



Are you Smarter than an Accountant?

Brought to you by MaryKay Scully



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Customer Education

Brought to you by Enact Customer Development and Process Consulting

Enact Mortgage Insurance Corporation and Enact Mortgage Insurance Corporation of North Carolina
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Self-Employment

1. A borrower who has 25% or more ownership in a business is considered self-employed.

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income	
Employer or Business Name _____ Phone (____) ____ - _____	
Street _____ Unit # _____	
City _____ State _____ ZIP _____ Country _____	
Position or Title _____	Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
Start Date ____ / ____ / ____ (mm/dd/yyyy) How long in this line of work? ____ Years ____ Months	
<input type="checkbox"/> Check if you are the Business Owner or Self-Employed	<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss) \$ _____
	<input checked="" type="radio"/> I have an ownership share of 25% or more. \$ _____

- True
 False

2. In DU version 11.1 (current version), self-employment is considered a risk factor in evaluating the file when the self-employed income is being used as qualifying income.

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income	
Employer or Business Name _____ Phone (____) ____ - _____	
Street _____ Unit # _____	
City _____ State _____ ZIP _____ Country _____	
Position or Title _____	Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
Start Date ____ / ____ / ____ (mm/dd/yyyy) How long in this line of work? ____ Years ____ Months	
<input checked="" type="checkbox"/> Check if you are the Business Owner or Self-Employed	<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss) \$ _____
	<input checked="" type="radio"/> I have an ownership share of 25% or more. \$ _____

- True
 False

3. In Loan Product Advisor, self-employment is considered a risk factor in evaluating the file when the self-employed income is being used as qualifying income.

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income

Employer or Business Name _____	Phone (____) ____ - ____
Street _____	Unit # _____
City _____	State _____ ZIP _____ Country _____
Position or Title _____	Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
Start Date ____ / ____ / ____ (mm/dd/yyyy)	
How long in this line of work? ____ Years ____ Months	
<input checked="" type="checkbox"/> Check if you are the Business Owner or Self-Employed	<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss) \$ _____
	<input checked="" type="radio"/> I have an ownership share of 25% or more.

- True
- False

Compliance

4. Which form is required to be included in the file that grants permission to request a copy of the applicants filed tax returns from the IRS?

- 4556T
- 4506T
- 4506C**
- 2106T

W2 Wages

5. The borrower receives a salary and provides a computer-generated paystub and W2. Their salary can be considered for loan qualification purposes regardless of any percentage of ownership.

- True
- False**

Expenses

6. A borrower that receives a 1099 may itemize business expenses against that income on Schedule **C** .

Self-Employment

7. A Schedule C, Sole proprietor business may have two owners.

- True
- False

8. A Borrower can own 100% of a Partnership.

- True
- False

9. A Borrower can own 100% of a S-Corporation.

- True
- False

Tax Return Review

10. When the borrower acknowledges an employment relationship with a party in the transaction you must review the borrower's personal tax return.

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income	
Employer or Business Name	Phone () -
Street	Unit #
City	State ZIP Country
Position or Title	
Start Date / / (mm/dd/yyyy)	Check if this statement applies: <input type="checkbox"/> I am employed by a family member, property seller, real estate agent, or other party to the transaction.
How long in this line of work? Years Months	
<input type="checkbox"/> Check if you are the Business Owner or Self-Employed	<input type="radio"/> I have an ownership share of less than 25%. Monthly Income (or Loss)
	<input type="radio"/> I have an ownership share of 25% or more. \$

- True
- False

Schedule C

11. The borrower files their SEB income on a Schedule C. The Net Income is enough to qualify the borrower. You are not required to calculate the income with adjustments.

- True
- False

Schedule E

12. A net rental loss can be subtracted from income rather than included as a liability when calculating the DTI for either Fannie Mae or Freddie Mac?

- True
- False

13. The borrower receives two K1s that are filed on Schedule E. The filing of K1 means your borrower is self employed and business returns are automatically required.

- True
- False

1065 K1

14. Which percentage value, on the 1065 K1, is used to determine if the borrower is a 25% owner of the business?

J Partner's share of profit, loss, and capital (see instructions):				
	Beginning		Ending	
Profit		22 %		29 %
Loss		26 %		27 %
Capital		23 %		24 %

- Ending Profit – 29%
- Ending Loss – 27%
- Ending Capital – 24%

15. The borrower's K1 reports \$11,762 in taxable Ordinary Income. The K1 indicates NO cash distribution to the borrower.

The borrower must report and pay taxes on the \$11,762 even though they did not receive any cash.

- True
- False

16. The borrower's K1 reports \$11,762 in taxable Ordinary Income. The K1 indicates NO distribution to the borrower. The \$11,762 can not be used as qualifying income unless the business is viable, and a liquidity test passed.

- True
- False

1120 K1

17. The borrower's K1s reports \$54,459 in taxable Ordinary Income. The K1 indicates a distribution of \$18,820. If the business is considered viable which income can be used without a liquidity test.

- \$54,459
- \$18,820

18. The borrower's K1 reports \$108,067 in taxable Ordinary Income. The K1 indicates a cash distribution of \$213,995.

The \$213,995 can be used as qualifying income since the borrower received it. No liquidity test is required but the business must be considered viable.

- True
- False

Self-Employment

19. Your file has two borrowers. A Borrower and an Additional Borrower.
- The Borrower is Not self-employed with just their salary income, the qualifying ratios are 32% & 44%.
 - The Additional Borrower runs a small business out of their home and files a Schedule C declaring a Net Loss of \$11,000.

If the Additional Borrower remains on the file their loss must be considered, and the Borrower's income reduced, and the ratios recalculated.

- True
 False

Tax Returns

20. Verified Non-Taxable income can typically be grossed-up and used at _____ on Agency loans?
- 115% of its value
 - 125% of its value
 - 150% of its value
 - Income can never be grossed-up.

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Income Calculation Tools by Enact MI

We get it, mental math is hard. That's why Enact provides a collection of downloadable calculators and reference guides to help you analyze a self-employed borrower's average monthly income and expenses. Please note that these tools offer suggested guidance, they don't replace instructions or applicable guidelines from the GSEs.

Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

Income Calculation Worksheet Use this form to calculate income. UPDATED	Fannie Mae Form 1084 Calculator (2022-2021) Calculate and analyze cash flow to help you complete Fannie Mae form 1084. UPDATED	Fannie Mae Form 1084 Calculator XLS (2022-2021) Calculate and analyze cash flow to help you complete Fannie Mae form 1084. UPDATED
Freddie Mac Form 91 Calculator (2022-2021) Quick reference guide and income analysis for Freddie Mac Form 91. UPDATED	Freddie Mac Form 92 Calculator (2022-2021) Form 92 Net Rental Income Calculations - Schedule E. UPDATED	Rental Income Calculator (2022-2021) Assists in calculating rental income from IRS form 1040 Schedule E. UPDATED
Quick Ratio - Liquidity Calculator (2022-2021) Calculate an organization's liquidity against current liabilities. UPDATED	Current Ratio - Liquidity Calculator (2022-2021) Calculate working capital liquidity against current liabilities. UPDATED	Fannie Mae Rental Guide (Calculator 1037) Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, 2- to 4-unit Property). XLSX
Fannie Mae Rental Guide (Calculator 1038) Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1038 (Individual Rental Income from Investment Property(s) (up to 4 properties)). XLSX	Fannie Mae Rental Guide (Calculator 1039) Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property). UPDATED	Fannie Mae Form 1088 Cheat Sheet Use this quick reference guide for Fannie Mae's Comparative Analysis Form (Form 1088). PDF
Fannie Mae Comparative Analysis Form 1088 Calculate increases/decreases in gross income, expenses and taxable income. PDF	P&L Calculator Calculate revenues and expenses for running a business. UPDATED	

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