

Bulletin

TO: Freddie Mac Sellers

November 13, 2020 | 2020-44

SUBJECT: SELLING GUIDANCE RELATED TO COVID-19

We continue to work closely with Fannie Mae under the guidance and direction of the FHFA to address the ongoing economic implications and uncertainty related to the coronavirus disease (COVID-19) pandemic and its impacts on Borrowers and the Mortgage origination process.

This Bulletin provides:

- Revisions to the previously published temporary requirements and guidance for Borrowers with [qualifying income derived from self-employment](#)
- The extension of the effective dates for previously announced [temporary flexibilities](#)
- The extension of the effective dates for the [purchase of Mortgages in forbearance](#)

We are also reminding Sellers of additional resources, including our [Selling FAQs](#) related to COVID-19, which we continue to update.

Note Date references

All references to the Note Date refer to the modification date for Seller-Owned Modified Mortgages, the Conversion Date for Seller-Owned Converted Mortgages, the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, or the assumption agreement date.

Revised requirements for underwriting Borrowers with self-employment income

Effective date

Sellers may apply these revised temporary requirements to existing Mortgages in process; however, they must be applied to Mortgages with Application Received Dates on or after **December 14, 2020** and until further notice.

Revised requirements summary

In response to Seller feedback, we are revising the temporary requirements for assessing self-employment income announced in Bulletin 2020-19 as follows:

	Requirement in Bulletin 2020-19	Revised requirement
Number of months' business account statements required when an unaudited year-to-date (YTD) profit and loss statement is obtained	Two months	Three months

	Requirement in Bulletin 2020-19	Revised requirement
Reviewing YTD profit & loss statements and business account statements	The Seller must determine if the business revenue, expenses and net income documented in the unaudited YTD profit and loss statement are reasonably consistent with the revenue and expense cash flow documented on the business account statements	The Seller must determine if the business revenue documented in the unaudited YTD profit and loss statement supports the level of revenue documented on the business account statements

Complete updated requirements for underwriting Borrowers with self-employment income

The requirements for underwriting Borrowers with self-employment income originally announced in Bulletin 2020-19 are included below in their entirety. The “**Determining income stability with additional analysis and documentation**” section has been updated to reflect the above requirement changes.

Determining income stability with additional analysis and documentation

Due to the continued impact of the COVID-19 pandemic on economic conditions and businesses throughout the country, in addition to the requirements in Guide Chapters 5301 and 5304, Sellers must comply with the following temporary requirements 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 Mortgage 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
<p>At a minimum, the following additional documentation must be obtained when assessing income from self-employment:</p> <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> ➢ For example, if the YTD profit and loss statement is through September 30, 2020, the business account statements can be no older than for July through September ➢ Personal asset account statements evidencing business deposits and expenses may be used when the Borrower is an owner of a small business and does not have a separate business account <p>Or</p> <ul style="list-style-type: none"> • 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 more than 60 calendar days prior to the Note Date. <p>Note: The Seller may need to obtain additional documentation to supplement the minimum required documentation in order to effectively assess the impact of the pandemic on the business.</p>
Reviewing YTD profit and loss statements, business account statements and other relevant documentation
<ul style="list-style-type: none"> • The Seller must determine 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 determining the current level of stable monthly income as outlined below

Establishing stable monthly income

- The Seller must review the YTD profit and loss statement (unaudited or audited), business account statements, and all other relevant factors and documentation to determine the extent to which a business has been impacted by COVID-19. Refer to the [Business review and analysis section](#) for additional information regarding relevant factors.
- The Seller must establish 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
- The Seller must determine 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 as calculated in accordance with requirements and guidance in Chapter 5304, including use of Guide Form 91, *Income Calculations*, or a similar alternative form

The income level has not changed or has increased

Use the qualifying income calculated following standard requirements and guidance in Chapter 5304, including the use of Form 91 or a similar alternative form. A YTD profit and loss statement, audited or unaudited, cannot be used to support a higher level of income than the amount derived from Form 91 or a similar alternative form.

The income level has declined

- Determine if the income has stabilized. The Seller may need to obtain additional documentation 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:
 - 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 the requirements and guidance in Guide Section 5304.1(d) and Form 91, and in alignment with the adjustments based on the tax returns, as appropriate
- If the income is declining and has not stabilized, then the income is not eligible for qualifying

Business review and analysis

The Seller continues to be responsible for establishing that the Borrower's income is stable and likely to continue at the same level as used to qualify the Borrower. It is also expected that all Sellers ensure they are knowledgeable of the economic conditions related to a Borrower's business. The documentation and the Seller's analysis 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 and guidance in Section 5304.1(d), the Seller must consider pandemic-related factors which may include, 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 to the business operation, revenue and/or expenses, such as a break-down in the supply chain that is 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 to the 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 currently 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 (SBA) Payroll Protection Plan (PPP) 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 orders that temporarily restrict 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 (as described in Section 5501.3(b)(iv)) for the purposes of eligible funds to qualify the Borrower for the Mortgage transaction, including, but not limited to, funds for Down Payment, Closing Costs and reserves.

Reminder: verification of the current existence of the business

The requirements and guidance published in Bulletin 2020-8 regarding verifying that the Borrower's business is open and operating within 10 Business Days prior to the Note Date continue to apply.

Extension of temporary flexibilities from previous Bulletins

In Bulletin 2020-40, we extended the effective date for some previously announced temporary flexibilities for Mortgages with Application Received Dates through November 30, 2020. We are further extending the effective date for Mortgages with Application Received Dates through **December 31, 2020** for the following:

- Employed income – 10-day pre-closing verification flexibilities announced in Bulletin 2020-5
- Appraisal and GreenCHOICE Mortgage® flexibilities announced in Bulletins 2020-5, 2020-8 and 2020-11
- Condominium Project flexibilities announced in Bulletin 2020-11
- Power of attorney flexibilities announced in Bulletin 2020-8

As a reminder, the temporary Selling requirements and guidance announced in Bulletins 2020-5 and 2020-8 (and extended until further notice in Bulletin 2020-35) and the guidance announced in Bulletin 2020-14 remain in effect.

Extension of temporary requirements for purchase of Mortgages in forbearance

We are extending the temporary requirements for the purchase of Mortgages in COVID-19-related forbearance announced in Bulletin 2020-12 and subsequently extended in Bulletins 2020-17, 2020-23, 2020-30, 2020-35, 2020-37 and 2020-41. These requirements are now effective for Mortgages with Note Dates on or after February 1, 2020

and on or before **December 31, 2020**, and Settlement Dates on or after May 1, 2020 and on or before **February 28, 2021**.

The chart below has been revised to reflect these changes.

Contract type	Additional effective date requirements
Guarantor and MultiLender Contracts	<ul style="list-style-type: none"> Mortgages with Note Dates on or after February 1, 2020 and on or before March 31, 2020 must have Settlement Dates on or before May 31, 2020 Mortgages with Note Dates on or after April 1, 2020 and on or before December 31, 2020 must have Settlement Dates on or before February 28, 2021 (Revised)
Cash Contracts	
<p>Additional Requirements for Cash Contracts: Mortgages that are in forbearance, that are no more than 30 days delinquent</p>	<p>The Cash Settlement Date must be no later than the 20th of the month after the month the Mortgage became 30 days delinquent, as defined in Bulletin 2020-12.</p> <p>For example:</p> <ul style="list-style-type: none"> Notes with a first payment Due Date of November 1: If the Borrower does not pay the November payment, the Mortgage will become 30 days delinquent at the close of business on November 30. For these loans, the Settlement Date must be on or before December 20. Notes with first payment Due Dates of November 2–30: If the Borrower did not pay the November payment, the Mortgage will become 30 days delinquent at the close of business on December 31. For these loans, the Settlement Date must be on or before January 20.

ADDITIONAL RESOURCES

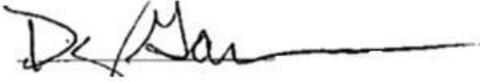
We encourage Sellers to review the following resources:

- Freddie Mac Single-Family web page on [COVID-19](#)
- Freddie Mac [Selling FAQs](#) related to COVID-19
- The Center for Disease Control's web page on [COVID-19](#)
- The Appraisal Foundation's [Appraiser Qualifications and Standards Q&As](#)
- The Appraisal Institute's [Coronavirus-related Direction for Appraisers](#)
- National Association of Realtors [Coronavirus Guide for Realtors](#)

CONCLUSION

We appreciate the support that Sellers continue to extend to Borrowers coping with hardships attributed to COVID-19. If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Gardner", with a long horizontal flourish extending to the right.

Danny Gardner
Senior Vice President, Client and Community Engagement