

MPF Announcement:

2023-12

Date:

March 6, 2023

Alert:

Clarification

New Policy

Policy Update

Reminder

Training Information

Audience:**Compliance/Legal**

Program Management

Origination**Quality Control**

Servicing

Underwriting

Product:

MPF Government MBS

MPF TraditionalMPF Xtra[®]**Effective Date:**

Immediately (unless otherwise noted)

Reference

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MPF Traditional – Impact of COVID-19 on Originations

In light of the recent announcement ending the COVID-19 public health emergency (and national emergency) declarations on May 11, 2023, the MPF Program is issuing this updated guidance on originating and delivering MPF Program mortgage loans. **Effective March 8, 2023, all loans delivered to the MPF Program, as an MPF Traditional (Conventional) mortgage loans, must meet the requirements of the MPF Guides, including the MPF Traditional Selling Guide, other than the accommodations related to self-employment income, as updated below.**

All other MPF Traditional COVID-19 related origination and selling temporary policies have been retired.

PFIs and Servicers originating, delivering or servicing:

- MPF Government loans and MPF Government MBS loans must follow relief policies and guidance issued by Ginnie Mae and the applicable Government Agencies.
- MPF Xtra loans must follow relief policies and guidance issued by Fannie Mae.

In addition, PFIs and Servicers are expected to abide by any/all federal or state laws or proclamations that may affect borrowers or loans affected by COVID-19.

Changes since MPF Announcement 2022-07:

- **UPDATED** requirements for Borrowers using self-employment income to qualify where the most recent tax return being used to document and support qualifying income is older than 2020.
- **RETIRED** the verification of self-employment accommodations effective with all mortgage loans delivered on or after March 8, 2023.
- **RETIRED** all other temporary policies.

The following temporary policy updates are noted:

- Eligibility requirements for purchase and refinance transactions (Issued June 9, 2020, **retired on March 6, 2023**)
- Delivery of loans in loss mitigation plan and Early Payment Default (EPD) (Issued April 21, 2002, updated April 22, 2020, May 6, 2020, September 29, 2020, and **retired on March 6, 2023**)
- Verification of self-employment (Issued April 6, 2020, updated May 6, 2020, June 17, 2020, July 22, 2020, September 9, 2020, and **retired on March 6, 2023**)
- Requirements for borrowers using self-employment income to qualify (Issued June 9, 2020, updated November 24, 2020, February 23, 2022, and **March 6, 2023**) (**UPDATED**)
 - Income Analysis
 - Business Income Calculation Adjustment
 - Business Assets
- Continuity of income (Issued March 24, 2020, updated May 6, 2020, June 17, 2020, July 22, 2020, and September 9, 2020, September 29, 2020, October 27, 2020, November 24, 2020, December 23, 2020, January 27, 2021, February 24, 2021, April 5, 2021, April 28, 2021, and **retired on March 6, 2023**)
- Unemployment benefits qualifying as income (Issued May 6, 2020 and **retired on March 6, 2023**)
- Furloughed Borrowers (Issued May 6, 2020 and **retired on March 6, 2023**)
- Title insurance (Issued March 24, 2020 and **retired on March 6, 2023**)
- Notes, electronic records, and signatures (Issued March 24, 2020 and **retired on March 6, 2023**)
- Remote online notarization (Issued March 24, 2020, updated May 4, 2020 and **retired on March 6, 2023**)
- Automated Underwriting Systems (AUS) (Issued April 6, 2020 and **retired on March 6, 2023**)
- Business continuity (Issued March 24, 2020 and **retired on March 6, 2023**)
- Seasoned loans (Issued March 24, 2020 and **retired on March 6, 2023**)

Verification of self-employment (RETIRED)

When a borrower is using self-employment income to qualify, the Originator 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, Originators must take additional steps to confirm that the borrower's business is open and operating. Originators must confirm this within 10 business days of the note date (or after closing but prior to delivery).

Below are examples of methods Originators 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 Originator verifies self-employment);
- evidence of current business receipts within 10 days of the note date (payment for services performed);
- Originator certification that the business is open and operating (Originator 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 MPF Traditional Selling Guide section 5.9.1 - Verbal Verification of Employment for current requirements.

Effective: PFIs were encouraged to apply these accommodations to existing loans in process as of April 6, 2020, and were required to apply them to loans with application dates on or after April 14, 2020 and **are no longer required to apply them for any mortgage loans that will be delivered on or after March 8, 2023**. (Updated May 6, 2020, June 17, 2020, July 22, 2020, September 9, 2020, and **March 6, 2023**)

Requirements for borrowers using self-employment income to qualify (UPDATED)

The policies in this section are effective for **mortgage loan applications on or before April 18, 2023** and where the most recent tax return being used to document and support qualifying income is older than 2020. **Mortgage loan applications after April 18, 2023 must follow the guidance in the MPF Traditional Selling Guide.**

1. Income Analysis

Self-employed income from a business that has been negatively impacted by changing conditions may be eligible for use in qualifying the borrower, if the Originator determines the borrower's income is stable and has a reasonable expectation of continuance. Originators must obtain the following additional documentation to support the decision that the self-employment income meets MPF Program 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 (3) months represented on the year-to-date profit and loss statement.
 - For example, the business depository account statements can be no older than August, September, and October for a year-to-date profit and loss statement dated through October 31, 2020.
 - If the three (3) most recent depository account statements conflict with the information presented in the current year-to-date profit and loss statement, the Originator must obtain additional statements or other documentation to support the information from 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 Age of Documentation requirements provided for below.

Originators 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 Originator 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 Originator may find it necessary to obtain supplemental documentation listed in the examples below.

Assessing the Impact of COVID-19	
Business Operations	<ul style="list-style-type: none"> • Have business operations been maintained or modified to support continued business income? <i>For example, review an updated business plan.</i> • 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> • 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>

	<ul style="list-style-type: none"> • 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? • 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>
Business Income	<p>The Originator 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 Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) for a similar timeframe (such as monthly). This form must be included in the Mortgage Loan File.</p> <ul style="list-style-type: none"> • Originators can make standard adjustments to business cash flow (net income on the profit and loss statement) in accordance with MPF Traditional Selling Guide Section- 5.14 Self-Employment Income when making this determination. • When the Originator 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 Originator 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 MPF Traditional Selling Guide section- 5.14 Self-Employment Income for additional details. <p>Example:</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 Originator using details from the year-to-date profit and loss statement and other supplemental documentation = \$1,000</p>
Business Stability	<ul style="list-style-type: none"> • 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) • Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings? • Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial

	<p>ability of the business to operate given current market and economic conditions?</p> <p>A current balance sheet may be used to support the Originator's determination of business stability, in conjunction with the profit loss statement.</p>
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2. Business Income Calculation Adjustment

When the Originator 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 Originator 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 Originator (see Business Income above).
- more than the historical income calculated using Form 1084, the Originator 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 Originator.

3. 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. Please see MPF Traditional Selling Guide- 5.20 Acceptable Sources of Assets.

Effective: PFIs are encouraged to apply these requirements to existing loans in process as of June 9, 2020; however, they must be applied to loans with application dates on or after June 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 December 14, 2020. All policies are effective for **mortgage loan applications on or before April 18, 2023**, where the most recent tax return being used to document and support qualifying income is older than 2020 (Updated November 24, 2020, February 23, 2022, and **March 6, 2023**)