



TO: Freddie Mac Sellers

October 27, 2016 | 2016-19

SUBJECT: REVISIONS TO INCOME QUALIFICATION REQUIREMENTS

This Guide Bulletin announces revisions to our income qualification requirements and guidance, effective for Mortgages with Settlement Dates on and after March 6, 2017.

The revisions provide more comprehensive requirements and guidance with a focus on matters that impact the analysis of stable monthly income such as:

- Industry employment trends (e.g., employment characteristics)
- Determination of stability and calculation of fluctuating earnings
- Self-employment

Freddie Mac considered Seller inquiries and feedback, broad industry practices and internal review and analysis in developing these updated requirements which will provide greater purchase certainty for our Sellers.

We are updating Guide Chapters 5301, 5302, 5303, 5304, 5305 and 5307, and improving the format through the use of charts, as appropriate. Rental income requirements will be addressed in a future Guide Bulletin.

The following information includes highlights of the changes in each chapter. Additional details are available in [Attachment A](#) of this Bulletin, *Detailed Summary of Income Qualification Requirements Updates*.

CHAPTER 5301, GENERAL REQUIREMENTS FOR ALL STABLE MONTHLY INCOME AND ASSET QUALIFICATION SOURCES

Chapter 5301 is being updated to provide more details on Freddie Mac's expectation for Seller's income analysis (e.g., history and continuance), verification, calculation and determination of the stable monthly income qualification amount.

The content of existing Guide Section 5301.1 is split into Section 5301.1 and new Sections 5301.2 and 5301.3.

Guide impact: Chapter 5301

CHAPTER 5302, GENERAL REQUIREMENTS FOR DOCUMENTATION USED TO VERIFY EMPLOYMENT AND INCOME

The revisions to the requirements and guidance in Chapter 5302 include:

- **Signed tax returns** – Adding alternatives for the Borrower's signature on tax returns (e.g., signed Internal Revenue Service (IRS) Form 8879 evidencing electronic filing)
- **IRS transcripts** – Adding guidance for the use of IRS transcripts
- **Unreimbursed employee expenses** – Adding flexibility by specifying that business expenses must be deducted from the income only when the expenses are associated with commissions greater than or equal to 25% of the income from the commissioned employment
- **Verbal verification of employment (VOE)** – Updating verbal VOE requirements to remove verification of the Borrower's position and length of employment

The contents of Section 5302.3 are moving to Section 5302.2 and the contents of Section 5302.4 are moving to Section 5302.3.

Guide impact: Chapter 5302

CHAPTER 5303, *EMPLOYED INCOME*

Income commencing after the Note Date

We are introducing requirements in Section 5303.2(e) that permit income from primary employment that commences no more than 60 days after the Note Date for Borrowers with base non-fluctuating salaried earnings.

Employment characteristics

To support the income analysis, new content in Section 5303.2(d) focuses on requirements and/or guidance for certain employment characteristics. Examples of the employment characteristics include:

- Full-time and part-time employment
- Union members
- Educational employment contracts
- Temporary help services employment
- Income reported on IRS Form 1099
- Employed income from a foreign source

Earnings types requirements

We are adding requirements delineating base non-fluctuating and fluctuating hourly earnings to support the analysis of income stability and calculation.

Additional employed income

We are specifying requirements for commission income that represents less than 25% of the income from the commissioned employment (e.g., tax returns are not required and unreimbursed employee business expenses do not have to be deducted from the income).

Income calculation

To support accurate analysis and calculations, we are updating our employed income calculation guidance and requirements for base non-fluctuating and fluctuating employment earnings.

Streamlined Accept and Standard Documentation Levels

For purposes of the revised income requirements, Streamlined Accept and Standard Documentation Levels will be equivalent for all income types.

Guide impact: Chapter 5303

CHAPTER 5304, *SELF-EMPLOYED INCOME*

We are revising and reformatting the requirements and guidance in Chapter 5304 to support the analysis and determination of self-employed income. Key changes include:

- **Loan Product AdvisorSM** – Revising the requirement regarding when to identify that a Borrower is self-employed
- **Business financial statements** – Adding guidance for use of business financial statements as additional support for business and income analysis
- **Rental real estate held in a Partnership and S corporation** – Updating Section 5304.1(d) to align with Form 91; specifying that the rental real estate income and expenses reported on IRS Form 8825 may be treated as business income (or loss)

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- **Verification of current existence of the business** – When third-party sources are not available, we are adding alternative methods to establish existence of the business
 - **Documentation requirements** – The number of years of required tax returns will be based on the number of years the business has been in existence
 - For businesses operating for five or more years, one year of business and personal returns will be required
 - For businesses operating for less than five years, two years of business and personal returns will be required

Guide impact: Chapter 5304

CHAPTER 5305, OTHER INCOME

The specific requirements for other income types are being reformatted for ease of use. Updates are being made to certain income types to provide more specific guidance, additional documentation alternatives and broader subject coverage.

Guide impact: Chapter 5305

CHAPTER 5307, ASSET QUALIFICATION SOURCES

We are updating our requirements for assets as a basis for Mortgage qualification as follows:

- Increasing the maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio from 70% to 80%
- Permitting Mortgages secured by 2-unit Primary Residences

Guide impact: Chapter 5307

SYSTEM UPDATES

The existing feedback messages for Loan Product Advisor will be updated by February 6, 2017 to support the revisions being made with this Bulletin.

ADDITIONAL RESOURCES

To help Sellers understand the revisions announced in this Bulletin, Sellers are encouraged to visit the [Freddie Mac Learning Center](#) to:

- Register for the new “[Guide Bulletin 2016-19 Revised Income Requirements](#)” webinar
- Review our [Revisions to Income Qualification Requirements job aid](#) which shows an outline of the structural revisions and movement within Topic 5300

Additionally, Sellers can view our short video on the [Freddie Mac Guide and Forms web page](#) which gives an overview of the updates to our income qualification requirements.

ADDITIONAL GUIDE UPDATES

The revisions also impact the following:


- Sections 4302.2, 4303.3 and 5102.4
- Form 90

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2016-19 (Selling) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1619_spreadsheet.xls.

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call Customer Support at (800) FREDDIE.

Sincerely,

A handwritten signature in cursive script that reads "Christina K. Boyle". The signature is written in dark ink and is positioned above the typed name.

Christina K. Boyle
Senior Vice President
Single-Family Sales and Relationship Management



Attachment A to Bulletin 2016-19

Detailed Summary of Income Qualification Requirements Updates

For a detailed explanation of all changes made with Bulletin 2016-19, please review the following tables:

- [Chapter 5301, General Requirements for All Stable Monthly Income and Asset Qualification Sources](#)
- [Chapter 5302, General Requirements for Documentation Used to Verify Employment and Income](#)
- [Chapter 5303, Employed Income](#)
- [Chapter 5304, Self-Employed Income](#)
- [Chapter 5305, Other Income](#)
- [Chapter 5307, Asset Qualification Sources](#)

CHAPTER 5301, GENERAL REQUIREMENTS FOR ALL STABLE MONTHLY INCOME AND ASSET QUALIFICATION SOURCES

General requirements for all stable monthly income and asset qualification sources		
Guide reference	Subject	Update
5301	Chapter 5301	<ul style="list-style-type: none"> • Providing more detail on Freddie Mac's expectation of the Seller's income analysis • Dividing Guide Chapter 5301 into three sections and reformatting each section for specificity
5301.1(a)	Overview: Analysis of stable monthly income amount	Adding an overview of Topic 5300
5301.1(b)	General requirements for all stable monthly income	Consolidating existing requirements in Sections 5301.1(a) and (b) and renaming the section
5301.1(c)	Income stability and history requirements	<p>Expanding guidance for the determination of income stability and history requirements.</p> <p>Emphasizing the analysis of the historical and future income characteristics, for example whether the amount of monthly income:</p> <ul style="list-style-type: none"> • Is a pre-determined fixed amount with guaranteed continued or probable continued receipt, and • Whether and to what degree the income amount may fluctuate

General requirements for all stable monthly income and asset qualification sources		
Guide reference	Subject	Update
5301.1(d)	Continuance	Adding charts to categorize existing income continuance requirements as: <ul style="list-style-type: none"> Income and earnings types typically without documentable continuance (likely to continue) Income types with documentable continuance Income types that may or may not have documentable continuance, depending upon the source (e.g., government program, private insurer) of the specific income type (e.g., retirement, long-term disability)
5301.2	General requirements for all stable monthly asset qualification sources	Combining existing requirements into this new section for ease of reference
5301.3	Note Date references	Placing existing text relating to Note Date references into this new section for ease of use

CHAPTER 5302, GENERAL REQUIREMENTS FOR DOCUMENTATION USED TO VERIFY EMPLOYMENT AND INCOME

General requirements for documentation used to verify employment and income		
Guide reference	Subject	Update
5302	Chapter 5302	Updating documentation requirements and guidance
5302.1	Introduction to documentation requirements	As a result of revisions to documentation requirements, Streamlined Accept and Standard Documentation Levels will be equivalent for all income types. We are removing the references to Streamlined Accept and Standard Documentation Levels in this section.
5302.2	Employed income documentation verification requirements	Restructuring Section 5302.2(a) through (d) to include only documentation that relates to employed income
5302.2(a)	YTD paystubs	Updating requirements and guidance for year-to-date (YTD) paystubs, for example: <ul style="list-style-type: none"> Removing the requirement that hand-written paystubs are not permitted and adding guidance for paystubs with less than the required information

General requirements for documentation used to verify employment and income

Guide reference	Subject	Update
5302.2(b)	W-2 forms	Adding year-end paystubs and W-2 transcripts as alternative documentation for W-2 forms
5302.2(c)	Written VOE requirements	<p>Adding requirements regarding the information that must be included in a written verification of employment (VOE)</p> <ul style="list-style-type: none"> • If the employer provides additional information, such as the probability of continued employment and/or income and comments, the Seller must consider the information with the income and employment analysis
5302.2(d)	10-day pre-closing verification (10-day PCV)	<ul style="list-style-type: none"> • Consolidating all requirements related to verifying the Borrower's employment 10 days prior to closing • Changing references from "Verbal VOE" to "10-day pre-closing verification (10-day PCV)" • Updating requirements for verbal VOEs to remove verification of the Borrower's position and length of employment
5302.3	Third-party verification service providers: employment and income verifications	Adding requirements for determining the date used for compliance with age of documentation requirements
5302.4(a)	Tax return requirements	Adding alternatives for the Borrower's signature on tax returns (e.g., signed IRS Form 8879 evidencing electronic filing)
5302.4(b)	IRS tax transcripts	Adding guidance for the use of IRS tax transcripts
5302.4(c)	When tax returns are required	Updating the existing list of income types that require tax returns
5302.4(d)	Unreimbursed employee expenses reported on tax returns	Specifying that business expenses must be deducted from the income only when the expenses are associated with commissions greater than or equal to 25% of the income from the commissioned employment

CHAPTER 5303, EMPLOYED INCOME

Section 5303.2, *Primary and secondary employment and income*

Primary and secondary employment and income		
Guide reference	Subject	Update
5303.2(a)	Employment history requirements – primary and secondary employment	<ul style="list-style-type: none">• Adding specificity for employment and income history requirements by moving existing requirements into specific sections for primary and secondary employment• Updating guidance for making the determination to justify less than a two-year employment and/or income history by adding examples of instances where a history of less than two years may be acceptable
5303.2(b)	Earnings type requirements and guidance	<ul style="list-style-type: none">• Adding requirements delineating base non-fluctuating and fluctuating hourly earnings to support analysis of income stability and accurate income calculation.<ul style="list-style-type: none">➤ Base non-fluctuating earnings – For the purposes of determining stable monthly income, base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period. Base non-fluctuating earnings may include both exempt (salaried) and non-exempt earnings; however, the pay rate and number of hours worked must not fluctuate between pay periods.➤ Fluctuating hourly earnings – For the purposes of determining stable monthly income, fluctuating hourly employment earnings are considered to be employment earnings with hours that may fluctuate each week or pay period. The hours are not pre-determined; however, the employer and the Borrower may have a general expectation of weekly hours. The hourly pay rate is a pre-determined and agreed upon fixed amount.

Primary and secondary employment and income

Guide reference	Subject	Update
5303.2(c)	Documentation requirements	<ul style="list-style-type: none"> • Restructuring documentation requirements by earnings types <ul style="list-style-type: none"> ➤ Primary employment earnings: <ul style="list-style-type: none"> • Base non-fluctuating earnings • Fluctuating hourly earnings • Military base (basic) pay ➤ Secondary employment earnings: <ul style="list-style-type: none"> • Base non-fluctuating earnings and • Fluctuating hourly earnings • For primary employment (including military base (basic) pay), reducing the W-2 requirements from two years to one year • As a result of the W-2 update noted above, Streamlined Accept and Standard Documentation Levels will be equivalent for all income types • Relocating military base (basic) pay for active-duty military from additional employed income types to this subsection • Revising YTD paystub references, as follows: <ul style="list-style-type: none"> ➤ From: YTD paystub or salary voucher documenting at least 30 days of income ➤ To: YTD paystub(s) documenting all YTD earnings
Employment characteristics		
5303.2(d)	Introducing new requirements and guidance for employment type characteristics, some of which may be more prevalent in today's labor force but were not specifically addressed previously. The focus is on employment characteristics rather than income type.	
	Seasonal employment	Updating the documentation requirements for seasonal employment
	Union members	Adding guidance with respect to certain union members that may work in industries where they may switch employers frequently and the union facilitates the next position, as follows: <ul style="list-style-type: none"> • Adding guidance for multiple YTD paystubs and W-2s • Adding guidance for obtaining the 10-day PCV when the Borrower is between jobs

Primary and secondary employment and income

Guide reference	Subject	Update
	Borrower employed by a family member or by the property seller, real estate broker or other interested party to the transaction	<p>Updating our requirements and guidance, as follows:</p> <ul style="list-style-type: none"> • Reducing the tax return documentation requirement from two years to one year since the purpose of this requirement is for validation of income based on the non-arm's-length nature of the employment, not the income type • Deleting the remaining documentation requirements specific to this subject. Sellers must refer to the applicable income type to determine the documentation requirements. • Revising the requirements to add "other interested parties to the transaction" (i.e., the requirements apply to all interested parties not only to those listed)
	Employed income from a foreign source	<p>Adding specific requirements for employed income received from foreign sources, as follows:</p> <ul style="list-style-type: none"> • Complete U.S. federal individual income tax return for the most recent year • The requirements for the specific income type (e.g., base non-fluctuating employed earnings, bonus) continue to apply
	Employment contracts	Adding requirements and guidance for employment contracts
	Temporary help services employment	Adding guidance and requirements with respect to income received from employment with temporary help services
	Income from employers reported on IRS Form 1099	Adding guidance and updating documentation requirements for Borrowers receiving income for services performed that are reported on IRS Form 1099
5303.2(e)	Income Commencing After the Note Date	Adding requirements to permit income from primary employment that commences no more than 60 days after the Note Date

Section 5303.3, *Additional employed income*

Additional employed income		
Guide reference	Subject	Update
5303.3	History and Stability	<p>Enhancing specificity for existing income history and stability requirements as follows:</p> <ul style="list-style-type: none"> • Expanding guidance to address income history less than two years • Adding a requirement that income history may not be less than 12 months <p>Refer to income calculations in Section 5303.4 for additional information.</p>
	Earnings type characteristics	Adding descriptions of fixed earnings and fluctuating earnings
	Income type chart – Format enhancement	<p>Simplifying the format for the majority of additional employed income types to delineate the following:</p> <ul style="list-style-type: none"> • History of receipt • Continuance • Calculation requirements • Revising YTD paystub references, as follows: <ul style="list-style-type: none"> ➤ From: YTD paystub or salary voucher documenting at least 30 days of income ➤ To: YTD paystub(s) documenting all YTD earnings
	Commissions less than 25%	<ul style="list-style-type: none"> • Adding requirements that apply to commission income that represents less than 25% of the income from the commissioned employment • Tax returns will not be required and unreimbursed employee business expenses will not have to be deducted from the income
	Commissions greater than or equal to 25%	Specifying that existing requirements only apply to commission income that represents greater than or equal to 25% of the income from the commissioned employment
	Tip income – Cash and charge tips reported on IRS Form 4137	Adding requirements for cash and charge tip income not reported to the employer but reported on IRS Form 4137

Additional employed income		
Guide reference	Subject	Update
	Mortgage differential	<ul style="list-style-type: none"> Revising requirements to permit the “housing payment differential” payment from the employer to be considered as qualifying income. The current requirement is limited to “interest differential.” Specifying that monthly differential payments may not be used to offset the monthly housing payment amount
	Military entitlements	<ul style="list-style-type: none"> Separating military entitlements from military income for more comprehensive guidance Removing the Standard Documentation Level requirement, which reduces the W-2 requirement from two years to one year Moving option to use a Leave and Earnings Statement as the 10-day pre-closing verification (10-day PCV) to the newly created Section 5302.2(d) that combines all 10-day PCV related requirements.
	Military Reserve & National Guard	<ul style="list-style-type: none"> New income type category to separate income requirements for Military Reserve and National Guard from military income requirements Adding reference to the National Guard Removing the Standard Documentation Level requirement, which reduces the W-2 requirement from two years to one year Updating history requirement to one year (from none) to appropriately address fluctuating income calculation Moving option to use a Leave and Earnings Statement as the 10-day pre-closing verification (10-day PCV) to the newly created Section 5302.2(d) that combines all 10-day PCV related requirements.
	Unemployment income associated with seasonal employment	<ul style="list-style-type: none"> Separating seasonal employment requirements from unemployment income requirements since seasonal employment may or may not have unemployment income associated with it Replacing two-year tax return requirement with the IRS Form 1099-G (or equivalent), to cover two years of receipt <p>Note: Refer to Section 5303.2(d) for seasonal employment.</p>

Section 5303.4, *Employed income calculation guidance and requirements*

Employed income calculation guidance and requirements		
Guide reference	Subject	Update
5303.4(a)	Base non-fluctuating employment earnings	Updating section to pertain only to base non-fluctuating employment earnings
5303.4(b)	Fluctuating employment earnings	Adding requirements and guidance for the determination of stability and calculation of fluctuating earnings

CHAPTER 5304, *SELF-EMPLOYED INCOME*

Self-employed income		
Guide reference	Subject	Update
5304	Chapter 5304	Revising and reformatting the requirements and guidance to support the analysis and determination of self-employed income
5304.1(a)	Self-employed Borrower definition and verification of ownership interest percentage	Adding specificity for the documentation required (e.g., business returns, Schedule K-1, IRS Form 1125-E) to verify the ownership interest percentage for partnerships, S corporations and corporations
5304.1(b)	Loan Product AdvisorSM	Revising the requirement to identify self-employment in Loan Product Advisor to apply only when the self-employment income and/or loss is used to determine the Borrower's stable monthly income
5304.1(c)	Self-employment history requirements	<ul style="list-style-type: none"> • Restructuring self-employment history requirements for ease of use • Adding guidance for analyzing history that does not meet the two-year requirement

5304.1(d)	Business and income analysis	<ul style="list-style-type: none"> • Business and income analysis: Developing a new subsection blending existing and new information with respect to the high-level content of a business analysis. Including guidance for documentation that may be used to complete the analysis. Section overview as follows: <ul style="list-style-type: none"> ➤ Business review and analysis – revised to more comprehensively address factors such as business analysis based on gross receipts, cost of goods and expenses, liquidity, distributions, and additional documentation that may be obtained to support analysis (e.g., business bank statements and financial statements) ➤ Adding specificity for the permissible use of business income as stable monthly income based on whether the business income is reported on the Borrower's federal individual income tax returns ➤ Access to business income – Updating the requirements to define, by business structure, when verification of access to business income is required. For instance: <ul style="list-style-type: none"> • For ordinary income from partnerships and S corporations, the access to business income requirement (through a corporate resolution or comparable document) has been removed • For business income not reported on federal individual income tax returns, the requirement has been changed to confirm the corporate resolution or partnership agreement does not restrict access, rather than confirm access • Business financial statements <ul style="list-style-type: none"> ➤ Adding guidance for use of business financial statements as additional support for business and income analysis ➤ Financial statements may be used to help support the analysis of subjects such as business liquidity, income stability when tax returns are on extension, evaluating a newer business, and the impact of business fund withdrawals • Rental real estate income and expenses reported on IRS Form 8825: Adding content for rental real estate held in a partnership or S corporation to support the current treatment of this income as business income or loss in the income analysis section of Form 91
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5304.1(e)	Self-employment income not used for qualification	<ul style="list-style-type: none"> • Self-employment disclosed on Form 65, Uniform Residential Loan Application (or other documentation) but not used to qualify <ul style="list-style-type: none"> ➤ Updating requirements to state that if the Borrower qualifies with a reported loss, then no further analysis is needed. Sellers no longer need to obtain additional documentation to more fully evaluate the impact of the business loss. ➤ Reducing complete federal individual income tax return requirement to pages one and two and the applicable IRS schedule(s); adding examples to support evaluation of loss impacts ➤ Adding reference to IRS tax transcripts (Section 5302.4(b)) for alternative documentation possibilities • Positive income from self-employment that is not used to qualify: Additional information will not be required when documents such as IRS transcripts or Schedule K-1s show positive self-employment income but that income is not used to qualify
5304.1(f)	Business assets used for closing	Adding guidance for analysis when determining whether the use of business assets for closing will have a detrimental impact on the business (e.g., review of business financial statements and/or business bank statements to support business viability)
5304.1(g)	Verification of current existence of the business	<p>Updating requirements and providing more specificity as follows:</p> <ul style="list-style-type: none"> • Verification of current business existence will be required only when positive self-employment income is used to qualify rather than for all self-employment income or loss • Adding guidance for alternative methods, such as business bank statements, to establish existence of the business when third-party sources are not available • The date requirements for the verification to be completed are changing from no more than 30 days prior to the Note Date to no more than 120 days prior to the Note Date
5304.1(h)	Documentation requirements	<p>Updating the documentation requirements to base the number of years of tax returns required (business and personal) on the number of years the business has been in existence</p> <ul style="list-style-type: none"> • For businesses operating for five or more years, one year of business and personal returns will be required • For businesses operating for less than five years, two years of business and personal returns will be required

CHAPTER 5305, OTHER INCOME

Other income		
Guide reference	Subject	Update
5305	Chapter 5305	<p>Enhancing the format for the majority of other income types to delineate the following:</p> <ul style="list-style-type: none"> • History of receipt • Continuance • Calculation requirements
5305.2	Notes receivable	Specifying that the full scheduled payment amount documented on the Note may be used for qualification purposes
	Dividends and interest	Adding a documentation alternative of year-end bank statements for the most recent two years in lieu of tax returns
	Royalty payments	Revising requirements to be based on the length of history of receipt
	Trust income	Revising requirements to be based on whether the trust income payments are fluctuating historical payments or pre-determined fixed payments
	Retirement income	Adding a reference to specific requirements for retirement account distributions as income
	Alimony, child support and/or separate maintenance	Specifying that a legally binding separation agreement and/or final divorce decree is acceptable documentation
	Other income – foreign sources	<ul style="list-style-type: none"> • Adding specific requirements for other non-employment and non-self-employment income received from foreign sources. The requirements for the specific income type continue to apply. • Complete U.S. federal individual income tax return for the most recent year must be provided
	Tax-exempt income	<p>Revising text as follows:</p> <p>To determine the amount to adjust (i.e., “gross-up”) the Borrower’s income, use:</p> <ul style="list-style-type: none"> • 25% of the tax exempt portion of the income or • The current federal and state income tax withholding tables

CHAPTER 5307, ASSET QUALIFICATION SOURCES

Asset qualification sources		
Guide reference	Subject	Update
5307.1(a)	Mortgage eligibility requirements	Permitting Mortgages secured by a 2-unit Primary Residence
	Maximum LTV/TLTV/HTLTV ratio	Increasing the maximum loan-to-value (LTV)/ total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio from 70% to 80%
5307.1(d)	Data delivery requirements	Adding a cross-reference to Section 6302.33 for current Uniform Loan Delivery Dataset delivery requirements