



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Date: July 7, 2022**

**Mortgagee Letter 2022-09**

**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** Calculating Effective Income After a Reduction or Loss of Income for Borrowers Affected by Presidentially-Declared COVID-19 National Emergency

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**Purpose** This Mortgagee Letter (ML) is to instruct Mortgagees how to calculate Effective Income for Borrowers who were affected by gaps in employment, which led to reductions or loss of income due to COVID-19 Related Economic Events. This policy will allow industry partners additional opportunity to utilize flexible underwriting guidance to help Borrowers qualify for homeownership.

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**Effective Date** The provisions of this ML are effective for all case numbers assigned on or after September 5, 2022; however, Mortgagees may begin using the policies announced in this ML immediately.

Policy updates in this ML will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

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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, please send feedback to the FHA Resource Center at

## Mortgagee Letter 2022-09, Continued

[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**

The provisions of this ML apply to all FHA Title II Single Family forward mortgage programs.

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### **Background**

On March 13, 2020, the President declared a “National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak” and initiated actions to stem the threat to public health and the American economy. On January 21, 2021, President Biden announced the “National Strategy for the COVID-19 Response and Pandemic Preparedness.” 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 closed their doors. Mortgagees are therefore experiencing challenges as they attempt to determine income stability for employed and self-employed Borrowers. In recognition of these and other challenges that Mortgagees are experiencing during these unprecedented times, FHA is updating its income requirements for employed and self-employed Borrowers to qualify for FHA-insured Mortgages. These measures are expected to mitigate or offset potential risk of default that results in a claim against the Mutual Mortgage Insurance Fund (MMIF), while maintaining FHA’s countercyclical role in the market.

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### **Summary of Changes**

This ML updates the calculation of a Borrower’s Effective Income when it has been affected by a COVID-19 Related Economic Event for the following sections:

- Primary Employment in sections II.A.4.c.iii and II.A.5.b.iii
  - Part-Time Employment in sections II.A.4.c.iv and II.A.5.b.iv
  - Overtime, Bonus or Tip Income in sections II.A.4.c.v and II.A.5.b.v
  - Employed by Family-Owned Business in sections II.A.4.c.viii and II.A.5.b.viii
  - Commission Income in sections II.A.4.c.ix and II.A.5.b.ix
  - Self-Employment Income in sections II.A.4.c.x and II.A.5.b.x
  - Additional Required Analysis of Stability of Employment Income in sections II.A.4.c.xi and II.A.5.b.xi
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**FHA Single  
Family Housing  
Policy  
Handbook  
4000.1**

**Income Requirements (TOTAL) (II.A.4.c)**

**iii. Primary Employment (TOTAL)**

**(A) Definitions**

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

COVID-19 Related Economic Event refers to temporary loss of employment, temporary reduction of income, or temporary reduction of hours worked during the Presidentially-Declared COVID-19 National Emergency.

**(B) Standard**

The Mortgagee may use primary Employment Income as Effective Income.

**(C) Calculation of Effective Income**

**(1) Salary**

**(a) Standard**

For employees who are salaried and whose income has been and will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are salaried and whose current income will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

**(a) Standard**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must use the average of the income over the previous two years. If the Mortgagee can document an increase in pay rate

the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Hourly Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income earned since the COVID-19 Related Economic Event.

**iv. Part-Time Employment (TOTAL)**

**(A) Definition**

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

**(B) Standard**

The Mortgagee may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

**(C) Calculation of Effective Income**

The Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use a 12-month average of hours at the current pay rate.

**(D) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Calculation of Effective Income](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of income earned since the COVID-19 Related Economic Event.

**v. Overtime, Bonus or Tip Income (TOTAL)**

**(A) Definition**

Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

**(B) Standard**

The Mortgagee may use Overtime, Bonus or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus or Tip Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime, Bonus or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

**(C) Calculation of Effective Income**

**(1) Standard**

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
- the average Overtime, Bonus or Tip Income earned over the previous year.

**(2) Exception Due to COVID-19 Related Economic Event**

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Overtime, Bonus or Tip Income Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average Overtime, Bonus or Tip Income earned since the COVID-19 Related Economic Event.

**vi. Seasonal Employment (TOTAL)**

**(A) Definition**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

**(B) Standard**

The Mortgagee may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Mortgagee may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

**(C) Required Documentation**

For seasonal employees with unemployment income, the Mortgagee must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

**(D) Calculation of Effective Income**

For employees with Employment Income from Seasonal Employment, the Mortgagee must average the income earned over the previous two full years to calculate Effective Income.

**vii. Employer Housing Subsidy (TOTAL)**

**(A) Definition**

Employer Housing Subsidy refers to employer-provided mortgage assistance.

**(B) Standard**

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

**(C) Required Documentation**

The Mortgagee must verify and document the existence and the amount of the housing subsidy.

**(D) Calculation of Effective Income**

For employees receiving an Employer Housing Subsidy, the Mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

**viii. Employed by Family-Owned Business (TOTAL)**

**(A) Definition**

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

**(B) Standard**

The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

**(C) Required Documentation**

The Mortgagee must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1 \(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal tax returns or tax transcripts.

**(D) Calculation of Effective Income**

**(1) Salary**

**(a) Standard**

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are salaried and whose income will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

**(a) Standard**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Hourly Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income earned since the COVID-19 Related Economic Event.

**ix. Commission Income (TOTAL)**

**(A) Definition**

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

**(B) Standard**

The Mortgagee may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

**(C) Required Documentation**

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.



**(D) Calculation of Effective Income**

**(1) Standard**

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- either, (i) the average Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than years; or
- the average Commission Income earned over the previous year.

**(2) Exception Due to COVID-19 Related Economic Event**

For employees with Commission Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Commission Income Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the Commission Income earned since the COVID-19 Related Economic Event.

**x. Self-Employment Income (TOTAL)**

**(A) Definition**

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

**(B) Standard**

**(1) Minimum Length of Self-Employment**

The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

## **(2) Stability of Self-Employment Income**

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade and manually underwrite.

## **(3) Exception Due to COVID-19 Related Economic Event**

The Mortgagee may consider self-employment income if the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two years.

If the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level less than 80 percent of their income prior to the COVID-19 Related Economic Event, the Mortgagee must downgrade and manually underwrite.

## **(C) Required Documentation**

### **(1) Individual and Business Tax Returns**

The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

The Mortgagee must obtain the Borrower's business tax returns for the most recent two years unless the following criteria are met:

- individual federal income tax returns show increasing Self-Employment Income over the past two years;
- funds to close are not coming from business accounts; and
- the Mortgage to be insured is not a cash-out refinance.

In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-C](#), *Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, and tax transcripts directly from the IRS.

### **(2) Profit & Loss Statements and Balance Sheets**

The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

### **(3) Exception Due to COVID-19 Related Economic Event**

For self-employed Borrowers with a reduction of income due to a COVID-19 Related Economic Event, the Mortgagee must provide the following documentation in addition to the current [Self-Employment Income Required Documentation](#):

- letter of explanation for the time period of income loss or reduction;
- the Borrower's business tax returns for the most recent two years; and
- either of the following:
  - an audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
  - an unaudited year-to-date P&L statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L.

## **(D) Calculation of Effective Income**

### **(1) Standard**

The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in [Analyzing IRS Forms](#) (Appendix 2.0).

The Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

**(2) Exception Due to COVID-19 Related Economic Event**

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level greater than or equal to 80 percent of their income prior to COVID-19 Related Economic Event for a minimum of six months, the Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years prior to the COVID-19 Related Economic Event; or
- the average gross Self-Employment Income earned over the previous six months after the COVID-19 Related Economic Event.

**xi. Additional Required Analysis of Stability of Employment Income (TOTAL)**

**(A) Frequent Changes in Employment**

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

**(B) Addressing Gaps in Employment**

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current **line of work** for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

### **(C) Addressing Temporary Reduction in Income**

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For federal, state, tribal or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Mortgagee may use the Borrower's pre-leave income as Effective Income.

For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income as Effective Income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

### **Required Documentation**

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Sources of Funds](#) (II.A.4.d.iii), used to supplement the Borrower's income through intended date of return to work with current employer.

### **(D) Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event**

### **(1) Non-Self-Employment Income**

For Borrowers with gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may consider the Borrower's income calculated in accordance with the Exception Due to COVID-19 Related Economic Event for the applicable income type as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job or same line of work for at least one month at the time of case number assignment; or
- the Borrower has been employed in a different job or line of work for at least six months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment, using traditional or alternative employment verification.

### **Required Documentation**

The Lender must provide the following documentation for Borrower to verify:

- written Verification(s) of Employment (VOE) identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

### **(2) Self-Employment Income**

For Borrowers with gaps in self-employment, reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment in accordance with [Exception Due to COVID-19 Related Economic Event](#).

## **Income Requirements (Manual) (II.A.5.b)**

### **iii. Primary Employment (Manual)**

#### **(A) Definitions**

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary

employment is generally full-time employment and may be either salaried or hourly.

COVID-19 Related Economic Event refers to temporary loss of employment, temporary reduction of income, or temporary reduction of hours worked during the Presidentially-Declared COVID-19 National Emergency.

**(B) Standard**

The Mortgagee may use primary Employment Income as Effective Income.

**(C) Calculation of Effective Income**

**(1) Salary**

**(a) Standard**

For employees who are salaried and whose income has been and will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are salaried and whose current income will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

**(a) Standard**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must use the average of the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with [Hourly Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income since the COVID-19 Related Economic Event.

**iv. Part-Time Employment (Manual)**

**(A) Definition**

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

**(B) Standard**

The Mortgagee may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

**(C) Calculation of Effective Income**

The Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use a 12-month average of hours at the current pay rate.

**(D) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Calculation of Effective Income](#) section above for the time period prior to the COVID-19 Related Economic Event; or



- the average of income earned since the COVID-19 Related Economic Event.

**v. Overtime, Bonus or Tip Income (Manual)**

**(A) Definition**

Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

**(B) Standard**

The Mortgagee may use Overtime, Bonus or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime, Bonus or Tip Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime, Bonus or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

**(C) Calculation of Effective Income**

**(1) Standard**

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
- the average Overtime, Bonus or Tip Income earned over the previous year.

**(2) Exception Due to COVID-19 Related Economic Event**

For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Overtime, Bonus or Tip Income Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average Overtime, Bonus or Tip Income earned since the COVID-19 Related Economic Event.

**vi. Seasonal Employment (Manual)**

**(A) Definition**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

**(B) Standard**

The Mortgagee may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Mortgagee may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

**(C) Required Documentation**

For seasonal employees with unemployment income, the Mortgagee must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

**(D) Calculation of Effective Income**

For employees with Employment Income from Seasonal Employment, the Mortgagee must average the income earned over the previous two full years to calculate Effective Income.

**vii. Employer Housing Subsidy (Manual)**

**(A) Definition**

Employer Housing Subsidy refers to employer-provided mortgage assistance.

**(B) Standard**

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

**(C) Required Documentation**

The Mortgagee must verify and document the existence and the amount of the housing subsidy.

**(D) Calculation of Effective Income**

For employees receiving an Employer Housing Subsidy, the Mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

**viii. Employed by Family-Owned Business (Manual)**

**(A) Definition**

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

**(B) Standard**

The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

**(C) Required Documentation**

The Mortgagee must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1 \(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal tax returns or tax transcripts.

**(D) Calculation of Effective Income**

**(1) Salary**

**(a) Standard**

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are salaried and whose income will likely be consistently earned, the Mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

**(a) Standard**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

**(b) Exception Due to COVID-19 Related Economic Event**

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the [Hourly Standard](#) section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income for the time period since the COVID-19 Related Economic Event.

**ix. Commission Income (Manual)**

**(A) Definition**

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

**(B) Standard**

The Mortgagee may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

**(C) Required Documentation**

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

**(D) Calculation of Effective Income**

**(1) Standard**

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- either, (i) the average Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

**(2) Exception Due to COVID-19 Related Economic Event**

For employees with Commission Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with Commission Income Standard above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the Commission Income for the time period since the COVID-19 Related Economic Event.

**x. Self-Employment Income (Manual)**

**(A) Definition**

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

**(B) Standard**

**(1) Minimum Length of Self-Employment**

The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in

which the Borrower is self-employed or in a related occupation for at least two years.

## **(2) Stability of Self-Employment Income**

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must document that the business income is now stable.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

## **(3) Exception Due to COVID-19 Related Economic Event**

The Borrower must have an aggregate two-year self-employment history before and after the COVID-19 Related Economic Event.

If the Borrower has an aggregate self-employment history between one and two years before and after the COVID-19 Related Economic Event, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of a COVID-19 Related Economic Event and the Borrower can demonstrate the income has been stable or increasing for a minimum of six months, and the Borrower qualifies utilizing the reduced income.

## **(C) Required Documentation**

### **(1) Individual and Business Tax Returns**

The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-C](#), *Request for*

*Transcript of Tax Return, or [IRS Form 8821](#), Tax Information Authorization, and tax transcripts directly from the IRS.*

## **(2) Profit & Loss Statements and Balance Sheets**

The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return obtained from the IRS is required.

## **(3) Business Credit Reports**

The Mortgagee must obtain a business credit report for all corporations and “S” corporations.

## **(4) Exception Due to COVID-19 Related Economic Event**

For self-employed Borrowers with a reduction of income due to a COVID-19 Related Economic Event, the Mortgagee must provide the following documentation in addition to the current [Self-Employment Income Required Documentation](#):

- letter of explanation for the time period of income loss or reduction;
- the Borrower’s business tax returns for the most recent two years; and
- either of the following:
  - an audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
  - an unaudited year-to-date P&L statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L.

**(D) Calculation of Effective Income**

**(1) Standard**

The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in [Analyzing IRS Forms](#) (Appendix 2.0).

The Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

**(2) Exception Due to COVID-19 Related Economic Event**

For self-employed Borrowers with a COVID-19 Related Economic Event who have since regained income at a level greater than or equal to 80 percent of their income prior to the COVID-19 Related Economic Event for a minimum of six months, the Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years prior to the COVID-19 Related Economic Event; or
- the average gross Self-Employment Income earned over the previous six months after the COVID-19 Related Economic Event.

**xi. Additional Required Analysis of Stability of Employment Income (Manual)**

**(A) Frequent Changes in Employment**

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.



**(B) Addressing Gaps in Employment**

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current **line of work** for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

**(C) Addressing Temporary Reduction in Income**

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Mortgagee may use the Borrower's pre-leave income as Effective Income.

For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income as Effective Income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

**Required Documentation**

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;

- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Sources of Funds](#) (II.A.5.c.iii), used to supplement the Borrower's income through intended date of return to work with current employer.

#### **(D) Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event**

##### **(1) Non-Self-Employment Income**

For Borrowers with gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job or same line of work for at least one month at the time of case number assignment; or
- the Borrower has been employed in a different job or line of work for at least six months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment using traditional or alternative employment verification.

##### **Required Documentation**

The Lender must provide the following documentation to verify:

- written Verification(s) of Employment (VOE) identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

##### **(2) Self-Employment Income**

For Borrowers with gaps in self-employment, a reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment in accordance with [Exception Due to COVID-19 Related Economic Event](#).

**Mortgagee Letter 2022-09, Continued**

Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600; and 2502-0610. In accordance with the PRA, 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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**Questions**

Any questions regarding this ML 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 ML, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

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**Signature**

Julia R. Gordon  
Assistant Secretary for Housing  
Office of Housing – Federal Housing Administration

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