

# DEFY WHOLESALE BANK STATEMENT CALCULATION & EXPENSE FACTORS

## Business Bank Statements (12- or 24-Months ALT DOC)

**Method #1 ALT DOC (Expense Factor Percentage using the chart below X % = Expense Deduction):**

**Service Business** (Examples: Consulting, Accounting, Legal, Therapy, Financial Planning, IT, Insurance, other related Services offered Businesses) **Number of Full Time Employee's OR Contractors:**

<b>0 = 15%</b>	<b>1-5 = 30%</b>	<b>&gt;5 = 50%</b>
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**Product/Sell of Goods Business** (Examples: Any Large-Scale business operation, Retail, Food Services, Manufacturing, Construction/ETC) **Number of Full Time Employee's OR Contractors:**

<b>0 = 25%</b>	<b>1-5 = 50%</b>	<b>&gt;5 = 85%</b>
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**Example: 200,000 Gross deposits, Lawyer with 3 Employee's final income = 140,000 after 30% Factor**

**Method #2 ALT DOC (CPA or Licensed Tax Professional Expense Statement)** Qualifying income is derived from the calculation of a Third- Party Prepared Expense Statement. The expense statement must be prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a percentage of the gross annual sales/revenue prepared. Net income from the Expense Statement is calculated by determining the total deposits per bank statements (minus any allowed deposits) multiplied by the expense percentage provided by the CPA or tax preparer and divided by either 12 or 24 months --Total Deposits – Expense Statement Percentage / 12 or 24 months = Net Income used to qualify.

**Method #3 ALT DOC (CPA or Licensed Tax Professional Prepared P & L)** Total Gross deposits less transfers from other accounts that are not business related, if there are transfers from other business accounts and you need those funds to qualify you will need to provide those full bank statements as well. The total Gross deposit figures should be used for the income. Max DTI 50% - Profit and Loss statement must cover the same time of the bank statements used for income (i.e. 10/2018-9/2020 would cover 24 months and/or 11/2019-10/2020 would cover 12 months) CPA/licensed tax preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower and they are not related to the borrower or associated with the borrower's business. The Gross revenue listed on the P&L Must be within 10% +/- of the total qualified deposits. Eligible deposits from the bank statements cannot be less than gross income shown on P&L - Initial signed 1003 with monthly income disclosed. Must be equal to or higher than Net income on P&L.

**NOTE:** If the borrower is not 100% Business Owner the percentage of ownership will determine the final income factor (i.e. client owns 50% of the business using Method #1 50% of the deposits divided by 50% equals your final income number used for qualifying debt ratio, same formula for Method #2 taken off the Net income from the P & L – Borrowers must have at least 50% Minimum ownership in order to use business bank statements for income)

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## Personal Bank Statements (12- or 24-Months ALT DOC)

**Method #1:** Statements that are separate from the business account. Personal Statements must be provided with 3 months Business Statements. Use 100% of the Total Gross deposits less transfers from other accounts that are not business related, if there are transfers from other business accounts and you need those funds to qualify you will need to provide those full bank statement. The total Gross deposit figures should be used for the income listed on the application.

**Method #2:** Statements that are Not Separate from the business bank statements. The above business bank statement expense factors apply. The total Gross deposit less transfers divided by the appropriate expense factor figures should be used for the income listed on the application.

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*Continued to page 2*

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## DEFY WHOLESALE BANK STATEMENT CALCULATION & EXPENSE FACTORS CONT>

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**Proof of Self Employment** (All options require a 2 Years Minimum / 1 Year Cash by Case if the client is in the same line of work)

**Method #1:** CPA/Tax Preparer to provide on their letterhead the number of years the borrower has been self-employed, the letter will also need to contain the percentage of ownership and if funds from the Business Bank Statement accounts are used for Closing Costs, Down Payment or Reserves they must also attest that the use of business funds will not directly impact the day to day business operations.

**Method #2:** Borrower to provide 2 Years business licenses in the same business and proof via online printout from the state that the business is open and active.

**Other Notes:**

- The use of Bank Statements can be combined with W2 wages for the Borrower or Co-Borrower
  - 1099 Borrowers are allowed to use bank statements to support income
  - Large One-Time deposits should be excluded from calculations (i.e. the sale of a real estate)
  - Bank Statements with Multiple NSF/Overdraft MAX 20 TOTAL WITH A DETAILED Explanation
  - Minimum of 25% Ownership to use Business Statements (Alt-Doc Only)
  - Some exceptions are allowed on a case-by-case basis to these reference guides – **MAX DTI 50%**
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