



TO: Distribution

DATE: May 29, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-34**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Self-Employed Borrowers- Fannie Mae & Freddie Mac Issue COVID-19 Requirements

SELF EMPLOYED BORROWERS- FANNIE MAE & FREDDIE MAC ISSUE COVID-19 REQUIREMENTS

Summary: Fannie Mae and Freddie Mac have issued temporary requirements for borrowers using self-employment income to qualify. See below for details as provided by Fannie Mae. Lenders are encouraged to apply these requirements to existing loans in process; however, they must be applied to loans with application dates on or after June 11, 2020 until further notice. In addition, please watch for supplementary resources for understanding these new requirements to be provided prior to June 11th.

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, the lender 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 two business depository account(s) statements no older than the latest two months represented on the year-to-date profit and loss statement.

o For example, the business depository account statements can be no older than Apr. and May for a year-to-date profit and loss statement dated through May 31, 2020.

NOTE: The year-to-date profit and loss statement must be no older than 60 days old as of the note date

Lenders 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. The lender can 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, the lender may find it necessary to obtain supplemental documentation listed in the examples below.

Assessing the Impact of COVID-19	
Business operations – questions to consider	<p>Have business operations been maintained or modified to support continued business income? For example, review an updated business plan.</p> <p>Is the business continuing to operate in the current location or an alternate location suitable for business operations? For example, perform an Internet search or verify through a third-party source.</p> <p>Is there a demand for the product or service currently offered by the business? For example, obtain current business receipts or purchase contracts.</p> <p>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?</p> <p>Is the impact to the business operations negligible due to the nature of the business? For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.</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 Cash Flow Analysis (Form 1084)* 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) in accordance with B3-3.4-04, 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. See B3-3.1-01, General Income Information for details. <p>Example Historical monthly self-employment income calculated using Form 1084 = \$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 below for next steps. *Form 1084 or any other type of cash flow analysis form that applies the same principles.</p>
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 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>

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

Proceeds from the Small Business Administration PPP or any other similar COVID-19 related loans or grants are not considered business assets. (Clarification, effective immediately)

Effective Date: Lenders are encouraged to apply these requirements to existing loans in process; however, they must be applied to loans with application dates on or after June 11, 2020 until further notice.

Links: [Fannie Mae LL 2020-03](#), [Freddie Mac Bulletin 2020-19](#)

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