

Tips & Gratuity Income

Tip and gratuity income may be acceptable if the receipt of the income corresponds to the borrower's occupation (such as a waiter or waitress, taxi-driver, etc.).

There must be a documented history of the income being earned and no evidence it is not likely to continue.

All tips received by an employee are taxable income. Tips used as eligible income must be reported as income on the borrower's paystubs and W2's. Unreported tips cannot be used.

NOTE: To verify tips not reported by employer (probably a rare instance), you can use IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137 (Social Security & Medicare Tax on Unreported Tip Income)

How do you calculate tip income? Tip income is averaged for the two years verified.



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Notes:

Part-Time Income

A borrower's part-time income may be considered for qualification if the following criteria are followed:

- The income must be documented in the file to show it has been received consistently for the most recent two years.
- Part-Time income with less than a two-year history may be considered, provided the borrower will continue to receive this income.
- Income for less than 12 months may be considered if there are positive factors in the loan file to offset the shorter income history.

For example...Sally is self employed and owns a hair and nail salon, she also has been working part-time at Macys for 5 years as an accountant. Her part-time income can be used. Documentation that is typically required include:

- Paystubs!
- IRS W2 forms
- Written VOE

A 24 month average calculation must be used for the part-time job.



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If the borrower has demonstrated a history of being employed on a part-time basis and will now be working full-time, this change must be shown in the file by obtaining a letter from the employer certifying this change of status.

Notes: