I. Form 1040 – Individual Federal Income Tax Return

1. W2 Income From Self Employment
   \[ \text{W2s - Box 5} \]
   
   **MOST RECENT YEAR**
   
   **PRIOR YEAR**
   
   

II. Schedule B – Interest and Dividends

1. Interest Income from Self-Employment
   Line 1 (as itemized)
   
   
2. Dividend Income from Self-Employment
   Line 5 (as itemized)
   
   

III. Schedule C – Sole Proprietorship

1. Net Profit or (Loss)
   Line 31
   
   
2. Nonrecurring Other (Income) / Loss
   Line 6
   
   
3. Depletion
   Line 12
   
   
4. Depreciation
   Line 13
   
   
   Line 24b
   
   
6. Business Use of Home
   Line 30
   
   
7. Amortization/Casualty Loss
   Page 2, Part V (as itemized)
   
   
8. Mileage Depreciation
   Line 44a x IRS Depreciation Rate
   
   

IV. Schedule D – Capital Gains and Losses

1. Recurring Capital Gains
   Parts I & II (as itemized)
   
   

V. Schedule E – Royalties (use separate worksheet for rental income analysis)

1. Gross Royalties Received
   Line 4, (applicable columns)
   
   
2. Total Expenses
   Line 20
   
   
3. Depletion
   Line 18
   
   

VI. Schedule F – Profit or Loss from Farming

1. Net Profit or (Loss)
   Line 34
   
   
2. Non-Tax Portion ongoing Coop & CCC
   \[ \text{Lines (3a-3b)+(4a-4b)+(5b-5c)+(6a-6b)} \]
   
   
3. Nonrecurring Other (Income) / Loss
   Line 8
   
   
4. Depreciation
   Line 14
   
   
5. Amortization/Casualty Loss/Depletion
   Line 32 (as itemized)
   
   
6. Business Use of Home/One Time
   Line 32 (as itemized)
   
   

VII. Partners Share of Income – Schedule K-1 (Form 1065)

1. Ordinary Income/Loss, Net Rental/Other Income/Loss
   OR
   Lines 1, 2, 3
   
   
2. Guaranteed Payments to Partners
   Line 4
   
   

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VIII. Partnership (Form 1065)

1. Ordinary (Income) or Loss from other partnerships 
   Line 4

2. Nonrecurring Other (Income) / Loss 
   Lines 5, 6 & 7

3. Depreciation
   Line 16a

4. Depletion
   Line 17

5. Amortization/Casualty Loss
   Line 20 (as itemized)

6. Mortgage/Notes Payable <1 Year
   Schedule L, Line 16, Column D

   Schedule M1, Line 4b

8. Subtotal
   Combine Lines 1 – 7, Section VIII

Ownership % __________

9. Total Adjustment to Business Cash Flow
   Multiply subtotal by ownership %

IX. Shareholders Share of Income – Schedule K-1 (Form 1120S)

1. Ordinary Income/Loss, Net Rental/Other Income/Loss
   OR Lines 1, 2, 3

Distributions
   Line 16D

Very Important! Refer to Tips & Hints to determine allowable amount of Income/Loss to enter in this section.

X. S-Corporation (Form 1120S)

1. Nonrecurring Other (Income) / Loss 
   Lines 4 & 5

2. Depreciation
   Line 14

3. Depletion
   Line 15

4. Amortization/Casualty Loss/One Time
   Line 19 (as itemized)

5. Mortgages/Notes Payable <1 Year
   Schedule L, Line 17, Column D

   Schedule M1, Line 3b

7. Subtotal
   Combine Lines 1 – 6, Section X

Ownership % __________

8. Total Adjustment to Business Cash Flow
   Multiply subtotal by ownership %

XI. Corporation (Form 1120)

1. Taxable Income
   Line 30

2. Total Tax
   Line 31

3. Nonrecurring (Gains) or Losses
   Lines 8 & 9

4. Nonrecurring Other (Income) / Loss 
   Lines 10

5. Depreciation
   Line 20

6. Depletion
   Line 21

7. Amortization/Casualty Loss
   Line 26 (as itemized)

8. Net Operating Loss/Special Deductions
   Line 29c

9. Mortgages/Notes Payable <1 Year
   Schedule L, Line 17, Column D

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10. Non-deductible Meals & Entert. Excl. Schedule M1, Line 5c
   (__________) - (__________) =

11. Subtotal Combine Lines 1 – 10, Section XI
   Ownership %
   =

12. Adjusted Subtotal Multiply subtotal by ownership %
   =

13. Enter Corporate Dividends Paid From Schedule B, Form 1040, This Corp Subtract Dividends from Subtotal
   =

14. Total Corporate Income

WORKSHEET TOTALS

Personal Tax Returns Combine All Lines Sections (I-VII)+IX

Partnership Return Enter Amount from Section VIII, Line 9

S-Corporation Return Enter Amount from Section X, Line 8

Corporation Return Enter Amount from Section XI, Line 14

Total Income from Tax Returns Combine Personal & Business Incomes

Total Income ____________ ÷ # months _____ = ____________ Monthly Income

LIQUIDITY WORKSHEET

Schedule L - Assets

1. Cash Line 1, Column d
   MOST RECENT YEAR________ PRIOR YEAR______

2. Trade Notes and Accounts Receivable Line 2b, Column d

3. Inventories Line 3, Column d

4. Other Current Assets Line 6, Column d (use caution, review itemized statement and only include applicable amounts)

5. Total Current Assets Combine Lines 1 – 4, Column d

Schedule L - Liabilities

6. Accounts Payable Line 15 (1065) Line 16 (1120S), Column d

7. Mortgage notes bond payable less than one year Line 16 (1065) Line 17 (1120S), Column d

8. Other Current Liabilities Line 17 (1065), Line 18 (1120S), Column d (review itemized statement)

9. Total Current Liabilities Combine Lines 15 – 17 (1065) or Lines 16 – 18 (1120S), Column d

Current Ratio
Divide Total Current Assets (Line 5) by Total Current Liabilities (Line 9)

Quick Ratio
Divide Current Assets (Lines 1 + 2) by Total Current Liabilities (Line 9)
TIPS & HINTS

IF interest or dividend income, verify the payer is the same entity as the borrower's business (review Schedule B, Part I or II and/or Schedule K-1 or Form 1099)

FNMA - IF Business capital gain, evaluate the consistency or likelihood of continuance of any gains reported on Schedule D from a business through via the K-1 (Form 1065 / 1120S). Do not include business capital gains if inconsistent or one-time occurrence.

Note: Business capital losses on Schedule D do not have to be considered when calculating income or liabilities (even if recurring).

FHLMC - Document that sufficient assets remain after closing to support continuance of the capital gain income, at the level used for qualifying, for at least the next three years, most recent two-years of realized capital gains, 24-month average

- Review Line 22 of Form 2106 to determine whether the Standard Mileage Rate OR Actual Expenses have been claimed (Standard if complete, Actual if blank or $0):
  - If the Standard Mileage Rate has been claimed – Add the amounts on Line 13, then multiply the sum by the IRS Depreciation Rate
  - If Actual Expenses have been claimed – Add amounts on Line 28

- Schedule C: If there are no business miles on Line 44a, but the borrower claimed vehicle expenses on Line 9, check to see if the borrower was required to file Form 4562. Review Line 30 of 4562 for mileage, and calculate depreciation as above.

- Do NOT automatically add the documented amount on the Line # indicated – add only the itemized amount of the specific allowable add back

- DISTRIBUTIONS:
  FNMA B3-3.2.1-08 If there is a stable history of receiving the distribution amount consistent with the level of business income needed to qualify then, enter this amount on the worksheet and NO further documentation is required to include the income in the borrower's cash flow OR

- ORDINARY INCOME, NET RENTAL INCOME:
  FNMA B3-3.2.2-01 and B3-3.2.2-02 Income from partnerships, S Corps, LLCs, estates, or trusts can only be considered if the lender obtains documentation verifying that:
  - the income was actually distributed to the borrower or
  - the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

NOTE: Regardless of which box is used...
If borrower owns >25% in the business, complete analysis of business tax returns (section VIII or X) unless the requirements to waive business tax returns have been met.

FHLMC 5304.1
In the case of Partnerships and S corporations, analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower. The Seller may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income. With liquidity verified borrower's proportionate share of the income (ordinary income and/or guaranteed payments) from the K-1 may be used to qualify the borrower. For business income not reported on 1040 but being used to qualify, confirm the corporate resolution or partnership agreement does not restrict access.

- For FNMA B3-3.2.2-03, Corporate Income may only be used if Borrower has 100% and the business has adequate liquidity to support the withdrawal of earnings.

- For FHLMC 5304.1, Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the Seller's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business.

- Liquidity Ratios
  For FNMA, For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.