

Income Documentation**Self Employed Income (Total and Manual)**

- Self-Employment Income refers to income generated by a business in which the Borrower has a 25% (percent) or greater ownership interest. There are four basic types of business structures. They include:
 - Sole Proprietorships
 - Corporations;
 - Limited Liability or “S” Corporations; and
 - Partnerships
- Minimum Length of Self-Employment
 - FSB will consider Self Employment income if the Borrower has been self-employed for at least two years
 - If the Borrower has been self-employed between one and two years, FSB may only consider the income as Effective Income IF the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years
- Stability of Self-Employment Income
 - Income obtained from businesses with annual earning that are stable or increasing is acceptable. If the income from the businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade and manually underwrite.
 - ❖ For a MANUAL UNDERWRITE, if the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the mortgagee must document that the business income is now stable. A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the borrower qualifies utilizing the reduced income.
- Required Documentation
 - (TOTAL) Individual and Business Tax Returns - The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules. The Mortgagee must obtain the Borrower’s business tax returns for the most recent two years unless the following criteria are met:
 - ❖ individual federal income tax returns show increasing Self-Employment Income over the past two years;
 - ❖ funds to close are not coming from business accounts; and
 - ❖ the Mortgage to be insured is not a cash-out refinance.
 - (Manual) Individual and Business Tax Returns - The Mortgagee must obtain signed, completed individual and business federal income tax returns for the most recent two years, including all schedules.
 - (TOTAL and Manual) Profit & Loss Statements and Balance

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	<p>Sheets - The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.</p> <ul style="list-style-type: none"> ❖ If income used to qualify the Borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS <p>➤ Calculation of Effective Income - The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in HUD Manual 4000.1, Appendix 2.0 – Analyzing IRS Forms.</p> <ul style="list-style-type: none"> • The Mortgagee must calculate Self-Employment Income by using the lesser of: <ul style="list-style-type: none"> ❖ The average gross Self-Employment Income earned over the previous two years; or ❖ The average gross Self-Employment Income earned over the previous one year <p>Question: If a loan application is dated May 1st and the last tax filing was for the previous calendar year, do we need a year-to-date Profit and Loss statement for a self-employed borrower?</p> <p>Answer: Yes, no more than one calendar quarter may elapse without income documentation.</p>