



# Foundations On-Demand

Not Your Ordinary Income  
Answer Key

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## Introduction & Nontaxable Income

You would have captured these notes while watching the Not Your Ordinary Income Introduction and Nontaxable Income video.

## Social Security Benefits

**Q:** What do you need from a borrower when using Social Security Benefits?

**A:** The regular receipt of the payments must be documented in the file. Any of the following items could be used to authenticate this source: A copy of the Social Security Award Letter; Copies of the most recent tax return; The most recent copy of the borrower's SSA 1099 form; Copies of the borrower's most recent bank statements clearly identifying the deposit of the Social Security income.

**Q:** How many years remaining on the term does a borrower need for this income to be effective?

**A:** There must be a term of at least three years remaining from the date of the loan application in order for this income to be considered as effective.

**Q:** Calculate the annual SS income if the nontaxable amount is \$40,000.

**A:** \$50,000 ( $\$40,000 \times 125\% = \$50,000$ )

**Q:** What if the nontaxable amount is \$15,000?

**A:** \$18,750 ( $\$15,000 \times 125\% = \$18,750$ )

**Q:** How about \$32,500?

**A:** \$40,625 ( $\$32,500 \times 125\% = \$40,625$ )

## Child Support & Alimony

You would have captured these notes while watching the Child Support and Alimony video.

**Q:** How is Child Support defined?

**A:** In family law, child support (or child maintenance) is an ongoing, periodic payment made by a parent for the financial benefit of a child following the end of a marriage or other relationship. Child maintenance is paid directly or indirectly by an obligor to an obligee for the care and support of children of a relationship that has been terminated, or in some cases never existed.

**Q:** How is Alimony defined?

**A:** If a divorce or if dissolution of marriage / partnership has been granted, the husband or the wife may ask the other party for financial assistance. The amount and the terms of this award will vary with the circumstances of the couple. The court system will establish the actual terms of the agreement.

**Q:** What happens if a formal court document does not exist?

**A:** If a formal court document outlining the terms of the separation agreement/divorce does not exist, these income sources would be looked upon as "projected income", which cannot be used as an acceptable income source for qualifications. There would also be no way to determine continuance and there is no legal recourse if someone stopped paying.



## Child Support & Alimony (cont.)

**Q:** For this type of income, can you use arrangements made by the parents outside of court?

**A:** When the parents have independently made a different arrangement from what the court agreement states, you should only use the terms and amounts as required by the court. Personal arrangements are not legally enforceable and can become null and void at any time. If their personal arrangement has a two-year history and evidence it is expected to continue, then it may be considered a compensating factor but not used in the income calculation.

**Q:** What is the main difference between child support and alimony?

**A:** Alimony is a taxable form of income, but child support is generally nontaxable for the person receiving the award.

**Q:** Do individuals need to disclose this income to a lender?

**A:** A borrower is not required to disclose Child Support, Alimony or Separation Maintenance income, unless the borrower chooses to have such income considered.

## Military Income

You would have captured these notes while watching the Military Income video.

**Q:** Base Pay:

**A:** Basic Pay, sometimes called Base Pay, is the amount you earn per month for your military service. Base Pay is a flat rate based on your time in the military and your current rank.

**Q:** Military Allowances:

**A:** Military allowances can include money for housing (BAH - Basic Allowance for Housing), "Subsistence" (BAS - Basic Allowance for Subsistence) which basically covers food, and for cost of living expenses during overseas assignments. There are over 70 different types.

**Q:** What is the equivalent of a pay-stub for the Military?

**A:** The equivalent of a paystub for Military Pay is a Leave and Earnings Statement. (LES)

**Q:** Can you gross up nontaxable military allowances?

**A:** Yes

**Q:** How many years of continuance would you look for?

**A:** 3 years continuance

**Q:** Can you use income paid to Military reservists?

**A:** Income paid to military reservists while they are satisfying their reserve obligations is also acceptable if it satisfies the same stability and continuity tests applied to other types of second job income.

**Q:** How can military members choose to receive their pay?

**A:** Each service member has the choice to receive his or her pay one or two times a month. If they select to receive their pay twice a month, they will receive semi-monthly pay on the 1st and 15th of each month. If the 1st or 15th falls on weekend, a Saturday or Sunday, the payday is the Friday before.

**Q:** What is a Net Pay Advice?

**A:** Net Pay Advice is the short statement that active duty folks can receive if they choose to be paid be twice a month.



## Disability Income & FMLA

There are no questions for this section, but check the workbook for more information on Disability and FMLA.

## Annuity Income & Retirement Income Distribution

You would have captured these notes while watching the Annuity Income and Retirement Income Distribution video.

**Q:** What is an Annuity?

**A:** An annuity is a form of investment and is typically purchased through a life insurance company. The "holder" chooses whether there will be a lump sum distribution or payments for a set period of time or payments for life (until the holder's death).

**Q:** What does the document for an annuity need to describe? (Capture the 3 things here)

**A:** The length of time the payments will continue; How much the payment will be; Whether the payment can change.

**Q:** Write the definitions of the different types of annuities below:

**A:** Fixed and Variable annuities: These guarantee the holder a certain payment amount. For variable annuities, the payments are subject to change. The terms of the payments must be reviewed to identify if the payment can decrease and confirm the payment will be received for more than three years.

**A:** Guaranteed annuities: Also known as 'pure' life annuities. This type of annuity is a payment for life and allows the transfer of the payment to an heir if the holder dies and there are still funds remaining on deposit in the annuity.

**Q:** Can annuity payments for life be used as qualifying income?

**A:** The annuity income payments for life can be used as qualifying income.

**Q:** Annuity payments for a specific time need how many years remaining to be considered?

**A:** Annuity payments paid for a set period of time must have at least three years remaining in order to be used for qualifying.

## Retirement Account Distribution Income



## Answer Key!

**Q:** What is retirement account distribution?

**A:** Retirement account distribution and pension plans are arrangements to provide individuals with an income once they are no longer earning regular pay from an employer.

**Q:** What is a retirement account distribution also known as?

**A:** Some examples are: IRAs, 401Ks and Keoghs

**Q:** What can you use to document proof of the income?

**A:** Letters from the organization providing the income. Look for effective dates of the income source, the amount of the payment to the borrower, the frequency of the payments to the borrower, and how long the payments will be provided. You may also obtain copies of the retirement award letters. Look for effective dates of the income source, the amount of the payment to the borrower, the frequency of the payments to the borrower, and how long the payments will be provided.

**Q:** What can you use to document regular receipt of payments?

**A:** Copies of the last two years of tax returns, IRS 1099 forms, and the most recent two months of bank statements identifying the income entering the borrower's account.