



## Important Announcement

1/13/2021

This announcement includes notices regarding updates for Flanagan State Bank's Retail & TPO Division

**This will reference:**

Self-Employment Guidelines with COVID-19  
Forbearance  
Upcoming Holidays  
USDA Lock Terms

**Self-Employment Guidelines with COVID-19**

This section clarifies expectations of self-employment income for qualifying income purposes. This will be applicable to Fannie & Freddie loans. This information does not negate previously published requirements for self-employed borrowers.

This guidance will give a step-by-step outline of what is needed for underwriting to determine if self-employment for the applicant is acceptable and shows stability and continuation.

- 1) Provide all self-employment tax returns to underwriting.
  - a. This will include the most recent 2 years of personal tax returns (Federal Only and all schedules should be included). If the AUS specifically states the borrower may provide only 1 year of returns, then only one year should be uploaded to the file. If 2 years of returns are presented to underwriting, the underwriter will fully review these and use them for qualification purposes.
  - b. In addition, the Schedule E (if applicable) should be reviewed to determine if business returns are needed. 2 years business returns must be provided if the borrower receives a K-1 with ownership of 25% or greater on any business.
  - c. K-1's must always be provided if showing on the Sch E.
  - d. Corporate returns will be required if dividends from the company are used for qualifying income.
- 2) YTD Profit & Loss is required for all self-employed borrowers and companies.
  - a. P&L must include the months since the last tax return. For example, if a loan is submitted in January 2021 and the most recent return is from 2019, a YTD P&L is required from January 2020 – December 2020 and a P&L for January 2021. If tax

- returns are provided for 2020, then a P&L will be needed for January 2021 – the most recent month. The P&L must be dated and prepared within 30 days of closing.
- b. P&L's must be signed and dated by the preparer. These can be self prepared, but should be presented in a standard format. A sample P&L can be found on our website at [www.fsbtpo.com](http://www.fsbtpo.com) or [www.myfsbretail.com](http://www.myfsbretail.com) for our Retail LO's.
- 3) Per the COVID guidelines now in place for secondary market loans and MI, we will be requiring 3 worksheets to be completed. These worksheets may require additional supporting documentation to confirm stability and continuation of income.
- a. Sam Worksheet – this will be the main worksheet to calculate qualifying income.
  - b. P&L Income Worksheet – this is a summary of the P&L information and will be used to complete the 3<sup>rd</sup> worksheet, as well
  - c. Stability Income Review Worksheet – will use the information from the other worksheets and other supporting information
    - i. The borrower should answer the questions either in an LOX or verbally to the LO and the LO complete on the worksheet
    - ii. These questions are advised by Fannie and Freddie to ask and help us support variances in the other documentation
    - iii. The bank statement information will be completed using the bank statements that match up to the profit and loss which should be the 3 months prior to the application date AND no less than 60 days old at the time of the note date
- 4) Please be upfront with your borrower that self-employment income may need to be updated through the process.
- 5) Unaudited P&L's will require business asset statements to be provided as supporting documentation. It is recommended to get this information as early in the process as possible.
- a. Business assets are needed for cash flow review and to confirm continuation of income
  - b. As with all assets, recent statements are important to reviewing accurate information. 3 months statements will be the requirement and provide adequate information on the continuation and stability of the income. If the loan crosses over to the next month, prepare borrowers for the need to provide additional statements to keep the information current.
- 6) IF all three worksheets support the same general income, no further documentation will be required
- 7) Letters of explanation will be helpful to explain information, large deposits, etc.
- 8) Rental Income will require copies of current leases and proof of most recent lease payment being received to utilize the income

Mortgage Support will assist in the completion of the worksheets and will start asking for the supporting information to do so. If you would like Mortgage Support to complete the self-employment income analysis, please supply as much of the information as possible for an accurate assessment. We will still complete a review based on tax returns but, we will also be able to take these additional steps to help you with the new worksheets and analysis of the information.

### **Forbearance**

This is a confirmation that Flanagan State Bank will not complete a refinance loan when the borrower is currently in a Forbearance situation on their current mortgage loan. In order for us to proceed with a loan for an applicant, the borrower must bring the loan current, paying all outstanding payments and have the loan removed from forbearance to proceed with a refinance. Documentation for the file must support this information.

If you have a borrower you feel should be able to roll in the outstanding payments with the new loan, you must obtain management exception PRIOR to submission to underwriting. The agencies have specific guidelines and overlays that must be followed for borrowers currently in forbearance. Retail Loan Officers would contact their Regional Sales Manager and TPO accounts would contact their Account Executives.

### **Upcoming Holidays**

These holidays will affect TRID and Rescission dates. Flanagan State Bank is closed on these dates.

January 18<sup>th</sup> – Martin Luther King, Jr Day

February 15<sup>th</sup> – President's Day/Washington's Birthday

### **USDA Lock Terms**

Due to USDA turn times, we are asking that USDA locks are made using 30 day lock periods or greater until the USDA turn times improve.

If you have any questions regarding this information, please feel free to contact [mtgsupportcenter@flanagansatebank.com](mailto:mtgsupportcenter@flanagansatebank.com).

Sincerely,

Flanagan State Bank Mortgage Division Management