

Announcement #24-88

Date: September 25, 2024

Freddie Mac Selling Guide Bulletin 2024-10: Self-Employed Income and Non-Arm's Length Employment

Available immediately but required and effective for mortgages with note dates on or after November 8, 2024, the following income underwriting and documentation updates for self-employed income and non-arm's length employment are required:

Self-Employed Income

Self-employed history of less than two years:

- Lenders must consider and evaluate the borrower's experience in the business
- Borrowers must have a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry
- Qualifying income must be determined by using the lesser of the stable monthly income from the new business or the stable monthly income earned in the previous occupation
- Lenders must include a written analysis justifying the determination of stability of the income in the mortgage file
- Consider the overall layering of risk, including the borrower's demonstrated ability to repay obligations

Business structure changes:

- If the borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation):
 - Borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business
 - Lender must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location)
 - There must be no indication the change had a negative impact on business revenue or expenses
- Lenders must document their evaluation in the written income analysis.
- If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.

Employed Income: Non-Arm's Length Employment

- Due to the increased layering of risk inherent in non-arm's length employment, additional third-party validation supporting the current income level is necessary

- Permitting the use of the Internal Revenue Service (IRS) wage and income transcript for the most recent year in lieu of tax returns
- Documentation must validate the prior year earnings from current employment and support the current income level
- If the current income level is not supported, the lender may use the validated income amount from the prior year as qualifying income

Pennymac is aligning with these changes.

Refer to the Freddie Mac Selling Guide Bulletin 2024-10 and Selling Guide sections 5302.4, 5303.2, and 5304.1 for additional information and complete requirements.

Please contact your Sales Representative with any questions.