

Friday, September 25, 2020

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NOTICE TO ALL CUSTOMERS

Analyzing Income for Self Employed Borrowers

Did you know?

To promote responsible lending while supporting homeownership needs for borrowers with business, the agencies implemented additional documentation requirements so that further analysis can be conducted by lenders when assessing the Borrower's income derived from Self-Employment in order to determine if such income is stable and likely to continue.

Please keep in mind that these additional / temporary requirements are not supported by the AUS findings yet.

Determining Self-Employment Income Stability

The lender must consider any impact to the business or to the industry where the business derives its revenue in order to assess if the business has been impacted by COVID-19.

Analyzing the Business and the Income Derived from the Business

The Borrower must provide the lender either an audited or unaudited Year-to-Date Profit and Loss Statement (P&L) reporting business revenue/expenses/net income dated for the most recent month preceding the loan application date, Business Bank Statements both dated no more than 60 days prior to the date of the note, and other relevant documentation that may be necessary to effectively perform a business assessment supporting the underwriting credit decision that the self-employment income is reliable, stable and likely to continue.

Points to Consider:

- Business Revenue cannot include proceeds from Payroll Protection Program (PPP) loans or other COVID-19 related loans or assistance as these funds are short-term economic relief and are not revenue.
- The lender will review the total deposits and expenses noted on the business bank statements and compare these against the details the revenues and expenses shown on the Year-to-Date Profit and Loss Statement (P&L) to validate and confirm these are reasonably consistent.

Summary

The lender must confirm the reliability, stability and likelihood of continuance for each source of income the Borrower reports on the business tax returns amid the impact to the economy, markets and industry where the business derives its revenue in order to assess its effect on the operations and revenue. Moreover, the lender must determine that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower to repay the mortgage.

[Click here to download](#) full details on the updates concerning Analyzing Income for Self Employed Borrowers.

Visit the [Resource Center](#) for additional information.

[CLICK HERE](#) to access our Temporary Policies Related to COVID-19.

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