

VA Income Requirements — This is a quick reference for the most commonly referenced income types

For many more details on income, refer to Chapter 4 in the VA Handbook at http://benefits.va.gov/warms/pam26_7.asp.

Full Time

2 years of full time employment income history is required. Less than 12 months with the current employer is generally not considered stable and reliable, however, 6 to 12 months may be considered as acceptable if the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history, including similar line of work, extensive training or education and solid work history.

Self-Employment

2 years of self-employment history is required. Case-by-case exception for 12 to 24 months if self-employment is in a similar line of work as previous employment, extensive training or education and solid work history prior to self-employment. Must provide most recent two years signed tax returns.

New job after recent military discharge: For recently discharged veterans who have been in their new job a short time, analyze prospects for continued employment as follows:

- If the duties the veteran performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.
- If the veteran's current job requires skills for which the veteran has had no training or experience, greater time in the current job may be needed to establish stability.
- Apply the self-employment guidelines to a recently discharged veteran who is self-employed.

Most Common Variable Income Requirements

Part Time

2 years of uninterrupted part-time employment income history is required and must be reasonably likely to continue. This income may be used to offset debts of 10 to 24 months duration, if it is not eligible for inclusion as effective income and is verified for at least 12 months.

Overtime

2 years of uninterrupted overtime income history is required and must be reasonably likely to continue. This income may be used to offset debts of 10 to 24 months duration, if it is not eligible for inclusion as effective income and is verified for at least 12 months.

Commission

2 years of uninterrupted commission income history is required and must be reasonably likely to continue. Less than 2 years can rarely qualify, however, 12 to 24 months may be considered on a case-by case basis if; the borrower has a strong history of earning commission, related employment and/or extensive specialized training.

Bonus

2 years of uninterrupted bonus income history is required and must be reasonably likely to continue. This income may be used to offset debts of 10 to 24 months duration, if it is not eligible for inclusion as effective income and is verified for at least 12 months.

Tips

2 years of uninterrupted tip income history is required and must be reasonably likely to continue. This income may be used to offset debts of 10 to 24 months duration, if it is not eligible for inclusion as effective income and is verified for at least 12 months.

Seasonal

2 year history in the same job or same line of seasonal work is required. Confirm employer has reasonable expectation the borrower will be rehired next season. Must provide most recent two years signed tax returns.

Secondary Employment

2 years of uninterrupted secondary employment income history is required and must be reasonably likely to continue. This income may be used to offset debts of 10 to 24 months duration, if it is not eligible for inclusion as effective income and is verified for at least 12 months.

VA Income Requirements (continued)

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Job Gap: Generally speaking, with an extended absence of 6 months or more, a borrower should establish 12 months on the job in order to be eligible to use their income from the new job to qualify. VA may allow an exception for 6 to 12 months with a strong file, same line of work, similar earnings, cert of degree in the field of current employment.

Determining income (non-military): For full time employment income, we will use the base salary or hourly rate to determine income. For variable types of income, we must determine the frequency of payment to arrive at an accurate calculation of the monthly income to be used in trending analysis. 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, signed federal tax returns or VOE. If the trend in the amount of income is stable or increasing, the income amount should be averaged. If declining, but has since stabilized and there is no reason to believe the borrower will not continue to be employed at the current level, the current lower amount of variable income must be used. If declining, the income may not be stable and additional analysis must be conducted to determine if any variable income should be used.

Continuity of Income

Continuity of Income: A key driver of successful homeownership is confidence that all income used in qualifying a borrower will continue to be received by the borrower for the foreseeable future. That being said, there are certain types of income in which we must verify will continue for at least 3 years.

We must document 3 year continuance for the following types of income:

- Alimony or Child Support
- Social Security Income—not including retirement (i.e.—received for a teenage child)
- Pension/Retirement Income
- Trust Income
- Distributions from a Retirement Account
- Any other type of fixed income that may have a defined expiration date

VA Income Requirements (continued) - VA Specific Income

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Determining income for Active Duty Service Members: Consider the service member's base pay as stable and reliable except if they are within 12 months of release from active duty. Base pay can be found on the military Leave and Earnings Statement.

***If the service member will not be re-enlisting, determine whether:

- The borrower's anticipated source of income is stable and reliable, and/or
- The borrower has unusually strong compensating factors for any unknowns regarding future sources of income.

Active Duty Service Members within 12 months of release or end of contract:

For service members who are within 12 months of release from active duty or end of contract we must document the following:

- The service member has re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the loan closing, or
- Verify a valid offer of local civilian employment following the release from active duty, including documented employment start date, earnings, etc., or
- A statement from the service member stating they intend to re-enlist or extend their period of active duty beyond the 12 months, plus a statement from the commanding officer confirming:
 - * The service member is eligible to re-enlist or extend their active duty as indicated, and
 - * The commanding officer has no reason to believe that the re-enlistment or extension of active duty will not be granted, or
- Documentation of other unusually strong positive factors, such as
 - * A down payment of at least 10%,
 - * Significant cash reserves, and
 - * Clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active duty service member is needed to qualify.

Military Allowances: Some military allowances can be included in effective income if properly verified and expected to continue.

Examples are below:

- Military quarters and variable housing allowance (not taxable)
- Subsistence allowance (not taxable)
- Clothing allowance (not taxable)
- Pro-pay
- Flight pay
- Hazard pay
- Overseas pay
- Combat pay

Grossing up income: Tax-free income may be 'grossed up' for purposes of calculating the DTI ration, however it cannot be used when figuring residual income. Grossing up involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax exempt income. Use the current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. It's important to remember, only non-taxable income may be grossed up.

VA Income Requirements - VA Specific Income (continued)

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Reserves or National Guard: Income from service in the Reserves or National Guard may be included in effective income if the length of the borrower's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue. Otherwise, this income may be used to offset obligations of 10 to 24 months.

Recently activated members of the Reserve or National Guard: We must consider if a borrower may have a change in income due to participation in a Reserves/National Guard unit subject to activation. We must determine what the applicant's income may be if activated. If income is reduced, we must evaluate the impact the reduction may have on the borrower's ability to repay the loan. If income increases, we must consider the likelihood the income will continue beyond a 12 month period.

Determining stable income for recently discharged Veterans: If a borrower is recently discharged and employed in a new position for a short period of time (less than 12 months), the employer must confirm the veteran is performing the duties of the job satisfactorily and the probability of continued employment is favorable.

Things to consider:

- Job duties that are similar or directly related to the veteran's military experience are one indicator of likely continuance of employment.
- Employment that requires skills for which the veteran has no training or experience requires greater time in the job to establish stability.
- Veterans who are self-employed must meet the self-employment requirements.
- Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.

Residual Income: Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline. All members of the household must be included in determining if the residual income is sufficient. They must be counted even if the veteran's spouse is not joining in title or on the mortgage, or if there are any other individuals depending on the veteran for support, such as children from a spouse's prior marriage who are not the veteran's legal dependents. It is appropriate, however, to reduce the number of a household to be counted for residual income purposes if there is sufficient verified income not otherwise included in the loan analysis, such as child support being regularly received. If a spouse is not to be obligated on the mortgage, verification that he/she has stable and reliable employment would allow not counting the spouse in determining the sufficiency of residual income.

****NOTE**** When DTI exceeds 41%, the residual income must exceed the residual income guideline by more than 20% unless there are other strong compensating factors to reasonably offset the higher DTI and lack of residual income. These cases would need to be approved by an Underwriting Manager.

Geographic Regions Used In The Residual Income Tables On The Next Page

Key to Geographic Regions Used in the Tables						
Northeast	Connecticut	Massachusetts	New Jersey	Pennsylvania	Vermont	
	Maine	New Hampshire	New York	Rhode Island		
Midwest	Illinois	Iowa	Michigan	Missouri	North Dakota	South Dakota
	Indiana	Kansas	Minnesota	Nebraska	Ohio	Wisconsin
South	Alabama	District of Columbia	Kentucky	Mississippi	Puerto Rico	Texas
	Arkansas	Florida	Louisiana	North Carolina	South Carolina	Virginia
	Delaware	Georgia	Maryland	Oklahoma	Tennessee	West Virginia
West	Alaska	Colorado	Montana	Oregon	Wyoming	
	Arizona	Hawaii	Nevada	Utah		
	California	Idaho	New Mexico	Washington		

VA Income Requirements - VA Specific Income (continued)

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Table of Residual Incomes by Region				
For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of seven			

Table of Residual Incomes by Region				
For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			