FHA INCOME GUIDELINES

The Borrower's employment history documentation is the Lender's responsibility. HUD does not require a length of time that the Borrower must have held a job position to be eligible for an FHA loan. The Lender must document the employment history for the most recent 2 years. If the borrower has been enrolled in school during that 2 year history this must be documented as well, and the full job history will be reviewed.

When verifying the Borrower's income the Lender must ensure the income is guaranteed to continue for at least the first 3 years of the mortgage. This rule will also apply to other income such as: wage income, disability, retirement, social security, self-employment, child support and alimony. If the Borrower's employment and income status is subject to a negative change during the loan process the file may be subject to a counter offer or a denial. The Lender will have to review the career paths, job changes for advancements, and/or wage increases and motivation. The Lender will require documentation from the Borrower on the circumstances for the changes if the file is manually underwritten.

PENDING RETIREMENT AND/OR REDUCTION IN INCOME:

In order for the effective income to being used to qualify it must be the (lower) retirement (or any other type) of benefits that will be taking effect in the near future.

OVERTIME AND/OR BONUS INCOME:

Overtime and bonus income may be used to qualify for the loan. The Lender will take the most recent 2 year average (per W2's) and the YTD of the gross income. The Lender will have to use the lesser income amount of the current YTD or the 2 year average.

PART TIME INCOME FROM A 2ND JOB:

The Lender may only use the income from a 2nd job is the Borrower can show a 2 year (or more) history of having a 2nd job. The average over the most recent 2 years plus the YTD gross will be used to qualify.

COMMISION INCOME:

The Lender will review the last 2 year tax returns and will take the average of the commission income received. The Borrower must also have this income documented on his/her paystub. If the borrower has business expenses then these will be subtracted before the 2 year average is computed. The section regarding self-employed borrowers will go in to further detail.

NOTES RECEIVABLE:

The Lender will require a copy of the note with the amount and length of payment to be received by the Borrower. The Borrower will also need to provide the Lender with copies of the tax returns or cancelled checks to verify receipt of such income for the past 12 months or more.

INTEREST & DIVIDENTS:

This income will be used by averaging the most recent 2 year history of income on the tax returns. The funds for the loan transaction that are derived from the source(s) providing the interest or dividend income will have to be subtracted before projecting any future income from the same sources.

VA OR SOCIAL SECURITY INCOME:

Written verification must be provided from the government agency providing the income. The awards statement showing the current amount and that the income is expected to continue for at least 3 years.

GOVERNMENT ASSISTANCE PROGRAMS:

If the government agency provides documentation that income with continue for at least 3 years the borrower may use income received by welfare, unemployment, workman's ,required 3 years the income can only be considered in higher ratio circumstances, more than 31/43 standard. NOTE: A 2 year average of receipt must be used to qualify income from unemployment.

RENTAL INCOME/ RENTAL LIABILITIES

When a Borrower vacates on principle residence for another principle residence the mortgage payments will have to be included as a debt. The only way to avoid this is if the LTV (Loan to Value) is less than 75%. This regulation came in September of 2008. The mortgagee letter 2008-25 can be downloaded from this link: Mortgagee Letter 2008-25.

If the Borrower is receiving rent for qualifying properties, the borrower must provide verification through tax returns and/or leases. On the properties owned by the Borrower, the most recent 2 year tax returns will be used and the average of the Schedule E income will be documented. Please keep in mind that if the most recent tax return shows a greater loss than the 2 year average the lesser income will have to be used.

When there is negative income is has to be treated as recurring debt, however depreciation can be back into income and the positive is added to the Borrower's wage income.

The Lender will list each property owned by the Borrower on the 1003 and the tax returns must match the 1003 information. The Lender must verify and list all properties owned by the borrower and verify the total of FHA mortgages. If a Borrower has six or more units (not properties) in the same 2 block area, the Borrower must provide a map showing the locations of the properties to be submitted as evidence to comply with HUD's limitation of 7 units rule. Any Properties that have recently been sold must be verified by HUD-1 closing statement as being sold by the Borrower. When verifying income to be used from a property recently purchased, the income from the lease must be reduced by a 25% vacancy factor before calculating the final income.

An FHA appraiser will determine and verify the current market rent applicable to a purchase of a (new) Multi- family (2-4) unit property. The Lender is to only use 85% of the appraiser's rent prediction as the qualifying income.

AUTO ALLOWANCE AND EXPENSE ACCOUNT REIMBURSEMENT:

Only when the amount by which the Borrower's allowance or reimbursement surpasses the tangible expenses may be used as income.

The Lender will request the Borrower's most recent 2 year tax returns and Form 2106 from each year to be reviewed. The income may be added to the Borrower's wage income only if the 2 year average income exceeds the expenses. A loss will be treated as long-term debt.

The standard IRS allowance must be used to qualify if the Borrower reports Mileage income. The Borrower's monthly car payment will always be considered long term debt, which means the payments will not offset the auto allowance or reimbursement.

TRUST INCOME:

A Borrower may use income from a Trust only if a constant payment can be documented to continue for 3 years or more. The Lender will request a copy of the Trust Agreement and the trustees' statement confirming the current status of the account. The trustees' statement will confirm the amount, frequency of payment distribution and the length the payment will continue. If any funds are being used for the loan transaction they must be subtracted from the balance of the trust account when calculating the continuing income.

NON-TAXABLE INCOME:

There are certain types of disability or public assistance payments that are not taxable through the Federal Government. For qualifying purposes, the amount of tax savings attributed to this type of income may be added the monthly income. The percentage of income that is allowed to be used can't exceed the appropriate tax rate for the same income amount for the individual

Borrower. Grossing up income refers to the addition of tax savings to the Borrower's income. HUD only allows 25% to be grossed up. The Lender will determine the amount to be grossed up and whether or not the income is truly non-taxable.

BORROWERS EMPLOYED BY A FAMILY BUSISNESS:

The Lender will require the Borrower to verify earnings through pay stubs and the Lender will request a VOE (Verification of Employment). The VOE will verify whether or not the Borrower has any ownership in the business. If the Borrower has ownership within the company he/she must have the accountant for the family business provide a written statement that verifies the ownership. The Underwriter may review the Borrower's tax returns and/or the company tax returns to be warranted.