



WHOLESALE BULLETIN

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21W-060

Attention: Valued Broker Partners

August 19, 2021

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

Included in this Bulletin: **Fannie Mae Lender Letter (LL) 2021 03 Impact of COVID 19**

Fannie Mae has issued Lender Letter 2021-03 to update lenders on COVID 19 policies. The Lender Letter contains the policies previously published in LL-2020-03 on December 10, 2020, with the changes noted below.

Age of documentation Aug. 11

These policies became effective for loans with application dates on or after Apr. 14, 2020 and **are no longer applicable as of Aug. 11, 2021.**

To ensure that the most up-to-date information is being considered to support the borrower's ability to repay, Fannie Mae is updating their age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from **four months (120 days) to two months (60 days)** for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.
- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the Selling Guide.

Requirements for borrowers using self-employment income to qualify

These policies became effective for loans with application dates on or after Jun. 11, 2020. The updated requirements to obtain three business depository account statements (increased from two statements) with an unaudited profit and loss statement and to review the depository account statements to support the level of business revenue reported in the current YTD profit and loss statement were effective for loan applications dated on and after Dec. 14, 2020. **All policies are effective until further notice.**

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, 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, lenders are 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 Aug, Sep, Oct. for a year-to-date profit and loss statement dated through Oct. 31.
 - The lender must review the three most recent depository account statements to support the level of business revenue reported in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the on-going nature of business revenue reported in 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.

Business Income Calculation Adjustment

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

- less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above).

- more than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

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

Business Assets

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

Verification of self-employment

These policies became effective for loans with application dates on or after Apr. 14, 2020 and **are effective until further notice.**

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower's business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower's business is open and operating. The lender must confirm this within 20 business days of the note date (or after closing but prior to delivery).

Below are examples of methods the lender may use to confirm the borrower's business is currently operating:

- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment).
- evidence of current business receipts within 20 days of the note date (payment for services performed).
- lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

Employment validation by the DU validation service Aug. 11

This policy became effective for new Desktop Underwriter® (DU®) loan casefiles created on or after May 4, 2020. Representation and warranty relief for employment validation within the DU validation service **will be reinstated in a future release and communicated in DU release notes.**

Furloughed Borrowers

This policy became effective for loans in process on May 5, 2020 and is **effective until further notice**.

The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income and are therefore ineligible under Fannie Mae's Temporary Leave Income policy.

Temporary eligibility requirements for purchase and refinance transactions

These policies became effective for loans with application dates on or after Jun. 2, 2020 and are **effective until further notice**.

In response to lender feedback, we are addressing eligibility requirements for borrowers impacted by the COVID-19 pandemic. With this update we are providing eligibility guidelines for purchase and refinance transactions.

Lenders must continue to review the borrower's credit report to determine the status of all mortgage loans. In addition to reviewing the credit report, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, including co-signed mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the note date of the new transaction. For the purposes of these requirements, "current" means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Examples of acceptable additional due diligence methods to document the loan file include:

- a loan payment history from the servicer or third-party verification service,
- a payoff statement (for mortgages being refinanced),
- the latest mortgage account statement from the borrower, and
- a verification of mortgage.

We are not considering payments missed during the time of a COVID-19-related forbearance that have been resolved to be historical delinquencies for purposes of our excessive mortgage delinquency policy. This flexibility does not apply to high LTV refinance loans, which must continue to meet the payment history requirements in High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.

Please refer to [Fannie Mae's Lender Letter 2021-03](#) for additional guidance.

If you have any questions, contact your local Account Executive, Production Coordinator, Regional Vice President, Brian Daily, SVP Wholesale: Brian.Daily@mwfinc.com, 909-255-8332.

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