



# Underwriting: Basics (Part 2)

February 2016

Federal Home Loan Bank of Des Moines

*This material is based on the current information in the MPF® Origination, Underwriting, Servicing Guides and the MPF Xtra® Manual (MPF® Guides) as of the date of training. It should not be used in place of the MPF® Guides. The MPF® Guides are the governing documents and control in the event of discrepancies between the information in this webinar and the MPF® Guides. The official version of the MPF® Guides are available through AllRegs®.*

*All mortgage loans sold to MPF must meet "ability-to-repay (ATR)" and safe harbor general qualified mortgage (QM) regulatory requirements for applications taken on or after January 10, 2014*

Federal Home Loan Bank of Des Moines



**MPF Customer Service**  
[MPF-Help@FHLBC.com](mailto:MPF-Help@FHLBC.com)  
(877) 463-6673

**MPF Customer Service**  
Des Moines  
- To receive morning Price Sheet  
[mfs-mpfc@fhlbdm.com](mailto:mfs-mpfc@fhlbdm.com)  
(800) 544-3452 x 1108

11.19.15 3

Federal Home Loan Bank of Des Moines

## Presentation Color Key

- Black – Applies to all programs
- Green – Exclusive to MPF Traditional (aka. Portfolio)
- Blue – Exclusive to MPF Xtra

11.19.15 4

## Terms

- PFI - Participating Financial Institution
- MPF Bank – Federal Home Loan Bank of Des Moines
- MPF Provider - FHLB Chicago
- MPF Service Center - FHLB Chicago
- Document Custodian – Wells Fargo Bank -Minneapolis
- Master Servicer - Wells Fargo – Columbia, MD (servicing retained)
- Master commitment - Agreement to fund loans originated by the PFI
- Delivery commitment - Loan lock
- [Loan Presentment – Provides loan details](#)
- [XML upload – Provides loan details](#)

11.19.15

5

## Overview

- Income Analysis
- Assets Analysis

11.19.15

6

# Income Analysis



Federal Home Loan Bank of Des Moines

## Documentation Types

(UG 2.17 & 4.7.2 & 4.6.2 & 4.6.3)

- Full Documentation:
  - VOE covering at least the past two years' work history with year-to-date and last two years' earnings
  - VODs with the average balance for past two months listed; if the average balance is not provided, obtain the last two months' statements
  - Verbal verification of employment or current pay stub with in 10 days of note date
- Alternative Documentation (borrowers provide documentation):
  - Employment/Income
    - Computer-generated or typed (not handwritten) pay stub(s) or salary vouchers for the most recent pay period with year-to-date earnings; *and*
    - W-2 forms for the most recent two years;
    - Verbal verification of employment or current pay stub with in 30 days of note date
  - Two months' depository institution statements. These must, at a minimum, report the ending balances and all deposits and withdrawals. Any significant changes in the account balance should be documented
  - Verbal verification of employment or current pay stub with in 10 days of note date

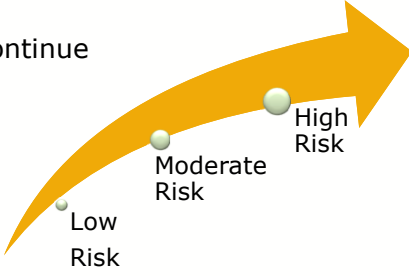
11.19.15

8

Federal Home Loan Bank of Des Moines

## Income Analysis

- Employment and Income Must Be:
  - Stable / increasing
    - Any YTD decrease needs to be explained by the borrower and supported by facts
  - Predictable
  - Likely to continue



- Additional documentation and compensating factors are required as risk increases

11.19.15 9

Federal Home Loan Bank of Des Moines

## Income Analysis

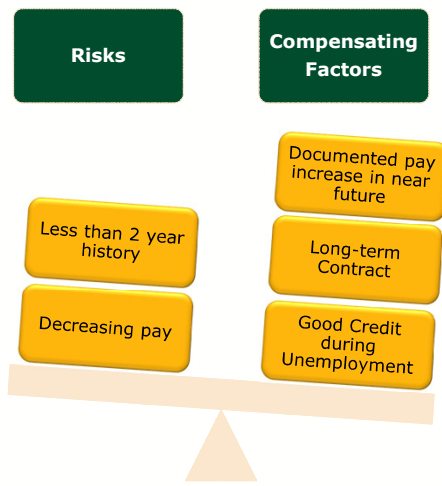
- Employment and Income Compensating Factors:
  - Conservative calculation of income (overtime, bonus, commission, part-time income)
  - Documented pay increases in the near future
  - Increasing trend in income
  - Stability shown with long-term employment
  - Long-term contract
  - Good credit maintained during periods of unemployment

**Risks**

- Less than 2 year history
- Decreasing pay

**Compensating Factors**

- Documented pay increase in near future
- Long-term Contract
- Good Credit during Unemployment



11.19.15 10

## Income Analysis

(UG 4.6.1)

- Income Stability: 2 yr. history of related experience
  - Same line or field of work
  - Educational experience can contribute (shown with transcripts)
  - Work development programs (i.e. trade schools, apprenticeships, internships, development programs, management trainee program, etc.)
  - Military Service (shown with military discharge letter)
- Consider:
  - Is the actual dollar amount reflected in the borrower's recent pay history
  - Is the dollar amount reasonable based on the history and line of work
  - Are the qualifying ratios acceptable

11.19.15

11

## Income Analysis

(UG 4.6.1 & FNMA SG B3-3.1-01)

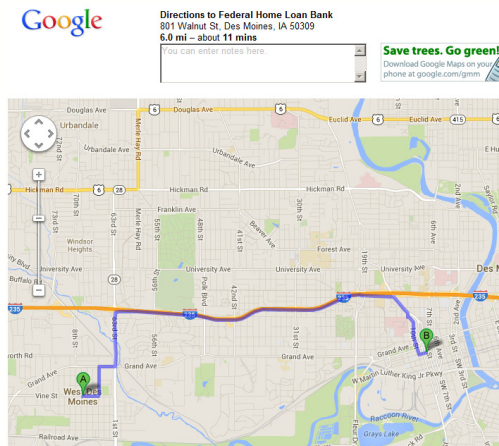
- Income Trending:
  - After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).
    - If the income trend is stable or increasing, the income should be averaged.
    - If the income trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
    - If the trend is declining, additional analysis is required to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

11.19.15

12

## Income Analysis

- Employer Address:
  - Input the local employer address on the 1003
  - Verify address is within reasonable distance from the Borrower's primary residence
    - If not, there could be occupancy concerns or an undisclosed property
  - Document any discrepancies between the employer address stated on the 1003, W2/1099s, VOE, or Paystubs (ex. Address on W2 is employer headquarters)



11.19.15

13

## Income Analysis

- Income considered to have a defined expiration dated includes, but is not limited to:
  - Alimony and Child Support
  - Retirement Income
    - 401(k), IRA, SEP, Keogh, etc.
  - Pension income
  - Notes Receivable Income
  - Public Assistance (not including Social Security Retirement or long term disability which do not have a defined expiration date)
  - Trust Income
  - VA Benefits (not including retirement or long term disability which do not have a defined expiration date)
  - Employer paid housing/mortgage subsidy income
- Income with a defined expiration date, must be likely to continue for a minimum of 3 years from the Note Date
- "At will" employment is not typically considered to have an expiration date

11.19.15

14

Federal Home Loan Bank of Des Moines

## Verbal Verification of Employment (VVOE)

Verbal Verification of Employment (VVOE) **mpf** Mortgage Professionals Federation

Date \_\_\_\_\_ Loan No. \_\_\_\_\_

Borrower \_\_\_\_\_

Employee Name \_\_\_\_\_

Employer Address \_\_\_\_\_

Employer Telephone No. \_\_\_\_\_

**I CERTIFY THE FOLLOWING:**

1. I have contacted the employer's phone number through:  
 Telephone Operator/Directory Assistance  
 Business Directory (print copy or internet)  
 Other \_\_\_\_\_

2. I contacted the employer directly and spoke to:  
 Name \_\_\_\_\_  
 Title or area of responsibility \_\_\_\_\_  
 Date \_\_\_\_\_

3. The above employee contact stated the following:  
**REQUIRED INFORMATION:**  
 a. Applicant is / is not (circle one) currently employed.  
 b. Applicant's date(s) of employment: from \_\_\_\_\_ to \_\_\_\_\_  
 c. Applicant's current position: \_\_\_\_\_  
 d. Is the Applicant active / on paid leave (circle one) \_\_\_\_\_  
**OPTIONAL INFORMATION:**  
 e. Does the applicant have any ownership interest in the business? Yes \_\_\_ No \_\_\_  
 If Yes, what is the percentage of ownership? \_\_\_\_\_%  
 f. Is the applicant related in any way to any of the owners of the business? Yes \_\_\_ No \_\_\_  
 If Yes, how is the applicant related? \_\_\_\_\_

4. If the employee will not answer any of questions 3a through 3d document the reasons (note: written documentation is required if verbal verification cannot be completed).

Printed Name \_\_\_\_\_ Title \_\_\_\_\_  
 Signature \_\_\_\_\_

MPF Origination Guide Revision Date 12/18/12 Exhibit R

**Freddie Mac** Form 90  
 Verbal Verification of Employment

Borrower name: \_\_\_\_\_

Employer name: \_\_\_\_\_

Employer contact: \_\_\_\_\_

Employer contact title: \_\_\_\_\_

Phone number: \_\_\_\_\_

Third party source used to obtain the phone number: \_\_\_\_\_

Dates of employment: \_\_\_\_\_

Borrower's title: \_\_\_\_\_

Is the Borrower currently employed? (Click one)  Yes  No

Is the Borrower/employee active or on leave? (Click one)  Active  On Leave

Additional information: \_\_\_\_\_

Verified by: \_\_\_\_\_

Title: \_\_\_\_\_

Company: \_\_\_\_\_

Date: \_\_\_\_\_

Volume 1 Single-Family Seller/Service Guide Page F90-1  
 Subm. 2009.10 10/01/09

- May be completed on MPF VVOE (found in OG - Exhibit R) or on PFI's own form

11.19.15 15

Federal Home Loan Bank of Des Moines

## Verbal Verification of Employment

- VVOE
  - Minimum Requirements:
    - Current employment status
    - Date(s) of employment
    - Current position
    - If the Applicant is "active" or on "paid leave"
    - Name and title of the PFI employee who completed the VVOE
    - Phone number or other contact information that was used to contact the employer or independent third-party
    - Name and title of person who completed the verification for the employer or third party
    - Date of the call or contact
    - Source of the phone number or contact information

11.19.15 16



Federal Home Loan Bank of Des Moines

## Verbal Verification of Employment (UG 4.6.1 & 4.6.2)

- All loans (manual and DU/LP underwritten) must contain a verbal verification of employment prior to closing
- The purpose of the VVOE is not to verify income but is to verify the Borrowers are still employed
  - Non self-employed: The PFI must contact the employer to determine the employment status either verbally or in writing within 10 days prior to closing
  - Self-employed: The PFI must verify the existence of the Borrower's business within 30 days prior to the closing date
    - The verification must be from a third party, such as a CPA, regulatory agency, licensing bureau, etc. In addition, the borrower's business address and phone listing must be verified via phone book, directory assistance or internet
  - Military personnel (including reservists) – a verification of employment through the Defense Manpower Data Center or LES dated within 30 business days of the Note Date would suffice in lieu of the VVOE
- Useful Websites:
  - [www.yellowpages.com](http://www.yellowpages.com) – Yellow Pages
  - [www.411.com](http://www.411.com)
  - <https://dmdc.osd.mil/appj/mla/> - Defense Manpower Data Center

11.19.15 17

Federal Home Loan Bank of Des Moines

## Verification of Employment (The Work Number)

11.19.15 18


<https://www.theworknumber.com/>

**Federal Home Loan Bank of Des Moines**

---



**IOWA SECRETARY OF STATE**  
**Matt Schultz**



Home Business Services Search Databases Online Filing Elections Notaries Nonprofits Youth

Home > Search Databases > Business Entities

### Business Entities Search

Business name:  SEARCH

Results per page:

Business number:  SEARCH

Search Info: This page allows you to enter in the first few letters or words of a business entity name, and retrieve a list of all business entities beginning with the same letters. For example, entering NOW may return NOW INC., NOWHERE INC., and NOW PUBLICATIONS INC. Additional [search information](#).


Please Note: The Secretary of State's office has reviewed its privacy and public information policy and has determined that social security numbers will be redacted from business entity document images prior to making them available on our web site.

Note: The Secretary of State's Office is a filing repository and does not determine the authority of a filer to make a submission. It is the responsibility of authorized filers to frequently check the status of filings on the Web site to ensure protection against submissions by an unauthorized party. If you determine that a submission was not authorized, it is your responsibility to seek legal action to protect your status.

Liability Statement: While the Iowa Secretary of State's Office makes all reasonable efforts to ensure the accuracy of information contained on this website, it makes no representation or warranty as to the correctness or completeness of the information.

**STAY CONNECTED**






★ VOTER FRAUD HOTLINE ★  
1-888-SOS-VOTE

MILITARY VOTERS >

Help!  
HOW CAN THE SECRETARY HELP YOU?

NEWS ROOM

11.19.15

19

**Federal Home Loan Bank of Des Moines**

---

## Business Entity Search by State

- Alaska
  - <http://commerce.state.ak.us/CBP/Main/SearchInfo.aspx>
- Hawaii
  - [http://www.secstates.com/HI\\_Hawaii\\_Secretary\\_of\\_State\\_Corporation\\_Search/](http://www.secstates.com/HI_Hawaii_Secretary_of_State_Corporation_Search/)
- Idaho
  - <http://sos.idaho.gov/corp/index.html>
- Iowa
  - [http://sos.iowa.gov/search/business/\(S\(yugpsze0m0ets45z1u4ri55\)\)/search.aspx](http://sos.iowa.gov/search/business/(S(yugpsze0m0ets45z1u4ri55))/search.aspx)
- Minnesota
  - <http://mblsportal.sos.state.mn.us/>
- Missouri
  - <https://www.sos.mo.gov/BusinessEntity/soskb/csearch.asp>
- Montana
  - <https://app.mt.gov/bes/>
- North Dakota
  - <https://apps.nd.gov/sc/busnsrch/busnSearch.htm>
- Oregon
  - [http://egov.sos.state.or.us/br/pkg\\_web\\_name\\_srch\\_inq.login](http://egov.sos.state.or.us/br/pkg_web_name_srch_inq.login)
- South Dakota
  - <http://sdsos.gov/business/search.aspx>
- Utah
  - <https://secure.utah.gov/bes/>
- Washington
  - [https://www.sos.wa.gov/corps/corps\\_search.aspx](https://www.sos.wa.gov/corps/corps_search.aspx)
- Wyoming
  - <https://wyobiz.wy.gov/business/filingsearch.aspx>

11.19.15

20

Federal Home Loan Bank of Des Moines

## Written Verification of Employment (WVOE) (UG 4.6 & FNMA SG B3-3.1-02)

**Part II – Verification of Present Employment**

9. Applicant's Date of Employment		10. Present Position		11. Probability of Continued Employment	
12A. Current Gross Base Pay (Enter Amount and Check Period)		13. For Military Personnel Only		14. If Overtime or Bonus is Applicable, Is its Continuance Likely?	
<input type="checkbox"/> Annual <input type="checkbox"/> Hourly <input type="checkbox"/> Monthly <input type="checkbox"/> Other (Specify) <input type="checkbox"/> Weekly		Pay Grade Type    Monthly Amount Base Pay    \$		Overtime Bonus 15. If paid hourly – average hours per week	
12B. Gross Earnings		Rations		16. Date of applicant's next pay increase	
Type	Year To Date	Past Year	Past Year		
Base Pay	\$	\$	\$	Flight or Hazard	\$
Overtime	\$	\$	\$	Clothing	\$
Commissions	\$	\$	\$	Quarters	\$
Bonus	\$	\$	\$	Pro Pay	\$
Total	\$ 0.00	\$ 0.00	\$ 0.00	Overseas or Combat	\$
				Variable Housing Allowance	\$

20. Remarks (If employee was off work for any length of time, please indicate time period and reason)

Yellow boxes = not required to be completed by employer

11.19.15    [https://www.fanniemae.com/content/guide\\_form/1005.pdf](https://www.fanniemae.com/content/guide_form/1005.pdf)    21

Federal Home Loan Bank of Des Moines

## Base Pay


Income	How to Calculate	Example
Annual	Divide annual pay by 12 months	\$60,000 / 12 mo.
Monthly	Use monthly figure	
Weekly	Convert to yearly pay then monthly	\$1,150 per week x 52 weeks / 12 mo.
Hourly	Convert to weekly, then yearly, then monthly	\$28.75 per hr. x 40 hrs. per week x 52 weeks / 12 mo.
Bi-Weekly	Convert to yearly (26 pays per year), then monthly	\$2,307.69 x 26 periods / 12 mo.
Semi-Monthly	Convert to yearly (24 pays per year), then monthly	\$2,500 x 24 periods / 12 mo.
Teacher Pay	Convert to yearly, then monthly	Are they paid 9 or 12 mo. per year?

11.19.15    22

Federal Home Loan Bank of Des Moines

## Income Calculation Resource

- MI Companies provide resources
- 8 pg. interactive form
- Calculates current income
  - Prudent underwriting would use most conservative figure
- Could be completed on all files and may help QC see how you calculated the qualifying income
- Website:
  - <http://www.pmi-us.com/media/pdf/resourcecenter/toolkits/IncomeCalculationWorksheet.pdf>



**PMI**  
Prudent Mortgage

**INCOME CALCULATION WORKSHEET**

Part I defines the type of income  
Part II identifies the method of calculation with the objective of determining the monthly qualifying income

PART I - INCOME TYPE		
Section	Borrower	Co-Borrower
1) Hourly: See Part II, Section 1a, 1b, 1c or 1d (seasonal worker)		
2) Weekly: See Part II, Section 2		
3) Bi-Weekly: See Part II, Section 3		
4) Semi-Monthly: See Part II, Section 4		
6) Overtime/Bonuses: See Part II, Section 5a or 5b		
6) Commissioned: See Part II, Section 6	✓	
7) Dividends/Interest: See Part II, Section 7		
8) Net Rental Income: See Part II, Section 8a or 8b		✓
9) Alimony: See Part II, Section 9	✓	
10) Child Support: See Part II, Section 10		
11) Military Income: See Part II, Section 11		
12) Social Security Income: See Part II, Section 12		
13) Non-Taxable Income - Grossed Up: See Part II, Section 13		
14) Self-Employment: See Part II, Section 14		

PART II - CALCULATION METHOD - Complete the appropriate sections. Sum total of sections to arrive at total monthly income			
Section 1a: Hourly (if the borrower works 40 hours per week)	Subtotal	Total	
Step 1 Enter Hourly Base rate <b>\$95.00</b> Annual Income = Hourly rate x 40 (hours) x 52 (weeks)	\$ 194,000.00		
Step 2 Monthly Income = Annual Income /12		\$ 8,000.00	
Section 1b: Hourly - Hours vary - Full Doc	Subtotal	Total	
Step 1 Enter the current year to date base earnings from VOE	\$		
Step 2 Enter the previous years base earnings from the VOE/W2	\$		
Step 3 Total of steps 1 and 2	\$ 0.00		
Step 4 Enter the number of months that year to date and past year earnings cover Monthly Income = Subtotal number from step 3 divided by number in box		\$ 23	

11.19.15

Federal Home Loan Bank of Des Moines

## Income Documentation

- Basic Documentation:
  - Two years W2s or 1099s
  - Most recent paystub (with at least 1 mo. year-to-date earnings)

12B. Gross Earnings			
Type	Year To Date	Past Year	Past Year
Base Pay	Thru <input type="text"/> \$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Overtime	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Commissions	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
Bonus	\$ <input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<b>Total</b>	\$ <b>0.00</b>	\$ <b>0.00</b>	\$ <b>0.00</b>

11.19.15 24



## Overtime

(UG 4.6.4)

- Documentation:
  - History of receipt from last two years
    - Shown on WVOE form
  - WVOE must state that the overtime is likely to continue
    - This could also be identified on a WVOE or signed letter from employer
    - May indicate future market conditions
- Calculation:
  - Use at least a 24 month average of earnings
  - Overtime < 2 years may be acceptable provided the PFI can justify and document (in writing) the reason for using this income
  - YTD earnings should indicate stable/increasing trend from previous years

11.19.15

27

## Commission

(UG 4.6.4)

- Borrowers are considered commissioned if 25% or more of a Borrower's annual income is derived from commissions
- Commission Income
  - Should be received for 24-months
    - Commission income received between 12 and 24 months may be used when compensating factors are present
    - Commission income < 1 year is not considered eligible income
      - Exceptions may be made for situations which the Borrower's compensation was changed from salary to commission within a similar position with the same employer

11.19.15

28

## Commission

(UG 4.6.4 & FNMA SG B3-3.1-04)

- Documentation:
  - History of receipt from last two years
    - Shown on written VOE form
    - Should show stable or increasing trend
  - WVOE must state that the commission is likely to continue
    - May indicate future market conditions
    - This could also be identified on a WVOE or signed letter from employer
  - Most recent two years signed federal tax returns
  - Any Un-reimbursed Employee Expenses (UREE) (as shown on the IRS Form 2106) or Meals & Entertainment expenses must be subtracted from the borrowers income regardless of the length of time they have filed that expense with the IRS
    - The exception to this is if the expense is an actual automobile lease or loan payment (See B3-3.2.1-03)

11.19.15

29

## Bonus Income

(UG 4.6.4)

- May be paid annually or at different intervals throughout the year
- Documentation:
  - 2-year history of receipt
    - Can be evidenced on WVOE or paystubs
  - Likelihood of Continuance:
    - Can be verified with WVOE
    - Acceptable signed letter from the employer
    - Other documents such as employment contract, written bonus plan, pay history/paystubs
- Calculation:
  - Use at least a 24-month average of earnings
  - Bonus < 2 years may be acceptable provided the PFI can justify and document (in writing) the reason for using this income
  - YTD earnings should indicate stable/increasing trend

11.19.15

30

## Tips and Gratuity

(UG 4.6.4)

- Tip income must make sense for the occupation:
  - Examples:
    - Waiter/Waitress
    - Taxi Driver
    - Massage Therapist
    - Manicurist
- Documentation:
  - Most recent Paystub and W2's
  - WVOE showing history of receipt and likelihood of continuance
- Calculation:
  - Use two-year average of income
- Unreported tip income
  - Tips of \$20.00 or more, are wages subject to FICA, FUTA, and income tax withholding ([www.irs.gov](http://www.irs.gov))
  - In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the Form 1005, paystub and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. Xtra will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.



11.19.15

31

## Secondary Employment Income

(UG 4.6.6)

- Definition:
  - Employment taken to supplement the Borrower's income from regular, primary employment (Second/Multiple Jobs & Part-Time Jobs)
- Documentation:
  - Paystubs / W2's
  - WVOE must verify likelihood of continuance
- It is acceptable for a borrower to have a history of different employers as long as income has been consistently received and it's within the same line of work
- Calculation:
  - Use 24 month average of income
    - Part-time income received between 12 and 24 months may be provided PFI justifies and documents likelihood of continuance
    - Part-time income < 1 year is not considered eligible income

11.19.15

32



### Second Job, Example 1:

A borrower in NJ moonlights as a snow plow operator:

- He is paid \$50/hour during each snow storm he works.
- Last year, he earned \$1,000 from snow plowing.
- Year to date, he earned \$12,000 from snow plowing.
- The city indicates his employment is likely to continue in this capacity.

**Would you consider the income?**

11.19.15

33

### Second Job, Example 2:

A loan processor moonlights preparing tax returns for H&R Block during tax season.

- She is paid \$14/hour
- Last year, she earned \$3,000 working 15 hours per week for 15 weeks
- This year, she earned \$2,520 working 15 hours per week for 12 weeks
- She plans to return next tax season and H&R Block indicates she is likely to be rehired as a part time employee.



**Would you consider the income?**

11.19.15

34

## Employment Gaps

(UG 4.6.1)

- Gaps in Employment:
  - Borrowers must provide a signed/dated written letter of explanation regarding any job changes or gaps in employment (greater or equal to 30 days) within the last two years
- Considerations:
  - Is the gap isolated or likely to happen in the future?
  - Does the borrower qualify using an average of income?
  - Has stability of employment been re-established?
  - What was the borrower's credit history during this gap?



11.19.15

35

## Employment Gaps

(UG 4.6.1)

- Frequent Job Changes:
  - PFIs may favorably consider stability of a Borrower's income if they change jobs frequently within the same line of work, but continue to advance in income or benefits. In this analysis, income stability would take precedence over job stability
- Returning to Work After Extended Absence:
  - Income may be considered eligible if
    - Employed at the current job for > 6 months
    - Can document 2 year work history prior to absence from employment
  - Note: An acceptable employment situation includes individuals who took several years off to raise children and returned to the workforce

11.19.15

36

## Unemployment Benefits

(UG 4.6.1)

- Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment
- Documentation:
  - Must be reported on the borrower's most recent 2 years signed federal income tax returns
  - Signed letter from employer stating that the borrower will likely be rehired for next season
  - Verify the borrower has worked in the same job (or same line of seasonal work) for the most recent two years
- Documentation submitted must indicate:
  - The unemployment pay is linked with seasonal layoffs
  - Is expected to happen again
  - Is reported on the borrowers most recent two years tax returns

11.19.15

37

## Seasonal Employment

(UG 4.6.7)

- Examples:
  - Umpire (summer baseball games)
  - Store clerk (over the holidays)
- Documentation:
  - Paystubs / W2's
  - Signed letter from employer stating that the borrower will likely be rehired for next season
  - Evidence the borrower has worked uninterrupted in the same job for the most recent two years
  - Pay history should indicate income is likely to continue at a similar/increasing rate
- Calculation:
  - Average of most recent 2 years earnings

11.19.15

38

## Contract Employment

- Consideration must be given to the type of work, stability and trend in earnings
- Analyze how long the borrower has been completing this type of work and can it be expected to continue
- Documentation:
  - W2s/1099s and Paystubs
  - Copy of the employment contract
    - Does the contract have an expiration date?
    - If the contract is due to expire in less than 12 months, the employer must provide information regarding if the contract will be renewed
    - Review for exceptions or exclusions in the contract
- Calculation:
  - Average of most recent 2 years earnings

11.19.15

39

## Employment Offers or Contracts

(UG 4.6.2)

- A mortgage may be closed prior to the Borrower beginning new employment and receiving income if they will begin the new job within 60 days of the close date; however, it is *not* eligible for delivery under the MPF Program until the Borrower begins employment and has received one paystub
- Requirements:
  - Documentation of the Borrower's appropriate past income and employment history;
  - Borrower's new guaranteed, non-revocable employment contract or offer;
  - A paystub, obtained and dated prior to the delivery date, that verifies the level of income used to qualify the Borrower; and
  - Verified sufficient income or cash reserves to support the Mortgage payment and any other obligations between Mortgage Closing date and the start of employment

11.19.15

40

## Self-Employment

(UG 4.6.5 & FNMA SG B3-3.2-01)

- A Borrower is considered self-employed if they have at least 25% ownership interest in a business
- Two year history of income
  - 12-24 mo. may be acceptable
    - Tax returns must show income at same or greater level in a similar field
- Analyzing self-employed income
  - Effect of the income/loss on other types of income must be considered
    - [Income verification for self-employed co-borrowers; see FNMA SG B3-3.2-01](#)
  - Written evaluation of income
    - Fannie Mae form 1084; or
    - Similar cash flow analysis form (i.e. <https://www.mgic.com/underwriting/seb.html>)

11.19.15

41

## Self-Employment

(UG 4.6.5 & FNMA SG B3-3.2-01)

- Documentation:
  - Obtain most recent signed 2 years tax returns (individual & business) including all schedules
    - IRS-issued transcripts could be acceptable if all schedules are included
    - For certain casefiles, DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by:
      - obtaining signed individual and business income tax returns for the most recent year,
      - confirming tax returns reflect at least 12 months of self-employment income, and
      - completing self-employed cash flow analysis
  - **When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if:**
    - borrower is using their own funds for down payment, closing costs, & reserves,
    - borrower has been self-employed in the same business for at least five years, and
    - borrower's individual tax returns show an increase in self-employment income over the past two years.
  - **P&L statements are required and must be prepared or reviewed by an accountant if used to qualify the loan – optional for Xtra**

11.19.15

42

Federal Home Loan Bank of Des Moines

## Self-Employed Business Structures

- Sole Proprietorship – Schedule C

- Partnership – Form 1065
  - General
  - Limited
  - Limited Liability Company (LLC)
- Corporations
  - S Corporation – Form 1120S
  - Corporation – Form 1120

Typically have K1

- Note: K1's are required to verify % of ownership. Required on all applicable BFS income to verify if ownership is > or < 25%

11.19.15 43

Federal Home Loan Bank of Des Moines


## Tax Schedules

Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F
• Itemized Deductions	• Dividend & Interest Income	• Business Profit or Loss	• Capital Gains	• Rental • Partnership or S-Corp. Income	• Farm Income

11.19.15 44

Federal Home Loan Bank of Des Moines

## Tax Form Checklist



TAX FORM CHECKLIST

- Resource to help identify which section of the taxes are needed for different types of income
- Interactive Checklist
- Helps to ensure documents are collected upfront
- Website:
  - [http://www.pmi-us.com/media/pdf/resourcecenter/toolkits/pmi\\_070609\\_TaxFormChklist.pdf](http://www.pmi-us.com/media/pdf/resourcecenter/toolkits/pmi_070609_TaxFormChklist.pdf)

**Part I** allows you to track the type of income that will be used in qualifying the borrower.  
**Part II** identifies the documentation requirements.

Part I - Qualifying Income Types	
Determine required tax forms/schedule	
1) Commissioned Borrower: See Part II, Section 1	<input type="checkbox"/>
2) Sole Proprietor: See Part II, Section 2	<input type="checkbox"/>
3) Capital Gains and Losses: See Part II, Section 3	<input type="checkbox"/>
4) Rental Income and Royalties: See Part II, Section 4	<input type="checkbox"/>
5) Farm Income: See Part II, Section 5	<input type="checkbox"/>
6) Partnership: See Part II, Section 6	<input type="checkbox"/>
7) S-Corporation: See Part II, Section 7	<input type="checkbox"/>
8) Corporation: See Part II, Section 8	<input type="checkbox"/>

Part II - Documentation Requirements	
<b>Section 1: Commissioned Employee</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>2106</b> Employee Business Expense	Completed
<b>Section 2: Sole Proprietorship</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule C</b>	<input type="checkbox"/>
2) YTD Profit & Loss (audited if the income is declining)	<input type="checkbox"/>
<b>Section 3: Capital Gains and Losses</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule D</b>	<input type="checkbox"/>
<b>Section 4: Rental Income, Royalties, Estates, Trusts, REMICs</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule E</b>	<input type="checkbox"/>
<b>Section 5: Farm Income</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule F</b>	<input type="checkbox"/>
<b>Section 6: Partnership</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule E</b>	<input type="checkbox"/>
2) 2 years complete <b>1065's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule 4562</b>	<input type="checkbox"/>
3) 2 years complete <b>K-1's</b> filed with the IRS and original borrower(s) signatures	<input type="checkbox"/>
4) YTD Profit & Loss (audited if the income is declining)	<input type="checkbox"/>
<b>Section 7: S-Corp</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule E</b>	<input type="checkbox"/>
2) 2 years complete <b>1120's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule 4562</b>	<input type="checkbox"/>
3) 2 years complete <b>K-1's</b> filed with the IRS and original borrower(s) signatures	<input type="checkbox"/>
4) YTD Profit & Loss (audited if the income is declining)	<input type="checkbox"/>
<b>Section 8: Corporation</b>	
1) 2 years complete <b>1040's</b> filed with the IRS and original borrower(s) signatures	<input type="checkbox"/>
2) 2 years complete <b>1120's</b> filed with the IRS and original borrower(s) signatures: with <b>Schedule 4562</b>	<input type="checkbox"/>
3) YTD Profit & Loss (audited if the income is declining)	<input type="checkbox"/>

11.19.15 45

Federal Home Loan Bank of Des Moines

## Noncash Expense (UG Exhibit A)

- Expenses deducted from a cash flow that do not require an actual cash payment
- Can be added back to cash flow when included in total expenses
- 3 Types of Noncash Expenses
  1. Depreciation – exhaustion of a tangible object
    - (ex. Car or Home)
  2. Depletion – exhaustion of a natural resource
    - (ex. Mineral or Timber)
  3. Amortization – exhaustion of an intangible object
    - (ex. Patent or Copyright)
- Found on Form 2106, Schedule C, E, F & Business taxes

11.19.15 46





# 4506-T Transcript Analysis

- Review the transcript information to determine the reasons for any income discrepancies and obtain any documentation/information needed to satisfactorily address all inconsistencies:
  - Borrower's Marital Status
    - Did they file jointly but disclosed on the 1003 they are single?
  - Possible discrepancies in income
    - Did the Borrower file a joint return but is on the application alone?
    - Did the Borrower change jobs? Are they in the same line of work?
    - Did the Borrower receive a promotion?
    - Did the Borrower's compensation structure change?
    - Did the Borrower receive bonus or overtime that is no longer offered?
    - Did the Borrower not have enough income to require the filing of a federal tax return?
    - Is there undisclosed self-employment loss for a Co-Borrower or Non-Borrowing Spouse?
  - Alimony/Child Support Expense
  - Any undisclosed schedule C, E, or F business for self income
  - Schedule E rental income

11.19.15

49

# 4506-T Transcript Analysis

- Possible reason for 4506-T reject results:
  - Name or Address does not match the tax year requested on the form
  - Form is illegible or has been altered
  - Taxpayer SSN is missing or incorrect
  - Tax year is missing
  - Signature/date is missing
  - The difference between the "received date" and the "signature date" is > 120 days
- 4506-T returned with rejection code "Unable to Process" or "Limitation"
  - Alternative documentation may be accepted
  - See PFI Advisory 07-22-15 (07/22/15)
- Resources:
  - [www.irs.gov](http://www.irs.gov)

Address on Request	Accept/REJECT Form 4506, 4506-T or 4506-T-EZ	IAT
Missing a number in street address (all remaining address items match: City, State, Zip Code, etc.)	X	1401 Canary Rd. Lincoln, OH 45423
Extra number in street address (all remaining address items match: City, State, Zip Code, etc.)	X	11903 Cedar Ste 12 Pleasanton, CA 94566
Transposition of numbers in street address (all remaining address items match: City, State, Zip Code, etc.)	X	123 Juniper Ct. Hayes, TX 77385
Transposition of number in P.O. Box (all remaining address items match: City, State, Zip Code, etc.)	X	P.O. Box 152 Cleveland, IL 74530
Directional missing (E, W, N, S, etc.) before or after street name	X	2309 Orange Rd. Grand, MO 64101
Apartment, building, suite, etc. missing (Bldg., Apt., Ste., etc.)	X	782 Poplar Ave. Madison, KS 66102
Missing prefix (Bldg., Apt., Ste., etc.)	X	871 Pine Apt. Cleveland, IL 74530
Missing address designation, . Terr., Court, or Circle	X	7923 E Orchard Touhsee, IL 61815
Abbreviations used in lieu of full names (all remaining address items match: City, State, Zip Code, etc.)	X	864 East Pine Ave. Adrian, CO 74516
City missing (all remaining address items match: Street name and number, State, and Zip Code)	X	1221 Redout Ln. Jackson, MO 64189
Different city (all remaining address items match: Street name and number, State, and Zip Code)	X	8546 Rose Parkway Harrison, MO 64189
State missing (all remaining address items match: Street name and number, City, and Zip Code)	X	1221 Redout Lane Harrisonville, MO 64189
Different state (all remaining address items match: Street name and number, City, and Zip Code)	X	8546 Rose Parkway Harrison, KS 64189
Missing ZIP Code	X	7903 Emory St. Tyler, NY 11213
Different ZIP Code only last digit or two are different	X	3735 Magnolia Rd. Garfield, CA 95819
Transposed numbers at the beginning of the ZIP Code	X	8833 Hickock St. Harding, GA 45134
If two or more items are incorrect in the entity portion that would be accepted on their own (i.e., different state and zip code)	X	8546 Rose Pkwy Harrison, MO 64189

11.19.15

50

Federal Home Loan Bank of Des Moines

## 4506T Guidance (UG 4.6)

The following table shows the minimum transcript information to request from the IRS under 4 typical income documentation scenarios

If the level of income documentation used for underwriting the loan and reported on the loan presentment is:	The 4506-T Request must be for the most recent filing(s) of:			
	1040	1120 or 1065	1099	W-2
YTD Paystub & Two W-2s				2 years
YTD Income Information & Two 1099s/1040s	2 years		2 years	
Two years personal Returns	2 years			
Two Years Personal Returns & Two Years Business Returns	2 years	2 years		

11.19.15 51

Federal Home Loan Bank of Des Moines

## 4506-T Guidance (UG 4.6)

- Tax Transcripts:
  - When requesting information from the IRS, PFIs must take into consideration that it typically takes the IRS 6-8 weeks to add new filings or corrections to its database. PFIs must elect the tax year information applicable to the situation.
- Examples:
 

When **manually underwriting a salaried borrower**, the PFI would request two years of W-2s to verify income. For example, a January 2014 request to the IRS should be for the 2011 and 2012 W-2s since the borrower's 2013 income information has not been filed with the IRS.

↓

When **underwriting a salaried borrower through an approved AUS**, the AUS may only require the PFI to obtain a recent pay stub. In this case, the PFI should request the most recently filed Form W-2. For example, a June 2014 initial request to the IRS should be for the 2013 W-2.


↓

When **manually underwriting a self-employed borrower**, the PFI would request 2 yrs of individual federal tax returns. For example, a January 2014 request to the IRS should be for the 2011 and 2012 Form 1040s. However, an August 2014 request to the IRS should be for the 2012 and 2013 Form 1040s.

11.19.15 52

**Federal Home Loan Bank of Des Moines**

---



Subscriptions | Language | Information For...

---

**Filing** | Payments | Refunds | Credits & Deductions | News & Events | Forms & Pubs | Help & Resources | for Tax Pros

Employees

Self-Employed

International Taxpayers

Military

Parents

Seniors & Retirees

Students

## Income Verification Express Service

The Income Verification Express Service program is used by mortgage lenders and others within the financial community to confirm the income of a borrower during the processing of a loan application. The IRS provides return transcript, W-2 transcript and 1099 transcript information generally within approximately 2 business days (business day equals 9 a.m. to 2 p.m. local IVES site time) to a third party with the consent of the taxpayer. The transcript information is delivered to a secure mailbox based on information received from a Form 4506-T or Form 4506T-EZ. A \$2.00 fee is imposed on each transcript requested. This service replaced the previous process that required manual pick-up and delivery of transcripts from the IRS Return and Income Verification Services (RAVS) units located across the country.

**NOTE:** Due to budget cuts we will continue to expedite IVES service and make every effort to handle requests as quickly as possible. However, participants may experience longer turnaround times.

This service automates the delivery portion of the process. Customers log on to IRS.gov to retrieve their requested transcripts from a secure mailbox located on the e-Services electronic platform. The "front end" of the process remains the same. Customers will need to fax the signed [Form 4506-T, Request for Transcript of Tax Return](#), or [Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript](#) to one of the five designated RAVS units.

- [How do I apply for IVES?](#)
- [How to Get Started Using IVES Electronic Signature](#)
- [How do I register with e-Services?](#)
- [How do I log?](#)
- [Getting started](#)
- [IVES System Tutorials](#)
- [Frequently Asked Questions](#)


As a result of upgrades to our e-Fax services it was necessary to change the IVES fax numbers when requesting products for those participants aligned with Cincinnati, Fresno and Ogden. The new fax numbers are:

- Austin 877-477-9603
- Cincinnati 877-477-0576
- Fresno 877-477-0576
- Kansas City 877-477-9601
- Ogden 877-477-0560

Participants encountering problems with the Registered User Portal (RUP) should contact the E-Services Help Desk at 1-866-255-0654.

11.19.15
<http://www.irs.gov/Individuals/Income-Verification-Express-Service>
53

# Asset Analysis



Federal Home Loan Bank of Des Moines

## Liquid Assets

Types of Liquid Assets

- Checking, Savings, CDs
- Gifts
- Stocks, Bonds, Mutual Funds
- Stock Options
- Business Accounts

11.19.15 55

Federal Home Loan Bank of Des Moines

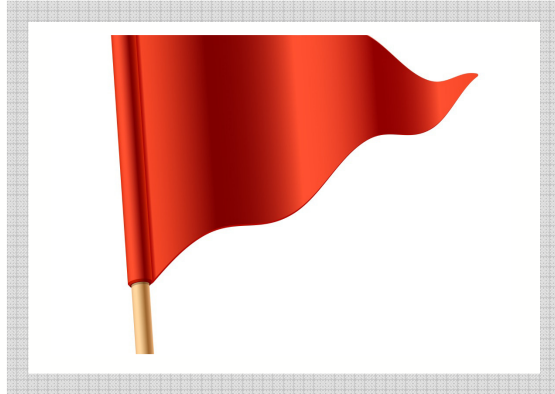
## Large Deposits

- Large Deposits
  - Defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan
  - Requirements for evaluating large deposits vary based on transaction type

Transaction Type	Evaluation Requirements
Refinance	<ul style="list-style-type: none"> <li>• Documentation or explanation for large deposits is <u>not</u> required; however, the PFI remains responsible for ensuring that any Borrower funds, including any related liabilities are considered.</li> </ul>
Purchase	<ul style="list-style-type: none"> <li>• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the PFI must document that those funds are from an acceptable source. Occasionally, a Borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the PFI must use reasonable judgment based on the available documentation as well as the Borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the Borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The PFI must place in the loan file written documentation of the rationale for using the funds.</li> <li>• Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the PFI must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the PFI uses a reduced asset amount, net of the unsecured amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage is underwritten manually, or through Desktop Underwriter (DU)). Note: When a deposit has both sourced and unsecured portions only the unsecured portion must be used to calculate whether or not it must be considered a large deposit.</li> </ul>

56

## Checking & Savings Accounts



### Red Flags:

- Large Deposits
  - Balance Increases
- New Account
  - Additional Account Owners
- Non-sufficient Funds or Overdraft Fees

11.19.15

57

## Checking & Savings Accounts

- Documentation:
  - Most recent 2 months bank statements or Verification of Deposit (VOD)
  - Bank Statement Requirements:
    - All pages (including blank pages)
    - Must show bank name, borrower's name, all transactions (debits & credits)
    - Borrower's address on bank statements should match the 1003
    - Complete 60 day transaction history with ending balance
    - If borrower provides a transaction history that was printed at their local bank, the teller is required to sign/stamp the document
    - All large deposits need sourced/documented
    - If there is evidence of overdraft fees or non-sufficient funds within the last 12 months, a signed letter from the borrower is required to explain why these fees occurred. Note if it is a recurring or isolated incident
    - Any significant changes in the account balance should be documented

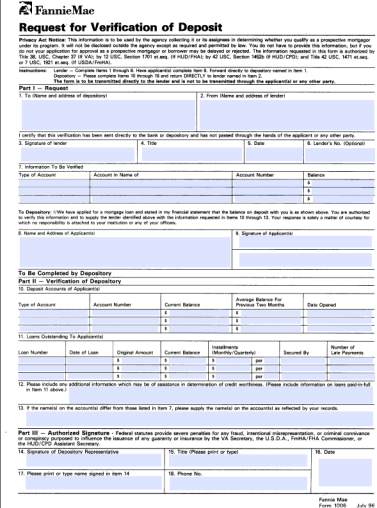
11.19.15

58

**Federal Home Loan Bank of Des Moines**

## Verification of Deposit (VOD)

- Documentation:
  - Verification of Deposit
    - Must show average balance for most recent 2 months
      - If average balance is not provided, obtain most recent 2 months' statements
    - Any significant changes in the account balance should be documented



**FannieMae**  
**Request for Verification of Deposit**

Primary Use: This document is to be used by the depositor, borrower, or the servicer to determine whether the depositor has provided the information requested by the servicer. It will not be obtained unless the servicer has requested it and is not to be used for any other purpose. The information requested is to be provided to the servicer by the depositor, borrower, or the servicer. The information requested is to be provided to the servicer by the depositor, borrower, or the servicer. The information requested is to be provided to the servicer by the depositor, borrower, or the servicer.

**Part I - Request**

1. Name and address of depositor: \_\_\_\_\_ 2. From (Name and address of lender): \_\_\_\_\_

3. Lender's name: \_\_\_\_\_

4. Date: \_\_\_\_\_

5. Lender's File Number: \_\_\_\_\_

6. Name and address of servicer: \_\_\_\_\_

7. Signature of servicer: \_\_\_\_\_

8. Date: \_\_\_\_\_

**Part II - Verification of Depositor**

1. Current Government of Applicant: \_\_\_\_\_

2. Type of Account: \_\_\_\_\_

3. Account Number: \_\_\_\_\_

4. Current Balance: \_\_\_\_\_

5. Average Balance for Previous Two Months: \_\_\_\_\_

6. Date Closed: \_\_\_\_\_

7. Loans Outstanding to Applicant: \_\_\_\_\_

8. Loan Number: \_\_\_\_\_

9. Date of Loan: \_\_\_\_\_

10. Original Amount: \_\_\_\_\_

11. Current Balance: \_\_\_\_\_

12. Maturity Date: \_\_\_\_\_

13. Secured By: \_\_\_\_\_

14. Number of Payments: \_\_\_\_\_

15. If the servicer on the account is other than those listed in item 7, please supply the servicer on the account as reflected in your records.

16. Signature of Depositor Representative: \_\_\_\_\_ 17. Title: \_\_\_\_\_ 18. Date: \_\_\_\_\_

19. Please print or type name signed in item 16: \_\_\_\_\_ 20. Phone No.: \_\_\_\_\_

Fannie Mae Form 1006 July 96

11.19.15 [https://www.fanniemae.com/content/guide\\_form/1006.pdf](https://www.fanniemae.com/content/guide_form/1006.pdf) 59

**Federal Home Loan Bank of Des Moines**

## Certificates of Deposit

- Definition:
  - Savings certificate entitling the owner to receive interest
  - Bears a maturity date and a specified fixed interest rate
  - Typically issued by commercial banks and insured by the FDIC
  - Term typically ranges from 1 month to 5 years
- Validate current balance
- Consider early withdrawal fees
- Documentation:
  - Verification of Deposit (VOD);
  - Copy of CD; or
  - Bank Statements

HYPERION BANK  
MAIN OFFICE: 139 West Grand Ave., Philadelphia, PA 19122

**TIME CERTIFICATE OF DEPOSIT  
NONTRANSFERABLE AND NONNEGOTIABLE**

Account Title Training Sample		Account Type 13 MONTH CD	Taxpayer ID Number 123-45-6789
Account Number 0000000123456	Amount \$ 30,000.00	Date of Issue July 27, 2009	Maturity Date August 21, 2010
Interest Rate Per Annum 2.371 % with an annual percentage yield of 2.40%		Term 13 MONTHS (Automatic Renewal)	
Interest Payment Frequency Monthly		Interest Payment Disposition Interest will be capitalized to this certificate.	

**TIME CERTIFICATE OF DEPOSIT**

Agreement. This Time Certificate of Deposit is a part of, and governed by, our Time Deposit Agreement. Among other things, this means that all terms defined in that agreement have the same meaning here. You have received a copy of that agreement, the Truth in Savings disclosures (if applicable), and the fee schedule. You have read them and agree to them.

Early Withdrawal Penalty. We do not have to permit early withdrawals from the account. On each one we do permit, we can charge a penalty calculated as follows. We will impose a penalty if you withdraw any of the principal before the maturity date. For Time Deposits with a term of three (3) months, the penalty will be three (3) months interest on the amount withdrawn. For Time Deposits with a term of one (1) to five (5) years the penalty will equal half (1/2) the face term of interest earned on the amount withdrawn. If there is enough accrued interest to cover the penalty, we deduct the penalty from it. If not, we deduct the remainder of the penalty from principal. If the account is a variable rate account, we will calculate the penalty using the interest rate being applied at the time of withdrawal. If the account is an Individual Retirement Account, the early withdrawal penalty will be in addition to any penalty imposed under the Internal Revenue Code (IRC) Disclosure Statement. The minimum early withdrawal penalty is seven days' simple interest on any amount withdrawn (a) within the first six days after the account is opened, or (b) within six days after a previous early withdrawal.

Nontransferable. This Time Certificate of Deposit is nontransferable and nonnegotiable. All purported holders or assignees of it agree that our right of set-off will have priority over any of their claims.

HYPERION BANK  
By: Sarah K. Scott Date: 7/27/09

11.19.15 60

Federal Home Loan Bank of Des Moines		
Account Ownership		
Account	Relationship	Documentation
Joint Account	Domestic Partner • Only one applying for the mortgage	Relationship needs to be properly documented to use funds • Leases, utilities or drivers license
Joint Account	Domestic Partner • Both are applying for the mortgage	All funds in the account can be used • Traditional documentation
Joint Account	Married couple • Only 1 applying for the mortgage	All funds in the account can be used • Traditional documentation
Shared Account	Someone other than spouse or domestic partner	Determine percentage of funds legally owned by borrower • Access Letter from co-owner stating borrower has rights to funds • Tax Returns (Schedule B will report institutions) • Financial Institution will identify primary owner on letter or 1098 Form

11.19.15 61


Federal Home Loan Bank of Des Moines	
Source of Funds (UG 4.7)	
<ul style="list-style-type: none"> <li>Verify sufficient funds for required cash to close:</li> </ul>	
<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;">                     Down Payment                      + Closing Costs                      + Reserves                      = Required Cash to Close                 </div>	
<ul style="list-style-type: none"> <li>Down payment should be from the borrower's own funds                             <ul style="list-style-type: none"> <li>Assets must be from normal savings patterns                                     <ul style="list-style-type: none"> <li>Cannot be from Gifts, Grants, or Secured Loans</li> </ul> </li> </ul> </li> <li>Document funds from the sale of an asset</li> <li>Document funds from the sale of real estate                             <ul style="list-style-type: none"> <li>Obtain the signed HUD-1 or Closing Disclosure</li> </ul> </li> </ul>	

11.19.15 62

Federal Home Loan Bank of Des Moines

## Unacceptable Source of Funds

- Gift funds that are a loan
- Credit card advances
- Personal unsecured loans
- Cash on hand
- Sweat equity



11.19.15 63

Federal Home Loan Bank of Des Moines

## Gift Funds

(UG 4.7.4)

- Definition:
  - Gift to a Borrower from an acceptable source to be used as funds toward the transaction
- Acceptable Sources:
  - Relative, Non-profit organization, Church or Employer
- Gift donor cannot be a party to the transaction
  - i.e. real estate agent, builder or seller
- Gift funds may be used for closing costs and reserves
- Exception to the minimum contribution guideline is if the gift is from a:
  - Relative or Domestic Partner who has lived in the same residence for a minimum of 12 months
  - Fiancée who will live in the property as a primary residence
    - Additional documentation may be needed to confirm that these requirements are met

11.19.15 64



**Federal Home Loan Bank of Des Moines**

## Gift Funds (UG 4.7.4)

- Gift Letter Requirements
  - The dollar amount and date of the gift;
  - The donor's name, address, telephone number, and relationship to the Borrower;
  - The donor's statement that no repayment is required; and
  - Verification of transfer showing the funds being withdrawn from the donor account
  - Verification of receipt showing the gift has been deposited into the Borrower's account
- Resource
  - <http://members.fhlbdm.com/mortgage-partnership-finance-mpf/resources/>

**Gift Letter**

I/We do hereby certify to the following:  
 I/We (Donor) have given a one-time gift of \$ \_\_\_\_\_ to the below Borrower(s). No repayment of this gift is expected or implied either in the form of cash or future services of the recipient.

Borrower(s) Name(s): \_\_\_\_\_

This gift is to be applied toward the property at: \_\_\_\_\_

Donor(s) Name(s): \_\_\_\_\_

Relationship to Borrower(s): \_\_\_\_\_

Donor's Street Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Donor Telephone Number: \_\_\_\_\_

Date of Gift: \_\_\_\_\_

**PLEASE NOTE THAT ALL GIFT FUNDS MUST BE VERIFIED AND RECEIVED BY THE BORROWER PRIOR TO OR AT CLOSING. THE FOLLOWING IS REQUIRED FOR FUNDS VERIFICATION:**

Gifts Received Prior to Closing: <ul style="list-style-type: none"> <li>o Copy of cancelled gift check (or other withdrawal documentation) to Borrower showing the Donor as the Remitter.</li> <li>o Copy of Borrower's deposit slip and bank statement showing the deposit (same amount).</li> </ul>	Gifts Received at Closing: <ul style="list-style-type: none"> <li>o Copy of the Cashier's Check payable to the Title Company (or closing agent) AND Borrower, showing the Donor as the Remitter.</li> <li>o Copy of wire transfer receipt to closing agent direct from Donor's account.</li> </ul>
---	--

\_\_\_\_\_  
Donor 1  
Signature & Date
 \_\_\_\_\_  
Donor 2  
Signature & Date

11.19.15
65

**Federal Home Loan Bank of Des Moines**

## Gift Funds (UG 4.7.1, 4.7.4 & 4.2.2)

LTV, CLTV, or HCLTV Ratio	Min. Borrower Contribution Requirement from Borrower's Own Funds	
≤ 90%	1-4 Unit Primary Residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift
> 90%	1-4 Unit Primary Residence	The borrower must make a 3% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves
All LTVs	Second Home or Manufactured Home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves

66

Federal Home Loan Bank of Des Moines		
<b>Gift Funds</b> (B3-4.3-04)		
LTV, CLTV, or HCLTV Ratio	Min. Borrower Contribution Requirement from Borrower's Own Funds	
<b>≤ 80%</b>	1-4 Unit Primary Residence or Second Home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift
<b>&gt; 80%</b>	1-4 Unit Primary Residence (except for high-balance loans)	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift
	2-4 Unit Primary Residence, Second Home, or High Balance Loans	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves
<b>All LTVs</b>	Manufactured Home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves

11.19.15 67

Federal Home Loan Bank of Des Moines
<b>Gift of Equity</b> (UG 4.7.4.1)
<ul style="list-style-type: none"> <li>• Definition:                             <ul style="list-style-type: none"> <li>- A gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction.</li> </ul> </li> <li>• Where all or part of the down payment was supplied by a gift of equity from the property seller:                             <ul style="list-style-type: none"> <li>- The property seller that is also the gift donor of the down payment gift must be a relative of the Borrower</li> <li>- <b>The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity</b></li> <li>- <b>Traditional:</b> <ul style="list-style-type: none"> <li>• For LTV's &gt; 80%, a minimum of 5% of the funds invested in the transaction must be from the Borrower's own funds</li> <li>• For LTV's ≤ 80%, all the funds invested in the transaction may be in the form of a gift</li> </ul> </li> <li>- A gift letter must be provided by the donor (see Chapter 4.7.4 of the Underwriting Guide for requirements)</li> <li>- Gift of equity must be shown on the Closing Disclosure</li> </ul> </li> </ul>

11.19.15 68

Federal Home Loan Bank of Des Moines

## Sweat Equity (UG 4.7.8)

- **Sweat Equity Definition:**
  - The increase in the home's value as a direct result of value-enhancing improvements made by the homeowners
- **Can be considered on an individual basis:**
  - **Traditional:**
    - Maximum sweat equity = 5%
    - Minimum of 3% of borrowers own funds must be in the transaction
    - Occupying borrower must demonstrate the ability to complete the work in a skillful, workman like manner as documented by the appraisal
  - **Xtra:**
    - Not an eligible source of funds
    - Any credits shown on the HUD-1 will be treated as a sales concession and deducted from both the sales price and appraisal

11.19.15 69

Federal Home Loan Bank of Des Moines

## Stocks

- **Definition:**
  - Shares of ownership in a publicly held corporation
  - Share price and value of shares will vary
  - Dividend income can be generated from stock ownership
- **If they sold the investment, determine the value at the time of sale:**
  - Most recent 2 months (or quarterly) statements from the investment firm to evidence borrower's ownership of the stock
  - Evidence the receipt of funds

Holdings (Symbol) as of March 31, 2010	Performance March 31, 2010	Quantity March 31, 2010	Price per Unit March 31, 2010	Cost	Total Value March 1, 2010	Total Value March 31, 2010
<b>Stocks 96% of holdings</b>						
AUTOMATIC DATA PROCESSING INC (ADP )		75,000	\$44.470	\$3,182.70	\$3,120.75	\$3,335.25
MCDONALDS CORP (MCD )		50,000	66.720	2,624.45	3,192.50	3,336.00
RESEARCH IN MOTION LTD ISIN #CA7609751028 SEDOL #2117265 (RIMM )		50,000	73.970	3,735.45	3,544.00	3,698.50
SIRIUS XM RADIO INC COM (SIRI )		4,000,000	0.871	3,473.45	4,080.00	3,484.00
WAL-MART STORES INC (WMT )		150,000	55.600	8,650.18	8,110.50	8,340.00

11.19.15 70

Federal Home Loan Bank of Des Moines

## Bonds

- Definition:
  - Bonds are investments in someone's loan or debt
  - Return a yield (interest rate)
  - Backed by the US Government
    - Can be backed by corporations, local municipalities or foreign governments
- If they sold the investment, determine the value at the time of sale:
  - Most recent 2 months (or quarterly) statements from the Investment Firm to evidence their ownership of the bond
  - Bond redemption value
  - Evidence of receipt of funds

Holdings	(Symbol) as of March 31, 2010	Performance	Quantity	Price per Unit	Cost	Total Value	Total Value
		March 31, 2010	March 31, 2010	March 31, 2010		March 1, 2010	March 31, 2010
BANK OF AMERICA CORP SUB INTERNOTES			500.000	23.950	10,909.40	11,775.00	11,975.00
	5.875% 12/15/2033 (IKM)						

11.19.15 71

Federal Home Loan Bank of Des Moines

## Sample Trade Confirmation



Account Number: 123-4567890  
 Account Type:  
 E\*TRADE Securities LLC  
 P.O. Box 1542  
 Manassas, VA, 22116-1542  
 T: 800-678-0001 (1-800-367-2201)  
 etrade.com

Page 1 of 2

**E\*TRADE Securities**  
 Investment Account

**TRADE CONFIRMATION**

Account Name: \_\_\_\_\_  
**Training Sample**

**Customer Update**  
 Tax Season is approaching. Your tax documents will be available by February 1, 2010. Questions? Go to [www.etrade.com/taxcenter](http://www.etrade.com/taxcenter) for more information.

TRADE DATE	SETL DATE	MKT / CPT	SYMBOL / CUSIP	BUY / SELL	QUANTITY	PRICE	ACCT TYPE		
02/19/10	02/23/10	B T	BAC	SELL	100	\$15.6805	Cash	PRINCIPAL	\$1,568.05
								COMMISSION	\$9.99
								FEE	\$0.02
								<b>NET AMOUNT</b>	<b>\$1,558.04</b>

11.19.15 72

**Federal Home Loan Bank of Des Moines**

## Mutual Funds

- Definition:
  - Blend of investments in stocks, bonds and money market accounts
  - Managed by a Fund Manager
- If they sold the investment, determine the value at the time of sale:
  - Most recent 2 months (or quarterly) statements from the Investment Firm to evidence their ownership of the stock
  - Trade Confirmation
  - Evidence the receipt of funds

Holdings (Symbol) as of March 31, 2010	Performance March 31, 2010	Quantity March 31, 2010	Price per Unit March 31, 2010	Cost	Total Value March 31, 2010	Total Value March 31, 2010
<b>Mutual Funds 18% of holdings</b>						
FIDELITY HIGH INCOME (SPHIX)	30-day Yield: 7.17%	614.750	8.670	4,000.00	5,171.85	5,329.88
FIDELITY SELECT ENERGY (FSENX)		110.103	44.320	6,000.00	4,794.99	4,879.76
PRUDENTIAL JENNISON UTILITY CLASS B N/C #REOR M0050622890001 (PRUTX)		1,247.972	9.160	10,000.00	11,064.83	11,431.42

11.19.15
73

**Federal Home Loan Bank of Des Moines**

## Business Account Funds

- Borrower's who are self-employed may use business account funds under certain circumstances:
  - There must be no impact on the viability of the business
    - Two years of signed personal and business tax returns are required to support the viability of the business
  - They must demonstrate ownership of the business and evidence that they are allowed to withdrawal the funds
  - The business must show sufficient liquidity to withdraw the funds
  - Document ownership and sufficient liquidity with a letter from the CPA

11.19.15
74

## Reserves

(UG 4.7.12)

- Stocks, Bonds, or Mutual Funds
  - A maximum of 70% of the most current documented value may be used for reserves
  - 100% of the value of the asset is allowed when determining reserves
- Retirement Accounts
  - If the borrower has reached retirement age
    - 100% of the vested amount may be used
  - If the borrower has not reached retirement age
    - A maximum of 60% or 100% of the most current vested amount may be used for reserves
    - Retirement accounts that do not allow withdrawals are prohibited
  - Documentation:
    - Terms and Conditions of withdrawal may be required to determine if and at what percentage the funds may be withdrawn
    - All pages of the most recent 2 mo. (or quarterly) retirement statement
    - Source of all large deposits

11.19.15 • Stock Options and Non-vested Restricted Stock

- Not eligible for use as reserves

75

## Reserves

(UG 4.7.12)

- Second home requires a minimum 2 months PITI
- A minimum amount of reserves may be required depending on the loan amount, property type, Borrower's FICO score. The minimum required reserves after closing is as follows:
  - **1 Unit Primary Residence** - the corresponding applicable amount published in Xtra Manual UG Chapter 2.2.3 or 2.2.3.1; or
  - **Second Home** - the greater of 2 months or the corresponding applicable amount published in Xtra Manual UG Chapter 2.2.3 or 2.2.3.1; or
  - **2-4 Unit Primary Residence** - the greater of 6 months or the corresponding applicable amount published in Xtra Manual UG Chapter 2.2.3 or 2.2.3.1; or
  - **AHP Loans** - see Xtra UG 4.7.12
- For every financed 1-4 unit property the Borrower owns in addition to the Mortgaged Property:
  - For the first 4 financed properties that are either a second home or an investment property, an additional 2 months of reserves per property; and
  - For the 5<sup>th</sup> -10<sup>th</sup> financed properties that are either a second home or an investment property, an additional 6 months of reserves per financed property
- If the Borrower converts or is unable to sell their current residence prior to closing on a new mortgage, see UG 4.7.12 for additional restrictions

11.19.15

76

# Questions?

To obtain a copy of the certificate of completion for this course, please email [MPFApplications@fhldm.com](mailto:MPFApplications@fhldm.com) with the course name and date attended.