

Bulletin 20-56

Updates to Self-Employed Borrower Documentation Requirements on Fannie Mae and Freddie Mac Transactions

Homebridge is updating our self-employment income documentation to align with recently published improved guidance in Fannie Mae [Lender Letter 2020-03](#) and Freddie Mac [Bulletin 2020-44](#), both dated November 13, 2020

The updated policy applies to self-employed borrowers who utilize an **unaudited** YTD profit and loss option **only**. There is **no change to the previously issued guidance for borrowers utilizing an audited P&L** (refer to [Homebridge Bulletin 20-36](#), issued June 15 2020 or the Homebridge Fannie Mae or Freddie Mac guidelines posted on the Homebridge website for audited P&L guidance)

As a reminder, the self-employed policy (whether using an unaudited or audited P&L) is in addition to standard self-employed requirements, as determined by DU or LPA.

Unaudited P&L

When an unaudited YTD P&L the following requirements apply:

- The P&L must cover the most recent month preceding the loan application date (no change), **and**
- The P&L may be prepared by the borrower or a financial professional (no change), **and**
- The borrower must sign and date the P&L (no change), **and**
- The P&L must be dated no more than 60 calendar days prior to the Note date (no change), **and**
- Three (3) months business bank statements (**NEW**, previously 2 months bank statements required)
 - The bank statements cannot be older than the last three (3) months represented on the YTD P&L (e.g. if the P&L is dated through October 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 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.
 - 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 \leq 60 calendar days from the end date of the most recent bank statement

Income Analysis Requirements

When an YTD unaudited P&L is provided the Homebridge underwriter must validate the P&L by comparing it to the bank statements

- The gross revenue/gross income on the P&L must be reasonably consistent with the deposits listed on the bank statements. Homebridge will consider a 10% variance reasonable (**NEW**; previously expenses were also validated against the bank statements)

NOTE: Expenses are **no longer** required to be validated against the bank statements (**NEW**)

- 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

- The **net income** on the validated P&L (**NEW**; previously expenses considered) 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 is **not** considered (no change)
- **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: (no change)
 - 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 from the P&L can be used for qualifying (no change)
 - If the LOE **does not** validate the income is now stable, **the income cannot be used for qualifying (no change)**

The updated improved policy may be applied immediately, to new submissions and loans currently in the pipeline, and is required for loan **applications** dated on or after December 14, 2020

The Homebridge Fannie Mae and Freddie Mac guidelines have been updated and posted on the Homebridge website at www.HomebridgeWholesale.com