



first community mortgage

COVID-19 Announcement CV-22-1

February 2, 2022

Updated 2/14/2022

FCM continues to follow COVID-19 updates and flexibilities in accordance with Agency.

Recent Bulletins

FNMA

LL-2021-03

FHLMC

2022-3

Updates:

- Fannie Mae and Freddie Mac have retired Self-Employment Income requirements for borrowers with Self-employed qualifying income, provided the most recent federal income tax returns are not older than 2020.
- Temporary requirements for Verification of Self-employment continue to apply to all loans where self-employed income has been used to qualify.

Self-Employment Income Requirements:

When 2020 Federal Tax Returns are not available, FNMA has required lenders to obtain the following 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** three 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*

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?



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	<ul style="list-style-type: none"> 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 Historical monthly self-employment income calculated using Form 1084 = \$2,000 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>
Business Stability	<p>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)</p> <ul style="list-style-type: none"> 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.

The following policy remains in effect, until further notice, for all loans where self-employment income was used to qualify:

Verification of Self Employment:

All loans with self-employed borrowers must provide verification the borrower’s business is still operational within 20 days of the note date. This would NOT include anything not created within 20 days of the note date. (Example. Secretary of State print out is not acceptable)

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



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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 prior to the note date.

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).

Loans that closed prior to the retirement of the P&L requirement for self-employed borrowers will still need to meet the prior COVID overlay policy. Loans closing on or after February 2, 2022, will no longer require the P&L and business bank statements as long as the most recent business tax return is for the tax year of 2020 or 2021