

Agency Standards Revisions

Note: Truist specific overlays are underlined.

Topic	Impacted Document	Impacted Products	Current Standards	Revised Standards <small>(See <u>COR24-063</u> for the Applicable Effective Dates of These Revisions)</small>								
Calculation of Income from Fluctuating Hourly Employment	Correspondent Section 2.01 Agency Loan Standard	<ul style="list-style-type: none"> Standard Agency (LPA) Agency Plus (LPA) Agency Plus Select (LPA) Home Possible® (LPA) Texas Section 50(a)(6) Mortgages (LPA) 	<p>Income / General Income Information</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Employed Income <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis <ul style="list-style-type: none"> Fluctuating hourly employment earnings are considered to be earnings that are based on a pre-determined and agreed-upon hourly rate of pay. The number of hours worked are not pre-determined and may fluctuate each pay period. See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for information on determining whether earnings are fluctuating hourly earnings and the “Additional Employed Income” section previously presented in this subtopic for information about fluctuating additional employed income earnings (e.g., bonus, overtime, commission, and tip income). The following table describes the calculation methods and income trend analysis required for fluctuating hourly employment earnings and additional fluctuating employment earnings (e.g., bonus, overtime, commission, and tip income), taking into consideration the degree of fluctuation. 	<p>Income / General Income Information</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Employed Income <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis <ul style="list-style-type: none"> Fluctuating hourly employment earnings are considered to be earnings that are based on a pre-determined and agreed-upon hourly rate of pay. The number of hours worked are not pre-determined and may fluctuate each pay period. See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for information on determining whether earnings are fluctuating hourly earnings and the “Additional Employed Income” section previously presented in this subtopic for information about fluctuating additional employed income earnings (e.g., bonus, overtime, commission, and tip income). The following table describes the calculation methods and income trend analysis required for fluctuating hourly employment earnings and additional fluctuating employment earnings (e.g., bonus, overtime, commission, and tip income), taking into consideration the degree of fluctuation. 								
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			<p>If the increasing income is due to a pay raise, the lender may use the calculation method for pay raises described in “General Underwriting for Income Calculation – Requirements and Guidance” previously presented in this subtopic.</p> <p>Income Trend Analysis</p> <ul style="list-style-type: none"> • Degree of Fluctuation ≤ 10% <ul style="list-style-type: none"> • The income trend is considered consistent when the increase between YTD and prior year(s)¹ is less than or equal to 10%. No additional analysis or documentation is required when calculating the qualifying income. • Degree of Fluctuation > 10% - ≤ 30%¹ <ul style="list-style-type: none"> • If the increase between the YTD and prior year(s)² earnings is greater than 10%, but less than or equal to 30%, no additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise in accordance with “General Underwriting for Income Calculation – Requirements and Guidance” previously presented in this subtopic. • Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower. • Degree of Fluctuation > 30%¹ <ul style="list-style-type: none"> • If the increase between the YTD and prior year(s)² earnings is greater than 30%, additional analysis is required and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower. <p>Declining Trend</p>	<p>provides a written justification and/or documentation to support the applicable months used in the calculation. The total number of months used in the calculation must be at least 12 months. Additionally, the calculated income must be reasonably expected to continue for at least the next three years.</p> <p>Pay frequency must be considered as it may impact the income calculation (e.g., bonuses) as noted above. If the increasing income is due to a pay raise, the lender may use the calculation method for pay raises described in “General Underwriting for Income Calculation – Requirements and Guidance” previously presented in this subtopic.</p> <p>Income Trend Analysis</p> <ul style="list-style-type: none"> • Degree of Fluctuation ≤ 10% <ul style="list-style-type: none"> • The income trend is considered consistent when the increase between YTD and prior year(s)¹ is less than or equal to 10%. No additional analysis or documentation is required when calculating the qualifying income. • Degree of Fluctuation > 10% - ≤ 30%¹ <ul style="list-style-type: none"> • If the increase between the YTD and prior year(s)¹ earnings is greater than 10%, but less than or equal to 30%, no additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise in accordance with “General Underwriting for Income Calculation – Requirements and Guidance” previously presented in this subtopic. • Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower. • Degree of Fluctuation > 30%¹ <ul style="list-style-type: none"> • If the increase between the YTD and prior year(s)¹ earnings is greater than 30%, additional analysis is required and additional documentation will likely be

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			<p>The lender must use the year-to-date income and must 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 for a period of time and evidence that the borrower is back to the income amount that was previously earned.</p> <p>If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the lender must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized.</p> <p>If a borrower is currently on temporary leave, follow the guidance subsequently outlined in the “Temporary Leave and Short-Term Disability Income” subtopic.</p> <p>See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for additional information about fluctuating hourly employment earnings.</p>	<p>necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower.</p> <p>Declining Trend The lender must use the year-to-date income and must 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 for a period of time and evidence that the borrower is back to the income amount that was previously earned.</p> <p>If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the lender must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized.</p> <p>If a borrower is currently on temporary leave, follow the guidance subsequently outlined in the “Temporary Leave and Short-Term Disability Income” subtopic.</p> <p>See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for additional information about fluctuating hourly employment earnings.</p>
			<p>¹ For fluctuating hourly earnings, the degree of fluctuation is based on the increase between the YTD and the prior year. For additional employed earnings, the degree of fluctuation is based on the increase between the YTD and the prior two years. See “Primary and Secondary Employment and Income” and “Additional Employment Income” previously presented in this subtopic for history and documentation requirements.</p>	<p>¹ For fluctuating hourly earnings, the degree of fluctuation is based on the increase between the YTD and the prior year. For additional employed earnings, the degree of fluctuation is based on the increase between the YTD and the prior two years. See “Primary and Secondary Employment and Income” and “Additional Employment Income” previously presented in this subtopic for history and documentation requirements.</p>
			<p style="color: red; text-align: center;"><i>All other currently published guidance in this table remains the same.</i></p>	<p style="color: red; text-align: center;"><i>All other currently published guidance in this table remains the same.</i></p>

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Documentation of Social Security Retirement and Social Security Disability Income Types	Correspondent Section 2.01 Agency Loan Standard	<ul style="list-style-type: none"> Standard Agency (LPA) Agency Plus (LPA) Agency Plus Select (LPA) Home Possible® (LPA) Texas Section 50(a)(6) Mortgages (LPA) 	<p>Income / Long-Term Disability Income</p> <p>Freddie Mac LPA (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance) Follow LPA requirements, which are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 25%;">Income Type</th> <th style="width: 35%;">Stable Monthly Income Requirements</th> <th style="width: 40%;">Streamlined Accept and Standard Documentation Requirements</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">For all long-term disability income</td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> History of receipt: A history of receipt is not required for the income to be considered stable. 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Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined amount. For social security disability benefits, the lender must obtain either: (i) a copy of the Social Security Administration benefit verification letter or (ii) documentation evidencing current receipt, but is not required to obtain both. If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers and private insurers), obtain a copy of </td> </tr> </tbody> </table>	Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements	For all long-term disability income	<ul style="list-style-type: none"> History of receipt: A history of receipt is not required for the income to be considered stable. 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					the certificate of coverage, or other equivalent documentation evidencing the policy term.			returns (or pages 1–3 if filing 1040-SR). If the tax returns were filed jointly with an individual who is not a borrower on the transaction, the lender must obtain additional documentation supporting the amount of social security income used for qualifying.
			Newly established long-term disability income	<ul style="list-style-type: none"> Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. 	<ul style="list-style-type: none"> Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required. If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term. 			<ul style="list-style-type: none"> Documentation evidencing current receipt If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers and private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.
			Future long-term disability income	<ul style="list-style-type: none"> Long-term disability income that will commence after the first mortgage payment due date is acceptable for qualifying the borrower only if the borrower is currently receiving short-term disability benefits 	For borrowers who are currently receiving short-term disability income that will be converted to long-term disability income after the first mortgage payment due date: <ul style="list-style-type: none"> Document the source, type, amount, and payment frequency of 			<ul style="list-style-type: none"> Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note
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			<p>that will subsequently convert to long-term benefits. The borrower must be qualified on the lesser amount of either the long-term or short-term disability payments.</p>	<p>both the short-term and long-term payments</p> <ul style="list-style-type: none"> Obtain verification of current receipt of the short-term disability payments and verification that the borrower will continue to receive the payments until the date of conversion to long-term disability The documentation must be dated no more than 120 days prior to the note date. <p>If the long-term disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.</p>		<p>120 days prior to the note date.</p>	<p>date. Verification of current receipt is not required.</p> <ul style="list-style-type: none"> If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term. 		
			<p>Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed</p>			<p>Future long-term disability income</p>	<ul style="list-style-type: none"> Long-term disability income that will commence after the first mortgage payment due date is acceptable for qualifying the borrower only if the borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits. The borrower must be qualified on the lesser amount of either the long-term or short-term disability payments. 	<p>For borrowers who are currently receiving short-term disability income that will be converted to long-term disability income after the first mortgage payment due date:</p> <ul style="list-style-type: none"> Document the source, type, amount, and payment frequency of both the short-term and long-term payments Obtain verification of current receipt of the short-term disability payments and verification that the borrower will continue to receive the payments until the date of conversion to long-term disability The documentation must be dated no more than 120 days prior to the note date. If the long-term disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term. 	

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			<p>Income / Retirement, Government Annuity, and Pension Income</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 25%;">Income Type</th> <th style="width: 35%;">Stable Monthly Income Requirements</th> <th style="width: 40%;">Streamlined Accept and Standard Documentation Requirements</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> Retirement income (e.g., Social Security, pension, annuity, other similar benefits; not including retirement account distributions as income) </td> <td style="vertical-align: top;"> Existing and established retirement income: Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained <ul style="list-style-type: none"> History of receipt: A history of receipt is not required for the income to be considered stable Continuance: Must be likely to continue for at least the next three years Calculation: Use the documented fixed monthly payment amount </td> <td style="vertical-align: top;"> For existing and established sources of retirement income: <ul style="list-style-type: none"> Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of a benefit verification letter, award letter, pay statement, 1099, bank statement(s) or other equivalent documentation. Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount. 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Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount. For social security retirement benefits, the lender must obtain one of the following: <ul style="list-style-type: none"> A copy of the Social Security Administration benefit verification letter, Form 1099-SSA for the most recent calendar year, Pages 1 and 2 of the borrower's most recent federal individual income tax returns or </td> </tr> </tbody> </table>	Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements	Retirement income (e.g., Social Security, pension, annuity, other similar benefits; not including retirement account distributions as income)	Existing and established retirement income: Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained <ul style="list-style-type: none"> History of receipt: A history of receipt is not required for the income to be considered stable Continuance: Must be likely to continue for at least the next three years Calculation: Use the documented fixed monthly payment amount 	For existing and established sources of retirement income: <ul style="list-style-type: none"> Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of a benefit verification letter, award letter, pay statement, 1099, bank statement(s) or other equivalent documentation. 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				<p>of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date.</p> <ul style="list-style-type: none"> The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. 	<p>income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.</p>			<p>pages 1–3 if filing Form 1040-SR). If the tax returns were filed jointly with an individual who is not a borrower on the transaction, the lender must obtain additional documentation supporting the amount of social security income used for qualifying.</p> <ul style="list-style-type: none"> Documentation evidencing current receipt
			<p>Retirement account distributions as income (e.g., 401(k), IRA)</p>	<p>Eligibility Requirements: Distributions from retirement accounts recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) that are not subject to penalty (e.g., early withdrawal penalty) may be considered stable monthly qualifying income. Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable) and history of receipt (as applicable), must be documented.</p> <p>Required Minimum Distributions: If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e., excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.</p> <p>History and stability requirements and guidance:</p>	<ul style="list-style-type: none"> Copy of most recent retirement account statement(s), documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099(s) and/or other equivalent documentation showing income source, type, distribution frequency, distribution amounts and history of receipt (as applicable), and Copy of bank statement(s) or other equivalent documentation evidencing current receipt (as applicable), and Evidence of sufficient assets among all retirement accounts used to support the qualifying income amount and continuance <p>If the retirement distributions are not scheduled monthly payments (e.g., annual, semi-annual, quarterly), the most recent</p>		<p>Newly established retirement income:</p> <ul style="list-style-type: none"> If the retirement income is newly established, verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. 	<p>For newly established sources of retirement income:</p> <ul style="list-style-type: none"> Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.
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			<p>Due to the multiple variables inherent with distributions from retirement accounts, including, but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the lender must determine that the source and amount of the income are stable. Factors that the lender must consider when determining that the income used to qualify the borrower is stable, and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to the following:</p> <ul style="list-style-type: none"> • Frequency and regularity of receipt of the distributions • Length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time. For example, consider whether or not the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while 	<p>distribution verified through a copy of the retirement account statement, 1099 and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; however, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income.</p>		<p>frequency, distribution amount(s), current receipt (as applicable) and history of receipt (as applicable), must be documented.</p> <p>Required Minimum Distributions: If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e., excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.</p> <p>History and stability requirements and guidance: Due to the multiple variables inherent with distributions from retirement accounts, including, but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the lender must determine that the source and amount of the income are stable. Factors that the lender must consider when determining that the income used to qualify the borrower is stable, and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to the following:</p> <ul style="list-style-type: none"> • Frequency and regularity of receipt of the distributions • Length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time. For example, consider 	<p>documentation showing income source, type, distribution frequency, distribution amounts and history of receipt (as applicable), and</p> <ul style="list-style-type: none"> • Copy of bank statement(s) or other equivalent documentation evidencing current receipt (as applicable), and • Evidence of sufficient assets among all retirement accounts used to support the qualifying income amount and continuance <p>If the retirement distributions are not scheduled monthly payments (e.g., annual, semi-annual, quarterly), the most recent distribution verified through a copy of the retirement account statement, 1099 and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; however, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income.</p>	

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				<p>taking into consideration whether or not the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.</p> <ul style="list-style-type: none"> Rules governing distributions (e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (RMD), employer retirement plan rules and designs governing scheduled distribution terms). Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount. <p>A written rationale explaining the analysis used to determine the qualifying income must be provided.</p> <p>Continuance:</p> <ul style="list-style-type: none"> Document that sufficient assets remain in the retirement account(s) after closing to support continuance of the retirement account distributions as income for at least the next three years. If the retirement account(s) from which the borrower is currently taking distribution is projected to be depleted within three years, the borrower's additional retirement accounts may be considered when determining continuance of income used for qualifying. The lender must verify that the borrower has sufficient eligible retirement assets in aggregate 				<p>whether or not the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while taking into consideration whether or not the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.</p> <ul style="list-style-type: none"> Rules governing distributions (e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (RMD), employer retirement plan rules and designs governing scheduled distribution terms). Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount. <p>A written rationale explaining the analysis used to determine the qualifying income must be provided.</p> <p>Continuance:</p> <ul style="list-style-type: none"> Document that sufficient 		

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			<p>to support the amount of qualifying income for at least three years after the note date. The additional retirement assets used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income for the borrower, or for the calculation of assets as a basis for repayment of obligations.</p> <p>Reference: See the “Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)” subtopic previously presented in this topic for additional information.</p>	<p>assets remain in the retirement account(s) after closing to support continuance of the retirement account distributions as income for at least the next three years.</p> <ul style="list-style-type: none"> If the retirement account(s) from which the borrower is currently taking distribution is projected to be depleted within three years, the borrower’s additional retirement accounts may be considered when determining continuance of income used for qualifying. The lender must verify that the borrower has sufficient eligible retirement assets in aggregate to support the amount of qualifying income for at least three years after the note date. The additional retirement assets used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income for the borrower, or for the calculation of assets as a basis for repayment of <u>obligations</u>. <p>Reference: See the “Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)” subtopic previously presented in this topic for additional information.</p>
Employed Income: Non-Arm’s Length Employment	Correspondent Section 2.01 Agency Loan Standard	<ul style="list-style-type: none"> Standard Agency (LPA) Agency Plus (LPA) Agency Plus Select (LPA) Home Possible® (LPA) Texas Section 50(a)(6) Mortgages (LPA) 	<p>Income / Borrowers Employed by a Family Member or Interested Party to the Transaction</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <ul style="list-style-type: none"> When a borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length transactions, further in-depth analysis is required to determine stability of the income. The lender must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation, as outlined in this document. The following additional documentation requirement applies (for Streamlined Accept and Standard Documentation levels): <ul style="list-style-type: none"> Complete signed federal individual income tax return for the most recent year. 	<p>Income / Borrowers Employed by a Family Member or Interested Party to the Transaction</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <ul style="list-style-type: none"> When a borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length <u>employment, additional third-party validation supporting the current income level is necessary</u>. The lender must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation, as outlined in this document. The following additional documentation requirement applies (for Streamlined Accept and Standard Documentation levels): <ul style="list-style-type: none"> Complete signed federal individual income tax return <u>or IRS wage and income transcripts</u> for the most recent year. <u>This documentation must validate the prior year earnings from current</u>

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				employment and support the current income level. If the current income level is not supported, the lender may use the validated income amount from the prior year as qualifying income.																																
Self-Employed Income	Correspondent Section 2.01 Agency Loan Standard	<ul style="list-style-type: none"> Standard Agency (LPA) Agency Plus (LPA) Agency Plus Select (LPA) Home Possible® (LPA) Texas Section 50(a)(6) Mortgages (LPA) 	<p>Income / General Income Documentation Requirements</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <ul style="list-style-type: none"> General Documentation Requirements <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Tax Returns and Tax Return Information: Documentation and Verification Requirements <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Age of Tax Return Requirements <ul style="list-style-type: none"> The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the borrower and, if applicable, the borrower's business. Lenders are encouraged to always confirm with the borrower that the tax returns provided are the tax returns most recently filed with the IRS. The lender must determine the stable monthly income which may require additional documentation and analysis. Refer to the "Business and Income Analysis" subsection in the "Self-Employment Income" subtopic, subsequently presented in this document, for additional guidance about self-employed income when the tax returns for the most recent calendar year are not yet available. At a minimum, the following date and documentation requirements must be met, based on the application received date and the note date for the mortgage: <ul style="list-style-type: none"> For Mortgages with Note Dates on or after November 1, 2023 <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 15%;">Application Received Date</th> <th style="width: 15%;">Note Date</th> <th style="width: 70%;">Age of Tax Return and Other Documentation Requirements</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">Before: April 15, 2024</td> <td style="vertical-align: top;">On or after: November 1, 2023</td> <td rowspan="2"> <ul style="list-style-type: none"> Most recent federal income tax return(s) filed with the IRS The most recent tax return(s) must be no older than 2022 </td> </tr> <tr> <td></td> <td style="vertical-align: top;">Before: May 31, 2024</td> </tr> <tr> <td style="vertical-align: top;">On or after: April 15, 2024</td> <td style="vertical-align: top;">Before: May 31, 2024</td> <td>If the borrower has not filed the 2023 tax return(s) with the IRS:</td> </tr> <tr> <td style="vertical-align: top;">All</td> <td style="vertical-align: top;">On or after: May 31, 2024</td> <td rowspan="2"> <ul style="list-style-type: none"> The most recent tax returns must be no older than 2022 The lender must obtain: <ul style="list-style-type: none"> IRS confirmation verifying tax transcript(s) are not yet available </td> </tr> <tr> <td></td> <td style="vertical-align: top;">Before: November 1, 2024</td> </tr> </tbody> </table>	Application Received Date	Note Date	Age of Tax Return and Other Documentation Requirements	Before: April 15, 2024	On or after: November 1, 2023	<ul style="list-style-type: none"> Most recent federal income tax return(s) filed with the IRS The most recent tax return(s) must be no older than 2022 		Before: May 31, 2024	On or after: April 15, 2024	Before: May 31, 2024	If the borrower has not filed the 2023 tax return(s) with the IRS:	All	On or after: May 31, 2024	<ul style="list-style-type: none"> The most recent tax returns must be no older than 2022 The lender must obtain: <ul style="list-style-type: none"> IRS confirmation verifying tax transcript(s) are not yet available 		Before: November 1, 2024	<p>Income / General Income Documentation Requirements</p> <p>Freddie Mac LPA Follow LPA requirements, which are as follows:</p> <ul style="list-style-type: none"> General Documentation Requirements <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Tax Returns and Tax Return Information: Documentation and Verification Requirements <p><i>Note: Below is an EXCERPT only of the requirements from the above referenced section.</i></p> <ul style="list-style-type: none"> Age of Tax Return Requirements <ul style="list-style-type: none"> The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the borrower and, if applicable, the borrower's business. Lenders are encouraged to always confirm with the borrower that the tax returns provided are the tax returns most recently filed with the IRS. The lender must determine the stable monthly income which may require additional documentation and analysis. Refer to the "<u>Additional Supporting Documentation for Business and Income Analysis</u>" subsection in the "Self-Employment Income" subtopic, subsequently presented in this document, for additional guidance about self-employed income <u>and supporting documentation</u> when the tax returns for the most recent calendar year are not yet available. 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					for the tax return(s) (individual, and business, if applicable) from the 2023 tax year ^{1,2} ; and <ul style="list-style-type: none"> Evidence of completed IRS tax filing extension(s) for the 2023 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable)³ 					not yet available for the tax return(s) (individual, and business, if applicable) from the 2023 tax year ^{1,2} ; and <ul style="list-style-type: none"> Evidence of completed IRS tax filing extension(s) for the 2023 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable)³
			All	On or after: November 1, 2024	<ul style="list-style-type: none"> The most recent tax return(s) must be no older than 2023, regardless of other factors such as tax filing extension status or IRS tax filing deadline relief status. 	All	On or after: November 1, 2024	<ul style="list-style-type: none"> The most recent tax return(s) must be no older than 2023, regardless of other factors such as tax filing extension status or IRS tax filing deadline relief status. 		
			¹ If the IRS extends the tax filing due date, the IRS confirmation is required for mortgages with application received dates on or after the IRS income tax filing due date, or May 31, 2024, whichever occurs first; and note dates on or after the last day of the month following the IRS income tax filing due date, or June 30, 2024, whichever occurs first.			¹ If the IRS extends the tax filing due date, the IRS confirmation is required for mortgages with application received dates on or after the IRS income tax filing due date, or May 31, 2024, whichever occurs first; and note dates on or after the last day of the month following the IRS income tax filing due date, or June 30, 2024, whichever occurs first.				
			² Alternative documentation is acceptable in lieu of the IRS confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows: <ul style="list-style-type: none"> Confirmation business tax returns were filed after IRS filing due date for the prior year(s) (e.g., 2022 business tax return in file was signed later in the year (e.g., October)) or documentation from third-party tax return preparer confirming 2023 business return has not yet been filed; and Documented evidence of continued income stability using at least one of the examples listed in the "Self-Employment Income/Business and Income Analysis" requirements, subsequently presented in this document, in the row labeled "Business and/or individual tax return(s) – most recent calendar year not yet available." 			² Alternative documentation is acceptable in lieu of the IRS confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows: <ul style="list-style-type: none"> Confirmation business tax returns were filed after IRS filing due date for the prior year(s) (e.g., 2022 business tax return in file was signed later in the year (e.g., October)) or documentation from third-party tax return preparer confirming 2023 business return has not yet been filed; and Documented evidence of continued income stability using at least one of the examples listed in the "Self-Employment Income/<u>Additional Supporting Documentation for Business and Income Analysis</u>" requirements, subsequently presented in this document, 				

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			<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> ³ If the IRS extends the tax filing due date, evidence of the completed IRS tax filing extension is required for mortgages with application received dates on or after the IRS income tax filing due date and note dates on or after the last day of the month following the IRS income tax filing due date. </div> <ul style="list-style-type: none"> For mortgages using automated income assessment with Loan Product Advisor using tax data, see “Automated Income Assessment with Loan Product Advisor Using Tax Data” in the “Freddie Mac LPA Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic for age of tax return requirements. 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The following chart contains requirements and guidance for determining self-employment and verifying the borrower's business ownership percentage: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 30%;">Business Structure</th> <th style="width: 70%;">Self-employment definition and verification of ownership interest percentage</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Partnerships, S Corporations and Corporations</td> <td> <ul style="list-style-type: none"> A borrower who has an ownership interest of 25% or more in a partnership (general or limited), S corporation, and/or corporation is considered to be self-employed. 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			<p>Compensation of Officers. If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the accountant for the business or similar documents</p> <ul style="list-style-type: none"> If the borrower has ownership interest in one or more businesses, but the ownership interest is not 25% or more for any business, refer to the requirements and guidance in the "Schedule K-1 Income (<i>For borrowers with Less than 25% Ownership in Business</i>)" subtopic previously presented in this document for employment/income characteristics or use the requirements in this subtopic. 	<p>Schedule K-1(s) or IRS Form 1125-E, Compensation of Officers. If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the accountant for the business or similar documents</p> <ul style="list-style-type: none"> If the borrower has ownership interest in one or more businesses, but the ownership interest is not 25% or more for any business, refer to the requirements and guidance in the "Schedule K-1 Income (<i>For borrowers with Less than 25% Ownership in Business</i>)" subtopic previously presented in this document for employment/income characteristics or use the requirements in this subtopic. 				
			<p>Sole Proprietorships and Schedule C</p> <p>Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return.</p> <p>Note: For IRS Form 1099 income received for services performed and reported on Schedule C, lenders may refer to the "Income Reported on Internal Revenue Service (IRS) Form 1099 for Services Performed" requirements in the "Employment/Income Characteristics" subsection previously presented in the "General Income Information" subtopic in this document for additional information with respect to determining whether this income may be treated as non-self-employed income.</p>	<p>Sole Proprietorships and Schedule C</p> <p>Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return.</p> <p>Note: For IRS Form 1099 income received for services performed and reported on Schedule C, lenders may refer to the "Income Reported on Internal Revenue Service (IRS) Form 1099 for Services Performed" requirements in the "Employment/Income Characteristics" subsection previously presented in the "General Income Information" subtopic in this document for additional information with respect to determining whether this income may be treated as non-self-employed income.</p>				
			<ul style="list-style-type: none"> Loan Product Advisor <ul style="list-style-type: none"> The lender must indicate to Loan Product Advisor that a borrower is self-employed when the borrower meets Freddie Mac's definition of self-employed as stated above. This is required in all cases where the self-employment income and/or loss is used to determine the borrower's stable monthly income for qualifying. For borrowers with self-employed income assessed using automated income assessment with Loan Product Advisor using tax data, refer to "Automated Income Assessment with Loan Product Advisor Using Tax Data" in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for details. Self-Employment History Requirements <ul style="list-style-type: none"> The following chart contains requirements and guidance pertaining to self-employment history: 	<p>¹ If the lender is aware of a business structure change in the past five years, (e.g., sole proprietorship to S-corporation), refer to the "Business Structure Change" requirements outlined below.</p> <ul style="list-style-type: none"> Loan Product Advisor <ul style="list-style-type: none"> The lender must indicate to Loan Product Advisor that a borrower is self-employed when the borrower meets Freddie Mac's definition of self-employed as stated above. This is required in all cases where the self-employment income and/or loss is used to determine the borrower's stable monthly income for qualifying. For borrowers with self-employed income assessed using automated income assessment with Loan Product Advisor using tax data, refer to "Automated Income Assessment with Loan Product Advisor Using Tax Data" in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for details. Self-Employment History Requirements 				
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When the borrower has been self-employed for less than two years, prior to considering the income for qualifying purposes, at a minimum the lender must:</p> <ul style="list-style-type: none"> Document that the borrower has a two-year history of receipt of income at the same or greater level in the same or similar occupation Consider and evaluate the borrower's experience in the business Consider and evaluate the acceptance of the company's service or products in the marketplace <p>Analysis of current business activity through a review of the year-to date (YTD) financial statement and/or the most recent three months of business bank statements may provide support to this evaluation.</p> </td> </tr> <tr> <td>Minimum history of receipt of income</td> <td>The borrower's federal income tax returns must reflect at least one year of self-employment income</td> </tr> <tr> <td>Geographical relocation</td> <td> <p>If the borrower is relocating to a different geographic area, prior to considering the income for qualifying purposes, at a minimum the lender must:</p> <ul style="list-style-type: none"> Consider and evaluate the acceptance of the company's service or products in the marketplace. 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At a minimum, the lender must:</p> <ul style="list-style-type: none"> Document that the borrower has a two-year history of receipt of income at the same or greater level in the same or similar occupation Consider and evaluate the borrower's experience in the business Consider and evaluate the acceptance of the company's service or products in the marketplace Document that the borrower has a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry Determine qualifying income by using the lesser of: <ul style="list-style-type: none"> The stable monthly income from the new business, or The stable monthly income earned in the previous occupation Include a written analysis justifying the determination of stability of the income in the mortgage file Consider the overall layering of risk, including the borrower's demonstrated ability to repay obligations <p>Analysis of current business activity through a review of the year-to date (YTD) financial statement and/or the</p> </td> </tr> </tbody> </table>	Self-Employment History		Topic	Requirements and Guidance	Length of history requirement	In most cases, a two-year history of current self-employment is required to ensure income stability . 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			<ul style="list-style-type: none"> Business and Income Analysis <ul style="list-style-type: none"> The following chart contains requirements and guidance pertaining to business and income analysis: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2">Analysis</th> </tr> <tr style="background-color: #34495e; color: white;"> <th>Topic</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table> 	Analysis		Topic	Requirements and Guidance													
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			<p>Business and income analysis</p> <p>Business Review and Analysis The lender's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower.</p> <ul style="list-style-type: none"> The analysis must include a review of the business tax returns The lender's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered. The lender may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the lender may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business. <p>Use of Business Income Reported on the Borrower's Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the borrower's federal individual income tax returns For partnerships and S corporations, stable monthly income may be based on the borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income. For S corporations and corporations, stable monthly income may be based on the income reported on the borrower's W-2 from the business. The corporate tax returns and Form 1125-E if 	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td>most recent three months of business bank statements may provide support to this evaluation.</td> </tr> <tr> <td>Minimum history of receipt of income</td> <td>The borrower's federal income tax returns must reflect at least one year of self-employment income</td> </tr> <tr> <td>Geographical relocation</td> <td>If the borrower is relocating to a different geographic area, prior to considering the income for qualifying purposes, at a minimum the lender must: <ul style="list-style-type: none"> Consider and evaluate the acceptance of the company's service or products in the marketplace. Additional information, such as market studies or relevant industry research, may support this evaluation. Provide a written analysis justifying the borrower's income will continue at the same level in the new location </td> </tr> </table> <ul style="list-style-type: none"> Business Review and Analysis <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to review and analysis of the business that produces the stable monthly income for the borrower: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2" style="text-align: left;">Business Review and Analysis</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th style="text-align: left;">Topic</th> <th style="text-align: left;">Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Business review and analysis</td> <td> <p>Business Review and Analysis</p> <p>The lender's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower.</p> <ul style="list-style-type: none"> The analysis must include a review of the business tax returns The lender's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. 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			<p>applicable, must be reviewed for confirmation of the borrower's W-2 income from the business.</p> <p>Use of Business Income Not Reported on the Borrower's Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the lender's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business <p>Access to Business Income</p> <ul style="list-style-type: none"> Documentation is not required to verify access to business income for the following: <ul style="list-style-type: none"> Sole proprietorships Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations W-2 income received from S corporations and corporations, Corporations, if the borrower holds 100% ownership interest If business income not reported on the borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the lender must verify that the borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document. <p>Income Calculation</p> <ul style="list-style-type: none"> The lender's calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete federal individual income tax returns (Form 1040) including W-2's and Schedule K-1's (if applicable) and the borrower's complete federal income tax returns for the business (Forms 1120, 1120 S and 1065), when applicable. The lender must analyze the tax returns and document the calculation of the borrower's self-employed income on <u>Form 91, Income Calculations</u>, or a similar alternative form. 	<p>Use of Business Income Reported on the Borrower's Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the borrower's federal individual income tax returns For partnerships and S corporations, stable monthly income may be based on the borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income. For S corporations and corporations, stable monthly income may be based on the income reported on the borrower's W-2 from the business. The corporate tax returns and Form 1125 E if applicable, must be reviewed for confirmation of the borrower's W-2 income from the business. <p>Use of Business Income Not Reported on the Borrower's Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the lender's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business <p>Access to Business Income</p> <ul style="list-style-type: none"> Documentation is not required to verify access to business income for the following: <ul style="list-style-type: none"> Sole proprietorships Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations W-2 income received from S corporations and corporations, Corporations, if the borrower holds 100% ownership interest

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			<p>Income Fluctuation</p> <ul style="list-style-type: none"> As part of the analysis, the lender must consider whether the borrower's self-employed income has increased or decreased over the previous two years when the lender's analysis includes a review of documentation covering a history greater than one year If the analysis reflects that the borrower's income has significantly increased or decreased, the lender must provide sufficient documentation and justification to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three years It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates in order to determine the stability of the income 	<p>If business income not reported on the borrower's federal individual income tax returns is being used to qualify and none of the categories above apply, then the lender must verify that the borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.</p> <p>Income Calculation</p> <ul style="list-style-type: none"> The lender's calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete federal individual income tax returns (Form 1040) including W-2's and Schedule K-1's (if applicable) and the borrower's complete federal income tax returns for the business (Forms 1120, 1120-S and 1065), when applicable. The lender must analyze the tax returns and document the calculation of the borrower's self-employed income on <u>Form 91, Income Calculations</u>, or a similar alternative form. <p>Income Fluctuation</p> <ul style="list-style-type: none"> As part of the analysis, the lender must consider whether the borrower's self-employed income has increased or decreased over the previous two years when the lender's analysis includes a review of documentation covering a history greater than one year If the analysis reflects that the borrower's income has significantly increased or decreased, the lender must provide sufficient documentation and justification to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three years It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates in order to determine the stability of the income
			<p>Business financial statements</p> <p>Business financial statements typically consist of a profit and loss statement and a balance sheet for the business that cover a specified period of time (e.g., YTD, quarterly, annual).</p> <ul style="list-style-type: none"> Financial statements for the business may be prepared by multiple parties, including but not limited to, the Certified Public Accountant (CPA), accountant or tax preparer that prepares the tax returns for the business, or the borrower Financial statements may not be used for the calculation of stable monthly income (unless audited); however, they may provide additional support for the lender's business and income analysis Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, income stability when tax returns are on extension, evaluating a newer business and the impact of business fund withdrawals 	
			<p>Business and/or individual tax return(s) - most recent calendar year not yet available</p> <p>If the borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., borrower and/or borrower's business filed an IRS extension, tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:</p> <ul style="list-style-type: none"> Business review and analysis of current business activity through a review of the most recent 	
				<p>Business financial statements</p> <p>Business financial statements typically consist of a profit and loss statement and a balance sheet for the business that cover a specified period of time (e.g., YTD, quarterly, annual):</p> <ul style="list-style-type: none"> Financial statements for the business may be prepared by multiple parties, including but not limited to, the Certified Public Accountant (CPA),

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			<p>financial statement(s) that cover the period since the last tax return filing(s)</p> <ul style="list-style-type: none"> • Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements • Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return • Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s) • Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available <p>If the continued stability of the income cannot be determined, then the borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.</p> <p>Refer to the "Age of Tax Return Requirements" section previously presented in the "General Income Documentation Requirements" subtopic for additional information about age of tax return requirements, including, but not limited to, the requirement to document evidence of continued income stability using at least one of the examples listed above when the lender has not obtained the IRS confirmation verifying tax transcript(s) are not yet available for the business tax return(s).</p>	<p>accountant or tax preparer that prepares the tax returns for the business, or the borrower</p> <ul style="list-style-type: none"> • Financial statements may not be used for the calculation of stable monthly income (unless audited); however, they may provide additional support for the lender's business and income analysis • Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, income stability when tax returns are on extension, evaluating a newer business and the impact of business fund withdrawals
			<p>Income analysis – adjustments (examples)</p> <p>The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on Form 91, or a similar alternative form.</p> <p>Non-Cash Deductions Non-cash items such as depreciation, depletion and amortization</p> <p>Non-Recurring Losses Documented nonrecurring losses, such as casualty losses and loss carry-overs from previous tax years</p> <p>Mortgages and Notes Payable in Less than One Year</p> <ul style="list-style-type: none"> • The lender must analyze the terms of the mortgages and notes payable in less than one year and determine whether the income should be 	<p>Business and/or individual tax return(s) – most recent calendar year not yet available</p> <p>If the borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., borrower and/or borrower's business filed an IRS extension, tax returns are not yet filed with the IRS); examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:</p> <ul style="list-style-type: none"> • Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s) • Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements • Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return • Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s) • Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available <p>If the continued stability of the income cannot be determined, then the borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.</p> <p>Refer to the "Age of Tax Return Requirements" section</p>

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			<p>reduced by the debt when performing the income analysis</p> <ul style="list-style-type: none"> The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the business type is indicative of debt that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt when performing the income analysis. 	<p>previously presented in the “General Income Documentation Requirements” subtopic for additional information about age of tax return requirements, including, but not limited to, the requirement to document evidence of continued income stability using at least one of the examples listed above when the lender has not obtained the IRS confirmation verifying tax transcript(s) are not yet available for the business tax return(s).</p>						
			<p>Borrower debt paid by business</p> <p>See the “Business Debt in Borrower’s Name / Self-Employed Borrower’s Debt Paid by the Borrower’s Business” subtopic subsequently presented in this document for requirements.</p>	<p>Income analysis – adjustments (examples)</p> <p>The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on Form 91, or a similar alternative form.</p>						
			<p>IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation</p> <p>Rental Real Estate Income and Expenses Reported on Form 8825</p> <ul style="list-style-type: none"> All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the borrower is personally obligated on the note and regardless of the borrower’s percentage of ownership interest in the partnership or S corporation. The requirements outlined in the “Business Debt in Borrower’s Name / Self-Employed Borrower’s Debt Paid by the Borrower’s Business” subtopic, subsequently presented in this document, are not applicable. Refer to Form 91 for the appropriate treatment and calculation of the borrower's proportionate share of the net rental real estate income or loss. 	<p>Non-Cash Deductions Non-cash items such as depreciation, depletion and amortization</p> <p>Non-Recurring Losses Documented nonrecurring losses, such as casualty losses and loss carry-overs from previous tax years</p> <p>Mortgages and Notes Payable in Less than One Year</p> <ul style="list-style-type: none"> The lender must analyze the terms of the mortgages and notes payable in less than one year and determine whether the income should be reduced by the debt when performing the income analysis The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the business type is indicative of debt that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt when performing the income analysis. 						
			<ul style="list-style-type: none"> Self-Employment Income Not Used for Qualification <ul style="list-style-type: none"> The following chart contains requirements and guidance pertaining to self-employment income not used for qualification: 	<p>Borrower debt paid by business</p> <p>See the “Business Debt in Borrower’s Name / Self-Employed Borrower’s Debt Paid by the Borrower’s Business” subtopic subsequently presented in this document for requirements.</p>						
			<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2">Self-employment income not used for qualification</th> </tr> <tr style="background-color: #34495e; color: white;"> <th style="width: 30%;">Subject</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #34495e; color: white;">Self-employment disclosed on Form 65, Uniform Residential Loan Application (or other documentation) but not used to qualify</td> <td> <ul style="list-style-type: none"> The lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower on the mortgage who: <ul style="list-style-type: none"> Has a primary source of income, other than self-employment, used for qualifying for the mortgage (e.g., salaried income from primary employment), and Is self-employed and self-employment </td> </tr> </tbody> </table>	Self-employment income not used for qualification		Subject	Requirements and Guidance	Self-employment disclosed on Form 65, Uniform Residential Loan Application (or other documentation) but not used to qualify	<ul style="list-style-type: none"> The lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower on the mortgage who: <ul style="list-style-type: none"> Has a primary source of income, other than self-employment, used for qualifying for the mortgage (e.g., salaried income from primary employment), and Is self-employed and self-employment 	<p>IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation</p> <p>Rental Real Estate Income and Expenses Reported on Form 8825</p> <ul style="list-style-type: none"> All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the borrower is personally obligated on the note and regardless of the borrower’s percentage of ownership interest in the partnership or S corporation. The requirements outlined in the
Self-employment income not used for qualification										
Subject	Requirements and Guidance									
Self-employment disclosed on Form 65, Uniform Residential Loan Application (or other documentation) but not used to qualify	<ul style="list-style-type: none"> The lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower on the mortgage who: <ul style="list-style-type: none"> Has a primary source of income, other than self-employment, used for qualifying for the mortgage (e.g., salaried income from primary employment), and Is self-employed and self-employment 									

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Topic	Impacted Document	Impacted Products	Current Standards	Revised Standards (See <u>COR24-063</u> for the Applicable Effective Dates of These Revisions)								
			<p>income is a secondary source of income</p> <ul style="list-style-type: none"> For each borrower on the mortgage who is self-employed and does not have another source of income that is used in qualifying for the mortgage, the following requirements apply: <ul style="list-style-type: none"> The lender must obtain pages 1 and 2 of the borrower's federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income. See "IRS Tax Transcripts" in the "Tax Returns and Tax Returns Information: Documentation and Verification Requirements" section in the "General Income Documentation Requirements" subtopic for information about using IRS tax transcripts to meet certain portions of this requirement. If a business loss is reported and the borrower qualifies with the loss, then the lender is not required to obtain any additional documentation relating to the business loss If a business loss is reported and the borrower does not qualify with the loss, then the lender must perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. The lender must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g., business tax returns (final or otherwise), evidence of a one-time non-recurring event). If the tax returns or other documentation in the mortgage file (e.g., IRS tax transcripts, additional Schedule K-1's) reflect positive income from self-employment but that income is not used to qualify, additional documentation 	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p style="color: red; margin: 0;">"Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic, subsequently presented in this document, are not applicable.</p> <p style="color: red; margin: 0;">Refer to Form 91 for the appropriate treatment and calculation of the borrower's proportionate share of the net rental real estate income or loss.</p> </div> <ul style="list-style-type: none"> Business Income: Access and Use <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to verification of access to and use of business income: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2" style="text-align: left;">Business Income: Access and Use</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 30%;">Topic</th> <th style="width: 70%;">Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #f1c40f; vertical-align: top;">Access to business income</td> <td> <p>Documentation is not required to verify access to business income for the following:</p> <ul style="list-style-type: none"> Sole proprietorships Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations W-2 income received from S corporations and corporations, Corporations, if the borrower holds 100% ownership interest <p>Documentation is required to verify access to business income as follows:</p> <ul style="list-style-type: none"> If business income not reported on the borrower's federal individual income tax returns is being used to qualify and none of the categories above apply for when documentation is not required, then the lender must verify that the borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document. </td> </tr> <tr> <td style="background-color: #f1c40f; vertical-align: top;">Use of business income</td> <td> <p>Use of Business Income Reported on the Borrower's Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the borrower's federal individual income tax returns For partnerships and S-corporations, stable monthly income may be based on the borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the borrower's federal individual income </td> </tr> </tbody> </table>	Business Income: Access and Use		Topic	Requirements and Guidance	Access to business income	<p>Documentation is not required to verify access to business income for the following:</p> <ul style="list-style-type: none"> Sole proprietorships Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations W-2 income received from S corporations and corporations, Corporations, if the borrower holds 100% ownership interest <p>Documentation is required to verify access to business income as follows:</p> <ul style="list-style-type: none"> If business income not reported on the borrower's federal individual income tax returns is being used to qualify and none of the categories above apply for when documentation is not required, then the lender must verify that the borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document. 	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			<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> (e.g., complete business or federal individual income tax return(s)) is not required. </div> <ul style="list-style-type: none"> Business Assets Used for Closing <ul style="list-style-type: none"> See “Business Assets” in the “Cash Requirements” topic subsequently presented in this document for guidance. Verification of Current Existence of the Business <ul style="list-style-type: none"> See the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic subsequently presented in this topic for specific requirements. Documentation Requirements <ul style="list-style-type: none"> The lender must establish and calculate the stable monthly income using at least the following required documentation. Additional documentation may be needed to support income stability, as described within this subtopic. <ul style="list-style-type: none"> Form 91, Income Calculations, or a similar alternative form (e.g., Income Calculation Report as described in the “Automated Income Assessment with Loan Product Advisor Using Tax Data” subsection in the “Freddie Mac LPA Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic. Verification of the current existence of the business as described in the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic Federal income tax returns, as required in the chart below, including all applicable schedules and forms must reflect at least 12 months of self-employed income Verification of how long the business has been in existence: <ul style="list-style-type: none"> For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Form 65, Uniform Residential Loan Application 	<p>tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income.</p> <ul style="list-style-type: none"> For S corporations and corporations, stable monthly income may be based on the income reported on the borrower’s W-2 from the business. The corporate tax returns and Form 1125-E if applicable, must be reviewed for confirmation of the borrower’s W-2 income from the business. <p>Use of Business Income Not Reported on the Borrower’s Federal Individual Income Tax Returns</p> <ul style="list-style-type: none"> Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the lender’s analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business. <ul style="list-style-type: none"> Income Calculation and Fluctuation Analysis <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to self-employed income calculation and fluctuation analysis: 																						
			<table border="1" style="width: 100%; border-collapse: collapse; margin-top: 20px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th rowspan="2">Business structure</th> <th colspan="2">Streamlined Accept and Standard Documentation Levels</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th>Business in existence greater than or equal to five years¹</th> <th>Business in existence less than five years</th> </tr> </thead> <tbody> <tr> <td>Sole Proprietorship</td> <td>Complete signed federal individual (Form 1040) income tax return for the most recent year.</td> <td>Complete signed federal individual (Form 1040) income tax returns for the most recent two years.</td> </tr> <tr> <td>Partnership</td> <td>Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.</td> <td>Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.</td> </tr> <tr> <td>S Corporation</td> <td>Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the</td> <td>Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the</td> </tr> </tbody> </table>	Business structure	Streamlined Accept and Standard Documentation Levels		Business in existence greater than or equal to five years ¹	Business in existence less than five years	Sole Proprietorship	Complete signed federal individual (Form 1040) income tax return for the most recent year.	Complete signed federal individual (Form 1040) income tax returns for the most recent two years.	Partnership	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.	S Corporation	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the	<table border="1" style="width: 100%; border-collapse: collapse; margin-top: 20px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2">Income Calculation and Fluctuation Analysis</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th>Topic</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #2c3e50; color: white;">Income calculation</td> <td> <ul style="list-style-type: none"> The lender’s calculation of a self-employed borrower’s average monthly income must be based on a review of the borrower’s complete federal individual income tax returns (Form 1040) including W-2’s and Schedule K-1’s (if applicable) and the borrower’s complete federal income tax returns for the business (Forms 1120, 1120 S and 1065), when applicable. The lender must analyze the tax returns and document the calculation of the borrower’s self-employed income on Form 91, Income Calculations, or a similar alternative form. If the self-employment history is less than two years: Refer to the “Self-Employment History Requirements” section above for additional requirements. </td> </tr> <tr> <td style="background-color: #2c3e50; color: white;">Income calculation adjustments (examples)</td> <td>The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on</td> </tr> </tbody> </table>	Income Calculation and Fluctuation Analysis		Topic	Requirements and Guidance	Income calculation	<ul style="list-style-type: none"> The lender’s calculation of a self-employed borrower’s average monthly income must be based on a review of the borrower’s complete federal individual income tax returns (Form 1040) including W-2’s and Schedule K-1’s (if applicable) and the borrower’s complete federal income tax returns for the business (Forms 1120, 1120 S and 1065), when applicable. The lender must analyze the tax returns and document the calculation of the borrower’s self-employed income on Form 91, Income Calculations, or a similar alternative form. If the self-employment history is less than two years: Refer to the “Self-Employment History Requirements” section above for additional requirements. 	Income calculation adjustments (examples)	The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on
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				Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year.	Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.	
			Corporation	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year.	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years.	<ul style="list-style-type: none"> <u>Form 91</u>, or a similar alternative form. Non-cash deductions (e.g., depreciation, depletion, amortization) Non-recurring losses (e.g., casualty losses) Loss carry-over(s) from previous tax years Mortgages and notes payable in less than one year <ul style="list-style-type: none"> The lender must analyze the terms of the mortgages and notes payable in less than one year and determine whether the income should be reduced by the debt when performing the income analysis The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the business type is indicative of debt that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt when performing the income analysis.
			¹ The borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years			<p style="text-align: center;">Income fluctuation</p> <ul style="list-style-type: none"> As part of the analysis, the lender must consider whether the borrower's self-employed income has increased or decreased over the previous two years when the lender's analysis includes a review of documentation covering a history greater than one year If the analysis reflects that the borrower's income has significantly increased or decreased: <ul style="list-style-type: none"> the lender must provide sufficient documentation and justification to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three years It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates in order to determine the stability of the income See "Additional Supporting Documentation for Business and Income Analysis" below for more information about additional supporting documentation for business and income analysis.
						<ul style="list-style-type: none"> Additional Supporting Documentation for Business and Income Analysis <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to additional supporting documentation that may be used to determine whether a borrower has stable monthly income when evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or

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however, they may provide additional support for the lender's business and income analysis Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or are over 120 days old, evaluating a newer business and the impact of business fund withdrawals </td> </tr> <tr> <td style="background-color: #ffff00;">Business and/or individual tax return(s) - most recent calendar year not yet available</td> <td> <p>If the borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., borrower and/or borrower's business filed an IRS extension, tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:</p> <ul style="list-style-type: none"> Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s) Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) </td> </tr> </tbody> </table>	Additional Supporting Documentation for Business and Income Analysis		Topic	Requirements and Guidance	Business financial statements	<p>Business financial statements typically consist of a profit and loss statement and a balance sheet for the business that cover a specified period of time (e.g., YTD, quarterly, annual).</p> <ul style="list-style-type: none"> Financial statements for the business may be prepared by multiple parties, including but not limited to, the Certified Public Accountant, accountant or tax preparer that prepares the tax returns for the business, or the borrower Financial statements may not be used for the calculation of stable monthly income (unless audited); 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				<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>to determine consistency with tax liability reported on prior year(s) tax return(s)</p> <ul style="list-style-type: none"> Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available <p>If the continued stability of the income cannot be determined, then the borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.</p> <p>Refer to the "Age of Tax Return Requirements" section previously presented in the "General Income Documentation Requirements" subtopic for additional information about age of tax return requirements, including, but not limited to, the requirement to document evidence of continued income stability using at least one of the examples listed above when the lender has not obtained the IRS confirmation verifying tax transcript(s) are not yet available for the business tax return(s).</p> </div> <ul style="list-style-type: none"> Borrower Debt Paid by the Business <ul style="list-style-type: none"> See the "Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic subsequently presented in this document for requirements. Business Structure Change <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to a business structure change: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2" style="text-align: left;">Business Structure Change</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 30%;">Topic</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #ffff00;">Business structure change</td> <td>If the borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation), the borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business. Additionally, the lender must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location), and there must be no indication the change had a negative impact on business revenue or expenses. The lender must document their evaluation in the written income analysis. If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.</td> </tr> </tbody> </table> <ul style="list-style-type: none"> IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to rental real estate income and 	Business Structure Change		Topic	Requirements and Guidance	Business structure change	If the borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation), the borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business. Additionally, the lender must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location), and there must be no indication the change had a negative impact on business revenue or expenses. The lender must document their evaluation in the written income analysis. If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.
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				<p>expenses reported on IRS Form 8825:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2" style="text-align: left;">Rental Real Estate Income and Expenses Reported on IRS Form 8825</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 30%;">Topic</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #2c3e50; color: white;">IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation</td> <td> <ul style="list-style-type: none"> All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the borrower is personally obligated on the note and regardless of the borrower's percentage of ownership interest in the partnership or S corporation. The requirements outlined in the "Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic, subsequently presented in this document, are not applicable. Refer to Form 91 for the appropriate treatment and calculation of the borrower's proportionate share of the net rental real estate income or loss. </td> </tr> </tbody> </table> <ul style="list-style-type: none"> Self-Employment Income Not Used for Qualification <ul style="list-style-type: none"> The following table contains requirements and guidance pertaining to self-employment income not used for qualification: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #2c3e50; color: white;"> <th colspan="2" style="text-align: left;">Self-employment income not used for qualification</th> </tr> <tr style="background-color: #2c3e50; color: white;"> <th style="width: 30%;">Topic</th> <th>Requirements and Guidance</th> </tr> </thead> <tbody> <tr> <td style="background-color: #2c3e50; color: white;">Self-employment disclosed on Form 65-Uniform Residential Loan Application (or other documentation) but not used to qualify</td> <td> <ul style="list-style-type: none"> The lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower on the mortgage who: <ul style="list-style-type: none"> Has a primary source of income, other than self-employment, used for qualifying for the mortgage (e.g., salaried income from primary employment), and Is self-employed and self-employment income is a secondary source of income For each borrower on the mortgage who is self-employed and does not have another source of income that is used in qualifying for the mortgage, the following requirements apply: <ul style="list-style-type: none"> The lender must obtain pages 1 and 2 of the borrower's federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income. 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					<p>“General Income Documentation Requirements” subtopic for information about using IRS tax transcripts to meet certain portions of this requirement.</p> <ul style="list-style-type: none"> • If a business loss is reported and the borrower qualifies with the loss, then the lender is not required to obtain any additional documentation relating to the business loss • If a business loss is reported and the borrower does not qualify with the loss, then the lender must perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. The lender must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g., business tax returns (final or otherwise), evidence of a one-time non-recurring event). • If the tax returns or other documentation in the mortgage file (e.g., IRS tax transcripts, additional Schedule K-1's) reflect positive income from self-employment but that income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax return(s)) is not required.
				<ul style="list-style-type: none"> • Business Assets Used for Closing <ul style="list-style-type: none"> • See “Business Assets” in the “Cash Requirements” topic subsequently presented in this document for guidance. • Verification of Current Existence of the Business <ul style="list-style-type: none"> • See the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic subsequently presented in this topic for specific requirements. • Documentation Requirements <ul style="list-style-type: none"> • The lender must establish and calculate the stable monthly income using at least the following required documentation. Additional documentation may be needed to support income stability, as described within this subtopic. <ul style="list-style-type: none"> • <u>Form 91</u> or a similar alternative form (e.g., Income Calculation Report as described in the “Automated Income Assessment with Loan Product Advisor Using Tax Data” subsection in the 	

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				<p>“Freddie Mac LPA Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic.</p> <ul style="list-style-type: none"> Verification of the current existence of the business as described in the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic Federal income tax returns, as required in the <u>table</u> below, including all applicable schedules and forms must reflect at least 12 months of self-employed income Verification of how long the business has been in existence: <ul style="list-style-type: none"> For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Form 65, <u>Uniform Residential Loan Application</u> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #2c2c4c; color: white;"> <th rowspan="2" style="width: 15%;">Business structure</th> <th colspan="2" style="background-color: #2c2c4c; color: white;">Streamlined Accept and Standard Documentation Levels</th> </tr> <tr style="background-color: #2c2c4c; color: white;"> <th style="width: 35%;">Business in existence greater than or equal to five years¹</th> <th style="width: 50%;">Business in existence less than five years</th> </tr> </thead> <tbody> <tr> <td style="background-color: #2c2c4c; color: white;">Sole Proprietorship</td> <td>Complete signed federal individual (Form 1040) income tax return for the most recent year.</td> <td>Complete signed federal individual (Form 1040) income tax returns for the most recent two years.</td> </tr> <tr> <td style="background-color: #2c2c4c; color: white;">Partnership</td> <td>Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.</td> <td>Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.</td> </tr> <tr> <td style="background-color: #2c2c4c; color: white;">S Corporation</td> <td>Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year.</td> <td>Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.</td> </tr> <tr> <td style="background-color: #2c2c4c; color: white;">Corporation</td> <td>Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year.</td> <td>Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years.</td> </tr> </tbody> </table> <p>¹ The borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years</p>	Business structure	Streamlined Accept and Standard Documentation Levels		Business in existence greater than or equal to five years ¹	Business in existence less than five years	Sole Proprietorship	Complete signed federal individual (Form 1040) income tax return for the most recent year.	Complete signed federal individual (Form 1040) income tax returns for the most recent two years.	Partnership	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.	S Corporation	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year.	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.	Corporation	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year.	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years.
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