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## ***GUIDELINE UPDATE***

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### **INTRODUCTION**

Amendment to the existing SFR Portfolio Underwriting Guidelines to permit use of bank statements for calculating qualifying income on 1-4 family residential loans. Specific calculations are outlined below.

**Applicable to portfolio loans  $\leq$  55% LTV**

### **BANK STATEMENT CALCULATION**

When analyzing Business Bank Statements, the Lender must verify the borrower's percentage of ownership. Acceptable forms of documentation would be a business license, a signed written statement from a CPA or a Third-Party Tax Preparer, a Partnership agreement, a business certificate filed with a governmental agency. Self-employed borrowers can use either Personal or Business Bank Statement documentation. The following restrictions apply to both types of documentation:

#### **General Requirements:**

- Minimum 1 year self-employed and 2 years in same line of business
- Assets must be held in the US
- NSF – 1x12 is allowed with LOE
- Access letters from business owners not on the loan are required
- 12-months complete bank statements (multiple bank accounts may be used)
- Bank Statements must be the most recent available at the time of application and be consecutive
- Any Rental Income will be calculated separately from the bank statements cash flow and backed out of the eligible deposits calculation
  - Current executed lease is required for all REO income properties; If current lease is not available, market rent must be obtained with a 1007. A 25% vacancy factor is applied in either circumstance;
  - Evidence of two months' bank statements if a separate account is used showing proof of rents received; or cancelled checks evidencing two months of rental payments;
  - No tax returns/schedule E allowed as transcripts (TRVs) will not be ordered.
- Business narrative + internet search/3<sup>rd</sup> party verification of business existence required
- Qualifying deposits can include:
  - W-2 wages
  - Alimony and/or child support
  - Business income
  - Distributions / Trust Income
  - Retirement / Social Security / Pension
  - Other qualifying income sources
- Ineligible deposits (not an exhaustive list):
  - Cash advances from credit cards
  - Gift funds

- Tax refunds
- Purchase refunds/credits
- Lines of credit deposits
- Multiple income streams can be used to qualify, provided they are clearly identified and not double counted with any qualifying deposits in the bank statement calculations.

**6.3.1 Personal Bank Statements**

**Personal Bank Statement Program Requirements:**

- Borrower(s) must be at least 25% owner of business
- Initial signed 1003 with income disclosed
- Income calculated using 100% of eligible deposits
- Deposits exceeding 50% of qualifying monthly income must be explained with a satisfactory LOE
- Qualifying income will be the lower of the bank statement analysis or income from initial 1003
- Transfers from borrower’s business account to personal account will be considered qualifying deposits if 2 months of business statements are provided to support distributions

**6.3.2 Business Bank Statements**

**Business Bank Statement Program Requirements:**

- Borrower(s) must be at least 25% owner of business
- Initial signed 1003 with income disclosed
- Minimum of 2 years in the same industry
- Qualifying income will be the lower of the following 2 criteria:
  - Bank statement analysis (based on Standard or Calculated Expense Ratio defined below)
  - Income disclosed on the initial 1003

**Business Bank Statement Analysis (2 options):**

- **(1) Standard Expense Ratio:** Gross bank deposits (less ineligible deposits) multiplied by **Expense Ratio** (from chart below) multiplied by percentage ownership divided by 12 months.

Type of Business	Expense	Examples
Service Business	40%	Insurance, Consulting, Accounting, Therapist
Non-service Business or Product Business	60%	Restaurant, Retail, Construction

- **(2) Calculated Expense Ratio:** Gross bank deposits (less ineligible deposits) multiplied by **Expense Ratio** (per P&L) multiplied by percentage ownership divided by 12 months.
  - Profit & Loss must be prepared and signed by a Tax Professional (Certified Public Accountant, Tax Attorney, Enrolled Agent or Paid Tax Professional)
  - P&L to cover minimum 12-month period (YTD + previous year)
  - **Minimum 35% Expense Ratio allowed**