

**Part 3 – 4000.1 Updates**

**Please note the following changes made to several sections of the UW Lending Guide, effective for applications on or after 4/29/2024.**

Section 7.33 Income Requirements	
Existing Guideline	Updated Guideline
<p><b>Income from Non-Borrowing Spouse</b></p> <p>A “Non-Borrowing Spouse” is defined as the spouse as determined by the law of the state in which the spouse and borrower reside or the state of celebration of the HECM borrower at the time of closing and who also is not a borrower. Non-Borrowing Spouses may not be required to provide information on income.</p> <p>Only an Eligible Non-Borrowing Spouse may voluntarily provide information on his or her income and MoOM may use the residual income of the Non-Borrowing Spouse in one of two ways as a compensating factor:</p> <ul style="list-style-type: none"> <li>• To increase income for qualification purposes</li> <li>• To reduce the family size by one</li> </ul> <p>To use his/her income as a compensating factor, the Eligible Non-Borrowing Spouse must disclose and have his or her SSN verified, must agree to have their credit report pulled and must meet the same documentation and verification standards as required for the borrower’s income. <b><u>Non-taxable income may not be grossed up, and imputed income from dissipated assets may not be included.</u></b></p> <p><b>Income from Other Non-Borrowing Household Members</b></p> <p>An “Other Non-Borrowing Household Member” is defined as a person who occupies the property to be secured with the HECM but who is not the spouse of the borrower and who also is not a borrower. Another Non-Borrowing Household Member may voluntarily provide information on his or her income and MoOM may use his or her residual income to reduce the family size.</p> <p>To have their income considered, the Other Non-Borrowing Household Member must disclose and have his or her SSN verified, agree to have their credit pulled and must meet the same documentation and verification standards as required for the borrower’s income. <b><u>Non-taxable income may not be grossed up, and imputed income from dissipated assets may not be included.</u></b></p> <p>➤ <b>Note:</b> Proof of occupancy will be required for the NBHM.</p> <p><b>Grossing Up Non-Taxable Income</b></p>	<p><b>Income from Non-Borrowing Spouse</b></p> <p>A “Non-Borrowing Spouse” or “NBS” is defined as the spouse as determined by the law of the state in which the spouse and borrower reside or the state of celebration of the HECM borrower at the time of closing and who also is not a borrower. Non-Borrowing Spouses may not be required to provide information on income.</p> <p>Non-Borrowing Spouses are identified either as “eligible” or “ineligible”. Only an Eligible Non-Borrowing Spouse or “ENBS” may voluntarily provide information on his or her income and MoOM may use the residual income of the Non-Borrowing Spouse in one of two ways as a compensating factor:</p> <ul style="list-style-type: none"> <li>• To increase income for qualification purposes</li> <li>• To reduce the family size by one                             <ul style="list-style-type: none"> <li>○ <b><u>If using to reduce the family size, or as a compensating factor, verify and document the eligible NBS has received the income for a minimum of 6 months &amp; will likely continue.</u></b></li> </ul> </li> </ul> <p>To use his/her income as a compensating factor, the Eligible Non-Borrowing Spouse must disclose and have his or her SSN verified, must agree to have their credit report pulled and must meet the same documentation and verification standards as required for the borrower. <b><u>ENBS non-taxable income may not be grossed up, and imputed income from dissipated assets (held only in the ENBS’ name) may not be included.</u></b></p> <p><b>Income from Other Non-Borrowing Household Members</b></p> <p>An “Other Non-Borrowing Household Member” or “ONBHM” is defined as a person who occupies the property to be secured with the HECM but who is not the spouse of the borrower and who also is not a borrower.</p> <p>A Non-Borrowing Household Member may voluntarily provide information on his or her income and MoOM may use his or her residual income to reduce the family size.</p> <p>To have their income considered, the Other Non-Borrowing Household Member must disclose and have his or her SSN verified, agree to have their credit pulled and must meet the same documentation and verification standards as required for the borrower’s income. <b><u>ONBHM non-taxable income may not be grossed up, and imputed income from dissipated assets may not be included.</u></b></p>

Non-taxable income may not be grossed up as the cash flow/income analysis will consider federal taxes. If federal taxes are not paid on some or all a borrower's income, it will be reflected in the expense analysis.

#### Employment Related Income

Income that a borrower receives as an employee of a business that is reported on IRS Form W-2. MoOM may use employment related income as effective income in accordance with the standards provided for each type of employment related income in this chapter. For all employment related income, MoOM will require the most recent paystubs covering a minimum of 30 consecutive days or if paid weekly or bi-weekly, paystubs must cover a minimum of 28 consecutive days.

The most recent paystub should not be dated more than 90 days from the closing date and all paystubs should exhibit the following:

- Borrower's YTD (year-to-date) earnings
- Employer's name and address
- Pay period
- Borrower's name and identify the borrower as an employee

MoOM will also require one of the following to verify the most recent 2-year employment history:

- Fully completed Verification of Employment (VOE)
- An electronic version of a VOE is acceptable to FHA (Work Number, etc.)
- Most recent two years' W-2s and written certificate verifying employment over the phone which must include:
  - Name, title & phone number of persons with whom employment was verified
  - Must be signed and dated by processor/underwriter

➤ **Note:** Re-verification of employment must be completed within 10 days prior to funding.

#### Past Employment Documentation/Verification

Direct verification of the borrower's employment history for the previous two years is not required if ALL the following conditions are met:

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date
- Only base pay is used in calculating effective income (no overtime or bonuses)
- The borrower(s) executes IRS Form 4506C, Request for Copy of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years. (The 4506C can also be generated from Reverse Vision or Quantum Reverse.)

➤ **Note:** the IRS released a new version of the 4506C that went into effect on 11/30/2022. Vendors will no longer accept 4506C forms where the information in fields 1a through 8 are filled in by hand. Only the signature field can still be handwritten.

#### [Text Deletion]

#### Grossing Up Non-Taxable Income

Non-taxable income may not be grossed up as the cash flow/income analysis requires the lender to evaluate the federal and state tax liability based on the income verified. If federal and/or state taxes are not paid on some or all a borrower's income, it will be reflected in the expense analysis.

➤ **Note:** "Grossing Up" is the practice of taking income – like social security – and multiplying it by a factor (i.e. 1.25 or 125%) to account for the amount or portion that is not taxable.

#### Employment Related Income

Income that a borrower receives as an employee of a business that is reported on IRS Form W-2, **Wage and Tax Statement**.

MoOM may use employment related income as effective income in accordance with the standards provided for each type of employment related income in this chapter. For all employment related income, MoOM will require the most recent two (2) years of employment and income and document current employment using either traditional or alternative documentation.

Traditional current employment documentation includes either:

- The most recent paystubs covering a minimum of 30 consecutive days or if paid weekly or bi-weekly, paystubs must cover a minimum of 28 consecutive days and a written Verification of Employment (VOE); or
- Direct **electronic** verification by a Third-Party Vendor or "TPV" acceptable to FHA (e.g. Work Number, CCC Verify, etc.).

➤ **Note:** Re-verification of employment must be completed within 10 days **prior to disbursement**. **Electronic reverification of employment is acceptable. Electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30-days of the date of the verification.**

Alternative current employment documentation must include **all** of the below:

- The most recent paystubs covering a minimum of 30 consecutive days or if paid weekly or bi-weekly, paystubs must cover a minimum of 28 consecutive days; and
- Copies of the previous two (2) years W-2's; and
- Document current employment via a verbal verification of employment including the name, title and telephone number of the person employment was verified and be signed and dated by the associate performing the verbal.

If the borrower has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, MoOM must obtain one or a combination of the following for the most recent two years to verify the borrower's employment history:

- W-2(s)
- VOE(s)
- Electronic verification acceptable to FHA
- Evidence supporting enrollment in school or the military during the most recent two full years.

#### Gaps in Employment

For borrowers with gaps in employment of 6 months or more, MoOM may consider the borrowers current income as effective income if we can verify & document the following:

- The borrower had been employed in the current job for at least six months at the time of case number assignment
- The borrower had a two-year work history prior to the absence from employment (standard or alternative employment verification required)

➤ **Note: Re-verification of employment must be completed within 10 days prior to the Note/Closing date. Electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30-days of the date of the verification.**

The most recent paystub should not be dated more than 120 days from the disbursement date and all paystubs should exhibit the following:

- Borrower's YTD (year-to-date) earnings
- Employer's name and address
- Pay period
- Borrower's name and identify the borrower as an employee

#### [Text Deletion]

#### Past Employment Documentation/Verification

Direct verification of the borrower's employment history for the previous two years is not required if all the following conditions are met:

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date; and
- Only base pay is used in calculating effective income (no overtime or bonuses); and
- The borrower(s) executes IRS Form 4506C, Request for Copy of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years. (The 4506C can also be generated from Reverse Vision or Quantum Reverse.)

If the borrower has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, MoOM must obtain one or a combination of the following for the most recent two years to verify the borrower's employment history:

- W-2(s);
- Written VOE(s);
- Direct electronic verification by a Third-Party Vendor or "TPV" acceptable to FHA; and/or
- Evidence supporting enrollment in school or the military during the most recent two full years.

#### Gaps in Employment

For borrowers with gaps in employment of 6 months or more, MoOM may consider the borrowers current income as effective income by documenting all of the following:

- The borrower had been employed in the current line of work for at least six months at the time of case number assignment; and
- The borrower had a two-year work history prior to the absence from employment (traditional or alternative employment verification required.)

	<p><b>Returning to Work After Retirement</b></p> <p>MoOM may consider the income of Borrowers who have returned to work following a retirement period two (2) or more years, as effective income by documenting <u>all</u> of the following:</p> <ul style="list-style-type: none"> <li>➤ The Borrower has been employed in the current job for at least six months at the time of case number assignment; and</li> <li>• The Borrower intends to continue working; and</li> <li>• The Borrower’s employer expects the Borrower’s employment to continue.</li> </ul>
<p><b>Section 7.34 Eligible Types of Income</b></p>	
<p style="text-align: center;"><b>Existing Guideline</b></p>	<p style="text-align: center;"><b>Updated Guideline</b></p>
<p>MoOM may consider all the below effective income types, provided they are properly documented (additional income types can be found in the HECM Financial Assessment &amp; Property Charge Guide, revised 10/03/2016):</p> <ul style="list-style-type: none"> <li>• Aid for Dependent Children</li> <li>• Alimony/Child Support Income</li> <li>• Annuity Income or Similar Income</li> <li>• Automobile Allowance or Expense Account</li> <li>• Boarder/Roommate Income</li> <li>• Bonus Income</li> <li>• Capital Gains</li> <li>• Clergy Income (Housing allowance and base pay)</li> <li>• Commission Income</li> <li>• Disability Benefits</li> <li>• Employment from Family-Owned Business/Interested Parties</li> <li>• Employer Housing Subsidy</li> <li>• Expected Income (with limitations)</li> <li>• Foreign Income (with limitations)</li> <li>• Government Assistance (non-cash benefits)</li> <li>• Hourly</li> <li>• Interest/Dividend Income</li> <li>• IRA Distributions</li> <li>• Military Income</li> <li>• Notes Receivable Income</li> <li>• Other Public Assistance</li> <li>• Overtime</li> <li>• Part-Time Income (less than 40-hour work week)</li> <li>• Pension/Retirement Income</li> <li>• Rental Income from Subject Property (if subject family is a multi-unit property)</li> <li>• Rental Income from an Accessory Dwelling Unit (ADU)</li> <li>• Rental Income from Other Real Estate</li> </ul>	<p>MoOM may consider all the below effective income types, provided they are properly documented:</p> <ul style="list-style-type: none"> <li>• Aid for Dependent Children</li> <li>• Alimony, Child Support, <b>and/or Maintenance Income</b></li> <li>• Annuity Income or Similar Income</li> <li>• Automobile Allowance or Expense Account</li> <li>• Boarder Income <b>(a renter of an ADU is <u>not</u> a Boarder)</b></li> <li>• Bonus Income</li> <li>• Capital Gains and Losses</li> <li>• Clergy Income (Housing allowance and base pay)</li> <li>• Commission Income</li> <li>• Disability Benefits</li> <li>• Employment from Family-Owned Business/Interested Parties</li> <li>• Employer Housing Subsidy</li> <li>• Expected Income (with limitations)</li> <li>• Foreign Income (with limitations)</li> <li>• Foster Care Income</li> <li>• Full-Time Income – Hourly / Salary</li> <li>• Government Assistance (non-cash benefits)</li> <li>• Interest/Dividend Income</li> <li>• Individual Retirement Account or “IRA” or 401(k) Distributions</li> <li>• Investment Income</li> <li>• Military Income</li> <li>• Notes Receivable Income</li> <li>• Other Public Assistance</li> <li>• Overtime</li> <li>• Part-Time Income (less than 40-hour work week)</li> <li>• Pension</li> <li>• Private Disability</li> </ul>

<ul style="list-style-type: none"> <li>• Royalty Payments</li> <li>• Seasonal Income</li> <li>• Self-Employed Income (Schedule C, Partnership, S Corp, LLC, Corporation)</li> <li>• Social Security Income</li> <li>• Tips/Gratuity Income</li> <li>• Truck Driver Income</li> <li>• Trust and Estate Income</li> <li>• Union Employee</li> <li>• VA Benefits</li> <li>• Imputed Income from Asset Dissipation</li> </ul> <p>➤ <b>Note:</b> This guide will explain the most common types of effective income regarding documentation and calculations. For questions on other types of effective income please email <a href="mailto:preflight@mutualmortgage.com">preflight@mutualmortgage.com</a></p>	<ul style="list-style-type: none"> <li>• Rental Income from Subject Property (if subject family is a multi-unit property)</li> <li>• Rental Income from an Accessory Dwelling Unit (ADU)</li> <li>• Rental Income from Other Real Estate</li> <li>• Retirement Income</li> <li>• Royalty Payments</li> <li>• Seasonal Income</li> <li>• Self-Employed Income (Sole Proprietorship or Schedule C, Partnership or Schedule E, Limited Liability or “S” Corporations, Corporations or “C” Corporations)</li> <li>• Social Security Income</li> <li>• Tips/Gratuity Income</li> <li>• Truck Driver Income</li> <li>• Trust and Estate Income</li> <li>• Union Employee</li> <li>• Department of Veterans Affairs or “VA” Benefits</li> <li>• Imputed Income from Asset Dissipation</li> </ul> <p>➤ <b>Note:</b> This guide will explain the most common types of effective income regarding documentation and calculations. For questions on other types of effective income please reach out to your Account Executive or PSA.</p>
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<b>Section 7.38 Pension/Retirement Income</b>	
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Existing Guideline	Updated Guideline
<p>Pension income is income the borrower receives from his or her former employer(s). MoOM must verify and document the borrower’s receipt of continuous payments from the borrower’s pension and that the payments are likely to continue for at least 3 years.</p> <p>MoOM must obtain the most recent statement/paystub and one of the following:</p> <ul style="list-style-type: none"> <li>• Most recent federal tax return (must be signed, dated and have been filed with the IRS)</li> <li>• Most recent bank statement showing receipt of income from the former employer</li> <li>• A copy of the borrower’s pension/retirement letter from the former employer</li> </ul> <p>➤ <b>Note:</b> If above documentation does not verify a 3-year continuance, then additional documentation will be required. If source of the pension is the federal government (including the VA). MoOM will consider the income effective and reasonably likely to continue with no additional requirement to verify continuance.</p>	<p>Pension income is income the borrower receives from his or her former employer(s). MoOM must verify and document the borrower’s receipt of <b>periodic payments</b> from the borrower’s pension and that the payments are likely to continue for at least 3 years.</p> <p>MoOM must obtain any one of the following in documenting receipt and evidence of continuance:</p> <ul style="list-style-type: none"> <li>• Most recent federal tax return (must be signed, dated and have been filed with the IRS);</li> <li>• Most recent bank statement showing receipt of income from the former employer, <b>or</b></li> <li>• A copy of the borrower’s pension/retirement letter from the former employer.</li> </ul> <p>➤ <b>Note:</b> If above documentation does not verify a 3-year continuance, then additional documentation will be required. If source of the pension is <b>municipal, state or</b> the federal government. MoOM will consider the income effective and reasonably likely to continue with no additional requirement to verify continuance.</p>

<b>Section 7.45 IRA Distributions/Income</b>	
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Existing Guideline	Updated Guideline
<p>Retirement income refers to income the borrower received from an individual retirement account, such as an IRA or 401K. The borrower must verify and document that he or she receives recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.</p>	<p>Retirement income refers to income the borrower received from an individual retirement account, such as an IRA or 401(k). <b>MoOM must verify and document the borrower’s receipt of</b> recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.</p>

MoOM must obtain all the following:

- Most recent IRA/401(k) statement
  - Most recent 1099
  - The most recent 2 months' bank statements showing receipt of income

For borrowers who have been and will continue to consistently receive IRA/401(k) income, the lender uses the current amount of IRA/401(k) income to calculate effective income. For borrowers with fluctuating IRA/401(k) income, MoOM will calculate effective income from the average of the IRA/401(k) income over the previous two years. If the borrower received IRA/401(k) income for less than two years, the lender uses the average over the period the borrower received it. MoOM requires the most recent statement from the retirement account to document a 3-year continuance. The current balance of the retirement account must equal 36 times the amount of the monthly payment.

MoOM must obtain the following:

- Most recent IRA/401(k) statement, and
- One of the following documents:
  - Tax Returns; or
  - The most recent bank statement evidencing receipt of income

For borrowers who have been and will continue to consistently receive IRA/401(k) income, MoOM must use the current amount of IRA/401(k) income received to calculate effective income.

For borrowers with fluctuating IRA/401(k) income, MoOM must calculate effective income from the average of the IRA/401(k) income over the previous two years. If the borrower received IRA/401(k) income for less than two years, MoOM must use the average over the period of receipt.

IRA/401(k) income does not typically identify a period of continuance or guarantee a periodic distribution. To evaluate the likelihood that the income will continue for the next three years, MoOM requires that the balance as identified on the most recent statement be no less than 36x the amount of the identified monthly payment. If borrower has a current outstanding loan, the balance of the loan must be deducted from the retirement account value.

## Section 7.46 Borrowers Employed by Family/Family-Owned Business

### Existing Guideline

MoOM must obtain all the following:

- Most recent 30 consecutive days pay stubs
- Most recent 2 years W2's
- Most recent 2 years 1040's
- IRS transcripts will be required
- Written VOE at underwriting
- Re-verification of employment within 10 days of funding

### Updated Guideline

Family-Owned Business income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

➤ **Note:** Ownership is defined as having a 25% or greater interest in the business.

MoOM must obtain all the following:

- Evidence the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage. Official business documents include:
  - Corporate resolutions or other business organizational documents (i.e. Articles of Incorporation, Articales of Organization, etc);
  - Business Tax Returns or Scheduled K-1 (IRS form 1065) U.S. Return of Partnership Income; or
  - An official letter from a certified public accountant on their business letterhead.
- MoOM must obtain copies of signed personal Tax Returns (i.e. 1040) or tax transcripts (regardless of traditional or alternative documentation requirements.)

Provided that MoOM can document that the borrower is not considered an owner, MoOM must use the traditional and alternative employment verification requirements, as identified in section 7.33, to calculate and document employment income.

## Section 7.47 Rental Income from the Subject Property

### Existing Guideline

Rental Income from the Subject Property refers to income received when the subject property has 2-4 units or will be a one-unit dwelling with an ADU.

MoOM may consider rental income from existing and prospective tenants if documented in accordance with the following requirements.

➤ **Note:** *Rental Income derived from Family member must be escalated up for 2nd Level Review.*

#### Requirements for Limited or No History of Rental Income

The borrower does not have a history of rental income from the subject property since the previous tax filing. MoOM must verify and document the proposed rental income by obtaining:

- An appraisal showing fair market rent [use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report]; and
- Prospective leases, if available.

#### Requirements for Established History of Rental Income

The borrower has a history of rental income from the subject property since the previous tax filing. MoOM must verify and document the existing rental income by obtaining:

- The current lease
- The 24-month rental history (must be free from unexplained gaps greater than three months - such gaps could be explained by student, seasonal or military renters, or property rehabilitation)
- The mortgagee must obtain the mortgagor's last two years of tax returns with Schedule E along with IRS tax transcripts to verify each tax year.

➤ **Note:** *For properties with less than two years of rental income history, MoOM must document the date of acquisition by providing the deed, Settlement Statement, or other legal document.*

#### Calculating Rental Income from the Subject Property

##### Limited or No History of Rental Income:

To calculate the effective income from the subject property where the borrower does not have a history of rental income from the subject property since the previous tax filing, the mortgagee must use the lesser of:

- The monthly operating income reported on Fannie Mae Form 216
- 75 percent of the lesser of:
  - Fair market rent reported by the appraiser
  - The rent reflected in the lease or other rental agreement

### Updated Guideline

Rental Income from the Subject Property refers to income received or expected to receive when the subject property is either a 2–4-unit dwelling or a one-unit dwelling with an ADU.

Specific to rental income tied to the subject property, no income from commercial space may be included in Rental Income calculations.

MoOM may consider rental income from existing and prospective renters if documented in accordance with the following requirements – please note documentation varies depending upon the length of time the property has been owned:

#### Requirements for Limited or No History of Rental Income

Where the borrower does not have a history of rental income from the subject property since the previous tax filing. MoOM must verify and document the proposed rental income by obtaining:

- Letter of Explanation (LOE) from the borrower identifying why there is no history of rental income since the previous tax filing;
- An appraisal showing fair market rent:
  - 2-4-Unit use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report
  - One-Unit with ADU use appraisal as ordered and ask for the Fannie Mae Form 1007, Single Family Comparable Rent Schedule; and
- Prospective leases, if available.
- **Any rental income derived from a family member must be escalated up for 2nd Level Review.**

#### Requirements for Established History of Rental Income

Where the borrower has a history of rental income from the subject property since the previous tax filing.

MoOM must verify and document the existing rental income by obtaining all of the following:

- The current/existing lease;
- Rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation); and
- Borrower's most recent tax returns, including Schedule E, from the previous two years, along with IRS tax transcripts to verify each tax year.

For properties owned less than two years, but have a history of rental income, MoOM must document the date of acquisition by providing the deed, Settlement Statement/Closing Disclosure, or other legal document.

#### Calculating Rental Income from the Subject Property

##### Limited or No History of Rental Income:



Established History of Rental Income:

- MoOM must calculate the rental income by averaging the amount shown on the Schedule E.
- Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.
- If the property has been owned for less than two years, MoOM must annualize the rental income for the length of time the property has been owned.
- **One-Unit with an Accessory Dwelling Unit:**
  - MoOM must verify and document the proposed Rental Income from the ADU by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, URAR, and a Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, showing fair market rent and, if available, the prospective leases.
  - The amount of the Rental Income from an ADU used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

To calculate the effective income from the subject property where the borrower does not have a history of rental income from the subject property since the previous tax filing, **the mortgagee must use 75% of the lessor of (both must be documented):**

- Fair market rent reported by the appraiser; or
- The rent reflected in the lease or other rental agreement

**One-Unit with an Accessory Dwelling Unit (ADU) – Effective Income Cap**

The amount of the Rental Income from an ADU used as Effective Income **must not exceed 30 percent of the total monthly Effective Income.**

Established History of Rental Income:

- MoOM must calculate the rental income by averaging the amount shown on the Schedule E.
- Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.
- If the property has been owned for less than two years, MoOM must annualize the rental income for the length of time the property has been owned.

**Section 7.48 Rental Income from Other Properties**

**Existing Guideline**

Rental income from other real estate holdings may be considered effective income if the documentation requirements listed below are met. If rental income is being derived from the property being vacated by the borrower, the borrower must:

- be relocating to an area located more than 100 miles from the mortgagor’s current principal residence.
- MoOM must obtain a lease agreement of at least one year’s duration after the mortgage is closed, and
- evidence of the payment of the security deposit **or** first month’s rent.

MoOM may consider rental income from other properties if documented in accordance with the following requirements.

➤ **Note:** Rental Income derived from Family member must be escalated up for 2nd Level Review.

Requirements for Limited or No History of Rental Income

Defined as the borrower does not have a history of rental income since the previous tax filing, including property being vacated by the borrower, and must meet the following requirements:

- The borrower must have at least 25 percent equity in the property.
- **One Unit:**

**Updated Guideline**

Rental income from other real estate holdings may be considered effective income if the documentation requirements listed in this section are met.

If rental income is being derived from the property being vacated by the borrower, MoOM must document all of the following:

- Borrower is relocating to an area located more than 100 miles from the borrower’s current principal residence;
- A lease agreement of at least one year’s duration after the **HECM** is closed; **and**
- Either evidence of the payment of the security deposit or first month’s rent.

MoOM may consider rental income from other properties if documented in accordance with the following requirements.

Requirements for Limited or No History of Rental Income

**Where the** borrower does not have a history of rental income since the previous tax filing, including the property being vacated by the borrower (if applicable), MoOM must document all of the following:

- **Letter of Explanation (LOE) from the borrower as to why there is no history of rental income since the previous tax filing;**
- Borrower has at least a 25 percent equity in the property; and



- MoOM must verify and document the proposed rental income by obtaining a Fannie Mae Form 1004, *Uniform Residential Appraisal Report* that includes a Fannie Mae Form 1007, *Single Family Comparable Rent Schedule*, and a Fannie Mae Form 216, *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.
- **2-4 Units:**
  - MoOM must obtain an appraisal evidencing market rent. The appraisal is not required to be completed by an FHA Roster appraiser but must meet the following criteria:
    - MoOM must verify and document the proposed rental income by obtaining a Fannie Mae Form 1025, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216, *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

#### Requirements for Established History of Rental Income

The mortgagee must obtain the mortgagor's last two years of tax returns with Schedule E along with IRS tax transcripts to verify each tax year.

#### Calculating Rental Income from Other Properties

##### Limited or No History of Rental Income:

To calculate the effective net rental income from other real estate holdings where the borrower does not have a history of rental income since the previous tax filing, MoOM must deduct the principal, interest, taxes, and insurance payment (PITI) from the lesser of:

- The monthly operating income reported on Fannie Mae Form 216
- 75 percent of the lesser of:
  - Fair market rent reported by the appraiser
  - The rent reflected in the fully executed lease or other agreement. A copy of the most recent rental deposit via cancelled check matching the lease agreement will also be required.

##### Established History of Rental Income:

- MoOM must calculate the net rental income by averaging the amount shown on the Schedule E provided the borrower continues to own all properties included on the Schedule E.
- Depreciation shown on Schedule E may be added back to the net income or loss.
- If the property has been owned for less than two years, MoOM must annualize the rental income for the length of time the property has been owned.
- For properties with less than two years of rental income history, MoOM must document the date of acquisition by providing the deed, Settlement Statement, or other legal document.
- Positive net rental income must be added to the borrower's effective income.
- Negative net rental income must be included as a debt/liability.

- Market Rent based on Other Real Estate Owned (REO) Type – appraisals ordered to document market rent are not required to be completed by an FHA roster appraiser.
  - **One Unit or One Unit with an Accessory Dwelling Unit (ADU):**
    - Fannie Mae Form 1004, *Uniform Residential Appraisal Report* that includes a Fannie Mae Form 1007, *Single Family Comparable Rent Schedule* showing fair market rent and, prospective lease (if available).
  - **2-4 Units:**
    - Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report*. And *Appraisal Report* and prospective leases (if available).
  - **Any rental income derived from a family member must be escalated up for 2nd Level Review.**

#### Requirements for Established History of Rental Income

The mortgagee must obtain the borrower's last two years of tax returns with Schedule E along with IRS tax transcripts to verify each tax year.

#### Calculating Rental Income from Other Properties

##### Limited or No History of Rental Income:

To calculate effective net rental income from other real estate holdings where the borrower does not have a history of rental income since the previous tax filing, MoOM must deduct the principal, interest, taxes and insurance (PITI) from 75 percent of the lesser of:

- Fair market rent reported by the appraiser; or
- The rent reflected in the fully executed lease or other rental agreement.

##### Established History of Rental Income:

MoOM must calculate the net rental income by averaging the amount shown on the Schedule E provided the borrower continues to own all properties included on the Schedule E.

Depreciation shown on Schedule E may be added back to the net income or loss.

Positive net rental income must be added to the borrower's effective income and negative rental income must be included as a debt/liability.

- If the property has been owned for less than two years, MoOM must document *all* of the following:
  - Annualize the rental income for the length of time the property has been owned; and
  - The date of acquisition by providing the deed, Settlement Statement/Closing Disclosure, or other legal documentation.

New Section

7.50 Alimony, Child Support and Maintenance Income

Existing Guideline

Updated Guideline

New section

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

MoOM must obtain one of the following:

- A fully executed copy of the Borrower's final Divorce Decree;
- Legal Separation Agreement;
- Court Order; or
- Voluntary Payment Agreement with documented receipt.

When using a final divorce decree, legal separation agreement, or court order, the MoOM must obtain evidence of receipt using deposits on bank statements, canceled checks or documentation from the child support agency for the *most recent three months* that supports the amount used in qualifying.

When using a voluntary payment agreement, MoOM must document with either 12 months of canceled checks, deposit slips or tax returns.

MoOM must provide evidence that the claimed income will continue for at least three years. MoOM may either the front and pertinent pages of the divorce decree, settlement agreement or court order showing the financial details.

Calculation of Effective Income:

When using a final divorce decree, legal separation agreement, or court order, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent three months, MoOM may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent six months, MoOM may use the current payment to calculate Effective Income.

If the Alimony, Child Support, and Maintenance Income has not been consistently received for the most recent three months if court ordered or six months if voluntary, MoOM must use the average of the income received over the previous two years to calculate Effective Income.

If Alimony, Child Support, and Maintenance Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

## Section 7.49 Imputed Income from Asset Dissipation

### Existing Guideline

#### Imputed Income from Dissipation of Liquid Assets

MoOM may estimate imputed income from dissipation of liquid assets. Liquid assets are assets that can be converted to cash within one year without payment of an IRS penalty. The borrower does not have to liquidate assets in order to obtain HECM financing. It is not permitted to count the same asset twice, i.e., as a source of interest income and as imputed income from the dissipation of the asset. This applies to income from interest, dividends, or other returns on the account. If any funds to close will come from the account, MoOM will first subtract the funds to close from the account balance before dissipating the funds.

If the account receives deposits from other sources of effective income i.e., social security, pension, W-2 income, etc., and those sources are income are being included in the borrower's financial assessment, MoOM will subtract any of those deposit from the ending balance of the most recent month's statement before dissipating.

#### Liquid asset sources from which imputed income may be calculated include:

Asset Source	Amount To Be Counted
Savings and Checking Accounts, Certificates of Deposit, Roth IRAs and any other assets that are not subject to Federal taxes.	100%
Other assets that are subject to Federal taxes	85% *

➤ **Note:** MoOM may use the borrower's actual tax rate based on Federal tax returns from the prior tax year if tax rate is lower than 15% or no discount if borrower does not have a Federal tax obligation.

Assets may not be dissipated from an account where the borrower is not an owner of the account.

#### Calculation:

Total Discounted Asset Value – Funds to Close (if applicable) ÷ Life expectancy in months = Total Monthly Income from Assets

➤ **Note:** This is a brief overview of the Asset Dissipation from the HECM Financial Assessment and Property Charge Guide. For more information and documentation requirements, see [HUD Mortgagee Letter 2016-10](#).

#### Imputed Income from Dissipation of HECM Proceeds (Effective 12/1/2023)

Mutual will allow imputed income from the dissipation of HECM proceeds as a sole source of income to meet the financial assessment residual income requirement, as long as:

- No other **Error! Reference source not found.** are being used.

### Updated Guideline

#### Imputed Income from Dissipation of Liquid Assets

Imputed Income from Asset Dissipation refers to the amount of monthly income that could be generated if liquid assets were dissipated and converted to cash.

Liquid assets **refer to** assets that can be converted to cash within one year without payment of an IRS penalty.

It is not permitted to count the same asset twice, i.e. use the interest income generated from the account as well as the imputed income from the dissipation of the asset. This applies to income from interest, dividends, or other returns on the account. If the account receives deposits from other sources of effective income i.e., social security, pension, W-2 income, etc., and those sources of income are being included in the borrower's financial assessment, MoOM must subtract any of those deposit(s) from the ending balance of the most recent month's statement before dissipating.

Before calculating the imputed income from liquid asset dissipation, MoOM must do all of the following:

- Subtract funds either required or voluntarily brought to closing (as part of the transaction);
- Reduce any taxable asset by the lesser of the Borrower's actual tax rate, based on Tax Returns from the prior year or 15 percent. No adjustment is required if the Borrower does not have a federal tax obligation.

Asset Source	Amount To Be Counted
Savings and Checking Accounts, Certificates of Deposit, Roth IRAs and any other assets that are not subject to Federal taxes.	100%
Other assets that are subject to Federal taxes	85% *

Assets may not be dissipated from an account where the borrower is not an owner of the account. **If the asset is jointly held with a Non-Borrowing Spouse (eligible or ineligible) or other party that is not obligated on the mortgage, the asset may be counted if documentation is provided that the borrower(s) has unrestricted access to that asset (100% access letter signed and dated by all listed account holders).**

#### Calculation:

Total Discounted Asset Value – Funds to Close (required or voluntary) ÷ Life Expectancy in months based on the Calculated Age (183 days after the Closing/Note Date) = Total Monthly Income from Assets

#### Imputed Income from Dissipation of HECM Proceeds (Effective 12/1/2023)

Mutual will allow imputed income from the dissipation of HECM proceeds as a sole source of income to meet the financial assessment residual income requirement, as long as:

- They pass the [Error! Reference source not found.](#) for credit and property charges without using [Error! Reference source not found.](#).

- No other Compensating Factors – Residual Income Shortfall (Revised December 2023) are being used.
- They pass the Financial Assessment (Revised November 2023) for credit and property charges without using Extenuating Circumstances.