortgage differential**

<b>Mortgage differential</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	A history of receipt is not required for the income to be considered stable.
<b>Continuance</b>	Must continue for at least the next three years
<b>Documentation</b>	<p>Agreement from the employer stating the terms including the scheduled amount and duration of the payments.</p> <p>The documentation must show that the payments are pursuant to an established, ongoing and documented employer program. The employer must not be an interested party to the transaction.</p>
<b>Calculation</b>	<p>Payments from the Borrower's employer for all or part of the housing payment differential between the Borrower's present and proposed Mortgage payment may be added to the qualifying income.</p> <p>Note: The payments may not be used to offset the monthly housing payment amount used for qualification.</p>

**(d) Fluctuating employment earnings (Base fluctuating hourly earnings, additional fluctuating earnings)**

Requirements for history, continuance, calculation and documentation for fluctuating employment earnings are outlined in the tables below. Additional documentation may be required to determine the stable monthly income amount. Refer to Section 5303.1(e) for additional documentation and requirements that may apply based on employment characteristics.

**(i) Base fluctuating hourly employment earnings**

**Earnings type:** Base fluctuating hourly employment earnings are not pre-determined and may fluctuate each pay period.

- **Example 1:** The pay frequency is weekly. The current YTD paystub shows 37 hours. The prior pay period YTD paystub shows 31 hours. This is typically an indication that the base hours fluctuate.
- **Example 2:** The pay frequency is weekly. The paystub shows 37 hours at a pay rate of \$30 per hour and reflects six months of YTD income. If the Borrower's paystub shows 37 hours every week, the YTD earnings are approximately \$28,860. However, the YTD base earnings on the paystub are \$20,240. This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise.

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
Employment history	<p>Refer to employment history requirements in Section 5303.1(b), above.</p> <p>In addition, when the Borrower's employed income is derived from base fluctuating hourly employment earnings, the Borrower must have at least a 12-month history of employment. The required minimum 12-month history must be derived from one of the following:</p> <ul style="list-style-type: none"><li>■ The Borrower's current fluctuating hourly employment</li><li>■ A combination of current and prior fluctuating hourly employment</li><li>■ A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on trend analysis described in this table in the row labeled "calculation method and trend analysis for consistent and increasing income trends" below.</li></ul>
Continuance	Must be likely to continue for at least the next three years

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
Documentation	<ul style="list-style-type: none"> <li>■ <b>Primary employment earnings: Base fluctuating hourly earnings</b>  <b>All of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> YTD paystub(s) documenting all YTD earnings</li> <li><input type="checkbox"/> W-2 form(s)<sup>1</sup> for the most recent calendar year</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> <b>Or all of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> VOE documenting all YTD earnings and the earnings for the most recent calendar year</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> </li> <li>■ <b>Secondary employment earnings: Base fluctuating hourly earnings</b>  <b>All of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> YTD paystub(s) documenting all YTD earnings</li> <li><input type="checkbox"/> W-2 forms<sup>1</sup> for the most recent two calendar years</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> <b>Or all of the following:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years</li> <li><input type="checkbox"/> 10-day PCV</li> </ul> </li> </ul>

Base fluctuating hourly employment earnings											
Topic	Stable monthly income requirements										
General requirements for calculating income	<p><b>When calculating qualifying income, the Seller must:</b></p> <ul style="list-style-type: none"><li>■ Determine and consider the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income</li><li>■ Determine if the income trend is consistent, increasing or declining by comparing the YTD income to prior year(s) income and taking into consideration the length of receipt and degree of fluctuation</li><li>■ Evaluate the income trend and use the amount that is most likely to continue for the next three years</li><li>■ Ensure that all documentation in the Mortgage file supports the Seller’s income analysis and calculation</li></ul>										
Calculation method and trend analysis for consistent and increasing income trends	<p><b>Calculation method: consistent and increasing income trends</b></p> <p>The Seller must average the most recent year(s) and YTD income. The amount of time averaged should be determined based on the requirements for history, documentation and other applicable factors such as time at the current employer, prior employment and consistency of the earnings level.</p> <p>Note: If the increasing income is due to a pay raise, the Seller may use the calculation method as described in this table in the row labeled “pay raises” below.</p> <p><b>Calculation examples for primary employment:</b></p> <table><tr><th colspan="4">Example 1: Current employer five years</th></tr><tr><th>Employment history</th><th>Documentation and</th><th>Degree of</th><th>Calculation</th></tr></table>			Example 1: Current employer five years				Employment history	Documentation and	Degree of	Calculation
Example 1: Current employer five years											
Employment history	Documentation and	Degree of	Calculation								

Base fluctuating hourly employment earnings				
Topic	Stable monthly income requirements			
		<b>base earnings amount</b>	<b>fluctuation</b>	
	<b>Current employer:</b> Five years	May 31 <sup>st</sup> YTD paystub YTD base: \$24,200  Prior year W-2 \$55,000 <sup>1</sup>	5.6%  Consistent	Average 17 months (YTD + prior year)
	<sup>1</sup> If W-2s from the most recent two years are in the Mortgage file, only the most recent YTD and prior year earnings must be included in the average if the income is reasonably stable.			
	<b>Example 2: Recent or frequent job changes</b>			
	<b>Employment history</b>	<b>Documentation and base earnings amount</b>	<b>Degree of fluctuation</b>	<b>Calculation</b>
<b>Current employer:</b> Three months	March 31 <sup>st</sup> YTD paystub YTD average: <b>\$5,000/month</b>	25%  Increasing <sup>1</sup>		Average 15 months (YTD + prior year)
<b>Previous employers:</b> Three employers in most recent 12 months; similar job types and industry	Three W-2s from previous employers W-2 combined average: <b>\$4,000/month</b>			



Base fluctuating hourly employment earnings												
Topic	Stable monthly income requirements											
	<div><div><sup>1</sup> Trend analysis must be completed.</div><div><b>Exception:</b> The Seller may average using less than the most recent year(s) and YTD income if the income is supported by the employment history, historical earnings and documentation. This depends on individual circumstances, and the level of income must reasonably be expected to continue and represent stable monthly income.</div><div><b>Calculation examples for exception</b></div><div><table><tr><th colspan="3">Example 1: Current employer less than two years (likely fits within exception)</th></tr><tr><th>Employment History</th><th>Degree of fluctuation</th><th>Exception calculation</th></tr><tr><td><b>Current employment:</b> 10 months</td><td rowspan="2">4%  Consistent (reasonable based on job type and industry)</td><td rowspan="2">Average 10 months (current employment)</td></tr><tr><td><b>Previous employment:</b> Two years Similar job type and/or industry</td></tr></table></div><div><b>Example 2: Current employer less than two years (likely does not fit within exception)</b></div></div>		Example 1: Current employer less than two years (likely fits within exception)			Employment History	Degree of fluctuation	Exception calculation	<b>Current employment:</b> 10 months	4%  Consistent (reasonable based on job type and industry)	Average 10 months (current employment)	<b>Previous employment:</b> Two years Similar job type and/or industry
Example 1: Current employer less than two years (likely fits within exception)												
Employment History	Degree of fluctuation	Exception calculation										
<b>Current employment:</b> 10 months	4%  Consistent (reasonable based on job type and industry)	Average 10 months (current employment)										
<b>Previous employment:</b> Two years Similar job type and/or industry												

Base fluctuating hourly employment earnings				
Topic	Stable monthly income requirements			
	Employment history	Base earnings amount	Degree of fluctuation	Exception calculation
	Current employment: Five months	YTD average: \$2,500/month	67%  Increasing	N/A  Example likely does not fit within exception due to employment history and historical earnings
	Previous employment: Two years Two employers Similar job type and/or industry	W-2 combined average: \$1,500/month		
	<b>Trend analysis: consistent and increasing income trends:</b>  ■ <b>Degree of fluctuation ≤ 10%</b> Income trend is considered consistent. No additional analysis or documentation is required when calculating the qualifying income.  ■ <b>Degree of fluctuation &gt; 10% – ≤ 30%</b> No additional analysis or documentation is required when the increase is supported by the verification of pay raise described in this table in the row labeled “pay raises,” below, and/or the documented income breakdown described in the row labeled “documented income breakdown” in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), below.			

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	<p>Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <p>■ <b>Degree of fluctuation &gt; 30%</b></p> <p>Additional analysis is required, and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <p>When using an average with the YTD and most recent year, the degree of fluctuation is based on the increase between the YTD and the prior year</p> <p>When using an average with the YTD and the prior two years, the degree of fluctuation is based on the increase between the YTD and the prior two years</p>
Pay raises	<p><b>Verification of pay raises and using pay increase in calculation of income</b></p> <p>Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the application of the new pay rate to the average hours for the prior year and YTD.</p> <p>While documentation to verify pay raises is not always required, it may be used to support a higher amount of qualifying income and/or support fluctuating hourly earnings when the degree of fluctuation exceeds 10%.</p> <p><b>Verification method:</b> Use employed income documentation outlined in Chapter 5302, such as written VOEs and paystubs. Paystubs from the current or prior year that show the new and old rates of pay when the raise occurred and/or year-end paystubs will likely be necessary to</p>

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	<p>complete this verification.</p> <p><b>Calculation method</b></p> <p>For consistent and increasing income trends, use one of the options below:</p> <ul style="list-style-type: none"> <li>■ <b>Option 1:</b> Average the most recent year(s) and YTD income, as described in this table in the row labeled “calculation method and trend analysis for consistent and increasing income trends” above</li> <li>■ <b>Option 2:</b> Apply the current pay rate to the average number of hours during the prior year and the current year, provided the hours during the prior year and the current year are consistent or increasing, and documented</li> </ul>
<b>Calculation: Excluding time periods based on a specific event unlikely to recur</b>	<p><b>Calculation: Excluding time periods based on a specific event unlikely to recur</b></p> <p>In certain instances, income may be calculated using a shorter time period; however, the Seller must provide a written justification and/or documentation supporting the months used in the calculation. When excluding a time period based on a specific event that is unlikely to recur, at least 12 months of stable monthly income must still be used in the calculation. These 12 months do not need to be consecutive (i.e., the period impacted by the non-recurring event can be excluded).</p> <p><b>Example:</b></p> <p>The Borrower has a 10-year employment history as a restaurant manager. The June 2025 YTD paystub, 2024 W-2 and 2023 W-2 have been provided.</p> <p>While the June 2025 YTD paystub and 2023 W-2 earnings support approximately \$60,000 in base earnings per year, the 2024 W-2 earnings are low at \$30,000.</p> <p>Documentation in the file verifies that the restaurant was closed for renovations from April</p>

Base fluctuating hourly employment earnings	
Topic	Stable monthly income requirements
	through September of 2024, which supports a justifiable one-time event and the resulting reduced earnings, so it is reasonable to exclude the 2024 earnings from the calculation and average the 2025 YTD and 2023 earnings over 18 months or take the 2024 earnings for 6 months and 2025 YTD earnings of 6 months to get an average across 12 earning months (ignoring the specific event).
<b>Calculation method and trend analysis for declining trend</b>	<p><b>Calculation method and trend analysis: declining trend</b></p> <p>The Seller must use the YTD income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the Borrower from working or earning full income for a period of time and evidence that the Borrower is back to the income amount that was previously earned.</p> <p>If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the Seller must conduct further analysis, and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized.</p>

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

## (ii) Additional fluctuating employment earnings (e.g., bonus, commission, overtime, tips, unemployment)

For the purposes of determining stable monthly income, additional fluctuating employment earnings are considered to be earnings that fluctuate on a regular basis, often based on factors such as hours, job type and performance. Fluctuating earnings may include, but are not limited to, income types such as commissions, overtime, bonus, tips, and unemployment compensation associated with seasonal employment. For additional fluctuating employment earnings to qualify the Borrower, the Seller must determine that the amount of income used to qualify the Borrower is stable and complies with the requirements below for each income type. All income must be expected to continue or have documented continuance for at least three years as described in this section.

## Income history and stability – requirements and guidance

The stability of fluctuating income is primarily determined based on historical earnings, so it is imperative that a sufficient income history has been established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability. When making this determination, the Seller must take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the Borrower's demonstrated ability to repay obligations. The income history must be at least 12 months.

### (A) Bonus, commission, overtime, tips (reported by the employer)

Bonus, commission, overtime, tips (reported by the employer)	
Topic	Stable monthly income requirements
History of receipt	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
Continuance	Must be likely to continue for at least the next three years
Documentation	<b>All of the following:</b> <ul style="list-style-type: none"><li>■ YTD paystub(s) documenting all YTD earnings</li><li>■ W-2 forms<sup>1</sup> for the most recent two calendar years</li><li>■ 10-day PCV</li></ul> <b>Or all of the following:</b> <ul style="list-style-type: none"><li>■ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar</li></ul>

<b>Bonus, commission, overtime, tips (reported by the employer)</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
	<p>years</p> <ul style="list-style-type: none"> <li>■ 10-day PCV</li> </ul>
<b>General requirements for calculating income</b>	<p><b>When calculating qualifying income, the Seller must:</b></p> <ul style="list-style-type: none"> <li>■ Determine and consider the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income</li> <li>■ Determine if the income trend is consistent, increasing or declining by comparing the YTD income to prior year(s) income and taking into consideration the length of receipt and degree of fluctuation</li> <li>■ Evaluate the income trend and use the amount that is most likely to continue for the next three years</li> <li>■ Ensure that all documentation in the Mortgage file supports the Seller's income analysis and calculation</li> </ul> <p><b>Example (pay frequency):</b> The Borrower received an annual bonus in February in both the prior year and current year as evidenced by the written VOE dated in March of the current year. The bonus amounts are consistent based on the income trend analysis. Because the bonus is paid on an annual basis, the amounts received in the current and prior year must be averaged over a 2-year period. It is inaccurate to average the prior year and YTD number of months on the income documentation (e.g., 15-month average).</p>
<b>Calculation method and trend analysis</b>	<p><b>Calculation method: consistent and increasing trends</b></p> <p>The Seller must average the most recent years and YTD income over the applicable number of months of required history and documentation.</p>

<b>Bonus, commission, overtime, tips (reported by the employer)</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>for consistent and increasing income trends</b>	<p><b>Trend analysis: consistent and increasing trends</b></p> <p>Refer to the row labeled “Calculation method and trend analysis for consistent and increasing income trends” in the table for base fluctuating hourly earnings type in Section 5303.1(d)(i), above.</p>
<b>Calculation: Excluding time periods based on a specific event unlikely to recur</b>	<p><b>Calculation: Excluding time periods based on a specific event unlikely to recur</b></p> <p>In certain instances, income may be calculated using a shorter time period; however, the Seller must provide a written justification and/or documentation supporting the months used in the calculation. When excluding a time period based on a specific event that is unlikely to recur, at least 12 months of stable monthly income must still be used in the calculation. These 12 months do not need to be consecutive (i.e., the period impacted by the non-recurring event can be excluded).</p> <p><b>Example:</b></p> <p>The Borrower has a 10-year employment history as a server earning tips. The June 2025 YTD paystub, 2024 W-2 and 2023 W-2 have been provided.</p> <p>While the June 2025 YTD paystub and 2024 W-2 earnings support approximately \$60,000 in tip income per year, the 2023 W-2 earnings appear low at \$30,000.</p> <p>Documentation in the file verifies that the restaurant was closed for renovations from April through September of 2023, which supports the reduced tip income, so it is reasonable to exclude the 2023 earnings from the calculation and average the most recent 18 months of income.</p>
<b>Documented income breakdown</b>	<p><b>Documented income breakdown (e.g., bonus, overtime, commissions)</b></p> <p>A documented breakdown between the base non-fluctuating earnings or base fluctuating hourly earnings and the additional fluctuating employment earnings (e.g., bonus, overtime, commission,</p>



<b>Bonus, commission, overtime, tips (reported by the employer)</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
	<p>tips) ensures the most accurate analysis and calculation of stable monthly income.</p> <p>While a documented breakdown is not always required, one may be used to support a higher amount of qualifying income, verify bonus pay frequency, and/or support fluctuating income when the degree of fluctuation exceeds 10%.</p> <p><b>Verification method:</b> Use employed income documentation outlined in Chapter 5302 such as written VOEs and/or year-end and current YTD paystubs that show the breakdown between the earnings type and additional employment earnings (e.g., overtime, bonus, commissions).</p>
<b>Calculation method and trend analysis for declining trends</b>	<p><b>Calculation method and trend analysis: declining trend</b></p> <p>Refer to the row labeled “Calculation method and trend analysis for declining trends” in the table for base fluctuating hourly earnings type in Section 5303.1(d)(i), above.</p>

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

**(B) Tip income – cash and charge tips reported on Internal Revenue Service (IRS) Form 4137**

<b>Tip income – Cash and charge tips reported on IRS Form 4137</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	The Mortgage file must contain all of the following: <ul style="list-style-type: none"><li>■ IRS Form 4137 for the most recent two years</li><li>■ Complete federal individual income tax returns covering the most recent two-year period</li><li>■ 10-day PCV</li></ul>
<b>Calculation</b>	Refer to requirements for calculating income in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), above.

**(C) Unemployment compensation associated with seasonal employment**

<b>Unemployment compensation associated with seasonal employment</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	Proof of receipt of unemployment compensation for the most recent two-year period (e.g., IRS Form 1099-G(s) and/or equivalent documentation)
<b>Calculation</b>	Refer to requirements for calculating income in the table for bonus, commission, overtime and tips in Section 5303.1(d)(ii)(A), above.

**(D) Restricted stock (RS) and restricted stock units (RSUs)**

**(I) RS and RSU subject to performance- based vesting provisions**

Performance-based RS and RSU are RS or RSU with a vesting schedule contingent on corporate and/or individual performance.

<b>RS and RSU subject to performance-based vesting provisions</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
<b>History of receipt</b>	<ul style="list-style-type: none"> <li>■ Two years, consecutive Exception: A history of less than two years, but not less than one year, may be acceptable. Refer to income history and stability requirements and guidance in Section 5303.1(d)(ii), above.</li> <li>■ To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction</li> </ul>
<b>Continuance</b>	Must be likely to continue for at least the next three years
<b>Documentation</b>	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>■ YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU</li> <li>■ W-2 forms<sup>1</sup> for the most recent two calendar years</li> <li>■ 10-day PCV</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>■ Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years</li> <li>■ 10-day PCV</li> </ul> <p>Employment and income verifications obtained through a third-party verification service provider as described in Section 5302.3 are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.</p> <p><b>The Mortgage file must also include the following additional documentation:</b></p>

<b>RS and RSU subject to performance-based vesting provisions</b>	
<b>Topic</b>	<b>Stable monthly income requirements</b>
	<ul style="list-style-type: none"> <li>■ Evidence the stock is publicly traded</li> <li>■ Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU agreement, offer letter)</li> <li>■ Vesting schedule(s) currently in effect detailing past and future vesting</li> <li>■ Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax)</li> <li>■ Documentation of the 200-day simple moving average stock price</li> </ul>
<b>Calculation</b>	<p>Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</p> <ul style="list-style-type: none"> <li> <b>■ RS or RSU distributed as shares</b> <p>Multiply the documented 200-day simple moving average stock price by the total number of vested shares distributed (pre-tax) to the Borrower in the past two years, then divide by 24.</p> <p><b>Example:</b> If 200 vested shares were distributed (pre-tax) in the past two years and the documented 200-day simple moving average stock price is \$10, multiply 200 x \$10 then divide by 24= \$83.33 monthly income.</p> </li> <li> <b>■ RS or RSU distributed as cash equivalent</b> <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.</p> </li> </ul>

RS and RSU subject to performance-based vesting provisions	
Topic	Stable monthly income requirements
	<p><b>Exception:</b> If the Borrower has not received the RS or RSU income from their current employer for a full 24 months, the Seller may calculate the monthly income using the actual number of months received if supported by a written analysis and documented compensating factors (e.g., a history of receipt of RS or RSU income for the previous five years from a prior employer). In all cases, the Borrower must have a minimum history of receipt of 12 months with their current employer, as specified above, and the calculated monthly income used for qualifying may not be based on less than 12 months.</p>

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

## (II) RS and RSU subject to time-based vesting provisions

Time-based RS and RSU are RS or RSU with a pre-determined vesting schedule contingent only on the Borrower's continued employment.

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
<b>History of receipt</b>	<ul style="list-style-type: none"> <li>■ One year</li> <li>■ To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction</li> </ul>
<b>Continuance</b>	Recurring awards must be likely to continue for at least the next three years.

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
	Nonrecurring awards (e.g., a one-time award) must have at least three years' vesting and distribution remaining on the vesting schedule.
Documentation	<p><b>All of the following:</b></p> <ul style="list-style-type: none"> <li>■ YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU</li> <li>■ W-2 form<sup>1</sup> for the most recent calendar year</li> <li>■ 10-day PCV</li> </ul> <p><b>Or all of the following:</b></p> <ul style="list-style-type: none"> <li>■ Written VOE documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent calendar year</li> <li>■ 10-day PCV</li> </ul> <p>Employment and income verifications obtained through a third-party verification service provider as described in Section 5302.3 are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.</p> <p><b>The Mortgage file must also include the following additional documentation:</b></p> <ul style="list-style-type: none"> <li>■ Evidence the stock is publicly traded</li> <li>■ Documentation verifying that the vesting provisions are time-based (e.g., RS and/or RSU agreement, offer letter)</li> <li>■ Vesting schedule(s) currently in effect detailing past and future vesting</li> <li>■ Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its</li> </ul>

RS and RSU subject to time-based vesting provisions	
Topic	Stable monthly income requirements
	<p>cash equivalent distributed to the Borrower (pre-tax)</p> <ul style="list-style-type: none"> <li>■ Documentation of the 200-day simple moving average stock price</li> </ul>
Calculation	<p>Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</p> <ul style="list-style-type: none"> <li>■ <b>RS or RSU distributed as shares</b> <p>Multiply the documented 200-day simple moving average stock price by the number of vested shares distributed (pre-tax) to the Borrower in the past year, then divide by 12.</p> <p><b>Example:</b> If 50 vested shares were distributed (pre-tax) in the past year and the documented 200-day simple moving average stock price is \$10, multiply 50 x \$10 then divide by 12 = \$41.67 monthly income.</p> </li> <li>■ <b>RS or RSU distributed as cash equivalent</b> <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.</p> </li> </ul>

<sup>1</sup> Refer to Section 5302.2(b) for W-2 form requirements and documentation that may be used in lieu of a W-2 form (e.g., year-end YTD paystub).

### (e) Employment/income characteristics requirements and guidance

For all employment and/or income characteristics below, the Seller must determine whether the employment and/or income represents primary or secondary employment and/or income and use the applicable requirements for history, continuance, earnings type, documentation and calculation in this chapter and in conjunction with Chapters 5301 and 5302, unless specifically stated otherwise. For certain employment and/or income characteristics, additional documentation and/or analysis may be needed, as described below.



Employment/income characteristics		Additional requirements
<b>Full-time and part-time employment</b>	Full-time and part-time employment may be either primary or secondary employment, and may consist of base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.	None
<b>Seasonal employment</b>	Seasonal employment may be primary employment (e.g., highway construction and road work in colder regions) or secondary employment (e.g., educators teaching summer school). The earnings may include base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.	<p>When using unemployment income associated with the seasonal employment as stable monthly income:</p> <ul style="list-style-type: none"> <li>■ A documented two-year history of seasonal employment and income receipt is required, and</li> <li>■ The requirements for unemployment income associated with seasonal employment in Section 5303.1(d)(ii)(C) must be met</li> </ul>

Employment/income characteristics		Additional requirements
<b>Union members</b>	<p>Certain union members may work in industries where they may switch employers frequently and the union facilitates the next position. In that case, the Borrower may have multiple YTD paystubs and W-2s, all of which can be used for the verification and calculation of stable monthly income.</p> <p>The Borrower's earnings may be comprised of base non-fluctuating earnings, base fluctuating hourly earnings and/or additional employment earnings.</p> <p>A Borrower may exhibit a stable and consistent employment and income history, regardless of the number of employers.</p> <p>The Borrower may or may not be in between employers at the time of closing.</p> <p>If the Seller determines that the Borrower's employment and income history is stable and it is documented that the Borrower has multiple jobs as described above, it may be acceptable to obtain the 10-day PCV (refer to Section 5302.2(d)) from the union. The Seller must make this determination based on a review of all employment</p>	None

Employment/income characteristics		Additional requirements
	and income characteristics.	
<b>Borrower employed by a family member or by the property seller, real estate broker or other interested party to the transaction</b>	When a Borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length employment, additional third-party validation supporting the current income level is necessary.	Complete signed federal individual income tax return or IRS wage and income transcripts for the most recent year. This documentation must validate the prior year earnings from current employment and support the current income level. If the current income level is not supported, the Seller may use the validated income amount from the prior year as qualifying income.
<b>Employed income from a foreign source</b>	When a Borrower receives employed income from a foreign source, the income may be considered for qualifying income if the income is reported on the Borrower's U.S. federal individual income tax return for the most recent year, in addition to meeting the requirements in this chapter.  Refer to Chapter 5305 for all other non-employment/non-self-employment income from a foreign source.	Complete signed U.S. federal individual income tax return for the most recent year

Employment/income characteristics		Additional requirements
Employment contracts	<p><b>Employment contracts in the educational industry:</b></p> <p>It is common for Borrowers who work in the educational industry, such as teachers, to be employed under renewable or term employment contracts.</p> <p>For the educational field, if the Borrower provides an annually renewable or term contract, it is reasonable to consider continuance of receipt, provided the Seller does not have knowledge or documentation to the contrary.</p>	None
	<p><b>Employment contracts in other industries:</b></p> <p>If an employment contract is provided, it may be considered for the purposes of determining stable monthly income.</p> <p>When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as the following:</p> <ul style="list-style-type: none"> <li>■ Whether employment contracts are reasonably common to the particular employment field and/or</li> </ul>	A documented two-year history of income and employment in the same or a similar employment field or industry when the terms of the employment contract do not include a base non-fluctuating pay structure

Employment/income characteristics		Additional requirements
	<p>region</p> <ul style="list-style-type: none"> <li>■ The pay structure outlined within the terms of the contract</li> <li>■ Whether the Borrower has demonstrated the ability to maintain consistent employment and income with this form or a similar form of pay structure over the most recent two years</li> </ul>	
<b>Temporary help services employment</b>	<p>Some contract firms and temporary staffing firms contract out the services of their employees to other employers.</p> <p>When making the determination of employment history, income stability and the monthly income amount, the Seller must take into consideration factors such as whether the Borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure over the most recent two-year period.</p>	W-2 forms from the contract and/or temporary staffing firm for the most recent two-year period
<b>Income reported on IRS Form 1099 for services performed</b>	At times, Borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.	<p><b>Minimum documentation – all of the following:</b></p> <ul style="list-style-type: none"> <li>■ All IRS Form 1099s for services performed for the most recent two-year period, and</li> <li>■ YTD paystubs and/or other equivalent and reasonably reliable third-party documentation (e.g., YTD</li> </ul>

Employment/income characteristics		Additional requirements		
	<p>Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. The Seller must treat this income as either:</p> <ul style="list-style-type: none"><li>■ Self-employed income in accordance with the requirements and guidance in Chapter 5304,</li></ul> <p>OR</p> <ul style="list-style-type: none"><li>■ Non-self-employed income in accordance with the requirements in this section if the IRS Schedule C from the most recent calendar year tax return evidences all of the following:</li></ul> <ul style="list-style-type: none"><li>❑ Gross receipts or sales = total amount(s) reported on the IRS Form 1099(s)</li><li>❑ Total expenses are &lt; 5% of gross receipts or sales, after deducting non-cash expenses (e.g., depreciation)</li><li>❑ Cost of goods sold = \$0</li><li>❑ 12-month history of 1099 income and reported expenses is present</li></ul> <p>Exception: If the above expense factor is not met but expenses are within a</p>	<p>earnings statements or evidence of payments for services performed) documenting YTD income received by the Borrower</p> <ul style="list-style-type: none"><li>■ Pages 1 and 2 of the Borrower’s federal individual income tax returns, and the applicable schedules (i.e., Schedule C, Schedule 1), covering the most recent one-year period</li></ul> <p><b>History of receipt:</b> Most recent two years; however, in certain instances, a shorter history of income with this pay structure may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., a prior history of employment earnings at a similar level). In no event may the history of receipt for this pay structure documented on the tax returns be less than 12 months.</p> <p><b>Continuance:</b> Must be likely to continue for at least the next three years</p> <p><b>Calculation:</b> Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements of Section 5301.1(c). The 1099 income must be reduced by the expenses (excluding non-cash items) reported on Schedule C. Apply an average of the verified expenses to the 1099 income without verified expenses.</p> <table><tr><th>Calculation example</th></tr><tr><td><b>Scenario:</b> Borrower has an 18-month history of</td></tr></table>	Calculation example	<b>Scenario:</b> Borrower has an 18-month history of
Calculation example				
<b>Scenario:</b> Borrower has an 18-month history of				

Employment/income characteristics		Additional requirements	
	<p>close range (e.g., 6%), the Seller may perform additional analysis to determine whether income reported on Schedule C remains characteristic of non-self-employed income. Factors the Seller may consider when making this determination include, but are not limited to:</p> <ul style="list-style-type: none"> <li>■ The principal business or profession,</li> <li>■ Gross receipts or sales,</li> <li>■ Cost of goods sold, and</li> <li>■ The type and level of expenses reported</li> </ul> <p>If the Seller determines that the Borrower is a sole proprietor, refer to the self-employed income requirements and guidance in Chapter 5304.</p>	documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for 5 years with similar income level and employment field.	
		1099(s) reported as gross receipts/sales:	(+) \$100,000
		<b>Less:</b> Schedule C Expenses (less non-cash expenses)	(-) \$4,000 (4%)
		<b>Subtotal</b> ( <i>most recent year Schedule C</i> )	\$96,000
		Verified YTD 1099 income (6 months):	(+) \$50,000
		<b>Less:</b> 4% expense rate (based on most recent year Schedule C)	(-) \$2,000 (4%)
		<b>Subtotal</b> ( <i>Current YTD</i> )	\$48,000
		<b>Income calculation:</b> \$144,000 ( <i>combined subtotals</i> ) / 18 months	\$8,000/month
		<b>Stable monthly income:</b> The Seller must determine if more information and/or documentation is needed to support and justify the stable monthly income based on	

Employment/income characteristics		Additional requirements
		<p>the individual circumstances.</p> <p><b>Pre-closing verification:</b> Sellers are encouraged to complete a pre-closing verification confirming that the Borrower continues to perform services for the provider(s) of the 1099 income as close to the Note Date as possible.</p>
<p><b>Borrowers with business ownership interest(s) less than 25%</b></p>	<p>For use of ordinary income (loss) or guaranteed payments for services reported on IRS Schedule K-1 as stable monthly qualifying income, the Seller must meet either:</p> <ul style="list-style-type: none"> <li>■ The self-employed requirements in Chapter 5304, or</li> <li>■ All requirements in this section in conjunction with the general requirements and guidance in Section 5301.1 and Chapter 5302</li> </ul> <p>The Borrower should not have an ownership interest of 25% or more in any business.</p> <p>When using ordinary business income for qualification, the historical cash distributions must be reasonably consistent with the ordinary business income reported on the K-1s.</p> <p>Note: For use of W-2 income, the Seller must meet the requirements of this chapter or Chapter 5304 for self-</p>	<p><b>Schedule K-1 income from partnerships and S corporations</b></p> <p><b>Minimum documentation – all of the following:</b></p> <ul style="list-style-type: none"> <li>■ Schedule K-1s for the most recent two calendar years for partnerships and S corporations</li> <li>■ Documentation of all YTD income must be obtained if available (e.g., most recent YTD paystub or equivalent). If YTD information is not attainable (e.g., due to year-end payment structures), the Seller may document and justify the income stability without this information.</li> <li>■ The Schedule K-1(s) must evidence less than 25% ownership interest for the individual Borrower</li> <li>■ Verification of current existence of business in accordance with Section 5304.1(g)</li> </ul> <p><b>History of receipt:</b></p> <ul style="list-style-type: none"> <li>■ <b>Ordinary business income:</b> Most recent two years</li> <li>■ <b>Guaranteed payments for services:</b> Most recent two years; however, in certain instances, a shorter history may still be considered stable if the Seller provides a</li> </ul>



Employment/income characteristics		Additional requirements
	employed income; the additional requirements in this row do not apply.	<p>written analysis and sufficient supporting documentation justifying the determination of stability (e.g., recently changed from an employee of the same firm to a partner with a nominal ownership interest). In no event may the history be less than 12 months.</p> <p><b>Continuance:</b> Must be likely to continue for at least the next three years</p> <p><b>Calculation:</b> Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements of Section 5301.1(c).</p> <p><b>Stable monthly income:</b> The Seller must determine if more information and/or documentation is needed to support and justify the stable monthly income based on the individual circumstances.</p>

## 5303.2: Income commencing after the Note Date (10/02/24)

For Borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income if either all requirements for option one, or all requirements for option two in the following table are met.

Topic	Option one	Option two
<b>Eligible employment and income</b>	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> <li>Income must be from new primary</li> </ul>	<p>Employment and income must meet the following requirements:</p> <ul style="list-style-type: none"> <li>Income must be from new primary employment</li> <li>Income must be non-fluctuating and salaried (e.g., hourly</li> </ul>

Topic	Option one	Option two
	<p>employment or a future salary increase with the current primary employer</p> <ul style="list-style-type: none"> <li>■ Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and</li> <li>■ The employer must not be a family member or an interested party to the real estate or Mortgage transaction</li> </ul>	<p>earnings are not permitted)</p> <ul style="list-style-type: none"> <li>■ The employer must not be a family member or an interested party to the real estate or Mortgage transaction</li> <li>■ As of the Delivery Date, the income must be no less than that used to qualify the Borrower for the Mortgage</li> </ul>
<b>Start date of the new employment or future salary increase, as applicable</b>	<ul style="list-style-type: none"> <li>■ Must be no later than 90 days after the Note Date</li> <li>■ May be before or after the Delivery Date</li> </ul>	<ul style="list-style-type: none"> <li>■ No limit on the number of days after the Note Date</li> <li>■ Must be before the Delivery Date</li> </ul>
<b>Eligible Mortgage purpose</b>	<ul style="list-style-type: none"> <li>■ Purchase transaction</li> <li>■ “No cash-out” refinance</li> </ul>	<ul style="list-style-type: none"> <li>■ Purchase transaction</li> <li>■ “No cash-out” refinance</li> <li>■ Cash-out refinance</li> </ul>
<b>Eligible Mortgaged Premises</b>	1-unit Primary Residence	<ul style="list-style-type: none"> <li>■ 1- to 4-unit Primary Residence</li> <li>■ Second home</li> <li>■ 1- to 4-unit Investment Property</li> </ul>

Topic	Option one	Option two
<b>Verification of additional funds</b>	<ul style="list-style-type: none"> <li>■ In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in Section 5401.1, and other monthly liabilities, as described in Section 5401.2, multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month.  A partial month is counted as one month for the purpose of this calculation.</li> <li>■ The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.</li> </ul>	<p>The following requirements apply when there are more than 15 calendar days between the Note Date and the start date of the new employment:</p> <ul style="list-style-type: none"> <li>■ In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in Section 5401.1, and other monthly liabilities, as described in Section 5401.2, multiplied by the number of months between the Note Date and the start date of the new employment, plus one additional month.  A partial month is counted as one month for the purpose of this calculation.</li> <li>■ The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment.</li> </ul>

Topic	Option one	Option two																								
	Sellers may use the following worksheet to assist with the additional funds calculation:																									
	<table><tr><th colspan="3">Calculation for verification of additional funds worksheet</th></tr><tr><td>1</td><td>Total monthly housing expense (Section 5401.1)</td><td>\$ _____</td></tr><tr><td>2</td><td>Monthly debt payment (Section 5401.2)</td><td>\$ _____</td></tr><tr><td>3</td><td>Line 1 + Line 2</td><td>\$ _____</td></tr><tr><td>4</td><td>Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month</td><td>_____</td></tr><tr><td>5</td><td>(Line 3) x (Line 4)</td><td>\$ _____</td></tr><tr><td>6</td><td>Borrower's verified gross income expected between Note Date and start date of new employment</td><td>\$ _____</td></tr><tr><td>7</td><td>Line 5 – Line 6</td><td>\$ _____ (This is the amount of additional funds the Seller must verify)</td></tr></table>		Calculation for verification of additional funds worksheet			1	Total monthly housing expense (Section 5401.1)	\$ _____	2	Monthly debt payment (Section 5401.2)	\$ _____	3	Line 1 + Line 2	\$ _____	4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____	5	(Line 3) x (Line 4)	\$ _____	6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____	7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)
Calculation for verification of additional funds worksheet																										
1	Total monthly housing expense (Section 5401.1)	\$ _____																								
2	Monthly debt payment (Section 5401.2)	\$ _____																								
3	Line 1 + Line 2	\$ _____																								
4	Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month	_____																								
5	(Line 3) x (Line 4)	\$ _____																								
6	Borrower's verified gross income expected between Note Date and start date of new employment	\$ _____																								
7	Line 5 – Line 6	\$ _____ (This is the amount of additional funds the Seller must verify)																								

Topic	Option one	Option two
<b>Required documentation</b>	<ul style="list-style-type: none"> <li>■ Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that meets all of the following requirements: <ul style="list-style-type: none"> <li>❑ Fully executed and accepted by the Borrower</li> <li>❑ Non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared</li> <li>❑ Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings</li> </ul> </li> <li>■ For a future salary increase with the Borrower's current employer, the above documentation must indicate the increase is fully approved and is explicitly granted to the Borrower</li> <li>■ 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed (refer to Section 5302.2(d))</li> <li>■ Documentation of additional funds, as required above</li> </ul>	<ul style="list-style-type: none"> <li>■ Copy of the employment offer letter or employment contract that meets all of the following requirements: <ul style="list-style-type: none"> <li>❑ Fully executed and accepted by the Borrower</li> <li>❑ Includes the terms of employment, including, but not limited to, employment start date and annual income based on non-fluctuating earnings</li> </ul> </li> <li>■ Paystub, written verification of employment (VOE) or a third-party employment verification supporting the income used for qualifying the Borrower</li> <li>■ Documentation of additional funds, as required above</li> </ul>

## 5303.3: Income while on temporary leave (10/02/24)

This section contains requirements and guidance related to:

- [Temporary leave from current employment – general requirements and guidance](#)
- [Determining qualifying income and Borrower capacity to meet obligations while on temporary leave](#)
- [Documentation requirements](#)

### **(a) Temporary leave from current employment – general requirements and guidance**

Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that a Borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the Borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment.

The requirements and guidance for income while on temporary leave do not extend to employer-initiated actions such as furloughs and layoffs.

Refer to Chapter 5305 regarding long-term disability income if the Seller has knowledge the Borrower has applied for, is receiving or will be receiving long-term disability benefits or long-term insurance benefits.

### **(b) Determining qualifying income and Borrower capacity to meet obligations while on temporary leave**

During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. The Seller must determine that during and after the temporary leave the Borrower has capacity to repay the Mortgage and all other monthly obligations in accordance with Topics 5100 through 5500. The Seller's determination must be based on required documentation, Seller knowledge and available information.

**(i) For Borrowers returning to their current employer prior to or on the first Mortgage payment due date**

For Borrowers returning to their current employer prior to or on the first Mortgage payment due date, the Seller may use for qualifying income the Borrower's pre-leave gross monthly income.

**(ii) For Borrowers returning to their current employer after the first Mortgage payment due date**

- For Borrowers returning to their current employer after the first Mortgage payment due date, the Seller may use for qualifying income the Borrower's gross monthly income amount being received for the duration of the temporary leave
- For Borrowers returning to their current employer after the first Mortgage payment due date, in the event that the income has been reduced or interrupted, the Seller may use for qualifying income the monthly reduced income amount (this amount may be zero) being received for the duration of the leave combined with the Borrower's available liquid assets, as necessary. Available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction.

The "Asset calculation for establishing the debt payment-to-income ratio" described in Section 5307.1(b) does not apply to the calculation of assets as an income supplement when determining qualifying income and Borrower capacity to meet obligations while on temporary leave.

Assets that are required for the transaction (e.g., Down Payment, Closing Costs and reserves) may not be considered as available assets.

- The total qualifying income must not exceed the Borrower's pre-leave gross monthly income amount

**(c) Documentation requirements**

The following documentation is required for all Borrowers on temporary leave:

- Documentation to verify the Borrower's pre-leave income and employment in accordance with Topic 5300, regardless of leave status

- Written statement, in the form of a signed letter or an e-mail directly from the Borrower, confirming the Borrower's intent to return to the current employer and the intended date of return
- Documentation generated by current employer confirming the Borrower's eligibility to return to the current employer after temporary leave. Acceptable forms of employer documentation that the Seller may obtain from the Borrower include but are not limited to:
  - ❑ an employer-approved leave request,
  - ❑ a Family and Medical Leave Act document or other documentation generated by the employer or
  - ❑ a third-party verifier on behalf of the employer

In addition, the following documentation is required for Borrowers returning to the current employer after the first Mortgage payment due date:

- Documentation evidencing amount and duration of all temporary leave income being used to qualify the Borrower (e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave
- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements of and be verified in accordance with the Streamlined Accept Documentation or Standard Documentation requirements, as applicable, listed in Section 5501.3
- A written rationale explaining the analysis used to determine the qualifying income, regardless of the underwriting path

## **5303.4: Automated income assessment using employed income data (05/11/25)**

This section contains:



- [Overview](#)
- [Eligible income types](#)
- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Closed Loans data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Internal Revenue Service \(IRS\) Form 4506-C requirements](#)

#### **(a) Overview**

Representation and warranty relief eligibility is contingent on the Seller's compliance with all requirements as set forth in this section.

##### **(i) Automated income assessment**

Asset and income modeler (AIM) automated income assessment using employed income data, provides Sellers with the option to use certain Systems (as defined in Section 2401.1(b)) to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's income.

The Seller must obtain the Borrower's employed income data and submit all required data and information to the applicable System. Based on the data submitted, the System will assess for representation and warranty relief eligibility and return the results of the assessment.

##### **(ii) Automated income assessment of Closed Loans**

Sellers with access to Freddie Mac's application programming interface (API) for automated income assessment with Loan Product Advisor<sup>®</sup> using employed income data may submit data from a Closed Loan (an existing Mortgage in which the Seller/Servicer or a Related Third Party has a beneficial ownership interest as defined in Section 2402.3(c)) for assessment.

If the Seller is eligible for income representation and warranty relief for a Closed Loan, the API response file will return a Portable Document Format (PDF) document indicating eligibility (the “AIM Payroll API R&W Assessment”). The Seller should contact its Freddie Mac representative or Customer Service at 800-FREDDIE to request Freddie Mac’s approval to submit Closed Loan data to the API.

**(b) Eligible income types**

The following tables describes income types that are eligible for an automated income assessment using employed income data:

Eligible income types for an automated income assessment	
Eligible income types	Ineligible employment/income characteristics
Base non-fluctuating employment earnings, except military earnings (base, entitlements, reserve, National Guard) as described in Section 5303.1(c)(i).	Earnings with the following employment/income characteristics as described in Section 5303.1(e) are not eligible for an automated income assessment using employed income data: <ul style="list-style-type: none"> <li>■ Earnings of a Borrower employed by a family member, the property seller, real estate broker or other interested party to the transaction</li> <li>■ Employed income from foreign sources</li> <li>■ Income reported on IRS Form 1099 for services performed</li> <li>■ Borrowers with business ownership interest(s) less than 25%</li> </ul>
The following fluctuating employment earnings as described in Section 5303.1(d): <ul style="list-style-type: none"> <li>■ Base fluctuating hourly employment earnings</li> <li>■ Bonus</li> <li>■ Commission</li> <li>■ Overtime</li> </ul>	

## **(c) Underwriting requirements**

### **(i) General underwriting requirements**

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

The Seller must confirm that the information on the verification report or paystub(s) and W-2 form(s) is for the correct Borrower and employer, and all employed income data must be in U.S. dollars.

### **(ii) Temporary leave of absence**

In the event the Borrower has taken a temporary leave of absence from their employment:

- When a verification report is obtained, the verification report must indicate that, as of the date of the verification report, the Borrower has returned to work
- When the employed income data is from the Borrower's paystub(s) and W-2 form(s), the Seller must maintain documentation in the Mortgage file showing the Borrower has returned to work

### **(iii) Age of documentation**

For the age of the documentation:

- When a verification report is obtained, the expiration date of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the requirement in Section 5102.4
- When the employed income data has been obtained from the Borrower's paystub(s) and W-2 form(s), the paystub and W-2 must comply with the requirements in Section 5102.4(a)

**(iv) Verification reports**

When a verification report is obtained, the method used to obtain the verification report must be an automated process where the employed income data is accessed directly from an electronic database of employer-provided income information.

The employed income data on the verification report cannot be obtained from a written, verbal or e-mail verification of income performed by the service provider.

**(d) Data submission requirements, representation and warranty relief eligibility and documentation requirements**

**(i) Data submission requirements**

The Seller must submit the most current employed income data to the applicable System. If after the initial submission, the Seller obtains an updated verification report, paystub(s) or W-2 form(s), the Seller must resubmit the employed income data.

For Loan Product Advisor submissions, the Seller must submit the income amount used to underwrite the Mortgage.

When a verification report is submitted to Loan Product Advisor, the Seller must investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower’s income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor

**(ii) Representation and warranty relief results on Feedback Certificate**

If multiple Loan Product Advisor submissions are made, Seller’s eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
<b>Eligible</b>	<p>The Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> <li>1. Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W-2 form(s), and</li> <li>2. Accuracy and integrity of the data on the verification report</li> </ol> <p>Note: The Seller is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the Borrower's paystub(s) and W-2 form(s).</p>
<b>Partial</b>	<p>When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> <li>1. Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W-2 form(s), and</li> <li>2. Accuracy and integrity of the data on the verification report</li> </ol> <p>Note: The Seller is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the Borrower's paystub(s) and W-2 form(s).</p>
<b>Not eligible</b>	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.</p> <p><b>Exception:</b> The Seller is relieved from enforcement of representations and warranties related to the Borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and warranty relief based on Freddie Mac Income Calculator Certificate result".</p>

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Unable to assess	<p>The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.</p> <p><b>Exception:</b> The Seller is relieved from enforcement of representations and warranties related to the Borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and warranty relief based on Freddie Mac Income Calculator Certificate result".</p>

**(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate**

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
Eligible	<p>The Seller must maintain in the Mortgage file, as applicable:</p> <ul style="list-style-type: none"> <li>■ Submitted verification report, if obtained</li> <li>■ Paystub(s) and W-2 form(s) except when a verification report is obtained</li> <li>■ Last Freddie Mac Income Calculator Certificate, if obtained</li> </ul> <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must either:</p>

Documentation requirements based on representation and warranty relief result on Feedback Certificate	
Eligibility result	Income documentation requirements
	<ol style="list-style-type: none"> <li>1. Verify and document the income as required by the Guide, or</li> <li>2. Remove the income and resubmit the Mortgage to Loan Product Advisor</li> </ol>
<b>Partial</b>	<p>The Seller must maintain in the Mortgage file, as applicable:</p> <ul style="list-style-type: none"> <li>■ Submitted verification report, if obtained</li> <li>■ Paystub(s) and W-2 form(s), except when a verification report is obtained</li> <li>■ Last Freddie Mac Income Calculator Certificate, if obtained</li> </ul> <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more income sources are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.</p>
<b>Not eligible</b>	The income must be verified and documented as required by the Guide.
<b>Unable to assess</b>	The income must be verified and documented as required by the Guide.

**(i) Representation and warranty relief results on Freddie Mac Income Calculator Certificate**

When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Freddie Mac Income Calculator Certificate result	
Eligibility result	Representation and warranty relief
<b>Eligible</b>	The Seller is relieved from enforcement of the representation and warranty for the accuracy of the income calculation related to each eligible income type that is on the paystub(s) and W-2

Income representation and warranty relief based on Freddie Mac Income Calculator Certificate result	
Eligibility result	Representation and warranty relief
	form(s).
<b>Not eligible</b>	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

**(ii) Documentation requirements based on representation and warranty relief result on Freddie Mac Income Calculator Certificate**

When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on Freddie Mac Income Calculator Certificate	
Eligibility result	Income documentation requirements
<b>Eligible</b>	<p>The Seller must maintain in the Mortgage file:</p> <ul style="list-style-type: none"> <li>■ The Freddie Mac Income Calculator Certificate reflecting the calculated income amount for each income source used to underwrite the Mortgage</li> <li>■ Paystub(s) and W-2 form(s)</li> </ul> <p>Paystub and W-2 documentation must meet the requirements of Section 5302.2.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the Seller must verify and document the income as required by the Guide.</p>
<b>Not eligible</b>	The income must be verified and documented as required by the Guide.



**(e) Closed Loans data submission requirements, representation and warranty relief eligibility and documentation requirements**

**(i) Closed Loans data submission requirements**

For Closed Loans with an automated income assessment, the Seller must:

- Submit the employed income data used in the last Loan Product Advisor submission to the API for an automated income assessment using employed income data, and
- Investigate and resolve any inconsistent or contradictory information between employed income data, information contained in Form 65 (including the Borrower's income and employment representations) and the Mortgage file

**(ii) Representation and warranty relief provided on the AIM Payroll API R&W Assessment**

The AIM Payroll API R&W Assessment will only be returned when the Closed Loan is eligible for income representation and warranty relief.

When the AIM Payroll API R&W Assessment indicates the Closed Loan is eligible for income representation and warranty relief, the Seller is relieved from enforcement of representation and warranty for the accuracy of the income calculation related to eligible income types described in Section 5303.4(b) that are on the paystub(s) and W-2 form(s).

**(iii) Documentation requirements based on representation and warranty relief result on AIM Payroll API R&W Assessment**

When the AIM Payroll API R&W Assessment indicates the Closed Loan is eligible for income representation and warranty relief, the Seller must maintain in the Mortgage file all of the following:

- AIM Payroll API R&W Assessment
- Paystub(s)

- W-2 form(s)

For income source(s) submitted to Loan Product Advisor that are not eligible for representation and warranty relief, the Seller must verify and document the income as required by the Guide.

#### **(f) IRS Form 4506-C requirements**

For Mortgages using employed income data obtained from paystub(s) and W-2(s), the IRS form 4506-C documentation requirements for Section 5302.5 apply.

For Mortgages that receive an income representation and warranty result of either “Eligible” or “Partial” with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all the income of a Borrower is from an eligible income type described in Section 5303.4(b) and is on the verification report, the Seller does not need to obtain the following:

- A signed IRS Form 4506-C (or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or
- A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party) for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

## **5303.5: Automated income assessment with Loan Product Advisor® using account data for employed income (03/05/25)**

This section contains:

- [Overview](#)
- [Eligible income types](#)

- [Underwriting requirements](#)
- [Data submission requirements, representation and warranty relief eligibility and documentation requirements](#)
- [Internal Revenue Service \(IRS\) Form 4506-C requirements](#)

#### (a) Overview

Representation and warranty relief eligibility is contingent on the Seller's compliance with all requirements as set forth in this section.

Asset and income modeler (AIM) automated income assessment using account data, provides Sellers with the option to use Loan Product Advisor® to determine whether the Seller is eligible for relief from enforcement of certain representations and warranties related to the Borrower's income.

The Seller must obtain the Borrower's account data and submit all required data and information to Loan Product Advisor. Based on the data submitted, Loan Product Advisor will assess for representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

#### (b) Eligible income types

The following table describes income types that are eligible for an automated income assessment using account data:

Eligible income types for an automated income assessment	
Eligible income type	Ineligible employment/income characteristics
<p>The following non-fluctuating employment earnings as described in Section 5303.1(c):</p> <ul style="list-style-type: none"> <li>■ Base non-fluctuating employment earnings</li> <li>■ Military earnings (base, entitlements, reserve, National Guard)</li> </ul>	<p>Earnings with the following employment/income characteristics as described in Section 5303.1(e) are not eligible for an automated income assessment using account data:</p> <ul style="list-style-type: none"> <li>■ Income reported on IRS Form 1099 for</li> </ul>

Eligible income types for an automated income assessment	
Eligible income type	Ineligible employment/income characteristics
<p>The following fluctuating employment earnings as described in Section 5303.1(d):</p> <ul style="list-style-type: none"> <li>■ Base fluctuating hourly earnings</li> <li>■ Bonus</li> <li>■ Commission</li> <li>■ Overtime</li> </ul>	<p>services performed</p> <ul style="list-style-type: none"> <li>■ Borrowers with business ownership interest(s) less than 25%</li> </ul>

### (c) Underwriting requirements

#### (i) General underwriting requirements

The Seller must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.

The Seller must confirm:

- Each account on the verification report is owned by at least one Borrower
- All assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution
- That the payor(s) is the Borrower's current employer by using the information in the Mortgage file

#### (ii) Age of documentation

For the age of the documentation, the expiration date of the verification report and any paystub(s) reflected on the Last Feedback Certificate complies with the requirements in Section 5102.4.

**(d) Data submission requirements, representation and warranty relief eligibility and documentation requirements**

**(i) Data submission requirements**

For Mortgages with an automated income assessment using Loan Product Advisor, the Seller must:

- Submit the income amount used to underwrite the Mortgage to Loan Product Advisor
- Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, Uniform Residential Loan Application (including the Borrower's income and employment representations), and the Mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor
- If after the initial submission, the Seller obtains an updated verification report or paystub(s), the Seller must resubmit the account data to Loan Product Advisor

**(ii) Representation and warranty relief results on Feedback Certificate**

If multiple Loan Product Advisor submissions are made, Seller's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
Eligible	The Seller is relieved from enforcement of the following representations and warranties: <ol style="list-style-type: none"><li>1. Accuracy of the income calculation related to eligible income types on the verification report, and</li><li>2. Accuracy and integrity of the data on the verification report</li></ol>

Income representation and warranty relief based on Feedback Certificate result	
Eligibility result	Representation and warranty relief
<b>Partial</b>	<p>When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the Seller is relieved from enforcement of the following representations and warranties:</p> <ol style="list-style-type: none"> <li>1. Accuracy of the income calculation related to eligible income types on the verification report, and</li> <li>2. Accuracy and integrity of the data on the verification report</li> </ol>
<b>Not eligible</b>	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.
<b>Unable to assess</b>	The Seller is not eligible for relief from enforcement of representations and warranties related to the Borrower's income.

**(iii) Documentation requirements based on representation and warranty relief result on Feedback Certificate**

When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation requirements based on representation and warranty relief result on the Feedback Certificate	
Eligibility result	Income documentation requirements
<b>Eligible</b>	<p>The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.</p> <p>When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation</p>

Documentation requirements based on representation and warranty relief result on the Feedback Certificate	
Eligibility result	Income documentation requirements
	and warranty relief, the Seller must either: <ol style="list-style-type: none"> <li>1. Verify and document the income as required by the Guide, or</li> <li>2. Remove the income and resubmit the Mortgage to Loan Product Advisor</li> </ol>
<b>Partial</b>	The verification report and paystub(s), as applicable, must be maintained in the Mortgage file.  When there are multiple income source(s) and one or more income sources are needed to qualify the Borrower, document the income source(s) as required by the feedback messages.
<b>Not eligible</b>	The income must be verified and documented as required by the Guide.
<b>Unable to assess</b>	The income must be verified and documented as required by the Guide.

#### (e) IRS Form 4506-C requirements

For Mortgages that receive an income representation and warranty result of either “Eligible” or “Partial” with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all of the Borrower’s income is from an eligible income type described in Section 5303.5(b), the Seller does not need to obtain the following:

- A signed IRS Form 4506-C (or alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or
- A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party), for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

For all other Mortgages, the IRS form 4506-C documentation requirements of Section 5302.5 apply.