

KHC COVID-19 Income/Employment Policy

FHA

[Mortgagee Letter 2020-28](#)

This Mortgagee Letter announces a re-extension of the effective date of [Mortgagee Letter 2020-05](#), published on March 27, 2020.

Effective Date - The extension of re-verification of employment guidance in [Mortgagee Letter 2020-05](#) is effective immediately for cases closed on or before October 31, 2020.

Mortgagees do not need to provide a re-verification of employment within 10 days of the Note date as described in Handbook 4000.1, Sections II.A.4.c.ii(C)(1)-(2) and II.A.5.b.ii(C)(1)-(2) Traditional and Alternative Current Employment Documentations, provided that the Mortgagee is not aware of any loss of employment by the borrower and has obtained:

- For forward purchase transactions, evidence the Borrower has a minimum of 2 months of Principal, Interest, Taxes and Insurance (PITI) in reserves; and
- A year-to-date paystub or direct electronic verification of income for the pay period that immediately precedes the Note date, or
- A bank statement showing direct deposit from the Borrower's employment for the pay period that immediately precedes the Note date.

[Mortgagee Letter 2020-24](#)

The verification of business operations for self-employed borrowers and the Rental Income guidance in this ML is effective for case numbers assigned on or after August 12, 2020 through November 30, 2020. This effective date supersedes the effective date announced in Mortgagee Letter 2020-23.

[Mortgagee Letter 2020-23](#)

The verification of business operations for self-employed borrowers and Rental Income guidance in this ML is effective for cases with Note Dates on or after July 28, 2020 through November 30, 2020.

Verification of Self-Employment

When self-employment income is used to qualify a Borrower, the Mortgagee must verify and document that the income is stable and will continue. Due to COVID-19 the Mortgagee must verify the existence of the borrower's business within 10 calendar days prior to the date of the Note to confirm the business is open and operating.

The Mortgagee may obtain one of the following:

- Evidence of current work(executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- Evidence of current business receipts within 10 days of the note date (payment for services performed);

- Lender certification that the business is open and operating (lender confirmed through a phone call or other means); or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled)

Rental Income

When a borrower is qualifying utilizing rental income, for each property generating rental income the Mortgagee must either:

- Reduce the effective income associated with the calculation of rental income by 25%, or
- Verify 6 months PITI reserves (this option is applicable to Forward only), or
- Verify the borrower has received the previous 2 months rental payments as evidenced by the borrower's bank statements showing the deposit. (This option is applicable only for borrower with a history of rental income.)

RHS

[Rural Housing Services \(RHS\)](#)

Effective Date - The temporary exceptions originally issued on March 27, 2020 due to the COVID-19 pandemic have been extended until November 30, 2020.

Lenders must document and verify the borrowers annual and repayment income in accordance with Agency regulations.

1. Lenders should use due diligence in obtaining the most recent income documentation to reverify the borrowers repayment ability prior to closing.
2. When the lender is unable to obtain a Verbal Verification of Employment (VVOE) within 10 business days of loan closing due to a temporary closure of the borrower's employment, alternatives should be explored.
 - a. For example, email correspondence with the borrower's employer is an acceptable alternative to a VVOE.
 - b. If the lender is unable to obtain a VVOE or acceptable alternative, the requirement will be waived when the borrower has a minimum of 2 months cash reserves.

In the case of a reduction of income, the borrower's reduced income must be sufficient to support the new loan payment and other non-housing obligations. Borrower's with no income at the time of closing are not eligible for SFHGLP loans regardless of available cash reserves.

VA

[VA Circular 26-20-10](#)

Effective Date - The policies outlined in this circular are effective for all loans closed on, or after the date of this circular and until further notice or rescission date of April 1, 2021.

Income Verification Guidelines

Lenders should continue to use good judgment and flexibility when verifying stable and reliable income. Lenders should make every effort to satisfy VA's longstanding requirements concerning Verification of Employment (VOE) as outlined in the [VA Pamphlet 26-7, Chapter 4 Credit Underwriting](#).

If their Propriety method is impacted due to temporary business closures, the lender should use the guidelines listed below:

1. The lender may utilize employment and income verification third-party services. The fee may not be passed on the veteran.
2. If the lender is not able to utilize a third-party service to verify employment and income, a VOE with evidence of direct deposit from a bank statement and paystubs covering a at least one full month of employment within 30 days of the closing date. Lenders should reconcile payment amounts between the paystubs and direct deposit listed on the bank statement.
3. If the required VOE documentation cannot be obtained by evidence of bank statement and paystubs, **and the borrowers have cash reserves totaling at least 2 months mortgage payments (PITI) post-closing, the loan is eligible for guaranty.** The lender's effort to obtain the VOE must be documented in the Correspondence section of WebLGY. b. In the event lenders utilize option (2) or (3) as verification, they must document in box 47 of the remarks section on VA Form 26-6393, Loan Analysis, the option they selected and the supporting documentation.

Underwriting Loans. For income analysis purposes, as outlined in VA Pamphlet 26-7, Chapter 4 Credit Underwriting, VA guidelines generally require income to be stable and reliable for 2 years. a. If the applicant was impacted by COVID-19 (i.e. furlough, curtailment of income, etc.), that period should not be considered a break in employment or income provided they have returned, or are anticipated to return, to work in the same capacity and income levels. In addition to standard verification documentation, applicants should provide furlough letters where applicable.

Fannie Mae

[Fannie Mae Lender Letter \(LL-2020-03\)](#)

Effective Date: These temporary flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before September 30, 2020.

1. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of the VVOE.
2. Lender may obtain a YTD paystub from the pay period that immediately precedes the note date.
3. Lender can provide bank statements (or other alternative documentation as permitted by selling guide B3-4.2.01) evidencing the payroll deposit from the pay period that immediately precedes the note date.

Pay Stubs

- Current agency requirement states that a pay stub be dated no earlier than 30 days prior to the initial loan application date.
- Additionally, lenders must obtain the most current pay stub that reflects year-to-date earnings.
- Pay stubs must reflect no disruption of income.

Verification of Self-Employment

Effective Date: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

When self-employment income is used to qualify, the lender must verify the existence of the borrower's business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower's business is open and operating. **The lender must confirm this within 20 business days of the note date (or after closing but prior to delivery).**

- a. Evidence of current work
- b. Evidence of current business receipts within 20 business days of note date.
- c. Lender certification the business is open and operating (lender confirmed through phone call or other means); or
- d. Business website demonstrating activity supporting current business operations

Market-Based Assets

Effective Date: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

Stocks, Stock Option, and Mutual Funds

In light of current market volatility, we are making the following updates when the borrower is using stocks, stock options, or mutual funds for assets:

- When used for down payment or closing costs, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented in all cases.
- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

See [B3-4.3-01](#), Stocks, Stock Options, Bonds and Mutual Funds for our existing requirements.

Age of Documentation

Effective Date: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.

- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the Selling Guide.
- Due to the federal income tax filing extension granted through Jul. 15, 2020, we are eliminating the following documentation requirements. These normally apply for income types that require copies of federal income tax returns when the mortgage has an application or disbursement date between Apr. 15th and Jul. 15th:
 - a copy of the IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Tax Return), and
 - IRS Form 4506-T (Request for Transcript of Tax Return) transcript confirming “No Transcript Available” for the 2019 tax year.

Requirement for Borrowers Using Self-Employment Income to Qualify

Effective Date - Lenders are encouraged to apply these requirements to existing loans in process; however, they must be applied to loans with application dates on or after Jun. 11, 2020 until further notice.

Income Analysis

Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, the lender is required to determine if the borrower’s income is stable and has a reasonable expectation of continuance. Due to the pandemic’s continuing impact on businesses throughout the country, lenders are now required to obtain the following additional documentation to support the decision that the self-employment income meets our requirements:

- an audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; or
- an unaudited year-to-date profit and loss statement signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and two business depository account(s) statements no older than the latest two months represented on the year-to-date profit and loss statement.

All other requirements contained in [B1-1-03](#), Allowable Age of Credit Documents and Federal Income Tax Returns, continue to apply.