

## Mortgage Update - Stated Income Loans

There are still lenders offering stated income loans, however qualifying guidelines have changed significantly. Here are a few of the most recent updates pertaining to stated income and real estate investors.

- **Stated income for W-2 employees** – Most lenders have eliminated stated income for W-2 employees. Lenders still offering this option will closely scrutinize the reasonableness of the income.
- **Stated income for full time investors** - Stating income for a full time real estate investor is especially challenging due to the difficulty involved in proving the income source. Aside from any positive cash flow listed on the schedule of real estate owned an underwriter needs a credible source to consider the income reasonable.
- **Reasonableness of income** – Lenders look closely at the stated income compared to the occupation listed on the loan application. Lenders require some form of third party data supporting the “reasonableness” of income. This supporting data must be provided through various web sites such as <http://www.salary.com> or the US Department of Labor, Bureau of Labor Statistics at [http://www.bls.gov/oes/current/oes\\_stru.htm](http://www.bls.gov/oes/current/oes_stru.htm).
- **Reserve requirements** – The standard reserve requirement for investment properties is six months PITI (principle, interest, taxes, and insurance). There is an unwritten rule, however, that many underwriters want to see three to six months of the stated income in reserves to support the reasonableness of income.
- **CPA letters** - While it is not required to document the amount of stated income, it is required to prove the source of the income. Self employed borrowers must provide third party verification (CPA letter) stating they have been self employed in the same line of work for a minimum of two years. CPA letters are evaluated closely and may be confirmed through verbal verification.
- **Landlord experience** – Most lenders require a minimum of two years landlord experience (owning and renting at least one property for two years) for investment property loans. For stated income borrowers, proof of landlord experience is typically provided as part of the third party verification (CPA letter).
- **Interest rates** – As with any product or service in short supply, lenders charge higher interest rates for stated income loans. Investors can expect rates for stated income loans to be higher than those for full doc loans.
- **The Bottom Line** – Due to the reluctance of the secondary market to purchase stated income loans, lenders will only approve those applications which conform exactly to their guidelines and represent the lowest risk. All others will be declined.