

MPF Announcement:

2024-32

Date:

May 09, 2024

Alert:**Clarification**

New Policy
Policy Update
Reminder
Training Information

Audience:

Compliance/Legal
Program Management
Origination
Quality Control
Servicing
Underwriting

Product:

MPF Government MBS
MPF Traditional
MPF Xtra®

Effective Date:

Immediately (unless otherwise noted)

MPF Traditional – Business Income Updates

Clarified several income calculation and documentation requirements for borrowers using business income to qualify.

These updates apply to self-employed borrowers and borrowers with less than a 25% interest in a business:

- PFIs may use a method other than the Quick Ratio or Current Ratio described in the Guide to confirm business liquidity, as applicable. When an alternative method is used, documented rationale must be provided.
- The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.

We clarified additional policies applicable only to borrowers with less than a 25% interest in a business:

- If business tax returns are provided, the PFI is not required to analyze the viability of the business. The PFI may focus solely on the borrower's proportionate share of business income as reflected on the Schedule K-1.
- Income reported on Schedule K-1 can only be considered for qualifying if the PFI verifies that the income was actually 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.

For additional information see MPF Traditional Selling Guide sections 5.3.9.21 Schedule K-1 Income, 5.5.7 Income of Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, 5.6.2.2 Borrower's Proportionate Share of Income or Loss, and 5.6.1.4 Income from Partnerships, LLCs, Estates, and Trusts.

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Reference

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