



MFM Bulletin: 005-2020

Date: June 10, 2020

Subject: Fannie Mae and Freddie Mac Additional requirements for Self-Employed borrowers

Due to the continued impact COVID-19 has had on businesses throughout the country, lenders are now required to obtain the following additional documentation to support the decision that self-employment income is stable and has a reasonable expectation of continuance. Whether a business is impacted by an event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business.

Effective with mortgage applications on or after June 11, 2020, the following documentation is required:

- An **audited** year-to-date profit and loss statement (prepared by a CPA) reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; or
- An unaudited year-to-date profit and loss statement (prepared by an accountant) and signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, **and** two business bank account(s) statements no older than the latest two months represented on the year-to-date profit and loss statement.
 - For example, the business depository account statements can be no older than April and May for a year-to-date profit and loss statement dated through May 31, 2020.
 - The lender must review the two most recent depository account statements to support and/or not conflict with the information presented in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date profit and loss statement.

MFM will review the profit and loss statement, and business bank accounts if required, and will perform an assessment of the business operations and stability using the guidance provide by Fannie Mae and Freddie Mac in the table on page 2 (Assessing the Impact of COVID-19).

Business Income Calculation Adjustment

If MFM determines the current year net business income has been impacted by the COVID-19 pandemic and is:

- Less than the historical monthly income calculation based on either one or two years of business and personal tax returns, but is stable at its current level, then MFM will reduce the amount of qualifying income calculated to no more than the current level of stable income as determined by the underwriter (see "Business Income" section in the table below).
- More than the historical income calculation, MFM will use the lower of the two.



Assessing the Impact of COVID-19	
Business Operations	<p>Have business operations been maintained or modified to support continued business income?</p> <p><i>For example, review an updated business plan.</i></p> <ul style="list-style-type: none"> • Is the business continuing to operate in the current location or an alternate location suitable for business operations? <p><i>For example, perform an Internet search or verify through a third-party source.</i></p> <ul style="list-style-type: none"> • Is there a demand for the product or service currently offered by the business? <p><i>For example, obtain current business receipts or purchase contracts.</i></p> <ul style="list-style-type: none"> • Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders? • Is the impact to the business operations negligible due to the nature of the business? <p><i>For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.</i></p>
Business Income	<p>The lender must complete a business income assessment by comparing the year-to-date net business income from the year-to-date profit and loss statement to historical business income calculated using the <i>Cash Flow Analysis Form*</i> for a similar timeframe (such as monthly).</p> <ul style="list-style-type: none"> • Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement), Analyzing Profit and Loss Statements when making this determination. • When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes. <p>Example Historical monthly self-employment income calculated using Cash Flow Analysis Form = \$2,000.</p> <p>Current level of stable monthly self-employment income as determined by the lender using details from the year-to-date profit and loss statement and other supplemental documentation = \$1,000.</p>



	<p>The impact of the COVID 19 pandemic on current business income results in a 50% decline from historical levels. See Business Income Calculation Adjustment above for next steps.</p> <p>*Form 1084 or any other type of cash flow analysis form that applies the same principles.</p>
<p>Business Stability</p>	<ul style="list-style-type: none"> • Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance? (Consider documenting with an updated business plan) • Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings? • Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions? <p>A current balance sheet may be used to support the lender’s determination of business stability, in conjunction with the profit loss statement.</p>