

### Bank Statement Income

Presented by: Kristye Coomer and Judy Ellis



# Bank Statement Programs

- Arc Access Non-QM
  - 12- and 24-Month Bank Statements
- Arc Elite QM
  - 24-Month Bank Statements
- Minimum \$100,000 loan amount
- Wholesale, Delegated and Non-Delegated Correspondent





### Overview – Arc Access vs. Arc Elite



### Arc Access Non-QM – Alt Income

- Up to 90% LTV
- Minimum 660 FICO
- Loan Amount to \$3MM
- DTI up to **50%**
- Primary Residence, Second Home, Investment
- Available Programs
  - 15- and 30-Year Fixed Rate
  - 5/6 and 7/6 SOFR ARM
  - Interest Only options available
- Manual Underwriting



### Arc Elite QM – Alt Income

- Up to 80% LTV
- Minimum 680 FICO
- Loan Amount to \$3MM
- DTI per AUS
- Primary Residence, Second Home
- Available Program
  - 30-Year Fixed Rate
- DU Approve/Eligible or DU Approve/Ineligible required
  - May be ineligible due ONLY to Loan Amount and/or LTV when MI is required per AUS

### Bank Statement Income



- Alternative documentation for self-employed borrowers
- Qualify with bank statement deposits
  - Personal OR business bank statements allowed
  - Two expense factor options available for business bank statements





# Who are your borrowers?

Contractors

**Business Owners** 





Doctors

Gig Economy

**Retail Store Owners** 







### Bank Statements – Overview

- Average of 12 or 24 months of checking/draft account deposits; personal and business options available
  - Complete/consecutive statements from same account; may not mix/match different accounts
  - W-2 wages may not be included in bank statement average; full doc only
- Two years self-employment required; business must exist for at least two (2) years
  - Business existence must be verified
  - Ownership % must be documented
  - For business bank statements, minimum 25% controlling interest required
- Borrowers must provide a comprehensive **Business Narrative**
- Allow up to 6\* Non-Sufficient Funds (NSFs) charges or Overdraft incidents per every 12month consecutive look-back period
  - Multiple NSFs and/or Overdrafts that occur on the same day considered a single occurrence
  - \* Protected Overdrafts and Reversed NSFs are NOT included in the count



# Bank Statements — Overview (continued)

- All parties listed on each bank account must be included as borrowers on the loan OR non-borrowing account holder must provide a signed letter indicating borrower has access to 100% of the account
- Statements must support stable and generally predictable deposits
  - Unusual deposits must be sourced/documented
  - Unacceptable deposits may not be included in the bank statement income calculation
- Rental income may be qualified using Bank Statement Income:
  - Rents may be sole source of qualifying income, or in addition to self-employment
  - REO schedule of 1003 must be fully completed
  - Net rental income within bank statements = bank statement deposits for rental income 20% expense/vacancy factor PITIA for rental properties



### Personal Bank Statements

- Borrower eligibility:
  - Sole proprietor; or
  - 100% owner of the business (if not tax filing as sole proprietor); or
  - An independent contractor dedicated to one occupation and receiving 1099 income
- Only deposits may be used; transfers from a business account into a personal account are acceptable with proof, other transfers are not acceptable
- Multiple personal accounts may be used if multiple businesses are owned; combination of business/personal not acceptable
- 100% of allowable deposits used for income and averaged over 12 or 24 months; no expense ratio

#### **Borrower's Monthly Qualifying Income:**

 Lesser of bank statement average OR income indicated on initial signed 1003

#### **Example:**

- \* Average Allowable Monthly Deposits = \$10,000
- \* 1003 Income = \$12,000

#### Qualifying Income in this example = \$10,000

- Lower of Average Allowable monthly deposits and 1003 income
- Note: \$10,000 calculation is lower than 1003 income of \$12,000



# **Business Bank Statements**

- Business bank statements include the following:
  - Business bank accounts
  - Personal accounts addressed to a DBA
  - Personal accounts with evidence of business expenses (co-mingled)
- Transfers from other business accounts may be acceptable, but must be documented
- Transfers from personal accounts are not acceptable
- Multiple business accounts may be used if multiple businesses are owned
- Business expense documentation must be provided (Business Narrative); business expenses must be reasonable for the type of business
- Two qualifying options: Fixed Expense Ratio and Third-Party Prepared Expense Statement



# Business Bank Statements – Fixed Expense Ratio

Fixed Expense Ratio			
Number of FTE/Contractors	<u>0</u>	<u>1-10</u>	<u>10+</u>
Service Business	20%	40%	60%
Product Business	30%	50%	70%

#### **Service Business Examples:**

Hospitality, Tourism, Finance, Fitness, Beauty and Wellness, Mechanical, Media and Entertainment, Design, Marketing and Sales, Education, Healthcare, Public Service

#### **Product Business Examples:**

Building Materials, Fashion Industry, Furniture, Printing, Publishing, Toy Maker, Household Goods (Focus on production of goods through the manufacturing process, which includes but is not limited to moving raw materials, creating goods, storing finished products and shipping products to customer.)

#### **Borrower's Monthly Qualifying Income:**

Lesser of average allowable monthly deposits X expense ratio for type of business and number of employees X borrower's % of business owned OR 1003 income

#### **Example:**

- \* Average Allowable Monthly Deposits = \$10,000
- \* 1003 Income = \$8,000
- \* Borrower has 9 employees and is in a Service Business
- \* Borrower owns 80% of the business

#### Qualifying Income in this example = \$4,800

- \$10,000 X (100% 40% = Fixed Expense Ratio for a service business with 9 employees) X 80% (percent of business owned) = \$4,800
- Note: \$4,800 calculation is lower than 1003 income of \$8,000

# Business Bank Statements — Third-Party Prepared Expense Statement

- Expense factor provided by the borrower/company CPA is used to determine the qualifying income
- Documentation required:
  - Expense statement prepared and signed by a third-party (CPA or licensed tax preparer) indicating business expenses as a percentage of the gross annual sales/revenue.
  - CPA or licensed tax preparer must be verifiable

#### **Borrower's Monthly Qualifying Income:**

 Lesser of average allowable monthly deposits X expense ratio provided by CPA X borrower's % of business owned OR 1003 income

#### **Example:**

- \* Average Allowable Monthly Deposits = \$20,000
- \* 1003 Income = \$25,000
- \* CPA provides expense factor of 50%
- \* Borrower owns 100% of the business

#### **Qualifying Income in this example = \$10,000**

- \$20,000 X 50% (expense ratio provided by CPA) X 100% (percent of business owned) = \$10,000
- Note: \$10,000 calculation is lower than 1003 income of \$25,000

# Bank Statements – Declining Income

- Arc Home must make a reasonable determination that the qualifying income is stable and likely to continue.
- If the bank statement review suggests a decline in the qualifying income, the UW must determine whether the income has stabilized at its current level.
  - If yes, current level of stable income may be used to qualify. **Example:** 24-month bank statement average is \$10,000/month, but most recent months have stabilized at \$7,000/month; stabilized income of \$7,000/month will be considered for qualifying.





### Common Issues & Solutions

- Missing and/or incomplete statements
  - Submit ALL pages of ALL account statements (12 or 24 months complete/consecutive, including blank pages)
- Co-mingled accounts
  - Review personal account statements for evidence of business expenses; if present, income will be qualified as a business account
- Missing and/or incomplete Business Narrative
  - Borrower to complete all sections necessary for bank statement analysis and calculation
- Large/unusual deposits not addressed
  - Documentation and explanation required to consider in income calculation
- 1003 income is less than bank statement average calculation
  - Loan will be qualified using the lower 1003 income amount

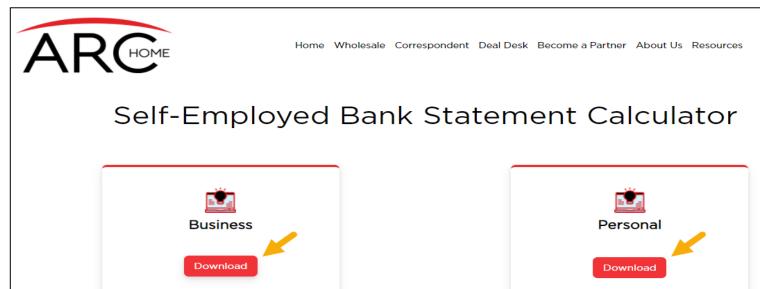


### Bank Statement Calculators



business.archomellc.com





### Arc Home – Deal Desk



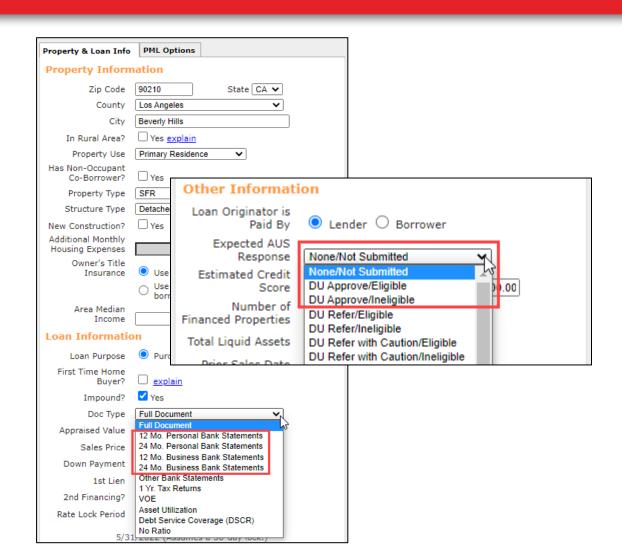
Visit <u>business.archomellc.com</u> to submit an Income Analysis Request, guideline question, or Exception Request today!



**Important Note:** Exceptions are NOT permitted for the Arc Elite program.

# Bank Statement Eligibility in SPARC





#### **Arc Access NQM**

- Doc Type
  - 12 Mo. Personal Bank Statements
  - 24 Mo. Personal Bank Statements
  - 12 Mo. Business Bank Statements
  - 24 Mo. Business Bank Statements
- Expected AUS Response
  - None/Not Submitted

### **Arc Elite QM**

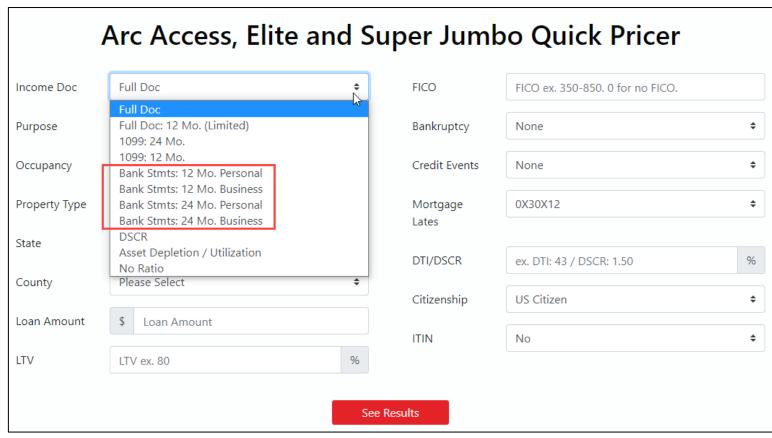
- Doc Type
  - 24 Mo. Personal Bank Statements
  - 24 Mo. Business Bank Statements
- Expected AUS Response
  - DU Approve/Eligible, OR
  - DU Approve/Ineligible

### Arc Access & Arc Elite Quick Pricer



#### business.archomellc.com





### Wholesale Resources



#### business.archomellc.com

### Wholesale > Forms and Guidelines > Arc Access Non-QM Forms and Guidelines

- Arc Access Matrices Alternative Income, DSCR, Clean Slate, Agency Plus
- Arc Access & Arc Elite Business Narrative

### Wholesale > Forms and Guidelines > Arc Elite QM Forms and Guidelines

- Arc Elite Matrices Alternative Income, Agency Plus
- Arc Access & Arc Elite Business Narrative

### Wholesale > Forms and Guidelines > Wholesale Forms

- Arc Access NQM Initial Submission Form
- Arc Elite QM Initial Submission Form

### Wholesale > Forms and Guidelines > Wholesale Resources

- Wholesale Important Information details fees, mortgagee clause info, servicing contact details
- Arc Access & Arc Elite Broker Flow map of file flow through Arc Home
- Pricing and Lock Policy Arc Access & Arc Elite
- Transferred Appraisal Policy Arc Access & Arc Elite

#### Wholesale > Wholesale Training

- Fast Track Training Videos quick hit videos demonstrating SPARC functionality
- SPARC Broker User Guide detailed instructions for using SPARC
- SPARC Job Aids SPARC Product & Pricing, Add New Users, Appraisal Ordering, Initial Upload, Client Condition Upload, Re-Issue Credit

# Correspondent Resources



#### business.archomellc.com

Correspondent > Delegated **OR** Non-Delegated Forms and Guidelines > **Arc Access Non-QM Forms and Guidelines** 

- Arc Access Matrices Alternative Income, DSCR, Clean Slate, Agency Plus
- Arc Access & Arc Elite Business Narrative
- Business Purpose and Occupancy Affidavit required for all DSCR loans

Correspondent > Delegated **OR** Non-Delegated Forms and Guidelines > **Arc Elite QM Forms and Guidelines** 

- Arc Elite Matrices Alternative Income, Agency Plus
- Arc Access & Arc Elite Business Narrative

### Correspondent > **Delegated Forms and Guidelines** > Correspondent Resources

- Access & Elite Submission Job Aid
- Correspondent Seller's Guide
- Delegated Correspondent Client Reference Guide details fees, mortgagee clause info, servicing contact details

### Correspondent > Non-Delegated Forms and Guidelines > Non-Delegated Correspondent Resources

- Non-Delegated Correspondent Initial Submission Form required for ALL loan submissions
- Non-Delegated Correspondent Client Reference Guide details fees, mortgagee clause info, servicing contact details
- Correspondent Seller's Guide
- Transferred Appraisal Policy Arc Access & Arc Elite

#### **Correspondent > Correspondent Training**

- Fast Track Training Videos quick hit videos demonstrating SPARC functionality
- **SPARC User Guide** detailed instructions for using SPARC
- SPARC Job Aids Add New Users, Client Condition Upload



# Why Partner with Arc Home?

- Send in your bank statements, and we will calculate the income prior to registration!
  - Wholesale and Non-Delegated Correspondent
- Attract a diverse base of referral sources with our broad range of products
- Ease of use: Utilize the same online portal for all your loans at Arc Home
  - Agency, Government, Jumbo, Arc Access Non-QM, Arc Elite QM Wholesale and Correspondent





### QUESTIONS & ANSWERS



All rights reserved by Arc Home LLC © 2021