



Temporary Guidance for Agency Self-Employed Borrowers

The stable and reliable flow of income must always be established for self-employed borrowers. Extra due diligence must be practiced to understand the impact of the pandemic on a borrower's business revenue and expenses and to determine stability and continuance of income. Each business and business situation will be different.

Due diligence must be practiced for borrowers who receive a large portion or all of the income from commission or variable income. Their income may be impacted in similar ways as self-employed borrowers.

Required Documentation

- Use one of the two options to document self-employed income
 - Option One: Obtain all of the following
 - Unaudited 2020 YTD P&L, signed by the borrower. Month to month, quarterly or additional documentation may be necessary to show income trending
 - Two (2) months of business bank statements no older than the latest two (2) months shown on the YTD P&L
 - Example: YTD P&L is through August 2020 account statements can be no older than July and August. Personal bank statements eligible for small business that does not have a separate business account
 - If the business bank statements do not support or conflict with information in the P&L, obtain additional statements or other documentation to determine trending and cash flow
 - Option Two: Obtain the following
 - Audited 2020 YTD P&L
- Year-to-Date Profit and Loss Statement must contain all of the following information
 - Signed by borrower
 - Cover most recent month preceding application date
 - Dated no more than 60 calendar days prior to Note date
 - Report business revenue
 - Report business expenses
 - Report Net Income
- NewRez Income Worksheet or other Cash Flow Analysis form
- Bank Statement and Profit and Loss Statement comparison worksheet
- Written analysis of all businesses owned explaining the following:
 - Nature of the business

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- How the business operates in a typical environment
- How the business generates income
- Where the business operates (remotely or within an office)
- Number of employees
- Updated business plan or similar detailed explanation from borrower, as applicable
- Business receipts or purchase contracts, as applicable
- Additional information based on review below

Assessing Impact to Business

- Establish that borrower's income is stable and likely to continue at the same level being used for qualifying.
- Know the economic conditions related to borrower's business.
- Documentation and analysis of business must support that business has sufficient liquidity and is financially capable of producing stable monthly income for borrower.
- Consider pandemic-related factors, which may include, but not limited to, the following:
 - If the ability of the business to generate revenue or operate at full capacity has been negatively impacted by the pandemic, have business operations been modified to support continued revenue? Is continued business revenue supported by any other documentation or information supplied by the borrower (modified business plans) or obtained from other sources?
 - Impacts to the business operations, revenue and/or expenses, such as a break-down in supply chain that is needed to maintain the product, higher cost of expenses to obtain the product, or lack of consumer demand for product or services.
 - Impacts to the business operation, revenue and/or expenses due to temporary restrictions such as State shelter-in-place, stay at home or other similar State or local orders.
 - If temporary restrictions have been recently been lifted will the business continue to operate at a reduced level due to COVID-19 related factors, such as social distancing? If so, has the business been operating at this reduced level of revenue and/or increased level of expenses long enough to establish income stability and is this documented with more recent business bank statements evidencing this revenue flow or other equivalent information?
 - Is there a demand for the product or service currently offered by the business?
 - Is the business continuing to operate in the current location or an alternate location suitable for business operations?
 - Is the impact to the business operations negligible due to the nature of the business?

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- Does the business currently have documented liquid assets or access to capital for operating expenses that support the financial ability of the business to operate given current market and economic conditions? Are those assets comprised of or supplemented by loan proceeds from Small Business Administration (SBA) Paycheck Protection Program (PPP), Emergency Economic Injury Grant, Small Business Debt Relief Program, or any other similar COVID-19 related program?
- Is the business part of an industry that is experiencing increasingly negative pandemic-related impacts?

Resources, include but are not limited to:

- Reputable news sources and economic forecasts related to the business industry and pandemic progression
- Whether the business type is in what is considered a high contact-intensive industry and if the higher risk of exposure to COVID-19 may present an impact to the potential for income stability and/or continuance until the medical issues surrounding the pandemic are closer to being resolved, and whether or not there are State or local orders that temporarily restrict the business operation.

Establishing Monthly Income and Stability

- Establish current level of stable monthly income from provided documentation
- Compare the following using a Cash Flow Analysis
 - 2018 tax return to 2019 tax return to 2020 YTD P&L net business income, as applicable, or
 - 2019 tax return and 2020 YTD P&L net business income
- When net business income is impacted and the P&L is insufficient to determine the income is stable at a reduced level, obtain additional documentation to supplement the P&L to make the determination.

Income Level Not Changed or Has Increased

- Cash Flow Analysis determined that the business income has not declined or is increasing
 - Use income from Cash Flow Analysis based on tax returns
 - YTD P&L and balance sheet cannot be used to support a higher level of income than the amount on the Cash Flow Analysis

Income Level Declined

- Cash Flow Analysis determined that the business income has declined
 - Determine if the income has stabilized



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- Obtain additional documentation to support YTD P&L to determine stability, as necessary
- If the income has stabilized
 - Use no more than the current level of stable monthly income from the YTD P&L, bank statements, and applicable documentation
 - Adjustments (e.g., depreciation, etc.) may be made per standard guidelines
- If the income declined and has not stabilized, the income is ineligible for qualifying

Business Assets

Loan proceeds from SBA PPP or other similar COVID-19 related programs are not considered business assets for the purposes of eligible funds to qualify, including funds for down payment, closing costs and reserves.