Understanding Appendix Q
&
Basic Underwriting

Boot Camp 360 Series
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In the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), Congress adopted the Ability-to-Repay (ATR) requirements for most dwelling secured residential mortgage loans. Congress also established a presumption of compliance with the ATR requirements for a certain category of mortgages, called Qualified Mortgages (QMs).

While the ATR rule provides eight specific factors you must consider (including verifications of income or assets relied on, employment if relied on, and review of credit history), the rule does not dictate that you follow particular underwriting models. The rule does not preclude you from considering additional factors, but you must consider at least these eight factors. Your institution is responsible for developing and applying its own underwriting standards and making changes to those standards over time in response to empirical information and changing economic conditions. Using Appendix Q as a guideline, your underwriting standards should result in comparatively low rates of delinquency and default during adverse economic conditions. Conversely, if you ignore evidence that your underwriting standards are not effective in determining the consumer’s repayment ability, or you are inconsistent with your underwriting standards, this would not be considered a reasonable determination made in good faith.

Keep in mind, your institution may have made a business decision to strictly follow the ATR rules using Appendix Q as a guideline or your institution may have decided to adhere to the QM requirements. If you are selling your loans to a third party, your institution may have reps and warrants to meet similar specific requirements decided by the third-party investor or GSE and it should be clear to the Underwriter that these requirements have been met.

Even if a loan is not a Qualified Mortgage, it can still be an appropriate loan. You can originate any mortgage (whether or not it is a QM) as long as you make a reasonable good-faith determination that the consumer is able to repay the loan based on common underwriting factors. You can continue to rely on your sound, tested underwriting guidelines that you have used in the past to make loans that have generally performed well, as long as you document the information and how you consider each of the eight factors we find under the Ability to Repay requirements.

1. Current or reasonably expected income or assets
2. Current employment status
3. Monthly mortgage payment on a covered transaction
4. Monthly payment on any simultaneous loan
5. Monthly payment for mortgage related obligations
6. Current debt obligations
7. Monthly debt to income ratio or residual income
8. Review, consider and verify the credit history

Qualified Mortgages
In addition to the general Ability to Repay (ATR) requirements, Qualified Mortgages must strictly adhere to the Appendix Q criteria in order for the creditor to receive the protections due to the presumption of compliance with the Ability to Repay requirements. It is presumed that Creditors have satisfied the Ability to Repay requirements for “Qualified Mortgages” that are not higher priced covered transactions (HPCT’s), and a rebuttable presumption if they are higher priced.
Basic Underwriting & Appendix Q

This is the rigorous stage in the residential real estate lending process, the underwriter is the “decision maker” in the loan process. The Underwriter’s job is to analyze the file, loan terms and risk to determine that the loan meets the three “C’s” of underwriting: Credit, Capacity and Collateral. It is important to understand the responsibilities of the underwriter, understand credit, income and assets.

Every underwriter has their own method of underwriting the file. If the file has a particular stacking order you may start at the back, or maybe the front. Others may want to tackle the difficult items first such as the appraisal. The method you use will be up to your comfort level.

The Creditor could be using an automated underwriting system such as Fannie Mae DU (Desktop Underwriter) or Freddie Mac LP (Loan Prospector). Even if using these systems, you still need an underwriter to review information was correctly keyed, supporting documentation is there, the appraisal and tax return analysis. The creditor you are working with may have other overlays or may only manually underwrite.

No matter what the situation is, the Underwriter is responsible for ensuring that the file supports their decision. Here are the areas the underwriter should focus on:

- Reviewing the Disclosures
- Assets
- Liabilities
- Credit
- Application completed
- Tax Return Analysis, Income Analysis
- Underwriting the Appraisal
- Underwriting the Title
- Property is insured properly and mortgagee is being changed
- Flood Determination Completed and disclosed correctly
- Flood Notification if applicable is disclosed correctly
- Red Flags or fraud systems checked

Reviewing the Disclosures
The underwriter should make sure they know what disclosures are necessary for each loan type and/or product. Review that all appropriate disclosures have been returned, signed and dated correctly. For example: Were the LE and other 3 day disclosures disclosed with the correct timing and/or re-disclosed with correct timing? Were any tolerances violated? Is the loan an HPML or HPCT?

Debt-to-income Ratio (DTIR)
Debt-to-income ratio - the ratio of the amount of debt the borrower has compared to their income. You must include the following when computing the debt to income ratios for recurring obligations. Monthly housing expense and additional recurring debts or charges extending ten months or more such as; payments on installment accounts, child support or separate maintenance payments, revolving accounts and alimony.

Debts lasting less than 10 months must be included if the amount of the debt affects the consumer’s ability to pay the mortgage during the months immediately after loan closing, especially if the consumer will have limited or no cash assets after loan closing.
Revolving Account Monthly Payment Calculations
If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated using the greater of:
   a. 5 percent of the balance; or
   b. $10

If the actual monthly payment is documented from the creditor or the creditor obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

Monthly payments on revolving or open-ended accounts, regardless of the balances, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less. Open accounts with zero balances can be excluded from the DTIR.

How to Calculate Debt-to-Income Ratio

- Determine the borrower’s gross (before tax) monthly income from all sources.
- Add up their prospective housing expense (mortgage principal and interest plus taxes, insurance, HOA dues, etc.). To the housing expense, add their monthly debt payments like credit card, auto and student loan payments (but not living expenses) and divide that by their gross income. **Remember to add** auto lease payments and payments for deferred loans such as student loans or furniture accounts. Child support or alimony payments that will continue for more than 10 months must be included. Since there are tax consequences of alimony payments, the creditor may choose to treat the monthly alimony obligation as a reduction from the consumer’s gross income when calculating qualifying income.
- The debt-to-income ratio calculations determine how much of the borrower’s income is used for paying the mortgage and other installment debts such as credit cards, student loans and vehicle loans.

Determine Monthly Gross Income
Add the monthly gross income earned by all borrowers. **Important:** The gross income is the amount earned before income taxes and other costs are deducted from their pay. Write down the monthly gross income amount(s). If they are paid weekly, multiply their weekly gross income by 52 and divide the result by 12. If they are paid every two weeks, multiply their pay by 26 and divide the result by 12, etc.

List Estimated Mortgage Payment and Fixed Monthly Payments
List the estimated amount of the new mortgage payment. This amount includes principal and interest (P&I). The estimated mortgage payment also includes amounts collected for paying property taxes, hazard insurance and mortgage insurance (if applicable). This is added whether the borrower is escrowing or not.

Next, add the minimum required payment for each installment debt. Use the payment amounts from the credit report or check the most recent account statements for each minimum monthly payment amount.

Divide the total of the estimated mortgage payment and fixed installment payments by the amount of their gross monthly income. For example: The estimated mortgage payment is $2,000 and the total minimum monthly payments on installment accounts is $500 - the total is $2,500.
Divide the total of the estimated mortgage payment and monthly minimum payments by the borrower’s monthly gross income. For example, dividing $2,500 by $7,500 (gross monthly income) gives a result of .3333, which is 33.33 percent.

**Analyzing Application**
Has the application been completed? Are there any blanks fields of information missing? Most underwriters like to have a working copy of the application printed whether working with a paper file or a paperless system. This allows the underwriter to check the application in detail for any missing or incorrect information. There could be a blank that was not completed or updated during the process or information that was not updated after the processor verified specific information.

**Sales Contract**
Review the contract in detail. Make sure the contract is complete, that the names, address and legal description are correct. Make sure that the contract has all amendments and addendums attached and that all parties have signed dated and executed the contract. Review for any contingencies, sales or financing concessions. Are there any repairs to be made? Have they been made? Compare the contract to the Appraisal and the Title Commitment.

**Analyzing Credit and Underwriting Liabilities**
Review the names, social security numbers and addresses on the credit report to the borrower information. Has the credit report expired (within 120 days of note date)?

If required by the lender (or Investor) do you have a tri-merged or residential real estate credit report with credit scores from all three bureaus?

A Fair Isaac Corporation (FICO™) Score is an effective tool in evaluating a Borrower's credit reputation; however it does not necessarily indicate that the Borrower's credit reputation is acceptable. The underwriter must determine that each Borrower individually, and that all Borrowers collectively, have an acceptable credit reputation.
Reviewing Credit Reputation

If you are manually underwriting with FICO scores, you should **not** use the following factors as offsets for weaknesses in the Borrower's credit reputation because they have already been considered in creating the FICO score:

1. The absence of, or age of, derogatory information
2. The number/proportion of accounts paid as agreed versus delinquent
3. The types of accounts paid as agreed versus the types of accounts that are delinquent
4. Recent pay-down or consolidation of account balances by the Borrower
5. The length of the Borrower's credit history
6. Any combinations of the above factors

What constitutes an acceptable credit reputation may vary according to the Mortgage product or type. You may determine significant derogatory information has an acceptable credit reputation by documenting that the derogatory credit was attributable to extenuating circumstances.

If you are manually underwriting mortgages, your evaluation of the Borrower's credit reputation must be based on the entire credit history documented in the Mortgage file. **You must weigh the following factors in arriving at a conclusion that the Borrower's credit reputation is acceptable:**

1. The type and amount of credit outstanding
2. How long the Borrower has had credit
3. How the Borrower uses available credit, including revolving balances-to-limits
4. Recent changes in the number of open accounts or overall amount of credit outstanding
5. The payment history and status of all accounts
6. Any recent inquiries shown on the credit report
7. Any public record or collection items
If a Borrower's credit history includes both Trade-lines and Noncredit Payment References, you must put more weight on the Trade-lines when evaluating the Borrower's credit reputation and cannot use Noncredit Payment References to offset derogatory credit in a Trade-line reference. If a Borrower's credit history includes housing obligations (rental or Mortgage), then you should put more weight on how housing payments were made than non-housing payments but must not ignore any derogatory information in the credit history.

The underwriter must also consider layering of risk in its evaluation of credit reputation. A stronger credit reputation may be required if either capacity or collateral is weak.

Is there any derogatory information on the credit report, such as delinquencies, collections, short sale, foreclosure or bankruptcy that need a written explanation and/or documentation to support the explanation? Do you have these explanations and/or documentation? Adverse credit information in and of itself does not mean the Borrower's credit reputation is unacceptable. When there is adverse or derogatory information in the Borrower's credit history, the underwriter must determine whether the derogatory information is significant.

The underwriter should weigh the amount of derogatory information against the rest of the credit history and decide whether it is significant. You should not ignore any derogatory credit but must give more weight to late housing payments and to derogatory information or late payments occurring within the past two years. Generally, the more recent the adverse or derogatory credit information, the more likely it is significant. Items to consider:

- The number, timing and extent of the adverse or derogatory credit information
- The number, type and size of accounts with adverse or derogatory credit information
- Public record information, such as judgments and collection accounts
- Other characteristics listed in this section

For example, you would consider a 30-day late housing payment to have more weight than a 30-day late non-housing payment, and a collection account to have more weight than a 30-day late payment on a revolving account.

Although there may be many situations involving derogatory credit information that are less clear, especially when disputes about obligations are involved, the derogatory credit information is not significant when it consists only of isolated late payments, even if several accounts show sporadic late payments, provided all of the following exist:

- The late payments were not recent
- The late payments did not extend beyond one month
- The number and size of delinquent accounts is not large in relation to the overall credit
- The credit history does not show multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit
- All other credit has been paid as agreed

However, the derogatory information is significant if any of the following exist:

- There are several accounts showing recent late payments
- There are multiple 60- or 90-day late payments
- There is more than one 30-day late housing payment in the last 12 months
- There are more than two 30-day or more than one 60-day late housing payments within the most recent two years
- The number and size of the delinquent accounts are large in relation to the overall credit
• There are multiple episodes of late payments extending over a period of time
• The credit history shows derogatory credit information within the two most recent years combined with multiple revolving accounts with high balances-to-limits
• The public record information reveals several occurrences of derogatory credit information, including judgments, tax liens and/or collection accounts
• There is a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or short sale within the last seven years that is disclosed on a credit report, disclosed by the Borrower on the Uniform Residential Loan Application, or is evidenced by other documentation contained in the Mortgage file

Are there any inquiries that need to be addressed? If so, is there a written signed explanation for the inquiries from the borrower regarding these inquiries? Inquiries on the credit report generally reflect the Borrower's requests for new or additional credit. Inquiries made for other purposes, such as general solicitations not initiated by the Borrower or monitoring inquiries by current creditors, typically are not shown on the credit report.

When the credit report indicates that a creditor has made an inquiry within the previous 120-day period, the underwriter must determine whether additional credit was granted. A letter from the creditor or, if such a letter is unobtainable, a signed statement from the Borrower may be used to determine whether additional credit was obtained. If additional credit was granted, the underwriter must obtain verification of the debt and must consider the debt when qualifying the Borrower in monthly debt payment-to-income ratio.

When underwriting with FICO scores, a reason code will alert the underwriter that the number of inquiries affected the Borrower's FICO score and, therefore, should not be overlooked in underwriting. In this case and when underwriting without FICO scores, the underwriter must decide whether the number of recent inquiries, especially when combined with other credit information, increases the risk of the Borrower's credit profile.

Several inquiries within the most recent 12 months generally increase risk and, when combined with high balances-to-limits on revolving accounts may indicate that the Borrower is in danger of becoming overextended. In addition, several recent inquiries, combined with a credit history of short duration may make even mild derogatory credit information significant.

To address how risk evidenced by several recent inquiries, layered with other credit reputation risks, affects the Borrower's overall credit reputation, the underwriter must look at:

• The Borrower's payment history
• The age of the Borrower's other credit
• The type of credit being sought
• The total amount of credit outstanding, and
• The overall credit utilization reflected on the report
Are there any other mortgages on the credit report that have not been matched to liabilities on application and the REO section of the application?

**Do the liabilities listed on credit report match the liabilities shown on application?**
If the credit report doesn’t reflect a minimum payment for the liability, has the correct calculation been added to the application? **If you do not have documentation in the file to reflect the actual payment, secondary market guidelines and ATR require a 5% payment calculation of the outstanding balance or $10 whichever is greater.** If you have the actual monthly payment documented from the creditor or you have a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes. **Payments on installment loans with 10 months or less can be excluded from the debt to income ratio calculation, with stipulations (see above).** Student loans or other installment loans in deferment still need to be calculated into the debt to income ratio calculation. **If the student loan payment cannot be documented verifying the monthly payment amount 1% of the outstanding balance can be used for qualifying purposes.** Auto lease payments are included in debt to income ratio regardless of the remaining term.

![Credit Report Table]

Does your institution use UDM (undisclosed debt monitoring)? Undisclosed Debt Monitoring monitors the borrower’s credit from the time the credit was pulled through the entire loan process. This will alert lenders to new inquiries or new debt obligations prior to closing. If your institution doesn’t use this process, then a soft credit should be pulled prior to closing.

If your institution requires social security verification, compare the verified information to the documentation collected from the borrower. If you conduct fraud reports or red flag reports, again this is a good piece to have in the file. Make sure you address and correct any red flag issues.

**Consumer Liabilities: Types of Recurring obligations for DTIR calculations:**
1. All installment loans
2. Revolving charge accounts
3. Real Estate loans
4. Alimony
5. Child support; and
6. Other continuing obligations
**Contingent Liabilities** - A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. The contingent liability on Mortgage Assumptions is included unless the consumer can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default. Contingent liability must be considered when the consumer remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that has been sold or traded within the last 12 months without a release of liability, or is to be sold on assumption without a release of liability being obtained.

**When a mortgage is assumed, contingent liabilities need not be considered if:**
- The originating creditor of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or
- The value of the property, as established by an appraisal or the sales price on the HUD-1 or CD from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.

Contingent liabilities on cosigned obligations apply, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on car loans, student loans, mortgage or any other obligation. If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the consumer’s monthly obligations.

Projected obligations are debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing. These must be included as anticipated monthly obligations during the underwriting analysis. Debt payments do not have to be classified as projected obligations if the consumer provides written evidence that the debt will be deferred to a period outside the 12-month timeframe. Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

**Obligations that are not considered debt, and therefore not subtracted from gross income, include:**
1. Federal, State or local taxes
2. Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds)
3. Commuting costs
4. Union dues
5. Automatic deductions to savings accounts
6. Child care
7. Voluntary deductions
Appendix Q to Part 1026
Standards for Determining Monthly Debt and Income

Section 1026.43(e)(2)(vi) provides that, to satisfy the requirements for a qualified mortgage under §1026.43(e)(2), the ratio of the consumer’s total monthly debt to total monthly income at the time of consummation cannot exceed 43 percent. Section 1026.43(e)(2)(vi)(A) requires the creditor to calculate the ratio of the consumer’s total monthly debt to total monthly income using the following standards, with additional requirements for calculating debt and income appearing in §1026.43(e)(2)(vi)(B).

I. Consumer Eligibility

A. Stability of Income.
   1. Effective Income. Income may not be used in calculating the consumer’s income ratios if it comes from any source that cannot be verified, is not stable, or will not continue.
   2. Verifying Employment History.
      a. The creditor must verify the consumer’s employment for the most recent two full years, and the consumer must:
         i. Explain any gaps in employment that span one or more months, and
         ii. Indicate if he/she was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers.
      b. Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the creditor.
      Note: A consumer with a 25 percent or greater ownership interest in a business is considered self-employed and will be evaluated as a self-employed consumer for underwriting purposes.
   3. Analyzing a Consumer’s Employment Record.
      a. When analyzing the probability of continued employment, creditors must examine:
         i. The consumer’s past employment record;
         ii. Qualifications for the position;
         iii. Previous training and education; and
         iv. The employer’s confirmation of continued employment.
      b. Favorably consider a consumer for a mortgage if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.
   4. Consumers Returning to Work After an Extended Absence. A consumer’s income may be considered effective and stable when recently returning to work after an extended absence if he/she:
      a. Is employed in the current job for six months or longer; and
      b. Can document a two-year work history prior to an absence from employment using:
         i. Traditional employment verifications; and/or
         ii. Copies of IRS Form W-2s or pay stubs.
      Note: An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.
      c. Important: Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months.

B. Salary, Wage and Other Forms of Income.
      a. The income of each consumer who will be obligated for the mortgage debt must be analyzed to determine whether his/her income level can be reasonably expected to continue through at least the first three years of the mortgage loan.
      b. In most cases, a consumer’s income is limited to salaries or wages. Income from other sources can be considered as effective, when properly verified and documented by the creditor.
Notes:
   i. Effective income for consumers planning to retire during the first three-year period must include the amount of:
      a. Documented retirement benefits;
      b. Social Security payments; or
      c. Other payments expected to be received in retirement.
   ii. Creditors must not ask the consumer about possible, future maternity leave.

2. Overtime and Bonus Income.
   a. Overtime and bonus income can be used to qualify the consumer if he/she has received this income for the past two years, and it will likely continue. If the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.
   b. The creditor must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided the creditor can justify and document in writing the reason for using the income for qualifying purposes.

3. Establishing an Overtime and Bonus Income Earning Trend.
   a. The creditor must establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the creditor must document in writing a sound rationalization for including the income when qualifying the consumer.
   b. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

4. Qualifying Part-Time Income.
   a. Part-time and seasonal income can be used to qualify the consumer if the creditor documents that the consumer has worked the part-time job uninterrupted for the past two years, and plans to continue. Many low and moderate income families rely on part-time and seasonal income for day to day needs, and creditors should not restrict consideration of such income when qualifying these consumers.
   b. Part-time income received for less than two years may be included as effective income, provided that the creditor justifies and documents that the income is likely to continue.
   c. Part-time income not meeting the qualifying requirements may not be used in qualifying.

Note: For qualifying purposes, “part-time” income refers to employment taken to supplement the consumer’s income from regular employment; part-time employment is not a primary job and it is worked less than 40 hours.

5. Income from Seasonal Employment.
   a. Seasonal income is considered uninterrupted, and may be used to qualify the consumer, if the creditor documents that the consumer:
      i. Has worked the same job for the past two years, and
      ii. Expects to be rehired the next season.
   b. Seasonal employment includes:
      i. Umpiring baseball games in the summer; or
      ii. Working at a department store during the holiday shopping season.

6. Primary Employment Less Than 40 Hour Work Week.
   a. When a consumer’s primary employment is less than a typical 40-hour work week, the creditor should evaluate the stability of that income as regular, on-going primary employment.
   b. Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the consumer’s primary employment, and should be considered effective income.
7. **Commission Income.**
   a. Commission income must be averaged over the previous two years. To qualify commission income, the consumer must provide:
      i. Copies of signed tax returns for the last two years; and
      ii. The most recent pay stub.
   b. Consumers whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can:
      i. Document the likelihood that the income will continue, and
      ii. Soundly rationalize accepting the commission income.

**Notes:**
   i. Unreimbursed business expenses must be subtracted from gross income.
   ii. A commissioned consumer is one who receives more than 25 percent of his/her annual income from commissions.
   iii. A tax transcript obtained directly from the IRS may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the consumer.

8. **Qualifying Commission Income Earned for Less Than One Year.**
   a. Commission income earned for less than one year is not considered effective income. Exceptions may be made for situations in which the consumer's compensation was changed from salary to commission within a similar position with the same employer.
   b. A consumer may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the consumer for the mortgage.

9. **Employer Differential Payments.** If the employer subsidizes a consumer's mortgage payment through direct payments, the amount of the payments:
   a. Is considered gross income, and
   b. Cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly.

10. **Retirement Income.** Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k)'s, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying.
11. **Social Security Income.** Social Security income must be verified by the Social Security Administration or on Federal tax returns. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

**Notes:**
   i. The creditor must obtain a complete copy of the current awards letter.
   ii. Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required.
   iii. Some portion of Social Security income may be “grossed up” if deemed nontaxable by the IRS.

12. **Automobile Allowances and Expense Account Payments.**
   a. Only the amount by which the consumer's automobile allowance or expense account payments exceed actual expenditures may be considered income.
   b. To establish the amount to add to gross income, the consumer must provide the following:
      i. IRS Form 2106, Employee Business Expenses, for the previous two years; and
      ii. Employer verification that the payments will continue.
   c. If the consumer uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.
   d. Expenses that must be treated as recurring debt include:
      i. The consumer's monthly car payment; and
ii. Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

C. Consumers Employed by a Family Owned Business.
   1. Income Documentation Requirement.
      In addition to normal employment verification, a consumer employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include:
         a. Copies of signed personal tax returns, or
         b. A signed copy of the corporate tax return showing ownership percentage.

   Note: A tax transcript obtained directly from the IRS may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the consumer.

D. General Information on Self-Employed Consumers and Income Analysis.
   1. Definition: Self Employed Consumer. A consumer with a 25 percent or greater ownership interest in a business is considered self-employed.
   2. Types of Business Structures. There are four basic types of business structures. They include:
      a. Sole proprietorships;
      b. Corporations;
      c. Limited liability or “S” corporations; and
      d. Partnerships.
      a. Income from self-employment is considered stable, and effective, if the consumer has been self-employed for two or more years.
      b. Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for consumers who have been self-employed for less than two years.

<table>
<thead>
<tr>
<th>If the period of self-employment is:</th>
<th>Then:</th>
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<tr>
<td>Between one and two years</td>
<td>To be eligible for a mortgage loan, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation.</td>
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<tr>
<td>Less than one year</td>
<td>The income from the consumer may not be considered effective income.</td>
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   Note: A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable.

4. General Documentation Requirements for Self Employed Consumers. Self-employed consumers must provide the following documentation:
   a. Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years;
   b. For a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules;
   c. Year to date profit and loss (P&L) statement and balance sheet; and
   d. Business credit report for corporations and “S” corporations.

5. Establishing a Consumer’s Earnings Trend.
   a. When qualifying a consumer for a mortgage loan, the creditor must establish the consumer’s earnings trend from the previous two years using the consumer’s tax returns.
   b. If a consumer:
      i. Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
ii. Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.

c. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the creditor must base the income analysis solely on the income verified through the tax returns.

d. If the consumer's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the consumer's most recent year's tax return or P&L must be used to calculate his/her income.

6. Analyzing the Business's Financial Strength:
   a. To determine if the business is expected to generate sufficient income for the consumer's needs, the creditor must carefully analyze the business's financial strength, including the:
      i. Source of the business's income;
      ii. General economic outlook for similar businesses in the area.
   b. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

E. Income Analysis: Individual Tax Returns (IRS Form 1040).
   1. General Policy on Adjusting Income Based on a Review of IRS Form 1040.
      The amount shown on a consumer's IRS Form 1040 as adjusted gross income must either be increased or decreased based on the creditor's analysis of the individual tax return and any related tax schedules.
   2. Guidelines for Analyzing IRS Form 1040. The table below contains guidelines for analyzing IRS Form 1040:
F. Income Analysis: Corporate Tax Returns (IRS Form 1120).
1. Description: Corporation. A corporation is a State-chartered business owned by its stockholders.
2. Need To Obtain Consumer Percentage of Ownership Information.
   a. Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:
      i. Corporate tax return IRS Form 1120; and
      ii. Individual tax returns.
   b. When a consumer's percentage of ownership does not appear on the tax returns, the creditor must obtain the information from the corporation's accountant, along with evidence that the consumer has the right to any compensation.
3. **Analyzing Corporate Tax Returns.**
   a. In order to determine a consumer's self-employed income from a corporation the adjusted business income must:
      i. Be determined; and
      ii. Multiplied by the consumer's percentage of ownership in the business.
   b. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

<table>
<thead>
<tr>
<th>Adjustment Item</th>
<th>Description of adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and Depletion</td>
<td>Add the corporation’s depreciation and depletion back to the after-tax income.</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>Taxable income is the corporation’s net income before Federal taxes. Reduce taxable income by the tax liability.</td>
</tr>
<tr>
<td>Fiscal Year vs. Calendar Year</td>
<td>If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.</td>
</tr>
<tr>
<td>Cash Withdrawals</td>
<td>The consumer’s withdrawal of cash from the corporation may have a severe negative impact on the corporation’s ability to continue operating.</td>
</tr>
</tbody>
</table>

G. **Income Analysis: “S” Corporation Tax Returns (IRS Form 1120S).**
   1. **Description: “S” Corporation.**
      a. An “S” corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.
      b. Income for owners of “S” corporations comes from IRS Form W-2 wages, and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the consumer's individual IRS Form 1040.
   2. **Analyzing “S” Corporation Tax Returns.**
      a. “S” corporation depreciation and depletion may be added back to income in proportion to the consumer's share of the corporation's income.
      b. In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year.
      c. Important: The consumer's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.

H. **Income Analysis: Partnership Tax Returns (IRS Form 1065).**
   1. **Description: Partnership.**
      a. A partnership is formed when two or more individuals form a business, and share in profits, losses, and responsibility for running the company.
      b. Each partner pays taxes on his/her proportionate share of the partnership's net income.
   2. **Analyzing Partnership Tax Returns.**
      a. Both general and limited partnerships report income on IRS Form 1065, and the partners’ share of income is carried over to Schedule E of IRS Form 1040.
      b. The creditor must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the consumer's share of income.
      c. Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year.
      d. Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating, and must be considered in the income analysis.
II. Non-Employment Related Consumer Income

A. Alimony, Child Support, and Maintenance Income Criteria. Alimony, child support, or maintenance income may be considered effective, if:
   1. Payments are likely to be received consistently for the first three years of the mortgage;
   2. The consumer provides the required documentation, which includes a copy of the:
      i. Final divorce decree;
      ii. Legal separation agreement;
      iii. Court order; or
      iv. Voluntary payment agreement; and
   3. The consumer can provide acceptable evidence that payments have been received during the last 12 months, such as:
      i. Cancelled checks;
      ii. Deposit slips;
      iii. Tax returns; or
      iv. Court records.

Notes:
   i. Periods less than 12 months may be acceptable, provided the creditor can adequately document the payer's ability and willingness to make timely payments.
   ii. Child support may be “grossed up” under the same provisions as non-taxable income sources.

B. Investment and Trust Income.
   1. Analyzing Interest and Dividends.
      a. Interest and dividend income may be used as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years.
      b. Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.
   2. Trust Income.
      a. Income from trusts may be used if guaranteed, constant payments will continue for at least the first three years of the mortgage term.
      b. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:
         i. Amount of the trust;
         ii. Frequency of distribution; and
         iii. Duration of payments.
      c. Trust account funds may be used for the required cash investment if the consumer provides adequate documentation that the withdrawal of funds will not negatively affect income. The consumer may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.
   3. Notes Receivable Income.
      a. In order to include notes receivable income to qualify a consumer, he/she must provide:
         i. A copy of the note to establish the amount and length of payment, and
         ii. Evidence that these payments have been consistently received for the last 12 months through deposit slips, cancelled checks, or tax returns.
      b. If the consumer is not the original payee on the note, the creditor must establish that the consumer is now a holder in due course, and able to enforce the note.
4. **Eligible Investment Properties.**
Follow the steps in the table below to calculate an investment property's income or loss if the property to be subject to a mortgage is an eligible investment property.

<table>
<thead>
<tr>
<th>Step</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Subtract the monthly payment (PITI) from the monthly net rental income of the subject property.</td>
</tr>
<tr>
<td></td>
<td>Note: Calculate the monthly net rental by taking the gross rents, and subtracting the 25 percent reduction for vacancies and repairs.</td>
</tr>
<tr>
<td>2</td>
<td>Does the calculation in Step 1 yield a positive number?</td>
</tr>
<tr>
<td></td>
<td>• If yes, add the number to the consumer’s monthly gross income.</td>
</tr>
<tr>
<td></td>
<td>• If no, and the calculation yields a negative number, consider it a recurring monthly obligation.</td>
</tr>
</tbody>
</table>

C. **Military, Government Agency, and Assistance Program Income.**

1. **Military Income.**
   a. Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as:
      i. Income from variable housing allowances;
      ii. Clothing allowances;
      iii. Flight or hazard pay;
      iv. Rations; and
      v. Proficiency pay.
   b. These types of additional pay are acceptable when analyzing a consumer's income as long as the probability of such pay to continue is verified in writing.

   **Note:** The tax-exempt nature of some of the above payments should also be considered.

2. **VA Benefits.**
   a. Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the creditor receives documentation from the VA.
   b. Education benefits used to offset education expenses are not acceptable.

3. **Government Assistance Programs.**
   a. Income received from government assistance programs is acceptable as long as the paying agency provides documentation indicating that the income is expected to continue for at least three years.
   b. If the income from government assistance programs will not be received for at least three years, it may not be used in qualifying.
   c. Unemployment income must be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.

4. **Mortgage Credit Certificates.**
   a. If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income.
   b. Either type of subsidy may be added to gross income, or used directly to offset the mortgage payment, before calculating the qualifying ratios.

5. **Homeownership Subsidies.**
   a. A monthly subsidy may be treated as income, if a consumer is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.
b. If the consumer is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and be “grossed up” by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the consumer's income from employment and/or other sources.

c. Creditors may treat this subsidy as an “offset” to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the consumer's hands.

d. The assistance payment must be:
   i. Paid directly to the servicing creditor; or
   ii. Placed in an account that only the servicing creditor may access.

Note: Assistance payments made directly to the consumer must be treated as income.

D. Rental Income.

1. Analyzing the Stability of Rental Income.
   a. Rent received for properties owned by the consumer is acceptable as long as the creditor can document the stability of the rental income through:
      i. A current lease;
      ii. An agreement to lease, or
      iii. A rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation).
   b. A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

Note: The underwriting analysis may not consider rental income from any property being vacated by the consumer, except under the circumstances described below.

2. Rental Income From Consumer Occupied Property.
   a. The rent for multiple unit property where the consumer resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.
   b. Projected rent for the tenant-occupied units only may:
      i. Be considered gross income, only after deducting vacancy and maintenance factors, and
      ii. Not be used as a direct offset to the mortgage payment.

3. Income from Roommates in a Single Family Property.
   a. Income from roommates in a single family property occupied as the consumer's primary residence is not acceptable. Rental income from boarders however, is acceptable, if the boarders are related by blood, marriage, or law.
   b. The rental income may be considered effective, if shown on the consumer's tax return. If not on the tax return, rental income paid by the boarder may not be used in qualifying.

4. Documentation Required To Verify Rental Income. Analysis of the following required documentation is necessary to verify all consumer rental income:
   a. IRS Form 1040 Schedule E; and
   b. Current leases/rental agreements.

5. Analyzing IRS Form 1040 Schedule E.
   a. The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss.
b. Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability.
c. The creditor must confirm that the consumer still owns each property listed, by comparing Schedule E with the real estate owned section of the URLA.

6. Using Current Leases To Analyze Rental Income.
a. The consumer can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E.
b. In order to calculate the rental income:
   i. Reduce the gross rental amount by 25 percent for vacancies and maintenance;
   ii. Subtract PITI and any homeowners association dues; and
   iii. Apply the resulting amount to income, if positive, or recurring debts, if negative.

7. Exclusion of Rental Income From Property Being Vacated by the Consumer.
Underwriters may not consider any rental income from a consumer's principal residence that is being vacated in favor of another principal residence, except under the conditions described below:

Notes:
i. This policy assures that a consumer either has sufficient income to make both mortgage payments without any rental income, or has an equity position not likely to result in defaulting on the mortgage on the property being vacated.
ii. This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040).

8. Policy Exceptions Regarding the Exclusion of Rental Income From a Principal Residence Being Vacated by a Consumer.
When a consumer vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis under the circumstances listed in the table below.

<table>
<thead>
<tr>
<th>Exception</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocations</td>
<td>The consumer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance. A properly executed lease agreement (that is, a lease signed by the consumer and the lessee) of at least one year’s duration after the loan is closed is required. Note: Underwriters should also obtain evidence of the security deposit and/or evidence the first month’s rent was paid to the homeowner.</td>
</tr>
<tr>
<td>Sufficient Equity in Vacated Property</td>
<td>The consumer has a loan-to-value ratio of 75 percent or less, as determined either by: • A current (no more than six months old) residential appraisal, or • Comparing the unpaid principal balance to the original sales price of the property. Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.</td>
</tr>
</tbody>
</table>

E. Non Taxable and Projected Income.
1. Types of Non Taxable Income.
Certain types of regular income may not be subject to Federal tax. Such types of nontaxable income include:
a. Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income:
   b. Certain types of disability and public assistance payments;
   c. Child support;
   d. Military allowances; and
   e. Other income that is documented as being exempt from Federal income taxes.

2. Adding Non Taxable Income to a Consumer's Gross Income.
   a. The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the consumer's gross income.
   b. The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.
   c. The creditor:
      i. Must document and support the amount of income grossed up for any non-taxable income source, and
      ii. Should use the tax rate used to calculate the consumer's last year's income tax.

Note: If the consumer is not required to file a Federal tax return, the tax rate to use is 25 percent.

3. Analyzing Projected Income.
   a. Projected or hypothetical income is not acceptable for qualifying purposes. However, exceptions are permitted for income from the following sources:
      i. Cost-of-living adjustments;
      ii. Performance raises; and
      iii. Bonuses.
   b. For the above exceptions to apply, the income must be:
      i. Verified in writing by the employer; and
      ii. Scheduled to begin within 60 days of loan closing.

   a. Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
   b. The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.
   c. The loan is not eligible for endorsement if the loan closes more than 60 days before the consumer starts the new job. To be eligible for endorsement, the creditor must obtain from the consumer a pay stub or other acceptable evidence indicating that he/she has started the new job.

III. Consumer Liabilities: Recurring Obligations

1. Types of Recurring Obligation. Recurring obligations include:
   a. All installment loans;
   b. Revolving charge accounts;
   c. Real estate loans;
   d. Alimony;
   e. Child support; and
   f. Other continuing obligations.

2. Debt to Income Ratio Computation for Recurring Obligations.
   a. The creditor must include the following when computing the debt to income ratios for recurring obligations:
      i. Monthly housing expense; and
ii. Additional recurring charges extending ten months or more, such as
   a. Payments on installment accounts;
   b. Child support or separate maintenance payments;
   c. Revolving accounts; and
   d. Alimony.

b. Debts lasting less than ten months must be included if the amount of the debt affects the consumer's ability to pay the mortgage during the months immediately after loan closing, especially if the consumer will have limited or no cash assets after loan closing.

**Note:** Monthly payments on revolving or open-ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less.

3. **Revolving Account Monthly Payment Calculation.** If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:
   a. 5 percent of the balance; or
   b. $10.

**Note:** If the actual monthly payment is documented from the creditor or the creditor obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

4. **Reduction of Alimony Payment for Qualifying Ratio Calculation.** Since there are tax consequences of alimony payments, the creditor may choose to treat the monthly alimony obligation as a reduction from the consumer's gross income when calculating qualifying ratios, rather than treating it as a monthly obligation.

### IV. Consumer Liabilities: Contingent Liability

1. **Definition:** Contingent Liability. A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

2. **Application of Contingent Liability Policies.** The contingent liability policies described in this topic apply unless the consumer can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

3. **Contingent Liability on Mortgage Assumptions.** Contingent liability must be considered when the consumer remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:
   a. Has been sold or traded within the last 12 months without a release of liability, or
   b. Is to be sold on assumption without a release of liability being obtained.

4. **Exemption From Contingent Liability Policy on Mortgage Assumptions.** When a mortgage is assumed, contingent liabilities need not be considered if the:
   a. Originating creditor of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or
   b. Value of the property, as established by an appraisal or the sales price on the HUD-1 Settlement Statement from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.

5. **Contingent Liability on Cosigned Obligations.**
   a. Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:
      i. A car loan;
      ii. A student loan;
      iii. A mortgage; or
      iv. Any other obligation.
   b. If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the consumer's monthly obligations.
V. Consumer Liabilities: Projected Obligations and Obligations Not Considered Debt

1. Projected Obligations.
   a. Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the creditor as anticipated monthly obligations during the underwriting analysis.
   b. Debt payments do not have to be classified as projected obligations if the consumer provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.
   c. Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

2. Obligations Not Considered Debt. Obligations not considered debt, and therefore not subtracted from gross income, include:
   a. Federal, State, and local taxes;
   b. Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
   c. Commuting costs;
   d. Union dues;
   e. Open accounts with zero balances;
   f. Automatic deductions to savings accounts;
   g. Child care; and
   h. Voluntary deductions.
Underwriting Income

Stability of Income
Income may not be used in calculating the consumer’s debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue. The underwriter must verify the consumer’s employment for the most recent two full years, and the underwriter must require the consumer to:

a. Explain any gaps in employment that span one or more months, and
b. Indicate if he/she was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers.

For a borrower that changes jobs frequently, but has proven to earn consistent and predictable income, they are also considered to have reliable income. If you have a borrower that earns income from seasonal employment, typical for the building trades and agriculture, this income can be considered, if documented by the creditor.

When underwriting a consumer’s probability of continued employment, you must examine the consumer’s past employment record; qualifications for the position; previous training and education; and the employer’s confirmation of current, ongoing and continued employment. Unless the borrower has notified you of a change in employment status, you may assume that employment is ongoing. When analyzing income if it does not have a defined expiration date and you have a documented history of receipt, this income is considered stable, predictable and likely to continue.

If the income being considered is based on an asset that will be depleted or has a defined expiration date, then the underwriter needs to verify that the income is likely to continue for three more years, at a minimum. Some examples of income that would require more documentation to prove the likelihood of a three-year continuance are as follows:

- Alimony or child support
- Distributions from a retirement account
- Notes receivable
- Royalty payments
- Social Security that is not from retirement or long-term disability
- VA benefits that is not from retirement or long-term disability

A consumer’s income may be considered effective and stable when recently returning to work after an extended absence if he/she:

a. Is employed in the current job for six months or longer; and
b. Can document a two-year work history prior to an absence from employment using Traditional employment verifications; and/or copies of IRS Form W-2s or pay stubs.

An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce. Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months.

Fluctuating Income
Income that usually fluctuates or is less predictable, is calculated by using an averaging method, along with verifying the history of receipt. You need to examine the frequency of payments and the trend of
this income. Is it consistent, or trending up or down? Examples of this type income include bonuses, overtime, commissions or an hourly paid borrower with varying hours.

**History of Receipt:** Typically, you are looking for two or more years of receipt.

**Payment Frequency:** Determine the frequency of the income you are reviewing (weekly, bi-weekly, semi-monthly, monthly, quarterly, or annually). You will be able to determine the trend of this income with an accurate calculation. Examples:

- If a borrower receives an annual bonus June 30th each year, divide the bonus by 12 months to get the actual monthly amount. If you add the bonus into their year-to-date income for the year and divide by 6 months, this will produce an inaccurate and a higher monthly average.
- If you have a borrower that receives overtime on a bi-weekly basis, analyze the most recent paystub. Evaluate that the average monthly income calculated is equivalent to the amount reflected on the current paystub. If not, then further evaluation is needed. Is the overtime cyclical of nature? Is the overtime trending in a consistent and positive way or is it trending downward?

**Commission Income**

Analyze the income for receipt of income for two-years preferably. If received less than two-years, there needs to be other positive factors to offset the time of receipt for income to be considered acceptable. If the commission income is less than 25% of the borrower’s total annual income, you should have a VOE or recent paystub and most recent two-years W2’s to review. If commission income is 25% or more of borrower’s total annual income, you should have most recent signed federal tax returns for two-years, and a VOE or recent paystub and most recent two-years W2’s to review. Unreimbursed business expenses must be subtracted from the gross income. A tax transcript obtained directly from the IRS may be used in lieu of signed tax returns and the cost of the transcript may be charged to the consumer.

**Income Trending:** After you have calculated the borrower’s monthly income, you need to compare the income to the prior years’ earnings. You can do this by comparing to the W2’s, tax returns or verification of employment (VOE).

- If the trend of the income is stable or increasing, then average the income.
- If the income is declining, but has stabilized and employer has confirmed continuance, then use the lower amount.
- If the income is declining and not stable, you will need to document and defend the use of the income all together and you would not average, you would instead use the lower amount.

**Factors that Condition for Tax Returns**

You should have in file or condition the file for federal tax returns if you have any of the following:

- earns 25% or more of his or her income from commissions;
- is employed by family members;
- is employed by interested parties to the property sale or purchase;
- receives rental income from an investment property (only one year of tax returns is required unless the borrower meets one or more of the other conditions in this list);
- receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;
- receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099;
receives income that cannot otherwise be verified by an independent and knowledgeable source;
uses foreign income to qualify;
uses interest and dividend income to qualify;
uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed.

Grossing up Nontaxable Income
This income is usually income such as social security income or child support payments. It can also be public assistance payments. You have to verify that the income is not taxable. If the income is nontaxable and the income will continue in this capacity, you can gross up the income by adding 25% of the nontaxable income to the borrower’s income. Example:

- SS Income = $1505.00 per month
  - $1505.00 X .25(25%) = $376.25 + $1505.00 = $1881.25 or
  - $1505.00 X 125% = $1881.25

Rental Income
Using rental income from a property other than the subject property, you should have a most recent federal tax return including schedule E. Using Schedule E to calculate qualifying rental income, add back any listed depreciation, interest, homeowners’ association dues, taxes, or insurance expenses to the borrower’s cash flow. Non-recurring property expenses may be added back, if documented accordingly.

- If the income minus the full PITIA (principal, interest, taxes, insurance, assessments) is a positive number then add to borrower’s monthly income.
- If the income minus PITIA is negative, add to borrower’s total monthly obligations.

Review the paystubs  Are the paystubs the most recent? The paystub should be dated no earlier than 30 days prior to the initial loan application. Do they reflect the borrower’s name? Does the paystub reflect year to date totals for income, if not you will have to request additional paystubs or verification of employment to document most recent 30 days? Does the year to date (YTD) income match up to income calculations? Ex: It is mid to late year and the borrower’s income is calculated at $5,000 per month, however their YTD reflects they have only earned $20,000. This raises questions as to why YTD is low. Does the paystub reflect Employer’s name and address? If the paystub was printed from internet, does it have the web address on it?

Review the W2’s in the same manner as the paystub, borrower name, address, social security, Company or Employer name and address. They should be the most recent one- or two-year period depending on your documentation requirements. Does the income appear consistent between the number of years that has been collected and current income? If income is decreasing, processor will need to get written explanation for underwriting.

Both paystubs and W2’s should be computer generated or typed by the employer. Paystubs that are downloaded from the internet are acceptable. The paystubs should clearly identify the employer’s name and source of information. They must be complete and legible.
Review the Tax Returns, again for names, address and social security numbers. Look to see if there are potential losses or income that need to be reviewed. When Tax Transcripts are returned compare the transcripts to the actual returns. Are the Tax Returns signed and dated as to when they were provided to your Lender? If not, some lenders require them to be signed at closing, while others accept them as they are along with the returned tax transcript.

- If using automated underwriting refer to the feedback as to what documentation needs to be verified.
- Refer to your lender’s policy for verbal verification of employment timing. Fannie Mae and Freddie Mac require that this should be obtained no sooner than 10 business days prior to closing.

### Income Calculations from Primary Employment – Base Income

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>Multiply the hourly pay rate by the average number of hours worked per week then multiply by 52 weeks and divide by 12 months.</td>
</tr>
<tr>
<td>Weekly</td>
<td>Multiply the weekly income by 52 weeks and divide by 12 months.</td>
</tr>
<tr>
<td>Every two weeks</td>
<td>Multiply the two weeks’ income by 26 pay periods and divide by 12 months.</td>
</tr>
<tr>
<td>Twice per month</td>
<td>Multiply the semi-monthly income by 24 pay periods and divide by 12 months.</td>
</tr>
<tr>
<td>Monthly</td>
<td>Use the monthly income from the paystub.</td>
</tr>
</tbody>
</table>

Borrowers who may be paid less than 12 months per year

Some Borrowers' annual salaries may be received over a time period of less than 12 months. It is important to determine how the Borrower is paid in order to accurately calculate income. You should determine how often and for how long the Borrower is paid and then determine monthly income based on the calculations above. For example, if a Borrower is paid 10 months of the year, multiply their monthly salary by 10 months and divide by 12.

### Income Calculations from Primary Employment – Additional Income

**Bonus Income:** See table below for bonus and commission calculations.

<table>
<thead>
<tr>
<th>Commission and Bonus Income Calculation Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
</tbody>
</table>
| Annual, quarterly or monthly         | If the amount of the bonus and/or commission income is consistent or has increased divide the total of the most recent two years’ bonus or commission income (minus business expenses, if applicable) by 24 months.  

If the amount of the bonus and/or commission income has decreased, divide the most recent annual payment (minus business expenses, if applicable) by 12 months. If the bonus and/or commission income has decreased, the Seller must determine that the income is stable and provide an explanation for the decrease. The Seller must be able to justify that the income is likely to continue at the level used for qualifying.

**Projected Income for New Job.** Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable Understanding Appendix Q & Basic Underwriting—“Boot Camp 360”—Copyright © 2019 FIC Conferences, Inc.
contract for employment. The underwriter must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes. The income does not qualify if the loan closes more than 60 days before the consumer starts the new job.

Analyzing Assets
Borrower Funds are all funds paid by the Borrower in connection with the property purchase or Mortgage financing. Borrower Funds must be from Borrower Personal Funds or Other Borrower Funds.

The Underwriter must verify sufficient Borrower Funds, including:

- Down payment (including an earnest money deposit)
- Prepaids/Escrow items, if paid by the Borrower
- Closing Costs, if paid by the Borrower
- Financing Costs, if paid by the Borrower

When someone other than the Borrower is paying any of the items listed above, the file must contain documentation showing the amount being paid and who paid it. Proof of liquidation may be required for an asset that is used for the down payment, Closing Costs, Financing Costs and Prepaids/Escrows.

Eligible sources of Borrower Funds include Borrower Personal Funds and Other Borrower as described. For a purchase transaction Mortgage, the Borrower must make the initial down payment from Borrower Personal Funds, unless they are receiving gifts funds of 20% or more. Below are a few of the acceptable borrower Personal Funds that can be used.

1. Depository accounts
2. Proceeds from a loan secured by an asset
3. Proceeds from the sale of an asset
4. Trust accounts
5. Individual Development Account (IDA) – Borrower contribution and Agency matching funds not subject to Recapture
6. Community Saving System – Borrower contribution
7. Pooled funds

The underwriter will want to review the Bank Statements again for names and addresses. Are they the most recent? Usually you would just need the most recent two months. If using automated underwriting refer to your feedback as to documentation needed. Do you have all the pages? Are there large deposits that need to be addressed or documented?

For purchase transactions the underwriter must document the source of funds for any single deposit exceeding 50% of the total monthly qualifying income for the Mortgage if the deposit is needed to meet the requirements for Borrower Funds and/or reserves. Usually if the deposit is more than 50% of the borrower’s monthly income it is considered a large deposit. If this is a purchase do you have a statement showing the earnest money has cleared or a copy of the cancelled earnest money check?
Reviewing the Title Commitment
The title insurance policy must be written by a title insurer legally able to do business in the jurisdiction where the Mortgaged Premises are located.

Is the loan amount correct? The title insurance policy must protect the mortgagee up to at least the current principal balance of the Mortgage. If the loan is a purchase and the borrower has selected to purchase Owner’s Title insurance, then the policy should reflect the purchase price for the Owner’s policy. Are the names listed and spelled correctly for vesting? If the loan is a purchase the vesting on title should reflect the seller’s name(s). This information should match to the contract. If the loan is a refinance the vesting should reflect the current borrower(s).

Is the legal description correct? Compare this to the contract for a purchase and the warranty deed for a refinance. The legal description as stated in the Security Instrument and title insurance policy or other evidence of title should be in one of the following forms: metes and bounds or lot and block. Review the schedule for requirements. This should reflect how the new deed from your institution will be recorded with the loan amount and if a purchase the warranty deed information. This area will also show requirements that will need to be cleared. Examples: Existing liens, such as existing mortgages, fifa’s, or judgments. Are there any title issues or a need for a survey? If these issues are there, the Underwriter should review that there is documentation in file to clear these issues. Review that the taxes are paid current or if they need to be collected? Does the commitment reflect any endorsement requirements?

Underwriting Conditions
Each underwriter has their own way of conditioning a file. You might have a unique shorthand. Make sure your processor’s, loan officers and closers can understand what you are asking for. Help to prepare them with a basic list of your expectations before receiving the file in underwriting. Make sure you understand the process after underwriting and assign the conditions to the proper staff.
UNDERWRITING CHECKLIST - CONVENTIONAL

BORROWER: ________________________________________________________________

HOME MORTGAGE LOAN #: _________________________________________________

CORRESPONDENT: _____________ TELEPHONE #: _______________________________

PROCESSOR: _________________________ CLOSING DATE: _______________________

UNDERWRITER: ______________________ RATE EXPIRATION DATE: ______________

____ Cover Letter (if applicable)
____ Transmittal Summary (FNMA 1008)
____ Uniform Residential Loan Application (1003)
____ AUS Feedback Cert./UW Findings
____ AUS Credit Reports or 3 Bureau Merged Credit Report
____ Initial Residential Loan Application, signed by Loan Officer
____ Fraud Reports and or SS# verification
____ VOD’s/Gift Letter/Net Sheet
____ Bank Statements
____ Borrower – VOE’s
____ Paystubs/Verbal
____ W-2’s
____ Co-Borrower – VOE’s
____ Paystubs/Verbal
____ W-2’s
____ 1040’s, etc., if applicable
____ Tax Transcripts
____ Credit Explanations, if applicable
____ Rental/Landlord Reference, if applicable
____ Bankruptcy Documents, if applicable
____ Misc. Credit Documents (Divorce Decree, Lease Agreements), if applicable
____ Purchase Agreement
____ Condo Questionnaire/Insurance Information
____ Appraisal
____ Appraisal Re-certification
____ Loan Estimate Disclosure
____ All other Disclosures
____ Intent to Proceed
____ Patriot Act Notice
____ Lender Assignment Letter, if Applicable
____ Mortgage Origination Agreement, if Applicable
Self-Employed Income
The ability and knowledge to analyze income for the self-employed borrower is one of the most valuable skills for an underwriter to attain. Understanding how to determine stable and continuing income is the foundation to correctly calculate qualifying income.

Definition: Self-Employed Consumer  A consumer with a 25 percent or greater ownership interest in a business is considered self-employed.

Types of Business Structures  There are four basic types of business structures. They include:
   a. Sole proprietorships;
   b. Corporations;
   c. Limited liability or “S” corporations; and
   d. Partnerships

Minimum Length of Self-Employment  Income from self-employment is considered stable, and effective, if the consumer has been self-employed for two or more years. Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for consumers who have been self-employed for less than two years.

Analyzing the Self-Employed Borrower
Review the following:
   • Stability
   • Location and nature of business
   • Demand for the product/services
   • Financial strength
   • Ability of business to continue to distribute income sufficient income so the borrower can continue to make the loan payments

If the period of self-employment is:
   a. Between one and two years then: For the individual’s income to be effective, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. Note: A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable.
   b. Less than one year: The income from the consumer may not be considered effective income.

Analyzing the Business's Financial Strength  The underwriter must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

General Policy on Adjusting Income Based on a Review of IRS Form 1040  The amount shown on a consumer's IRS Form 1040 as adjusted gross income must either be increased or decreased based on the creditor's analysis of the individual tax return and any related tax schedules.

General Documentation Requirements - Self-employed consumers must provide the following documentation:
   a. Signed, dated individual tax returns, with all applicable tax schedules for most recent 2 years;
b. For a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules; and
c. Year to date profit and loss (P&L) statement and balance sheet.

Establishing a self-employed consumer’s earning trend - When qualifying income, the underwriter must establish the consumer's earnings trend from the previous two years using the consumer's tax returns. If a consumer: Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous year's earnings. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the creditor must base the income analysis solely on the income verified through the tax returns. If the consumer's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the consumer's most recent year's tax return or P&L must be used to calculate his/her income.

Assessing Income & Ability to Repay
When analyzing a borrower’s income and determining their ability to repay, it is important to understand the structure of their business.

Sole Proprietor
- Most common business structure.
- Owns and controls 100% of business.
- Have unlimited liability for business losses and debts.
- The ability to generate cash is limited to that one individual.
- Business pays no taxes on income; all taxes are paid by individual.
- Taxable income or loss is passed through to borrower’s personal return and taxed on the individual’s personal tax rate.
- There is no separate business tax return; the Schedule C of the borrower’s personal tax return represents all business activities.
- Make sure you have two years Schedule C or C-EZ to document the income.

Partnership
The business is normally defined by an agreement between partners that structure the entity.
- A partnership has two or more partners (one must be a General Partner).
- A General Partner has unlimited personal liability for the partnership’s debts and losses.
- A Limited Partner is only liable for the amount invested in the business.
- A Limited Partner has no say in the operation of the business.
- The partnership pays no business taxes; all taxes are paid by the partners.
- The business activities are reflected on Form 1065.
- The partners control the Partnership; the amount of control is in the Partnership agreement.

Income/losses will be reported on:
- Form 1065
- K-1 1065 schedule and Part II of schedule E of the 1040 are where the percentage of a partner’s income/loss can be passed through to the personal tax return.
- Request two years, 1040 tax returns (including K-1’s). If the borrower has a greater than 25% ownership in the partnership, request full 1065 returns.
S Corporation
An S Corporation is a state-chartered business.
- The number of stockholders is limited to 75.
- The S Corporation, not the stockholders, is liable for debts and losses.
- The S Corporation pays no business taxes; all taxes are paid by the stockholders.
- Business activity is reflected on 1120S form.
- Business activity is controlled by the Officers of the S Corporation.

Income/losses will be reported on:
- K-1 1120S schedule and in Part II of the 1040 Schedule E is where a stockholder’s (borrower’s) income/loss will be passed through to personal tax returns.
- Request two years, 1040 tax returns (including K-1’s). If the borrower has a greater than 25% ownership in the S Corporation, request full 1120S returns.

Corporation
A Corporation is also a state-chartered business entity. It is costly and difficult to form, but has several benefits that the others cannot offer:
- Greater ability to raise capital.
- Unlimited number of shareholders.
- Corporation is liable for debts, not the stockholders.
- A corporation is controlled by a board of directors.
- A corporation also has a major difference: They pay taxes twice.

Income/losses will be reported on:
- Form 1120, the U.S. Corporate Tax Return.
- Form 1040: Income generated from the corporation is passed on to stockholders (the corporation’s owners) as wages or dividends and reported on their 1040s. This is where the corporation gets taxed twice.
- Request two years, 1040 tax returns when a borrower has ownership in a corporation. If the borrower has a greater than 25% ownership in the Corporation, request full 1120 returns.

Limited Liability Company (LLC)
A Limited Liability Company (LLC) is a combination of a Partnership and a Corporation.
- The owners are “Members”.
- The LLC is liable for debts and losses of the company; the members are not personally liable (similar to a corporation).
- Easy to set up with few corporate formalities.
- Usually have a finite life of 30 years to operate.
- The LLC can be taxed as a pass-through entity like a partnership, S Corporation, or sole proprietorship, or as a regular corporation.

How an LLC reports income to the IRS is dependent upon how it is structured. The LLC reports income/losses on:
- Form 1040, Schedule C, E, or F if the LLC has only one member and that member is an individual. In this situation request two years of 1040 tax returns.
• Form 1120 or 1120S if the only member of the LLC is a corporation. If the LLC has only one
corporate member, request two years of 1040s including K-1’s and 1120S returns.
• Form 1065 if the LLC is comprised of multiple members. If the LLC is comprised of multiple
members, request two years of 1040s including K-1’s and 1065 returns.

Stability

Now that we have an understanding of the business entities and their characteristics, let’s focus on
determining the borrower’s ability to repay. In order to do this, we want to analyze the strength or
stability of the business. Answer these questions:
• How long has the borrower been in the business?
• How long have they been self-employed?
• What is the likelihood of the business continuing?
• Are all the tax forms in the file? Do you have two years of returns so that you can establish a
trend of regular and recurring income?
• Do you need financial statements? These are not used frequently anymore, however they can
give a view of business and in some cases are needed.

Assessing Borrower Capacity

If our borrower has met our requirements for stability, we now want to analyze their capacity. To
determine their ability to repay, we need to calculate their monthly income. We can use the Fannie Mae
1084 or the Freddie Mac 91 to assist us in our analysis. Of course, if selling to Fannie Mae I would use
their form and if selling to Freddie Mac I would use their form. If not selling to either, then use the one
that you are most comfortable with.

Fannie Mae Form 1084/Freddie Mac Form 91
Both of these forms break down the analysis of the borrower’s tax return by examining cash flow from
the appropriate schedules and forms.
• It would be rare to have entries on all the lines.
• Many line items have a “+” and “- “. This allows for addition of allowable income and expenses
and subtraction of non-recurring income and expenses.

IRS 4506-T
• Allows lenders to obtain transcripts of tax returns.
• Once signed usually good for 120 days.
• Fannie and Freddie require the form to be signed at applications and again at closing if it was not
executed.
• Lenders use their discretion as far as executing, however it is highly recommended.

4506-T Review

Verify:
• Name
• Address
• Social Security #
Review:

- Wages/W2 Reported Line 7
- Alimony Received Line 11
- Schedule C Income/Loss Reported Line 12
- Schedule D Capital Gains/Losses Reported Lines 13 & 14
- Schedule E Rental, K-1 1065, K-1 1120S, Trust Income/Losses Reported Line 17
- Schedule F Farm Income/Loss Reported Line 18
- Unemployment Compensation Received Line 19
- Alimony Paid Line 31a
- Schedule A Itemized Deductions
  - Mortgage Interest Paid
  - Real Estate Tax Deduction
  - 2106 Expenses

Both forms are organized to follow the schedules and forms of personal and business tax returns. They analyze specific income and deductions looking for income that is regular and recurring.
Cash Flow Analysis (Form 1084)  
Borrower Name: __________________

Business Name (optional): __________________

This worksheet may be used to prepare a written evaluation of the analysis of income related to self-employment. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower for loan qualifying purposes.

1. W-2 Income from Self-Employment  
Year_______   Year_______

2. Schedule B – Interest and Ordinary Dividends  
a. Interest Income from Self-Employment  (+)_______   (+)_______
b. Dividends from Self-Employment  (+)_______   (+)_______

3. Schedule C – Profit or Loss from Business: Sole Proprietorship  
a. Net Profit or (Loss)  (+/-)_______   (+/-)_______
b. Nonrecurring Other (Income) Loss/Expenses  (+/-)_______   (+/-)_______
c. Depletion  (+)_______   (+)_______
d. Depreciation  (+)_______   (+)_______
e. Non-deductible Meals and Entertainment Expenses  (-)_______   (-)_______
f. Business Use of Home  (+)_______   (+)_______
g. Amortization/Casualty Loss  (+)_______   (+)_______

4. Schedule D – Capital Gains and Losses  
a. Recurring Capital Gains  (+)_______   (+)_______

5. Schedule E – Supplemental Income and Loss  

Note: A lender may use Fannie Mae Rental Income Worksheets (Form 1037 or Form 1038) to calculate individual rental income (loss) reported on Schedule E.

a. Royalties Received  (+)_______   (+)_______
b. Total Expenses  (-)_______   (-)_______
c. Depreciation  (+)_______   (+)_______

6. Schedule F – Profit or Loss from Farming  
a. Net Farm Profit (Loss)  (+/-)_______   (+/-)_______
b. Non-Taxable Portion Ongoing Coop and CCC Payments  (+)_______   (+)_______
c. Nonrecurring Other (Income) Loss  (+/-)_______   (+/-)_______
d. Depreciation  (+)_______   (+)_______
e. Amortization/Casualty Loss/Depreciation  (+)_______   (+)_______
f. Business Use of Home  (+)_______   (+)_______

Note: IRS Form 4797 (Sales of Business Property) is not included on this worksheet due to its infrequent use. If applicable, a lender may include analysis of the sale and related recurring capital gains.
**Partnership or S Corporation**

A self-employed borrower's share of Partnership or S Corporation earnings may be considered provided that:

- the borrower can document ownership share (for example, the Schedule K-1);
- the borrower can document access to the income; and
- the business has adequate liquidity to support the withdrawal of earnings.

**Note:** See the instructions for additional guidance on documenting access to income and business liquidity.

### IRS Form 1065 - Partnership Income

<table>
<thead>
<tr>
<th>7. Schedule K-1 Form 1065 – Partner’s Share of Income</th>
<th>Year ________</th>
<th>Year ________</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Ordinary Income (Loss) (+/-)</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>b. Net Rental Real Estate; Other Net Income (Loss) (+/-)</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>c. Guaranteed Payments to Partner (+)</td>
<td>(+)</td>
<td>(+)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>8. Form 1065 - Adjustments to Business Cash Flow</th>
<th>Year ________</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Ordinary (Income) Loss from Other Partnerships (+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>b. Nonrecurring Other (Income) Loss (+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>c. Depreciation (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>d. Depletion (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>e. Amortization/Casualty Loss (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>f. Mortgages or Notes Payable in Less than 1 Year (-)</td>
<td>(-)</td>
</tr>
<tr>
<td>g. Non-deductible Travel and Entertainment Expenses (-)</td>
<td>(-)</td>
</tr>
<tr>
<td>h. Subtotal</td>
<td></td>
</tr>
<tr>
<td>i. Total Form 1065 (Subtotal multiplied by % of ownership)</td>
<td></td>
</tr>
</tbody>
</table>

### IRS Form 1120S – S Corporation Earnings

<table>
<thead>
<tr>
<th>9. Schedule K-1 Form 1120S – Shareholder’s Share of Income</th>
<th>Year ________</th>
<th>Year ________</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Ordinary Income (Loss) (+/-)</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>b. Net Rental Real Estate; Other Net Income (Loss) (+/-)</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10. Form 1120S - Adjustments to Business Cash Flow</th>
<th>Year ________</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Nonrecurring Other (Income) Loss (+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>b. Depreciation (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>c. Depletion (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>d. Amortization/Casualty Loss (+)</td>
<td>(+)</td>
</tr>
<tr>
<td>e. Mortgages or Notes Payable in Less than 1 Year (-)</td>
<td>(-)</td>
</tr>
<tr>
<td>f. Non-deductible Travel and Entertainment Expenses (-)</td>
<td>(-)</td>
</tr>
<tr>
<td>g. Subtotal</td>
<td></td>
</tr>
<tr>
<td>h. Total Form 1120S (Subtotal multiplied by % of ownership)</td>
<td></td>
</tr>
</tbody>
</table>
### IRS Form 1120 – Regular Corporation

Corporation earnings may be used when the borrower(s) own 100% of the corporation.

<table>
<thead>
<tr>
<th>11. Form 1120 – Regular Corporation</th>
<th>Year________</th>
<th>Year________</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Taxable Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Total Tax</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>c. Nonrecurring (Gains) Losses</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>d. Nonrecurring Other (Income) Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>e. Depreciation</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>f. Depletion</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>g. Amortization/Casualty Loss</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>h. Net Operating Loss and Special Deductions</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>i. Mortgages or Notes Payable in Less than 1 Year</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>j. Non-deductible Travel and Entertainment Expenses</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>k. Subtotal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l. Less: Dividends Paid to Borrower</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>m. Total Form 1120</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Form 91

## Income Analysis Form

<table>
<thead>
<tr>
<th>IRS Form 1040 Federal Individual Income Tax Return</th>
<th>Yr</th>
<th>Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. W-2 Income from Self-Employment (Form W-2, Line 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Form 2106 Employee Business Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>3. Schedule C Sole Proprietor Profit or Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Other Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Depletion</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Meals and Entertainment Exclusion</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Amortization or Casualty Loss</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Business Use of Home</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>4. Schedule D Capital Gains and Losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 4797 Sales of Business Property</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>5. Form 6252 Installment Sale Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal Payments Received</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>6. Schedule E Supplemental Income or Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Rents and Royalties</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Total Expenses Before Depreciation</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Amortization/Casualty Loss/Non Recurring Expenses</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>If Using the Rental Properties Full PITI Payment in Qualifying Ratios Add Back Insurance, Mortgage Interest and Taxes</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>7. Schedule F Profit or Loss from Farming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Farm Profit or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Non-Taxable Portion of Recurring Cooperative &amp; CCC Payments</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Non-recurring Other Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Amortization/Casualty Loss/Depreciation</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>Business Use of Home</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>8. Partnership K-1 (Form 1065)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Net Rental Real Estate Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Guaranteed Payments to Partner</td>
<td>(+)</td>
<td>(+)</td>
</tr>
<tr>
<td>9. S Corporation K-1 (Form 1120S)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Net Rental Real Estate Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
</tbody>
</table>

**Subtotal of Qualifying Income**
10. **Partnership Income from Form 1065**

<table>
<thead>
<tr>
<th>Description</th>
<th>(+)</th>
<th>(+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depletion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization or Casualty loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage, Notes, Bonds Payable in Less than One Year</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Other Nonrecurring Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Meals and Entertainment Exclusion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiply Total by Percentage of Ownership (on K-1)</td>
<td>(x)</td>
<td>(x)</td>
</tr>
<tr>
<td>Partnership Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. **S-Corporation Income from Form 1120s**

<table>
<thead>
<tr>
<th>Description</th>
<th>(+)</th>
<th>(+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depletion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization or Casualty Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage, Notes, Bonds Payable in Less than One Year</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Other Nonrecurring Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Meals and Entertainment Exclusion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiply Total by Percentage of Ownership (on K-1)</td>
<td>(x)</td>
<td>(x)</td>
</tr>
<tr>
<td>S-Corporation Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. **Corp Income from Form 1120**

<table>
<thead>
<tr>
<th>Description</th>
<th>(+)</th>
<th>(+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depletion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization or Casualty Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Total Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage, Notes, Bonds Payable in Less than One Year</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Other Nonrecurring Income or Loss</td>
<td>(+/-)</td>
<td>(+/-)</td>
</tr>
<tr>
<td>Multiply Total by Percentage of Ownership (From the Corporate Resolution or “Compensation of Officers” Section of the 1120)</td>
<td>(x)</td>
<td>(x)</td>
</tr>
<tr>
<td>Corporation Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Grand Total of Qualifying Income**

**Income Calculation**

\[
\text{YTD Income}^* = \text{Income} - \text{Deductions} \quad \text{(ave. business expenses, etc)} = \text{Income} - \text{Deductions}
\]

\[
\text{+ Yr 1 income} = \text{Income} - \text{Deductions}
\]

\[
\text{+ Yr 2 Income} = \text{Income} - \text{Deductions}
\]

\[
\text{Total} = \frac{\text{Income} - \text{Deductions}}{\text{Divided by number of months}} = \text{Income} - \text{Deductions}
\]

*YTD income required when calculating commission income

Freddie Mac Single-Family Seller/Servicer Guide
03/02/16
Page F91-2
Request for Transcript of Tax Return

1a Name shown on tax return. If a joint return, enter the name shown first.

1b First social security number on tax return, individual taxpayer identification number, or employer identification number (see instructions)

2a If a joint return, enter spouse's name shown on tax return.

2b Second social security number or individual taxpayer identification number if joint tax return

3 Current name, address (including apt., room, or suite no.), city, state, and ZIP code (see instructions)

4 Previous address shown on the last return filed if different from line 3 (see instructions)

5 If the transcript or tax information is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number.

Caution: If the tax transcript is being mailed to a third party, ensure that you have filled in lines 6 through 9 before signing. Sign and date the form once you have filled in these lines. Completing these steps helps to protect your privacy. Once the IRS discloses your tax transcript to the third party listed on line 5, the IRS has no control over what the third party does with the information. If you would like to limit the third party's authority to disclose your transcript information, you can specify this limitation in your written agreement with the third party.

6 Transcript requested. Enter the tax form number here (1040, 1065, 1120, etc.) and check the appropriate box below. Enter only one tax form number per request.

   a Return Transcript, which includes most of the line items of a tax return as filed with the IRS. A return transcript does not reflect changes made to the account after the return is processed. Transcripts are only available for the following returns: Form 1040 series, Form 1065, Form 1120, Form 1120-A, Form 1120-H, Form 1120-L, and Form 1120S. Return transcripts are available for the current year and returns processed during the prior 3 processing years. Most requests will be processed within 10 business days.

   b Account Transcript, which contains information on the financial status of the account, such as payments made on the account, penalty assessments, and adjustments made by you or the IRS after the return was filed. Return information is limited to items such as tax liability and estimated tax payments. Account transcripts are available for most returns. Most requests will be processed within 10 business days.

   c Record of Account, which provides the most detailed information as it is a combination of the Return Transcript and the Account Transcript. Available for current year and 3 prior tax years. Most requests will be processed within 10 business days.

7 Verification of Nonfilling, which is proof from the IRS that you did not file a return for the year. Current year requests are only available after June 15th. There are no availability restrictions on prior year requests. Most requests will be processed within 10 business days.

8 Form W-2, Form 1099 series, Form 1098 series, Form 5408 series transcript. The IRS can provide a transcript that includes data from these information returns. State or local information is not included with the Form W-2 information. The IRS may be able to provide this transcript information for up to 10 years. Information for the current year is generally not available until the year after it is filed with the IRS. For example, W-2 Information for 2011, filed in 2012, will likely not be available from the IRS until 2013. If you need W-2 Information for retirement purposes, you should contact the Social Security Administration at 1-800-772-1213. Most requests will be processed within 10 business days.

Caution: If you need a copy of Form W-2 or Form 1099, you should first contact the payer. To get a copy of the Form W-2 or Form 1099 filed with your return, you must use Form 4506 and a copy of your return, which includes all attachments.

9 Year or period requested. Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than four years or periods, you must attach another Form 4506-T. For requests relating to quarterly tax returns, such as Form 941, you must enter each quarter or tax period separately.

Caution: Do not sign this form unless all applicable lines have been completed.

Signature of taxpayer(s). I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax information requested. If the request applies to a joint return, at least one spouse must sign. If signed by a corporate officer, 1 percent or more shareholder, partner, managing member, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506-T on behalf of the taxpayer.

Phone number of taxpayer on line 1a or 2a

Signature (see instructions)

Date

Sign Here

Title (if line 1a above is a corporation, partnership, estate, or trust)

Spouse's signature

Date

For Privacy Act and Paperwork Reduction Act Notice, see page 2.
Tax Return Transcript

SSN Provided: 123-45-6789
Tax Period Ending: Dec. 31, 2006

The following items reflect the amount as shown on the return (PR), and the amount as adjusted (PC), if applicable. They do not show subsequent activity on the account.

SSN: 123-45-6789
NAME(S) SHOWN ON RETURN:
ADDRESS:
FILING STATUS: Married Filing Joint
FORM NUMBER: 1040
CYCLE POSTED: 20071008
RECEIVED DATES: Apr.15, 2007
REMITTANCE: 0.00
EXEMPTION NUMBER: 2
DEPENDENT 1 NAME CTRL:
DEPENDENT 1 SSN:
DEPENDENT 2 NAME CTRL:
DEPENDENT 2 SSN:

Income
WAGES, SALARIES, TIPS, ETC: $ 0.00
TAXABLE INTEREST INCOME: SCH B: $ 7,154.00
TAX-EXEMPT INTEREST: $ 0.00
ORDINARY DIVIDEND INCOME: SCH B: $ 784.00
QUALIFIED DIVIDENDS: $ 784.00
REFUNDS OF STATE/LOCAL TAXES: $ 54.00
ALIMONY RECEIVED: $ 0.00
BUSINESS INCOME OR LOSS (Schedule C): $ 195,665.00
BUSINESS INCOME OR LOSS: SCH C PER COMPUTER: $ 195,665.00
CAPITAL GAIN OR LOSS: (Schedule D): $ -3,000.00
CAPITAL GAINS OR LOSS: SCH D PER COMPUTER: $ -3,000.00
OTHER GAINS OR LOSSES (Form 4797): $ 0.00
TOTAL IRA DISTRIBUTIONS: $ 0.00
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXABLE IRA DISTRIBUTIONS:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>TOTAL PENSIONS AND ANNUITIES:</td>
<td>$ 7,082.00</td>
</tr>
<tr>
<td>TAXABLE PENSION/ANNUITY AMOUNT:</td>
<td>$ 2,082.00</td>
</tr>
<tr>
<td>RENT/ROYALTY/PARTNERSHIP/ESTATE (Schedule E):</td>
<td>$ 63,583.00</td>
</tr>
<tr>
<td>RENT/ROYALTY/PARTNERSHIP/ESTATE (Schedule E) PER COMPUTER:</td>
<td>$ 63,583.00</td>
</tr>
<tr>
<td>RENT/ROYALTY INCOME/LOSS PER COMPUTER:</td>
<td>$ 63,583.00</td>
</tr>
<tr>
<td>ESTATE/TRUST INCOME/LOSS PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>PARTNERSHIP/S-CORP INCOME/LOSS PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>FARM INCOME OR LOSS (Schedule F):</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>FARM INCOME OR LOSS (Schedule F) PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>UNEMPLOYMENT COMPENSATION:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>TOTAL SOCIAL SECURITY BENEFITS:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>TAXABLE SOCIAL SECURITY BENEFITS:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>TAXABLE SOCIAL SECURITY BENEFITS PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>OTHER INCOME:</td>
<td>$ 5,914.00</td>
</tr>
<tr>
<td>SCHEDULE EIC SE INCOME PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>SCHEDULE EIC EARNED INCOME PER COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>SCH EIC DISQUALIFIED INC COMPUTER:</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>TOTAL INCOME:</td>
<td>$ 272,236.00</td>
</tr>
<tr>
<td>TOTAL INCOME PER COMPUTER:</td>
<td>$ 272,236.00</td>
</tr>
</tbody>
</table>

**Adjustments to Income**

- EDUCATOR EXPENSES: $ 0.00
- EDUCATOR EXPENSES PER COMPUTER: $ 0.00
- RESERVIST AND OTHER BUSINESS EXPENSE: $ 0.00
- JURY DUTY PAY DEDUCTION: $ 0.00
- HEALTH SAVINGS ACCT DEDUCTION: $ 0.00
- HEALTH SAVINGS ACCT DEDUCTION PER COMPR: $ 0.00
- MOVING EXPENSES: $ 0.00
- SELF EMPLOYMENT TAX DEDUCTION: $ 8,461.00
- SELF EMPLOYMENT TAX DEDUCTION PER COMPUTER: $ 8,461.00
- KEOGH/SEP CONTRIBUTION DEDUCTION: $ 37,441.00
- SELF-EMP HEALTH INS DEDUCTION: $ 11,058.00
- EARLY WITHDRAWAL OF SAVINGS PENALTY: $ 0.00
- ALIMONY PAID SSN: $ 0.00
- ALIMONY PAID: $ 0.00
- IRA DEDUCTION: $ 0.00
- IRA DEDUCTION PER COMPUTER: $ 0.00
- STUDENT LOAN INTEREST DEDUCTION: $ 0.00
- STUDENT LOAN INTEREST DEDUCTION PER COMPUTER: $ 0.00
- TUITION AND FEES DEDUCTION: $ 0.00
- TUITION AND FEES DEDUCTION PER COMPUTER: $ 0.00
- DOMESTIC PRODUCTION ACTIVITIES DEDUCTION: $ 0.00
- OTHER ADJUSTMENTS: $ 0.00
- ARCHER MSA DEDUCTION: $ 0.00
- ARCHER MSA DEDUCTION PER COMPUTER: $ 0.00
| TOTAL ADJUSTMENTS:                              | $ 56,960.00 |
| TOTAL ADJUSTMENTS PER COMPUTER:                 | $ 56,960.00 |
| ADJUSTED GROSS INCOME:                          | $ 215,276.00 |
| ADJUSTED GROSS INCOME PER COMPUTER:             | $ 215,276.00 |
Quiz

1. In analyzing the loan application, the Processor should check for the following:
   a. All blanks on the application are completed and any missing information requested
   b. Minimum of 2 years residency and 2 years of employment are documented or explained
   c. All asset documents are included and any supporting documentation
   d. All of the above

2. If the sales contract includes various additional items in the sale price of the home, such as a lawn mower, furniture, money for repairs, etc. these are considered to be:
   a. Sales Concessions
   b. Not Allowed and illegal in most States
   c. Bonuses that can be ignored for loan purposes
   d. Not part of the Sales Contract

3. If the sales contract allows money for repairs versus fixing the repairs, this could be cause for an inspection fee to be paid by the borrower that should be included on the Loan Estimate or the revised Loan Estimate once the sales contract is provided.
   a. True
   b. False

4. How old can documentation be (credit report, paystubs, bank statements) as of the Note date?
   a. 30 days
   b. 60 days
   c. 90 days
   d. 120 days

5. What is NOT an item that needs to be reviewed on the paystub?
   a. Borrower’s Name
   b. Year to date earnings
   c. Year to date taxes paid
   d. Loan Payments

6. What is NOT an item that you need to be concerned with when reviewing the Bank Statements?
   a. Borrower’s Name
   b. Large Deposits
   c. Where the borrower is spending their money
   d. A history of returned checks

7. If the credit report does not reflect minimum payments for a liability and no other documentation is provided, the best practice which also conforms to the secondary market guidelines, would be as follows:
   a. 5% of the outstanding balance on installment loans
   b. 1% of the outstanding balance on Student loans
   c. Auto lease payments should always be counted
   d. Installment loans with 10 months or less to pay may be excluded from the DTI calculation
8. Whatever income the borrower reflects on the application form, even if it is additional income that is not necessary to qualify the borrower, should be verified and documented. There should be a 2 year history of receiving it and it must be likely to continue for the next 3 years.
   a. True
   b. False

9. A borrower who has at least ____ % of ownership interest in a business is considered to be self-employed:
   a. 20%
   b. 25%
   c. 50%
   d. 65%

10. What amount is considered to be a large deposit that should be explained?
    a. $500 or more
    b. $2000 or more
    c. more than 50% of the borrower’s monthly income
    d. none of the above

Congratulations!

Now that you have completed this short quiz for self-assessment, please check with your administrator for the answer key along with your Certificate of Completion! For your convenience, we have already sent these to the person who signed up your Institution for this Boot Camp 360. You are also welcome to send us your name, email and contact information and we will happily send you the answer key along with your Certificate of Completion!

David@FICconferences.com
Become a Member of the FIC Regulatory Education Alliance!
$597 (1 year membership)
and this is what you get!

FIC Real Estate Compliance Manual – ($297 value)

This manual is broken down into sections to cover each of the federal regulations that affect Closed-end Residential Real Estate Lending and Compliance with those regulations. As part of the Alliance, you will receive this manual and automatic updates for one full year! In addition you will have complete access to the manual on-line 24/7! So basically you get the manual absolutely FREE!

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These customized comprehensive training webinars are geared to anyone who has been or is to be in a position where real estate compliance is an integral part of their job function. It does not matter whether your Institution is involved in Purchase Money loans, Home Equity or Refinance transactions, the basic foundations in residential real estate lending and compliance are the key to a successful process.
Thank you for your participation!

Please contact us if you have any questions or need assistance. We want to be “Your Partner in Compliance!” Email if you have questions concerning the information provided! Thank you for your business and we look forward to hearing from you again soon!

Kimberly Lundquist
Kim@ficconferences.com

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