



ASSISTANT SECRETARY FOR HOUSING  
FEDERAL HOUSING COMMISSIONER

**Date: November 25, 2020**

**Mortgagee Letter 2020-40**

**To:** All FHA-Approved Mortgagees  
All Direct Endorsement Underwriters  
All Eligible Submission Sources for Condominium Project Approvals  
All FHA Roster Appraisers  
All FHA-Approved 203(k) Consultants  
All HUD-Approved Housing Counselors  
All HUD-Approved Nonprofit Organizations  
All Governmental Entity Participants  
All Real Estate Brokers  
All Closing Agents

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**Subject** Extension of the End Date for COVID-19 Multisubject: Updated Temporary Guidance for Verification of Self-Employment; Rental Income; 203(k) Rehabilitation Escrow Account

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**Purpose** This Mortgagee Letter (ML) announces an extension of the effective period for ML 2020-24, published on July 27, 2020. This extension will allow industry partners additional opportunity to utilize flexible guidance related to verification of self-employment and verification of Rental Income for Single Family Title II Forward Mortgage and HECM Programs, and 203(k) escrow administration for the 203(k) Rehabilitation Program, in response to impacts from the Presidentially-Declared COVID-19 National Emergency.

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**Effective Date** The verification of business operations for self-employed borrowers and the Rental Income guidance in ML 2020-24 is extended for case numbers assigned on or before December 31, 2020.

The administration of the 203(k) Rehabilitation Escrow guidance for borrowers in forbearance in ML 2020-24 is effective for open escrow accounts through December 31, 2020.

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**Public Feedback** HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document,

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## Mortgagee Letter 2020-40, Continued

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please send feedback to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

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### **Affected Programs**

As further detailed in ML 2020-24, the verification of self-employment and verification of Rental Income guidance apply to Single Family Title II Forward Mortgage and HECM Programs. The 203(k) escrow administration guidance applies solely to the 203(k) Rehabilitation Program.

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### **Background**

On March 13, 2020, President Trump declared a National Emergency concerning the Coronavirus (COVID-19) pandemic and initiated actions to stem the threat to public health and the American economy. Many of these actions include the need to avoid contact with other people or to stay at home. Due to the restrictions imposed by the COVID-19 National Emergency and in compliance with State and Local government directives many businesses throughout the country had to reduce the scope of their operations or completely close their doors. Mortgagees are therefore experiencing an additional layer of challenge as they attempt to determine income stability for self-employed Borrowers and for Borrowers who rely on receipt of rental income. In recognition of these and other challenges that Mortgagees are experiencing during these unprecedented times, FHA is temporarily updating its income requirements for self-employed Borrowers and Borrowers who rely on the receipt of rental income to qualify for an FHA-insured mortgage. Additionally, FHA is clarifying its guidance for servicing the 203(k) Rehabilitation Escrow Account for Borrowers who are in a COVID-19 related mortgage payment forbearance. The extension of these temporary measures is expected to mitigate or offset potential risk of default that results in a claim against the MMIF while maintaining FHA's countercyclical role in the market.

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### **Paperwork Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Numbers 2502-0429, 2502-0583 and 2502-0584. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

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## Mortgagee Letter 2020-40, Continued

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### Questions

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

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### Signature

Dana T. Wade  
Assistant Secretary for Housing –  
Federal Housing Commissioner