

## MPF® University Welcomes MGIC

### The Year in Review and Underwriting FAQs

December 2024

**MGIC**



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## Sandra Sweeney

Sandra Sweeney is a mortgage industry veteran with over 35 years of experience. Her varied roles in operations, loan origination, underwriting and management give her a deep understanding and appreciation for many roles present in the industry. Sandra rejoined MGIC in 2013 as an underwriter and recently transitioned to a full-time Customer Trainer and training program developer. She currently facilitates many of the MGIC national webinar courses.

Sandra and her family reside by the water on Smith Mountain Lake, Virginia. In her free time, she enjoys boating, swimming, and hiking.





## Julie Schneider

Julie Schneider brings over 35 years of residential lending experience to her training and education position at the Federal Home Loan Bank of Chicago. She has a strong background that includes nearly two decades as a top-producing loan originator and experience working in the title insurance industry. Julie is dedicated to sharing her knowledge to support the educational development and success of others. Julie holds an Accredited Mortgage Professional (AMP) certification from the Mortgage Bankers Association and from 2020-2022, she served as co-chair of the MBA's Education Networking Group.

A resident of Chicago, Julie is a graduate of Lawrence University in Appleton, Wisconsin. She enjoys playing the oboe and taking pottery classes.





# 2024 Investor Guideline Changes and Clarifications

**MGIC**

# \$2,500 Down Payment Assistance

To qualify for the **Very Low-Income Purchase (VLIP)** credit, borrowers must have a qualifying income of less than or equal to 50% of the area median income (AMI)

- Available under **HomeReady® (MPF Xtra® product only)**
- Purchase transactions only
- Loan deliveries after February 28, 2025, will require that at least one borrower be a first-time homebuyer
- The full \$2,500 credit must be provided to the borrower and can be applied to down payment, closing costs, escrows, and MI premiums
- Available for loans purchased by February 28, 2026



# Trust Income

## In 2024, both Fannie and Freddie clarified their trust income guidelines

- Trust income may be **fixed** or **fluctuating**
- The trust agreement must be reviewed to determine the following:
  - the date of the trust
  - the type of income received
  - payment amount
  - payment frequency

### Trusts can generate income through several ways including:

- Distributions that deplete the asset(s)
- Rental income from real estate held in the trust
- Interest and dividends received on the assets in the trust



# Trust Income

## Fixed Income

- Copy of fully executed trust agreement specifying the fixed payment
- Copy of bank statements (or equivalent) showing receipt of the fixed payment for most recent one year\*
- Evidence of sufficient assets to support a three-year continuance\*
- Use the fixed payment amount

## Fluctuating Income

- Copy of fully executed trust agreement outlining payment terms
- Complete tax returns for most recent 2 years
- Evidence of sufficient assets to support continuance\*
- Use a 24-month average based on the most recent 2-years tax returns

*\*When borrower is the trustee, a letter from the trustee is not acceptable*

# Fannie Mae Self-Employed Clarifications

## Borrowers with less than a 25% interest in a business

- If business tax returns are provided, an analysis of the business's viability is not required
- You may focus solely on the borrower's share of business income shown on Schedule K-1
- Income reported on Schedule K-1 can only be considered if it's been verified that the income was distributed to the borrower consistent with the level of business income being used to qualify, or the business has adequate liquidity to support the withdrawal of earnings



# Freddie Mac Self-Employed Clarifications

## Self-employed history of less than two years

- The borrower must have a combined two-year history of receiving income from their current self-employment and a prior job in the same or similar occupation or industry
- For qualifying, use the lesser of the stable monthly income from the new business or the stable monthly income earned from their previous occupation

## Business structure changes

- If the business structure changed in the last two years (e.g., a sole proprietorship to an S-corporation), to consider them as the same business, there must be no change in the borrower's percentage of ownership for the current and prior business structures



# Self-Employed Borrowers

## Pop Quiz!

**Cheryl's business has been in existence for over 10 years. In 2023 she changed the business structure from a sole proprietorship to a partnership. What tax returns are needed?**

- a. Since the business has been in existence for over 5 years, only the 2023 1040s and 1065s are required
- b. Two years of personal tax returns as well as 2023 1065s

**The answer is b.**



# Appraisals

Both Fannie Mae and Freddie Mac revised their definitions of *market area* and *neighborhood*

Match the term to the definition:

- |                 |   |   |
|-----------------|---|---|
| 1. Market Area  | → | a. A congruous group of complementary land uses.  |
| 2. Neighborhood | → | b. The geographic region, for a subject property, from which most demand comes and in which most of the competition is located. |



# Appraisals: Neighborhood Section

In November, Fannie Mae and Freddie Mac added requirements for the *Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time*

The appraiser's analysis of the *property value housing trend* section (increasing, stable, declining) must include factual data from information sources such as, but not limited to:

- market data
- home price indices
- multiple listing services
- public records, and/or models

The trend indicated in the appraisal report must reflect the overall movement of the market based on a minimum of 12 months of data

Note: Race and the racial composition of the neighborhood are not appraisal factors.										
N E I G H B O R H O O D	Neighborhood Characteristics			One-Unit Housing Trends			One-Unit Housing		Present Land Use %	
	Location <input type="checkbox"/> Urban <input type="checkbox"/> Suburban <input type="checkbox"/> Rural			Property Values <input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Declining			PRICE	AGE	One-Unit	%
	Built-Up <input type="checkbox"/> Over 75% <input type="checkbox"/> 25-75% <input type="checkbox"/> Under 25%			Demand/Supply <input type="checkbox"/> Shortage <input type="checkbox"/> In Balance <input type="checkbox"/> Over Supply			\$ (000)	(yrs)	2-4 Unit	%
	Growth <input type="checkbox"/> Rapid <input type="checkbox"/> Stable <input type="checkbox"/> Slow			Marketing Time <input type="checkbox"/> Under 3 mths <input type="checkbox"/> 3-6 mths <input type="checkbox"/> Over 6 mths			Low		Multi-Family	%
	Neighborhood Boundaries						High		Commercial	%
							Pred.		Other	%
	Neighborhood Description									
	Market Conditions (including support for the above conclusions)									

*Takes effect Feb 4, 2025*

# Freddie Mac Income Clarifications

## Fluctuating hourly employment earnings and additional fluctuating employment earnings – calculation methods and analysis

The degree of fluctuation and the length of receipt of the income must be considered when calculating income

Evaluate the income trend and use the amount that is most likely to continue for the next three years

Average the most recent year(s) and YTD income over the applicable number of months of required history (in some cases, the calculation may be based on a shorter period if written justification and/or documentation is provided)

The total number of months used in the calculation must be at least 12 months

# Freddie Mac Income Trend Analysis

- **Degree of fluctuation  $\leq 10\%$ :** The income trend is considered consistent. No additional analysis or documentation is required when calculating the qualifying income.
- **Degree of fluctuation  $> 10\% - \leq 30\%$ :** No additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise.
- **Degree of fluctuation  $> 30\%$ :** Additional analysis and documentation are required to determine income stability and develop an accurate calculation of qualifying income.



# Freddie Mac Income Trend Analysis

## Declining trend:

- Use the YTD income and do not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the borrower from working or earning full income
- Provide evidence that the borrower is back to their previous higher earning level

## Declining trend > 10%:

- Further analysis and additional documentation may be necessary to determine whether the income is stable
- Analysis must include the reason for the declining trend, and support that the current income has stabilized



# Rental Income Updates: Leases

## Fannie Mae and Freddie Mac: Old Guideline

- No evidence was required to verify that a lease was in effect

## Fannie Mae and Freddie Mac: **New Guideline**

- The *Comparable Rent Schedule* (1007/1000) or *Small Residential Income Property Appraisal* (1025/70) must support the income reflected on the lease agreement  
**OR**
- Evidence the terms of lease have gone into effect using:
  - 2 months' bank statements, copies of cancelled checks, or electronic transfers of rent payments  
**OR**
  - Copy of security deposit and 1<sup>st</sup> month's rent check with proof of deposit



# Freddie Mac Rental Income Updates: Leases

## Freddie Mac: Old Guideline

When there was a newly executed lease or no rental history, the lease must be for at least one year

## Freddie Mac: New Guideline

If there is a newly executed lease or no rental history:

- Newly executed leases must have the first payment due no later than the 1<sup>st</sup> payment on the subject mortgage
- Transferring leases must be current and fully executed in the property seller's name as the landlord

# Freddie Mac – Departure Residence Conversion

## Pop Quiz!

Gary and Lucy have been living in Gary's home. They are looking to purchase a home together. Gary wants to rent out his departure residence. Since moving in with Gary two years ago, Lucy has been renting out her condo.

Per Freddie Mac guidelines, do *both* Gary and Lucy need at least one year of property management experience to add any surplus rental income\* to their qualifying income?

**No.**

Freddie Mac updated their guidelines to allow **one** borrower instead of **all** borrowers. If neither borrower meets the property management requirement, the PITIA can be offset but no surplus rental income can be added to the qualifying income

**NOTE:** Fannie Mae and the MPF Traditional Selling Guide just uses “Borrower”

\*Surplus rental income is the amount that exceeds the property's PITIA (if any).

# Miscellaneous Updates: Freddie Mac

## Test Your Knowledge!

When considering income from non-arm's length employment, Freddie Mac will now permit:

- a. IRS wage and income transcript for the most recent year in lieu of tax returns
- b. Verification of Employment (VOE)
- c. Paystubs and W2s

**The answer is a.**

*Note: The documentation must validate prior year's earnings from current employment and support current income level*

*Note: Fannie Mae is silent on this detail and requires 2 years of tax returns. However, Fannie Mae does permit transcripts in lieu of tax returns*



# Miscellaneous Updates: Fannie Mae

## Test Your Knowledge!

Fannie Mae updated their rent credit with an option to purchase guideline

What is the maximum number of months that can be used towards the credit?

Answer: there is no longer a limit (it used to be 12 months)

### What documentation is needed to verify a rent credit?

- The rent/purchase agreement outlining the terms
- Bank statements evidencing the rental payments matching the terms outlined in rent/purchase agreement
- The credit is determined by calculating the difference between the market rent and the actual rent paid

# NAR Settlement



<https://www.nar.realtor/the-facts>

**How does the NAR settlement and the realtor commission changes affect the mortgage industry?**

- Partnership with realtors
- Educating borrowers
- Review of Buyer Agreement
- Compliance
- Interested party contributions





# 2024 FAQs



# NAR Settlement

*If my borrower signs a buyer's agreement indicating that they will pay 2% commission prior to signing a contract, must we verify an additional 2% of assets?*

**Yes.**

On a similar note, both Fannie and Freddie have announced that if a seller or seller's real estate agent continues to pay the buyer's real estate agent commission in accordance with local common and customary practices, these amounts are not required to be counted towards the Interested Party Contribution (IPC) limits for the transaction.

# Variable Income

## True or False

*If a borrower who is paid hourly with fluctuating hours recently received a raise, one method of calculating the qualifying variable income would be to multiply the new rate of pay by the average hours worked (as verified on the VOE)*

**False.** Using hours from the VOE is not an acceptable approach

When the income is from a variable source and the borrower has received a recent raise, the lender can calculate the total hours worked YTD/prior year and multiply the resulting hours by the new hourly rate.

# Gifts

*Can a borrower receive a gift of equity from a trust?*

**Yes.** However, the trust must be established by a related person (as defined in the guidelines) or the estate of a related person

## Gifts from Trusts

For trusts established by an acceptable donor or estate, the gift letter must be signed by the donor and list the name of the trust or estate account

# Income Calculators

*Is there an income calculator that is specific to farm rental income reported on IRS Form 4835?*

*Yes, with some modifications*





# Income Calculators

**Form 4835** **Farm Rental Income and Expenses**  
(Crop and Livestock Shares (Not Cash) Received by Landowner (or Sub-Lessor))  
(Income Not Subject to Self-Employment Tax)  
Attach to Form 1040, 1040-SR, or 1040-NR.  
Go to [www.irs.gov/Form4835](http://www.irs.gov/Form4835) for the latest information.

OMB No. 1545-0025  
**2023**  
Attachment Sequence No. 37

Department of the Treasury  
Internal Revenue Service

Name of proprietor \_\_\_\_\_  
Your social security number \_\_\_\_\_  
Employer ID number (EIN), if any \_\_\_\_\_

**A** Did you actively participate in the operation of this farm during 2023? See instructions. Yes ☐ No ☐

**Part I Gross Farm Rental Income—Based on Production.** Include amounts converted to cash or the equivalent.

1	Income from production of livestock, produce, grains, and other crops	1	
2a	Cooperative distributions (Form(s) 1099-PATR)	2b	Taxable amount
3a	Agricultural program payments (see instructions)	3b	Taxable amount
4	Commodity Credit Corporation (CCC) loans (see instructions):		
a	CCC loans reported under election	4a	
b	CCC loans forfeited	4b	Taxable amount
5	Crop insurance proceeds and federal crop disaster payments (see instructions):		
a	Amount received in 2023	5a	Taxable amount
c	If election to defer to 2024 is attached, check here <input type="checkbox"/> 5d Amount deferred from 2022	5d	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	<b>Gross farm rental income.</b> Add amounts in the right column for lines 1 through 6. Enter the total here and on Schedule E (Form 1040), line 42	7	

**Part II Expenses—Farm Rental Property.** Do not include personal or living expenses.

8	Car and truck expenses (see Schedule F (Form 1040) instructions). Also attach Form 4562	8	
9	Chemicals	9	
10	Conservation expenses (see instructions)	10	
11	Custom hire (machine work)	11	
12	Depreciation and section 179 expense deduction not claimed elsewhere	12	
13	Employee benefit programs other than on line 21 (see Schedule F (Form 1040) instructions)	13	
14	Feed	14	
15	Fertilizers and lime	15	
16	Freight and trucking	16	
17	Gasoline, fuel, and oil	17	
18	Insurance (other than health)	18	
19	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	19a	
b	Other	19b	
20	Labor hired (less employment credits) (see Schedule F (Form 1040) instructions)	20	
21	Pension and profit-sharing plans	21	
22	Rent or lease:		
a	Vehicles, machinery, and equipment (see instructions)	22a	
b	Other (land, animals, etc.)	22b	
23	Repairs and maintenance	23	
24	Seeds and plants	24	
25	Storage and warehousing	25	
26	Supplies	26	
27	Taxes	27	
28	Utilities	28	
29	Veterinary, breeding, and medicine	29	
30	Other expenses (specify):		
a		30a	
b		30b	
c		30c	
d		30d	
e		30e	
f		30f	
g		30g	
31	<b>Total expenses.</b> Add lines 8 through 30g. See instructions.	31	
32	<b>Net farm rental income or (loss).</b> Subtract line 31 from line 7. If the result is income, enter it here and on Schedule E (Form 1040), line 40. If the result is a loss, you must go to line 34. See instructions.	32	
33	Reserved for future use	33	
34	If line 32 is a loss, check the box that describes your investment in this activity. See instructions.		
	<input type="checkbox"/> All investment is at risk.	34a	
	<input type="checkbox"/> Some investment is not at risk.	34b	
c	You may have to complete Form 8582 to determine your deductible loss, regardless of which box you checked. If you checked box 34b, you must complete Form 6198 before going to Form 8582. In either case, enter the deductible loss here and on Schedule E (Form 1040), line 40. See instructions.	34c	
34d		34d	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13117-99 Form 4835 (page)

**SCHEDULE F (Form 1040)** **Profit or Loss From Farming**  
Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, 1041, or 1065.  
Go to [www.irs.gov/ScheduleF](http://www.irs.gov/ScheduleF) for instructions and the latest information.

OMB No. 1545-0024  
**2023**  
Attachment Sequence No. 14

Department of the Treasury  
Internal Revenue Service

Name of proprietor \_\_\_\_\_  
Social security number (SSN) \_\_\_\_\_  
Employer ID number (EIN) (see inst.) \_\_\_\_\_

**A** Principal crop or activity \_\_\_\_\_ **B** Enter code from Part III \_\_\_\_\_ **C** Accounting method: ☐ Cash ☐ Accrual \_\_\_\_\_ **D** Employer ID number (EIN) (see inst.) \_\_\_\_\_

**E** Did you "materially participate" in the operation of this business during 2023? If "Yes," see instructions for limit on passive losses. Yes ☐ No ☐

**F** Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions. Yes ☐ No ☐

**G** If "Yes," did you or will you file required Form(s) 1099? Yes ☐ No ☐

**Part I Farm Income—Cash Method.** Complete Parts I and II. (Accrual method: Complete Parts II and III, and Part I, line 9.)

1a	Sales of purchased livestock and other resale items (see instructions)	1a	
b	Cost or other basis of purchased livestock or other items reported on line 1a	1b	
c	Subtract line 1b from line 1a	1c	
2	Sales of livestock, produce, grains, and other products you raised	2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3b	Taxable amount
4a	Agricultural program payments (see instructions)	4b	Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election	5b	
b	CCC loans forfeited	5c	Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions):		
a	Amount received in 2023	6a	Taxable amount
c	If election to defer to 2024 is attached, check here <input type="checkbox"/> 6d Amount deferred from 2022	6d	
7	Custom hire (machine work) income	7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8	
9	<b>Gross income.</b> Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions.	9	

**Part II Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses. See instructions.

10	Car and truck expenses (see instructions). Also attach Form 4562	10	
11	Chemicals	11	
12	Conservation expenses (see instructions)	12	
13	Custom hire (machine work)	13	
14	Depreciation and section 179 expense (see instructions)	14	
15	Employee benefit programs other than on line 23	15	
16	Feed	16	
17	Fertilizers and lime	17	
18	Freight and trucking	18	
19	Gasoline, fuel, and oil	19	
20	Insurance (other than health)	20	
21	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	21a	
b	Other	21b	
22	Labor hired (less employment credits)	22	
23	Pension and profit-sharing plans	23	
24	Rent or lease (see instructions):		
a	Vehicles, machinery, equipment	24a	
b	Other (land, animals, etc.)	24b	
25	Repairs and maintenance	25	
26	Seeds and plants	26	
27	Storage and warehousing	27	
28	Supplies	28	
29	Taxes	29	
30	Utilities	30	
31	Veterinary, breeding, and medicine	31	
32	Other expenses (specify):		
a		32a	
b		32b	
c		32c	
d		32d	
e		32e	
f		32f	
33	<b>Total expenses.</b> Add lines 10 through 32f. If line 32f is negative, see instructions.	33	
34	<b>Net farm profit or (loss).</b> Subtract line 33 from line 9. If a profit, stop here and see instructions for where to report. If a loss, complete line 35.	34	
35	Reserved for future use.	35	
36	Check the box that describes your investment in this activity and see instructions for where to report your loss:		
a	All investment is at risk.	36a	
b	Some investment is not at risk.	36b	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11249H Schedule F (Form 1040) 2023

# Income Calculators

SAM Cash Flow Analysis Worksheet	
<input type="radio"/>	SCHEDULE D - CAPITAL GAINS AND LOSSES
<input type="radio"/>	SCHEDULE E - SUPPLEMENTAL INCOME AND LOSS <small>To calculate rental property income (loss), use the Rental Income Worksheet.</small>
<input checked="" type="radio"/>	SCHEDULE F - FARM INCOME
17	Net Profit (Loss): <b>LINE 34</b>
18	Non-Tax Portion Ongoing Co-op & CCC Pmts: <b>LINES 3a minus b through 6a minus b</b>
20	Add nonrecurring loss: <b>LINE 2-8</b>
19	Deduct nonrecurring income: <b>LINE 2-8</b>
21	Depreciation: <b>LINE 14</b>
22	Amortization/Casualty Loss/Depletion (only if noted): <b>LINE 32</b>
23	Business Use of Home (only if noted): <b>LINE 32</b>
SUBTOTAL	

Skill-based45 minutes

Analyzing Self-Employed Borrowers 302 – Looking at Income from Farming

Recorded Session  
Available any time.

Watch now

<https://www.mgic.com/training/self-employed-borrowers-302---looking-at-income-from-farming>

# Assessing Business Liquidity

## *How is Assessing business liquidity useful?*

1. Supporting use of ordinary income
2. Omitting mortgages due in less than one year
3. Establishing business stability

# Business Income

## *What steps can we take to determine business liquidity?*

1. Look at the K-1 for supporting distributions
2. Conduct a liquidity test
  - Complete a liquidity worksheet by reviewing Schedule L
  - Request a current balance sheet from the business
  - Review 3-6 months of business asset statements



<https://www.mgic.com/training/magic-minutes-training-series/self-employed-borrowers>

# Liabilities

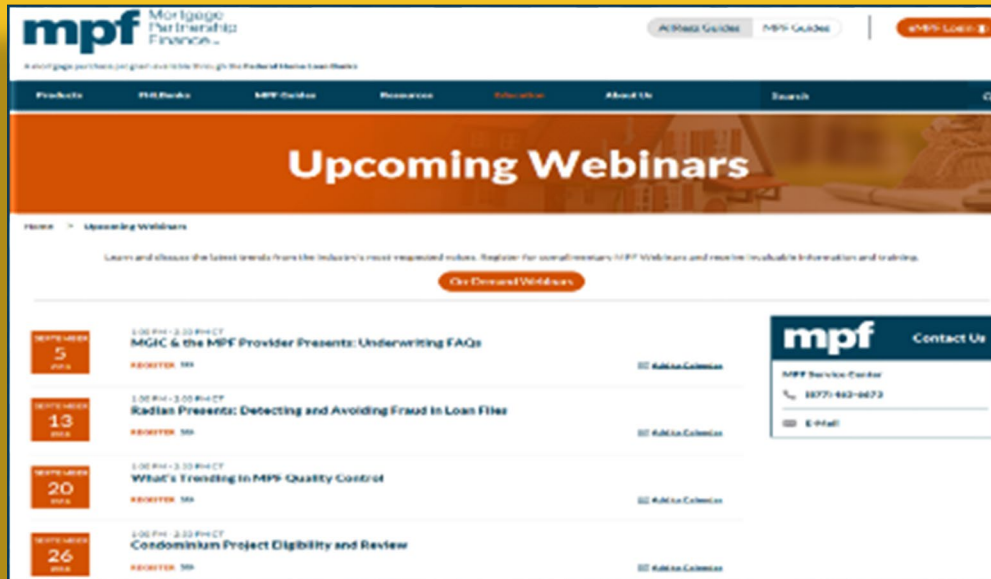
*My borrower has an installment agreement with the IRS. Does it have to be paid in full at or prior to closing?*

**It depends.**

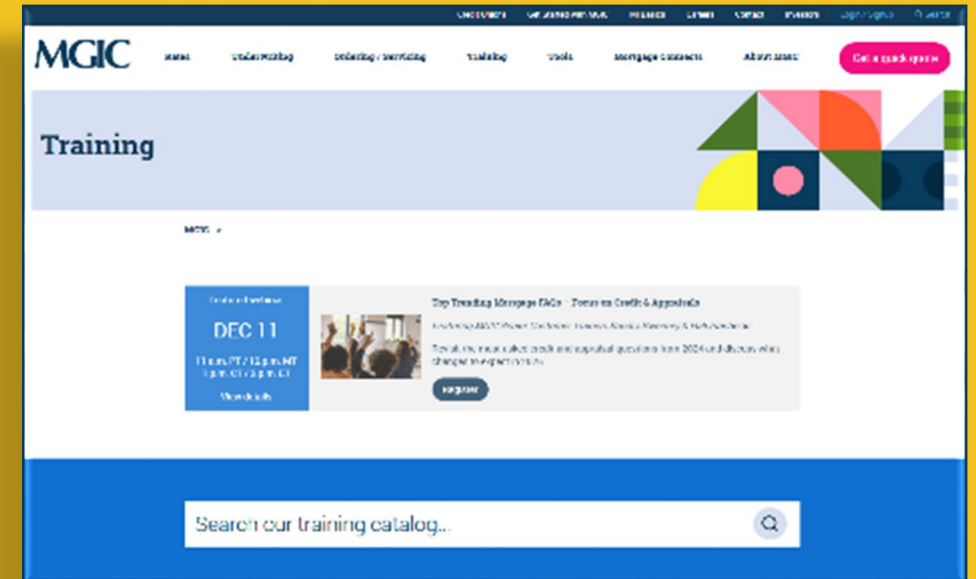
You may consider the monthly plan payment in the borrower's monthly obligations instead of paying it off in full if the following applies:

- There is no indication that a **Notice of Federal Tax Lien** has been filed
- Obtain the approved IRS installment agreement with the terms of repayment, monthly payment amount, and total amount due
- Provide evidence that the payments are current
- At least one payment must have been made prior to closing

# Check out the learning opportunities offered by MPF National Education and MGIC



<https://www.fhlbmpf.com>



<https://www.mgic.com/training>



# MPF University

Register for MPF University for access to free, on-demand courses and the following MBA Certifications:

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<https://www.fhlbmpf.com/education/mpf-university>

