

## Bulletin 22-23

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### **FHA Updated Income Calculation – Borrowers with a Reduction or Loss of Income Due to COVID-19**

FHA [Mortgage Letter 2022-09](#) announced updates to FHA policy regarding the calculation of income after a reduction or loss of income due to COVID-19.

The update provides new flexibility when calculating the qualifying income for borrowers who can demonstrate their income was adversely affected by COVID-19, due to a gap in employment or a decline in income, but now have stable income

FHA defined a COVID-19 related economic event as one of the following that occurred during the COVID-19 National Emergency:

- A temporary loss of employment, **or**
- Temporary reduction of income, **or**
- Temporary reduction of hours

The Mortgage Letter provides exceptions to standard income calculations when the loss was due to COVID -19 related economic event for the following income types:

- Primary employment (salaried)
- Primary employment (hourly wage earner and **hours vary**),
- Part-time employment (hourly wage earner and **hours vary**),
- OT, bonus, or tip,
- Commission,
- Borrower employed by family members,
- Self-employment

**NOTE:** The Mortgage Letter **did not** provide for an exceptions to standard income calculations when the loss was due to COVID-19 for seasonal income nor for employer housing subsidy

#### **Income Calculations by Income Type**

- **Primary Employment: Salaried Wage Earner**
  - Salaried employees who were affected by a COVID event and their **current income** will likely be consistently earned, the current salary is used to calculate income
- **Primary Employment Hourly and Hours Vary (Full and Part-Time)**
  - The qualifying income is calculated using the **lesser of**:
    - The average income earned prior to the COVID related event, **OR**
    - The average income earned since the COVID related event

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- **Overtime, Bonus & Tip Income**
    - The qualifying income is calculated using the **lesser of**:
      - The average income earned **prior to** the COVID related event, **OR**
      - The average income earned **since** the COVID related event
  - **Commission Income**
    - The qualifying income is calculated using the **lesser of**:
      - The average earned **prior to** the COVID related event, **OR**
      - The average income earned **since** the COVID related event
  - **Borrower Employed by Family Member**
    - Salaried borrowers who were affected by a COVID event and their current income will likely be consistently earned, the current salary is used to calculate income
    - Borrower paid hourly and **hours do not vary** use the current hourly rate to calculate qualifying income
    - Borrower paid hourly and **hours vary** qualifying income is calculated using the **lesser of**:
      - The average earned **prior to** the COVID related event, **OR**
      - The average income earned **since** the COVID related event
  - **Gaps in Employment: Non-Self-Employment Income**
    - The borrower's income, when calculated using the applicable exception due to a COVID-19 event, may be considered effective income if it can be verified and documented that:
      - The borrower has been employed in their current job or same line of work for a minimum of one month at the time of case number assignment, **OR**
      - The borrower has been employed in a different job or line of work for a minimum of 6 months at the time of case number assignment **AND** has an aggregate 2-year work history prior to case number assignment, excluding gaps in employment, **AND**
      - A written VOE is required documenting the time period of the temporary loss of employment, hours, or income
  - **Self-Employed Borrowers**
    - The borrower must have an aggregated self-employment history before and after the COVID related event totaling 2-years
      - Self-employment history between 1 and 2 years may be considered when the borrower was previously employed in the same line of work or related occupation as their self-employment for at least 2-years
      - If the borrower's income level is < 80% of their pre-COVID event income, the file must be downgraded to a **manual underwrite**
    - Borrowers with a reduction of income due to a COVID-19 related economic event, the borrower must provide the following **additional** documentation (in addition to standard self-employment income documentation):
      - A letter of explanation, **AND**

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- The borrower's business tax returns for the most recent 2-years, **AND**
  - **One** of the following:
    - An audited YTD P&L, supporting revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, **OR**
    - An unaudited YTD P&L, signed by the borrower, supporting revenue, expenses, and net income up to and including the most recent month preceding the case number assignment, **AND**
    - The 3 most recent business bank statements, that can be no older than the latest 3 months represented on the YTD P&L

**NOTE:** The monthly deposits on the business bank statements must support the earnings on the unaudited YTD P&L
  - The gross income is calculated using the **lesser of**:
    - The average gross income earned over the previous 2-years prior to the COVID-19 economic event, **OR**
    - The average gross income earned over the previous 6 months after the COVID-19 economic event
      - Self-employed borrowers with a gap in employment or reduction in income/hours due a COVID-19 related economic event, **the months where the business was closed, or the income was reduced may be excluded when calculating the effective income.**

**NOTE:** The borrower must still meet the minimum length of self-employment detailed above.

## Important Notes

- The exceptions to income calculations **ONLY** apply to borrowers who can demonstrate their income was adversely impacted by one of the COVID-19 economic event outlined above; the exceptions **DO NOT** apply to borrowers whose income **was not** impacted by a COVID-19 economic event
- Income types not addressed, there is **no change** to income calculation
- Income used to qualify must be now considered stable and likely to continue
- The income calculations are the same for transactions underwritten by AUS/TOTAL **and** manually underwritten transactions.

These updates are effective immediately and may be applied to new submissions and loans currently in the pipeline; the updates must be applied to case numbers on or after September 5, 2022.

The FHA guidelines have been updated and posted on the Homebridge website at [www.HomebridgeWholesale.com](http://www.HomebridgeWholesale.com)

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