

WHOLESALE BULLETIN

IMPORTANT INFORMATION: PLEASE READ IMMEDIATELY

[Guidelines](#)

[Bolt Training](#)

[Wholesale Website](#)

[Previous Bulletins](#)

22W-017

Attention: Valued Broker Partners

February 07, 2022

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

Included in this Bulletin: Freddie Mac Bulletin 2020-44 COVID-19 Self Employment Update

Effective immediately (2/2/22), Freddie Mac will be expiring the COVID-19 temporary requirements for self-employment income originally published in Freddie's Bulletin 2020-19 and subsequently updated in Bulletin 2020-44, provided that the most recent complete federal income tax returns in the loan file are not older than 2020.

The requirements and guidance regarding verifying that the Borrower's business is open and operating within 20 Business Days prior to the Note Date continue to apply.

If the most recent tax returns in the loan file are dated before 2020, the requirements in Bulletin 2020-44 continue to apply.

Bulletin 2020-44

Temporary Requirements for assessing self-employment income –

Number of months' business account statements required when an unaudited year to date (YTD) profit and loss statement is obtained	Three months
Reviewing YTD profit & loss statements and business account statements	Must be determined if the business revenue documented in the unaudited YTD profit and loss statement supports the level of revenue documented on the business account statements

Determining income stability with additional analysis and documentation

Due to the continued impact of the COVID-19 pandemic on economic conditions and business throughout the country, in addition to self-employment income requirements, the following temporary requirements must be complied with when assessing income derived from self-employment in order to determine if the Borrower's income is stable and there is a reasonable expectation of continuance. The loan file must include a written analysis of the self-employed income amount and justification of the determination that the income used to qualify the Borrower is stable.

Minimum Additional Documentation Requirements

At a minimum, the following additional documentation must be obtained when assessing income from self-employment:

- An unaudited YTD profit and loss statement that is signed by the Borrower and reports business revenue (i.e., gross receipts or sales), expenses, and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date, and
- Three months business account statements no older than the latest three months represented on the YTD profit and loss statement:

For example, if the YTD profit and loss statement is through September 30, 2020, the business account statements can be no older than July through September.

Personal asset account statements evidencing business deposits and expenses may be used when the Borrower owns a small business and does not have a separate business account.

OR

- An audited YTD profit and loss statement reporting business revenue (i.e., gross receipts or sales), expenses, and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no than 60 calendar days prior to the Note Date.

Note: Additional documentation may be required to supplement the minimum required documentation in order to effectively assess the impact of the pandemic on the business.

Reviewing YTD Profit and Loss Statements, Business Account Statements, and Other Relevant Documentation

- It must be determined if the business revenue documented in the unaudited YTD profit and loss statement supports the level of revenue documented on the business account statements.
- If the business revenue reported on the unaudited YTD profit and loss statement is not supported by the revenue documented on the business account statements, additional documentation (e.g., month to month or quarterly trending for YTD profit and loss, additional months and/or more recent bank statements) must be obtained to support the business revenue and resolve the discrepancy.

- If the business revenue reported on the unaudited YTD profit and loss statement cannot be supported by business account statements and/or other documentation, the self-employment income is not eligible for use in qualifying.
- If the business revenue reported on the unaudited YTD profit and loss statement is supported, or if an audited YTD profit and loss statement is used, proceed to determine the current stable monthly income level as outlined below.

Establishing Stable Monthly Income

- The YTD profit and loss statement (unaudited or audited), business account statements, and all other relevant factors and documentation must be reviewed to determine the extent to which a business has been impacted by COVID-19.
- It must be established the current levels of stable monthly self-employment income using details from the YTD profit and loss statement, business account statements, and supplemental documentation, as applicable.
- It must be determined whether the income level has declined by comparing the information on the YTD profit and loss statement to the business revenue (i.e., gross receipts or sales) reported on the most recent year's business tax return(s), and the net monthly income.

<p>The income level has not changed or has increased</p>	<p>Use the qualifying income calculated following standard requirements, including the use of Form 91 (or equivalent). A YTD profit and loss statement, audited or unaudited, cannot be used to support a high level of income than the amount derived from Form 91 (or equivalent).</p>
<p>The income level has declined.</p>	<ul style="list-style-type: none"> • Determine if the income has stabilized. Additional documentation may be obtained to supplement the YTD profit and loss statement (e.g., a month-to-month income trending analysis, additional months, and/or more recent business account statements) to make this determination. • If the income has stabilized: <ul style="list-style-type: none"> ○ Use no more than the current level of stable monthly self-employment income using details from the YTD profit and loss statement, business account statements, and supplemental documentation as applicable. ○ Adjustments (e.g., depreciation) to the YTD profit and loss net income may be made in accordance with Form 91 (or equivalent), as appropriate. • If the income declines and has not stabilized, then the income is not eligible for qualifying.

Business Review and Analysis

The borrower's income must be stable and likely to continue at the same level as used to qualify the Borrower. Economic conditions related to a Borrower's business must also be acknowledged. The documentation of the business must support that the business has

sufficient liquidity and is financially capable of producing stable monthly income for the Borrower. In addition to the business review and analysis requirements, the pandemic related factors must be considered, but are not limited to, the following:

- If the ability of the business to generate revenue or operate at full capacity has been negatively impacted by the pandemic, have business operations been modified to support continued revenue? Is continued business revenue supported by any other documentation or information supplied by the Borrower (e.g., modified business plans) or obtained from other sources?
- Impacts on the business operation, revenue, and/or expenses, such as a breakdown in the supply chain needed to maintain the product, a higher cost of expenses to obtain the product or a lack of consumer demand for the product or service.
- Impacts on business operation, revenue, and/or expenses due to temporary restrictions such as State shelter in place, stay at home, or other similar State or local orders.
- If temporary restrictions have been recently lifted, will the business continue to operate at a reduced level of revenue due to COVID-19 related factors, such as social distancing? If so, has the business been operating at this reduced level of revenue and/or increased level of expenses for a long enough period to establish income stability, and is this documented with more recent business bank account statements evidencing this revenue flow or other equivalent information?
- Does the business have documented liquid assets or access to capital for operating expenses that support the financial ability of the business to operate given current market and economic conditions? Are those assets comprised of or supplemented by loan proceeds from the Small Business Administration Payroll Protect Plan or any other similar COVID-19 related program (e.g., federal, state, or local level business loans and grants)? A current balance sheet may be used to support the lenders' determination of business stability, in conjunction with the profit and loss statement and business bank statements.
- Additional economic information related to the business such as:
 - Whether the business is part of an industry that is experiencing increasingly negative pandemic-related impacts.
 - Reputable news sources and economic forecasts related to the business industry and pandemic progression.
 - Whether the business type is in what is considered a high contact intensive industry and if the higher risk of exposure to COVID-19 may present an impact to the potential for income stability and/or continuance until the medical issues surrounding the pandemic are closer to being resolved, whether or not there are State or local order that temporarily restricts the business operation.

Business Assets

Loan proceeds from the SBA Payroll Protection Plan (PPP) and/or any other similar COVID-19 related program(s) (e.g., federal, state, or local level business loans and grants) are not considered business assets for the purposes of eligibility funds to qualify the Borrower for the subject transaction, including but not limited to, funds for Down Payment, Closing Costs, and reserves.

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

Author: Corporate Underwriting/mq