

Understanding Trust Income

Trust income generally refers to the income generated from a trust fund, which can 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.

In the context of mortgage transactions, trust income can be an important factor in determining a borrower's ability to repay a loan. Trust income can be considered as a part of the borrower's total income, thus potentially increasing the borrower's borrowing power.

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

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

- 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.
- Verify that the trust income will continue for at least three years from the date of the mortgage application.
- Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.

→ [Fannie Mae Selling Guide: What is required for trust income?](#)

Freddie Mac Guidelines

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)

Key Differences

While both Fannie Mae and Freddie Mac have similar requirements for verifying trust income, there are some key differences to note. Mainly, Freddie Mac looks at how the income from the trust is derived (fluctuating vs. fixed assets) whereas Fannie Mae treats trust income the same regardless of how derived:

- History of Receipt:** Freddie Mac requires a two-year history of receipt if the income is based on historical fluctuating payments from a trust asset. Fannie Mae does not specify this requirement.
- Monthly Income Receipt:** Fannie Mae does not require documentation of current receipt of the income if it is received monthly. Freddie Mac does not specify this exemption.
- Income Calculation:** Freddie Mac provides specific instructions for calculating income based on whether payments are fluctuating or fixed. Fannie Mae does not provide specific calculation instructions.
- Trust Income Documentation:** Freddie Mac provides more detailed documentation requirements based on the type of trust income. Fannie Mae's requirements are more general.

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?

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Example 1

You're reviewing a loan file for Jalen who is using trust income from the Jason and Mia Hurts Family Trust to qualify for his 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.'

Jalen 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 Ameritrade. He is using this income to qualify for his refinance, along with his spouse's base income of \$4,166.66.

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



We must obtain proper trust statements from ABC Ameritrade indicating the borrower is the beneficiary and what his monthly payments are from this account. If the statements provided are not sufficient, additional documentation may be needed to answer the questions for this type of income.

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 \(12/14/2022\)](#)
- [Fannie Mae Selling Guide: What is required for trust income?](#)
- [Freddie Mac Selling Guide: 5305.2 Specific requirements for other income types](#)