



Announcement

Announcement # 20-41

Date: June 12, 2020

Topic: Fannie Mae's Updated Lender Letter 2020-03 dated May 28, 2020 and Freddie Mac's Bulletin 2020-19

Effective for conventional loans with applications on or after June 11, 2020, PennyMac is aligning with the guidance given in Fannie Mae's Updated Lender Letter 2020-03 dated May 28, 2020 and Freddie Mac's Bulletin 2020-19 for borrowers using self-employment income to qualify. However lenders are strongly encouraged to apply these requirements to existing loans in process.

Updates to Borrowers with Self-Employment Income

PennyMac will require additional analysis and documentation for borrowers using self-employment income to qualify in accordance with the Agencies recent announcements. Lenders must carefully scrutinize borrowers using self-employment income to qualify to determine if the income has been impacted by a recent adverse event such as COVID-19. Self-employed borrowers who have been negatively impacted by recent events are not necessarily ineligible for qualification due to a decrease of income. It is the lender's responsibility to determine the income has stabilized and will be likely to continue for the foreseeable future. Fannie Mae and Freddie Mac are updating documentation requirements to help determine if self-employed income is eligible for qualification, and such documentation must be included in the loan file at time of delivery when using self-employed income to qualify:

- 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 two depository account(s) statements no older than the latest two months represented on the year-to-date profit and loss statement. Personal or business accounts are eligible for use. Personal accounts may require additional evidence that deposits belong to the business.
 - For example, the business depository account statements can be no older than Apr. and May for a year-to-date profit and loss statement dated through May 31, 2020.
 - The lender must review the two most recent account statements to support and/or not conflict with the information presented in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date profit and loss statement.
 - 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.



Announcement

Lenders are required to review all business documentation including the profit and loss and bank statements to determine the severity of impact to the borrower's business from COVID-19. The lender must determine that information including business revenue, expenses, and net income indicated on the unaudited profit and loss statement reconciles and is supported by the business bank statements provided by the borrower. If there is any indication that this information is not supported, then additional documentation must be obtained to resolve any discrepancies. If the lender cannot resolve these discrepancies, the business income should be considered unsupported, and therefore ineligible for qualification.

Business Stability, Income Calculation and Assets

Lenders are required to complete a business income assessment by comparing the year-to-date income on the profit and loss statement, bank statements and any other relevant documents to previous historical business income using a cash flow analysis. Business income that has decreased year to date due to the impacts of COVID-19 must be calculated per the guidance given by Fannie Mae and Freddie Mac. The lender may not use more than the current level of stable income to qualify if the current income has decreased compared to the historical business income calculated using the cash flow analysis. If the lender determines that business income is impacted and is not accurately reflected on the profit and loss statement or bank statements, additional documentation must be obtained. If the lender concludes that the business income is declining and has not stabilized, and stability cannot be confirmed, then the income cannot be used for qualification.

In addition, lenders must review the borrower's overall business operations to determine how the business has been impacted by COVID-19 and how recent changes are impacting the future stability of the business. This may involve reviewing an updated business plan, performing an internet search or third party verification, and reviewing recent shelter in place orders to see how they affect business operations. Other factors such as a breakdown in supply chain, lack of consumer demand or increased expenses all must be taken into account when completing the business review and analysis.

PennyMac is aligning with the clarifications given by Fannie Mae and Freddie Mac for proceeds obtained from the Small Business Administration PPP or any other COVID-19 related grants or loans. These funds are not considered eligible business assets and cannot be used towards the subject transaction. Please see Fannie Mae Selling Guide Section B3-4.2-02 and Freddie Mac Seller's Guide Section 5501.3 for complete details on eligible business assets.

Due to the complexities of these announcements, PennyMac strongly encourages lenders to review these announcements and the related FAQs in their entirety for complete details. As a reminder, lenders must continue to verify that the borrower's business is open and operational within 10 business days prior to the note date.

Please contact your Sales Representative with any questions.