



DELEGATED CORRESPONDENT ANNOUNCEMENT 2020-27

June 11, 2020

COVID-19 Update

Conventional

Effective for all loan applications dated on or after June 11, 2020, FCM is adopting the following guidance from FNMA and FHLMC. The links to their bulletins are listed below:

[Lender Letter \(LL-2020-03\)](#)

[Bulletin 2020-19](#)

Self-Employment Income Requirements:

Minimum Additional Documentation Requirements:

- A *CPA 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, **PLUS** 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.
 - The lender must review the two most recent depository account statements to support and/or not conflict with the information presented in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from 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 consistent with current Age of Documentation requirements below.*

Here is the direction provided to lenders from Fannie Mae. The underwriter is expected to review the business operations for viability beyond the updated revenue/expense comparison:

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? <i>For example, review an updated business plan.</i> • Is the business continuing to operate in the current location or an alternate location suitable for business operations? <i>For example, perform an Internet search or verify through a third-party source.</i> • Is there a demand for the product or service currently offered by the business? <i>For example, obtain current business receipts or purchase contracts.</i> • 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? <i>For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.</i>
Business Income	<p>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 <i>Cash Flow Analysis</i> for a similar timeframe (such as monthly).</p> <p>Example</p>

	<p>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.</p>
<p>Business Stability</p>	<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 it is determined the current year net business income has been impacted by the COVID-19 pandemic and is:

- LESS than the historical monthly income calculated, but is stable at its current level, the lender must reduce the amount of qualifying income calculated 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, the lender must 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 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.