



**To:** All Customers **From:** Credit Policy  
**Date:** 06/05/20 **Memo #:** 20067  
**Subject:** Temporary Self-Employment Income Requirements- Conventional

Due to the ongoing impact of COVID-19, we are implementing temporary eligibility requirements for self-employed borrowers based on the announcements made by Fannie Mae and Freddie Mac and will remain in effect until further notice. We will continue to monitor the situation and update this memo as needed.

**NON-DELEGATED LOANS**

TABLE FUNDED LOANS

Effective for loans with an *Application Taken* date on or after Thursday, June 11, 2020.

NON-TABLE FUNDED CORRESPONDENT LOANS

Effective for all loans with an *Imaged Package Received* date on or after Thursday, June 11, 2020.

**DELEGATED LOANS**

All loans delivered with an application date on or after Thursday, June 11, 2020 must meet the below requirements in order to be eligible for purchase by Flagstar Bank. Correspondent lenders are responsible for all income used for qualification.

**TEMPORARY REQUIREMENTS FOR USE OF SELF-EMPLOYMENT INCOME TO QUALIFY**

Due to the continued impact of the COVID-19 pandemic on economic conditions and businesses, the following temporary requirements will be required for income derived from self-employment in order to determine if the borrower’s income is stable and there is a reasonable expectation of continuance:

DOCUMENTATION REQUIREMENTS

In addition to the standard tax return requirements, one of the following documentation options must be provided:

Documentation Options	Minimum Requirements
Unaudited Profit and Loss and Business Bank Statements	<ul style="list-style-type: none"> <li>• The Profit and Loss statement:               <ul style="list-style-type: none"> <li>○ Must be signed by the borrower</li> <li>○ Business revenue, expenses and net income must be current up to and including the most recent month preceding the application</li> <li>○ Must be no older than 60 days from the Note date</li> </ul> </li> <li>• Business asset statements:               <ul style="list-style-type: none"> <li>○ A Minimum of two months business statements</li> <li>○ Dated no older than the last two months represented on the YTD P&amp;L (e.g. P&amp;L is through May 31<sup>st</sup>, the account statements can be no older than April and May)</li> <li>○ Statements must be reasonably consistent with the information on the P&amp;L</li> </ul> </li> </ul>
Audited P&L	<ul style="list-style-type: none"> <li>• The Profit and Loss statement:               <ul style="list-style-type: none"> <li>○ Prepared by a CPA</li> </ul> </li> </ul>

Documentation Options	Minimum Requirements
	<ul style="list-style-type: none"> <li>○ Business revenue, expenses and net income must be current up to and including the most recent month preceding the application</li> <li>○ Must be no older than 60 days from the Note date</li> </ul>

Additional documentation may be requested to supplement the minimum requirements if the business account statements are not reasonably consistent with the YTD P&L (e.g. month-to-month or quarterly trending for the YTD P&L, additional bank statements, etc.). If an unaudited P&L cannot be supported by the documentation provided, the income is not eligible for use in qualifying.

### BUSINESS INCOME FOR QUALIFICATION

The lesser income as determined by the most recently filed tax returns (years required based on standard underwriting guidelines) versus the income calculated using the year-to-date profit and loss statement must be used for qualification.

- The P&L may not be used for qualification at a higher level than last reported on the most recently filed tax returns
- When using the income from the P&L the declining income must be considered stabilized. Note: If an updated P&L is required after the application date, prior to the Note date, the income may not be used for qualification when the updated P&L shows additional decline as would not support the income has stabilized.

### BUSINESS REVIEW AND ANALYSIS

When there has been a change in business operations, temporary or long-term, the business operations must be stabilized to verify the ongoing receipt at the current level as determined by the profit and loss statement and business accounts, when applicable. A written analysis must be retained in file to support the stability of the business.

In some instances supplemental documentation may be required in relation to pandemic-related factors which may include, but not limited to, the following:

Analysis	Requirements
Business Operations	<ul style="list-style-type: none"> <li>• Has the business been able to operate at full capacity or has the business operations been modified to support continued revenue?</li> <li>• Is the business continuing to operate in the current location or an alternate location suitable for business operations?</li> <li>• Is there a demand for the product or service currently offered by the business?</li> <li>• Is the business operation and/or revenue temporarily restricted due to state shelter in place?</li> <li>• Is the impact to the business operations negligible due to the nature of the business? For example, income is seasonal apart from the event timeline.</li> </ul> <p>Additional documentation may include an updated business plan, business receipts, or written explanation from the business owner.</p>
Business Stability	<ul style="list-style-type: none"> <li>• 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?</li> <li>• Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings?</li> <li>• Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants)</li> </ul>

Analysis	Requirements
	support the financial ability of the business to operate given current market and economic conditions?  Additional documentation may include a current balance sheet

### SMALL BUSINESS ADMINISTRATION (SBA) LOANS AND GRANTS

Any documented proceeds from a Small Business Administration PPP loan or any other similar COVID related loan or grant:

- May not be considered business assets for assessing the business stability.
- Funds may not be used as eligible funds for the down payment, closing costs and reserves.
- Unless a personal obligation for repayment is discovered, the borrower is not obligated to qualify with the business loan at this time.

### SELF-EMPLOYMENT VERIFICATION

As a reminder, the above requirements are in addition to the verification of the business being in operation within 10 business days of the Note date as referenced in [Conventional and Government Employment Verification and Income Updates](#) announcement.

### **ADDITIONAL RESOURCES**

- [Fannie Mae Lender Letter 2020-03](#)
- [Freddie Mac Bulletin 2020-19](#)