

WHOLESALE BULLETIN

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[Wholesale Website](#)

[Previous Bulletins](#)

20W-080

Attention: AEs, Business Development Managers & Mortgage Brokers

June 8, 2020

Please take a moment to read the important information contained in this bulletin.

Included in this Bulletin: Updated COVID-19 Guidance for Conventional Self Employed Borrowers

Mountain West Financial® (MWF) is always excited to loan to self-employed borrowers. The agencies have been updating their guidance during this COVID-19 pandemic. Here is the most recent guidance for self-employed borrowers.

Fannie Mae and Freddie Mac are providing updated requirements for borrowers when using self-employed income for qualifying. These requirements are effective for loans with application dates on or after June 11, 2020, however these requirements are encouraged to be applied to existing loans in process.

Income Analysis

Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse 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. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, MWF is required to determine if the borrower's income is stable and has a reasonable expectation of continuance. Due to the pandemic's continuing impact on businesses throughout the country, MWF is now required to obtain the following additional documentation to support the decision that the self-employment income meets Fannie and Freddie requirements:

- An audited year to date profit and loss statement 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 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 depository 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.
 - MWF 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 MWF must obtain additional statements or other documentation to support the information from the current year to date profit and loss statement.

NOTE: The year to date profit and loss statement must be no older than 60 days old as of the Note date consistent with current “Age of Documentation” requirements.

MWF must review the profit and loss statement, and business depository accounts if required, and other relevant factors to determine the extent to which a business has been impacted by COVID-19. MWF will use the following guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, MWF may find it necessary to obtain supplemental documentation listed in the examples below.

Assessing the Impact of COVID-19	
Business Operations	<ul style="list-style-type: none"> • Have business operations been maintained or modified to support continued business income? <i>For example</i>, review an updated business plan. • Is the business continuing to operate in the current location or an alternate location suitable for business operations? <i>For example</i>, perform an internet search or verify through a third party source. • Is there a demand for the product or service currently offered by the business? <i>For example</i>, obtain current business receipts or purchase contracts. • 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? <i>For example</i>, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the even timeline.
Business Income	<ul style="list-style-type: none"> • MWF 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 a “Cash Flow Analysis Form” for a similar timeframe (such as monthly). • Standard adjustments can be made to business cash flow (net income on the profit and loss statement) in accordance with Analyzing Profit and Loss Statements guidance when making this determination. • When MWF determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, MWF 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><i>Example</i> Historical monthly self-employment income calculated using “Cash Flow Analysis Form” = \$2,000.00</p> <p>Current level of stable monthly self-employment income as determined by MWF using details from the year to date profit and loss statement and other supplemental documentation = \$1,000.00</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 below for next steps.
Business Stability	<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 grant(s) 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 MWF's determination of business stability, in conjunction with the profit loss statement.</p>

Business Income Calculation Adjustment

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

- **Less than** the historical monthly income calculated using "Cash Flow Analysis Form", but is stable at its current level, MWF must reduce the amount of qualifying income calculated using "Cash Flow Analysis Form" to no more than the current level of stable income as determined by MWF (see **Business Income** above).
- **More than** the historical income calculated using "Cash Flow Analysis Form", MWF must use no more than the currently stable level of income calculated using "Cash Flow Analysis Form" to qualify the borrower.

In all cases, qualifying income must be supported by documentation, including any supplemental documentation obtained by MWF.

Business Assets

Proceeds from the Small Business Administration PPP or any other similar COVID-19 related loans or grants are not considered business assets.

Documentation requirements for Self Employed Borrowers

MWF **MUST** demonstrate **both** Continuity of Business **AND** Income. **The documentation used must be within 10 days of the Note.**

Below are examples of methods that may be used to confirm the borrower's business is currently operating:

#1 – Continuity of Business Operation

- a) Certification the business is open and operating (confirmed through a phone call or other means);
OR
- b) Business website demonstrating activity supporting current business operations (timely appointment for estimates or services can be scheduled). NOTE: Websites are pulled as part of the VVOE process but may not reflect activity supporting current business operations.

#2 – Continuity of Income

- a) Evidence of current work (executed contract or signed invoices that indicate the business is operating on the date self-employment is verified);

- b) Evidence of current business receipts within 10 days of the Note date (payment for services performed); **OR**
- c) Current business bank statements within 10 days of the Note to support business cash flow equal to or greater than qualifying income.

MWF will request 2019 tax return transcripts on all self-employed borrowers, and will accept results or “No Record Found” results.

This bulletin replaces bulletin #20W-069

If you have any questions, contact your local Account Executive, or Production Coordinator. You may also contact Brian Daily, SVP Wholesale: Brian.Daily@mwfinc.com 201-448-5552.

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