

## BIM Tax ID Max-SMC Guidelines

Wholesale	
Be In Mortgage Tax ID Max – SMC is a loan program designed to help immigrants achieve homeownership in the US.	
Worksheets	<a href="#">Tax ID Max-SMC Assets and Cash to Close Calculation worksheet</a> <a href="#">Tax ID Max-SMC Checklist</a> <a href="#">Tax ID Max-SMC 100% Access funds letter template</a> <a href="#">Tax ID Max-SMC Bank Statement-Borrower Business Narrative Form</a> <a href="#">Tax ID Max-SMC 12 Months Income Calculation-Bank Statements Submissions Steps</a> <a href="#">Tax ID Max - SMC CPA-Tax Preparer Letter Template</a> <a href="#">Tax ID Max-Programs Matrix</a>
Loan Requirements	
Loan doc type	<ul style="list-style-type: none"> <li>• Full Doc               <ul style="list-style-type: none"> <li>o Wage Earner</li> <li>o Self Employed</li> <li>o WVOE</li> </ul> </li> <li>• Alt Doc (Self Employed Only)               <ul style="list-style-type: none"> <li>o 1099 Only</li> <li>o Bank Statements</li> <li>o P&amp;L Only</li> </ul> </li> </ul>
Programs	<ul style="list-style-type: none"> <li>• Tax ID Max-SMC 30 Year Fixed</li> <li>• Tax ID Max- SMC ARM (<b>Currently Suspended</b>)</li> </ul>
Min – max loan amt	\$130,000 – \$999,999
Max LTV	85% LTV, 90% CLTV ( See guidelines when going up to 90% CLTV) Review <a href="#">Tax ID Max-SMC Programs Matrix</a>
Max DTI	45% can go up to 50% with compensating factors
Occupancy	Primary Residence Only
Loan purpose	Purchase, Rate Term Refinance
ARM Type (Suspended)	<ul style="list-style-type: none"> <li>• Fully amortizing over a period up to 30 years</li> <li>• Index: Wall Street Journal Prime rate</li> <li>• Lifetime cap of 6% over start rate</li> <li>• Floor = Start rate</li> <li>• Annual reset</li> <li>• Maximum Initial adjustment 200 Bps</li> <li>• Maximum annual adjustment 200 bps</li> <li>• The Qualifying rate will be the note rate.</li> <li>• **Interest Only, balloons, Graduated payments features are not allowed.</li> </ul>
Required Documents	<ul style="list-style-type: none"> <li>• At the time of submission               <ul style="list-style-type: none"> <li>o Full Credit Package</li> <li>o Full Closing Package</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>o Cleared full due diligence TPR report (Exception clearing documents)</li> <li>o MISMO</li> <li>• Age of Documents <ul style="list-style-type: none"> <li>o 90 Days <ul style="list-style-type: none"> <li>▪ Income</li> <li>▪ Credit</li> <li>▪ Title</li> <li>▪ Assets</li> <li>▪ All other docs.</li> </ul> </li> <li>o 120 Days <ul style="list-style-type: none"> <li>▪ Appraisals</li> </ul> </li> </ul> </li> </ul> <p><b>All docs must be in English.</b></p>
Escrows/impounds	<ul style="list-style-type: none"> <li>• Required on all loans.</li> </ul>
<b>Borrower Requirements</b>	
ITIN identification	<ul style="list-style-type: none"> <li>• Unexpired government photo ID <ul style="list-style-type: none"> <li>o License, passport, matricula consular</li> <li>o Note that a Visa is not required in addition to the above for an ITIN borrower.</li> </ul> </li> <li>• ITIN Card or Letter from the IRS <ul style="list-style-type: none"> <li>o ITIN is required to be assigned to the borrower prior to application.</li> <li>o Verification of the unexpired ITIN is provided by a legible copy of the letter, front and back from the IRS confirming the ITIN is assigned to the borrower. Only Page is required.</li> </ul> </li> <li>• A signed IRS Form W-7 submitted with an expired or expiring ITIN is acceptable. <ul style="list-style-type: none"> <li>o IRS form W-7 is not acceptable evidence if the ITIN letter is not provided, or if the ITIN letter submitted is not legible.</li> </ul> </li> <li>• All documentation in file must support the borrower's ITIN number and cannot reference an SSN belonging to another individual.</li> <li>• A W-7 form will be required to be executed by the borrowers at closing. This form will need to be mailed to the IRS by the loan seller after closing.</li> <li>• A new W-7 form will be required to be executed by the borrowers at closing. This form will need to be mailed to the IRS by the loan seller after closing.</li> </ul>
ITIN identification validation	<ul style="list-style-type: none"> <li>• To Validate that the Tax ID number is still active, provide one of the following. <ul style="list-style-type: none"> <li>o 1040's taxes or Tax transcripts</li> <li>o Online Letter from the IRS stating Tax ID number is active. <ul style="list-style-type: none"> <li>o Stamped Letter by the local office IRS showing Tax ID is active.</li> </ul> </li> </ul> </li> </ul>
Borrower Eligibility	<ul style="list-style-type: none"> <li>• ITIN must be valid or must include a signed W7.</li> <li>• If multiple borrowers, one borrower must have an ITIN.</li> </ul>



	<ul style="list-style-type: none"> <li>• May use Social Security Number previously issued for work purposes</li> </ul>
EAD	<p><b>EAD Borrowers:</b> Borrower with an EAD card and social security number is eligible with the following EAD codes: A05, A10, A12, C08, C09, C31, IR1, CR1, K1.</p> <ul style="list-style-type: none"> <li>• Must provide copy of front and back of unexpired EAD card</li> </ul>
Borrower Ineligible	<ul style="list-style-type: none"> <li>• Non-occupying co-borrowers Acceptable but must sign mortgage and note. No other interest in note, such as seller, broker, etc. Occupying borrower must contribute to income and have credit over 660 Max LTV of 75</li> <li>• Irrevocable or Blind Trusts</li> <li>• Inter-Vivo Revocable Trust</li> <li>• Limited Partnerships, general partnerships, corporations</li> <li>• Legal Status in the US</li> </ul>
Seller ineligible	<ul style="list-style-type: none"> <li>• Estate Sale Transactions</li> </ul>
Employment / residence requirement	<p>During the most recent 2 years, borrowers must have continuous US residency and employment history, of which the most recent 12 months were in same the location as property prior to loan application. Borrowers must reside and work in the same location within a 50-mile radius. Gaps in employment over 3 months may be considered within a written explanation.</p>
<b>Assets / Seller Concessions</b>	
Assets	<ul style="list-style-type: none"> <li>• Checking / Savings <ul style="list-style-type: none"> <li>○ Most recent three months bank statements</li> <li>○ Deposits exceeding 50% of the borrower's monthly income must be sourced.</li> <li>○ Joint bank accounts require 100% access funds letter, <b>Tax ID Max – SMC 100% Access funds letter template.</b></li> </ul> </li> <li>• Business Funds: <ul style="list-style-type: none"> <li>○ Use of business funds requires a letter from Tax Preparer/CPA stating whether funds drawn from the business will have a negative impact on the business.</li> </ul> </li> <li>• <b>Tax ID Max – SMC Assets and Cash to Close Calculation worksheet</b> <ul style="list-style-type: none"> <li>○ 6 months reserves requirement should also be included in the funds and reserves required to close worksheet.</li> </ul> </li> </ul>
Gifts	<p>Be In Mortgage prefers the donor to send gift funds directly to the settlement agent with the proper authentication of the donor's funds and transfer. See requirements below:</p> <ul style="list-style-type: none"> <li>• <b>Gifts:</b> <ul style="list-style-type: none"> <li>○ <b>At least a 10% down payment has been made by the borrower from their own resources.</b></li> <li>○ Gift funds are allowed on owner occupied loans only.</li> <li>○ Gift must be from a relative</li> <li>○ Gift letter is required.</li> </ul> </li> </ul>



	<ul style="list-style-type: none"><li>○ Gift funds may not be used to meet reserve requirements.</li><li>○ The gift funds from the donor must be verified to show the donor has the funds available.<ul style="list-style-type: none"><li>▪ Copy of donor bank statement where funds are coming from.</li><li>▪ Wire transfer receipt from Title Company</li><li>▪ Copy of Cashier's check made out to title company.</li></ul></li><li>• <b>Documentation Requirements</b><p>Gifted funds must be processed by a depository institution prior to being provided to the settlement agent, and must be evidenced by a letter which meets the following requirements:</p><ul style="list-style-type: none"><li>○ Specify the dollar amount of the gift;</li><li>○ Specify the date the funds were transferred;</li><li>○ Include a statement that no repayment is expected;</li><li>○ Donor's financial institution information from which gift funds will derive.</li><li>○ Include the donor's name, address, telephone number, relationship to borrower; and</li><li>○ Bear the donor's signature.</li></ul></li><li>• <b>Verifying Donor Availability of Funds and Transfer of Gift Funds</b><p>The lender must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account, or trust or estate account owned by the donor) or have been transferred to the borrower's account. Acceptable documentation includes the following:</p><ul style="list-style-type: none"><li>○ a copy of the donor's check and the borrower's deposit slip,</li><li>○ a copy of the donor's withdrawal slip and the borrower's deposit slip,</li><li>○ evidence of the electronic transfer of funds from the donor's account to the</li><li>○ borrower's account or to the closing agent;</li><li>○ a copy of the donor's check to the closing agent, or</li><li>○ a settlement statement showing receipt of the donor's check.</li></ul><p>All funds must be verified. Any significant increase in average balance or large deposits require an explanation of source from applicant. Cash on hand is not an acceptable source of donor gift funds. Gift must be shown on the final Closing Disclosure.</p></li></ul>
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	<ul style="list-style-type: none"> <li>• <b>Acceptable Donors</b> A gift can be provided by: <ul style="list-style-type: none"> <li>○ a relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or</li> <li>○ a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.</li> </ul> <p>The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. Gift funds are allowed after the borrower has documented the minimum required borrower contribution</p> </li> <li>• <b>Gift of Equity:</b> <ul style="list-style-type: none"> <li>○ Only allowed for Primary and Secondary Residence</li> <li>○ Max LTV 80%</li> <li>○ Sales price must match the market rate</li> <li>○ Must meet all other guidelines for Gift Funds.</li> <li>○ For all gift of equity, the borrower needs to bring 10% and reserves in own funds.</li> </ul> </li> </ul>
Reserves	<ul style="list-style-type: none"> <li>• Requirements: <ul style="list-style-type: none"> <li>○ 3 months PITI for LTV &gt; 75%</li> <li>○ Zero months for LTV &lt; 75%</li> </ul> </li> <li>• Eligible source of reserves: <ul style="list-style-type: none"> <li>○ Checking / Savings</li> <li>○ Retirement Accounts <ul style="list-style-type: none"> <li>▪ 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered towards the required reserves.</li> <li>▪ Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves.</li> </ul> </li> </ul> </li> <li>• Ineligible source of reserves: <ul style="list-style-type: none"> <li>○ Equity from unsecured loans, cash advance proceeds.</li> <li>○ Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.</li> <li>○ Gifts funds (Gift of Equity or cash gifts)</li> </ul> </li> </ul>
Interested Party Contributions	<ul style="list-style-type: none"> <li>• IPCs cannot be used for any part of the borrower's down payment and cannot exceed actual closing costs.</li> <li>• Seller contributions may cover normal and customary closing costs.</li> <li>• Seller Contribution is accepted on Primary and Second Homes Residences</li> <li>• Seller Contribution Scenarios: <ul style="list-style-type: none"> <li>○ Max Seller Contribution: 6%</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>▪ If the purchase price is less than or equal to the list price.</li> <li>○ Max Seller Contribution:3% <ul style="list-style-type: none"> <li>▪ If the purchase price is above the list price.</li> </ul> </li> </ul>
<b>Credit Requirements</b>	
Qualifying Credit Score	<p>*Subject to program requirements and LTV. Non-traditional credit is allowed but require at least one borrower to have a fico score. Loans where the primary borrower or co-borrower do not have a fico score are not allowed.</p> <ul style="list-style-type: none"> <li>○ 80% LTV and below- 660 FICO</li> <li>○ 80.01%-85% LTV- 700 FICO</li> </ul> <p><i>*See <a href="#">Program matrix</a></i></p>
Housing	<ul style="list-style-type: none"> <li>• A Verification of Rent (VOR) Is required on all loans and LTV's. One of the following will be required <ul style="list-style-type: none"> <li>○ Credit Supplement on credit report to document rental history over the prior 12 months.</li> <li>○ Personal VOR with 12 months cancelled checks.</li> <li>○ Property management third party VOR</li> </ul> </li> </ul>
Credit Score / Tradeline Requirements	<ul style="list-style-type: none"> <li>• Credit Score Requirements. <ul style="list-style-type: none"> <li>○ See <a href="#">Tax ID Max-SMC Programs Matrix</a>. The minimum credit score for all ITIN loans is 660 (LTVs at or below 80%). Flow loans with LTV 80.01-85 minimum FICO score of 700.</li> </ul> </li> <li>• Credit Score <ul style="list-style-type: none"> <li>○ Middle of three scores, or</li> <li>○ Lower of 2 scores</li> </ul> </li> <li>• Open and active tradelines Requirements <ul style="list-style-type: none"> <li>○ 2 Tradelines x 24 months.</li> <li>○ or</li> <li>○ 3 Tradelines x 12 months</li> <li>○ If the tradeline requirement is not met, proceed to qualify the borrower with the Non-Traditional Credit Requirements, see below.</li> </ul> </li> </ul>
Non-Traditional Credit Requirements	<ul style="list-style-type: none"> <li>• Open and active Alternative Credit references <ul style="list-style-type: none"> <li>○ 3 Alternative Credit References x 12 months</li> <li>○ Traditional tradelines can be used to meet the Alternative credit references requirements.</li> <li>○ Alternative credit references must be added to the credit report through a supplement.</li> <li>○ VOR can be one of Alternative Tradelines</li> <li>○ Allowable Alternative credit references <ul style="list-style-type: none"> <li>▪ Housing payments</li> <li>▪ Installment loan payments (such as an auto loan)</li> <li>▪ Utility payments</li> <li>▪ Telephone and cable service payments</li> <li>▪ Insurance payments (excluding payroll deductions)</li> </ul> </li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>▪ Lease payments related to durable goods (including leases)</li> <li>▪ Local store payments (department, furniture, appliance)</li> <li>▪ School tuition payments or ongoing childcare payments</li> <li>▪ Payments on a loan obtained from an individual (repayment terms must be documented in a written agreement)</li> </ul>
<p>Co-Applicant Credit Requirements / Exceptions</p>	<ul style="list-style-type: none"> <li>• Co-applicants must meet the same minimum requirements as primary applicants unless. <ul style="list-style-type: none"> <li>○ Spouse: If the co-applicant is the spouse, follow requirements below <ul style="list-style-type: none"> <li>▪ No additional credit is required. As long as Co-applicant is not the primary income earner.</li> <li>▪ Three Bureau Credit Report is still required.</li> <li>▪ Note: Primary wage earner is defined as the borrower who earns the highest monthly income for the loan transaction</li> </ul> </li> <li>○ Roommate: If the co-applicant is a roommate for the prior 12 months, follow the requirements below. <ul style="list-style-type: none"> <li>▪ 2 credit references are required,</li> <li>▪ VOR credit reference is waived.</li> <li>▪ In addition, each additional borrower is subject to the following: <ul style="list-style-type: none"> <li>- If three scores are provided, at least one must be 660+</li> <li>- If two scores are provided, at least one must be 660+</li> <li>- If one score is provided, it must be 660+</li> <li>- If no scores are provided, eligibility is not negatively impacted</li> </ul> </li> </ul> </li> </ul> </li> </ul>
<p>Community Property States / Non-Purchasing Spouses</p>	<ul style="list-style-type: none"> <li>• NPS Credit Report Is required in community properties states.</li> <li>• Community Property States: <ul style="list-style-type: none"> <li>○ Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.</li> </ul> </li> </ul>
<p>Liabilities / Installment</p>	<ul style="list-style-type: none"> <li>• Installment = or &lt; than 10 months can be excluded</li> </ul>
<p>Liability and credit Inquire Monitoring (UDN)</p>	<ul style="list-style-type: none"> <li>• Provide a credit consumer explanation letter addressing the following. <ul style="list-style-type: none"> <li>○ Inquires</li> <li>○ Multiple addresses on credit report</li> <li>○ Derogatory items</li> </ul> </li> <li>• Refresh Credit Report will be pulled prior to closing. <ul style="list-style-type: none"> <li>○ Any new debt should be included.</li> <li>○ If monthly payments increase proceed to update liability payment amount on 1003</li> </ul> </li> </ul>



Tax Liability	<ul style="list-style-type: none"> <li>All Tax liability must be paid in full, provide any of the following documentation. <ul style="list-style-type: none"> <li>Record of account transcripts</li> <li>1040's Taxes or Tax transcripts plus proof of payment (cancelled check or bank statement)</li> <li>Payment plan will be accepted only if borrower provides a confirmed payment plan documentation payment history is on time for the last 6 months.</li> </ul> </li> </ul>	
<b>Acceptable Liabilities Payment History</b>		
<b>Obligation</b>	<b>Last 12 Months</b>	<b>Last 24 Months</b>
<ul style="list-style-type: none"> <li>Housing (Rent)</li> </ul>	0x30	1x30, 0x60 or beyond
<ul style="list-style-type: none"> <li>Installment</li> <li>Nontraditional</li> <li>Revolving</li> </ul>	0x30	2x30 or 1x60 and beyond
<ul style="list-style-type: none"> <li>Collections</li> <li>Charges offs.</li> <li>Repossessions</li> </ul>	<ul style="list-style-type: none"> <li>None in last 24 months Activity will be measured by DLA (Day of Last Activity of the credit report)</li> <li>Collections aged over 24 months and &gt; \$2k: Must be paid in full prior to or at closing. Acceptable supporting documentation to be provided evidencing payment in full If paid at closing, must be shown on CD as added required funds to close and proof of payment.</li> <li>Collections may not be the result of a traditional or nontraditional tradeline that exceeds the number of lates allowed in the most recent 24 months. Documentation must be provided.</li> <li>Acceptable letter of explanation for any collections is required. Extenuating circumstances to be reviewed on a case by case basis.</li> <li>Charge offs within the last 24 months are not acceptable, activity will be measured by DLA (Day of last activity of the credit report)</li> <li>Charge Offs can be paid prior or at closing, provide a payoff.</li> </ul>	
<ul style="list-style-type: none"> <li>Medical Collections</li> </ul>	<ul style="list-style-type: none"> <li>Excluded</li> </ul>	
<b>Adverse Credit issue</b>	<b>Requirement</b>	
Judgments and Tax Liens	All outstanding balances must be paid in full prior to closing.	
Bankruptcies	At least 4 years old	
<ul style="list-style-type: none"> <li>Foreclosures</li> <li>Deeds-in-lieu</li> <li>Short Sales</li> </ul>	At least 4 years old	
Consumer Credit Counseling/ Debt Management Plan	Must be discharged/completed 3 years prior to loan application.	





<b>Income Requirements</b>	
Continuance of income and employment history	<ul style="list-style-type: none"> <li>• All borrowers should have a two-year (2-year) history of receiving stable income from employment or from other sources such as alimony, child support, retirement, and pension. Any source of income that is not verifiable is not an acceptable source of income. There must be a reasonable expectation that the income will continue in the foreseeable future, and such income is sufficient for repaying the proposed monthly debts.</li> </ul>
Employment Stability	<ul style="list-style-type: none"> <li>• Employment across different jobs in the same or related line of work is acceptable. Borrowers who change jobs frequently to advance within the same line of work and are successful in that work will receive favorable consideration. Such borrowers should not be penalized for frequent changes in jobs if they have maintained income continuity despite the changes.</li> </ul>
Employment Gaps	<ul style="list-style-type: none"> <li>• The borrower must explain any employment gaps that extend beyond sixty (60) days.</li> </ul>
Acceptable Income Sources	<ul style="list-style-type: none"> <li>• A borrower may receive income from the following four (4) sources:               <ul style="list-style-type: none"> <li>o Salary / Wage Earner – A wage earner derives income in the form of salary or an hourly rate through employment of a business in which he or she has little or no ownership interest. Acceptable sources of documentation for the wage earner may include:                   <ul style="list-style-type: none"> <li>▪ IRS W-2 Form</li> <li>▪ IRS Tax Form 1040</li> <li>▪ Pay stubs.</li> <li>▪ Written Verification of Employment</li> </ul> </li> <li>o Fixed Income – Acceptable sources of Fixed income may include:                   <ul style="list-style-type: none"> <li>▪ Alimony, Child Support and Separate Maintenance</li> <li>▪ Permanent Disability</li> <li>▪ Guaranteed Income (Inheritance, Lottery, Trust)</li> <li>▪ Retirement / Pension, Social Security, Supplemental (Dependent’s) Social Security</li> </ul> </li> <li>o Other Sources of Income – Other sources of income may include:                   <ul style="list-style-type: none"> <li>▪ Dividend / Interest Income</li> <li>▪ Rental Income</li> <li>▪ Tips and Gratuities</li> </ul> </li> <li>o Self-Employment                   <ul style="list-style-type: none"> <li>▪ A borrower who owns twenty-five percent (25%) or more of a business entity is considered self-employed.</li> </ul> </li> </ul> </li> </ul>



<p>Unacceptable income sources</p>	<ul style="list-style-type: none"> <li>• The following sources of income are not acceptable: <ul style="list-style-type: none"> <li>o Contributions or Support from Family Members</li> <li>o Educational Benefits</li> <li>o Illegal Income*</li> <li>o One-time Capital Gains (continuing capital gains may be considered as acceptable source of income)</li> <li>o Refund of Federal, State or Local Income Tax</li> <li>o Bank Statements Only</li> </ul> </li> </ul> <p>* While Be In Mortgage recognizes several States have legalized the use of marijuana to some degree, whether for medical or recreational use, there exists a conflict to Federal Law regulating cannabis and / or cannabidiol (aka CBD). As a result, Be In Mortgage will not fund any loan where the income or assets are / were derived from the growing, distribution, transfer, development, or other vendor / supplier relation to marijuana. Be In Mortgage will also not lend against a property that is being utilized to grow, store, process, etcetera in connection to marijuana. In addition to growers and retailers, there are vendors and suppliers, landlords and employees that are indirectly tied to the cannabis industry that pose a similar risk and are therefore ineligible.</p>
<p>Rental Income requirements</p>	<ul style="list-style-type: none"> <li>• Full Doc: <ul style="list-style-type: none"> <li>o Current rental / lease agreements; AND</li> <li>o Complete Schedule of Real Estate Owned; AND</li> <li>o Signed Schedule E for most recent two (2) years.</li> </ul> </li> <li>• Alt Doc: <ul style="list-style-type: none"> <li>o Complete Schedule of Real Estate owned AND</li> <li>o Copy of current rental / lease agreements</li> <li>o Copy of the cancelled check for the Deposit</li> <li>o Copy of the cancelled check for the First payment</li> </ul> </li> <li>• Departing Rental Income <ul style="list-style-type: none"> <li>o Copy of current rental / lease agreements</li> <li>o Copy of the cancelled check for the Deposit</li> <li>o Copy of the cancelled check for the First payment</li> <li>o 25% vacancy and maintenance factor will be used and deducted from gross rental income. Proof of mortgage statements including taxes and insurance will be provided</li> </ul> <p>We will not lend on another investment property if the borrower has 8+ investment properties</p> </li> </ul>
<p>Wage earner / full documentation</p>	<ul style="list-style-type: none"> <li>• Required documentation. <ul style="list-style-type: none"> <li>o Written Verification of employment (WVOE) covering YTD earnings and previous two years earnings or a period covering at least two years</li> <li>o Executed 4506C on 1040's.</li> <li>o Last two years 1040's</li> <li>o Last two years Transcripts</li> </ul> </li> </ul>



	<ul style="list-style-type: none"><li>o Last two months bank statements must show paychecks been deposited, or</li><li>o Last two months Paycheck cancelled checks.</li><li>o LOS/Be In Mortgage Income Calculation worksheet</li></ul> <ul style="list-style-type: none"><li>• The WVOE Program will be documented and limited to: Documentation:<ul style="list-style-type: none"><li>o Written VOE completed in full by employer</li><li>o 2 most recent bank statements reflecting direct deposits of income. Must reflect deposits of at least 65% of gross wage/salary reflected on WVOE.</li><li>o WVOE must be dated within 30 days of note date.</li><li>o Borrowers employed by family members or related individuals not eligible</li><li>o Limited to wage/salary only. Supplemental income sources must be documented via standard documentation.</li><li>o An internet search of the business is required with documentation to be included in the file to support existence of the business.</li></ul></li></ul> <ul style="list-style-type: none"><li>• Verification of Employment An employer may be required to complete a written Verification of Employment (“VOE”) with certain information regarding the borrower’s employment and income. A Fannie Mae Form 1005 or similar form may be utilized, but a written VOE should include at a minimum the following information:<ul style="list-style-type: none"><li>o Date of employment;</li><li>o Present position;</li><li>o Current base pay and frequency paid;</li><li>o Overtime, commission or bonus income, if applicable;</li><li>o Probability of continued employment, if available; and</li><li>o Date verified, name, title, and signature of the person verifying the information.</li></ul></li></ul> <ul style="list-style-type: none"><li>• Income calculation<ul style="list-style-type: none"><li>o Hourly:<ul style="list-style-type: none"><li>▪ Multiply (x) the wage by 40 (or consistent number of hours worked in a week).</li><li>▪ Multiply (x) that amount by 52 (weeks in the year). Divide (/) that amount by 12 (months).</li><li>▪ Example: \$14.80 an hour <math>\\$14.80 \times 40 = \\$592.00 \times 52 = \\$30,784.00 / 12 = \\$2,565.33</math> (monthly salary)</li><li>▪ NOTE: If the number of hours is not consistent income must be averaged, add (+) year-to-date</li></ul></li></ul></li></ul>
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	<p>amount with previous year W-2 earnings, divide that amount by the total number of months.</p> <ul style="list-style-type: none"> <li>▪ Example: <ul style="list-style-type: none"> <li>\$2,000 income 6 months year-to-date: \$12,000.00</li> <li>\$1,999 income 12 months W-2: \$23,988.00</li> <li><math>\\$12,000.00 + \\$23,988.00 = \\$35,988.00 / 18 \text{ months} = \\$1,999.33 \text{ (monthly average)}</math></li> </ul> </li> <li>o Weekly: <ul style="list-style-type: none"> <li>▪ Multiply (x) the weekly salary by 52.</li> <li>▪ Divide (/) that amount by 12.</li> <li>▪ Example: <ul style="list-style-type: none"> <li>\$570.00 a week</li> <li><math>\\$570.00 \times 52 = \\$29,640.00 / 12 = \\$2,470.00 \text{ (monthly salary)}</math></li> </ul> </li> </ul> </li> <li>o Bi-Weekly <ul style="list-style-type: none"> <li>▪ Multiply (x) the bi-weekly salary by 26.</li> <li>▪ Divide (/) that amount by 12.</li> <li>▪ Example: <ul style="list-style-type: none"> <li>\$1,500.00 bi-weekly</li> <li><math>\\$1,500.00 \times 26 = \\$39,000.00 / 12 = \\$3,250.00 \text{ (monthly salary)}</math></li> </ul> </li> </ul> </li> <li>o Semi-Monthly <ul style="list-style-type: none"> <li>▪ Multiply (x) the semi-monthly salary by 24.</li> <li>▪ Divide (/) that amount by 12.</li> <li>▪ Example: <ul style="list-style-type: none"> <li>\$1,280.00 semi-monthly</li> <li><math>\\$1,280.00 \times 24 = \\$30,720.00 / 12 = \\$2,560.00 \text{ (monthly salary)}</math></li> </ul> </li> </ul> </li> <li>o Annual <ul style="list-style-type: none"> <li>▪ Annual salary divided by 12 months.</li> <li>▪ Example: <ul style="list-style-type: none"> <li>\$55,000.00 annually (/) 12 = \$4,583.33 (monthly salary)</li> </ul> </li> </ul> </li> </ul>
<p>Part-time, second job, seasonal, contract, temporary, or unemployment income</p>	<ul style="list-style-type: none"> <li>• Use either W-2's or Tax Returns for the two (2) most recent years. Average income.</li> <li>• Example: <ul style="list-style-type: none"> <li>o 2018 income: \$73,840.00</li> <li>o 2019 income: \$68,350.00</li> <li>o <math>\\$73,840.00 + \\$68,350.00 = \\$142,190.00</math></li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>▪ <math>\\$142,190.00 \div 24 \text{ (months)} = \\$5,924.58</math> (monthly income)</li> </ul>
Calculation for bonus, overtime, or shift differential.	<ul style="list-style-type: none"> <li>• Bonus, overtime, or shift differential income is acceptable when the employer verifies that the borrower has received the income for the last twelve (12) months and such income is likely to continue. <ul style="list-style-type: none"> <li>○ If the employer specifies the overtime or bonus income is received separately from the borrower's monthly salary, determine the monthly average as follows: <ul style="list-style-type: none"> <li>▪ Add the overtime or bonus income received year-to-date to the overtime or bonus income for the most recent year, and then divide by the total number of months (number of months for year-to-date and twelve (12) months for most recent year).</li> </ul> </li> <li>○ If overtime or bonus income is not verified separately from the borrower(s) monthly salary, determine the monthly average as follows: <ul style="list-style-type: none"> <li>▪ Add the Borrower's current year-to-date earnings including overtime to the income for the most recent year, then divide by the total number of months (number of months for year-to-date and twelve (12) months for most recent year).</li> </ul> </li> </ul> </li> </ul>
Declining income or unusual fluctuations	<ul style="list-style-type: none"> <li>• A review of all income documentation is necessary to identify any upward or downward trends by comparing the current income and the income from the most recent year. If declining income trends or unusual fluctuations exist, sufficient discretion must be exercised to determine the extent or probability of impairment.</li> </ul>
Variable Income	<ul style="list-style-type: none"> <li>• All income that is calculated by an averaging method.</li> <li>• Must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime. <ul style="list-style-type: none"> <li>○ <b>History of Receipt:</b> Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates</li> </ul> </li> </ul>



that there are positive factors that reasonably offset the shorter income history.

- **Frequency of Payment:** The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:
  - If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average.
  - If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snowplows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.
- **Income Trending:** After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of

	<p>Employment completed by the employer or third-party employment verification vendor).</p> <ul style="list-style-type: none"> <li>▪ If the trend in the amount of income is stable or increasing, the income amount should be averaged.</li> <li>▪ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.</li> </ul> <p>If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.</p>
<p>Self Employed / Full Documentation</p>	<ul style="list-style-type: none"> <li>• Definition:             <ul style="list-style-type: none"> <li>o A borrower who owns twenty-five percent (25%) or more of a business entity is considered self-employed. A self-employed borrower must be carefully evaluated as the success of the company is directly related to a borrower's financial ability to repay debts.</li> <li>o There are FOUR principal business structures for self-employed borrowers as follows:                 <ul style="list-style-type: none"> <li>▪ Sole Proprietorship                     <ul style="list-style-type: none"> <li>• In a sole proprietorship, the individual owner has unlimited personal liability for all debts of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy business obligations. The success of this type of organization depends solely on the individual who owns it. His or her death would terminate the business and place the assets into probate, delaying the disposition of the assets to creditors and heirs. Business income or loss is folded into the individual owner's tax return.</li> </ul> </li> </ul> </li> </ul> </li> </ul>



	<ul style="list-style-type: none"><li>▪ Independent Contractor &amp; Commission Income<ul style="list-style-type: none"><li>• An independent contractor is an individual whose income is derived through independent / other sources or an individual whose income is derived from commissions that constitute 25% or more of his / her yearly income.</li></ul></li><li>▪ General Partnership<ul style="list-style-type: none"><li>• A general partnership is dissolved immediately on the death, withdrawal, insanity, or insolvency of any of the partners – although the personal liability to partnership creditors exists even after the partnership is dissolved. In a general partnership, each partner is personally liable for the debts of the entire business and is responsible for the actions of every other partner.</li></ul></li><li>▪ Limited Partnership<ul style="list-style-type: none"><li>• A partnership is formed when two or more individuals form a business and share profits, losses, and responsibility for running the business. In a limited partnership, a partner has limited decision – making ability and his or her liability is limited to the amount he or she invested in the partnership. A limited partner's death, withdrawal, insanity, or insolvency does not dissolve the partnership. Individual partners pay taxes on their proportionate share of net partnership income at their individual tax rate.</li></ul></li><li>▪ S-Corporation.<ul style="list-style-type: none"><li>• An S Corporation is generally a smaller business entity with a limited number of stockholders. Business gains and losses are passed on to the stockholders. Stockholders are taxed at their individual tax rate for their proportionate share of ownership. Income for an owner that comes from wages is folded into the individual's tax return.</li></ul></li><li>▪ C-Corp<ul style="list-style-type: none"><li>• A corporation is a state-chartered business that is owned by stockholders. A</li></ul></li></ul>
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	<p>stockholder is not personally liable for the debts of the corporation. Although legal control of the corporation rests with its stockholders, they are not responsible for the day-to-day operations of the business since they delegate that responsibility to a board of directors and officers of the company. Corporations must file corporate tax returns to report their income and losses. Income to the officers is folded into each officer's individual tax return.</p>
<p>Length of self-employment</p>	<ul style="list-style-type: none"> <li>• Income from a self-employed borrower generally requires two (2) or more years to be considered stable income. A person who has been self-employed for less than one (1) year should have a history of previous successful employment in the same occupation or a related field. The underwriting process must carefully analyze the following factors on a self-employed borrower:             <ul style="list-style-type: none"> <li>• Borrower’s training and experience.</li> <li>• Location and nature of the business; and</li> <li>• Demand for that type of business in the area.</li> </ul> </li> <li>• A borrower who has been self-employed for less than two (2) year may be considered on a case-by-case basis subject to the following:             <ol style="list-style-type: none"> <li>1. Self-employment must be in the same line of work as previous employment; and</li> <li>2. One (1) full year of income verified / documented with one (1) year of federal income tax returns and a current profit and loss statement.</li> </ol> </li> </ul>
<p>Acceptable Evidence of Self-Employed Buss (for Alt Doc: 1099/P&amp;L)</p>	<ul style="list-style-type: none"> <li>• Documentation to support the borrower's self-employment in a legitimate and active business covering the most recent two (2) years, as of the application date, must be obtained on income documentation programs that are less than Full Doc (i.e.: Alt Doc). SMC will accept the items listed below to support the borrower's self-employed business.</li> <li>• One (1) item from the following list may be used for verification of a current and active business.</li> </ul>



	<ul style="list-style-type: none"> <li>o Copy of the business license covering the current business year as of the date of the application.</li> <li>o Copy of the Articles of Incorporation, Operating Agreement, or Partnership Agreement with recorded filing date.</li> <li>o Tax Preparer's Letter:             <ul style="list-style-type: none"> <li>▪ Letter must be on tax preparer's letterhead.</li> <li>▪ Tax preparer's license verification, from municipal, state, or federal licensing boards or proof of their business' existence; and</li> <li>▪ Signed letter from the borrower's tax preparer explaining:                 <ul style="list-style-type: none"> <li>-tax preparer's relationship to the business.</li> <li>-personal knowledge of the length of time the business has been in existence; and</li> <li>-percentage of borrower's ownership in the business entity.</li> <li>- Preparer must state not an employee of the business or a relative</li> </ul> </li> </ul> </li> <li>o Two (2) years of business tax returns in the form of 1065, 1120 or 1120S and corresponding Schedule K1 (if applicable).</li> <li>o Two (2) years of business tax returns in the form of 1040 and corresponding Schedule</li> </ul>
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<p>Self-employed Borrowers Income Documentation</p>	<ul style="list-style-type: none"> <li>• The income documentation required to qualify self-employed borrowers may include income tax returns or a copy of the borrower's monthly bank statements. The IRS income tax forms <u>required for qualifying self-employed borrowers are as follows:</u></li> </ul> <table border="1" data-bbox="621 1199 1385 1392"> <thead> <tr> <th colspan="7">INCOME DOCUMENTATION</th> </tr> <tr> <th>Business Type</th> <th>1040</th> <th>1065</th> <th>K-1</th> <th>1120S</th> <th>1120</th> <th>P&amp;L</th> </tr> </thead> <tbody> <tr> <td>Sole Proprietor</td> <td>X</td> <td></td> <td></td> <td></td> <td></td> <td>X</td> </tr> <tr> <td>General Partner</td> <td>X</td> <td>X</td> <td>X</td> <td></td> <td></td> <td>X</td> </tr> <tr> <td>Limited Partner</td> <td>X</td> <td>**</td> <td>X</td> <td></td> <td></td> <td>**</td> </tr> <tr> <td>S Corporation</td> <td>X</td> <td></td> <td>X</td> <td>X</td> <td></td> <td>X</td> </tr> <tr> <td>Corporation</td> <td>X</td> <td></td> <td></td> <td></td> <td>X</td> <td>X</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• Current, signed Profit &amp; Loss Statement is required when tax returns will be more than ninety (90) days old at underwriting or 120 days at closing.</li> </ul> <p><b>** If the borrower owns more than 25% of a partnership.</b></p>	INCOME DOCUMENTATION							Business Type	1040	1065	K-1	1120S	1120	P&L	Sole Proprietor	X					X	General Partner	X	X	X			X	Limited Partner	X	**	X			**	S Corporation	X		X	X		X	Corporation	X				X	X
INCOME DOCUMENTATION																																																		
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Self-employed borrower – IRS tax return chart

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION <sup>o</sup>	CALCULATION METHOD
Sole Proprietor	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P&amp;L with bank statements for the three (3) preceding months</li> </ul>	1040 Schedule C Net income / loss, plus non-cash expenses.
General Partnership	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's &amp; 1065's &amp; K-1's including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040, Schedule E and 1065 borrower's percentage of ownership.
Limited Partnership	Two (2) Years	Likely to Continue	<p><u>If &lt; 25% Ownership:</u></p> <ul style="list-style-type: none"> <li>Signed 1040's &amp; K1's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current Profit &amp; Loss with bank statements for the three (3) preceding months</li> </ul> <p><u>If &gt; 25% ownership</u></p> <ul style="list-style-type: none"> <li>Signed 1040's, &amp; 1065's &amp; K-1's, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040 and K1.

SOURCE OF INCOME	RECEIPT HISTORY	CONTINUATION PERIOD	REQUIRED VERIFICATION <sup>o</sup>	CALCULATION METHOD
"S" Corporation	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Signed 1040's, &amp; 1120-S, including all schedules for most recent two (2) years <u>AND</u></li> <li>Current YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Income average using 1040's and 1120-S.
Corporation	Two (2) Years	Likely to Continue	<ul style="list-style-type: none"> <li>Current pay stub reflecting year-to-date earnings <u>AND</u></li> <li>Signed 1040's &amp; 1120's, including all schedules for most recent two (2) years, <u>AND</u></li> <li>YTD P &amp; L with bank statements for the three (3) preceding months</li> </ul>	Average income using 1040's and income from 1120's based on borrower's percentage owned.

**BRIDGE THE GAP** - If tax returns are not available for the most recent tax year, the following must be obtained:

Prior to April 15 <sup>th</sup>	<ol style="list-style-type: none"> <li>Previous two (2) year tax returns; <u>AND</u></li> <li>Year-end P &amp; L statement covering 12 months of the most recent tax year and current tax year through year to date.</li> </ol>
After April 15 <sup>th</sup>	<ol style="list-style-type: none"> <li>Previous two (2) year tax returns; <u>AND</u></li> <li>Copy of IRS Extension for Filing; <u>AND</u></li> <li>Year-end P &amp; L statement covering the most recent tax year and the most recent quarter of the current tax year.</li> </ol>
2020 Tax Date	In response to the novel coronavirus in 2020, the taxing authorities extended the filing date from 04/15/2020 to 07/15/2020. The above dates may be edited without IRS Extension.

**Get Everything right:**

- All Taxes must be signed by the borrower.
- All Taxes must include all pages and schedules.



	<ul style="list-style-type: none"> <li>• Last two years transcripts on all taxes used for qualification purposes.</li> <li>• Executed 4506C.</li> <li>• Declining income will trigger an immediate loan denial.</li> <li>• All losses need to be accounted regardless of whether the business is closed.</li> </ul>
Deductible expenses. (depreciation/depletion/amortization)	<p>Deductible expenses for the business that are attributable to non-cash expenses are “depreciation”, “depletion” and “amortization”. These non-cash expenses may be added back to the net income / loss for qualifying purposes. Depreciation is a deduction for the decline in value of an asset such as real or personal property and is not an out-of-pocket expense. (Note: For IRS Form 1065 and 1120S, depreciation is taken from the first page of the return and not from Form 8825.) Depletion is a deduction for the useful life of a natural resource and is not an out-of-pocket expense. Amortization is an intangible asset, such as a copyright or patent over its useful life, which may include start-up costs. Amortization is not an out-of-pocket expense.</p>
Declining income	<ul style="list-style-type: none"> <li>• A continuing large decline in gross income over two (2) or three (3) years could be a reason to decline a loan application, even if the borrower’s current income and debt ratios meet the guidelines. The actual income source, not just the total income must be analyzed. For example, adjusted gross income could be increasing yearly because of items not related to the business (such as by capital gains from the sale of real estate), but the actual business income could be declining yearly. If declining income for the last two (2) years is evident, the lesser income figure should be used for qualifying purposes.</li> </ul>
Self-employed Income Analysis Form	<ul style="list-style-type: none"> <li>• Loan Beam is required on all loan files must match MGIC forms.</li> <li>• MGIC Income calculation sheets</li> </ul>
<p>Self-employed / 12 months bank statement program</p> <p>Self-employed only</p> <p>Full deposits and expenses analysis</p> <p>Or</p> <p>Apply expense ratio</p>	<p><b>12 Month Business Bank Statements (Personal or Business)</b></p> <p>Account statements should be within 45 days of closing (a maximum 30-day grace period is allowed at the beginning of each month to ensure prior month’s statement availability). Documentation provided must, at minimum, validate the current month’s beginning balance, total deposits, total withdrawals, and current month’s ending balance. Large deposit is defined as a single deposit larger than 50% of the monthly deposits. All loans will be initially underwritten with 12 months bank statements. If the income exhibits a seasonality of income effect, whereby a two-year history would be a better representation of the borrower’s income, then we may require 24 months of bank statements. For example, if the borrower receives most of their income/deposits in a particular quarter or six-month period as we may see in certain industries such as mining, construction, landscaping, etc., then the utilization of 24 months of bank statements may be required to support the income as reliable.</p>



	<p><b>Personal Bank Statements</b></p> <p>Base requirements:</p> <ul style="list-style-type: none"><li>• Borrowers must be self-employed for at least 2 years.</li><li>• URLA must reflect a minimum of 2 year employment history.</li><li>• Business being used to source the income must be in existence of 2 years supported by one of the following:</li><li>• CPA letter, or Business License, or other reasonable evidence of business activity.<ul style="list-style-type: none"><li>o Nonprofit Entity not eligible.</li><li>o Funds/Deposits in a Trust are ineligible.</li></ul></li></ul> <p>Documentation Requirement:</p> <ul style="list-style-type: none"><li>• 12 months of consecutive Personal bank statements. Most recent to be dated within 45 days of the note.</li><li>• Most recent 2 months business statements. If client runs their business only through their personal account, then see Business and Co-Mingled Bank Statement guides below.</li><li>• Verify borrower owns 25% of the business by providing one of the following: CPA or Tax preparer letter, operating agreement or other reasonable documentation.</li></ul> <p>Calculation Method:</p> <ul style="list-style-type: none"><li>• Total qualifying deposits from all bank statements, less any inconsistent deposits, divided by the number of months of bank statements reviewed.</li><li>• 100% of the result is used as the % of ownership would be considered when the income deposit is made into the personal account.</li></ul> <p>The following items are to be EXCLUDED as eligible deposits:</p> <ul style="list-style-type: none"><li>• Transfers from other bank or asset accounts without inclusion of relevant statements.</li><li>• Extraordinary asset sales</li><li>• Any borrowed funds or grants (i.e., SBA loans, SBA PPP grants or any other similar COVID-19 related loans or grants).</li><li>• Tax refunds</li><li>• Gift funds</li></ul> <p><b>Business and Co-Mingled Bank Statements</b></p> <p>Base requirements:</p> <ul style="list-style-type: none"><li>• Borrowers must be self-employed for at least 2 years. URLA must reflect a minimum of 2 year employment history.</li></ul>
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- Business being used to source the income must be in existence of 2 years supported by one of the following: CPA letter, or Business License, or other reasonable evidence of business activity.
- Nonprofit Entity not eligible.
- Funds/Deposits in a Trust are ineligible.

A co-mingled bank account is a personal account used by a borrower for both business and personal use.

- A separate business account is not required.
- The borrower must be the sole owner of the business.

Documentation Requirement:

- 12 or 24 months of consecutive BUSINESS bank statements. Most recent to be dated within 45 days of the note.
- Verify borrower owns 25% of the business by providing one of the following: CPA or Tax preparer letter, operating agreement or other reasonable documentation.

Calculation Method:

- Total qualifying deposits from all bank statements, less any inconsistent deposits, multiplied by 50% (or alternate expense factor as established by previously discussed means), multiplied by the ownership percentage, divided by the number of bank statements.
- The following items are to be EXCLUDED as eligible deposits: Transfers from other bank or asset accounts without inclusion of relevant statements.
- Extraordinary asset sales
- Any borrowed funds or grants (i.e., SBA loans, SBA PPP grants or any other similar COVID-19 related loans or grants).
- Tax refunds
- Gift funds

- **Required Documentation**

- o Buss Financials P&L and Balance sheet if borrower has an Operating Company.
- o CPA Letter: CPA or Tax Preparer must substantiate all income documentation provided.
- o 12 consecutive month's personal bank statements, or
- o 12 consecutive months business bank statements
  - Business Accounts can only be used if the business account reflects that personal expenses are being paid from this account, must document at least 3.



	<ul style="list-style-type: none"> <li>▪ Provide statements to document accounts are personal.</li> <li>▪ Examples.             <ul style="list-style-type: none"> <li>• Rent</li> <li>• Car Payments</li> <li>• Utility Bills</li> <li>• Personal Credit Cards</li> </ul> </li> <li>o Document Large deposits:             <ul style="list-style-type: none"> <li>▪ Provide Cancelled checks.</li> <li>▪ Invoices Only will not be accepted.</li> </ul> </li> <li>o <b>Tax ID Max-SMC Bank Statement-Borrower Business Narrative Form</b></li> <li>o <b>Prudent.AI Report (Submit to request to the scenario desk)</b></li> </ul> <ul style="list-style-type: none"> <li>• Income Calculation             <ul style="list-style-type: none"> <li>o Steps to calculate income.                 <ul style="list-style-type: none"> <li>▪ Perform a Deposits and Expense Analysis through Prudent.AI</li> <li>▪ Subtract Deposits - Expenses and divided by 12.</li> <li>▪ Complete the required worksheets.</li> <li>▪ <b>**Always review form: Tax ID Max-SMC Step by Step to calculate income on a Tax ID Max- SMC Loan</b></li> </ul> </li> <li>o Deposits Analysis                 <ul style="list-style-type: none"> <li>▪ Deposits must be consistent and typical.</li> <li>▪ Large Deposits must be sourced to determine if funds came from a business source.</li> <li>▪ Example:                     <ul style="list-style-type: none"> <li>• If most of the bank statements show 15k a month in deposits, but one of them shows 30k, the Underwriter will question the deposits in that specific month.</li> </ul> </li> <li>▪ Joint Bank Statements:                     <ul style="list-style-type: none"> <li>• With Non-borrowing spouse: The portion of the income from a non-borrowing spouse must be excluded and documented on the Loan Approval request form.</li> <li>• With Non-Co-applicants: Loans won't be accepted; Joint account Access letter is always required.</li> </ul> </li> <li>▪ Deposits that <b>CANNOT BE USED</b> in the average of the total S/E qualifying income are as follows:                     <ul style="list-style-type: none"> <li>• Credit back from credit/Debit returns</li> <li>• Unsourced transfers from another account</li> </ul> </li> </ul> </li> </ul> </li> </ul>
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	<p>If borrower transfers money from his business account to pay themselves the transfers must be consistent.</p> <ul style="list-style-type: none"><li>• Payroll Advance</li><li>• Undocumented large deposits that cannot be determined as an income source.</li></ul> <ul style="list-style-type: none"><li>• <b>Expenses Analysis (Option A)</b><ul style="list-style-type: none"><li>o Determine what are business expenses.<ul style="list-style-type: none"><li>▪ Credit Cards debits analysis<ul style="list-style-type: none"><li>• Department Store: Will be considered personal and accounted as liability.</li><li>• Banks credit cards: If bank statements show high charges amount, will count as buss expenses.</li><li>• If a credit card payment is shown on a bank statement but not in the credit report, the debited amount will be counted as an expense.</li></ul></li><li>▪ Car Payments<ul style="list-style-type: none"><li>• If a Car payment is counted as an expense, it should not be counted as a liability on page 3 of the 1003.</li><li>• If liability doesn't appear in the credit report the underwriter may ask for more information documenting if the car is used for business.</li></ul></li><li>▪ Checks/Zelle/Venmo/Online Transfers<ul style="list-style-type: none"><li>• Rent payments won't be counted as expenses.</li><li>• Payment from the borrower's business to him/herself can be added back as income.</li></ul></li></ul></li></ul></li><li>• <b>Expense Ratio (Option B)</b><p>A standard 50% expense factor will be applied to the total of eligible deposits from the business bank statements. If the business operates more efficiently or typically has a materially different expense factor (higher or lower than the standard expense factor) the expense ratio will be determined by the industry classification of the business and the information provided on the Business Narrative Form or through attestation of expense ratio by a CPA, EA or licensed tax professional. Underwriter guidance that may be applied when considering expense ratios other than 50% as described by the CPA, EA or Tax Preparer on the Business Narrative Form.</p></li></ul>
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	<p><b>90% Expense Ratio (10% Profit Margin)</b>  A business with any of the following characteristics must use the 90% expense ratio:</p> <ul style="list-style-type: none"> <li>o Multiple commercial locations</li> <li>o More than 25 employees</li> <li>o Industry Classification of: Retail Trade, Wholesale Trade, Accommodation-Food Service,</li> <li>o Agriculture-Forestry-Fishing-Hunting, Construction, Car Dealerships</li> </ul> <p><b>70% Expense Ratio (30% Profit Margin)</b>  A business with any of the following characteristics must use the 70% expense ratio:</p> <ul style="list-style-type: none"> <li>• A single commercial location <ul style="list-style-type: none"> <li>o More than 10 employees, but not more than 25 employees</li> </ul> </li> <li>• Industry classification of: Manufacturing, Transportation-Warehousing, Utilities, &amp; Gas Extraction, Other Services, Administration-Support- Waste Management-Remediation, Information</li> </ul> <p><b>50% Expense Ratio (50% Profit Margin)</b>  A business with any of the following characteristics must use the 50% expense ratio:</p> <ul style="list-style-type: none"> <li>• Work from home or shared facility</li> <li>• 1 or more employees, but not more than 10 employees</li> <li>• Industry classification of: Real Estate-Rental and Leasing, Arts-Entertainment- Recreation, Professional-Scientific-Technical Services, Health Care-Social Assistance, Educational Services,</li> <li>• Finance and Insurance</li> </ul> <p><b>Additional information:</b></p> <ul style="list-style-type: none"> <li>• Income trend: Bank statements should show a stable or increasing trend. If the trend is declining and/or irregular (i.e. monthly deposit averages fluctuate more than 20%), additional documentation may be required such as all pages of the bank statement or up to an additional 12 months of statements.</li> <li>• Co-Borrower Options: Full documentation from co-borrower who is not self-employed may be used to supplement qualifying income.</li> </ul>
1099 only and profit & Loss programs	The 1099 Only and P&L Programs will be documented by and limited to: <ul style="list-style-type: none"> <li>• Self Employed Borrowers (two-year (2-year) history required by:</li> <li>• CPA Letter or (ii) Business License);</li> <li>• Owner Occupied transactions.</li> </ul>



	<ul style="list-style-type: none"> <li>• Management VOR / Checks / Bank Statements 80%/90% LTV / CLTV.</li> <li>• Private VOR / No Checks or Bank Statements 75% LTV / CLTV.</li> <li>• Credit Supplement.</li> <li>• SFR / Condo / Townhouse Property Types.</li> <li>• No rural properties</li> </ul>
<p>Specific to the 1099 Only Program:</p>	<p>Applicant to provide.</p> <ul style="list-style-type: none"> <li>• IRS Form(s) 1099 to document prior two (2) year(s) income; and</li> <li>• Bank Statements for the most recent 60 days to document current year to date, which should show gross deposits consistent with the 1099s; and</li> <li>• An underwriter will calculate income by determining if there is an overhead to the business in a manner consistent with reviewing personal versus business bank statements. If the Applicant's business revenue reflected on the 1099 would have measurable expenses to generate a net income, a 50% haircut would apply.</li> <li>• 4506C tax transcript</li> </ul>
<p>Specific to the P&amp;L Program:</p>	<ul style="list-style-type: none"> <li>• 85% LTV Max</li> <li>• Applicant will provide:</li> <li>• A "third-party" prepared profit and loss statement for their self-employed business(es) on the preparer's letterhead. <ul style="list-style-type: none"> <li>o Statement from preparer that they have prepared or reviewed the corresponding tax returns</li> <li>o for the covered period.</li> <li>o Third Party" to be an appropriately licensed CPA or Tax Preparer; and</li> <li>o In no event can the preparer be an employee of the Applicant or their business; and</li> </ul> </li> <li>• Bank Statements for the most recent 60 days to track current year to date, which should show gross deposits consistent (within 90%) to the revenue of the P&amp;L.</li> <li>• P&amp;L Statement should cover the past fiscal year and YTD for the business or the most recent 12-month period but in no event less than 12 months. The borrower must have 24 months of self-employment and the following should be provided as noted below.</li> <li>• P&amp;L Statement to be signed by licensed "third-party" preparer.</li> <li>• Underwriter will calculate qualifying income by dividing net profit by the number of months in the covered period (subject to ownership percentage and no less than 25% ownership allowed).</li> </ul> <p>Profit &amp; Loss statement prepared by a Certified Public Accountant (CPA) or an IRS Enrolled Agent (EA) or CTP (Certified Tax Preparer). The statement does not need to be audited, only prepared by a</p>



	<p>professional. The credit file must contain documentation showing the CPA is currently licensed in their state or the EA is currently active (Screen shot of the IRS web site).</p> <ul style="list-style-type: none"> <li>• 12-Month CPA, EA, or CTP compiled P&amp;L Statement</li> <li>• Proof of CPA current state license required or EA (proof EA currently active on IRS web site) dated within 30-days of the loan application, and</li> <li>• Preparer must attest to they have prepared the borrower’s most recent tax return, and</li> <li>• Preparer must provide the borrower’s % of ownership.</li> <li>• Expenses must be reasonable for the industry. CS reserves the right to require additional information.</li> <li>• Depreciation, Depletion and Amortization on P&amp;L may be added back to income.</li> <li>• Qualifying income is the net income from the P&amp;L divided by the time period covered by the P&amp;L multiplied by the % of ownership.</li> </ul> <p><b>Co-Borrower Options:</b> Full documentation from co-borrower who is not self-employed may be used to supplement qualifying income. Follow normal full documentation requirements from FNMA.</p>
<b>Property Requirements</b>	
Eligible Properties	<ul style="list-style-type: none"> <li>• Single Family Residences</li> <li>• PUDS</li> <li>• Townhouses</li> <li>• Condominiums Low Rise &amp; High Rise (warrantable only)</li> <li>• Duplexes</li> <li>• 2-4 Units</li> </ul>
Ineligible Properties	<ul style="list-style-type: none"> <li>• Acreage greater than 10 acres (appraisal must include total acreage)</li> <li>• Agricultural zoned property</li> <li>• Condominium hotel</li> <li>• Coops</li> <li>• Dome homes</li> <li>• Hobby Farms</li> <li>• Income producing properties with acreage.</li> <li>• Leaseholds</li> <li>• Log Homes</li> <li>• Manufactured housing.</li> <li>• Mixed use properties</li> <li>• Modular homes</li> <li>• Properties subject to oil and/or gas leases</li> <li>• Unique properties</li> <li>• Working farms, ranches, or orchards</li> </ul>



	<ul style="list-style-type: none"> <li>• Properties with less than 700 square feet</li> <li>• Properties for which the appraisal indicates condition ratings C4 or above.</li> </ul>
<p>Appraisal and Property Condition Requirements</p>	<ul style="list-style-type: none"> <li>• All appraisals, Original and Second appraisals must be ordered through an AMC (Appraisal Management Company)</li> <li>• CDA is required for all loans.</li> <li>• No Appraisal Transfers are Allowed.</li> <li>• Second appraisal requirement             <ul style="list-style-type: none"> <li>o When there is a Flip &lt; 90 days and acquisition price by more than 10%                 <ul style="list-style-type: none"> <li>▪ Property seller on the purchase contract, title and appraisal is the owner of record.</li> <li>▪ Appraiser to document increases in value with comments on the appraisal report and recent paired sales.</li> </ul> </li> <li>o When there is a Flip 91-180 days                 <ul style="list-style-type: none"> <li>▪ Only if purchase price exceeds the Sellers Acquisition price by more than 20%</li> </ul> </li> </ul> </li> <li>• Property Condition             <ul style="list-style-type: none"> <li>o Only C1 - C4 properties will be allowed (C4 requires underwriting manager approval)</li> <li>o Multiple Deferred Maintenance items may be requested to be fixed prior to closing.</li> <li>o All major and minor structural Items Must be repaired prior to closing</li> </ul> </li> </ul>
<p>Disaster Declarations and Recertification</p>	<ul style="list-style-type: none"> <li>• Whenever an area is declared a disaster area, the Federal Emergency Management Agency (FEMA) releases disaster declaration announcements. FEMA makes available individual and public assistance when a disaster occurs.</li> <li>• If an area containing the subject property is eligible to receive individual assistance and/or public assistance, as designated by FEMA, the property will require a recertification of value as follows:</li> <li>• An appraisal completed in an area after the disaster declaration was released (incident date) does not require recertification.</li> <li>• The appraiser will comment that the property is free from damage and the disaster had no effect on the property. If the appraisal was completed prior to the disaster, at a minimum a re-inspection stating the property is free from damage and the disaster had no effect on the property value and marketability is required (including exterior photos of the property).</li> <li>• Payment for necessary re-inspections will be the responsibility of the borrower or seller; interior photos may be required on a case-by-case basis.</li> </ul>



	<ul style="list-style-type: none"> <li>The re-certification must be obtained as promptly as possible (but not until after the disaster is active) to ensure a timely closing, funding (and purchase if applicable) of the loan.</li> </ul>
Acceptable Forms of Ownership	<ul style="list-style-type: none"> <li>Fee Simple with title vesting as:             <ul style="list-style-type: none"> <li>o Individual</li> <li>o Joint Tenants</li> <li>o Tenants in Common</li> </ul> </li> </ul>
Escrow Holdbacks	Not Allowed.
LTV/CLTV Subordinate Financing	<p>Maximum LTV is 85% and maximum CLTV is 90%. CL will allow a Housing Finance Authority DPA (down payment assistance program) 2nd lien as long as the following requirements are met:</p> <ul style="list-style-type: none"> <li>All legal documents, such as the note and deed are required at the time of underwriting review by an approved TPR (third party review) firm.</li> <li>The associated debt from the 2nd lien has to be included in the overall DTI</li> <li>Max DTI% to include the 2nd lien liability is not to exceed 45%</li> <li>DPA approval letter documents</li> <li>Minimum reserves of six months will be required.</li> <li>A copy of the executed note on the subordinating junior lien(s) must be obtained and included in the loan file. The note must be reviewed and approved by the underwriter prior to ordering loan documents.</li> <li>A certified copy of the fully executed subordination agreement must be reviewed and approved by the underwriter prior to funding the loan. The subordination agreement must record concurrently with the first mortgage / deed of trust.</li> <li>The existing junior lien(s) must have a remaining term of at least five (5) years.</li> <li>The terms of the note must provide for regular monthly payments of at least interest only with no provisions for future advances, or wrap-around terms</li> </ul>
Compensating Factors	<p>This is a general rule and not an exhaustive list. Correspondent must describe other compensating factors when asking for an exception outside of Sierra guidelines. List below are examples of compensating factors Be In Mortgage will consider.</p> <ul style="list-style-type: none"> <li>Combined credit score over 700</li> <li>5 years+ income from same job (primary income provider)</li> <li>New payment does not increase more than 10% from previous mortgage/rent.</li> <li>Liquid assets after close = 9x PITI. Cash out funds don't qualify</li> <li>DTI % at or below 35%</li> </ul>

