



Bank Statement Income and DSCR Qualifying

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Arc Home Solutions



- **Bank Statement Income**
 - Documentation Alternative to Full Doc
- **Debt Service Coverage Ratio (DSCR)**
 - Investor Business Purpose Loan





Bank Statement Programs

- **Arc Access Non-QM**
 - 12- and 24-Months Bank Statements
- **Arc Elite QM**
 - 24-Months Bank Statements
- Minimum \$125,000 loan amount
- Wholesale, Delegated and Non-Delegated Correspondent
 - HI and MO eligible for Delegated Correspondent only





Eligibility – Bank Statement Income



Arc Access Non-QM – Alt Income

- Up to **90%** LTV
- Minimum **620** 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 required
 - May be Ineligible due **ONLY** to Loan Amount and/or LTV

Bank Statements – Overview

- **Two (2) years** self-employment required AND borrower must own for-profit business at least **two (2) years**
 - Business must exist/be active for at least two (2) years
 - Borrower ownership % and length of ownership must be documented
- Borrower must provide **Arc Home Business Narrative**
- Average of **12 or 24** months of checking/draft account deposits
 - Personal and business account options available
 - Complete/consecutive statements from same account (may not mix/match different accounts)
 - Non-self-employed income (W-2 wages, alimony/child support, retirement) may not be included in bank statement income average, but can be considered for qualifying (full doc only)



Bank Statements – Overview (continued)

- Statements must support stable and generally predictable deposits
 - Deposits must be common/consistent for nature of business and how business is conducted
 - Unusual deposits must be sourced/documentated
 - Unacceptable deposits may not be included in the bank statement income calculation
- Account with Non-Sufficient Fund (NSF)/Overdraft fees allowed, subject to the following:
 - Up to **3* NSFs** allowed if one (1) or more NSF occurrences in most recent two (2) months OR up to **5* NSFs** allowed if zero (0) NSF occurrences in most recent three (3) months
 - Multiple NSFs/Overdrafts that occur on the same day considered a single occurrence
 - * Protected Overdrafts and reversed/refunded NSFs are NOT included in the count
 - Borrower must provide written explanation for all NSFs/Overdrafts in most recent 12 months

Bank Statements – Business Distributions

- Borrower maintains separate personal/business accounts AND is paid via business distribution or payroll into qualifying personal account
- Borrower must own at least **25%** of business
- **Two (2) months business bank statements** required to validate business and support business distribution deposits
- Only deposits may be used; transfers from a business account into a personal account are acceptable with proof, other transfers are not acceptable
- **100% of allowable deposits** used for income and averaged over 12 or 24 months (no expense ratio)

Borrower's Monthly Qualifying Income:

- (Total Deposits – Disallowed Deposits) divided by 12 or 24 months, as applicable

Example:

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

Qualifying Income in this example = \$10,000

- 100% of Average Allowable monthly deposits



Bank Statements – Commingled Account

- **Personal account used by borrower for both business AND personal transactions**
 - Separate business account not required
 - Account may be commingled with income/expenses from **ONE** business
- May only be used by **Sole Proprietors**:
 - Borrower and non-borrowing purchasing spouse with combined **100%** ownership; or
 - All credit qualifying borrowers on loan own **100%** of business; or
 - Independent contractor dedicated to one occupation and receiving 1099 income
- Considered a **business account** for qualifying income calculation
 - Fixed Expense Ratio and Third-Party Prepared Expense Statement options



Bank Statements – Business Account

- Business bank statements include the following:
 - Business bank accounts
 - Personal accounts addressed to a DBA
 - Personal accounts with evidence of business expenses (commingled)
- Borrower must own at least **25%** of business
- Multiple business accounts may be used if multiple businesses are owned
 - Two (2) business accounts may be used for the same business IF the borrower uses separate accounts for different payment types (cash/checks vs. credit/debit cards)
- Transfers from other business accounts may be acceptable, but must be documented
- Transfers from personal accounts are not acceptable
- Business expenses must be reasonable for the type of business
 - Fixed Expense Ratio and Third-Party Prepared Expense Statement options

Business Bank Statements – Fixed Expense Ratio

Business or Commingled Account Qualification

Fixed Expense Ratio			
Number of Employees/Contractors	<u>0</u>	<u>1-10</u>	<u>10+</u>
Service Business	20%	40%	60%
Capital Intensive 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

Capital-Intensive Business Examples – Construction, Oil and Gas, Manufacturing, Money Lenders, Telecommunication, Transportation, Healthcare, Farming & Agricultural

Borrower's Monthly Qualifying Income:

- Average allowable monthly deposits X expense ratio for type of business and number of employees X borrower's % of business owned

Example:

- * Average Allowable Monthly Deposits = \$10,000
- * 1003 Income = \$11,000
- * Service Business with 9 employees
- * Borrower owns 80% of the business

Qualifying Income in this example = \$4,800

- $\$10,000 \times (100\% - 40\% = \text{Fixed Expense Ratio for service business with 9 employees}) \times 80\%$ (percent of business owned) = \$4,800

Business Bank Statements – Third-Party Prepared Expense Statement

Business or Commingled Account Qualification

- Expense factor provided by the borrower's/company's CPA is used to determine the qualifying income
- Lowest acceptable expense ratio for qualifying is **15%**
- 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:

- Average allowable monthly deposits **X** expense ratio provided by CPA **X** borrower's % of business owned

Example:

- * Average Allowable Monthly Deposits = \$20,000
- * 1003 Income = \$21,000
- * 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



Common Issues & Solutions

- **Missing and/or incomplete statements**
 - Submit ALL pages of ALL account statements (12 or 24 months complete/consecutive, including blank pages)
- **Multiple accounts**
 - Submit ALL pages of a SINGLE qualifying account; mix/match not permitted
- **Commingled 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



Arc Access – DSCR

- Loan amount to **\$3.0MM**
- Up to **80% LTV** for Purchase, **75% LTV** for Rate/Term and Cash-Out
- **.75** Debt Service Coverage Ratio allowed
- Minimum **640** FICO
- Interest Only – qualify with I/O payment
- Minimum loan amount: \$125,000 if $\leq 75\%$ LTV; \$200,000 if $> 75\%$ LTV





DSCR – Eligibility

Borrower

- US Citizen, Permanent Resident Alien, Non-Permanent Resident Alien
- First Time Investor, subject to restrictions
- LLC or Corporation title vesting permitted
- Primary Residence ownership is not required

Credit

- 36-month credit event seasoning (bankruptcy, foreclosure, etc.)

Property

- 1-4 Unit, Warrantable Condo, Non-Warrantable Condo, Condotel
- Vacant properties acceptable



DSCR – Income Documentation

- Appraisal form 1007 or 1025, as applicable for property type
- Landlord's insurance policy on subject property (all transactions)

Purchase

Long-Term Rental Income

- Copy of executed lease agreement (new lease commencing within 60 days of Note Date or current lease transferred from existing tenant/landlord)

Short-Term Rental Income (Airbnb/VRBO)

- 1007/1025 appraisal form or AirDNA Rentalizer report will be used to qualify
- Property must be in area common for short-term rentals

Refinance

Long-Term Rental Income

- If occupied by tenant: Copy of executed lease agreement
- If vacant: Borrower LOE to address vacancy AND 10% LTV reduction required

Short-Term Rental Income (Airbnb/VRBO)

- Remittance statements from renting entity covering most recent 12 months



DSCR – Qualifying Calculation

Gross Income

Long-Term Rental Income

- Lesser of executed lease agreement or 1007/1025 market rent, **OR**
- Higher 12-month lease amount may be used with 2-months evidence of rents received AND lease agreement amount is \leq 125% of estimated market rent on 1007/1025

Short-Term Rental Income (Airbnb/VRBO)

- Lesser of 12-month average payout or 1007/1025 market rent, **OR**
- Higher 12-month short-term average rents received can be used provided the average is \leq 125% of estimated market rent on 1007/1025

DSCR Calculation

- Divide subject property Gross Rental Income by the proposed PITIA/ITIA
 - **Fully Amortized:** Qualify with full PITIA
 - **Interest Only:** Qualify with Interest Only payment (ITIA)



DSCR – Out of State

- Available for Wholesale, Delegated, Non-Delegated
- “Out of State DSCR” origination eligible in:

Permitted States			
Alabama	Indiana	Missouri (Delegated only)	Virginia
Arkansas	Kansas	New Hampshire	Washington
Colorado	Kentucky	New Mexico	Washington, D.C. (WS only)
Connecticut	Louisiana	Ohio	Wisconsin
Delaware	Maine	Oklahoma	West Virginia
Florida	Maryland	South Carolina	Wyoming
Georgia	Massachusetts	Texas	

- Broker/Correspondent and Loan Officer must be currently approved and active in at least ONE *other* state (per NMLS)
- **Example:** A broker and representative LO licensed in CA (and approved by Arc Home) can originate a DSCR loan in FL, even if they are not licensed in FL

DSCR – Commercial Broker

- Available for Wholesale only
- Allow non-NMLS licensed Brokers to originate DSCR transactions in these states:

Permitted States			
Alabama	Indiana	New Hampshire	Washington
Arkansas	Kansas	New Mexico	Washington, D.C.
Colorado	Kentucky	Ohio	Wisconsin
Connecticut	Louisiana	Oklahoma	West Virginia
Delaware	Maine	South Carolina	Wyoming
Florida	Maryland	Texas	
Georgia	Massachusetts	Virginia	

- Broker eligibility requirements:
 - 3 years of DSCR production history as unlicensed Broker
 - Executed **Commercial Broker Application** and **Commercial Broker Agreement** in addition to standard application docs (W-9, Corporate Resolution, Broker Compensation Selection)

Arc Home Quick Pricer & Quick Qualifier



Arc Access NQM, Arc Elite QM, Conventional Investment, FNMA/FHLMC Second Home & Investment

Income Doc	Full Doc	FICO	FICO ex. 350-850. 0 for no FICO.
Purpose	Purchase	Bankruptcy	None
Occupancy	Primary	Deed In Lieu	None
Property Type	SFR	Foreclosure	None
State	Please Select	Short Sale	None
County	Please Select	Mortgage Lates	0X30X12
Loan Amount	\$ Loan Amount	DTI/DSCR	ex. DTI: 43 / DSCR: 1.50 %
LTV	LTV ex. 80 %	Citizenship	US Citizen
		ITIN	No
See Results			

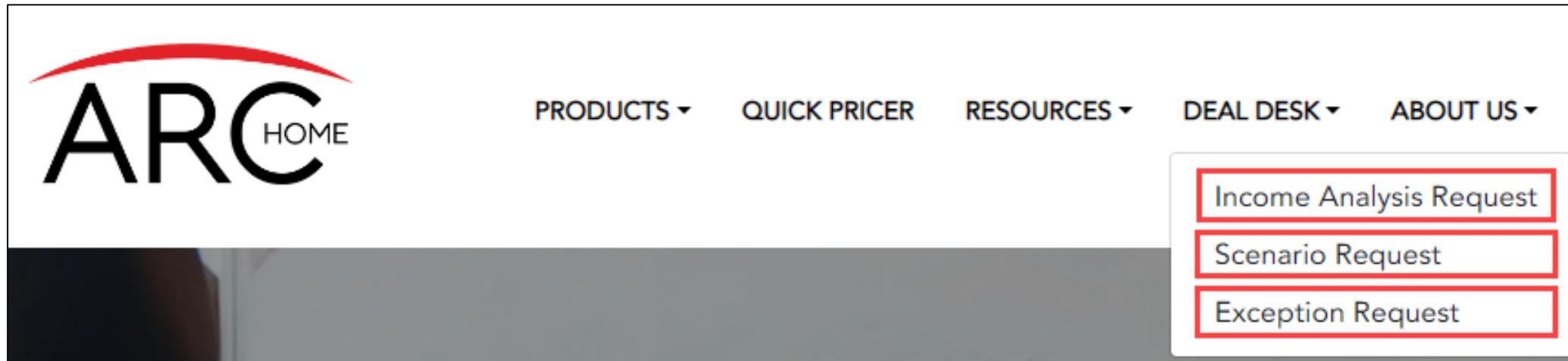
archomellc.com



Arc Home – Deal Desk



Visit archomellc.com to submit a Bank Statement Income Analysis Request, guideline question, or Exception Request today!



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

Website Resources



Wholesale

- **Products**
 - > **Access Non-QM:** Program Matrices (Agency Plus, Alt Income, DSCR, Clean Slate)
 - > **Elite QM:** Program Matrices (Agency Plus, Alt Income)
 - **Note:** Access/Elite Selling Guide available via SPARC 2.0
- **Resources > Policies, Forms & Resources**
 - > **Access Non-QM OR Arc Elite QM Resources:** Arc Home Business Narrative
 - > **Initial Submission Form:** Wholesale Initial Submission Form – All Programs
 - > **Pricing and Lock Policies:** Pricing and Lock Policy – Arc Access NQM & Elite QM
 - > **General Resources:** Wholesale Important Information
 - > **Appraisal Resources:** Appraisal Valuation Requirements, Transferred Appraisal Policy
 - > **Condo Resources:** Condo Questionnaires and Job Aid

Correspondent

- **Products**
 - > **Access Non-QM:** Program Matrices (Agency Plus, Alt Income, DSCR, Clean Slate)
 - > **Elite QM:** Program Matrices (Agency Plus, Alt Income)
 - **Note:** Access/Elite Selling Guide available via SPARC
- **Resources > Policies, Forms & Resources**
 - > **Access Non-QM OR Arc Elite QM Resources:** Arc Home Business Narrative, Business Purpose & Occupancy Affidavit
 - > **Initial Submission Forms:** Non-Delegated Initial Submission Checklist, Delegated Initial Submission Checklist
 - > **Appraisal Resources:** Appraisal Valuation Requirements, Transferred Appraisal Policy
 - > **Correspondent Policies:** Correspondent Seller's Guide, Client Reference Guides (Delegated and Non-Delegated)
 - > **Condo Resources:** Condo Questionnaires and Job Aids

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QUESTIONS & ANSWERS



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