

Announcement #24-28

Date: March 21, 2024

Fannie Mae: Use of Business Income:

Pennymac is aligning with Fannie Mae's clarification of several income calculation and documentation requirements for borrowers using business income to qualify. These updates apply to self-employed borrowers and borrowers with less than a 25% interest in a business and are as follows:

Self Employed Borrowers:

- It is acceptable to use a method other than the Quick Ratio or Current Ratio, defined below, to confirm business liquidity, as applicable. When an alternative method is used, documented rationale must be provided.
 - Quick Ratio – assesses a company's ability to pay immediate short-term debts using its most liquid assets
 - Current Ratio – measures a company's ability to pay short-term debts using its short-term assets
- The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.

Borrowers With Less Than 25% Business Ownership:

- Income reported on Schedule K-1 can only be considered for qualifying if the lender verifies:
 - The income was actually distributed to the borrower consistent with the level of business income being used to qualify; or
 - The business has adequate liquidity to support the withdrawal of earnings.
- If business tax returns are provided, analysis of the business in accordance with self-employment requirements is not required, and only the borrower's proportionate share of business income as reflected on the Schedule K-1 may be used for qualification purposes.

Please refer to the Fannie Mae Selling Guide Sections shown below for complete details.

- B3-3.1-09, Other Sources of Income
- B3-3.3-07, Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1
- B3-3.4-01, Analyzing Partnership Returns for a Partnership or LLC
- B3-3.4-02, Analyzing Returns for an S Corporation for more information

Please contact your Sales Representative with any questions.