



# Lender Letter (LL-2021-03)

Updated: Aug. 11, 2021

## To: All Fannie Mae Single-Family Sellers Impact of COVID-19 on Originations

This Lender Letter contains the policies previously published in [LL-2020-03](#) on Dec. 10, 2020, with the changes noted below. We are continuing to collaborate with FHFA and Freddie Mac and will update and republish this Lender Letter as necessary.

Aug. 11

- Effective immediately we are retiring the age of documentation and market-based asset policies that have been in place
- Removed from this Lender Letter the verbal verification of employment policy that previously expired and the power of attorney policy that was moved to the *Selling Guide*

Note that we will also be reinstating representation and warranty relief for employment validation within the DU validation service in a future release. All remaining policies in this Lender Letter continue to be effective until further notice.

Mar. 11

- Extending the application dates for verbal verifications of employment and power of attorney flexibilities to Apr. 30, 2021. This will be the final extension for these policies. Applications dated May 1, 2021 and later will be subject to standard *Selling Guide* policies.

Feb. 10

- Extending the application dates for verbal verifications of employment and power of attorney flexibilities to Mar. 31, 2021

Jan. 14

- Extending the application dates for verbal verifications of employment and power of attorney flexibilities to Feb. 28, 2021
- Content was reorganized such that the policies with explicit expiration dates are shown first, and like content was moved closer together (income and employment). Content that no longer applies was removed (such as quality control flexibilities and submission of financial statements), as have reminders of current policies in the *Selling Guide*.

### Age of documentation Aug. 11

**Effective:** These policies became effective for loans with application dates on or after Apr. 14, 2020 and are no longer applicable as of Aug. 11, 2021.

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.



- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the *Selling Guide*.

All other requirements contained in [B1-1-03](#), Allowable Age of Credit Documents and Federal Income Tax Returns, continue to apply.

## Conversion of construction-to-permanent financing – single-closing transactions

The *Selling Guide* currently allows certain single-closing construction-to-permanent transactions with credit documents dated more than 4 months but no more than 18 months at the time of conversion to permanent financing when certain conditions are met. (See [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing: Single-Closing Transactions). Among those conditions is a requirement that the credit documents are dated within 120 days of the original closing.

Consistent with the age of credit documentation requirements in this Lender Letter, this requirement is being updated to reflect that the income and asset documentation must be dated within 60 days of the original closing. All other conditions related to the age of credit documents contained in [B5-3.1-02](#) continue to apply.

## Requirements for borrowers using self-employment income to qualify

**Effective:** These policies became effective for loans with application dates on or after Jun. 11, 2020. The updated requirements to obtain three business depository account statements (increased from two statements) with an unaudited profit and loss statement and to review the depository account statements to support the level of business revenue reported in the current YTD profit and loss statement were effective for loan applications dated on and after Dec. 14, 2020. All policies are effective until further notice.

### Income Analysis

Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, the lender is required to determine if the borrower's income is stable and has a reasonable expectation of continuance.

Due to the pandemic's continuing impact on businesses throughout the country, lenders are now required to obtain the following additional documentation to support the decision that the self-employment income meets our requirements:

- an audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; or
- an unaudited year-to-date profit and loss statement signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and three business depository account(s) statements no older than the latest three months represented on the year-to-date profit and loss statement.
  - For example, the business depository account statements can be no older than Aug, Sep, Oct. for a year-to-date profit and loss statement dated through Oct. 31.
  - The lender must review the three most recent depository account statements to support the level of business revenue reported in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the on-going nature of business revenue reported in the current year-to-date profit and loss statement.

**NOTE:** *The year-to-date profit and loss statement must be no older than 60 days old as of the note date consistent with current [Age of Documentation](#) requirements below.*



Lenders must review the profit and loss statement, and business depository accounts if required, and other relevant factors to determine the extent to which a business has been impacted by COVID-19. The lender can use the following guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the lender may find it necessary to obtain supplemental documentation listed in the examples below.

<b>Assessing the Impact of COVID-19</b>	
<b>Business operations</b>	<ul style="list-style-type: none"> <li>▪ Have business operations been maintained or modified to support continued business income? <i>For example, review an updated business plan.</i></li> <li>▪ Is the business continuing to operate in the current location or an alternate location suitable for business operations? <i>For example, perform an Internet search or verify through a third-party source.</i></li> <li>▪ Is there a demand for the product or service currently offered by the business? <i>For example, obtain current business receipts or purchase contracts.</i></li> <li>▪ Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders?</li> <li>▪ Is the impact to the business operations negligible due to the nature of the business? <i>For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.</i></li> </ul>
<b>Business Income</b>	<p>The lender must complete a business income assessment by comparing the year-to-date net business income from the year-to-date profit and loss statement to historical business income calculated using the <i>Cash Flow Analysis</i> (Form 1084)* for a similar timeframe (such as monthly).</p> <ul style="list-style-type: none"> <li>▪ Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement) in accordance with <a href="#">B3-3.4-04</a>, Analyzing Profit and Loss Statements when making this determination.</li> <li>▪ When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes. See <a href="#">B3-3.1-01</a>, General Income Information for details.</li> </ul> <p><b>Example</b></p> <p>Historical monthly self-employment income calculated using Form 1084 = \$2,000</p> <p>Current level of stable monthly self-employment income as determined by the lender using details from the year-to-date profit and loss statement and other supplemental documentation = \$1,000</p> <p>The impact of the COVID 19 pandemic on current business income results in a 50% decline from historical levels. See <a href="#">Business Income Calculation Adjustment</a> below for next steps.</p> <p>*Form 1084 or any other type of cash flow analysis form that applies the same principles.</p>
<b>Business Stability</b>	<ul style="list-style-type: none"> <li>▪ Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance? (Consider documenting with an updated business plan)</li> </ul>



<b>Assessing the Impact of COVID-19</b>	
	<ul style="list-style-type: none"> <li>▪ Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings?</li> <li>▪ Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions?</li> </ul> <p>A current balance sheet may be used to support the lender’s determination of business stability, in conjunction with the profit loss statement.</p>

## **Business Income Calculation Adjustment**

When the lender determines current year net business income has been impacted by the COVID-19 pandemic and is

- less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above).
- more than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

In all cases, qualifying income must be supported by documentation, including any supplemental documentation obtained by the lender.

## **Business Assets**

We are clarifying that proceeds from the Small Business Administration PPP or any other similar COVID-19 related loans or grants are not considered business assets. Refer to [B3-4-2-02](#), Depository Accounts for details.

## **Verification of self-employment**

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**Effective:** These policies became effective for loans with application dates on or after Apr. 14, 2020 and are effective until further notice.

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower’s business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower’s business is open and operating. The lender must confirm this within 20 business days of the note date (or after closing but prior to delivery).

Below are examples of methods the lender may use to confirm the borrower’s business is currently operating:

- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- evidence of current business receipts within 20 days of the note date (payment for services performed);
- lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

See [B3-3.1-07](#), Verbal Verification of Employment for our existing requirements.

## **Employment validation by the DU validation service Aug. 11**

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**Effective:** This policy became effective for new Desktop Underwriter® (DU®) loan casefiles created on or after May 4, 2020. Representation and warranty relief for employment validation within the DU validation service will be reinstated in a future release and communicated in DU release notes.

To support sustainable homeownership while ensuring prudent risk management during these times of unprecedented unemployment, we are temporarily suspending representation and warranty relief for employment validation within the Desktop Underwriter® (DU®) validation service. Lenders must perform a verbal verification of employment in accordance with [B3-3.1-07](#), Verbal Verification of Employment or follow the temporary policies outlined below.

While representation and warranty relief for employment validation is temporarily suspended, lenders will still be able to take advantage of the income and asset validation services with representation and warranty relief. Income validation for a borrower remains dependent on the borrower being employed. Lenders should continue to verify the employment of the borrower as close to closing as possible. When income or assets are validated, lenders should continue to follow the close-by dates and instructions issued in DU messages. If the lender discovers that the borrower is no longer employed, the associated income can no longer be considered in the qualification of the borrower, and the employment and associated income information should be removed from the Form 1003 and the casefile should be resubmitted to DU.

Refer to the DU Validation Service Release Notes published on our [website](#) for additional information.

## Furloughed borrowers

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**Effective:** This policy became effective for loans in process on May 5, 2020 and is effective until further notice.

The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees actually return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income and are therefore ineligible under our Temporary Leave Income policy in [B3-3-1-09](#), Other Sources of Income.

## Temporary eligibility requirements for purchase and refinance transactions

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**Effective:** These policies became effective for loans with application dates on or after Jun. 2, 2020 and are effective until further notice.

In response to lender feedback, we are addressing eligibility requirements for borrowers impacted by the COVID-19 pandemic. With this update we are providing eligibility guidelines for purchase and refinance transactions.

Lenders must continue to review the borrower's credit report to determine the status of all mortgage loans. In addition to reviewing the credit report, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, including co-signed mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the note date of the new transaction. For the purposes of these requirements, "current" means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Examples of acceptable additional due diligence methods to document the loan file include:

- a loan payment history from the servicer or third-party verification service,
- a payoff statement (for mortgages being refinanced),
- the latest mortgage account statement from the borrower, and
- a verification of mortgage.

A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements in the table below.



Resolution Method	Eligibility
<b>Reinstatement</b>	If the borrower resolved missed payments through a reinstatement, they are eligible for a new mortgage loan. The lender must document the source of funds in accordance with eligible sources of funds in the <i>Selling Guide</i> , if the reinstatement was completed after the application date of the new transaction. Proceeds from a refinance may not be used to reinstate any mortgage loan.
<b>Loss Mitigation Solution</b>	<p>If outstanding payments will be or have been resolved through a loss mitigation solution, the borrower is eligible for a new mortgage loan if they have made at least three timely payments as of the note date of the new transaction as follows:</p> <ul style="list-style-type: none"> <li>▪ For a repayment plan, the borrower must have made either three payments under the repayment plan or completed the repayment plan, whichever occurs first. Note that there is no requirement that the repayment plan be completed.</li> <li>▪ For a payment deferral, the borrower must have made three consecutive payments following the effective date of the payment deferral agreement.</li> <li>▪ For a modification, the borrower must have completed the three-month trial payment period.</li> <li>▪ For any other loss mitigation solution not listed above, the borrower must have successfully completed the program, or made three consecutive full payments in accordance with the program.</li> </ul> <p>Verification that the borrower has made the required three timely payments may include:</p> <ul style="list-style-type: none"> <li>▪ a loan payment history from the servicer or third-party verification service,</li> <li>▪ the latest mortgage account statement from the borrower, and</li> <li>▪ a verification of mortgage.</li> </ul> <p>If these requirements are met on an existing mortgage loan being refinanced, the new loan amount can include the full amount required to satisfy the existing mortgage.</p>

We are not considering payments missed during the time of a COVID-19-related forbearance that have been resolved to be historical delinquencies for purposes of our excessive mortgage delinquency policy as outlined in [B3-5.3-03](#), Previous Mortgage Payment History. This flexibility does not apply to high LTV refinance loans, which must continue to meet the payment history requirements in [B5-7-02](#), High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.

## Market-based assets Aug. 11

**Effective:** These policies became effective for loans with application dates on or after Apr. 14, 2020 and are no longer applicable as of Aug. 11, 2021.

### Stocks, stock options, and mutual funds

In light of current market volatility, we are making the following updates when the borrower is using stocks, stock options, or mutual funds for assets:

- When used for down payment or closing costs, evidence of the borrower’s actual receipt of funds realized from the sale or liquidation must be documented in all cases.
- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

See [B3-4.3-01](#), Stocks, Stock Options, Bonds and Mutual Funds for our existing requirements.





## Sale of loans aged six months or less

**Effective:** These policies became effective on May 5, 2020 and are effective until further notice.

The national response to COVID-19 and the related economic impacts have resulted in uncertainty about risks associated with loans that have not been sold to us yet. Therefore, we are temporarily suspending bulk transactions and requiring that loans sold on a flow basis be no more than six months old to be eligible for sale to us. The loan's age will be calculated based on the following:

- Whole loans: from the first payment date to the date the loan data is submitted to Loan Delivery
  - Example: If loan data is submitted May 2020, the first payment date can be no earlier than Nov. 1, 2019
- MBS loans: from the first payment date to the pool issue date
  - Example: If the pool issue date is May 1, 2020 the first payment date can be no earlier than Nov. 1, 2019

**NOTE:** *HomeStyle Renovation loans can be delivered up to 12 months after the note date provided the renovation is completed before loan delivery and the loan is delivered with Special Feature Code 279.*

## Additional resources

We offer a wealth of information and resources for lenders, appraisers, and servicers to help borrowers deal with the challenges associated with COVID-19:

- [Single-family Here to Help COVID-19 website](#)
- [Ask Poli Selling](#)
- [Ask Poli Servicing](#)

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter. Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).

**Let your voice be heard!** We want your feedback on our policy communications to help us improve the clarity of new and updated policy and understand any implications to borrowers. Click below to take a short survey regarding this Lender Letter.

