

Bulletin

TO: Freddie Mac Sellers

May 28, 2020 | 2020-19

SUBJECT: SELLING GUIDANCE RELATED TO COVID-19

We continue to work closely with Fannie Mae under the guidance and direction of the FHFA to address the ongoing economic implications and uncertainty related to the coronavirus disease (COVID-19) pandemic and its impacts on Borrowers and the Mortgage origination process.

This Bulletin provides:

- Temporary [requirements and guidance](#) for Borrowers with qualifying income derived from self-employment
- Temporary flexibilities for [CHOICERenovationSM Mortgages](#)
- Delivery requirements for [“no cash-out” refinance Mortgages](#)
- Temporary eligibility requirements related to the purchase of [delinquent Mortgages in forbearance](#)

We are also reminding Sellers of additional resources, including our [Selling FAQs](#) related to COVID-19, which we continue to update.

Note Date references

All references to the Note Date refer to the modification date for Seller-Owned Modified Mortgages, the Conversion Date for Seller-Owned Converted Mortgages, the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, or the assumption agreement date.

UNDERWRITING BORROWERS WITH SELF-EMPLOYMENT INCOME

Effective date

Sellers are encouraged to apply these temporary requirements to existing Mortgages in process; however, they must be applied to Mortgages with Application Received Dates on or after June 11, 2020 and until further notice.

Determining income stability with additional analysis and documentation

Due to the continued impact of the COVID-19 pandemic on economic conditions and businesses throughout the country, in addition to the requirements in Guide Chapters 5301 and 5304, Sellers must comply with the following temporary requirements when assessing income derived from self-employment in order to determine if the Borrower's income is stable and there is a reasonable expectation of continuance. The Mortgage file must include a written analysis of the self-employed income amount and justification of the determination that the income used to qualify the Borrower is stable.

Minimum additional documentation requirements

At a minimum, the following additional documentation must be obtained when assessing income from self-employment:

- An unaudited year-to-date (YTD) profit and loss statement that is signed by the Borrower and reports business revenue (i.e., gross receipts or sales), expenses and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date, and

- Two months business account statements no older than the latest two months represented on the YTD profit and loss statement
 - For example, if the YTD profit and loss statement is through May 31, 2020, the business account statements can be no older than for April and May
 - Personal asset account statements evidencing business deposits and expenses may be used when the Borrower is an owner of a small business and does not have a separate business account

Or

- An **audited** YTD profit and loss statement reporting business revenue (i.e., gross receipts or sales), expenses and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date.

Note: The Seller may need to obtain additional documentation to supplement the minimum required documentation in order to effectively assess the impact of the pandemic on the business.

Reviewing YTD profit & loss statements, business account statements and other relevant documentation

- The Seller must determine if the business revenue, expenses and net income documented in the unaudited YTD profit and loss statement are reasonably consistent with the revenue and expense cash flow documented on the business account statements
- If the information on the YTD profit and loss statement is not reasonably consistent with the information on the business account statements, additional documentation (e.g., month-to-month or quarterly trending for YTD profit and loss, additional months and/or more recent bank statements) must be obtained to support the information and resolve the discrepancy
- If the unaudited YTD profit and loss statement cannot be supported by business account statements and/or other documentation, the self-employment income is not eligible for use in qualifying
- If the unaudited YTD profit and loss statement is supported, or if an audited YTD profit and loss statement is used, proceed to determining the current level of stable monthly income as outlined below

Establishing stable monthly income

- The Seller must review the YTD profit and loss statement (unaudited or audited), business account statements, and all other relevant factors and documentation to determine the extent to which a business has been impacted by COVID-19. Refer to the [Business review and analysis section](#) below for additional information regarding relevant factors.
- The Seller must establish the current level of stable monthly self-employment income using details from the YTD profit and loss statement, business account statements, and supplemental documentation, as applicable
- The Seller must determine whether the income level has declined by comparing the information on the YTD profit and loss statement to the business revenue (i.e., gross receipts or sales) and expenses reported on the most recent year's business tax return(s), and the net monthly income as calculated in accordance with requirements and guidance in Chapter 5304, including use of Guide Form 91, *Income Calculations*, or a similar alternative form

The income level has not changed or has increased

Use the qualifying income calculated following standard requirements and guidance in Chapter 5304, including the use of Form 91 or a similar alternative form. A YTD profit and loss statement, audited or unaudited, cannot be used to support a higher level of income than the amount derived from Form 91 or a similar alternative form.

The income level has declined

- Determine if the income has stabilized. The Seller may need to obtain additional documentation to supplement the YTD profit and loss statement (e.g., a month-to-month income trending analysis, additional months and/or more recent business account statements) to make this determination.
- If the income has stabilized:

	<ul style="list-style-type: none"> ➤ Use no more than the current level of stable monthly self-employment income using details from the YTD profit and loss statement, business account statements, and supplemental documentation, as applicable ➤ Adjustments (e.g., depreciation) to the YTD profit and loss net income may be made in accordance with the requirements and guidance in Guide Section 5304.1(d) and Form 91, and in alignment with the adjustments based on the tax returns, as appropriate • If the income is declining and has not stabilized, then the income is not eligible for qualifying
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Business review and analysis

The Seller continues to be responsible for establishing that the Borrower’s income is stable and likely to continue at the same level as used to qualify the Borrower. It is also expected that all Sellers ensure they are knowledgeable of the economic conditions related to a Borrower’s business. The documentation and the Seller’s analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower. In addition to the business review and analysis requirements and guidance in Section 5304.1(d), the Seller must consider pandemic-related factors which may include, but are not limited to, the following:

- If the ability of the business to generate revenue or operate at full capacity has been negatively impacted by the pandemic, have business operations been modified to support continued revenue? Is continued business revenue supported by any other documentation or information supplied by the Borrower (e.g., modified business plans) or obtained from other sources?
- Impacts to the business operation, revenue and/or expenses, such as a break-down in the supply chain that is needed to maintain the product, a higher cost of expenses to obtain the product, or a lack of consumer demand for the product or service
- Impacts to the business operation, revenue and/or expenses due to temporary restrictions such as State shelter-in-place, stay at home or other similar State or local orders
- If temporary restrictions have been recently lifted, will the business continue to operate at a reduced level of revenue due to COVID-19-related factors, such as social distancing? If so, has the business been operating at this reduced level of revenue and/or increased level of expenses for a long enough period to establish income stability and is this documented with more recent business bank account statements evidencing this revenue flow or other equivalent information?
- Does the business currently have documented liquid assets or access to capital for operating expenses that support the financial ability of the business to operate given current market and economic conditions? Are those assets comprised of or supplemented by loan proceeds from the Small Business Administration (SBA) Payroll Protection Plan (PPP) or any other similar COVID-19-related program (e.g., federal, State or local level business loans and grants)? A current balance sheet may be used to support the lenders determination of business stability, in conjunction with the profit and loss statement and business bank statements.
- Additional economic information related to the business such as:
 - Whether the business is part of an industry that is experiencing increasingly negative pandemic-related impacts
 - Reputable news sources and economic forecasts related to the business industry and pandemic progression
 - Whether the business type is in what is considered a high contact-intensive industry and if the higher risk of exposure to COVID-19 may present an impact to the potential for income stability and/or continuance until the medical issues surrounding the pandemic are closer to being resolved, whether or not there are State or local orders that temporarily restrict the business operation

Business assets

Loan proceeds from the SBA Payroll Protection Plan (PPP) and/or any other similar COVID-19-related program(s) (e.g., federal, State or local level business loans and grants) are not considered business assets (as described in Section 5501.3(b)(iv)) for the purposes of eligible funds to qualify the Borrower for the Mortgage transaction, including, but not limited to, funds for Down Payment, Closing Costs and reserves.

Reminder: verification of the current existence of the business

The requirements and guidance published in Bulletin 2020-8 regarding verifying that the Borrower's business is open and operating within 10 Business Days prior to the Note Date continue to apply.

AIM for self-employed

At this time, we are still evaluating impacts to automated income assessment with Loan Product Advisor® using tax return data (i.e., AIM for self-employed). Freddie Mac will issue guidance at a future date.

CHOICERENOVATIONSM MORTGAGES

Mortgages sold with recourse and in forbearance

These temporary flexibilities are effective immediately and remain in place until further notice. These temporary flexibilities are for CHOICERenovation Mortgages sold with recourse previously in COVID-19-related forbearance.

Under Chapter 4607, approved Sellers may deliver CHOICERenovation Mortgages with Settlement Dates prior to completion of the renovations provided the Mortgages are sold with recourse. We are offering temporary flexibilities to our requirements for removal of recourse for CHOICERenovation Mortgages previously in COVID-19-related forbearance. These flexibilities apply to "Mortgages in forbearance" as defined in Bulletin 2020-12 and CHOICERenovation Mortgages subject to forbearance plans in accordance with the temporary measures announced in Bulletin 2020-4 and as revised in Bulletin 2020-10.

For the flexibilities below to apply, the forbearance period must have ended, the CHOICERenovation Mortgage must not be delinquent at the time of the request to remove recourse and the Borrower must be making the monthly payments due:

- If the Borrower did not miss any monthly payments during the forbearance period and the CHOICERenovation Mortgage is no longer subject to the forbearance plan, recourse may be removed
- If the Borrower missed one or more monthly payments during the forbearance period, recourse may be removed upon the Borrower having successfully completed a repayment plan
- As of February 1, 2020, the CHOICERenovation Mortgage must not have been 30 days delinquent more than once during the renovation period and prior to being subject to the forbearance plan. If it does not meet this requirement, then the recourse may be removed at a later date as specified in Section 4607.15.

Note: Mortgages subject to recourse that may require a payment deferral or loan modification due to missed payments during the forbearance period continue to be subject to our existing requirements.

Mortgages with Settlement Dates after completion of renovations

In Bulletin 2020-14, Freddie Mac temporarily revised our Mortgage eligibility requirements to limit our purchase of Mortgages to those with Settlement Dates no more than six months after the Note Date or, for Construction Conversion and Renovation Mortgages, the Effective Date of Permanent Financing.

Effective immediately, we are offering flexibility to these temporary requirements for CHOICERenovation Mortgages with Settlement Dates after completion of renovations. After completion of renovations, the Seller may sell the CHOICERenovation Mortgage to Freddie Mac provided the Settlement Date is no more than 12 months after the Note Date. (Note: Pursuant to Section 4607.4(a), all renovations must be completed within 365 days of the Note Date for a CHOICERenovation Mortgage.)

DELIVERY REQUIREMENTS FOR "NO CASH-OUT" REFINANCE MORTGAGES

For Freddie Mac-owned "no cash-out" refinance Mortgages utilizing the appraisal flexibilities in Bulletin 2020-5, Sellers should enter the ULDD Data Point, *Related Loan Investor Type* (Sort ID 222) of "FRE" as well as the nine-digit Freddie Mac loan number assigned to the original Mortgage in ULDD Data Point, *Related Investor Loan Identifier* (Sort ID 221). Sellers should use their best efforts to provide this information. However, we recognize a Seller's process and systems may not be updated to accommodate this change and in these cases the Seller is not required to provide this information. This temporary guidance does not waive any current requirements in Section 6302.16(b)(ii).

PURCHASE OF DELINQUENT MORTGAGES IN FORBEARANCE

Bulletin 2020-12 announced, and Bulletin 2020-17 extended, temporary eligibility requirements allowing Sellers to sell to Freddie Mac certain Mortgages for which the Borrower has requested forbearance. Under the temporary eligibility requirements, the Mortgages must be no more than 30 days delinquent. Sellers were instructed to populate the ULDD Data Point, *Investor Feature Identifier* (Sort ID 368) with either J76 or J77, as applicable, and reminded to populate the ULDD Data Point, *Delinquent Payments Over Past 12 Months Count* (Sort ID 452) as appropriate.

With this Bulletin, effective for Mortgages that are 30 days delinquent and with Settlement Dates on or after June 1, 2020, Sellers must submit the following updates using the [Post-Fund Data Correction](#) process to ensure the Mortgage servicing data is reflected accurately.

- *Loan Acquisition Scheduled UPB Amount* (Sort ID 385). The updated value for this ULDD Data Point must reflect the actual balance as of the Settlement Date.
- *Last Paid Installment Due Date* (Sort ID 440). The updated value for this ULDD Data Point must be the actual date of the last paid installment.

Sellers must deliver these updated values for the ULDD Data Points according to the format instructions provided on the [Post-Fund Data Correction Form \(DCR Form\)](#). These updates must be submitted in the same month as the Settlement Date. The \$500 compensatory fee associated with contract non-compliance and contract changes will be waived. Please note that all Credit Fees in Price found in Guide Exhibit 19 will apply to the revised UPB amount.

NOTE: The Seller must provide standard required ULDD information at delivery and subsequently provide these updates. If the Seller provides data in accordance with the instructions above at the time of delivery, the Mortgage will receive a critical edit in Loan Selling Advisor®.

GUIDE AND SYSTEM UPDATES

We are not updating the Guide or Loan Product Advisor to reflect any of the changes noted in this Bulletin.

ADDITIONAL RESOURCES

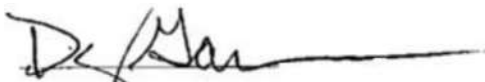
We encourage Sellers to review the following resources:

- Freddie Mac Single-Family web page on [COVID-19](#)
- Freddie Mac [Selling FAQs](#) related to COVID-19
- The Center for Disease Control's web page on [COVID-19](#)
- The Appraisal Foundation's [Appraiser Qualifications and Standards Q&As](#)
- The Appraisal Institute's [Coronavirus-related Direction for Appraisers](#)
- National Association of Realtors [Coronavirus Guide for Realtors](#)

CONCLUSION

We appreciate the support that Sellers continue to extend to Borrower coping with hardships attributed to COVID-19. If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,



Danny Gardner
Senior Vice President, Client and Community Engagement