



Foundations On-Demand

Basics of Income Answer Key

Base Pay

You would have captured these notes while watching the Base Pay video.

Q: Documents you need for Base Pay include:

A: Paystubs, W2, IRS wage and income transcript, letter from your employer

Q: For Overtime, you will need two additional things:

A: In most cases, your employer must document that you have received overtime income for the last two years and can expect to receive it for at least the next three years.

Q: May Johnson makes \$210,000 a year? What is her monthly base pay?

A: \$17,500/Month ($\$210,000 / 12 \text{ months} = \$17,500/\text{month}$)

Overtime, Commission and Bonuses

You would have captured these notes while watching the Overtime, Commission and Bonuses Video.

Overtime

Q: Documentation for overtime includes:

A: The borrower must have received the overtime for the last 2 years (24 Months) shown on a written verification of employment form (VOE). Also obtaining paystubs or an explanation from the employer may be used for additional documentation support.

Q: The monthly overtime income for qualification can be calculated by:

A: Monthly qualifying income can be calculated by taking a 24-month average of the overtime average.

Q: This must be evaluated for the borrower:

A: An earnings trend must be evaluated. Look for consistent Overtime earnings. Declining overtime is a sign of instability and should not be used.



Answer Key!

Q: Jose Mendez makes \$850 weekly. What is his monthly base pay?

A: \$3,683.33/Month ($\$850 \times 52 \text{ weeks} / 12 \text{ months} = \$3,683.33/\text{month}$)

Q: Ashley Summers makes \$1,300 bi-weekly. What is her monthly base pay?

A: \$2,816.67/Month ($\$1,300 \times 26 \text{ pay periods} / 12 \text{ months} = \$2,816.67 / \text{month}$)

Q: Jamie Patel makes \$900 bi-monthly. What is her monthly base pay?

A: \$1,800/Month ($\$900 \times 24 \text{ pay periods} / 12 \text{ months} = \$1,800/\text{month}$)

Q: Sarah Kurtz is a teacher who is paid over 9 months. She is paid \$3,100 bi-monthly (2x per month). What is her monthly base pay?

A: \$4,650/Month (For this, remember you will need to find an annual pay over 12 months before you can complete the calculation. $\$3,100 \times 18 \text{ pay periods} = \$55,800/\text{year} / 12 \text{ months} = \$4,650/\text{month}$)

Q: If the borrower has recently changed jobs, what should you do?:

A: Analyze the effective change of the borrower's eligibility and opportunity to earn overtime income.

Q: What is NOT an acceptable source of income for overtime?:

A: Projected overtime is not acceptable.

Q: What documentation can be obtained to consider the overtime income?:

A: Documents could include: Letter from the employer; Reviewing an employment contract; Verification of Employment form; and Paystubs.

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BASICS OF INCOME

Overtime, Commission and Bonuses (cont.)



Answer Key!

Commission

There are no questions for this section, but check the workbook for more information on Commission income.

Bonus Income

Q: Documentation for Bonus Income includes:

A: The Verification of Employment (VOE) showing a 2 year history should be used. You may also obtain W-2's, paystubs, or a letter from the employer verifying the receipt of this income for at least 2 years.

Q: What is the challenge with qualifying Bonus Income?

A: It is difficult to see the future income potential as it is not often stable and predictable.

Q: What information can you obtain to determine if this income could be considered?

Tips, Gratuity & Part-Time

There are no questions for this section, but check the workbook for more information on Tips, Gratuity and Part-Time income.

A: To prove stability, you need to see evidence of continuance from the employee contract or a letter from the employer.

Q: Review the scenarios below.

Please check the box next to the scenario that you feel presents the least amount of risk:

Senior Vice President or Sales Representative

A: Sales Representative is less risk because all the factors for the sales person are within their control.



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2nd Job Borrowers & Multiple Job Families

You would have captured these notes while watching the 2nd Job Borrowers and Multiple Job Families Video. Check your answers below.

Q: What are the 4 main considerations for 2nd job income/multiple Job borrowers?

A: The income must be documented to show it has been received for the most recent two years: on an exception basis, less than a two-year history may be considered (but not less than a 12-month history) provided the borrower is likely to continue to receive this income. The income must also be documented by IRS W2 forms; the income must be likely to continue.

Q: What else should you keep in mind?

A: Identify if any sort of negative change to the

borrower's overall employment status might affect the continuance of the second job income. Written verifications of employment from both jobs outlining stability would be a suggestion for this item. Employment contracts or even letters from the employers addressing stability of the income could serve to properly document this point.

Q: How many months are required to do an income calculation?

A: To complete an accurate calculation, a 24-month average of monthly income must be used when considering a second job or multiple jobs.

Gaps In Employment & Job Changes

You would have captured these notes while watching the Gaps in Employment and Job Changes Video. Check your answers below.

- Q:** Which part of the VOE will you use for Gaps in Employment and Job Changes?
- A:** Part III line for 21 date hired and line 22 for date terminated which are part of the Previous Employments section of the VOE.

Stability Of Income

There are no questions for this section, but check the workbook for more information on Stability of Income.

Unemployment and Contractual

You would have captured these notes while watching the Unemployment and Contractual Video. Check your answers below..

UNEMPLOYMENT INCOME

- Q:** What are examples of seasonal employees?
- A:** Some examples of seasonal workers include those in construction and landscaping.
- Q:** True or False: Does seasonality vary by region of the country/state?
- A:** True: Seasonal occupations will vary by region. Examples of these jobs are: fisherman, ski instructors, agricultural workers, and lifeguards.



Answer Key!

- Q:** What questions should you consider as a reason for job changes or gaps in employment?
- A:** What is the reason for the job change or the gap of employment? Was it by their choice? Is it because of a medical reason? Was it because of economic conditions and therefore out of their control? Just think of what is going on in the economy now; you may be seeing more gaps / job changes.
- Q:** What other questions do you need to ask yourself when verifying this income?
- A:** Is the gap isolated or is expected to happen again? Does the borrower qualify using an average of income? Has stability of income returned? How was the borrower's credit history during the gap?



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- Q:** What must appear in the file for Unemployment Income/Benefits?
- A:** There must be verification in the file to show the borrower has worked in the same job (or the same type of seasonal work) for the most recent two years. The borrower's employer must confirm that the borrower is likely to be rehired for the next season. For seasonal unemployment compensation, documentation must be submitted to show the unemployment pay is linked with seasonal layoffs, it is expected to happen again, and it is reported on the borrower's tax return. If this cannot be clearly shown in the file, the unemployment pay cannot be used for effective income.

Contractual Employees



Answer Key!

- Q:** What do you need to watch for when you review a contract for the file?
- A:** Consideration must be given to the type of work, its stability, and if the earnings are consistent or increasing.

- Q:** What else is important to keep in mind for this type of income?
- A:** Watch for exceptions or exclusions in the contract (such as pending annual drug testing, failure could terminate employment). Many lenders will consider contractual income only on an exception basis. It is best to determine how long this borrower has been completing this type of work and if can be expected to continue.

Additional Ways to Verify

There are no questions for this section, but check the workbook for more information on Additional Ways to Verify income.