

Bulletin 20-36

Additional Documentation Requirements for Self-Employed Borrowers for Fannie Mae and Freddie Mac Transactions

Homebridge is updating our self-employment income documentation to align with recently published guidance in Fannie Mae [Lender Letter 2020-03](#) and Freddie Mac [Bulletin 2020-19](#) dated May 28, 2020

The updated policy applies to loan **applications** dated on or after June 11, 2020 and remain effective until further notice.

Additional Documentation Requirements

In **addition** to the standard self-employed income documentation requirements, as determined by DU or LPA, at minimum, **one** of the following must be provided:

- **Audited P&L:** The audited YTD profit and loss statement (P&L) must meet the following requirements:
 - The P&L must cover the most recent month preceding the loan application date, **and**
 - The P&L must be prepared and signed by a licensed accounting firm; a borrower prepared P&L is not eligible even if the borrower is an accountant and/or is employed by an accounting firm, **and**
 - The borrower must sign and date the P&L, **and**
 - The P&L must be dated \leq 60 calendar days prior to the Note date

OR

- **Unaudited P&L:** The **unaudited** YTD P&L must meet the following requirements:
 - The P&L must cover the most recent month preceding the loan application date, **and**
 - The P&L may be prepared by the borrower or a financial professional, **and**
 - The borrower must sign and date the P&L, **and**
 - The P&L must be dated no more than 60 calendar days prior to the Note date, **and**
 - Two (2) months business bank statements
 - The bank statements cannot be older than the last two (2) months represented on the YTD P&L (e.g. if the P&L is dated through May 31st, the bank statements provided must be from April and May)
 - Personal bank statements are acceptable when the borrower **does not** have a business bank account subject to:
 - All deposits and withdrawals must be specifically identified, to determine which were personal and which were business related
 - A reasonability test applies. Personal bank statements are only acceptable for smaller businesses; larger businesses with significant income on business tax returns are not eligible to use personal bank statements.

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- Businesses claiming to operate on a cash basis where business or personal bank statements reflect minimal deposits will be subject to additional review and/or documentation and Homebridge management approval
 - The Note date must be ≤ 60 calendar days from the end date of the most recent bank statement

Income Analysis Requirements

The income analysis requirements are determined by the type of P&L provided

- **Audited P&L provided:** If an audited YTD P&L, prepared and signed by a licensed accounting firm, was provided **no further validation** of the P&L is required; an audited P&L is considered validated
- **Unaudited P&L provided:** If a YTD unaudited P&L was provided the Homebridge underwriter must validate the P&L by comparing it to the bank statements
 - The revenue, expenses, and net income on the P&L must be reasonably consistent with the deposits and expenses listed on the bank statements. Homebridge will consider a 10% variance reasonable
 - If the information on the bank statements and the P&L **are consistent**, the P&L is considered **validated**
 - If the information is **not** consistent, additional documentation will be required to validate the unaudited P&L (e.g. month-to-month or quarterly trending reports with additional bank statements)
 - If the additional documentation cannot be provided, or it does not resolve the discrepancy, the self-employed income cannot be used

Establishing Income Stability: Required on Both Audited and Unaudited P&Ls

The following applies when establishing income stability:

- The validated P&L is compared to the qualifying income (qualifying income is determined by standard self-employment income guidelines) to determine the stability of the business and income. Requirements vary based on the results of the comparison
- **Income level has NOT declined:** The qualifying income is calculated using standard Fannie Mae/Freddie Mac self-employment income requirements. The P&L (audited or unaudited) is **not** considered
- **Income level HAS declined:** Additional documentation is required when the income level has declined to determine if it is now stable. The following is required
 - A letter of explanation (LOE) provided by the borrower and/or their accountant/CPA is required. The LOE must specifically address:
 - The decline in income, **and**
 - Why they believe the decline has stabilized, **and**
 - That the net income is not expected to further decline
 - If the LOE validates the income is now stable **no more than the current** level of monthly income can be used for qualifying
 - If the LOE **does not** validate the income is now stable, **the income cannot be used for qualifying**

Business Assets

Fannie Mae and Freddie Mac also clarified that an SBA Payroll Protection Plan (PPP) loans and/ or any other federal, state, local business loan/grant obtained related to COVID-19 are not considered business assets and therefore cannot be considered as eligible funds for down payment, closing costs and any required reserves.

If you have any questions, please contact your Account Executive.