

Borrower Name: Business:

I. FORM 1040 – INDIVIDUAL FEDERAL INCOME TAX RETURN

	MOST RECENT YEAR		PRIOR YEAR
1. W-2 Income From Self Employment W-2s - Box 5		+	

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. Non-Recurring Other (Income)/Loss Line 6		(+/-)	
3. Depletion Line 12		+	
4. Depreciation Line 13		+	
5. Non-Deductible Meals & Entert. Excl. Line 24b	()	-	()
6. Business Use of Home Line 30		+	
7. Amortization/Casualty Loss Page 2, Part V (as itemized)		+	
8. Mileage Depreciation Line 44a or Form 4562, Line 30 x IRS Depreciation Rate		+	

IV. SCHEDULE D – CAPITAL GAINS AND LOSSES

1. Recurring Capital Gains Parts I & II (as itemized)		(+/-)	
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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 Lines (3a-3b)+(4a-4b)+(5b-5c)+(6a-6b)		+	
3. Non-Recurring 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. PARTNER'S SHARE OF INCOME – SCHEDULE K-1 (form 1065)

1. Ordinary Income(Loss) Net Rental/Other Income/(Loss) Lines 1, 2, 3 OR Distributions Line 19a Very Important! Refer to Tips & Hints to determine allowable amount of Income/Loss to enter in this section.		(+/-)	
2. Guaranteed Payments to Partners Line 4c		+	

VIII. PARTNERSHIP (form 1065)

1.	Ordinary (Income)/Loss from Other Partnerships	Line 4	(+/-)	
2.	Non-Recurring 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	()	()
7.	Non-Deductible Meals & Entert. Excl.	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. SHAREHOLDER'S SHARE OF INCOME - SCHEDULE K-1 (form 1120S)

1.	Ordinary Income/(Loss), Net Rental/Other Income/(Loss)	Lines 1, 2, 3 OR	(+/-)	
	Very Important! Refer to Tips & Hints to determine allowable amount of Income/Loss to enter in this section.			

X. S-CORPORATION (form 1120S)




1.	Non-Recurring 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	()	()
6.	Non-Deductible Meals & Entert. Excl.	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.	Non-Recurring (Gains)/Losses	Lines 8 & 9	(+/-)	
4.	Non-Recurring 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	()	()

10. Non-Deductible Meals & Entert. Excl. <i>Schedule M-1, Line 5c</i>	()	-	()
11. Subtotal <i>Combine Lines 1-10, Section XI</i>			=		
Ownership %					
12. Adjusted Subtotal <i>Multiply Subtotal by Ownership %</i>			=		
13. Enter Corporate Dividends Paid <i>From Schedule B, Form 1040, This Corp</i> <i>Subtract Dividends from Subtotal</i>			-		
14. Total Corporate Income			=		

WORKSHEET TOTALS

Personal Tax Returns <i>Combine All Lines Sections (I-VII)+IX</i>		(+/-)	
 Partnership Return <i>Enter Amount from Section VIII, Line 9</i>		(+/-)	
 S-Corporation Return <i>Enter Amount from Section X, Line 8</i>		(+/-)	
 Corporation Return <i>Enter Amount from Section XI, Line 14</i>		(+/-)	
Total Income from Tax Returns <i>Combine Personal & Business Incomes</i>		=	
Total Income _____ ÷ # months _____ = _____ Monthly Income			

LIQUIDITY WORKSHEET

Schedule L - Assets

MOST RECENT YEAR_____

1. Cash <i>Line 1, Column d</i>	
2. Trade Notes and Accounts Receivable <i>Line 2b, Column d</i>	
3. Inventories <i>Line 3, Column d</i>	
4. Other Current Assets <i>Line 6, Column d</i> <i>(Use caution. Review itemized statement and only include applicable amounts.)</i>	
5. Total Current Assets <i>Combine Lines 1-4</i>	

Schedule L - Liabilities

6. Accounts Payable <i>Line 15 (1065) Line 16 (1120-S), Column d</i>	
7. Mortgage Notes Bond Payable less than one year <i>Line 16 (1065) Line 17 (1120-S), Column d</i>	
8. Other Current Liabilities <i>Line 17 (1065) Line 18 (1120-S), Column d</i> <i>(Review itemized statement)</i>	
9. Total Current Liabilities <i>Combine Lines 6-8</i>	


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

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- 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 the K-1 (Form 1065 / 1120-S). 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.
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- Do NOT automatically add the documented amount on the Line # indicated. Add only the itemized amount of the specific allowable add back.

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.
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- IRS Depreciation Rates

2022 - \$.26	2021 - \$.26
2020 - \$.27	2019 - \$.26

FNMA B3-3.4-01, B3-3.4-02

DISTRIBUTIONS: 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**

FNMA B3-3.4-01, B3-3.4-02

ORDINARY INCOME, NET RENTAL INCOME: Income from partnerships, SCorps, 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.

For business income not reported on 1040 but being used to qualify, confirm the corporate resolution or partnership agreement does not restrict access.
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- Consult your Underwriting Guidelines prior to entering income on this line. Losses must generally be considered.

For FNMA B3-3.4-03, Corporate earnings may not be used unless the borrower owns 100% of the business.

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. For business income not reported on 1040 but being used to qualify, confirm the corporate resolution does not restrict access.
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- 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.
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