

Employment-Related Assets as Qualifying Income

The following table provides the requirements for employment-related assets that may be used as qualifying income.

✓	Asset Requirements
	<p>Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan.</p> <p>The documentation must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).</p>
	<p>Assets must be liquid and available to the borrower and must be sourced as one of the following:</p> <ul style="list-style-type: none">• A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) – these funds must be documented with a distribution letter from the employer (Form 1099-R) and deposited to a verified asset account.• For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	<p>If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.</p>

✓	Asset Requirements
	<p>If the employment-related assets are in the form of stocks, bonds, and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.</p>
	<p>A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).</p>
	<p>“Net documented assets” are equal to the sum of eligible assets minus:</p> <ul style="list-style-type: none"> (a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; (b) the amount of funds used for down payment, closing costs, and required reserves; (c) 30% of the remaining value of any stocks, bonds, or mutual funds assets (after the calculation in (b)).
	<p>Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).</p>
	<p>Example: Calculation of Net Documented Assets</p>

✓	Asset Requirements	
	IRA (made up of stocks and mutual funds)	\$ 500,000
	Minus 10% of \$500,000 ($\$500,000 \times .10$) (Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) \$50,000
	Total eligible documented assets	(=) \$ 450,000
	Minus funds required for closing (down payment, closing costs, reserves)	(-) \$100,000
	(a) Subtotal	(=) \$ 350,000
	Minus 30% of \$350,000 ($\$350,000 \times .30$)	(-) \$105,000
	(b) Net Documented Assets	(=) \$245,000
	Monthly income calculation	\$680.56/month

✓	Asset Requirements
	<p>(\$245,000/360 (or applicable term of loan in months))</p> <p>See Income Calculation/Payout Stream in table below.</p>

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Loan Parameter	Requirement
Maximum LTV, CLTV, and HCLTV Ratio	<p>70%</p> <p>80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be a borrower on the loan and the borrower using the income to qualify must be at least 62 years old at the time of closing.</p>
Minimum Credit Score	<p>DU: 620</p> <p>Manual: Higher of 620 or minimum credit score per the Eligibility Matrix</p>
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of Units	As permitted by occupancy type

Loan Parameter	Requirement
Income Calculation/Payout Stream	Divide “Net Documented Assets” by the amortization term of the mortgage loan (in months).

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as “Interest and Dividends Income,” or “Retirement, Government Annuity, and Pension Income.”