Freddie Mac Income and Employment Update Highlights		
Subject	Update	
Documentation Standards		
Documentation Type	Streamlined Accept and Standard Documentation Levels will be the same for all income types.	
	No Underwriting Guide impact. Guide does not outline Standard versus Streamlined documentation.	
YTD Paystubs 1600.3	Paystub must reflect current pay period earnings and year-to-date earnings.	
W O D	Removed requirement that the year-to-date earnings must cover the most recent 30-day period.	
W-2 Requirements I600.4	The following may be used in lieu of the W-2:  • Year end paystub or military LES provided it reflects complete income for previous calendar year  • W-2 transcripts provided it reflects complete income for previous calendar year	
Written Verification	All written WOEs must contain the following information:	
of Employment 1600.5	Year-to-date earnings     Most recent one or two-year's earnings	
Verbal Confirmation of Employment 1600.6	Removed requirement of verification of borrower's position and length of employment.      Added current employment status	
Verbal Confirmation of Self-Employment 1600.6	Verification of existence of business must be completed not more than 120 days prior to the Note Date (previously 30 days)	
Tax Returns	Acceptable alternative for borrower's signature on tax returns:  • Evidence the tax returns were filed electronically (e.g. signed Form 8879, IRS e-file Signature Authorization	
1000.7	or equivalent)  Tax transcripts that validate the information on the unsigned tax returns.	
Determining the	Tax returns required only when commission income is 25% or more of total income.	
Need for Tax Returns I601.C		
Income and Employment		
History of Receipt	Borrowers with less than two year history	
I602.A.1	For a borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence	
	For a borrower new to the workforce, provide documentation to support recent attendance at school or in a training program prior to their current employment	
	For a borrower who experienced recent employment gaps (e.g., 30 days), documentation is obtained from the borrower explaining the circumstances surrounding the gap(s)	
Second-Job Employment I602.C	A 12-24 month history acceptable with documentation and justification.	
Military Income 1602.E	Specified that a history of receipt of military income is not required for active duty, Reserves and National Guard personnel.	
Commission	Commission income may be eligible if less than 24 months but not less than 12 months.	
Income I603	<ul> <li>Tax returns required when commission income represents 25% or more of total annual income.</li> <li>Employee business expenses must be deducted from the borrower's income when commission income =&gt; 25% of borrower's total annual income:</li> </ul>	
Asset (Depletion) Used as Income I613.B	2 unit primary residence permitted     Max 80% LTV/CLTV/HCLTV	
Auto Allowance I613.C	Income and Debt Approach  Add full amount of allowance to borrower's monthly income  Add full amount of monthly auto expense in the monthly debt obligations	
Employed by a Relative or Any Interested Party to Transaction I613.G	Follow LPA documentation, and     Most recent year tax return	

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Employment Contract I613.H	<ul> <li>Follow standard documentation requirement</li> <li>Obtain documented two year history of income and employment in same or similar field if contract does not include a fixed income pay structure.</li> </ul>	
Foreign Income I613.I	<ul> <li>Follow standard documentation requirements, and</li> <li>Most recent year tax return</li> <li>Verbal confirmation of employment required</li> </ul>	
Income Reported on Form 1099 I613.M	Borrowers who do not report their Form 1099 income on Schedule C must provide all of the following:  Most recent two year's 1099s (all 1099s)  Most recent paystub(s) or earnings statement(s)  Most recent year's tax return  Any additional documentation necessary to support us of the income and its stability	
Royalty Payments I613.V	<ul> <li>&lt;2 year history of receipt:         <ul> <li>Most recent year's tax return</li> <li>Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income</li> <li>Confirm that income has been received for at least 12 months</li> <li>Must evidence continuance for a minimum three years</li> </ul> </li> <li>&gt;= 2 year history of receipt:         <ul> <li>Most recent two year's tax returns</li> </ul> </li> </ul>	
Seasonal Income I613.W	<ul> <li>Follow standard documentation requirements</li> <li>Proof of receipt of unemployment compensation for the most recent two years (IRS 1099-G(s) or equivalent.</li> <li>May not use unemployment if not received for two years.</li> </ul>	
Temporary Help Services I613.BB	Borrowers who work for a contract firm or temporary staffing firm may have stable income with all of the following:  • Follow standard documentation requirements per AUS  • Most recent two year's W-2s	
Trust Income I613.EE	<ul> <li>Fixed Payments</li> <li>Trust Agreement</li> <li>Bank statement to document current receipt</li> <li>Evidence of sufficient assets to support income</li> <li>A history of receipt is not required if the income will continue for at least three years</li> <li>Variable Payments</li> <li>Trust Agreement</li> <li>Most recent two year's tax returns</li> <li>Evidence of sufficient assets to support income</li> <li>A history of receipt for two years is required.</li> <li>Must continue for at least three years</li> </ul>	
Union Members I613.FF	The borrower does not have to be employed at closing if all of the following are met: Borrower is in between employers Borrower has had multiple employers during the past two years Employment is deemed stable Verbal confirmation of employment may be obtained through the union	
Self-Employment		
Length of Self- Employment I604.A	Self-employment less than two years but not more than one year may be considered stable with a written analysis justifying the determination of stability and supporting documentation. At a minimum:  • The most recent personal tax returns reflect a history of receipt of income at the same or greater level in the same or similar occupation.  • The income analysis considers the borrower's experience in the business.  • The income analysis considers the acceptance of the company's service or products in the marketplace.	
Documentation I604.B	Business in Existence >=5 Years  • Most recent year's tax returns and business tax returns  • Minimum 12 months of self-employment income reflected on tax return  Business in Existence <5 Years  • Most recent two year's tax returns and business tax returns  • Minimum 12 months of self-employment income reflected on tax return	

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Self-Employment Not Used to Qualify I604.C	<ul> <li>Page 1 and 2 of the personal income tax returns and the applicable schedules (e.g., Schedule C, Schedule E) must be provided to determine if there is a business loss that may have an impact on the stable monthly income.</li> <li>If a business loss is reported and the borrower qualifies with the loss, nothing additional required.</li> <li>If a business loss and the borrower does not qualify with the loss, a business and income analysis must be preformed to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. Additional documentation must be obtained to fully evaluate the loss and support the analysis.</li> <li>If the tax returns or other documentation (e.g., tax transcripts, additional Schedule K-1s) reflect positive income</li> </ul>	
	from self-employment but that income is not used to qualify, additional documentation (complete business or personal income tax returns) is not required.	
Income from Partnerships, LLCs, Estates and Trusts I607.E	Income may be used to qualify with documentation verifying that:  • The income was actually distributed to the borrower, or  • The business has positive earning trends and adequate liquidity to support the withdrawal of earnings. If Schedule K-1 supports this, no further documentation is required.	
	If the business income is not reported on the personal income tax returns, verify that that the borrowers has a legal right to the business income. These funds must not be encumbered, restricted or prevented by corporate resolution, partnership agreement or other comparable document (not required for ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnership or LLC).	
Analyzing Returns for an S- Corporation 6208.C	Business income from an S Corporation may be used to qualify with documentation verifying that:  • The income was actually distributed to the borrower, or  • The business has positive earning trends and adequate liquidity to support the withdrawal of earnings. If Schedule K-1 supports this, no further documentation is required.	
	If the business income is not reported on the personal income tax returns, verify that that the borrowers has a legal right to the business income. These funds must not be encumbered, restricted or prevented by corporate resolution, partnership agreement or other comparable document.	
Analyzing Returns for a Corporation I609.D	<ul> <li>Earnings may be used based on the borrower's percentage of ownership in the company.</li> <li>If the borrower holds 100% ownership interest, access to funds does not need to be documented.</li> <li>If the borrower holds less than 100% ownership interest, document that the borrower has a legal right to the funds and that those funds are not encumbered, restricted or prevented by corporate resolution, partnership agreement or other comparable document.</li> </ul>	
Rental Property Reported through a Partnership or an S- Corporation I612.d	All rental income reported on IRS Form 8825 for partnership and S corporations must be treated as self-employment income, regardless of whether the borrower is personally obligated on the note.  To include positive net rental income in the qualifying income, the guidelines for evaluating income received from a partnership or S-corporation must be applied:  If the business' overall financial position meets the standards, then income from the business may be used for loan qualification.  The proportionate share of the income is based on the borrower's percentage of capital ownership in the business.  Use Freddie Mac Form 91 Income Analysis for appropriate treatment and calculation of the borrower's	
	proportionate share of the net rental income or loss.	