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.

  - 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 Income

<table>
<thead>
<tr>
<th>Business operations questions to consider</th>
<th>Business Income Calculation Adjustment</th>
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<tr>
<td>Have business operations been maintained or modified to support continued business income? For example, review an updated business plan.</td>
<td>When the lender determines current year net business income 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).</td>
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<tr>
<td>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.</td>
<td>• 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)</td>
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<tr>
<td>Is there a demand for the product or service currently offered by the business? For example, obtain current business receipts or purchase contracts.</td>
<td>• Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings?</td>
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<td>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?</td>
<td>• 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?</td>
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<td>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.</td>
<td>A current balance sheet may be used to support the lender's determination of business stability, in conjunction with the profit and loss statement.</td>
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### 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

Please contact your Correspondent National Sales Manager or your Correspondent Liaison with any questions.