

FANNIE MAE

USE OF BUSINESS INCOME

Clarifying income calculation requirements for self-employed borrowers and borrowers with less than a 25% interest in a business.

- A lender may use a method other than the Quick Ratio or Current Ratio described in the Selling 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.

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

- If business tax returns are provided, the lender is not required to analyze the viability of the business. The lender 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 lender 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.

Effective: Immediately

Selling Guide: B3-3.1-09, B3-3.3-07, B3-3.4-01, and B3-3.4-02

FHA MATRIX

TRUST INCOME REQUIREMENTS

TRUST INCOME

- Trust Agreement or Other Trustee Statement created prior to application date, documenting the frequency, duration and amount of distribution.
- Document receipt of distribution for a minimum of 2 months with bank statements or transaction history.
- If trust account is newly opened, document the source to open account. Must be opened prior to application date.
- Regular distributions are required to continue for a minimum of 3 years.

FHA 200 MATRIX

Origination Fee Restriction Removed for North Carolina

North Carolina

- Per state law, origination fees are capped at 1% for loans under \$300,000. For loans equal to or above \$300,000, it may exceed the 1.5% origination fee cap if there are no fees charged in the origination section of the CD (Section A) other than the origination fee. Loans must comply with QM guidelines (i.e. the 3% points and)

PRIME MATRIX

Short Term Leases are NOT eligible

**Rental Income
(Short-Term)**

- Short Term Leases (including but limited to VRBO/Airbnb) are NOT eligible

PRIME+ MATRIX

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(Short-Term)**

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NON-OWNER PRIME MATRIX

Guidelines on when Short Term Lease ARE Eligible

DSCR CALCULATION

- Gross Income will be calculated using the lower of A) executed lease agreement or B) Market rent from appraisal.

- For Purchase: The 1007 is used to determine DSCR.
- For Refinance: The lower of the lease agreement or rent survey is used to determine DSCR.

- Refinance Only: Short term leases are eligible. DSCR is calculated using the leases throughout the year and average over the 12-month period. If there are months where the property is vacant, use zero for that month in average. The average should be supported by 1007 (within reason determined by underwriter).

- Refinance Only: On-line Services such as VRBO/AirBNB/ are eligible. DSCR is calculated by using a 12-month look back period AND either.
 - 1) 12 monthly statements documenting receipt of rents, or
 - 2) An annual statement provided by the online service to document receipt of rents.

- If a consecutive 12-month period cannot be documented, the property will be considered unleased.

- Interest Only:

- DSCR (Gross Rents / ITIA)

- Qualifying ratios based on Note Rate Initial Interest Only payment (ITIA)

- Full Amortization:

- DSCR (Gross Rents / PITIA)

- Qualifying ratios based on Note Rate (PITIA)

- Prepayment penalty must be in compliance with the terms and limitations of the applicable state or federal law

PRIME+ DSCR MATRIX

Guidelines on when Short Term Lease ARE Eligible

DSCR CALCULATION	<ul style="list-style-type: none"> Gross Income will be calculated using the lower of A) executed lease agreement or B) Market rent from appraisal 		
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ALL GUIDELINES, MATRICES, RELEASES & QUICK TIPS CAN BE FOUND HERE:
<https://clsenders.sharepoint.com/sites/HMACGuidelineMatrices/Shared%20Documents/Forms/AllItems.aspx>

