

WHAT IMPACT HAS THE COVID SHUTDOWNS HAD ON QUALIFYING BUYERS?

With all the shutdowns and interruptions in businesses in 2020 and 2021, many buyers have had their incomes impacted in one way or another since March 16, 2020. For most of 2020 and now into at least the early part of 2021, this is how FNMA, FHLMC, FHA & VA are allowing the income to be counted when qualifying a buyer and determining their debt-to-income ratio (DTI):

- Salaried employee – The lesser of:
 - 2021 year to date earnings PLUS 2020 earnings divided by 12 + the number of months in 2021.
 - 2020 earnings DIVIDED by 12 months.
 - Current salary (this can be used even if 2020 is less IF there is written proof the buyer recently received a pay increase or promotion that includes a raise)
 - Bonus Income – average of 2019 & 2020 or 2020, whichever is less.
- Hourly paid employee – The lesser of:
 - 2020 base earnings (no overtime or bonus) DIVIDED by 12 months.
 - Average of 2019 & 2020 base earnings DIVIDED by 24 months.
 - Current hourly rate MULTIPLIED by the number of scheduled hours per week MULTIPLIED by 52 weeks DIVIDED by 12 months.
 - Overtime income can be used if it is likely to continue using the final paystubs from 2020 & 2019 to calculate (by taking the total of the two years DIVIDED by 24 months
 - If 2020 is less than 2019, use the 2020 total overtime income DIVIDED by 12.
- Commission or Per Diem – The lesser of:
 - 2021 year to date earnings PLUS 2020 earnings DIVIDED by 12 + the number of months in 2021.
 - 2020 earnings DIVIDED by 12 months.
 - 2021 earnings PLUS 2020 earnings PLUS 2019 earnings DIVIDED by 24 + the number of months in 2021.
- Self-Employed Schedule C – The lesser of:
 - 2019 Schedule C Net Income PLUS Depreciation and Business Use of Home, MINUS Meals/Travel DIVIDED by 12 months
 - 2020 Year to date Profit & Loss is the same or greater than 2019.
 - 2018 & 2019 Schedule C Net Income PLUS Depreciation and Business Use of Home, MINUS Meals/Travel divided by 24 months.
 - 2020 Year to date Profit & Loss is the same or greater than 2019.
 - Most recent 3 months Business bank statements (used to determine if deposits are consistent with earnings)
- Self-Employed 1120S or 1065 filing when ownership is greater than 25% – the lesser of:
 - 2019 1120S/1065 K-1 Income PLUS Depreciation and Depletion, MINUS Notes Due and payable in 1 year and Meals/Travel DIVIDED by 12 months
 - 2020 Year to date Profit & Loss is the same or greater than 2019.

- 2018 & 2019 1120S/1065 Net Income PLUS Depreciation and Depletion, MINUS Notes Due and payable in 1 year and Meals/Travel DIVIDED by 12 months
 - 2020 Year to date Profit & Loss is the same or greater than 2019
- Most recent 3 months Business bank statements (used to determine if deposits are consistent with earnings)
- Self-Employed K-1 income when ownership is 25% or less – the lesser of:
 - 2019 K-1 Box 1 or 2 DIVIDED by 12 months
 - 2018 & 2019 K-1 Box 1 or 2 DIVIDED by 24 months
- Self-Employed 1120 Filing – the lesser of:
 - 2019 Taxable Earnings PLUS Depreciation/Depletion MINUS Meals/Travel, notes due and payable in 1 year and One-time earnings (non-recurring income) DIVIDED by 12
 - 2018 & 2019 Taxable Earnings PLUS Depreciation/Depletion MINUS Meals/Travel, notes due and payable in 1 year and One-time earnings (non-recurring income) DIVIDED by 12.
 - If the 2020 Profit & Loss reflects substantially less income than 2018 & 2019, further information will be required.
 - Most recent 3 months Business bank statements (used to determine if deposits are consistent with earnings)

As businesses reopen and the employees get back to normal schedules, their earnings picture should improve, and this will help the average income that can be counted to improve as well. If you ever have any questions or need help from qualified mortgage experts, be sure to check out our Affiliates on our website: www.RAPV.com – submitted by the Affiliate/Realtor Committee.