FAQs: Using Income from Retirement and Employment-related Assets

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Top Lender Questions on Using Income from Retirement and Employment-related Assets

In certain situations, a distribution from a borrower's retirement assets or employment-related assets may be used as a source of income when qualifying a borrower. To support our customers in understanding requirements for using income from retirement and employment-related assets, FAQs from top trending customer questions are provide below.

- Using Retirement Income to Qualify
- Using Employment-Related Assets as Qualifying Income

Using Retirement Income to Qualify

Retirement Income - Requirements and Documentation

1. **When can retirement income be used to qualify?**
    - Retirement income may be used to qualify if:
        - The income is in the form of a distribution, is established and currently being received by the borrower.
        - The income is in the form of a government annuity or a pension, and is currently or will be received by the borrower on or before the first payment date of the mortgage loan. For more information, see B3-3.1-09, Other Sources of Income.
    - Retirement distribution that has not been established and is not currently being received may be used to qualify provided, the requirements for Employment-Related Assets as Qualifying Income in B3-3.1-09, Other Sources of Income are followed.

2. **What are the requirements for retirement, pension, and government annuity income?**

    The following table provides verification requirements for retirement, government annuity, and pension income.

✓	Verification of Retirement, Government Annuity, and Pension Income
	Document current receipt of the income, as verified by • a statement from the organization providing the income, • a copy of retirement award letter or benefit statement, • a copy of financial or bank account statement,

✓	Verification of Retirement, Government Annuity, and Pension Income
	• a copy of signed federal income tax return, • an IRS W-2 form, or • an IRS 1099 form.
	If income from a government annuity or pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.
	If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met. **Note:** The borrower must have unrestricted access to the accounts without penalty.

If a borrower's retirement, annuity, or pension income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See B3-2-02, DU Validation Service.

3. **Can 100% of the retirement asset value be used to determine three-year continuance for income, or do I need to reduce the value by 30%?**

   The requirement to reduce the value of retirement assets consisting of stocks, bonds, and mutual funds by 30% when measuring the three-year continuance for retirement income **was removed** from the *Selling Guide* B3-3.1-09, Other Sources of Income in December 2020. Refer to *Selling Guide* Announcement SEL-2020-07.

4. **Is there an age requirement to use retirement income?**

   While Fannie Mae does not have a stated age minimum for a borrower to use retirement income to qualify, a borrower must have unrestricted access without penalty to use income from certain types of retirement accounts, such as a 401(K), IRA or Keogh account (which may have a minimum age requirement to have "unrestricted access").

5. **What income should be used if a borrower is currently employed but the employer has notified the lender the borrower has elected to retire?**

   The lender must qualify the borrower on the lower of the two pay structures, which can be confirmed through the employer or the borrower's retirement election documentation.

6. **How do I document foreign pension income?**

   Foreign pension income must be documented using the pension income requirements in B3-3.1-09, Other Sources of Income.

> **Note:** All income must be translated to U.S. dollars. If the borrower is not a U.S. citizen, refer to B2-2-02, Non-U.S. Citizen Borrower Eligibility Requirements, for additional information.

Retirement Income - Distribution

7. **What is required for retirement income paid in the form of a distribution?**

   If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.

> **Note:** The borrower must have unrestricted access to the accounts without penalty.

   Document current receipt of the income, as verified by

   - statement from the organization providing the income,
   - copy of retirement award letter or benefit statement,
   - copy of financial or bank account statement,
   - copy of signed federal income tax return,
   - an IRS W-2 form, or
   - an IRS 1099 form.

8. **Does current receipt mean that retirement income distributions are only acceptable if paid monthly?**

   Current receipt is not meant to imply that only monthly distributions are acceptable. Lenders must document retirement income using the requirements in B3-3.1-09, Other Sources of Income. In addition, income may be verified by proof of current receipt; e.g., asset statement, IRS W-2, or 1099 form.

9. **Can multiple retirement accounts be used to satisfy the three year continuance for retirement income paid in the form of a distribution?**

   If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.

> **Note:**: The borrower must have unrestricted access to the accounts without penalty.

10. **Is distribution income from an inherited IRA acceptable?**

    While every effort is made to include requirements for all sources of income, some income sources exist that may be variable in nature and are not specifically addressed in the Selling Guide. As a result, the lender must evaluate and document the income in accordance with the policies in B3-3.1-01, General Income Information. The documentation must support the income as stable, predictable and likely to continue.

Using Employment-Related Assets as Qualifying Income

11. **What asset sources are allowed when using employment-related assets as income?**

    The following table provides the requirements for employment-related assets that may be used as qualifying income.

✓	Asset Requirements
	Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan. The documentation must be in compliance with the Allowable Age of Credit Documents policy (see B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns, for additional information).
	Assets must be liquid and available to the borrower and must be sourced as one of the following: • A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099–R) and deposited to a verified asset account. • For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.
	A borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account

✓	Asset Requirements
	(regardless of any possible tax withholding or applicable penalty applied to such distribution).
	"Net documented assets" are equal to the sum of eligible assets minus: (a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and (b) the amount of funds used for down payment, closing costs, and required reserves.
	Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

12. **What are the loan parameters to use employment-related assets as qualifying income?**

All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Loan Parameter	Requirement
Maximum LTV, CLTV, and HCLTV Ratio	70% 80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be borrowers on the loan and the borrower whose employment-related asset is being used as income must be at least 62 years old at the time of closing.
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Principal residence and second home only
Number of Units	As permitted by occupancy type
Income Calculation/Payout Stream	Divide "Net Documented Assets" by the amortization term of the mortgage loan (in months).

> **Note**: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as "Interest and Dividends Income," or "Retirement, Government Annuity, and Pension Income."

13. **Can employment-related assets be used for both income and asset calculations?**

Only the assets that are not used in the calculation of the monthly income stream may be considered as available funds when determining sufficient funds to close and/or financial reserve requirements.

14. **How do I calculate employment-related assets as income?**

Income Calculation/Payout Stream:

Divide “Net Documented Assets” by the amortization term of the mortgage loan (in months).

“Net documented assets” are equal to the sum of eligible assets minus:
(a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and
(b) the amount of funds used for down payment, closing costs, and required reserves.

Example: Calculation of Net Documented Assets	
IRA (made up of stocks and mutual funds)	$ 500,000
Minus 10% of $500,000 ($500,000 x .10) (Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) $50,000
Total eligible documented assets	(=) $ 450,000
Minus funds required for closing (down payment, closing costs, reserves)	(-) $100,000
Net Documented Assets	**(=) $350,000**
Monthly income calculation ($350,000/360 (or applicable term of loan in months))	$972.22/month

For more information see B3-3.1-01, General Income Information and B3-3.1-09, Other Sources of Income in the *Selling Guide*.