



# Underwriting Fluctuating Income

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# Our Agenda

1. **Stability History Requirements and General Documentation Requirements**
2. **Fluctuating Income**
3. **Check-ins**
4. **Resources**





# Stability and History Requirements

# Employment Income Calculations



## Overview of General Income and Employment Requirements:

- Written income analysis
- Income documentation
- Employment History
- Income stability and history

**Note:** You must consider the length of history of the income and whether the earnings have been level and consistent. When evaluating stability of income based upon historical receipt, additional layering of risk may be present depending upon the degree of income fluctuation. As a result, you must determine when additional documentation (e.g., an additional year of earnings history) is necessary to support income stability.

# Employed Income Calculations



## General Underwriting for Income Calculations:

- Pay frequency
- Documented income breakdown (e.g. bonus, overtime, commissions)
- Verification of pay raises and using pay increase in calculation of income

Note: In most instances, the borrower should have at least a two-year history of employment. An employment history of less than two years must be justified and may impact the income calculation. The tenure of the Borrower's employment with the same employer or in the same or similar industry lends support to the analysis of employment stability.



# Employment History Requirements



In most instances, the Borrower should have at least a two-year history of primary employment verified in accordance with Guide Section 5300

For borrower’s who are active-duty members of the United States Armed Forces a history of military employment is not required for the employment to be considered stable

The tenure of the borrower’s employment with the same employer or in the same or similar industry lends support to the analysis of employment stability



# Check-In – Secondary Employment

The borrower previously held a job with base non-fluctuating earnings working 40 hours. Due to unforeseen circumstances this employment ended 18 months ago.

The borrower has been working multiple part-time jobs for the past 13-15 months respectively, that when combined are similar in pay and hours

Does this justify stable employment?

☒ YES

☐ NO



# Stability and History Requirements

- **Table A:** Income and earnings types typically without documentable continuance
- **Table B:** Income types with documentable continuance
- **Table C:** Income types that may or may not have documentable continuance

**Note:** You may consider all income for qualifying the borrower, provided you do not have knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt over at least the next three years

Full Tables are located in [Guide Section 5301.1](#)

Table B:

Income types with documentable continuance

Income types	Continuance requirement highlights <sup>1</sup>
Mortgage differential	Document duration of payments  (Refer to <a href="#">Sections 5303.1</a> , <a href="#">5305.1</a> and <a href="#">5305.2</a> )
Notes receivable	
Royalty payments (one-year history)	
Nonrecurring RS and RSU awards subject to time-based vesting provisions	
Trust income (fixed payment)	Document duration of obligation  (Refer to <a href="#">Sections 5305.1</a> and <a href="#">5305.2</a> )
Alimony, child support and/or separate maintenance	
Homeownership Voucher Program (HOV)	Document duration of HOV term limit for assistance  (Refer to <a href="#">Sections 5305.1</a> and <a href="#">5305.2</a> )
Capital gains	Document sufficient assets  (Refer to <a href="#">Sections 5305.1</a> and <a href="#">5305.2</a> )
Dividend and interest	
Retirement account distributions as income	
Trust income (fluctuating payments)	

<sup>1</sup> Highlights of the requirements from the individual income types are provided for illustrative purposes only. Refer to the sections shown above for complete requirements.

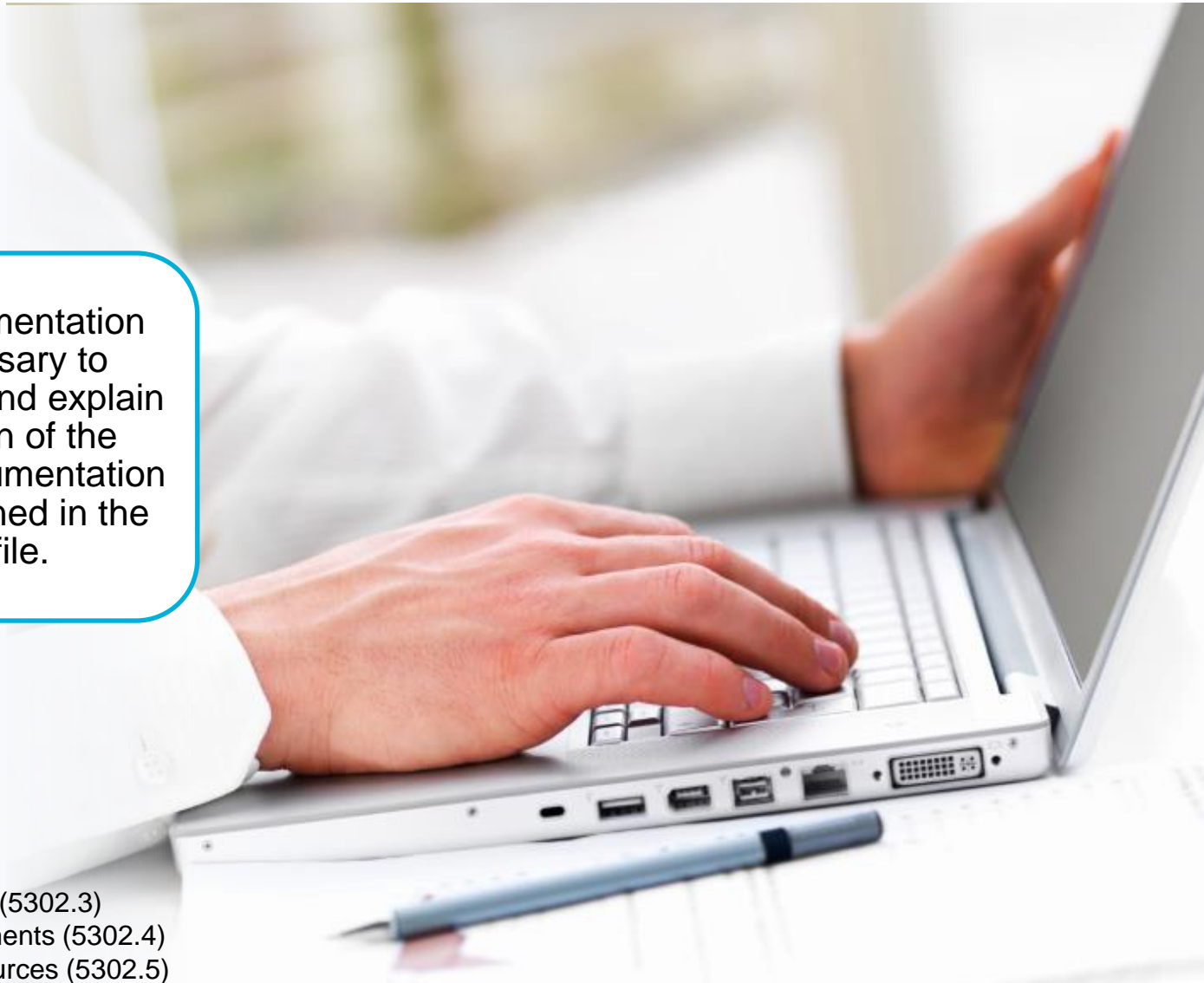


# Introduction to Documentation Requirements



For all income and each qualification source used to qualify the borrower, you must obtain the required documentation and verifications, listed in the respective income sections of Topic 5300.

Additional documentation may be necessary to evaluate, justify and explain the qualification of the borrower. All documentation must be maintained in the Mortgage file.



- Employed income documentation and verification requirements (5302.2)
- Third-party verification service providers: employment and income verifications (5302.3)
- Tax returns and tax return information: Documentation and verification requirements (5302.4)
- Signed IRS form 4506-C requirements for all income and asset qualification sources (5302.5)



# Fluctuating Employment Earnings: Hourly and Additional Fluctuating Income

# Fluctuating Hourly Employment Earnings



Base fluctuating hourly employment earnings are not pre-determined and may fluctuate each pay period.

## Minimum Employment History



Under no circumstances may the employment history be less than 12 months, which must be derived from:

- The borrower's current fluctuating hourly employment, or
- A combination of current and prior hourly employment, or
- A combination of current fluctuating hourly and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on the income trend analysis in section 5303.4(d)

## Calculation Method (consistent and Increasing income trends)

You must average the most recent year(s) and YTD income. The amount of time averaged should be determined based on the requirements for history, documentation and other applicable factors such as time at the current employer, prior employment and consistency of the earnings level. If the increasing income is due to a pay raise, You may use the calculation method for pay raises described in [Section 5303.1\(d\) \(i\)](#).



**Note:** Minor fluctuation in hours and an exception for non-exempt earnings: primary employment earnings with minimum required hours may be considered non-fluctuating income.



# Check-in – Exception for Non-Exempt Earnings with Minimum Required Hours



- The borrower has been employed as a Nurse with their current employer for four months
- Prior to current employment borrower was in nursing school.
- Borrower is paid weekly with an hourly rate of \$35 an hour. Two paystubs were provided that reflected hours of 37 and 39 hours.
- Written VOE in file confirms borrower works three 12-hours shifts per week (36 hours)
- Year-to-date average hours per week is 38.5 .
- How would calculate income?

Because the written VOE confirmed 36 hours a week and YTD supports it is acceptable to consider these the minimum required non fluctuating hours and use 36 hours at \$35 weekly gross pay for income calculation. (i.e. 12-month employment history is not required)



# Degree of Fluctuation – Increasing Trend



## Is additional analysis or documentation required ?

### Degree of Fluctuation $\leq 10\%$

The income trend is considered consistent when the increase between YTD and prior year(s) is less than or equal to 10%.

No additional analysis or documentation is required in order to calculate the qualifying income.

### Degree of fluctuation $> 10\%$ but $\leq 30\%$

No additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise in accordance with Section [5303.4\(b\)](#)

Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of the-qualifying income

### Degree of fluctuation $> 30\%$

If the increase is  $> 30\%$ , additional analysis is required and [additional documentation will likely be necessary](#) to determine income stability and develop an accurate calculation of qualifying income.

The analysis and documentation must support the amount of income used to qualify the Borrower.

For fluctuating hourly earnings, the degree of fluctuation is based on the increase between the YTD and the prior year. For additional employed earnings, the degree of fluctuation is based on the increase between the YTD and the prior two years. Refer to Sections 5303.2 and 5303.3 for history and documentation requirements.

Note: When using an average with the YTD and the prior two years, the degree of fluctuation is based on the increase between the YTD and the prior two years

# How to Calculate Degree of Fluctuation



Example: Degree of Fluctuation Calculation	
<b>Step One:</b> Determine YTD earnings and how many months are represented (e.g., from the YTD paystub).	\$31,000 (6 months YTD)
<b>Step Two:</b> Annualize the YTD earnings.	<ul style="list-style-type: none"><li>• <math>\\$31,000 / 6 \text{ months (YTD)} = \\$5,166.67</math></li><li>• <math>\\$5,166.67 \times 12 \text{ months (annualized)} = \\$62,000</math></li></ul>
<b>Step Three:</b> Determine prior year earnings and how many months are represented (e.g., from the prior year W-2).	\$58,000 (12 months, prior year)
<b>Step Four:</b> Subtract the prior year earnings amount from the annualized current year earnings amount.	$\$62,000 - \$58,000 = \$4,000$ (the difference between the prior year and the annualized current year earnings amounts)
<b>Step Five:</b> Divide the difference by the prior year earnings amount and multiply result by 100	$\$4,000 / \$58,000 \times 100 = 6.9\% \text{ degree of fluctuation}$
<b>Step Six:</b> Determine whether additional analysis and documentation are needed to support the degree of fluctuation (5303.4(d))	<p><b>The degree of fluctuation is less than 10%.</b></p> <p>The income trend is considered consistent when the increase between the YTD and prior year(s) earnings is less than or equal to 10%. No additional analysis or documentation is required when calculating the qualifying income.</p>

[Click Here](#) for the FAQ

# Check-in – Calculation Exception



- Borrower has had three employers in the most recent 12 months; similar job types and industry. All W-2s were provided from previous employers totaling income of \$48,000 (\$4,000 month)
- Borrower has been with current employer for 10- months with YTD income of \$42,000 as of October 31<sup>st</sup>
- What is the degree of fluctuation?

5%

- How would calculate this income.

Because the income is increasing and consistent ( $\leq 10\%$ ) it is appropriate to use a 10-month avg which would result in qualifying income of \$4,200 a month (YTD Avg = \$4090)



# Check-in – Calculation Exception



Borrower has been with the same employer for 5 years

Previous year W-2 reflects earnings of \$60,000

Paystub in file dated October 31<sup>st</sup> reflected earnings of \$56,000 YTD

What is the degree of fluctuation

**12%**

Additional documentation in the file confirmed borrower was promoted in January which resulted in an increase of income of \$7,200 annually. How would you calculate this income.

In this instance because the increase has been documented, and the borrower has 10 months receipt of the income it would be acceptable to use a 10-month avg.



# Check-in – Calculation Exception



- Borrower has had two employers in most recent 17 months; similar job types and industry
- W-2 from the prior employer reflecting earnings of \$18,000 (\$1,500 a month)
- Borrower has been with their current employer for 5-mos with YTD \$12,500 (\$2,500 a month)
- What is the degree of fluctuation

**40%**

- Would additional documentation be required?

Yes, you would need to verify the reason for the increase and ensure the increase is supported

- How would you calculate income

Because the degree of fluctuation is greater 30% the appropriate calculation would be to average the income over 17-mos resulting in qualifying income of \$1,794.12

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# Check-in - Calculation



The Borrower has a 10-year employment history with the same employer. The June 2025 YTD paystub with a pay period ending June 30<sup>th</sup> and the prior years W-2 have been provided.

The W-2 reflected earnings of \$65,000 (\$5,416.67 a month)

Paystub reflected YTD earnings of \$27,080 (\$4,513.33 a month)

Borrower was on maternity/paternity leave for 1-month due to adopting a child.

How would you calculate this income?

Because the borrower was off of work for a month it would be acceptable to average the income over 17 month resulting in qualifying income of \$5,416.



# Earnings Types: Examples of Fluctuating Hourly Income



## Example 1:

- The pay frequency is weekly.
- The current YTD paystub shows 37 hours .
- The prior pay period YTD paystub shows 31 hours .

Are these earnings fluctuating hourly?

## Example 2:

- The pay frequency is weekly.
- The paystub reflects six months of YTD income showing 37 hours at a pay rate of \$30.00 per hour
- If the borrower 37 hours every week, the YTD earnings are approximately \$28,860
- The YTD base earnings on the paystub are \$20,240.

This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise.



# Bonus, Commission, and Overtime



## History of receipt:

Two years, consecutive

## Documentation

YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV

## Or

Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV

## Calculation

Average the most recent year(s) and YTD income over the applicable number of months of required history and documentation



[Guide Section 5303.1\(ii\) \(A\)](#)



# Pay Frequency



For all income used to qualify the Borrower, you must determine the frequency of payment (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income used for qualifying.

**Example:** The Borrower received an annual bonus in February of the prior year and current year as evidenced by the written VOE dated in March of the current year. The bonus amounts are consistent based on the income trend analysis (see Section 5303.4(d)). Because the bonus is paid on an annual basis, the amounts received in the current and prior year must be averaged over a 2-year period. It is inaccurate to average the prior year and year-to-date (YTD) number of months on the income documentation (e.g., 15-month average).

# Tip Income



## History of receipt:

Two years, consecutive

## Calculation:

average the most recent year(s) and YTD income over the applicable number of months of required history and documentation

## Tip income reported by employer

### Documentation

- YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV

### Or:

- Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV



## Cash and charge tips reported on IRS Form 4137

### Documentation

- IRS Form 4137 for the most recent two years
- Complete federal individual income tax returns covering the most recent two-year period
- 10-day PCV



# Check-Ins

# Check In- Fluctuating Employment Income – Pay Raises



Tax Year	Income Dates	YTD Annual Earnings
Current	01/01-6/30	\$26,000
Previous	01/01-12/31	\$45,650

The earnings on the YTD paystub represent fluctuating hourly earnings and a pay raise was received from \$25.00 per hour to \$28.00 per hour at the end of March in the current calendar year.



Is additional analysis required to support income stability?



- Average the most recent year and YTD income over the applicable number of months of required history and documentation, as described in 5303.4(d).
- Qualifying Income = \$3,980.55



- Apply the current pay rate to the average number of hours during the prior and the current year, provided that the hours during the prior and current year are consistent or increasing.



# Example – Calculating Pay Raises



1

## *Year-end paystub*

Determine hours for prior year. Divide year-end earnings by hourly rate on paystub.

$\$45,650$  (year-end earnings) /  $\$25.00$  rate of pay = **1826 hours**

2

## *March YTD paystub @\$25/hr*

Determine hours for current year at prior rate of pay. Divide YTD earnings from last paystub with prior rate of pay.

$\$11,750$  (March YTD /  $\$25.00$  rate of pay = **470 hours**

3

## *June YTD paystub @\$28/hr*

Adjust total YTD amount by subtracting the March YTD earnings.

$\$26,000$  (June YTD total) -  $\$11,750$  (March YTD) =  **$\$14,250$**   
(adjusted YTD earnings)

4

## *June YTD paystub @\$28/hr*

Determine hours for current year while at new rate of pay using adjusted YTD earnings.

$\$14,250$  (adjusted YTD) /  $\$28.00$  rate of pay = **509 hours**

[Click Here](#) for the FAQ

# Example – Calculating Pay Raises Cont:



5

Confirm hours are consistent or increasing.

Prior year:  $1826 / 12 = 152$

YTD:  $(470 + 509) / 6 = 163$

6

Determine total number of hours for prior year and current YTD.

(+) 1826 (*prior year hours*)  
(+) 470 (*YTD hours at prior rate of pay*)  
(+) 509 (*YTD hours at increase rate of pay*)  
(=) **2805 (total hours)**

7

Determine the average hours for current and prior year by dividing the total number of hours by the number of months of pay represented. If desired or needed, this may be broken down to weekly hours.

**2805** (total hours) **18 months** (number of months of pay represented) = **155.83** average monthly hours

8

Apply the new pay rate to the average hours for the prior year and YTD.

**\$28.00** (new rate of pay) x **155.83** (average monthly hours)  
= **\$4,363 per month qualifying income**

**Note:** , if instead of using the calculation method above, the prior year and YTD income are averaged, the monthly qualifying income would be less:  $\$45,650$  (prior year) +  $\$26,000$  (YTD 6 months) / 18 months =  $\$3,980$  per month qualifying income. Both are acceptable calculation methods.

# Check In- Fluctuating Employment Income



Tax Year	Income Dates	YTD Annual Earnings
Current	01/01-6/30	\$25,000
Previous	01/01-12/31	\$60,000

A year over year review indicates that the borrower's income trend is declining. The decline exceeds 10%.



Is additional analysis required to support income stability?



- Verify the reason for decline (e.g. borrower went from a supervisory position to associate which resulted in a decrease in the hourly rate of pay)
- Verify the decline has stabilized
- Use only YTD earning to qualify for a total of \$4,167



- If reason for the decline cannot be documented, then there is no indication that the decline will not continue
- The income is not considered stable
- Income is not eligible to use for qualification



# Resources

# Employment Characteristics

Full-time & Part-time

Union Members

Employment Contracts

Temporary Help Services

1099's for Services Performed

Business Ownership < 25%

Employed Income from Foreign type

Seasonal

Employed by Family or Interested Party

[Guide Section 5303.1 \(II\) \(e\)](#)





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