

WHOLESALE BULLETIN

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20W-136

Attention: AEs, Business Development Managers & Mortgage Brokers **December 3, 2020**

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

Included in this Bulletin: Fannie Mae and Freddie Mac New Guidance Self Employment COVID-19

Fannie Mae and Freddie Mac continue to work closely to address the ongoing economic implications and uncertainty related to the coronavirus disease (COVID-19) pandemic and its impact on Borrowers.

The updated requirement to obtain and review three business deposit account statements (increased from two statements) with unaudited profit and loss statement is effective for loan applications dated on and after December 14, 2020.

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 us in qualifying the borrower. However, it 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, it is now required to obtain the following additional documentation to support the decision that the self-employment income meets our 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 three business depository account(s) statements no older than the latest three months represented on the year to date profit and loss statement.

For Example:

- The business depository account statements can be no older than August, September, October, for a year to date profit and loss statement dated through October 31st.
- The three most recent depository account statements must support the level of business revenue reported in the current year to date profit and loss statement. Otherwise, additional statements and other documentation to support the on-going nature of business revenue reported in the current year to date profit and loss statement must be obtained.

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.

Profit and loss statement, business depository accounts if required, and other relevant factors must be reviewed to determine the extent to which a business has been impacted by COVID-19. The following guidance can be used to perform the assessment of business operations and stability and a business income assessment based on the minimum additional documentation above. In some instances, it may be 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?<ul style="list-style-type: none">○ For example, review an updated business plan.• Is the business continuing to operate in the current location or an alternate location suitable for business operations?<ul style="list-style-type: none">○ For example, 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?<ul style="list-style-type: none">○ For example, 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?<ul style="list-style-type: none">○ For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.

Business Income

A business income assessment must be completed by comparing the year to date net business income from the year to date profit and loss statement to historical business income calculated using an Income Calculation Worksheet for a similar timeframe (such as monthly).

When it is determined that the net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, additional documentation should be obtained 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.

Example:

- Historical monthly self-employment income calculated = \$2,000.
- Current level of stable monthly self-employment as determined using details from the year to date profit and loss statement and other supplemental documentation = \$1,000.
- 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

- 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?
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A current balance sheet may be used to support the determination of business stability, in conjunction with the profit loss statement.

Business Income Calculation Adjustment

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

- Less than the historical monthly income, but is stable at its current level, the amount of qualifying income must be reduced to no more than the current level of stable income.
- More than the historical income, use no more than the currently stable level of income calculated to qualify the borrower.

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

Business Assets

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

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 909-255-8332.

Author: Underwriting/mq