Foster Care Income

Foster care income is received from a state- or county-sponsored organization for providing temporary care for one or more children. Both Fannie Mae and Freddie Mac may consider this as acceptable income for mortgage loan applications if certain requirements are met.

Fannie Mae's Treatment of Foster Care Income

Income received from state- or county-sponsored organizations for providing temporary care for children may be considered acceptable income by Fannie Mae, provided certain requirements are met.

Verification Requirements

The first requirement is that foster-care income must be verified. This process typically involves obtaining letters of verification from the organizations providing the income.

History of Providing Foster-Care Services

Secondly, borrowers must have a two-year history of providing foster-care services.

However, if they have not been receiving this type of income for two full years, it may still be counted as stable income if:

- The borrower has at least a 12-month history of providing foster-care services, and
- The foster care income does not represent more than 30% of the total gross income used to qualify for the mortgage loan.

Continuance Documentation

Lastly, unlike Freddie Mac, Fannie Mae does not require a defined expiration date, and lenders do not need to document a three-year continuance of that income.

Freddie Mac's Treatment of Foster Care Income

Freddie Mac also allows foster-care income received from state- or county-sponsored organizations to be considered as part of the borrower's total income. However, there are some differences in their requirements compared to Fannie Mae.

History and Continuance

The most notable difference is that Freddie Mac requires evidence that the foster care income has been received consistently over the most recent two years and is likely to continue for at least three more years. However, lenders are not required to obtain documentation verifying continuance unless there is knowledge or information suggesting that this type of income will cease soon.

Calculation

Another difference lies in how the amount is calculated: with Freddie Mac, it's based on a 24-month average. Unlike Fannie Mae, Freddie Mac doesn't mention whether this type of income can be used with less than a 24-month history.

All details should be reviewed carefully during application process as GSEs' requirements do not completely align when it comes to using foster care income.

Documentation Requirements

Both GSEs may require documents such as evidence from state or county entities paying this type of non-taxable income which typically wouldn't appear on tax returns.

Therefore, borrowers may have to provide other forms evidence such as letters from relevant organizations confirming their receipt of foster care payments.

Example Scenarios

Scenario One: Working with Fannie Mae

A borrower has provided 16 months of documentation for their foster care earnings, including year-end summaries and year-to-date totals. After reviewing the documents, we find that the borrower's foster care income is $800 per month and their only other source of income is social security, which provides $2,200 per month. This gives us a total gross monthly income of $3,000 with 27% coming from foster care.

Would this particular case qualify?

Yes! According to Fannie Mae's guidelines, as long as the borrower's foster care income does not exceed 30% of the total gross income used to qualify for the loan, it can be considered. Therefore in this case, the borrower's foster care income would indeed be valid for this transaction.

Scenario Two: Working with Freddie Mac

In this case, a borrower is fostering a 12-year-old child and provides a 36-month history of receipt of foster care income. However, they cannot provide any documentation supporting continuance and the county refuses to provide documentation supporting future opportunities.

Can this type of income still be used?

Yes! According to Freddie Mac's guidelines, evidence is only required if there's known information that would stop the income. For instance if the child was nearing an age limit set by state or county after which foster payments cease (e.g., 18 years old), documentation would be needed clarify continuance. In this case, since the child is only 12 years old and no such information exists, documentation for continuance would not be needed.

Resources

GSE Guidelines

- → Fannie Mae Selling Guide: B3-3.1-01, General Income Information
- → Fannie Mae Selling Guide: B3-3.1-09, Other Sources of Income
- → Freddie Mac Seller/Servicer Guide: 5301.1, General requirements for all stable monthly income
- → Freddie Mac Seller/Servicer Guide: 5305.1, Requirements for all other income (non-employment/non-self-employment)

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