



## FREDDIE MAC HOMEPOSSIBLE LANDLORD EDUCATION REQUIREMENTS

On HomePossible 2-to-4-unit purchase transactions require at least one borrower participate in a landlord education program before the Note date. Landlord education must not be provided by an interested party to the transaction. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the file.

## INCOME REPORTED ON IRS FORM 1099 FOR SERVICES PERFORMED- FREDDIE MAC

At times, Borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.

Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. This income must be treated as either:

- Self-employed income in accordance with the guideline requirements, OR
- Non-self-employed income if the IRS Schedule C from the most recent calendar year tax return evidences that:
  - Gross receipts or sales are equal to the total amount(s) reported on the IRS Form 1099(s),
  - Total expenses are  $\leq 5\%$  of gross receipts or sales, after deducting non-cash expenses (e.g., depreciation),
  - Cost of goods sold = \$0, and
  - 12-month history of 1099 income and reported expenses is present

Most recent two-year history is generally required. In certain instances, a shorter history of income with this pay structure may still be considered stable with a written analysis and supporting documentation justifying the determination of stability (e.g., a prior history of employment earnings at a similar level). In no event may the history of receipt for this pay structure documented on the tax returns be less than 12 months.

At minimum, all 1099s for the most recent-two years, a year-to-date paystub or equivalent earnings statement(s) and the most recent one-year tax returns must be provided when treated as non-self-employment income. Income must be calculated based on an average documented history of receipt and support a consistent level of income. The 1099 income must be reduced by the expenses (excluding non-cash items) reported on Schedule C. Apply an average of the verified expenses to the 1099 income without verified expenses.

Calculation Example	
Scenario: Borrower has an 18-month history of documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for 5 years with similar income level and employment field.	
1099(s) reported as gross receipts/sales:	(+) \$100,000
Less: Schedule C Expenses (less non-cash expenses)	(-) \$ 4,000 (4%)
Subtotal (most recent year Schedule C)	\$96,000
Verified YTD 1099 income (6 months):	(+) \$50,000
Less: 4% expense rate (based on most recent year Schedule C)	(-) \$2,000 (4%)
Subtotal (Current YTD)	\$48,000
Income calculation: \$144,000 (combined subtotals) / 18 months	\$8,000/mo

A verification of employment must be performed to confirm the borrower continues to perform services for the provider of the 1099 income.

## **APPRAISAL WAIVERS**

Properties in the state of New York may utilize an appraisal waiver option offered on the DU/LPA findings when the LTV does not exceed 80%, for both purchase and refinance transactions, unless there are other characteristics present which result in the restricted use of the waiver (e.g. leaseholds, gifts of equity, etc.).

## **MISCELLANEOUS UPDATES**

Note, the guidelines and requirements have not changed for the following updates:

- The Income and Employment Section of the guidelines has been rearranged to consolidate the income types into categories (e.g. employment related, non-employment related, rental, self-employment, etc.).
- Solar Panel section of the guideline has been reorganized to compare requirements based on solar panel leases or financing.

### ADDITIONAL RESOURCES

[Fannie Mae SEL-2022-08](#)

[Freddie Mac Bulletin 2022-18](#)

[Freddie Mac Income Reported on Form 1099 FAQ](#)

Refer to the [Conventional Underwriting Guidelines](#) for complete details which may supersede Fannie Mae and Freddie Mac Seller Guides.

## **CUSTOMER SUPPORT**

If you have any questions on the contents on this memo, please email [underwritingsupport@flagstar.com](mailto:underwritingsupport@flagstar.com) or call the Underwriting Support Desk at (866) 945-9872