

To: All Customers **From:** Credit Policy
Date: 02/25/21 – Update 05/13/21 **Memo#:** 21028
Subject: Preparing for Tax Day. 2020 Tax Year Filing Requirements

The deadline for filing 2020 individual tax returns, or a valid extension, has been extended to Monday May 17, 2021.

This guidance does not replace any [Temporary COVID Guidelines](#) currently in place for Self-Employed borrowers which remains in effect until further notice. However, for Conventional transactions, the filed 2020 tax returns may take place of the 2020 P&L however additional 2021 P&L months and the complete 3 months bank statements are still required, as applicable.

2020 TAX RETURN REQUIREMENTS

When tax returns are required to document income, the most recent year's tax return is required. The most recent tax return is defined as the last return scheduled to have been filed per the IRS.

For example:

If today's date is...	Then the Most recent Year's Tax Return would be:
February 21, 2021	2019
May 18, 2021	2020
December 15, 2021	2020

2020 TAX RETURN CONDITION

*The May 17th tax filing deadline is approaching or has passed. If the loan has not or will not close and disburse by filing deadline, 2020 tax returns are required to evaluate borrower's income/business. {For Conventional loans using DU with an application date prior to May 17th, 2021 that will disburse before June 30th, a signed letter from the borrower stating returns have not yet been filed is acceptable in lieu of a valid extension and IRS "No Record on file" transcript. For Conventional loans using LPA with an application date prior to April 15th, 2021 that will close on or before **June 29, 2021**, can proceed with 2019 tax returns if 2020 have not yet been filed.}*

Note: If the loan will close and fund before May 17, 2021, the above condition can be removed, and the document expiration date will be set to May 17, 2021.

TAX TRANSCRIPTS FOR 2020 TAX FILING

If 2020 tax returns have been provided in the file but the transcripts are not available yet, the following will apply:

- Obtain tax transcripts for the previous two years (2019 and 2018) or one year (2019) if allowed by guidelines and/or AUS.
- The underwriter will analyze all years for stability and continuance. Supporting documentation or an explanation may be required if considerable changes exist.
- 2020 tax returns must be signed by the borrower(s).
- The most conservative income will be used to qualify the borrower(s). (e.g. if income is less in 2020, 2020 figures will be used regardless of tax transcripts).

- If the use of higher 2020 income, averaged with 2019 income, is needed to qualify, proof that 2020 returns were filed must be obtained (evidence of paid tax liability or refund received) and management review is required (See [Non-Agency Guidelines](#) for Jumbo transaction tolerances).

Note: tax transcripts may not be available until 2 to 8 weeks after filing. Refer to <https://www.irs.gov/individuals/transcript-availability> for IRS average turntimes. COVID-19 may result in additional delays.

ALLOWABLE AGE OF TAX RETURNS- CONVENTIONAL ONLY

The [Conventional Underwriting Guidelines](#) will be updated to reflect the most recent requirements by Fannie Mae and Freddie Mac as indicated below

FANNIE MAE

The following table describes which tax-related documentation to obtain, for Fannie Mae (DU) on the application date and disbursement date of the mortgage loan **for the year of 2021**

Application Date	Disbursement Date	Documentation Required
October 15 ¹ , [current year minus 1] to May 17 ² , current year	October 15 ¹ [current year minus 1] to May 17 ² , current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	May 17 ¹ , current year to June 30, current year	The previous year's tax return (the return due in May of the current year) is recommended, but not required. The originator must ask the borrower whether he or she has completed and filed his or her return with the IRS for the previous year. If the answer is yes, a copy of the return must be provided. If the answer is no, provide a signed letter from the borrower stating they have not yet filed and provide tax returns for the prior two years. Completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower.
	July 1, current year to October 14 ² , current year	<ul style="list-style-type: none"> The most recent year's tax return OR all of the following: <ul style="list-style-type: none"> A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, The underwriter must review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax
May 17 ¹ , current year to October 14 ² , current year	May 17 ¹ , current year to December 31, current year	<ul style="list-style-type: none"> A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, The underwriter must review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax

Application Date	Disbursement Date	Documentation Required
		<p>liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed.</p> <ul style="list-style-type: none"> • IRS Form 4506–C transcripts confirming “No Transcripts Available” for the applicable tax year, and • Returns for the prior two years
	January 1, [current year plus 1] to April 14 ² , [current year plus 1]	The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

1. Or the April/October filing dates for the year in question as published or extended by the IRS.
2. Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.

FREDDIE MAC

The following table describes which tax-related documentation to obtain, for Freddie Mac (LPA) on the application date and disbursement date of the mortgage loan **for the year of 2021**.

Application Date	Note Date	Documentation Required
Prior to May 17 of the current year ³	Before June 30 of the current year ⁴	The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
On or after May 17 of current year ³	Prior to June 30 of the current year ⁴	<ul style="list-style-type: none"> • Notation in file that the 2020 returns and/or extension are not present in file due to the borrower exercising the IRS extended deadline of May 17, 2021. <p>OR</p> <ul style="list-style-type: none"> • The most recent year’s tax return <p>OR all of the following:</p> <ul style="list-style-type: none"> • A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, • Review of self-employed income stability (see below), • IRS Form 4506–C transcripts confirming “No Transcripts Available” for the applicable tax year, and • Returns for the last one or two years, as required

Application Date	Note Date	Documentation Required
All	On or after June 30⁴ through October 14 of the current year	<ul style="list-style-type: none"> The most recent year's tax return OR all of the following: <ul style="list-style-type: none"> A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, Review of self-employed income stability (see below), IRS Form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year, and Returns for the last one or two years, as required
All	On or after October 15 of the current year ⁵	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

- For mortgages in States with IRS filing extensions beyond May 17, the application received date is the IRS income tax filing due date
- For mortgages in States with IRS filing extensions beyond May 17, the Note date is the last day of the month following the IRS income filing due date (e.g. if the tax filing due date is June, the Note date is July 31)
- Flagstar will require the most recent tax returns (e.g. 2020) for Freddie Mac (LPA) loans with a Note date on or after October 15th.

SELF-EMPLOYED STABILITY WHEN TAX RETURNS ARE OLDER- FREDDIE MAC

If the Borrower's federal individual and/or business income tax returns for the most recent calendar year are not available (e.g., Borrower and/or Borrower's business filed an IRS extension or tax returns are not yet filed with the IRS), additional documentation must be provided to document income stability.

Examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:

- Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s)
- Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements
- Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return
- Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s)
- Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available

If the continued stability of the income cannot be determined, then the Borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.



See Flagstar's [Underwriting Guidelines](#) for complete details which may supersede investor guides.

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ADDITIONAL RESOURCES

- Freddie Mac: [Bulletin 2021-2](#)
- Freddie Mac: [Bulletin 2021-16](#)
- Fannie Mae: [SEL-2021-04](#)