TIPS FOR A SUCCESSFUL BANK STATEMENT LOAN APPROVAL

Borrowers whose incomes are less documented have a more difficult time qualifying for a traditional home loan. Whether for a primary residence, a second home or an investment property, self-employed borrowers or those who write off 2106 unreimbursed expenses (see below for helpful information) will be the most likely to benefit from the bank statement program. As its name would suggest, the concept is predicated on providing evidence of solvency, specifically in the form of bank statements from the past 12 – 24 months. These can serve as the means for a down payment, in addition to taking the place of a traditional employment history for the years of W-2 forms typically required of buyers during the application process.

The terms of the Qualified Mortgage (QM) rule and other regulatory measures have necessitated that most lenders conduct their due diligence, which often means loan candidates must meet specific, high-barred criteria.

Read more:

http://www.consumerfinance.gov/askcfpb/1789/what-qualified-mortgage.html

Bank Statement Program Verification

Bank statement loans are considered and referred to as EZ doc, low doc, stated or alternative doc income loans. Lenders may allow the use of personal or business bank statements to support a self-employed borrower's income for qualification purposes. The documentation provided needs to document that the income is stable, likely to continue and sufficient to enable the borrower to repay the debt. The income presented must be reasonable for the profession or type of business. In addition, when using business bank statements to support the borrower's income, the nature and structure of business must be evaluated to determine if the applied expense assumptions are reasonable. The lender may still require additional documentation such as personal and business tax returns, check stubs, W-2s, 1099, payroll registers and VOEs to determine the borrower's qualifying income.

Eligible Borrowers

To be eligible for this program, the borrower must be self-employed or earn over 25% of their income from self-employment, rental income, commission, bonus, or tip sources. Self-employed borrowers are:

- Borrowers who derive 25% or more of their primary income from a business in which they hold a controlling interest
- Borrower who derive their primary income from commissions, consultation fees, interest, capital gains, gratuities, or real estate rents

- Borrowers who rely on investments for income such as interest, dividends, capital gains, or real estate

If one of the borrowers meets this eligibility requirement and the other does not, the borrower that is not eligible must fully document their income. The net deposits used from the bank statements for the self-employed borrower must not reflect the income that is fully documented for the other applicant (i.e. deduct Social Security payments, W-2 wages, etc.).

The borrower's business may be a sole proprietorship, a partnership (general or limited), or a corporation. They may also receive income documented by Form 1099, or filed on a Schedule C.

Borrower must have been in the same line of work or own the same business for two years. Self-employed borrowers must be able to document by a neutral third-party that the business has been in operation for the last two years and that they have had ownership for that period of time. Third-party verification includes:

- A letter from a certified public accountant (CPA)
- A letter from a regulatory agency or professional organization
- Copy of business license

Borrowers that are employed by the seller, property seller, realtor, or receive foreign income are ineligible.

Income Documentation Requirements

The Borrower's application must include all sources and amounts of income. The bank statements must support income listed on the application. Deposits from income sources that are not reflected on the 1003 or those not needed to qualify will not be included in the qualifying income calculation. Income sources separate from self-employment must be verified. Examples of verification include social security letter, employment verification, or divorce decree. If tax returns are provided for the borrower using bank statements to support their income, the loan must be fully documented.

Income may be documented by either personal or business bank statements. The co-mingling of personal and business or multiple business accounts is not allowed. If multiple accounts are used to show income and reserves, documentation must be provided to show evidence that the funds are separate and distinct.

Given the difficulty tracking and validating that cash flows are not moving between business entities, borrowers that own multiple business entities must use personal bank statements to support their income. Their personal bank statements should demonstrate the distributions they receive from their business interests to satisfy their personal obligations. Also, business bank statements may not be used when the borrower's business has a number of employees, significant overhead or operating expenses. These would suggest that the expense assumption used in this program would not be applicable. This program is designed for the use of business bank statements when the borrower's business is small in scope and has limited expenses.

Non-taxable income, such as child support payments, disability retirement plans, and worker's compensation may be adjusted by 25% to determine the qualifying income. Verification must be made that the particular source of income is non-taxable and that both the income and its – status are likely to continue.

Bank statements reflecting the occurrence (one time or isolated incident) of NSF checks, wire transfers overdraft protection transfers, negative ending balances and transfers from other accounts must be satisfactorily explained and documented. Bank statements reflecting multiple NSF checks, overdraft protection transfers, negative ending balances, or lack a satisfactory explanation indicate cash flow problems and are not acceptable.

Bank Statement Requirements

Income may be documented by either personal or business bank statements. The co-mingling of personal and business or multiple business accounts is not allowed. If multiple accounts to show income and reserves are used, documentation must be provided to show evidence that the funds are separate and distinct. Borrowers who own multiple business entities must use personal bank statements to support their income. The most recent bank statements must be provided depending on the selected loan program.

Ineligible Bank Accounts

The following outlines the types of bank statements that are ineligible for the bank statement programs.

- Co-mingling of accounts whether personal and business or multiple business accounts is not allowed.
- Bank statements reflecting other individuals who are not applicants for the loan are not qualified.
- Borrowers with multiple businesses may not use business bank statements to support their income. Personal accounts are acceptable.
- Business bank statements may not be used when the borrower's business exhibits a number of employees, overhead, and operating expenses. In this case, personal bank statements may be used.
- Bank statements which exhibit recurring NSF, wire transfers, overdraft protection transfers, and negative ending balances are not allowed.
- A current 12 to 24 month history or the same bank account is required.

Changing of accounts is not acceptable.

Eligible Bank Accounts

The following types of bank statements are eligible for the bank statement programs:

- Personal or business account such as a checking or savings
- Deposits must be consistent and typical whether personal or business accounts are
- Deposits that are larger than typical for the account may be included with a satisfactory explanation. Supporting documentation may be required. Atypical deposits are defined as more than 50% of the gross monthly determined
- If the borrower's spouse is on the personal bank account and not on the Loan, only 50% of the total deposits may be used for qualifying
- Business accounts may only be used when the following applies:
    - Borrower (s) owns 100% of the business.
    - The business must be small in nature and have minimal overhead and operating expenses.
- Low beginning and /or ending balances may require additional documentation up to and including full tax returns (1040's, 1065's 1120's,).

Determining Cash Flow from Bank Statements

A common sense approach to underwriting a borrower's creditworthiness to determine the willingness and ability to repay the loan. This program provides for income calculation based on bank statements as an alternative method to tax returns to document the self-employed borrower's ability to repay. Each borrower has a different situation and each Loan needs to be weighed on its own merit. If the borrower is self-employed or in a unique business, a narrative must be provided by the borrower that clearly outlines the nature of the business and the cash flows. The expense assumptions must be reasonable for the type of self-employment. Decreasing income trends must be explained and additional documentation may be required.

Any irregularity in the borrower profile or the documentation provided may be cause for the loan to become ineligible for purchase.

Calculating Income from the Bank Statements

The following outlines how to calculate the income using the borrower's bank statements. The lesser of the income stated on the application or the calculated income using the cash flow from the bank statements will be used to qualify the borrower. The allowances below may be used to establish qualifying income:

- 100% of the deposits from the borrower's personal accounts
- 50% of the deposits from the borrower's business accounts

If the business expenses appear to be greater than 30%, the use of business bank statements to support the borrower's income will not be accepted. Personal bank statements will need to be provided.

Examples of businesses that would typically have expenses that exceed 30% include a construction company, restaurant, or retail firm.

The average deposits will be used to determine the borrower's income for qualification purposes. Deposits must be typical and consistent for the borrower's line of work. Transfers from a borrower's business account to a personal account are acceptable if they are consistent, i.e. the borrower is paying himself regular distributions.

Atypical deposits may not be included unless supporting documentation is provided to show that the monies would be typical for the borrower's type of business or line of work. Credit back from returns and cash advances from credit cards are not acceptable to be included in the qualifying income

Verbal Verification of Employment

For W-2 employees, a verbal verification of employment within 10 days of the Loan closing must be performed.

2106 Unreimbursed Employee Expenses

*** If you personally paid for expenses that were related to your job during the tax year, many of these job-specific expenses may be eligible to be deducted on your return. For you to be able to deduct the expense, it must be a common, helpful, and appropriate expense for your field of work. An expense does not necessarily have to be "required" for it to be deductible. However, if your employer reimbursed you for the expense, it cannot be included in your deduction. Deductible expenses generally fall into one of two categories: job-specific expenses and travel-related expenses.

Examples of job-related expenses are:

- Safety equipment, small tools, and supplies needed for your job.
- Uniforms required by your employer that are not suitable for ordinary wear.
- Protective clothing required in your work, such as hard hats, safety shoes, and glasses.
- Physical examinations required by your employer.
- Passport for a business trip.
- Job search expenses in your present occupation.
- Depreciation on a computer your employer requires you to use in your work.
- Dues to professional organizations and chambers of commerce.
- Licenses and regulatory fees.

- Subscriptions to professional journals.
- Occupational taxes.
- Union dues and expenses.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.
- Certain work-related educational expenses. For details, see Pub. 970.

For a complete list, please reference IRS Publication 529.

Examples of travel-related expenses you can include are:

- Cost of getting to and from your business destination (air, rail, bus, car, etc.).
- Meals and lodging while away from home
- Cleaning and laundry expenses
- Meals and entertainment, only if they are directly related to the active conduct of your trade or business. However, the expense only needs to be associated with the active conduct of your trade or business if it directly precedes or follows a substantial and bona fide business-related discussion.
- Vehicle expenses for the business use of your personal vehicle. For more information on this type of expense, click the following link: Click Here

If you did pay any qualifying unreimbursed employee job-specific expenses during the tax year, you can enter these under: Deductions > Itemized Deductions > Unreimbursed Employee Business Expense.

If you did pay any qualifying unreimbursed employee travel-related expenses during the tax year, you can enter these under: Deductions > Itemized Deductions > Job Related Travel Expenses (Form 2106).