



First National Bank  
*of America*

## **First National Bank *of America* Calculating Income and Debt Procedures**

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# 1 Debt to Income

## Preface - Good Faith Evaluation

For any consumer credit transaction secured by a dwelling, First National Bank of America must determine that the borrower has the reasonable ability to repay the transaction according to the loan terms verified by reasonably reliable third party documentation. At minimum, FNBA will adhere to 12 CFR §1026.43 and will also comply with the following eight ATR underwriting factors in making a reasonable, good-faith evaluation:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan
2. Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal.
4. Monthly payment on any simultaneous loans secured by the same property
5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowners association fees or ground rent
6. Debts, alimony, and child-support obligations
7. Monthly debt-to-income ratio or residual income, that you calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
8. Credit history

Underwriters are not precluded from considering additional factors. Underwriters and staff will find helpful assistance in making reasonable and good-faith ATR evaluations by using CFPB issuances, Appendix Q to Part 1026 – Standards for Determining Monthly Debt and Income, and procedures provided herewith.

### 1.1 DTI Tolerances with the use of Compensating Factors

The ATR/QM rule requires that the Bank make a reasonable, good-faith determination before consummating a mortgage loan that the consumer has a reasonable ability to repay the loan. Accordingly, the Bank has adopted the following maximum DTI tolerances with varying compensating factors.

Monthly Income	No Compensating Factor	One Compensating Factor	Two Compensating Factors
<\$2,000	43%	43%	43%
=>\$2,000 & <\$62,500	43%	50%	55%
>=\$62,500	43%	43%	43%

## Compensating Factors:

1. Borrower's liquid assets after closing are 3x the monthly housing payment (principal, interest, tax, and insurance) or greater.
  - a. May be used with any income program, including asset depletion.
  - b. Privately held stock may not be used to qualify.
  - c. Proceeds from a cash-out refinance of subject property may not be used to qualify.
2. Borrower will be credited with 2 compensating factors if the borrower's non-retirement, liquid assets after closing are 6x the monthly housing payment (principal, interest, tax, and insurance) or greater.
  - a. May be used with any income program, including asset depletion.
  - b. Privately held stock may not be used to qualify.
  - c. Proceeds from a cash-out refinance of subject property may not be used to qualify.
3. Borrower will be credited with 2 compensating factors if the total of the borrower's non-physical assets (savings, checking, IRA's, etc...) after closing are 12x the monthly housing payment (principal, interest, tax, and insurance) or greater.
  - a. May be used with any income program, including asset depletion.
  - b. Privately held stock may not be used to qualify
  - c. Proceeds from a cash-out refinance of subject property may not be used to qualify.
4. The new housing payment will increase by no more than 10% from the borrower's existing housing payment and there have been no delinquencies in the borrower's housing payment over the last 6 months. A minimum of 6 housing payments is required.
5. The largest of the borrower's qualifying income has come from the same source for 3-years or more.
  - a. Self-employed borrowers are only required to prove business has been in existence for 3-years or more in order to qualify.
6. Credit score of 660 or greater.
  - a. Multiple borrowers must have their average credit score meet this criteria.
  - b. Borrower's without credit will have a 620 score applied to them for qualification purposes.

## 2 Calculating debt

Applications should be filled out completely and accurately in order to be used for calculating a borrower's before and after debt. The application provides sections for all applicable debts including liabilities such as mortgages, student loans, other loans, revolving debt, and items such as rent, child support, property taxes, and insurance. These debts should be put into the loan origination software so a DTI calculation is accurate. To provide clarity on certain specific debt issues, the following sections are provided. Debts not contemplated by this guide must adhere to 12 CFR 1026.43, and may use Appendix Q as persuasive.

## Generally

Except as excluded below, all debts discovered, or made known, by FNBA will be included in DTI.

### Authorized Users on Credit Reports

Borrowers listed as an Authorized User only on a credit report may have those related liabilities omitted, as they are not obligated to repay the debt.

### Student loans debt:

For student loan payments, FNBA policy is to include in the DTI calculation the following:

1. In the absence of monthly payment verification from the lender, 1% of the loan balance.
2. Payment plans based on income may have student loan payments omitted if the following 3<sup>rd</sup> party documentation is provided showing both:
  - a. Borrower is enrolled in a repayment plan based on income, AND
  - b. Based on borrower's income the current payment amount is \$0.00.

### Installment Debt including auto loans and leases, and 401(k) loans:

An applicant's payments on installment debt are to be included in DTI calculations. However, if there are 10 or fewer payments remaining until the debt is paid then the payment amount can be excluded from DTI calculations, including debts paid down using cash from a refinance transaction. This exception does not apply to automobile lease payments, as described below.

All automobile lease payments, regardless of the number of payments left, must be included in DTI calculations (on the basis that vehicles are essential and at the end of the lease another vehicle will need to be leased by the applicant).

Installment payments on the borrower's debt to his/her own 401(k) are excludable from DTI calculations (Appendix Q).

### Tax Liabilities, Liens, and Judgements

Unless the borrower provides proof of pay off, all tax liabilities will be included in DTI using a monthly payment of either:

1. Dividing the liability by 72 months, or
2. Monthly amount approved by the IRS in a formal payment plan.

Liens and judgements that have not been satisfied or discharged must be included in DTI with a monthly liability calculated using either:

1. Formal payment arrangement, or

2. 3.5% of balance

### **Disputed Debts**

Debts disputed on the credit report must be included in the DTI calculation unless the borrower provides proof of satisfaction of the debt. Debts without a monthly payment on the credit report must include the balance remaining into DTI following the tax liabilities, liens, and judgments section above.

### **Collections and Debt Balances without Payment Schedules**

Collections, or Charge-offs against an applicant, and debt balances without payment schedules must have 3.5% of the total debt included, unless a payment schedule is provided, in DTI calculation if:

1. The credit report indicates a date either last active date, if available, or date last paid within past 24 months, or referred to collection agency and reported as opened in the past 24 months, and
2. Total non-medical collections greater than \$600 per loan aggregate to \$4,000 and greater, and are not being paid at closing.
3. Excluded from this section:
  - a. Medical collections,
  - b. Non-Collection Debts with utility companies.
4. Liabilities that do not appear on the credit report will require proof by financial statement, note or mortgage to verify the amount owed.

### **Liabilities Assigned by Divorce Decree or Other Court Order**

1. Liabilities assigned by divorce decree or other court order to another person may be omitted from liabilities.
2. If the divorce decree or other court order does not specify the particular account in question, 3<sup>rd</sup> party documentation will be required to verify liability assigned matches the debt to be omitted on the credit report.

### **Mortgages after Foreclosure**

Mortgages on properties which no longer obligate the borrower due to final dispensation of foreclosure, such as a sheriff's sale, may have the obligation omitted from the borrower's liabilities. Proof the property mortgaged by the obligation was sold in foreclosure is required.

### **Mortgages Paid by a 3<sup>rd</sup> Party**

Applicants may have a mortgage obligation omitted from their debt calculation if the following requirements are met:

1. Evidence the mortgage being omitted has been paid by a 3<sup>rd</sup> party for 3 months prior to application,
2. Proof the 3<sup>rd</sup> party is obligated to repay the mortgage being omitted, and

3. 3<sup>rd</sup> party cannot be a spouse of the borrower.

### **Unreimbursed/Reimbursed Business Expenses**

Businesses which provide an allowance to the borrower for a particular debt will have the allowance applied against the liability. After the allowance is applied to the debt, any shortage is a liability, and any surplus is income. The following 3<sup>rd</sup> party documentation is required:

1. Evidence of the existence of the allowance, valid if dated within 60 days of the application
2. Evidence of 3 months payment of the allowance, valid if most recent payment dated within 60 days of the application

### **Personal Debts Paid by a Business or Other Entity**

For applicants not qualifying using the bank statement income program, personal debts paid by a business or other entity may have the debt removed from their personal debt calculation if there has been no delinquency in payments, AND either:

1. Evidence of 3 months payments are provided from a bank account of which the borrower has no ownership (This does not apply to leases), OR
2. For self-employed borrowers with business income: Evidence of 3 months payment, or a term less than 3 months at underwriter discretion, are provided that the debt was paid out of a business account and considered in the business cash flow analysis.

## **3 Calculating Income**

### **3.1 Overview**

Once underwriting has given approval for a loan, the borrower's income is verified by using an income calculation worksheet. An income calculation worksheet should be completed and a copy printed for every file prior to closing a loan. The only exceptions are for no cash out amendments without balloon removals, and modifications as income verification is not required due to the fact that our approval is based on the customer's history with First National and the payment is typically lowered or changed marginally in these situations. The worksheet is meant to be a guide and includes many different acceptable calculation methods depending on the individual situation. All sources of income used in the DTI calculation should be referenced on the worksheet. Notes and comments on the worksheet should be used to describe what method of calculation was used and why.

First National Bank of America will determine the borrower has the reasonable ability to repay the loan according to its terms verified by reasonably reliable third party documentation.

**Where judgment is required in interpreting income, the underwriter is expected to exercise his or her discretion; giving due care for safe and sound lending.**

### **3.2 Policies & Documentation Requirements**

Unless otherwise specified, income programs require income documentation covering a minimum of 12 months. Borrowers may be qualified using income documentation covering a period greater than 12 months, provided documentation is commensurate with the time period of income analyzed. Income

programs also require a complete 24 month income history be provided by either a completed application (1003), or a letter of explanation covering the latest 24 month period.

Combinations of documentation may be necessary to prove income history. For example, when a borrower has been self-employed and begins a W-2 job it might be appropriate to provide tax returns AND new paystubs with a VOE. Additional documentation may be requested if necessary to reasonably ascertain Ability-To-Repay.

Generally, income from a particular source claimed by the applicant that is not verified by documentation, shall not be included in income. Single borrowers who provide documentation that includes income from other person(s), such as joint tax returns, must provide additional documentation to prove which income is attributable to the borrower.

Borrowers with an individual tax identification number (ITIN) submitting income documents with a conflicting social security number must, in addition to the income program documentation requirements, also provide an additional reasonably reliable 3<sup>rd</sup> party income document in order to verify the income belongs to the borrower. As a general matter, the additional 3<sup>rd</sup> party income document must include the name and address of the borrower, as well as a means of determining the income is reasonably consistent with the standard income program documentation. Documents which may be used include: filed federal tax returns, verification of employment (verbal or written), or bank statements.

### 3.2.1 W-2 Income

#### 1. Required Documentation:

##### a. Previous year's W-2

- i. The greater of Box 1 or Box 5 will be used as the annual wage.
- ii. For borrowers filing tax returns as an individual, we may use Line #1 of IRS form 1040 in lieu of W-2s if income history is consistent with current income. W-2 may still be requested if necessary to separate income from multiple employers.
- iii. Verification of Employment may be used in lieu of W2
  1. Verification of employment not ordered directly by FNBA must be verified verbally, and must note in the file:
    - a. Contact phone number,
    - b. Name of contact,
    - c. Date of verification, and
    - d. Information verified
  2. Verbal verifications are valid if dated within 30 days of close.

##### b. The most recent paystub at the time of application

- i. Paystub(s) are/is valid if dated within 90 days of close,
- ii. Paystub(s) must cover at least a 14 calendar day time frame,
- iii. Paystub(s) must include year to date income, and withholdings, information, and
- iv. Additional paystubs may be requested in order to confirm pay period, bonus, commissions, consistency, or other relevant information.
- v. Verification of Employment may be used in lieu of paystub
  1. Verification of employment not ordered directly by FNBA must be verified verbally, and must note in the file:
    - a. Contact phone number,
    - b. Name of contact,
    - c. Date of verification, and



- d. Information verified
  - 2. Verbal verifications are valid if dated within 30 days of close.
- 2. Other Considerations
  - a. Overtime, Bonus and Other Irregular pay may require a Verification of Employment (VoE) in order to be reasonably relied upon if the overtime, bonus, or other irregular pay has varied.
  - b. Borrowers employed < 2 years with current employer
    - i. VOE recommended
    - ii. A Signed Offer of Employment, or Salary letter, may be used for W2 borrowers to provide additional documentation of income in conjunction with past income history and pay records when a W-2 for their current employer has not been issued yet.
  - c. VOE Requirements
    - i. All VOE's are required to contain certain necessary information, such as:
      - 1. Employment start date
      - 2. Current year to date, and previous year's total gross income
      - 3. If paid hourly, the number of hours worked, hourly pay scale, and frequency of pay periods
      - 4. A separation of commission income from base income, where applicable
    - ii. ALL VOE's are required to contain other necessary information, such as:
      - 1. Employer name and address
      - 2. Name of contact,
      - 3. Contact phone number, and
      - 4. Date of verification

### 3.2.2 Employment Contracts

- 1. Required Documentation
  - a. Employment contract to show continuance
  - b. Pay records, if contract start date has elapsed, covering no less than the most recent 30 days (minimum of 2), valid within 90 days of close

### 3.2.3 Retirement, Social Security, Disability & VA Income

- 1. Required Documentation
  - a. Current awards letter addressed to the borrower dated within the last 12 months, or
  - b. IRS form 1099, or
  - c. W2, or
  - d. Proof of receipt, valid if dated within 90 days of close
- 2. Retirement income distributed from a qualified retirement account must show proof of 36 months of continuance
  - a. Continuance may be proven by a statement of the qualified retirement account showing a sum greater, or equal, to 36 months of the distribution being used in the income calculation after subtracting any loan transaction down payment, or other closing costs coming from the qualified retirement account.
  - b. Income used to qualify the borrower will be the same as the amount distributed from the retirement account.
  - c. Distributions from the retirement account required
  - d. Borrowers younger than 59 ½ years old at time of closing will have income distributions used to qualify the borrower reduced by 10%
- 3. Income received from Social Security can be "grossed up" at 120% based on being non-taxable in nature.

4. Social Security or Disability income for a spouse, minor child, or disabled person who is not a borrower may be used if:
  - a. Borrower is listed on the awards letter, or can show proof of SSI deposit, AND
  - b. 3 or more years of continuance can be shown (disability is presumed to meet this requirement, unless disabled person is a minor child).

### **3.2.4 Pension Income**

1. Required Documentation:
  - a. Award or Pension Verification Letter
2. This may be grossed-up if proof can be provided on most-recent tax return showing that the pension is non-taxable and that taxes are not deducted from monthly payment.

### **3.2.5 Annuity Income**

1. Required Documentation
  - a. Proof of receipt
  - b. Verification letter or distribution schedule will be required to show monthly amount
  - c. Proof of 3 or more years continuance

### **3.2.6 Trust Income**

1. Required Documentation
  - a. Full Trust document will be required showing the amount, frequency and duration of disbursements
  - b. Proof of recent receipt
  - c. 3 or more years continuance

### **3.2.7 Child Support/Alimony**

1. Required Documentation
  - a. A full copy of the Divorce Decree or court document ordering the payment be made
  - b. Proof that the last payment was received
2. Must be able to prove 3 year continuance
3. Child support requires proof of child's age for each child

### **3.2.8 Foster Care Income**

1. Required Documentation
  - a. Verification of foster care income provided by letters from the organizations providing the income.
  - b. 12 month proof of receipt of income for foster-care services

### **3.2.9 Notes Receivable**

1. Required Documentation
  - a. Copy of executed, unexpired, promissory note
  - b. Proof of payment, valid if dated within 60 days of close, AND
  - c. Proof of 36 months continuance
2. Other Requirements
  - a. Income used to qualify the borrower must be net of applicable expenses
    - i. Dwelling secured promissory notes which do not indicate which party is liable for taxes will have taxes removed from the payment as an expense

- ii. Dwelling secured promissory notes will not have a 25% vacancy factor applied
- b. Payments received which are greater than the contractual amount listed on the promissory note may be used to qualify the borrower if the payment does not reduce continuance to less than 36 months.

### 3.2.10 Self Employed Tax Return Income

1. Required Documentation:
  - a. Previous calendar year's signed personal tax returns with all schedules,
  - b. Previous calendar year's signed business tax returns for all businesses with all schedules (can be waived at underwriter discretion),
  - c. A letter of explanation for any losses or significant changes in income, and
  - d. Borrowers filing an extension must provide:
    - i. Proof of extension filed with the IRS, and
    - ii. Most recent filed tax return
2. Tax returns older than the previous calendar year will not be accepted past the extension deadline.
3. Personal tax returns must evidence the borrower's tax identification number (SSN / ITIN)
4. Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by process underwriting on a case by case basis.

### 3.2.11 Self Employed Profit and Loss Income

1. Required Documentation
  - a. Profit and loss covering the previous 12 months, valid if the most recent month is dated within 90 days of close.
  - b. Reviewed by an appropriate 3<sup>rd</sup> party.
    - i. To be "reviewed", the appropriate 3<sup>rd</sup> party must sign and date the profit and loss along with an attestation as to the accuracy of the profit and loss, independence of the reviewer, and absence of compensation in relation to the application for credit.
    - ii. An appropriate 3<sup>rd</sup> party includes:
      1. Individuals holding a state or federal designation, certification, or license acquired by an examination of competency related to finance, as well as on-going education to maintain. Including, but not limited to:
        - a. Certified Public Accountants,
        - b. IRS Enrolled Agents, or
        - c. IRS Annual Filing Season Participants (AFSP's).
      2. Individuals holding only a Preparer Tax Identification Number require experience validated by at least one of the following:
        - a. Verified 2 years existence of tax preparation business for self-employed preparers,
        - b. Verified 2 years work experience at tax preparation business,
        - c. Minimum of 50 tax returns filed by the PTIN, or
        - d. Other reliable means.
  - c. Proof the 3<sup>rd</sup> party completing the review is duly licensed, or certified
    - i. Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3<sup>rd</sup> party
    - ii. A record of the 3<sup>rd</sup> party preparer's name, address, certification, and license, or applicable identifier must be retained in the loan origination system.
  - d. Verbal verification of the information contained within the profit and loss statement, as well as verification the reviewer signed, using contact information obtained from an independent

- source required if the profit and loss is not obtained directly from the preparer
      - i. A record of the verbal verification must be retained.
  - e. Certification of business ownership percentage if business is a corporate entity and profit and loss covers the business (Exhibit A).
  - f. Statement by the borrower describing the nature of the business, types of expenses incurred, whether the client reimburses or pays for materials or supplies, methods of receiving payment, and type of location from which the business operates (home, storefront, etc...).
- 2. Independence Verification
  - a. The 3<sup>rd</sup> party preparer must sign an attestation regarding their independence for each profit and loss statement.
  - b. The 3<sup>rd</sup> party preparer's name and address will be reviewed against the borrower, mortgage broker, title company, and real estate agents to ensure independence.
- 3. Other Requirements
  - a. Profit and loss must not be unusual for the industry described
  - b. Profit and loss statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification
  - c. Profit and loss statements which evidence a 20% monthly income increase over other reasonably reliable 3<sup>rd</sup> party documentation submitted to FNBA will require a letter of explanation from the borrower describing a reasonable nature of the increase.

### 3.2.12 Bank Statement Income Program

- 1. Basic Requirements
  - a. Borrower must be self-employed for a minimum of 12 months
    - i. Borrowers who receive a W2 as well as cash from tips, or other supplemental income not documented on the W2 may qualify using this program.
  - b. Bank statements used to verify income that also contain rental income must still adhere to the documentation requirements of the rental income section of this guide.
    - i. Enter rental income into the loan origination software separately, and do not include rental income in the bank statement analysis.
  - c. If a joint bank account is used and only one individual is a borrower, the borrower must explain which deposits on the account belong to the borrower.
  - d. Bank statements must be in United States Dollars (\$USD) for all borrowers.
  - e. Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by process underwriting on a case-by-case basis.
  - f. Borrowers submitting 12 months of both personal and business bank statements will have both accounts analyzed as a business bank statement.
    - i. Borrowers that submit 12 months of both personal and business bank statements do not require analysis of both accounts if the borrower qualifies using either method alone.
- 2. Personal Bank Statements
  - a. Required Documentation
    - i. Borrowers must supply a written statement clearly describing
      - 1. The nature of their business,
      - 2. Type of business structure,
      - 3. Business ownership percentage,
      - 4. Number of employees,
      - 5. Gross annual revenue,
      - 6. The sources from which income is generated, and

- 7. The types of expenses necessary to maintain business continuance.
    - ii. Most recent consecutive 12 months of personal bank statements at the time of application used to qualify the borrower.
      - 1. Bank statements used are valid if the most recent statement is dated within 90 days of closing.
    - iii. Most recent statement at the time of application of each business account transferring money to, or from, the personal account.
  - b. Analysis
    - i. All deposits into the personal account will be used to qualify the borrower unless a deposit meets the criteria below:
      - 1. Unusual in character, or size, unless proven to be generated by the business;
        - a. A deposit unusual in size includes a deposit that is equal to, or greater, than 100% of the average monthly qualified deposits.
        - b. Income underwriters may determine a deposit is unusual in character, or size at their discretion.
      - 2. Interest earned on the account;
      - 3. Product, or service, refunds;
      - 4. Transfers between other personal accounts;
      - 5. Transfers from accounts of which we have no record, not including money service accounts, such as: Paypal, Venmo, or Zelle.
      - 6. Transfers to the business account will be netted against incoming deposits unless a letter of explanation provides a reasonable reason for outflows back to the business.
    - ii. Business account statements will be reviewed to ensure expenses necessary to maintain the business are being paid from the business account.
      - 1. Business accounts which do not evidence relevant expenses will require analyzing the personal account as a business account.
      - 2. Expenditures in personal accounts to vendors commonly used by the business will not invalidate the personal account analysis.
3. Business Bank Statements
  - a. Required Documentation
    - i. Borrowers must supply a written statement (Bank statement income questionnaire, or BSI”) clearly describing:
      - 1. The nature of their business,
      - 2. Type of business structure,
      - 3. Business ownership percentage,
      - 4. Number of employees,
      - 5. Gross annual revenue,
      - 6. The sources from which income is generated, and
      - 7. The types of expenses necessary to maintain business continuance.
    - ii. Most recent consecutive 12 months of all business accounts at the time of application used to qualify the borrower.
      - 1. Bank statements valid if most recent statement is dated within 90 days of closing
      - 2. Deposits unusual in character, or size, may require proof the source is of an ongoing business nature.
    - iii. Proof of business ownership percentage
      - 1. Not applicable for borrowers operating a sole proprietorship

2. Certification of business ownership (Exhibit A), or IRS Form K-1, will satisfy this requirement.
- b. Analysis
- i. Business accounts will be reviewed for qualified deposits
    1. Qualified deposits include all deposits from a 3<sup>rd</sup> party received as compensation for the business of service provided by the borrower
    2. Transfers from other borrower bank accounts, interest earned, refunds from any source, or reimbursements are not qualified deposits.
    3. Deposits unusual in character, or size, may require proof the source is of an ongoing business nature.
      - a. A deposit unusual in size includes a deposit that is equal to, or greater, than 100% of the average monthly qualified deposits.
      - b. Income underwriters may determine a deposit is unusual in character, or size at their discretion.
  - ii. A borrower may qualify by using any one of the following:
    1. Net cash flow used to qualify the borrower determined by reducing qualified deposits by a 3<sup>rd</sup> party expense ratio specific to the nearest industry, geography, legal structure, nature, and gross revenue of the borrower's business;
      - a. The total industry expense ratio may be reduced by categories of expenses indicated as not applicable by the borrower on the BSI form.
      - b. Expenses removed from the ratio require validation as not applicable by a review of two months' bank statements with the largest withdrawals.
      - c. Underwriting must document the validation of inapplicable expenses by marking the months reviewed, and describing the analysis used to justify the removal in the loan origination system.
      - d. Review of bank statements to validate expenses marked as inapplicable that do not evidence the expenses, but do evidence credit card payments that could reasonably cover business expenses will have an expense percentage for sales, general, and administrative costs included in the analysis, unless a letter of explanation can reasonably justify removing the expense.
      - e. A record of the industry expense ratio used for qualification purposes must be retained.
    2. Net cash flow used to qualify the borrower as determined by reducing qualified deposits by the total amount of credits to the business account; or
    3. Net cash flow used to qualify the borrower determined by reducing qualified deposits using an expense ratio from an appropriate 3<sup>rd</sup> party.
      - a. Appropriate 3<sup>rd</sup> party must acknowledge, complete, and sign an expense ratio program questionnaire including information regarding:
        - i. Description of borrower's business,
        - ii. Explanation for specific expenses not applicable to the borrower's business,
        - iii. NAICS code of borrower's business,
        - iv. Time period reviewed by the preparer in developing the expense ratio, covering 12 consecutive months, and beginning no earlier than January 1<sup>st</sup> of the previous calendar year, and
        - v. Expense ratio of the borrower's business as determined by the appropriate 3<sup>rd</sup> party preparer.

- b. Expenses removed from the ratio require validation as not applicable by a review of two months' bank statements with the largest withdrawals.
- c. The appropriate 3<sup>rd</sup> party must sign and date an attestation as to the accuracy of the expense ratio, independence of the reviewer, and absence of compensation in relation to the application for credit.
  - i. The 3<sup>rd</sup> party preparer's name and address will be reviewed against the borrower, mortgage broker, title company, and real estate agents to ensure independence.
- d. An appropriate 3<sup>rd</sup> party includes:
  - i. Individuals holding a state or federal designation, certification, or license acquired by an examination of competency related to finance, as well as on-going education to maintain. Including, but not limited to:
    - 1. Certified Public Accountants,
    - 2. IRS Enrolled Agents, or
    - 3. IRS Annual Filing Season Participants (AFSP's).
  - ii. Individuals holding only a Preparer Tax Identification Number require experience validated by at least one of the following:
    - 1. Verified 2 years existence of tax preparation business for self-employed preparers,
    - 2. Verified 2 years work experience at tax preparation business,
    - 3. Minimum of 50 tax returns filed by the PTIN, or
    - 4. Other reliable means.
- e. Proof the 3<sup>rd</sup> party completing the expense ratio is duly licensed, or certified
- f. Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3<sup>rd</sup> party
- g. A record of the 3<sup>rd</sup> party preparer's name, address, certification, and license, or applicable identifier must be retained in the loan origination system.
- h. Verbal verification the appropriate 3<sup>rd</sup> party prepared the expense ratio, as well as verification the reviewer signed, using contact information obtained from an independent source required if the expense ratio is not obtained directly from the preparer
  - i. A record of the verbal verification must be retained.
- i. Other Requirements
  - i. Expense ratio must not be unusual for the industry described
  - ii. Expense ratios not meeting the requirements of this section, or which are suspicious in nature, may require additional verification

### 3.2.13 Rental Income

#### 1. Basic Requirements

- a. Rental Income being used will be entered and calculated in the loan origination software for all personally owned properties.
- b. All rental properties regardless of geographic location which are discovered, or made known, to FNBA must be correctly entered in the REO section, must include all mortgage payments, taxes,

- insurance, and association fees.
- c. Processing must verify if mortgage payments include escrow and to what extent, so as to avoid calculating costs twice.
  - d. Rental income for all properties must have income verified from the same source type.
  - e. Processing is responsible for verifying and documenting PITI and HOA calculations.
    - i. A 25% vacancy and maintenance factor will be deducted from gross rental income.
    - ii. In addition to the REO section being completed in the loan origination software the following will be required to be completed:
      - 1. Liabilities
      - 2. Fully escrowed mortgage statement and applicable HOA dues OR
      - 3. Mortgage statement or private note, tax statement(s), HOI and HOA dues
    - iii. Regardless of property occupancy type, rental income will be calculated by reducing total housing expenses by rental income after the vacancy factor. Rental income, or expenses, from all properties will be totaled and applied in the following manner:
      - 1. If the result is a positive number, rental income is to be included in the borrower's total income,
      - 2. If the result is a negative number, rental loss is to be included in the borrower's total liabilities.

## 2. Current Rental Income

- a. Required Documentation
  - i. Rental properties owned by the borrower for 12 months or more may provide either:
    - 1. Most current year's IRS Schedule E, or
    - 2. A copy of the current or expired lease signed by all parties, and proof of payment, valid if dated within 90 days at close
      - a. Renters paying by cash must be verified to live at the address by using Accurant, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.
  - ii. Rental properties owned by the borrower for less than 12 months must provide:
    - 1. A copy of the current lease, signed by all parties, and
    - 2. Proof of payment, valid if dated within 90 days at close.
      - a. Renters paying by cash must be verified to live at the address by using Accurant, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.

## 3. Future Leases

- a. Purchases of investment property
  - i. Required Documentation:
    - 1. Rent schedule (Fannie Mae form 1007 or 1025) completed by a certified appraiser.
- b. Currently owned property converted to investment property
  - i. Required Documentation
    - 1. Signed copy of the future lease along with proof of security deposit, or
    - 2. Signed copy of the future lease along with a Zillow rent estimate of a comparable property.
  - ii. Future leases which are reasonably close to the Zillow rent estimate may use the future lease amount.
  - iii. Future leases which are unreasonably greater or less than a Zillow rent estimate will have the lesser rent amount used in calculating income.
  - iv. Not available when FNBA underwriting policy determines the currently owned property



will remain a primary residence.

#### 4. **Vacation Rentals**

- a. Program Requirements
  - i. Rental income from properties that are usually based on a 3<sup>rd</sup> party, such as AirBnB.
    1. Borrowers not using a 3<sup>rd</sup> party are not excluded from having income calculated in this manner, but must still adhere to the documentation requirements
  - ii. Income from these sources will be calculated by dividing the total yearly income verified by 12 to determine monthly income.
- b. Required Documentation:
  - i. Most recent 1099 from 3<sup>rd</sup> party management company, or
  - ii. Most recent tax returns, or
  - iii. Schedule of rents from a Property Management Company.

#### 5. **Purchase of Investment Property with Existing Lease**

- a. Required Documentation:
  - i. The current lease may be used when signed and dated by Seller and Tenant.
  - ii. Written proof that borrower will assume the lease.

#### 6. **Rental Income as Primary Income Source**

- a. The FNBA Residential Department will not finance (purchase or refinance) a rental property for a borrower in the following circumstances:
  - i. Borrower has 8 or more financed rental properties, or
  - ii. Borrower relies primarily on rental income regardless of the number of properties owned
- b. This provision does not apply to financing properties owned by FNBA, and exceptions to this provision may be made on a case-by-case basis.

#### 7. **Rental Properties Owned by Multiple Individuals, or Businesses not Wholly Owned**

- a. Required Documentation:
  - i. Lease agreements signed by all parties, or schedule E of the borrower's tax return,
  - ii. Mortgage statement, if applicable,
  - iii. Homeowner's insurance statement, and
  - iv. Proof of payment
    1. Renters paying by cash must be verified to live at the address by using Accurint, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.
- b. Borrowers using rental income to qualify in which the borrower is not the sole owner must have the net rental income, or loss, divided by the number of owners, or the percentage of ownership listed on the K-1 of the borrower's tax returns.
- c. Rental properties with more than 1 unit may include the gross rental income of every rental property unit, or fewer, as applicable to qualify the borrower.
- d. Net rental income used to qualify the borrower must include all mortgage payments, taxes, and insurance regardless of whether or not the borrower is listed on the documents.

**If any requirements as listed above are not documented or available, underwriter approval is required.**

### 3.2.14 **Ready Assets**

1. Basic Requirements
  - a. Borrowers are qualified using assets, rather than a traditional source of income
  - b. Eligible assets must be generally liquid assets, such as: cash, CD's, publicly traded stocks, bonds, or surrender value of insurance policies, and cryptocurrencies.

- c. Eligible assets can be held in either qualified, or non-qualified accounts, such as: checking, savings, IRA's, Roth accounts, and 401(k)'s
  - d. The sum of applicant's financial assets must exceed the principal balance of all debt obligations as determined by bank policy, including down payment and all closing costs of the extension of credit, as well as one year of mortgage related obligations on all property the applicant owns.
    - i. Borrowers younger than 59 ½ years at the time of closing will have the principal balance of all eligible assets held in a qualified retirement account used to qualify the borrower reduced by 10%
    - ii. Eligible assets held in a tax deferred qualified retirement account used to qualify the borrower will have the principal balance reduced by 25%.
    - iii. Due to market volatility, reduce all cryptocurrency by 10% in addition to any other applicable reductions.
    - iv. Mortgage related obligations include, but not limited to: property taxes, hazard insurance, and home owner's association fees.
2. Required Documentation:
- a. Asset account statement for each account being used to qualify the borrower, valid if dated within 90 days of close.
  - b. Proof the assets belong to the borrower
3. Other requirements
- a. Any asset used towards repayment of the loan must be seasoned 60 days prior to close, and large deposits must be sourced.
    - i. Valid securities issued in certificate form that are held, or registered, in the customer's name are not required to be seasoned in an account or liquidated to qualify for use as a Ready Liquid Asset.
    - ii. Treasury Bonds held in physical form must be verified by issue date, serial number, and denomination using the US Treasury website within 30 days to ensure they are valid and not redeemed.
  - b. A DTI will not be calculated if the borrower is qualifying on assets alone, and not using assets as a supplement to other income sources
  - c. Cash in a business account may be used if the following is provided:
    - i. Business's bank statements,
    - ii. Proof the borrower wholly owns the business by means of K-1, verification of ownership from a CPA, or other 3<sup>rd</sup> party documentation, and
      - 1. Exceptions to the borrower wholly owning the business may be made on a case by case basis.
    - iii. The account used must not be encumbered for another purpose, such as an account used to hold rental security deposits, an attorney's IOLTA/IOTA account, or be subject to a perfected security interest.

### 3.2.15 Asset Depletion

- 1. Assets may be used as a supplement to other sources of income, rather than qualifying on the size of the assets alone.
- 2. Basic Requirements
  - d. Disbursement from account not required
  - e. Eligible assets must be generally liquid assets, such as: cash, CD's, publicly traded stocks and bonds, or surrender value of insurance policies, and cryptocurrencies.
    - i. Gift funds are not assets which are eligible for use in the analysis
    - ii. Receipt of gift funds does not prohibit a borrower from using this section to qualify

- a. DTI will be calculated if assets are used in this manner
  - b. Total qualifying monthly income will be calculated by adding the asset, depleted over 84 months, and added to other income calculation amounts.
  - c. Borrower must have a source of income other than assets in order to use assets as a supplement in this section
  - d. Borrowers younger than 59 ½ years at time of closing will have total retirement assets used decreased by 10%.
  - e. Due to market volatility, reduce all cryptocurrency by 10% in addition to any other applicable reductions.
3. Required Documentation
- a. Asset account statement for each account being used to qualify the borrower, valid if dated within 90 days of close.
4. Other requirements
- a. Any asset used towards repayment of the loan must be seasoned 60 days prior to close, and large deposits must be sourced.
    - i. Valid securities issued in certificate form that are held, or registered, in the customer's name are not required to be seasoned in an account or liquidated to qualify for use as a Ready Liquid Asset.
    - ii. Treasury Bonds held in physical form must be verified by issue date, serial number, and denomination using the US Treasury website within 30 days to ensure they are valid and not redeemed.
  - b. Cash in a business account may be used if the following is provided:
    - i. Business's bank statements,
    - ii. Proof the borrower wholly owns the business by means of K-1, verification of ownership from a CPA, or other 3<sup>rd</sup> party documentation, and
      - 1. Exceptions to the borrower wholly owning the business may be made on a case by case basis.
    - iii. The account used must not be encumbered for another purpose, such as an account used to hold rental security deposits, an attorney's IOLTA/IOTA account, or be subject to a perfected security interest.

### 3.2.16 Foreign Income

1. **Basic Requirements**
- a. Any income from a source outside the U.S. must meet the documentation requirements that follow.
  - b. Foreign income used in conjunction with other programs must still provide the documentation required of this section.
2. **Required Documentation**
- a. Previous calendar year's signed personal tax returns with all schedules,
  - b. Previous calendar year's signed business tax returns for all businesses with all schedules (can be waived at underwriter discretion),
  - c. A letter of explanation for any losses or significant changes in income, and
  - d. Borrowers filing an extension must provide:
    - i. Proof of extension filed with the IRS, and
    - ii. Most recent filed tax return
  - e. Tax returns older than the previous calendar year will not be accepted past the extension deadline.

- f. Personal tax returns must evidence the borrower's tax identification number (SSN / ITIN)
- g. Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by process underwriting on a case by case basis.
- h. Tax returns showing monthly income increases 20% over other reasonably reliable 3<sup>rd</sup> party documentation submitted to FNBA will require a letter of explanation from the borrower describing a reasonable nature of the increase.

## **4 Ineligible Parties**

FNBA will add parties submitting documentation that FNBA believes evidence fraud on a list prohibiting future interaction. The loan origination system reviews parties to each loan application against the list. FNBA will not originate a transaction involving a prohibited party.

# 5 Exhibits

## EXHIBIT A

### CERTIFICATION OF OWNER(S)

Please provide the following information for an individual(s), if any, who, directly or indirectly through any contract arrangement, understanding, relationship, or otherwise owns equity interests of the legal entity listed below.

Owner Name	Ownership Percentage
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____

I, the undersigned, hereby certify, to the best of my knowledge, that the information provided in the Certification of Owners (s) form, is complete and accurate, and I acknowledge that misrepresentation of such information for a mortgage application is a federal crime which may result in penalties, and/or imprisonment.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Legal Entity Name: \_\_\_\_\_

Title: \_\_\_\_\_