External Delegated Non-Agency

Income Calculation Workbook



Prepared For: Chase Approved Correspondent Lenders

Updated 6/5/2018

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User Tool Introduction

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External Income Calculation Workbook

- The External Income Calculation Workbook was designed to assist our Correspondent lending partners with an easy and consistent way to complete income calculations based on the requirements outlined in the Chase Correspondent Online Guide.

- The goal is to provide consistency in
  - Rounding conventions
  - Averaging conventions
  - Allowable add-back to income
  - Methodology in the calculation of qualifying income

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Acknowledgement

- Upon opening the User Tool, you will be presented with a standard acknowledgement.
- This acknowledgement
  - Must be accepted for the User Tool to be enabled
  - Reminds the user that use of the tool is not a replacement for knowing the guidelines in the Chase Correspondent Online Guide
  - Provides a link to the Terms & Conditions that govern the use of the User Tool.



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Navigation

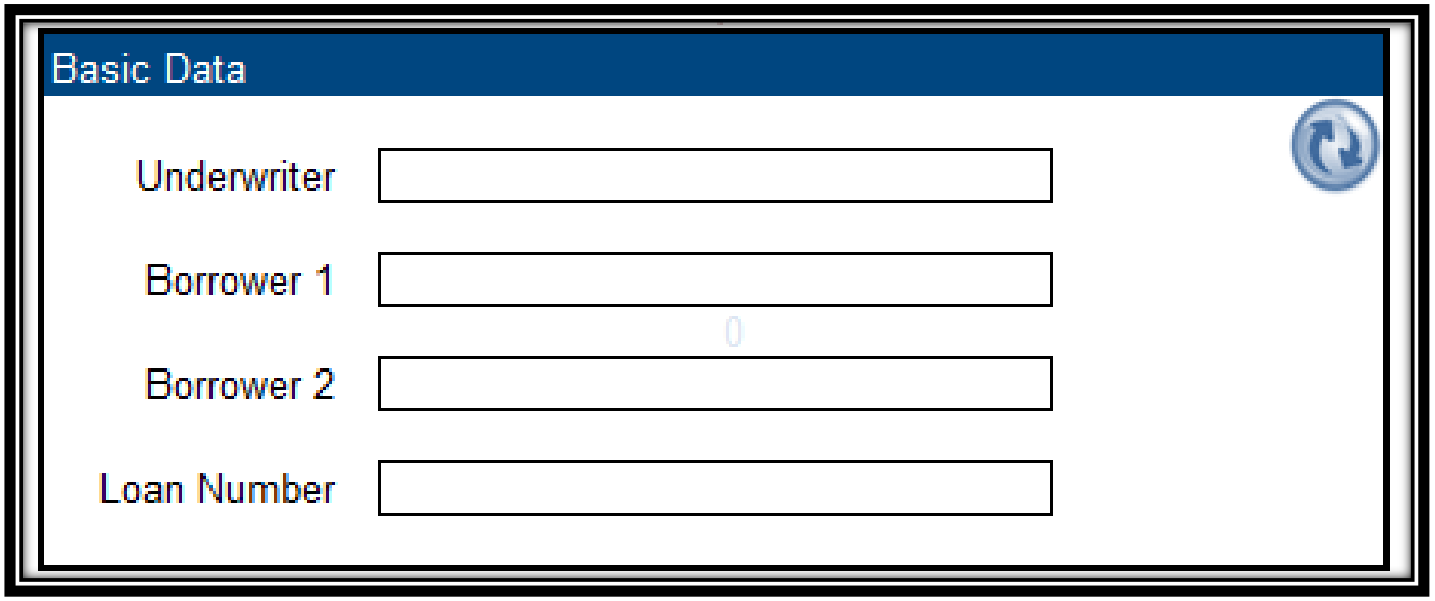


- Cover page
  - Used to capture loan identifying information
- Income page
  - Used to enter borrower income elements to calculate income
- Comparative Income Analysis
  - Used to determine the income stability of a company
- Business Liquidity
  - Used to determine acceptable Liquidity Ratios
- Large Deposit
  - An additional tool to track large deposits in bank statements
- YTD Interest
  - A calculator provided to assist in calculating YTD interest for income
- Instructions
  - Provides basic instructions for use of the Workbook.

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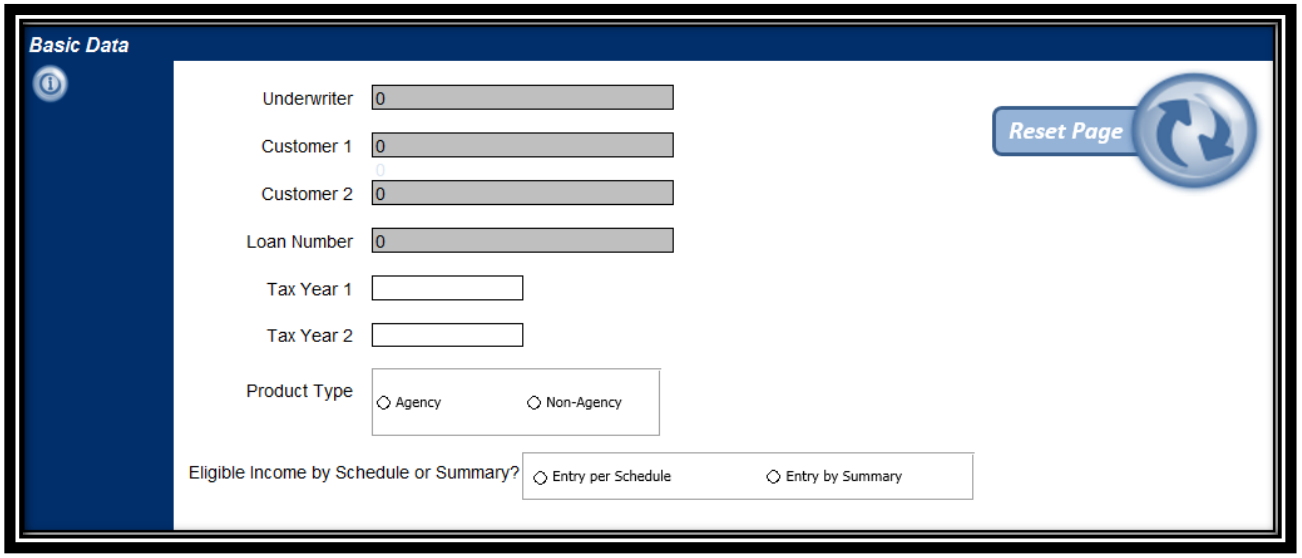
The Cover Page



- The data entered on this page will translate to dropdown boxes throughout the tool and will provide identifying information on the printed output.

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Data Entry



- Clicking the **[Reset Form]** button clears all the fields and checkboxes **[Data Entry]** page.
- Regardless of which year is listed as Year 1/Year 2 above; the tax years will always place the older year to the left in the income portion of the template
- Product Type: Select Agency or Non-Agency
- Eligible income by Schedule or Summary: Select Entry per Schedule

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Income Summary

Income Based on Entry below:

Income/Loss included in base

	Borrower 1	Borrower 2	
Employment Wages	$ -	$ -	Employment Wages
Employment Variable	$ -	$ -	Employment Variable
Social Security	$ -	$ -	Social Security
Pension	$ -	$ -	Pension
Schedule C	$ -	$ -	Schedule C
Schedule D	$ -	$ -	Schedule D
Subject REO if Income	$ -	$ -	Subject REO if Income
Schedule F	$ -	$ -	Schedule F
Partnership	$ -	$ -	Partnership
S-Corporation	$ -	$ -	S-Corporation
Corporation	$ -	$ -	Corporation
Form 2106 Expense	$ -	$ -	Form 2106 Expense
Total Income/Loss Above	**$ -**	**$ -**	**Total Income/Loss Above**

Income/Loss considered in elsewhere:

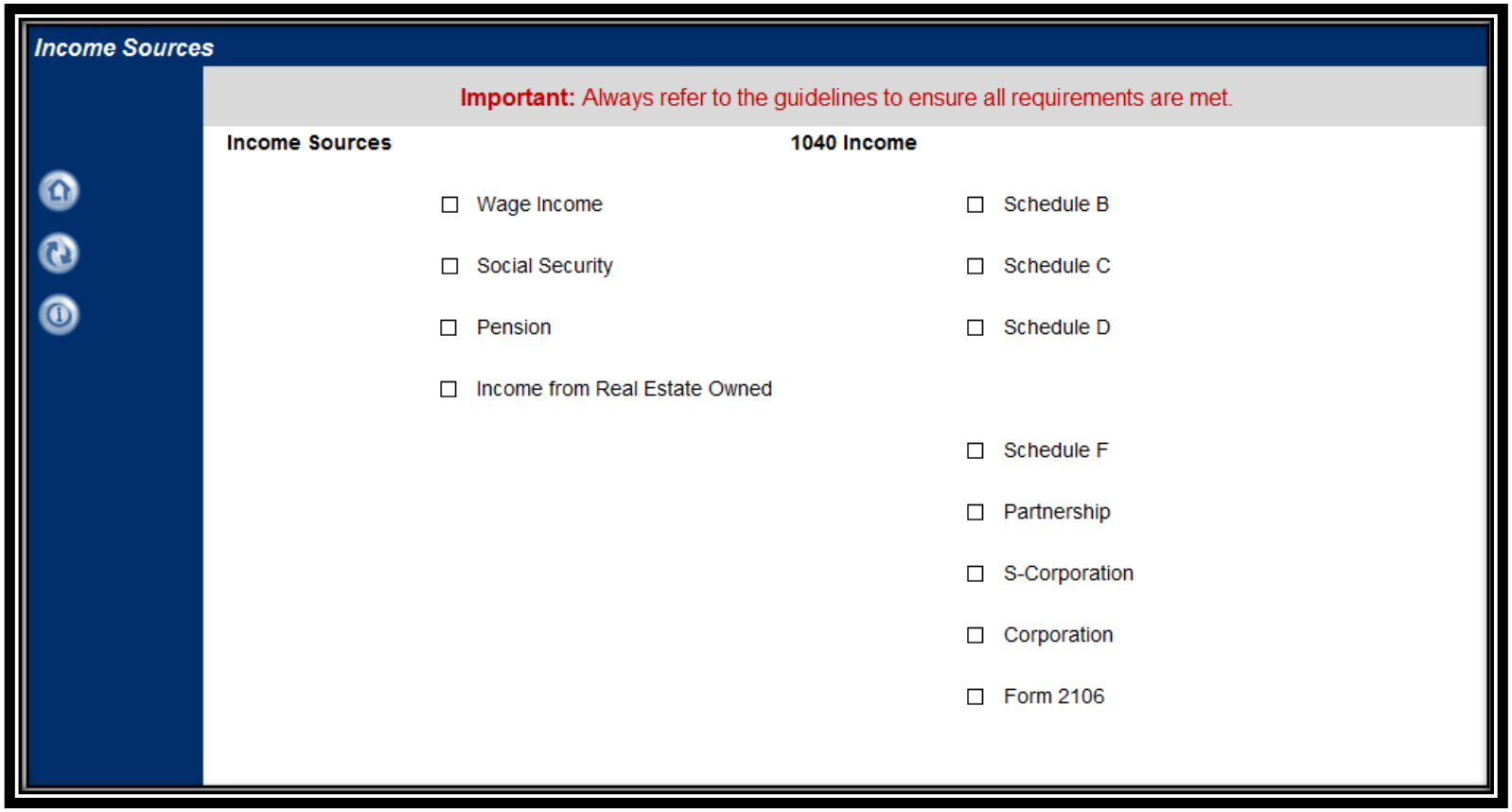
	0	0	
Dividend/Interest from Schedule B	$ -	$ -	Dividend/Interest from Schedule B
Net Rental Income (non Subject)	$ -	$ -	Net Rental Income (non Subject)
Subject Net Loss (enter as liability)			Subject Net Loss (enter as liability)

- This section provides an aggregated total of all of the income sources calculated below.

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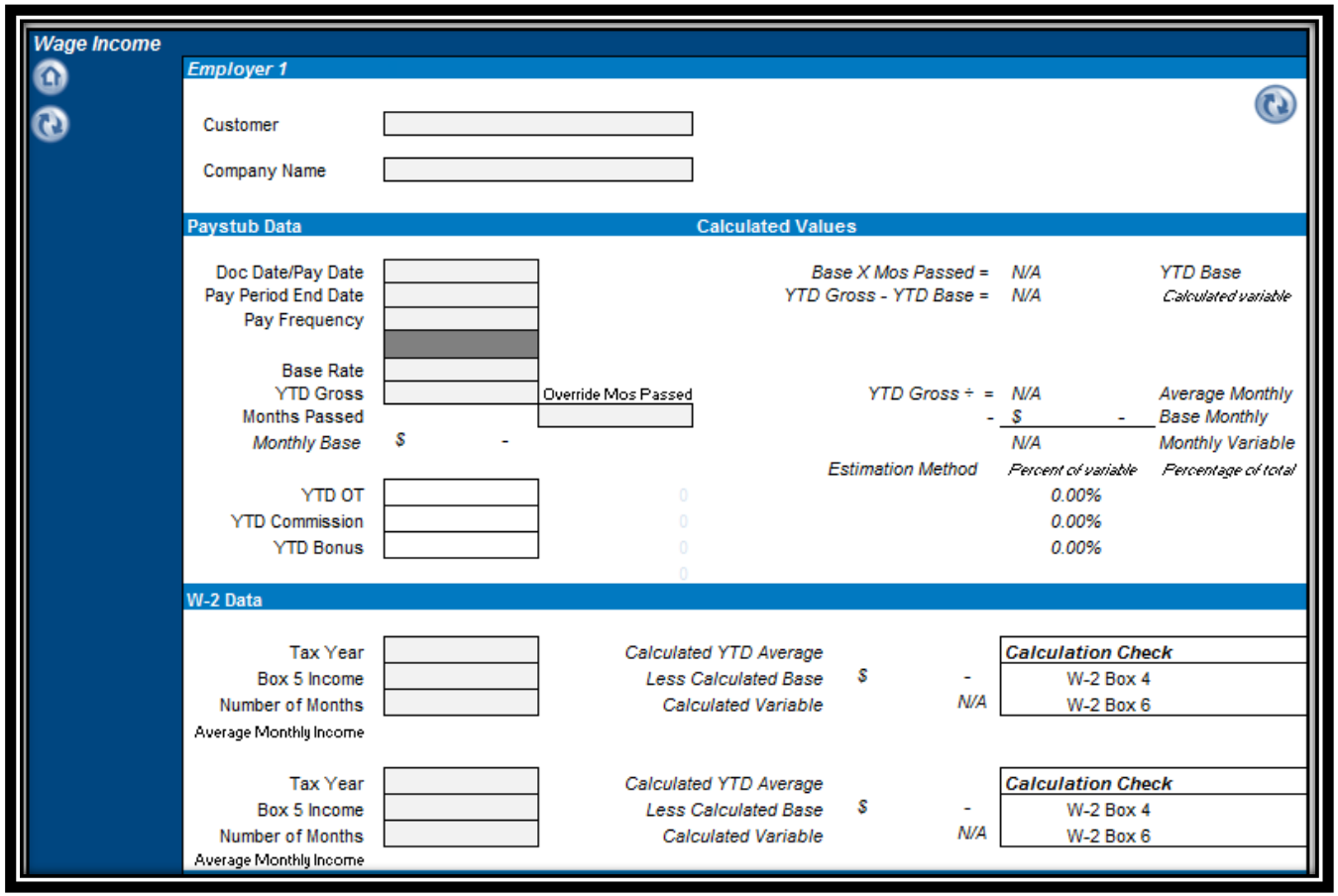
Income Sources



- Select your income type to open the calculation section for that income type below.

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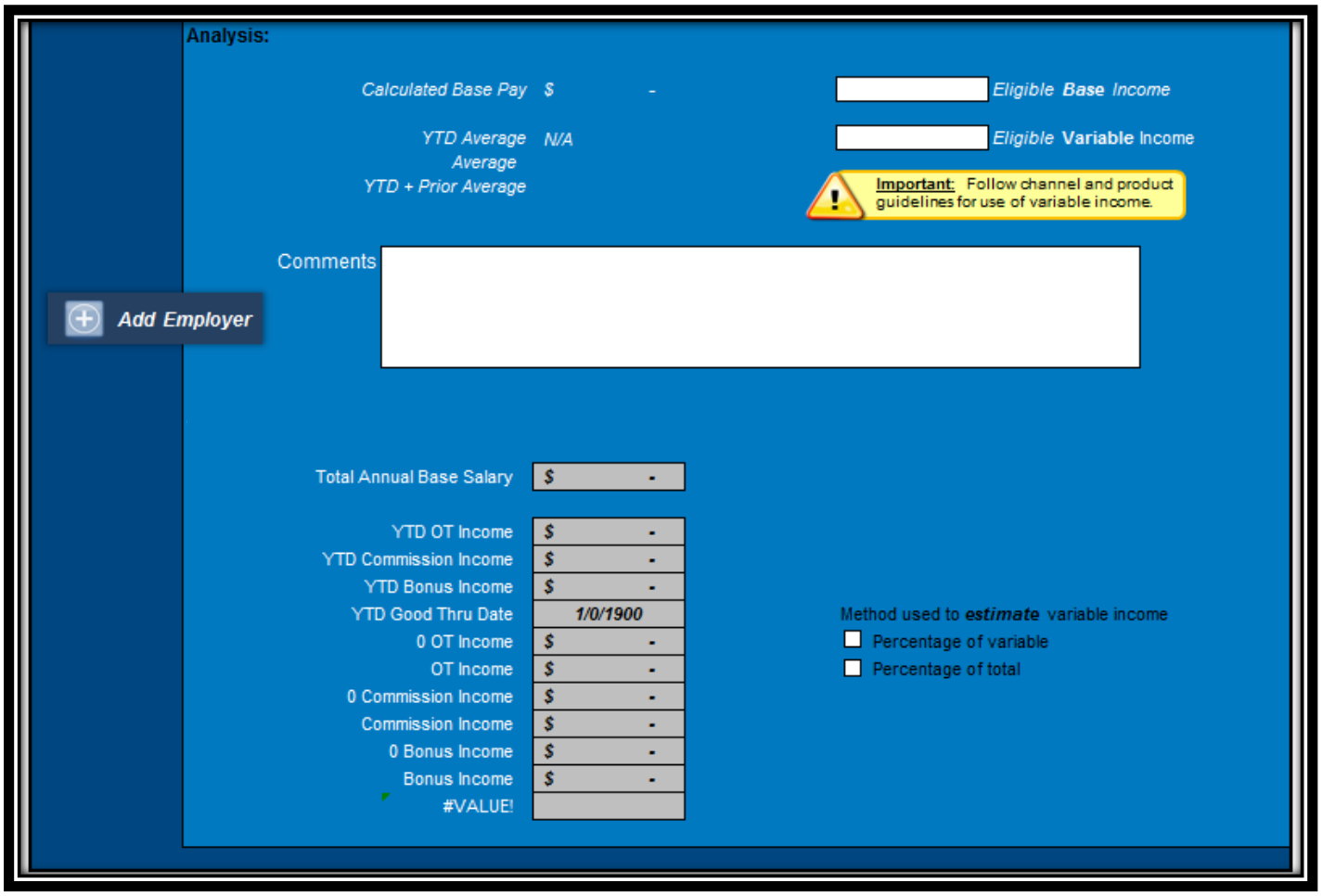
Wage Income



- Enter the data from the paystub on the left side to determine base pay. The base pay is used to provide an initial estimate of variable income. The resulting calculations display on the right.
- The workbook calculates the months passed from the beginning of the year the doc date or Tax Year fields. If the borrower started after 01/01/XXXX, use the "override mos passed" field.

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Wage Income Analysis

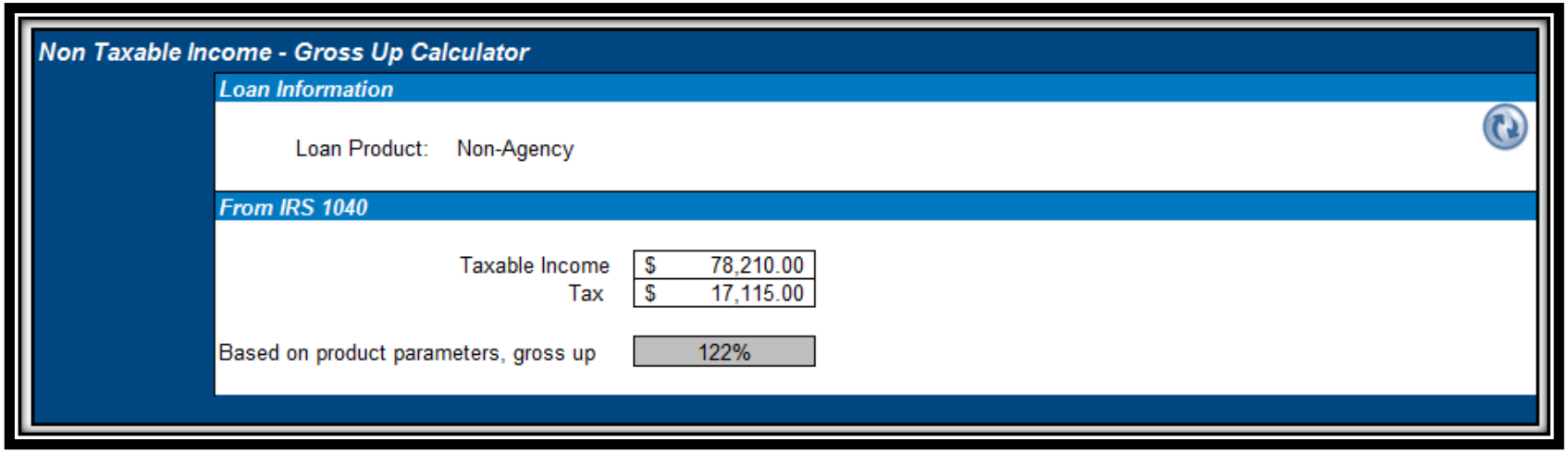


- The UW must determine the eligible income amount based on the analysis performed by the Workbook. This amount must be entered into the Eligible Income fields or the income will not aggregate to the summary at the top.
- Any comments entered in any of these sections will translate to the printed version as well.

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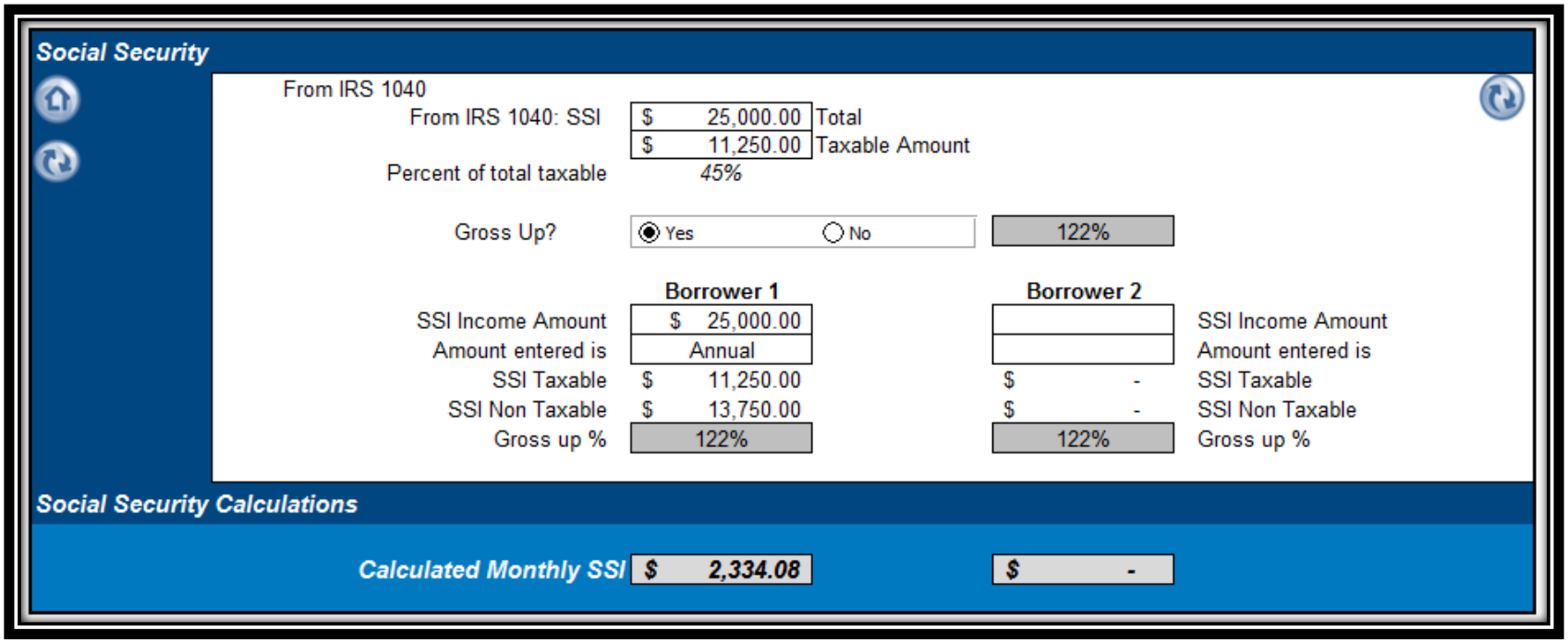
Non-Taxable Income Gross Up Calculator



- For Non-Agency loans, Chase will gross up non-taxable income by the borrower's effective tax rate.
- The Non-Taxable Income Gross Up Calculator must be used to determine the borrower's effective tax rate.

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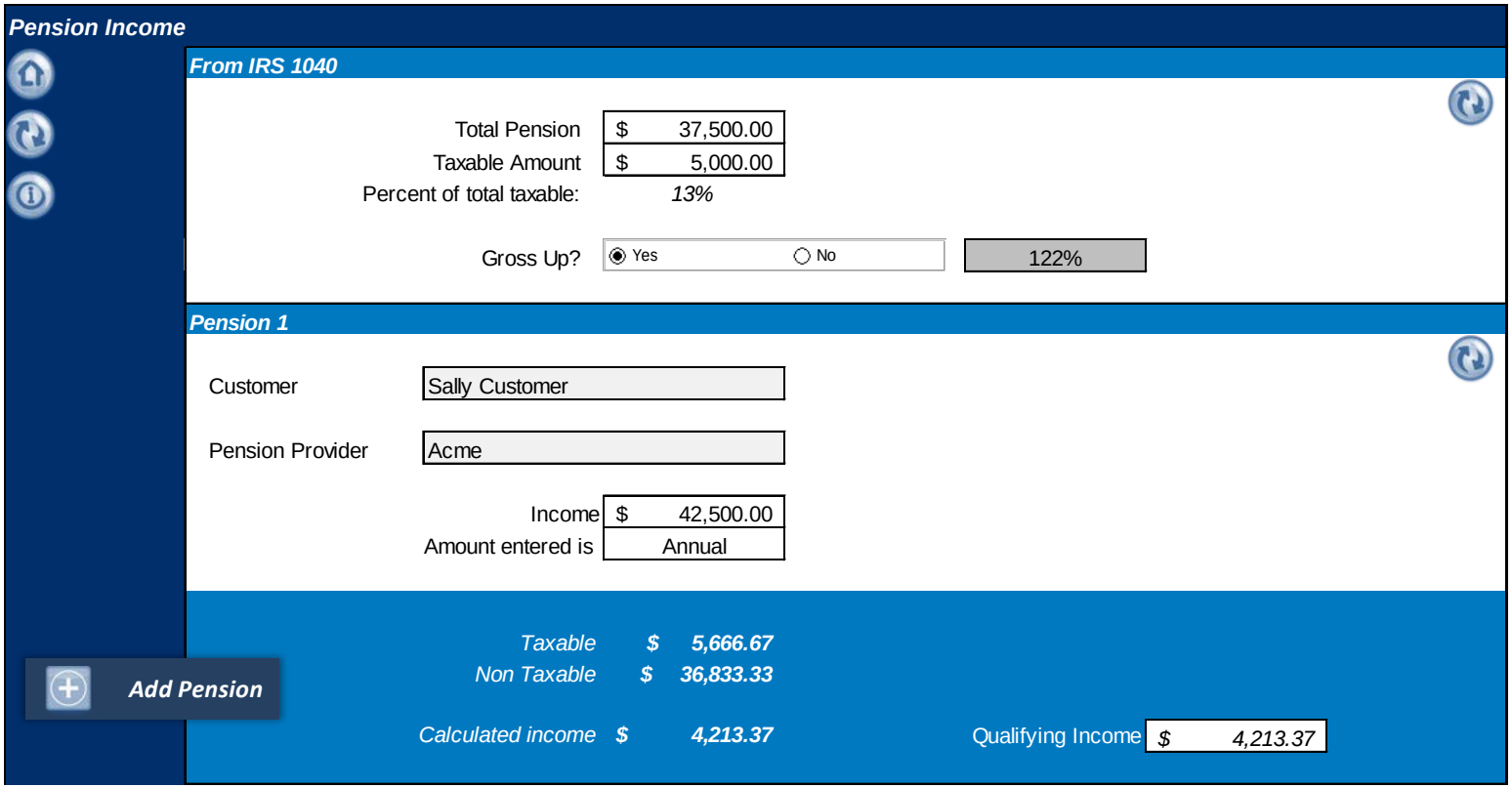
Social Security



- Using a combination of Tax return data, the gross up calculator and award letter data, the Social Security section will calculate the Monthly SSI income for qualifying.

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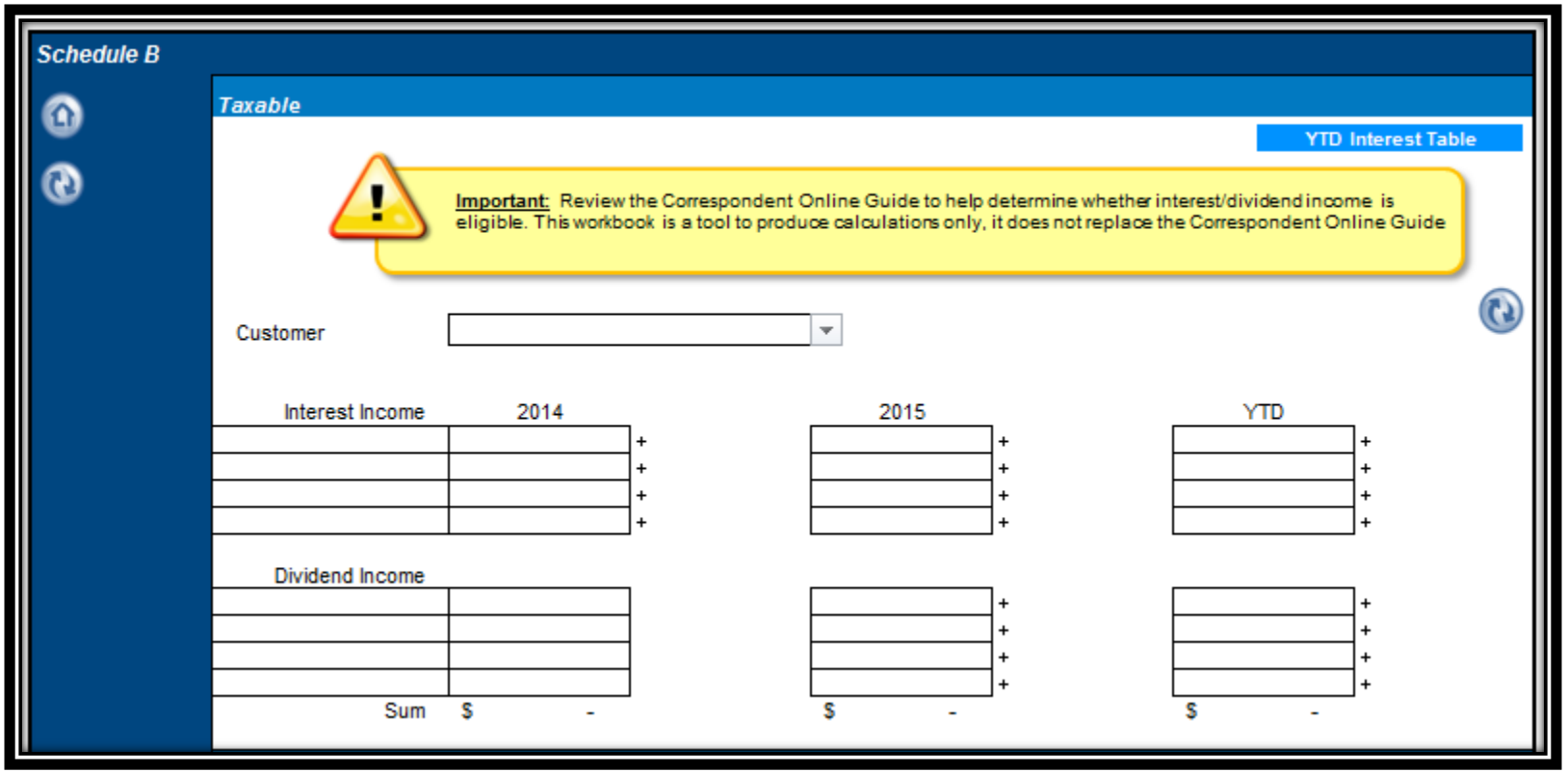
Pension



- Using a combination of Tax return data, the gross up calculator and award letter data, the Pension section will calculate the Monthly Pension income for qualifying.

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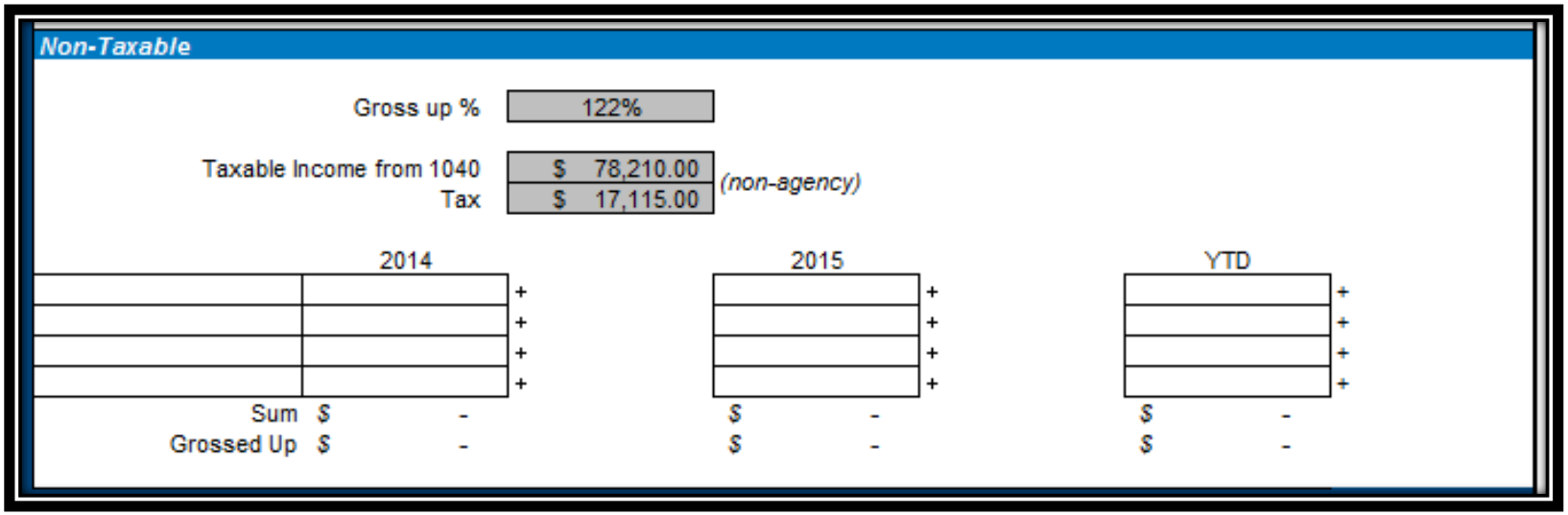
Schedule B - Taxable



- Taxable income is collected in the top portion of this section

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Schedule B – Non-Taxable



Non-Taxable

Gross up %	122%
Taxable Income from 1040	$ 78,210.00
Tax	$ 17,115.00

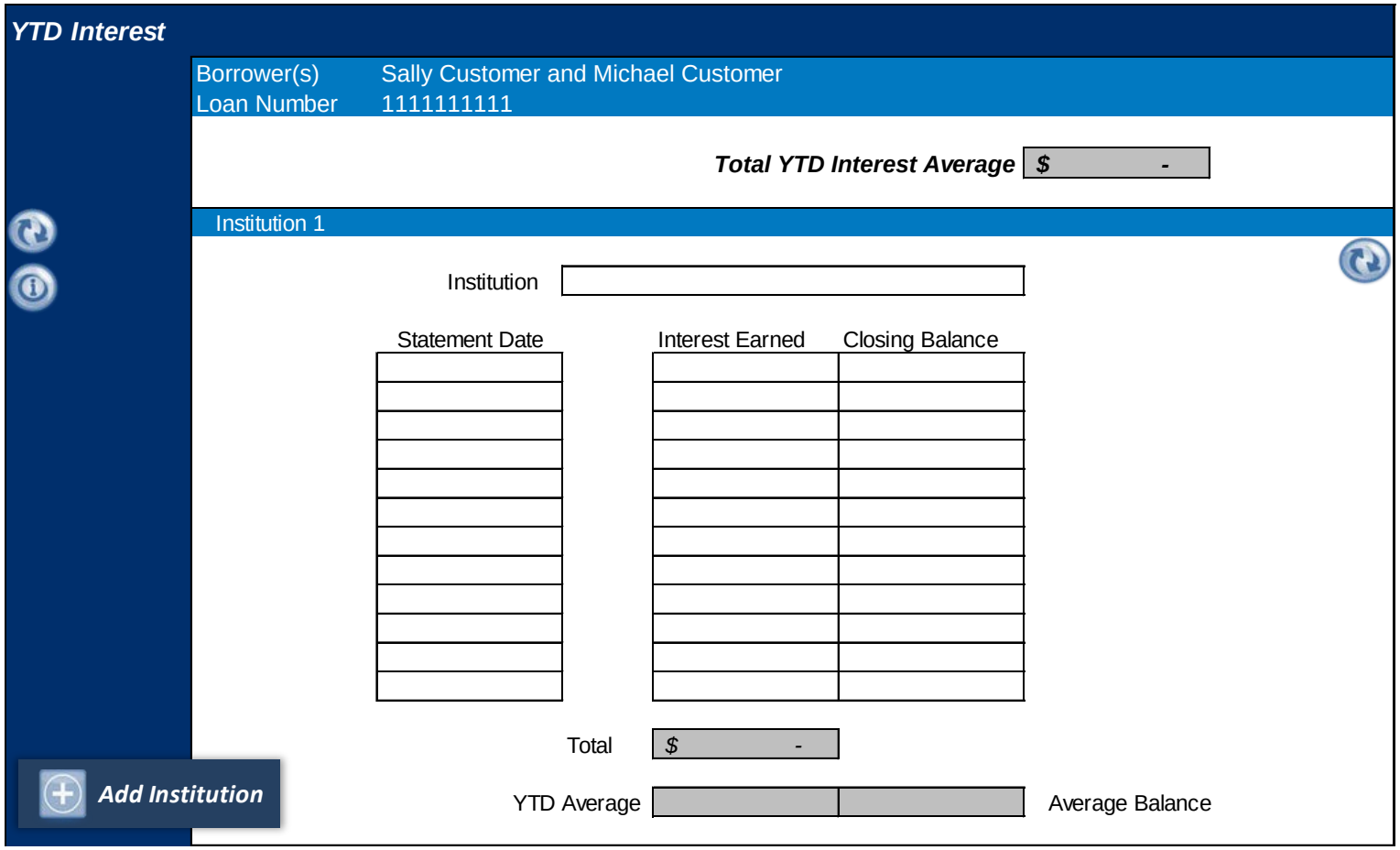
(non-agency)

	2014	2015	YTD
Sum	$ -	$ -	$ -
Grossed Up	$ -	$ -	$ -

- Non-Taxable income is collected in the lower portion of this section
- The information from the Non-Taxable Gross Up Calculator is shown at the top of the Non-Taxable section so you can see what effective tax rate is being used.

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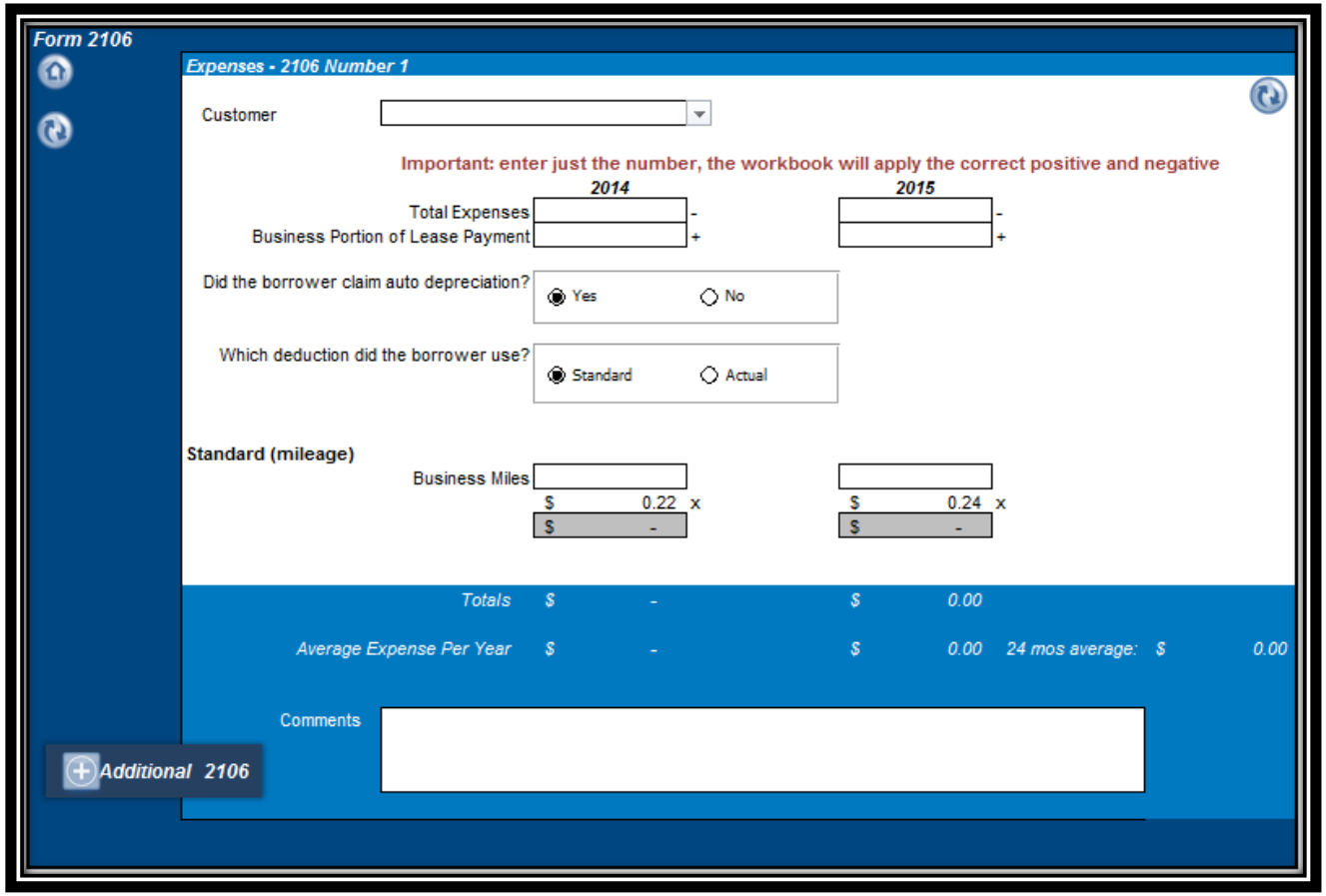
Schedule B – YTD Interest



- Used to help track and calculate total YTD interest for all Schedule B income sources.

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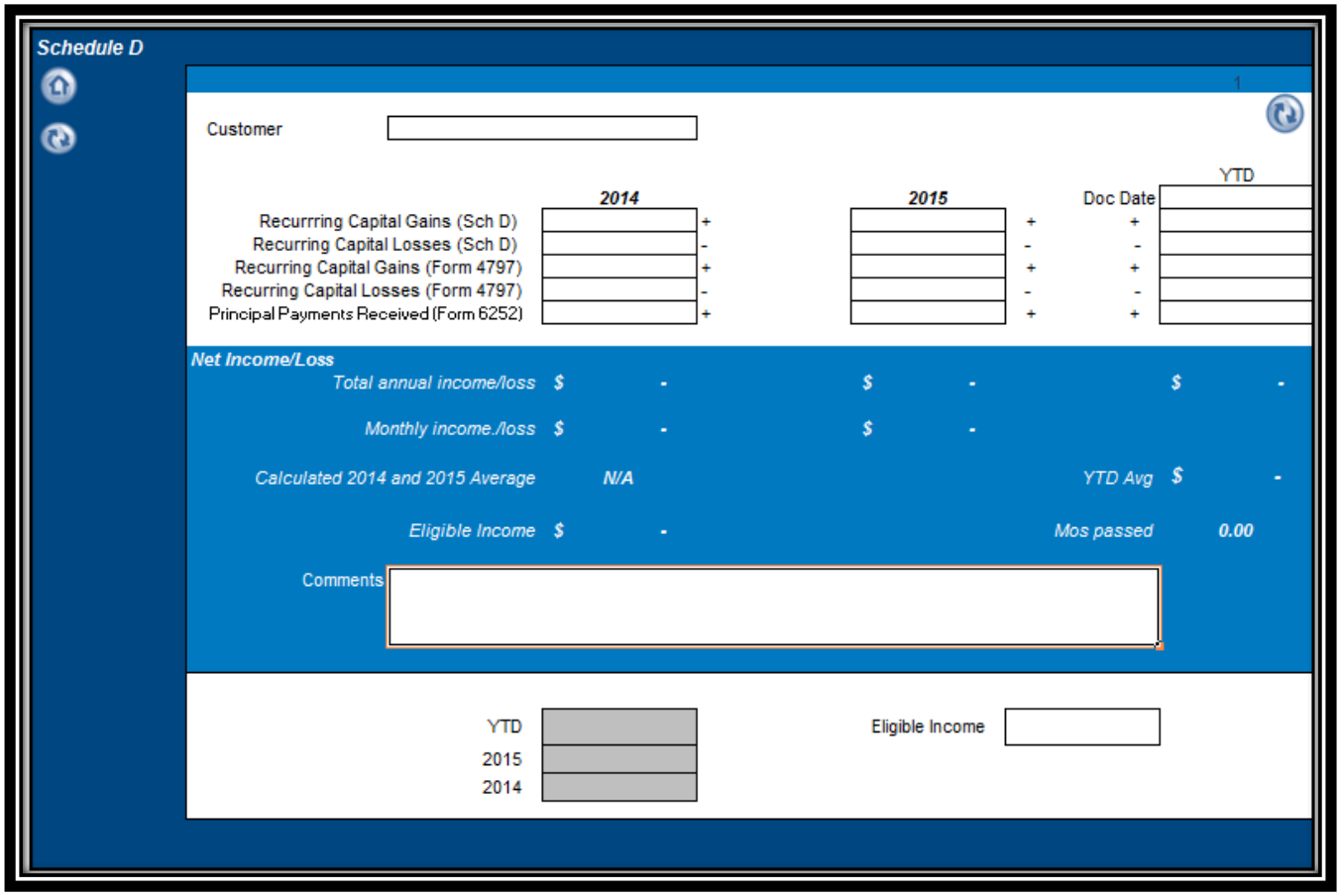
2106 Expenses



- Used to calculate 2106 Expenses including business mileage.

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Schedule D



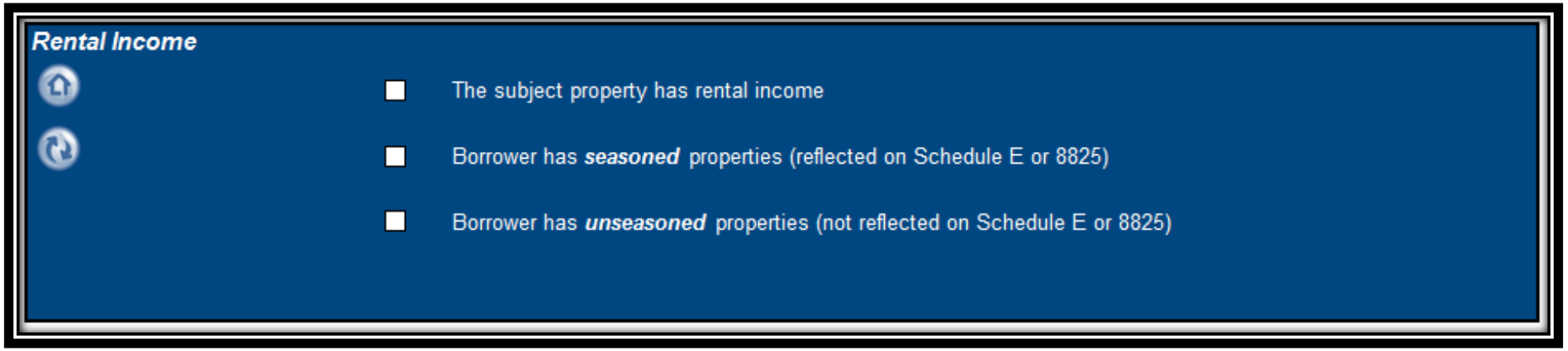
- Refer to the Chase Correspondent Online guide for clarification on the use of Schedule D income/loss
- Correspondent Lending Library>Credit Guide - Non-Agency>Income - Non-Agency>Other Income – Non-Agency>Capital Gain or Loss

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Rental Income

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Rental Income type selection

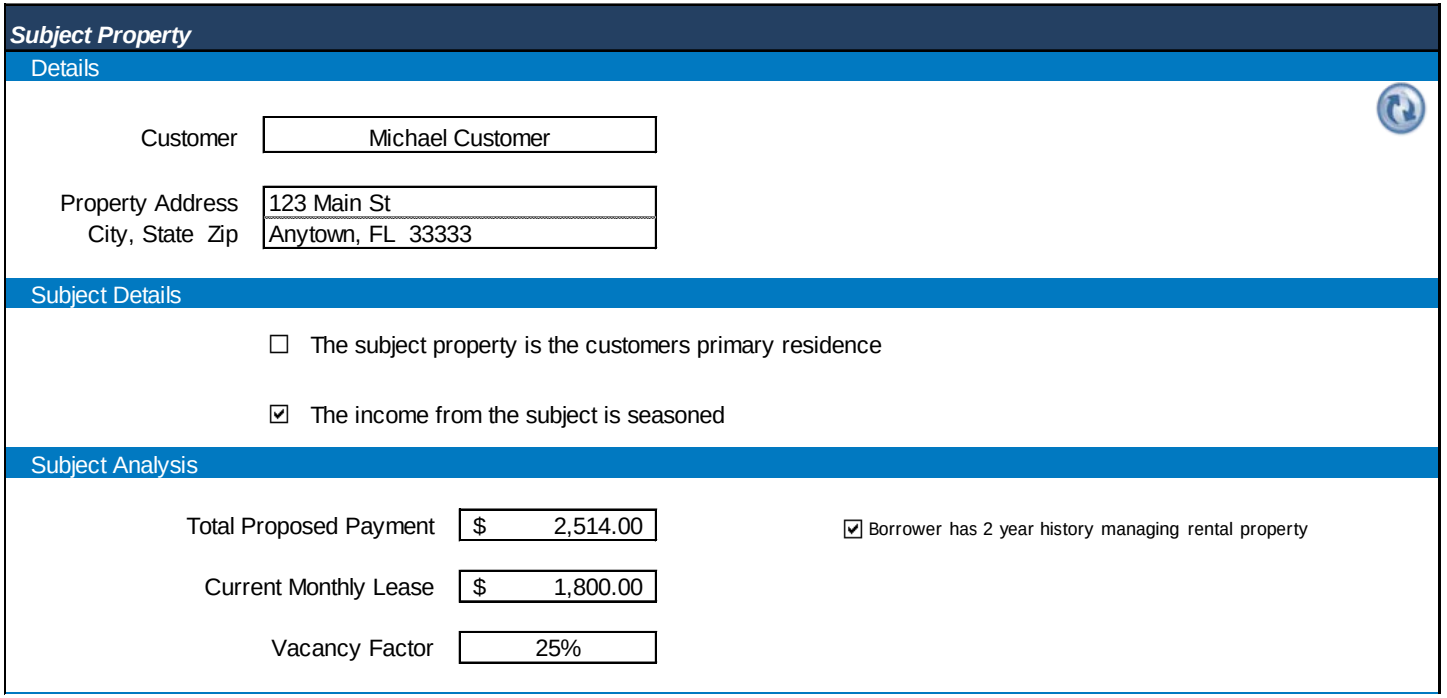


- In order for the Income Calculation Workbook to correctly calculate rental income. All required selections must be made accurately, starting with the type of rental income.
  - Subject Property
  - Seasoned
  - Unseasoned

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Subject Property Rental

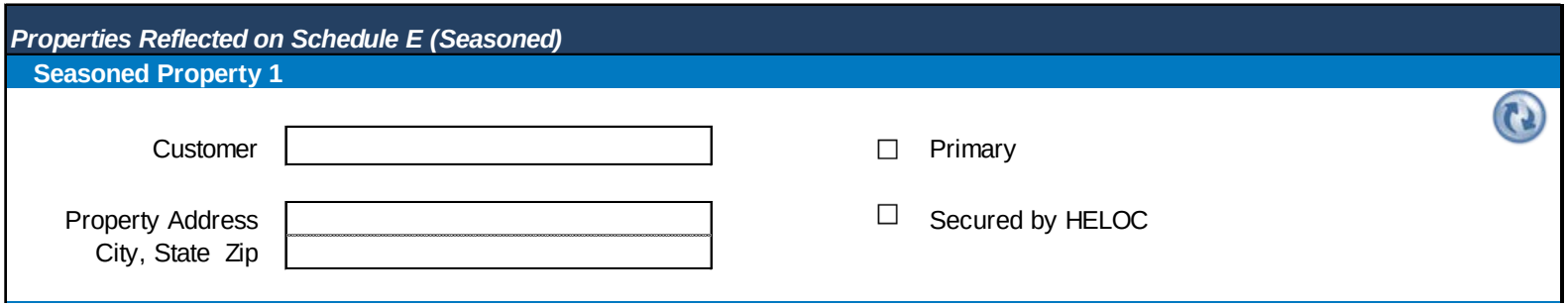


- You must indicate if
  - The subject is the borrower's primary
  - The income is seasoned
  - If the borrower has a 2 year rental management history

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Seasoned Rental (Non-Subject Property)

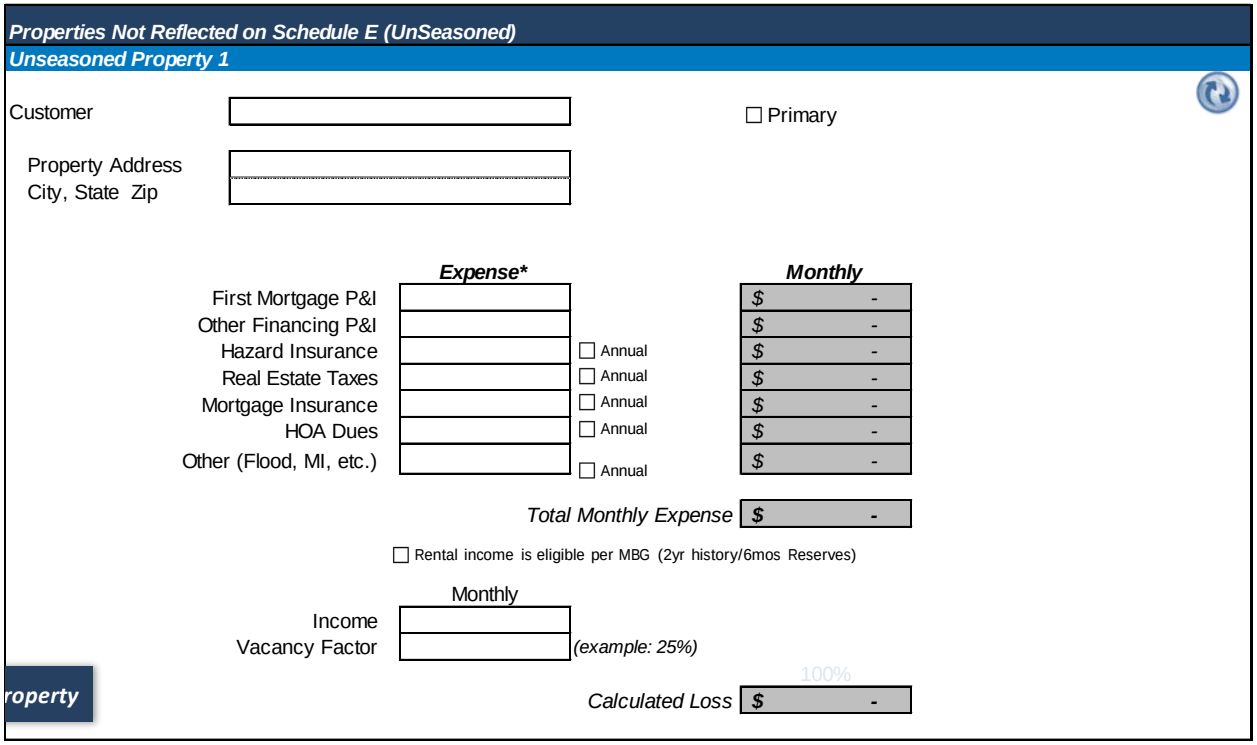


- You must indicate if
  - The property is the borrower's Primary Residence
  - The property is secured by a HELOC

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Unseasoned Rental (Non-Subject Property)



Properties Not Reflected on Schedule E (UnSeasoned)

Unseasoned Property 1

Customer ☐ Primary

Property Address
City, State Zip

	*Expense**		*Monthly*
First Mortgage P&I			$ -
Other Financing P&I			$ -
Hazard Insurance		☐ Annual	$ -
Real Estate Taxes		☐ Annual	$ -
Mortgage Insurance		☐ Annual	$ -
HOA Dues		☐ Annual	$ -
Other (Flood, MI, etc.)		☐ Annual	$ -
		Total Monthly Expense	$ -

☐ Rental income is eligible per MBG (2yr history/6mos Reserves)

	Monthly	
Income		
Vacancy Factor		*(example: 25%)*
		Calculated Loss $ -

roperty

- You must indicate if
  - The property is the borrower's Primary Residence
  - If the borrower has a 2 year rental management history

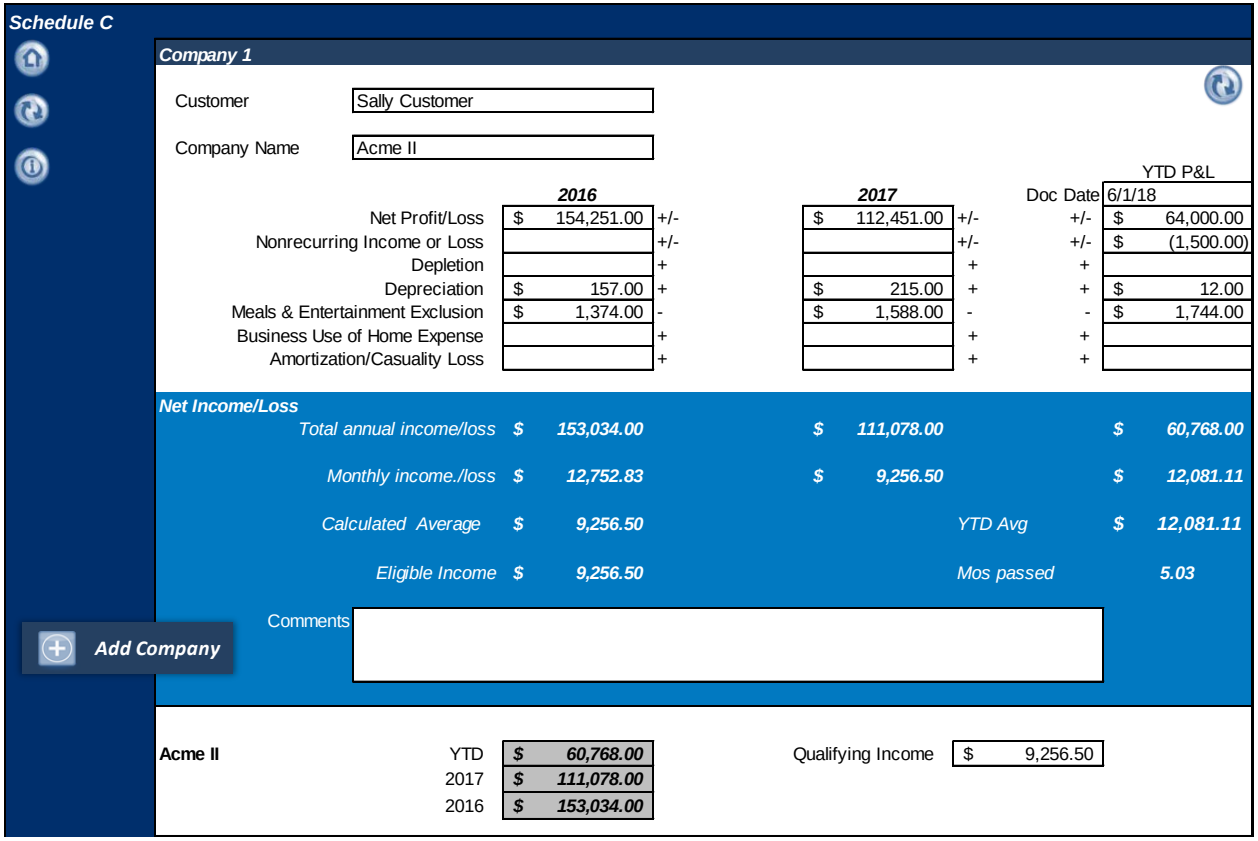
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Self Employment

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Schedule C



- YTD P&L information is for comparison only and does not get averaged into the Qualifying income calculation unless the P&L income is lower.
- Nonrecurring losses should be entered as a negative

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Partnership

Partnership 1

Customer: Michael Customer

Partnership Name: Acme III

Does the customer have an ongoing ownership interest in this partnership? ☑ Yes

Percentage of Ownership: 25%

Partnership Schedule K-1 (Form 1065)

*If using any combination of ordinary, net rental and other net rental income, completion of the liquidity form is required unless **distributions** listed on the K-1 **exceed** the subtotal of those sources.*

	2016		2017	
Ordinary Income (loss)	$ 15,441.00	+/-	$ 13,514.00	+/-
Net rental real estate income (loss)		+/-		+/-
Other net rental income (loss)		+/-		+/-
Subtotal	$15,441.00		$13,514.00	
Guaranteed Payments	$ 1,500.00	+	$ 2,300.00	+
Portfolio Income (Loss)		+/-		+/-

Important: When including guaranteed payments, review guidelines to ensure inclusion is allowed.

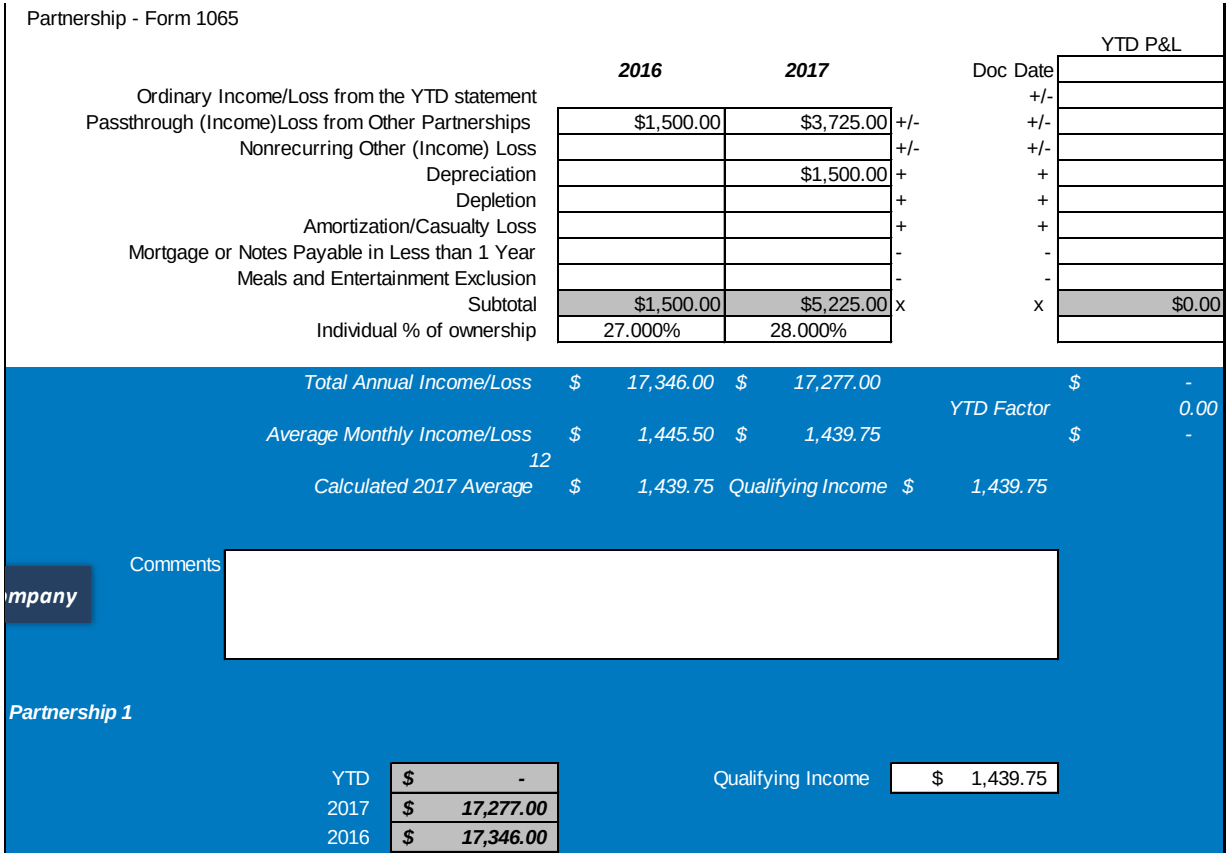
Schedule K-1 Total	$ 16,941.00	$ 15,814.00

- K1 information is entered in the top section

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Partnership



Partnership - Form 1065

	2016	2017		Doc Date	YTD P&L
Ordinary Income/Loss from the YTD statement				+/-	
Passthrough (Income)Loss from Other Partnerships	$1,500.00	$3,725.00	+/-	+/-	
Nonrecurring Other (Income) Loss			+/-	+/-	
Depreciation		$1,500.00	+	+	
Depletion			+	+	
Amortization/Casualty Loss			+	+	
Mortgage or Notes Payable in Less than 1 Year			-	-	
Meals and Entertainment Exclusion			-	-	
Subtotal	$1,500.00	$5,225.00	x	x	$0.00
Individual % of ownership	27.000%	28.000%			

Total Annual Income/Loss	$ 17,346.00	$ 17,277.00			$ -
				YTD Factor	*0.00*
Average Monthly Income/Loss	$ 1,445.50	$ 1,439.75			$ -
12					
Calculated 2017 Average	$ 1,439.75	*Qualifying Income*	$	1,439.75	

Comments

mpany

Partnership 1

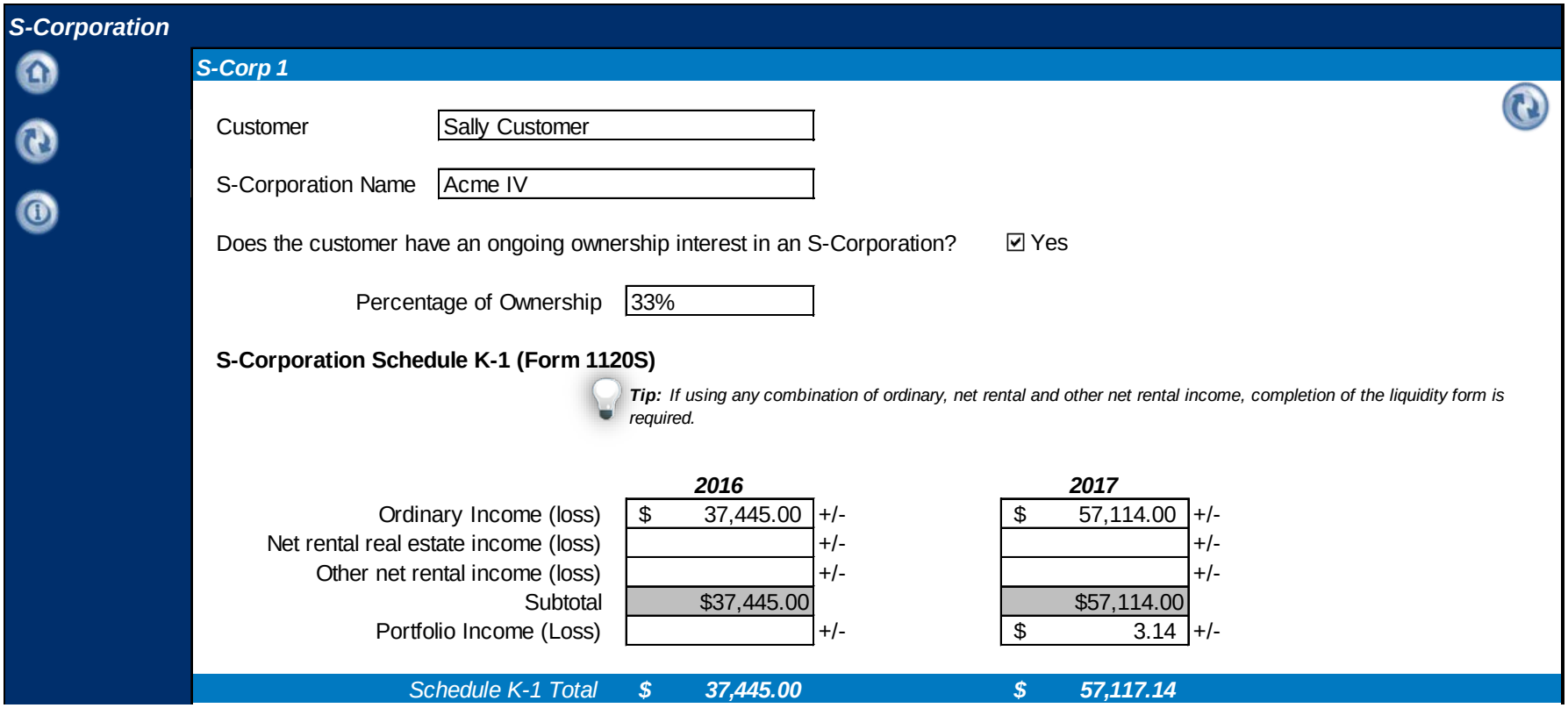
YTD	$ -
2017	$ 17,277.00
2016	$ 17,346.00

Qualifying Income $ 1,439.75

- 1065 information is entered in the lower section

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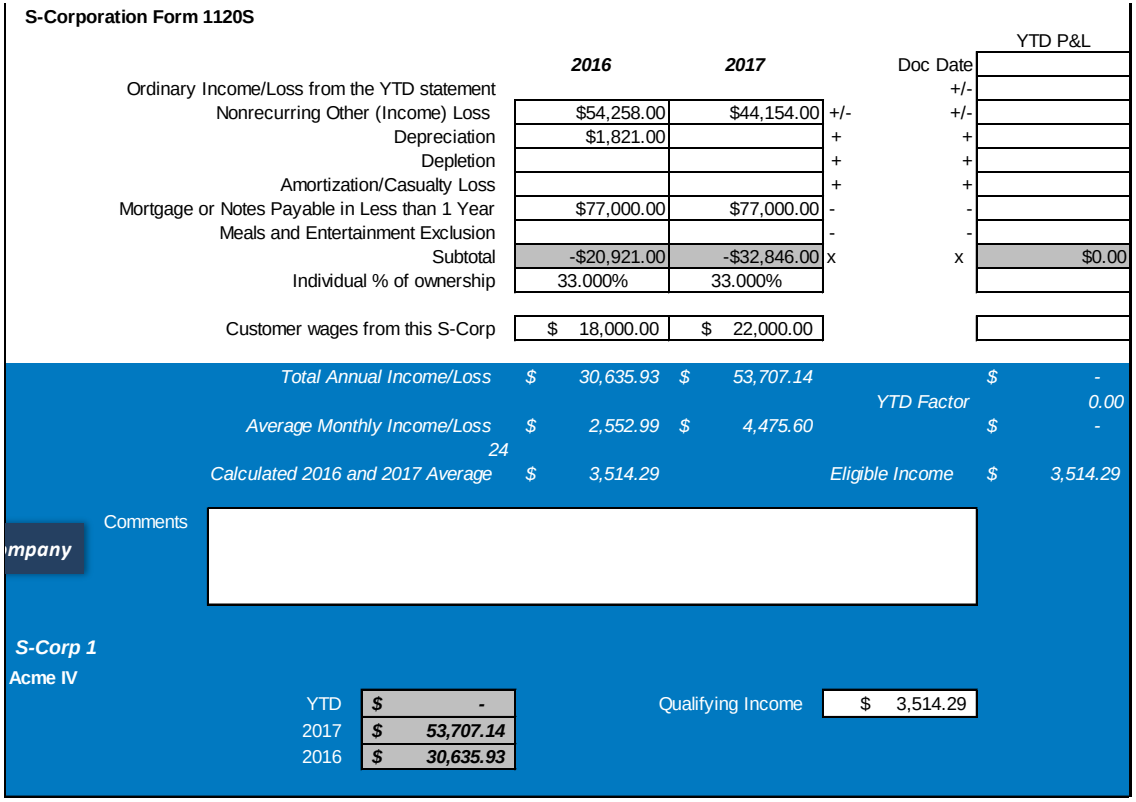
S-Corp



- K1 information is entered in the top section

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S-Corp



S-Corporation Form 1120S

	2016	2017		YTD P&L
			Doc Date	
Ordinary Income/Loss from the YTD statement			+/-	
Nonrecurring Other (Income) Loss	$54,258.00	$44,154.00	+/-	
Depreciation	$1,821.00		+	
Depletion			+	
Amortization/Casualty Loss			+	
Mortgage or Notes Payable in Less than 1 Year	$77,000.00	$77,000.00	-	
Meals and Entertainment Exclusion			-	
Subtotal	-$20,921.00	-$32,846.00	x	$0.00
Individual % of ownership	33.000%	33.000%		
Customer wages from this S-Corp	$ 18,000.00	$ 22,000.00		

Total Annual Income/Loss	*$ 30,635.93*	*$ 53,707.14*	*YTD Factor*	*$ - 0.00*
Average Monthly Income/Loss	*$ 2,552.99*	*$ 4,475.60*		*$ -*
24				
Calculated 2016 and 2017 Average	*$ 3,514.29*		*Eligible Income*	*$ 3,514.29*

Comments

S-Corp 1

Acme IV

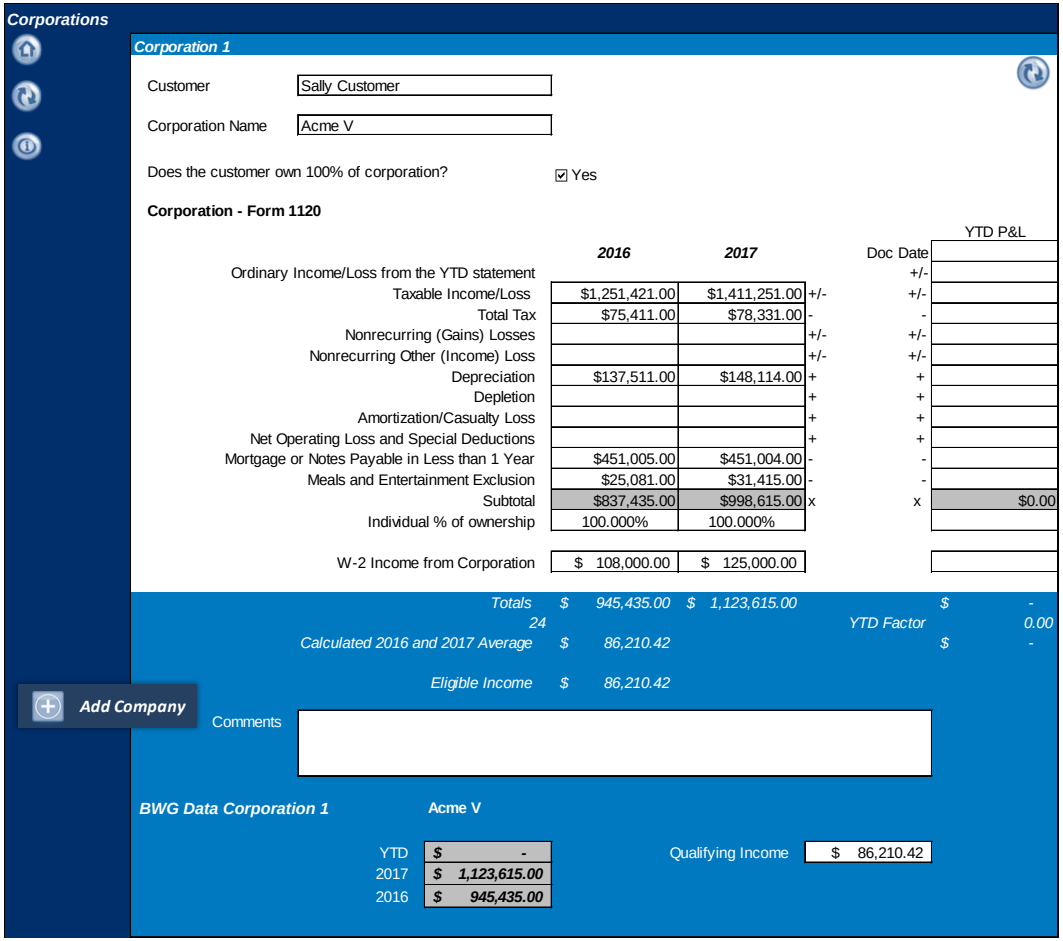
YTD	$ -
2017	$ 53,707.14
2016	$ 30,635.93

Qualifying Income $ 3,514.29

- 1120S information is entered in the lower section
- Borrower's wages from W-2 income for the S-Corp will be entered in the lower section.

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C-Corp



- Refer to Chase Correspondent Online Guide for the acceptability of the use of Corporation income.
- Correspondent Lending Library>Credit Guide - Non-Agency>Income - Non-Agency>Employment Income – Self Employed Sources – Non-Agency>Corporation

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Comparative Income Analysis

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Purpose

- When evaluating self-employed income sources, underwriters will use the following tools:
  - The Income Calculation Workbook to calculate income.
  - The Comparative Income Analysis helps establish the stability of each company.

- Fannie Mae's Comparative Income Analysis, (Form 1088), is used to compare the borrower's business over a period of years, specifically for year-to-year trends in Gross Income, Expenses, and Taxable Income.

- When a borrower relies upon self-employed income to qualify for Non-Agency mortgage transactions, a written evaluation of the stability of the borrower's business is required.

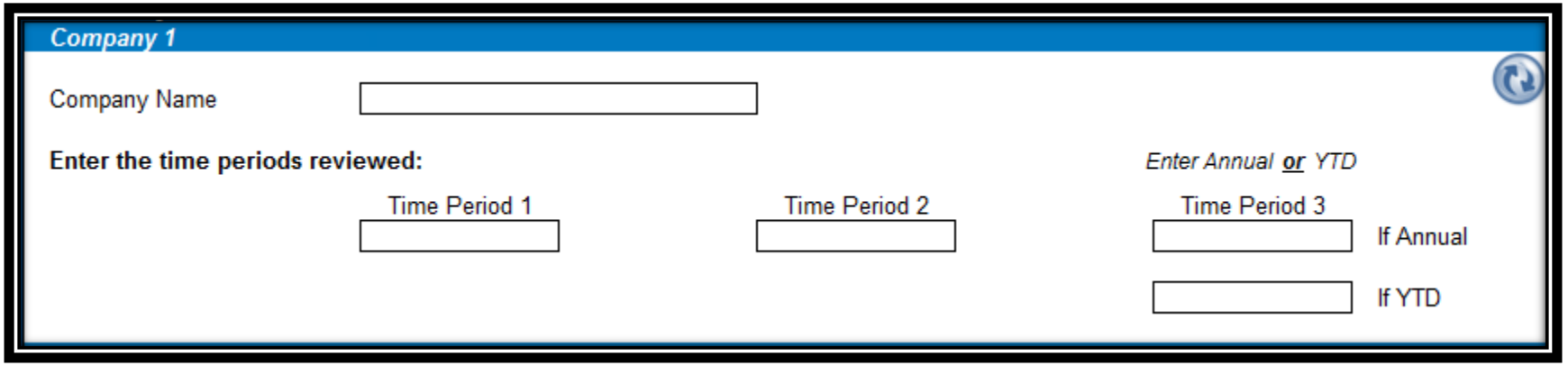
- Correspondents can utilize a new form embedded in the Income Calculation Workbook (ICW) similar to Fannie Mae's Comparative Income Analysis (Form 1088) to compare the performance of a self-employed borrower's business over a period of years to determine its viability.

- In addition to the written evaluation, the Correspondent must consider any and all factors related to the viability of the business, including but not limited to, knowledge of other businesses in the same industry and economic trends.

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Company Information



- Time period will default to a YTD calculation or an annual calculation based on the date entered.
  - Enter as mm/dd/yyyy even if it is an annual amount.

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Income

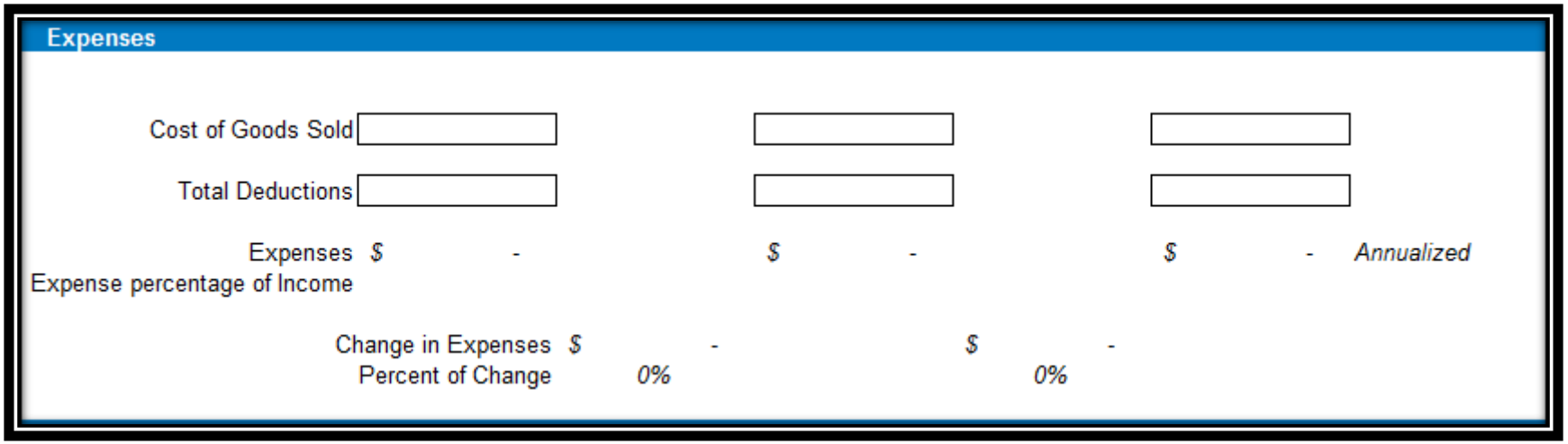
Gross Income

Gross Receipts or Sales			
Returns and Allowances			
Gross Income	$ -	$ -	$ - Annualized
Change in Income	$ -	$ -	
Percent of Change	0%	0%	

- Enter income information for each of the 3 time periods.

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Expenses

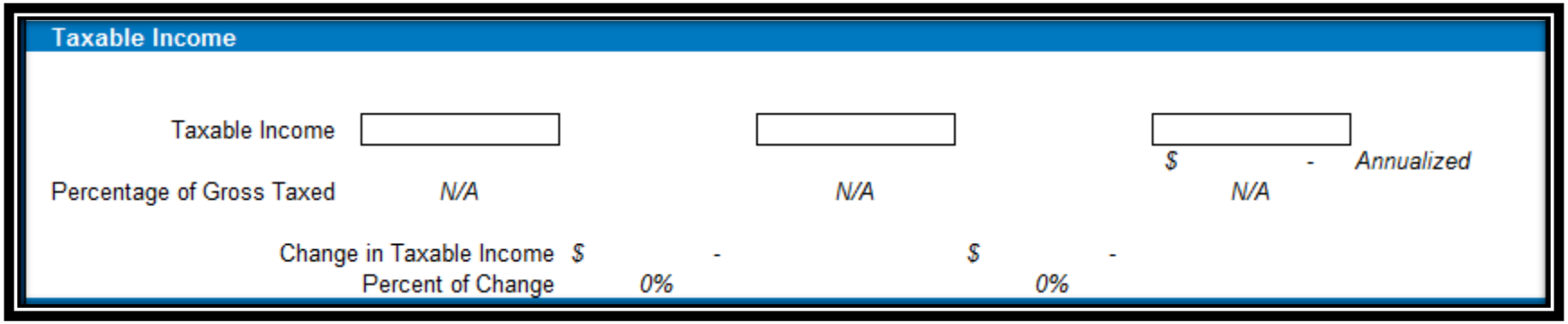


- Enter expense information for each of the 3 time periods.

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Taxable Income

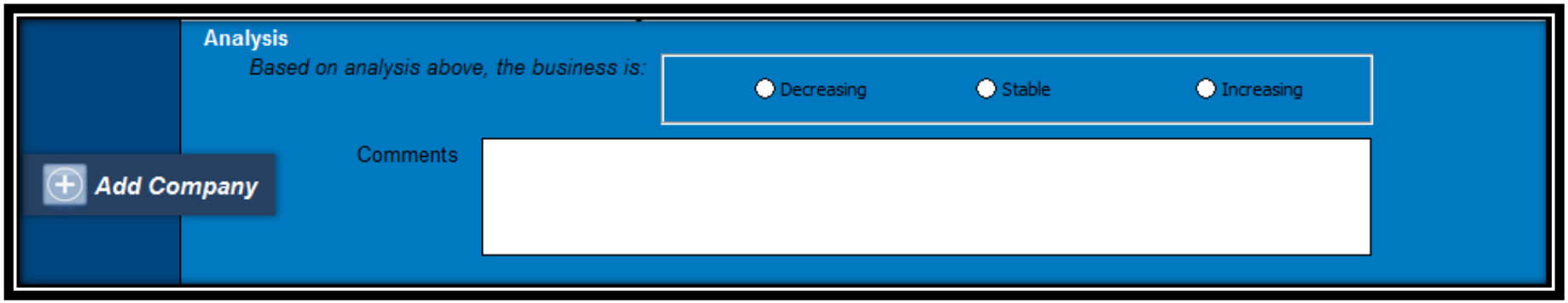


Taxable Income					
Taxable Income				$ -	Annualized
Percentage of Gross Taxed	N/A		N/A		N/A
Change in Taxable Income	$ -		$ -		
Percent of Change	0%		0%		

- Enter taxable income information for each of the 3 time periods.

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Analysis



- Based on the percentage changes from year to year the UW will determine whether or not the business's income is Decreasing, Stable, or Increasing.

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Business Liquidity

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Purpose & Analysis

- When a borrower is qualified using K-1 Business Income from Partnerships or S Corporations and cash distributions are less than qualifying income, the business has to show that it has adequate liquidity to support the withdrawal of those earnings in addition to other guideline requirements.

- There are two basic methods of analyzing the liquidity of the business:
  - Quick Ratio – for businesses which rely on maintaining an inventory
  - Current Ratio – for businesses which do not rely on inventory
  - Liquidity is sufficient if the ratio is >= 1.0

- Quick Ratio Calculation:
  - (Assets - Inventory)/Liabilities

- Current Ratio Calculation:
  - (Assets/Liabilities)

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Business Liquidity Terms

Term	Definition
K-1 Business Income	Income derived from the following sources reported on Schedule K-1: • Ordinary Income • Net Rental Real Estate Income • Other Net Rental Income
Ordinary Income	• Ordinary Business Income Schedule K-1 (Form 1065) • Ordinary Business Income Schedule K-1 (Form 1120S)
Net Rental Real Estate Income	• Net Rental Real Estate Income Schedule K-1 (Form 1065) • Net Rental Real Estate Income Schedule K-1 (Form 1120S)
Other Net Rental Income	• Other Net Rental Income Schedule K-1 (Form 1065) • Other Net Rental Income Schedule K-1 (Form 1120S)
Guaranteed Payments	• Schedule K-1 (Form 1065)
Cash Distributions	• Schedule K-1 (Form 1065) • Schedule K-1 (Form 1120s)
Business Activity Codes and Business Code Number	Codes used by the IRS to classify a business by the largest percentage of its "total receipts" the type of activity in which it is engaged in. Can be used to help identify the type of business (if unclear) when determining if the business relies heavily on inventory.
Cost of Goods Sold	• Most recent Form 1065 and Form 1120S

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Business Liquidity Terms

Term	Definition

Assets	• Most recent **Form 1065 / Form 1120S / Form 1120:**
	  • Schedule L column (d)
	  • **Cash**
	  • **Less Allowance for Bad Debts**
	  • **Inventories**
	  • **Other current assets (attach statement)**
	  • **Assets used in this category must be readily available for liquidation (Marketable securities for example)**

Inventory	• Most recent **Form 1065 / Form 1120S / Form 1120:**
	  • Schedule L column (d)
	  • **Inventories**

Liabilities	• Most recent **Form 1065 / Form 1120S / Form 1120:**
	  • Schedule L column (d)
	  • **Accounts Payable**,
	  • **Mortgages, Notes, Bonds Payable in <1 year** and
	  • **Other Current Liabilities**

Quick Ratio	• The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. **Calculation**: Quick Ratio = (assets — inventory) ÷ current liabilities
Current Ratio	• The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income. **Calculation**: Current Ratio = assets ÷ current liabilities

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Example

Form 1120 (2017) Page

Schedule L	Balance Sheets per Books	ax year
	Assets	**(d)**
1	Cash	15,000
2a	Trade notes and accounts receivable	
b	Less allowance for bad debts	2,500
3	Inventories	25,560
4	U.S. government obligations	
5	Tax-exempt securities (see instructions)	
6	Other current assets (attach statement)	
7	Loans to shareholders	
8	Mortgage and real estate loans	
9	Other investments (attach statement)	
10a	Buildings and other depreciable assets	
b	Less accumulated depreciation	
11a	Depletable assets	
b	Less accumulated depletion	
12	Land (net of any amortization)	
13a	Intangible assets (amortizable only)	
b	Less accumulated amortization	
14	Other assets (attach statement)	
15	Total assets	
	Liabilities and Shareholders' Equity	
16	Accounts payable	1,250
17	Mortgages, notes, bonds payable in less than 1 year	10,000
18	Other current liabilities (attach statement)	450

Note: This example is based off year 2017 1120 tax form.

- **Quick Ratio** = (Assets – Inventory) / Liabilities

Assets = 15,000 + 2,500 + 25,560
Inventory = 25,560
Liabilities = 1,250 + 10,000 + 450

Ratio = 1.4957

- **Current Ratio** = Assets / Liabilities

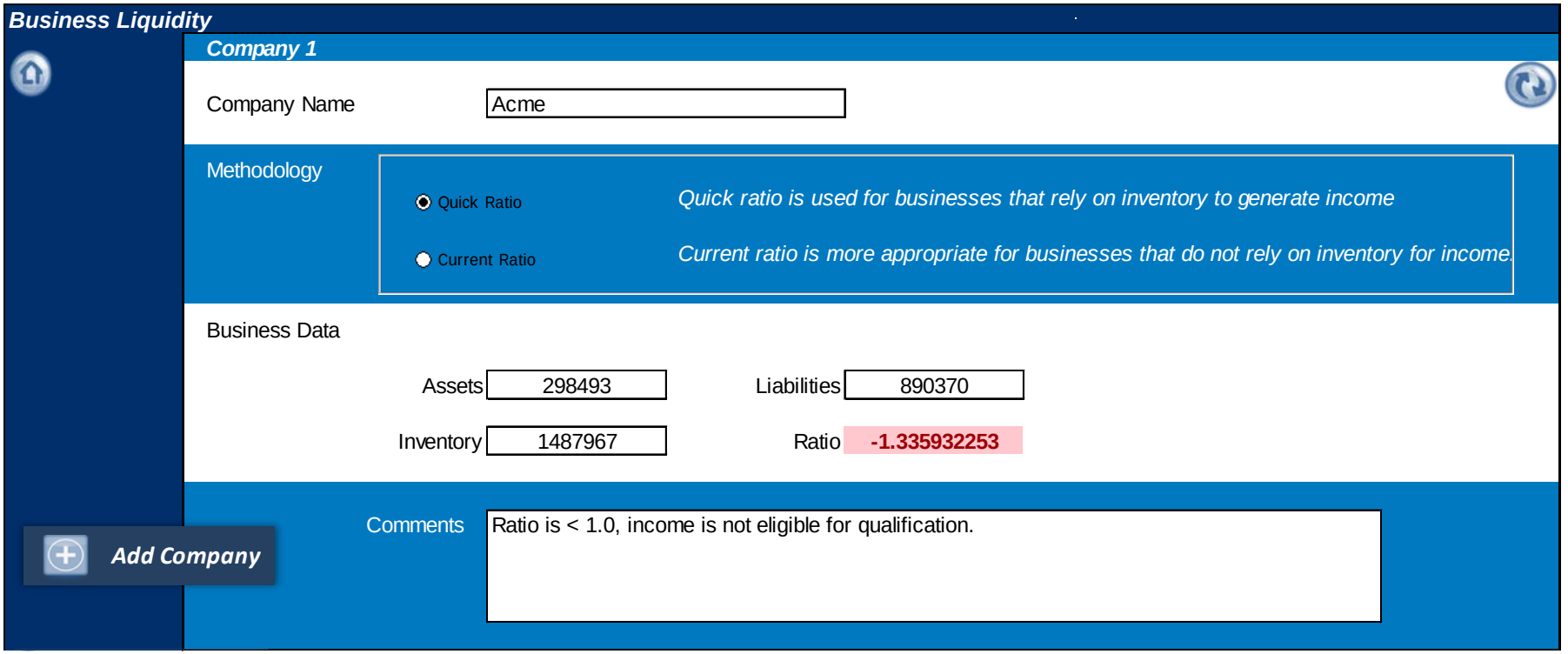
Assets = 15,000 + 2,500 + 25,560
Liabilities = 1,250 + 10,000 + 450

Ratio = 3.6803

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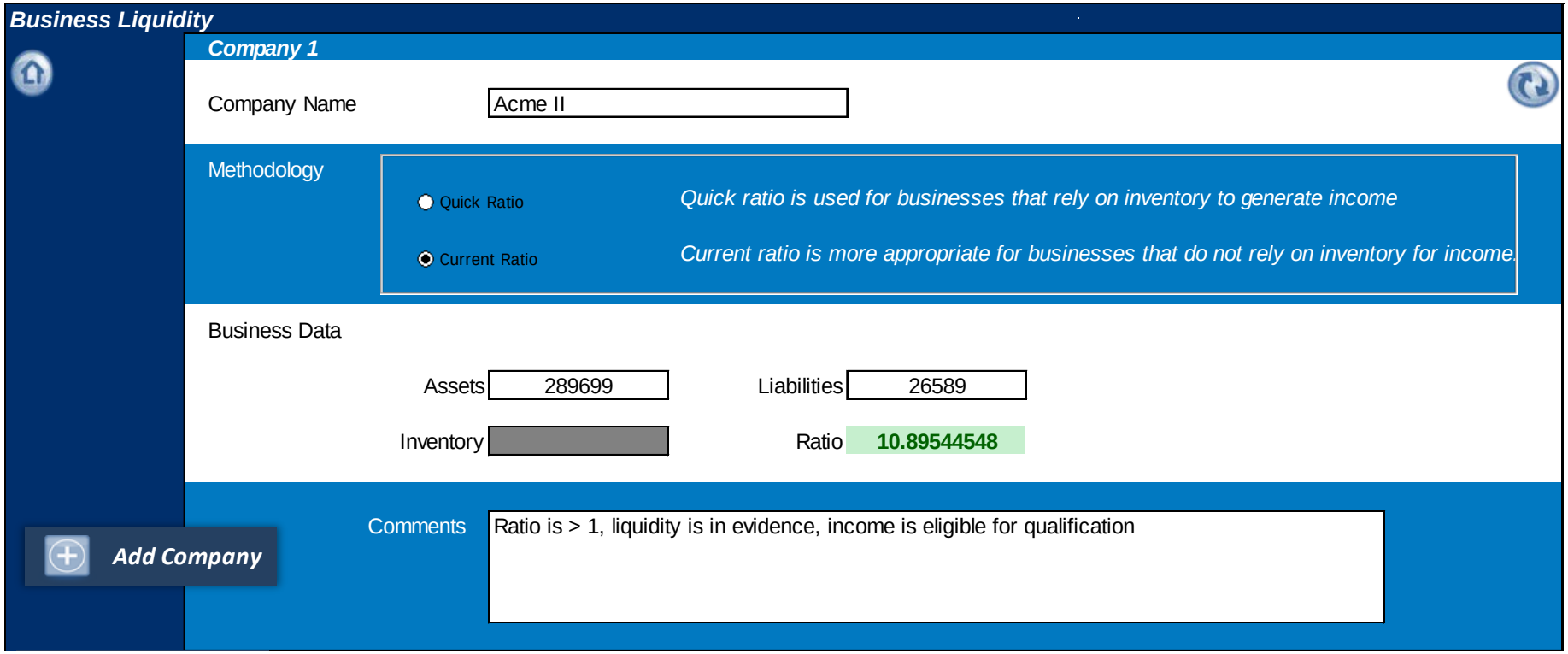
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Business Liquidity – Quick Ratio



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Business Liquidity – Current Ratio



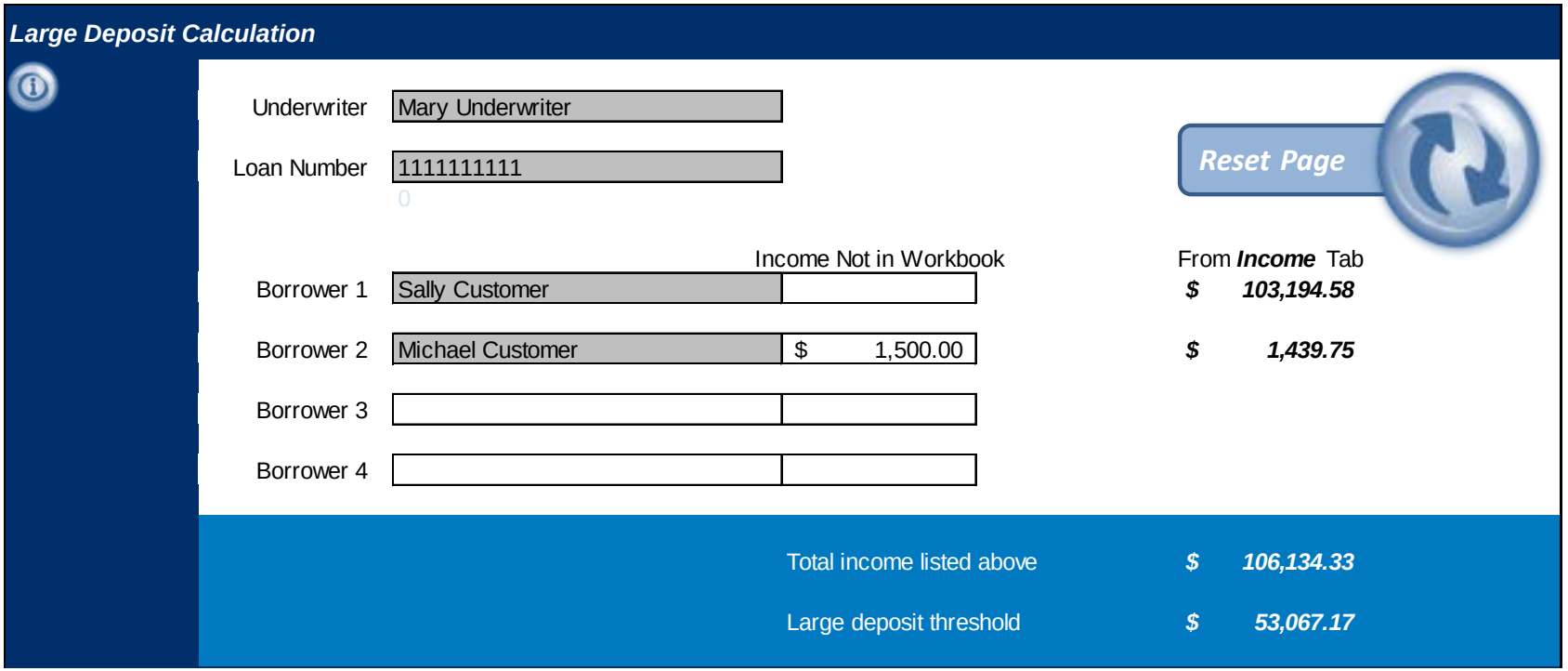
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Large Deposit Tracking

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Large Deposit Calculation

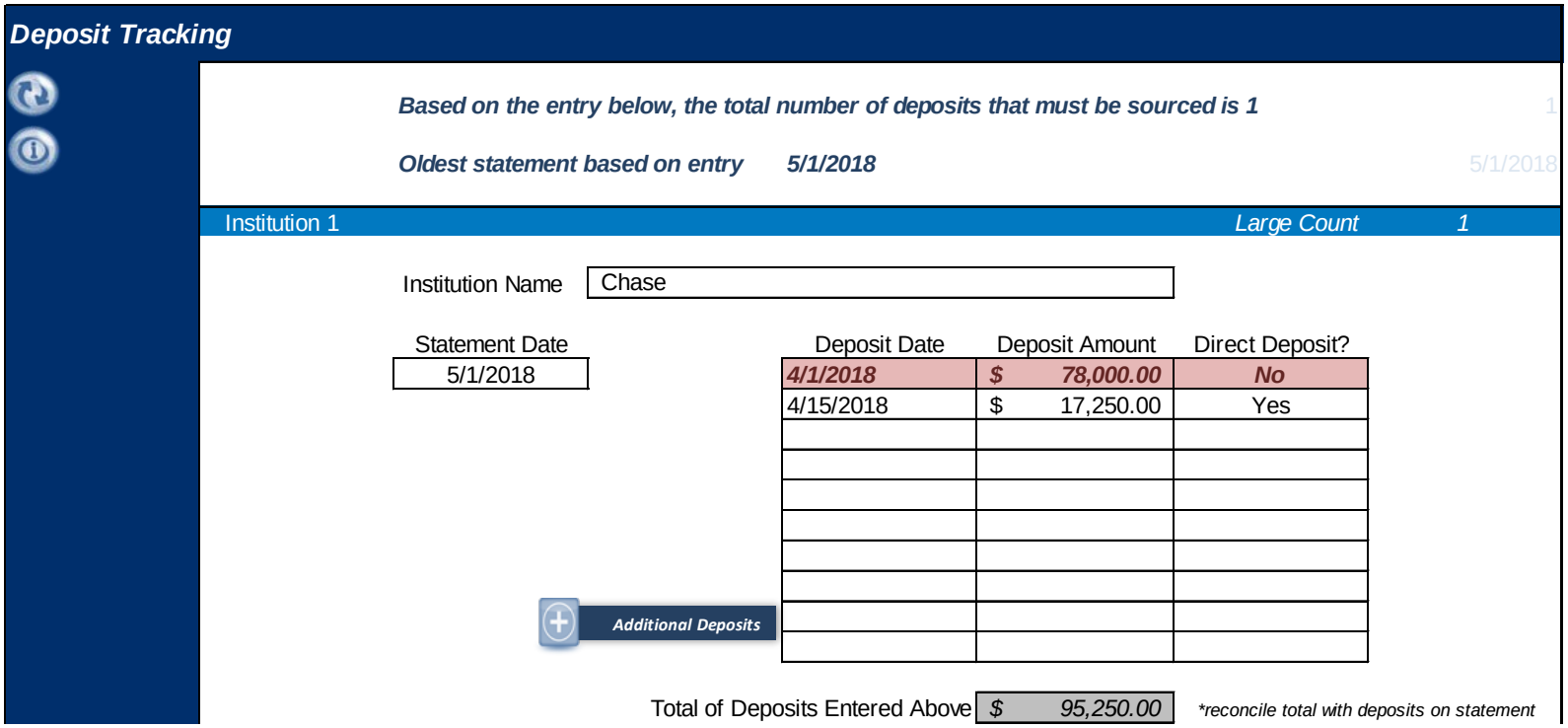


- Based on all income information provided, the Large Deposit Calculation will show the large deposit threshold for the loan.

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Deposit Tracking



- Can help identify which deposit are required to be sourced

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Thank You

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