

**TO: Correspondent Lenders**

**FROM: Angela Breidenbach, Operations Manager**

**DATE January 12, 2016**

**RE: FNMA Self Employed Income**

On March 24, 2015, Fannie Mae delayed the mandatory implementation of the self-employed income policies announced in December 2014. At that time, lenders had the discretion to choose to move forward with implementation of some or all of the changes. **However, effective with application dates on or after February 1, 2016, all of the self-employed income policies are mandatory.**

The following is an excerpt from the Fannie Mae Selling Guide Announcement SEL – 2015-09:

Fannie Mae has updated the self-employment income policies published in December 2014 regarding how to calculate and document self-employment income, including the parameters under which business income without a history of distribution may be included to qualify self-employed borrowers.

This policy update provides an alternative approach that lenders may follow for borrowers who do not show a history of receiving distributions of business income provided certain conditions are met. Specifically, in order to include business income to qualify a self-employed borrower who does not have a history of receiving business income, the lender must confirm the borrower has access to the business income and the business must have adequate liquidity to support the withdrawal of earnings.

The approach and instructions published in December 2014 for self-employed borrowers who can provide a documented history of receiving distributions of business income remains in effect, as another approach lenders may follow when qualifying these borrowers.

A minor clarification has been made to broaden a reference to “salaried income” in a section that addresses when lenders need to prepare a written evaluation of self-employment income. We now refer to borrowers who are qualified using only “income that is not derived from self-employment”. For example, when qualifying borrowers using only retirement income to qualify, no written evaluation of secondary self-employment income is required.

In addition to these updates, the *Selling Guide* has been updated to reflect that only the most recent year of individual and business federal income tax returns will be required for certain Desktop Underwriter® (DU®) loan casefiles, provided the tax returns show at least 12 months of self-employment income and the lender completes the Fannie Mae *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles. This flexibility will become available in DU in a future release, and will be communicated to lenders in the associated release notes.

Lastly, the December 2014 version of the *Cash Flow Analysis* (Form 1084) has been revised to incorporate these policy updates and improve ease of use.

***Updated Selling Guide Topics***

[B3-3.1-09](https://www.fanniemae.com/content/guide/sel082515.pdf#page=387) Other Sources of Income (Schedule K-1 Income)

[B3-3.2-01](https://www.fanniemae.com/content/guide/sel082515.pdf#page=408) Underwriting Factors and Documentation for Self-Employed Borrower (Analysis of Borrower’s Personal Income, Income Verification for Self-Employed Co-Borrowers)

[B3-3.2.1-01](https://www.fanniemae.com/content/guide/sel082515.pdf#page=420) General Information on Analyzing Individual Tax Returns (Removed Cash Flow Analysis Form 1084)

[B3-3.2.1-08](https://www.fanniemae.com/content/guide/sel082515.pdf#page=430) Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1(Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1, Documentation Requirements)

[B3-3.2.2-01](https://www.fanniemae.com/content/guide/sel082515.pdf#page=433) Analyzing Partnership Returns for a Partnership or LLC (Evaluating the Business Income, Borrower’s Proportionate Share of Income or Loss, Adjustments to Business Cash Flow, Income from Partnerships, LLCs, Estates, and Trusts)

[B3-3.2.2-02](https://www.fanniemae.com/content/guide/sel082515.pdf#page=435) Analyzing Returns for an S Corporation (Evaluating the Business Income, Borrower’s Proportionate Share of Income or Loss, Adjustments to Business Cash Flow)

[B3-3.2-01](https://www.fanniemae.com/content/guide/sel082515.pdf#page=440) Income and Employment Documentation for DU (Self-Employment Income)

If you have questions regarding these new self-employed guidelines, please do not hesitate to contact one of our CLD underwriters:

Pat Hawkins – [phawkins@houseloan.com](mailto:phawkins@houseloan.com)

Paula Christopher – [pchristopher@houseloan.com](mailto:pchristopher@houseloan.com)

We will be compiling questions on these new changes and will base our April 411 on questions asked and what we have learned.

**As always, your business is greatly appreciated. If you have questions regarding these issues, please contact me at** [**abreidenbach@houseloan.com**](mailto:abreidenbach@houseloan.com)**.**

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