

To: All Customers **From:** Credit Risk
Date: 07/30/20 **Memo #:** 20076
Subject: **FHA Mortgage Letter 2020-24**

FHA published [Mortgagee Letter 2020-24](#) indicating Temporary Guidance for Verification of Self-Employment, Rental income and 203(k) Rehabilitation Escrow Account.

The verification of business operations for self-employed borrowers and Rental Income guidance is effective for case numbers assigned on or after August 12, 2020 through November 30, 2020.

The administration of the 203(k) Escrow guidance for borrowers in forbearance is effective immediately for open escrow account through November 30, 2020.

Verification of Self-Employment required for both (TOTAL and Manual loans)

When self-employment income is used to qualify the Borrower, the Mortgagee must verify and document that the income derived from self-employment is stable with a reasonable expectation that it will continue. In addition to the requirements in SF Handbook 4000.1 Sections II.A.4.c.x(C) and II.A.5.b.x(C) Self-Employment Income – Required Documentation (TOTAL and Manual)

The Mortgagee must obtain one of the following to verify and confirm that the business is open and 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 10 days of the note date (payment for services performed);
- Lender certification that 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).

Rental Income required for both (TOTAL and Manual Loans)

In addition to the requirements in SF Handbook 4000.1 Sections II.A.4.c.xii(I) and II.A.5.b.xii(I) Rental Income (TOTAL and Manual) and Section 3.50 through Section 3.55 of the HECM Financial Assessment and Property Charge Guide where a borrower is qualifying utilizing rental income, for each property generating rental income the Mortgagee must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves (this option is applicable to Forward only), or
- Verify the borrower has received the previous 2 months rental payments as evidence by borrower's bank statements showing the deposit. (This option is applicable only for borrower with a history of rental income from the property).

203(k) Rehabilitation Escrow Account

SF Handbook 4000.1, II.A.8.a.xvii(B) Extension Requests, states that if the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current. Additionally SF Handbook 4000.1, II.A.8.a.xx Servicing, states that if the mortgage is delinquent, the



Mortgagee may refuse to make further releases from the rehabilitation escrow account and that the project must stop if the Mortgage is in payment default.

FHA is providing a temporary flexibility allowing Mortgagees to continue administering the Rehabilitation Escrow Account, including the approval of extension requests and release of funds, which will allow the project to continue for mortgages where the Borrower is in forbearance due to the impacts of COVID-19.

The Mortgagee is still required to obtain:

- An explanation for the delay from the Borrower, contractor, or Consultant when reviewing extension requests; and
- A new estimated completion date.

Please view the [Mortgage Letter 2020-24](#) for more information.

