

## Understanding Trust Income

Trust income generally refers to the income generated from a trust fund, which, in certain scenarios, may be used to qualify for a mortgage. Trust funds are legal arrangements that allow a third party, known as a trust, to hold and direct assets on behalf of a beneficiary. The income derived from these trust funds, whether through interest, dividends, or other profits, is referred to as trust income.

The income may be considered as part of the borrower's total monthly earnings and factored into the DTI for qualification purposes.

### Types of Trust Income

There are three main types of trust income:

#### Revocable Trust Income

- » Created by a grantor, who usually owns the assets and property of the trust.
- » Can be changed, modified, or terminated by the grantor at any time during their lifetime.
- » The income generated may be treated as income to the grantor and reported on the grantor's individual tax return.
- » May be used to qualify for a mortgage if the income is consistent and expected to continue.

#### Irrevocable Trust Income

- » Also created by a grantor, but cannot be changed, modified, or terminated without the beneficiary's permission.
- » The income generated may be treated as income to the trust, and the trust files its own tax return.
- » May be used to qualify for a mortgage if the income is consistent and expected to continue.

#### Testamentary Trust Income

- » Created as part of a last will and testament and takes effect after the death of the person who created the will.
- » The assets are held in trust for the beneficiaries of the will, and the trust may generate income for those beneficiaries.
- » May be used to qualify for a mortgage if the income is consistent and expected to continue.

## Guidelines on Documentation

### Documentation for Trust Income

To validate income derived from a trust, GSEs may require the following:

- » Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments.
- » Document a history of regular receipt.
- » Verify continuance for 3 years beyond the application date.

Note: Borrowers may be prohibited from using trust income as a source of reserves if they are also using trust income as qualifying income for a mortgage transaction.

### Fannie Mae Guidelines (Effective Nov 1, 2023)

The following table provides a summary of Fannie Mae's verification requirements for trust income. Consult the Fannie Mae Selling Guide for additional information.

→ [Fannie Mae Selling Guide: B3-3.1-09, Other Sources of Income](#)

#### Verification of Trust Income

- » Obtain a copy of the trust agreement, the trustee's statement, or the trust's federal income tax returns confirming the amount, frequency, and type of income being received.

Note: A borrower who is also a trustee may not supply the trustee's statement.

- » Confirm continuance of income per Continuity of Income in B3-3.1-01, General Income Information. This confirmation must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting

asset, then three-year continuance must be determined.

If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the Continuity of Income requirements.

If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the loan's application date, the income calculation requirements in Employment-Related Assets as Qualifying Income apply.

#### Requirements for Trust with Fixed Payments

Use the fixed payment amount from the trust agreement as the borrower's qualifying income, converting it to a monthly amount, as applicable.

Document current receipt of trust income with one month's bank statement or other equivalent documentation.

Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met:

- » the trust documentation reflects fixed payments,
- » the borrower is not the grantor, and
- » at least one payment is received prior to closing.

#### Requirements for Trust with Variable Payments

Calculate the qualifying income amount per Variable Income in B3-3.1-01, General Income Information.

Document the following:

- » a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal tax income tax returns for the most recent two years, and
- » current receipt of trust income with one month's bank statement or other equivalent documentation.

### Freddie Mac Guidelines

→ [Freddie Mac Selling Guide: 5305.2 Specific requirements for other income types](#)

#### Stable monthly income requirements

##### History of receipt:

- » Most recent two-years if the income is based on historical fluctuating payments from a trust asset (e.g., dividends and interest)
- » A history of receipt is not required if the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years

##### Continuance:

- » Document that sufficient assets remain after closing to support continuance of the trust income for at least the next three years

##### Calculation:

- » For fluctuating payments: 24-month average
- » For pre-determined fixed payments: Use the fixed payment amount documented in the trust agreement

#### Documentation requirements

##### For trust income based on historical fluctuating payments from a trust asset:

- » Copy of fully executed trust agreement outlining payment terms, and
- » Copy of complete federal individual income tax returns for the most recent two-year period, and
- » Evidence of sufficient assets to support the qualifying income (e.g., letter from trustee, bank statements)

##### Or, for trust income based on a pre-determined fixed payment amount:

- » Copy of fully executed trust agreement specifying fixed payment amount occurring at set intervals (e.g., monthly, quarterly) and duration of payments, and
- » Document current receipt with a copy of a bank statement or other equivalent documentation, and
- » Evidence of sufficient assets to support the qualifying income (e.g., letter from trustee, bank statements)

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## Example Scenarios

When assessing a borrower's eligibility for a mortgage using trust income, a number of key questions can be asked. To ensure compliance with investor guidelines, be sure to check and follow the specific guidelines provided by the relevant authority or organization.

- » Is the borrower identified as the beneficiary?
- » Review the trust documents – who has access to the funds? Are there any restrictions?
- » Is the same trust account being used both for income and as an assets on this loan (reserves, down payment, closing costs)? Trust Assets cannot be used as both reserves and income.
- » Is the borrower also the trustee? If so, a letter from the trustee cannot be used to determine if sufficient assets are available for the three-year continuance requirement.
- » Have all investor guidelines been met?

### Example 1

You're reviewing a loan file for Alice who is using trust income from the The Family Trust to qualify for their mortgage. You condition for the trust agreement and notice that on page 2 of the agreement (Part 2.1 (C.)) it states: 'The Trust shall terminate when Beneficiary (borrower) shall reach the age of thirty years.'

Alice just turned 28 years old and has been receiving \$4,000 monthly as a fixed payment from the trust for the last seven years.

#### Is this income option eligible?

**No.** The borrower cannot demonstrate three years' continuance, which is required for the use of trust income.

### Example 2

Our co-borrower, Damon, is the beneficiary of a Trust held by ABC Trade. He is using this income to qualify for his refinance, along with his spouse's base income of \$4,166.66. He supplied you with trust agreement and statements indicating he is the beneficiary and what his monthly payments. He also provided bank statements showing the direct deposit of the trust income into his account.

AUS Findings show: Trust income for Damon must be supported by a copy of the trust agreement.

#### Can you use his trust income?

**Yes,** You were provided with the proper trust documentation from ABC Trade indicating the borrower is the beneficiary, what his monthly payments are from this account and bank statements showing the deposit of the funds into his account.

## Glossary

- » **Continuance:** The expectation that the income will continue for a certain period beyond the application date.
- » **Fluctuating Payments:** Payments from a trust asset that vary in amount.
- » **Fixed Payments:** Pre-determined payment amounts occurring at regular intervals.
- » **Trust Agreement:** A document that outlines the terms and conditions under which the trust operates.
- » **Beneficiary:** The person or entity benefiting from the trust or will.
- » **Grantor:** The person who creates the trust and usually owns the assets and property of the trust.
- » **Trustee:** The person or entity responsible for managing the trust and its assets.
- » **AUS Findings:** Automated Underwriting System findings, a computer-generated loan underwriting decision.

## Additional Resources

### Fannie Mae & Freddie Mac Guidelines

For an in-depth understanding, refer to the official guides:

- [Fannie Mae Selling Guide: B3-3.1-09, Other Sources of Income](#)
- [Fannie Mae Selling Guide: B3-3.1-01, General Income Information](#)
- [Freddie Mac Selling Guide: 5305.2 Specific requirements for other income types](#)