

# GETTING TO KNOW YOUR BANK STATEMENT CLIENTS



The Flex Self-Employed Bank Statement program is an alternative underwriting method that considers the challenges of some self-employed borrowers.

Traditionally, our self-employed borrowers prove their income using company financials/T2s, T1 Generals, and Notice of Assessments (NOA). However, as many business owners have tax returns adjusted for deductions and business write-offs, income can appear lower than it really is. This has prevented many low-risk, responsible business owners from buying or refinancing a home.

This option is great for credit-worthy borrowers who have substantial tax write-offs reflected on their records, but their ability to repay their loan is strong due to the sustainability of their business, sufficient gross incomes, and strong cash positions.

## TO QUALIFY FOR SELF-EMPLOYED FLEX:

- Must have a minimum of 2 years BFS. If less than 2 years speak to your BDM.
- The maximum net income to qualify for Flex is 250K. If greater, the deal will qualify under our Self-Employed program
- A maximum of one business per application will be considered for qualification.
- A maximum of two bank accounts will be considered for qualification.
- Applicant must own a minimum of 25% of the business.
- The business cannot be a prohibited business:
  - Casinos
  - Adult entertainment
  - ATM businesses
  - Money service business/Foreign money exchange
  - Shell companies
  - Hair Salons
  - Dock Workers
  - Gas Stations Owners

## COLLECT DOCUMENTS:

- Proof of business ownership via one of the following:
  - Articles of incorporation
  - Business license
  - Two years of GST/HST registration
  - Shareholder/partnership agreement.
  - Business registration
- Flex Self-Employed Bank Statement Form
- 12 months of business bank statements
- Confirmation of no personal or business income taxes owing.
  - CRA statement of account (not NOA)

## UNDERSTAND YOUR CLIENT'S BUSINESS:

Brokers play a vital role in ensuring the success of these applications. One of the key factors that can greatly influence the outcome of a self-employed borrower's mortgage application is a comprehensive understanding of their business, which will help us get the deal done.

**Sustainability Assessment:** BwB will assess the long-term viability. A sustainable business is more likely to generate consistent income, enabling the borrower to meet their mortgage obligations without unnecessary financial strain.

Please submit **all the following** information in your deal notes with detailed explanations.

1. What are the sales and revenue projections for the next 12-24 months?
2. Are there any major renovations, expansions, or capital expenditures planned? If so, provide details for these projects.
3. Does the business have any long-term contracts, subscriptions, or recurring revenues?
4. What is the customer base, and how does the business plan to retain and grow it?

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**Seasonality Assessment:** Stability of income is crucial for any mortgage application. For self-employed borrowers, this is especially true. A thorough understanding of the business operations and financials will help us assess the predictability of revenues.

Please submit **all of the following** information in your deal notes with detailed explanations.

- Does the business experience fluctuations in revenue?
- Is this business seasonal?
- Does the business experience large contracts/deposits followed by periods of slower revenue?
- If the business is seasonal or cyclical, how do they manage these variations and ensure stable cash flow during slow periods?

## HOW WE QUALIFY INCOME.

**Total Allowable Revenue X Profit Margin X Borrowers % Ownership of Business = Qualifying Income.**

To determine allowable revenue, the underwriter will undertake a review of all deposits to identify those originating from business activities only. Deposits that fall outside the scope of normal business operations will be excluded.

The profit margin applied will be determined based on either the information provided in the Self-Employed Flex Mortgage form or the industry averages recommended by Statistics Canada.

**Income:** The underwriter will ask for 2-3 deposits to be supported by additional documentation (i.e. invoices, contracts). No need to collect in advance.

**Expenses:** Unlike deposits, recurring expenses (rent, insurance, car payments, etc.) are ideal and require no additional documentation to verify

- If the identification of recurring expenses is not obvious, the underwriter will ask for 2-3 expenses to be supported by additional documentation (leases, receipts, etc.). No need to collect in advance.

## Note on personal bank statements

When submitting deals from business owners who use their personal accounts for business activities, it becomes essential for the underwriter to distinguish between business and personal transactions. This adds a layer of complexity to the application process.

In this scenario, we request that you gather as much detail as possible regarding transactions that pertain to the business. Your input will greatly assist the underwriter. Remember, the more information we receive from the applicant, the smoother the process of finalizing the deal.

## THE GATEWAY SELF-EMPLOYED MORTGAGE

Every self-employed borrower's situation is unique. A cookie-cutter approach to business files simply doesn't work. If your client doesn't fit into the Flex program based on the criteria above, their application may be filed under our Self-Employed program, in which we can tailor the income verification solution.

Our Self-Employed program relies on a proprietary approach using [gross-ups and add-backs](#) from the clients T1s and business financials. To increase the likelihood of a successful application, [talk to your BDM](#) today.