Updated February 2022

Frequently Asked Questions: Mortgage Origination, Underwriting and Eligibility

Employed Income

10-Day Pre-Closing Verifications

Q1: [REVISED 09.01.21] If any information obtained during the 10-day pre-closing verification (PCV) process evidences reduced hours and/or pay due to the pandemic, what are the next steps?

With respect to any information indicating reduced hours or pay, sellers must comply with the requirements and guidance in Guide Topic 5300 related to income stability and calculation. For example, if the income is fluctuating hourly income and it is declining, the income must be calculated in accordance with Guide Section 5303.4(b), and the Seller must not include the previous higher levels of income in the calculation.

Q2: [05.05.20] The 10-day PCV verifies the borrower’s employment status as employed; however, I have other information that indicates the borrower may be furloughed or laid off. Is it acceptable to use the 10-day PCV as confirmation of the borrower’s employment status?

No, the Seller’s knowledge that the borrower may be furloughed or laid off contradicts a reasonable expectation of continuance and probability of consistent receipt of income. In this scenario the Seller must resolve the discrepancy, which may require updated income documentation, before proceeding with using the income for qualifying. It is also recommended that, if possible, the Seller ask the employer during employment verification whether the borrower’s employment status or income level has changed within the last 60 days, as it is possible that a 10-day PCV employment status may still indicate “employed” after the borrower is furloughed or laid off.

Employed Income & COVID-19 Related Temporary Business Closures, Layoffs and Furloughs

Q1: [REVISED 09.01.21] Given the continued impacts of the pandemic, is updated income documentation required prior to closing?

It is recommended that additional due diligence continues to be practiced which may include actions such as obtaining year-to-date (YTD) paystubs from the pay period that immediately precedes the note date even if the age of documentation requirements in Guide Section 5102.4 are met.

Q2: [05.05.20] The borrower works for a company that has publicly stated employees will continue to be paid through a certain date (e.g., 3 weeks out); however, the employers physical place of business is temporarily closed. Is it acceptable to use the income to qualify the borrower?

No, the Guide requirements for income continuance are not met. As of this writing, the economic effect of COVID-19 to the ability of certain employers to re-open are unknown. This impacts a reasonable expectation of income continuance, regardless of the planned temporary closure status.

Q3: [07.01.20] What additional analysis and/or documentation is needed to support a reasonable expectation of continuance during the uncertain economic conditions created by the pandemic?

Knowledge of the economic conditions created by the pandemic does not contradict a reasonable expectation of continuance, absent specific knowledge, information or documentation specific to the continuance of the borrower’s employment and/or income, such as a pending state or local order to restrict or shut-down the employer’s business.

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**Q4: [REVISED 05.05.20]** Are borrowers who are temporarily furloughed or laid off due to the COVID-19 pandemic, with an expected return to work date, eligible to be underwritten using the requirements for Income while on temporary leave?

The requirements for Income while on temporary leave do not extend to employer-initiated actions, such as furloughs and layoffs regardless of whether there is an expected return to work date.

**Fluctuating Employment Earnings**

**Q1: [REVISED 09.01.21]** What additional analysis and/or documentation is needed to support the determination of stable and consistent monthly income in scenarios where the borrower has returned to work but the employed income level has declined over 10% from 2019 due to economic conditions created by the pandemic (e.g., mandated employer shut downs or business restrictions)?

If the seller determines that the income interruption (e.g., reduced, discontinued) occurred solely due to the economic conditions created by the pandemic, and it is documented that the borrower is back at work, no additional analysis, documentation or requirements to determine the current level of income has stabilized are required. The Seller’s written analysis should include this determination.

**Q2: [07.01.20]** What additional analysis and/or documentation is needed to support a reasonable expectation of continuance during the uncertain economic conditions created by the pandemic?

Knowledge of the economic conditions created by the pandemic does not contradict a reasonable expectation of continuance, absent specific knowledge, information or documentation specific to the continuance of the borrower’s employment and/or income, such as a pending state or local order to restrict or shut-down the employer’s business.

**Q3: [07.01.20]** Is there a minimum length of time the borrower must be back at work and earning a certain level of earnings to support that the current income has stabilized when the borrower’s employed income was interrupted (e.g., reduced, discontinued) due to COVID-19 pandemic?

If the seller determines that the income interruption occurred solely due to the pandemic and it is documented that the borrower is once again actively employed, and the income meets all other applicable Guide requirements (e.g., history, documentation), the borrower is not required to be back at work for a minimum specified period of time and the seller is not expected to request additional documentation from the borrower.

**Q4: [07.01.20]** Is it acceptable to use only the year-to-date earnings to calculate qualifying fluctuating income when the income trend is increasing?

No; according to Guide Section 5303.4(b), if the income is consistent or the trend is increasing, the Seller must average the most recent year(s) and YTD income over the applicable number of months documented.

**Q5: [07.01.20]** When the income trend is declining (i.e. the borrower’s YTD income is lower than the prior year W-2 income), is it acceptable to calculate the income by averaging YTD income and income from the prior year(s)?

No; when the income trend is declining, the seller must use the YTD income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the borrower from working or earning full income for a period of time and evidence that the borrower is back to the income amount that was previously earned. As the COVID-19 pandemic is ongoing, the income interruption/gap is not yet considered a one-time occurrence, such as an isolated injury may be.
Q6: [REVISED 03.11.21] When fluctuating income is used to qualify the borrower, is it acceptable to exclude the period(s) of unpaid time due to COVID-19 (e.g., temporary layoff, furlough, reduced hours) when calculating the qualifying income?

No. For fluctuating employment earnings (e.g., fluctuating hourly employment earnings, overtime, bonus, commission, tips), and regardless of the earnings trend, all 2020 and 2021 YTD income must be included in the calculation, in accordance with the requirements in Guide Section 5303.4(b). Employed income calculation guidance and requirements. As the pandemic is ongoing, the income interruption/gap is not yet considered a one-time occurrence, such as an isolated injury may be; therefore, the period of income interruption must be considered in the overall YTD calculation.

Q7: [REVISED 03.11.21] What if a borrower with fluctuating hourly employment earnings is working fewer hours now than they worked prior to the COVID-19 impact?

The 2020 and 2021 YTD earnings average used for qualifying, in accordance with Guide Section 5303.4(b), accounts for the decline in income experienced during the pandemic related income interruption(s).

Self-Employed Income

Verification of Current Business Existence – Open and Operating

Q1: [NEW 03.11.21] Is it acceptable to use a business license to verify that the business is open and operating within 20 days of closing?

No, that is not acceptable as it does not verify the business is open or operating within the 20-day or less time frame prior to closing. Refer to Bulletin 2020-8 for examples of how to meet this requirement.

Q2: [REVISED 07.01.20] The borrower is self-employed and owns a business which is not operating or closed due to the COVID-19 pandemic. Can the income be used to qualify?

No, if the business is not operating or closed, the income may not be used to qualify.

Evaluation of Monthly Obligations

Q1: [REVISED 07.29.20] Does Freddie Mac require monthly payments for liabilities (e.g., student loans, other installment debt, revolving accounts), that are deferred or placed in forbearance as a result of COVID-19 pandemic, to be included in the DTI ratio?

Yes. Even if a borrower’s monthly payments are temporarily suspended due to COVID-19 pandemic, the Seller must consider the payment in the borrower’s DTI ratio in qualifying for a mortgage loan. Refer to Topic 5400, Evaluation of monthly obligations.

Q2: [NEW 09.17.20] If the borrower has a federal student loan that is in a COVID-related automatic forbearance, can the monthly payment be excluded from the debt payment-to-income ratio if it has been paid by another party (i.e. the student loan is a contingent liability)?

According to Guide Section 5401.2, a contingent liability may be excluded from the monthly DTI ratio when documentation in the mortgage file indicates that a party other than the borrower has been making timely payments for the most recent 12 months and the party making the payments is not an interested party to the subject real estate or mortgage transaction.

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Because the office of Federal Student Aid automatically suspended federal student loan payments due to the COVID-19 pandemic, monthly student loan payments can be considered a contingent liability that can be excluded from DTI even if the payments haven’t been made during the period of automatic payment suspension, provided that:

- a party other than the borrower had been making timely payments for at least nine months prior to the automatic payment suspension;
- the missed payments are resolved by the same party other than the borrower prior to closing of the new mortgage;
- the mortgage file includes documentation evidencing that the student loan is a federal loan has been subject to the automatic suspension of payments due to COVID-19 and that all the missed payments have been paid; and
- all other requirements of Section 5401.2 are met.

**Borrower Creditworthiness**

**Q1: [NEW 07.29.20]** Is the seller required to perform additional analysis of the borrower’s credit reputation or obtain additional documentation if the seller has knowledge that the borrower’s consumer debt(s) other than a mortgage (e.g. student loan, car loan) is or was in COVID-19 related forbearance or deferral, and the mortgage is an Loan Product Advisor Accept Mortgage?

No, for Loan Product Advisor Accept mortgages, the seller is not required to obtain any additional documentation or perform any additional analysis of non-mortgage consumer debt.

**Q2: [NEW 07.29.20]** If the seller has knowledge that the borrower’s consumer debt is or was in COVID-19 related forbearance or deferral, is the seller required to treat payments missed during that period as adverse or derogatory credit information when manually underwriting the mortgage?

For manually underwritten mortgages, the seller is not required to treat a borrower’s consumer debt in COVID-19 related forbearance or deferral as adverse or derogatory credit information.

**Asset and Income Modeler (AIM)**

**Q1: [NEW 09.01.21]** Are there any remaining COVID requirements that apply to mortgages using asset and income modeler (AIM) with Loan Product Advisor®?

Yes, mortgages using asset and income modeler (AIM) must continue to comply with the remaining temporary credit underwriting requirements and guidance outlined in Bulletin 2021-28.

**Other**

**Q1: Do Freddie Mac's existing disaster policies in the Seller/Servicer Guide apply to the COVID-19 pandemic?**

No, Freddie Mac’s existing policies related to disasters do not apply to loans impacted by COVID-19. Any guidance specific to COVID-19 will be communicated through Bulletins and FAQ documents such as this.

**Q2: [04.10.20]** Is Freddie Mac considering changes to Loan Product Advisor’s risk assessment models in light of COVID-19?

Freddie Mac continually reviews its policy and risk assessment models. When appropriate, changes may be made in order to better meet the needs of clients or to better manage risk.

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Eligibility under the temporary provisions of Bulletin 2020-17

Existing mortgages in forbearance

**Q1: [06.04.20]** Is a mortgage eligible for sale to Freddie Mac if the borrower is obligated on an existing mortgage that is in a forbearance plan and the borrower has been making partial mortgage payments under the plan?

No, the mortgage is not eligible for sale. The existing mortgage is not considered current based on partial mortgage payments. In order for the new mortgage to be eligible, the borrower must resolve the amounts outstanding on the existing mortgage, meeting the applicable additional eligibility requirements in Guide Bulletin 2020-17 as of the note date.

**Q2: [06.04.20]** Can missed payments on an existing mortgage in forbearance be refinanced into the new mortgage?

No. Missed payments during a forbearance may not be refinanced into the new loan amount in a no cash-out or cash-out refinance transaction. However, per the temporary requirements in Bulletin 2020-17, if the existing mortgage is in a repayment plan, Payment Deferral, trial period plan or other loss mitigation program and the borrower has either successfully completed the loss mitigation program or made at least three consecutive timely payments, as applicable, the proceeds may be used to pay off the existing mortgage.

**Q3: [06.04.20]** If a borrower’s existing mortgage is in forbearance, but the borrower has continued to make payments to keep the loan current, does the borrower need to exit forbearance to be eligible for a new mortgage to be sold to Freddie Mac?

No. If the borrower continued to make payments and is current on his or her existing mortgage(s), there is no requirement to exit forbearance.

**Q4: [06.04.20]** What responsibility does the Seller have if the borrower entered forbearance on an existing mortgage after applying for a new loan?

The Seller represents and warrants that as of the note date of the mortgage, each of the borrower’s existing mortgages is current, or if any mortgage is in a loss mitigation program, the applicable requirements in Guide Bulletin 2020-17 are met. The Seller must perform additional due diligence to ensure all of the temporary requirements in Bulletin 2020-17 are met.

**Q5: [06.04.20]** In Guide Bulletin 2020-17, do requirements in the last row of the chart that address loss mitigation programs not mentioned in the rest of the chart apply to mortgages that are in forbearance as of the note date of the new mortgage?

No. If a borrower is obligated on a mortgage that is in forbearance, but that borrower has continued to make payments and the mortgage is current, then the new mortgage is eligible for sale to Freddie Mac without meeting the additional eligibility requirements in Guide Bulletin 2020-17.

If the borrower is obligated on a mortgage that is in forbearance and the mortgage is not current, then the new mortgage is not eligible for sale unless the amounts outstanding on the existing mortgage are resolved by meeting the applicable additional eligibility requirements in Guide Bulletin 2020-17.

**Q6: [07.29.20]** For construction conversion and renovation mortgages, do requirements of Bulletin 2020-17 for borrowers with existing mortgages apply to the borrower’s interim construction financing?

Yes, the borrower’s interim construction financing is subject to requirements of Bulletin 2020-17 for borrowers with existing mortgages.

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Loss mitigation programs

Q1: [06.04.20] When a borrower refinances after a payment deferral, is the new mortgage considered a cash out refinance loan or a “no cash-out” refinance?

When a borrower refinances a mortgage that with a payment deferral and the amount of the deferred payments is included in the new mortgage, the new mortgage is eligible for sale to Freddie Mac as a “no cash-out” refinance if it otherwise meets all of the requirements for an “no cash-out” refinance in the Single-Family Seller/Servicer Guide. Funds applied to paying off the deferred portion are not considered cash out.

Q2: [06.04.20] If the borrower has entered into a repayment plan to resolve missed payments during a forbearance, must the repayment plan be completed before a new mortgage is eligible for sale to Freddie Mac?

No. If the borrower has entered into a repayment plan to resolve missed payments, the borrower’s new mortgage is eligible for sale to Freddie Mac if the borrower made 3 timely consecutive payments as of the note date of the new mortgage. Alternatively, if the repayment plan is completed in fewer than 3 payments, then the new mortgage is eligible if the borrower completed the repayment plan as of the note date of the new mortgage.

Q3: [06.04.20] If a mortgage on a non-subject property is in a repayment plan, should the borrower be qualified using the mortgage payment required under the note or the higher payment required under the repayment plan?

The borrower must be qualified with the currently required contractual payment, which is the payment required under the repayment plan.

Q4: [06.04.20] Is a mortgage eligible for sale to Freddie Mac if, as of the note date of the new mortgage, the borrower is obligated on an existing mortgage that is in a modification trial period plan and misses a payment due under the plan?

No, the mortgage is not eligible for sale. Guide Bulletin 2020-17 requires that the borrower must successfully complete such trial period plan. The borrower should be encouraged to continue working with their Servicer on the appropriate loss mitigation solution for that mortgage.

Q5: [06.04.20] Bulletin 2020-17 states that if a borrower is obligated on a mortgage that is subject to a loss mitigation program other than a repayment plan, loan modification Trial Period Plan or a Payment Deferral, the program must be successfully completed or the borrower must have made at least three consecutive full monthly payments before the note date of the new mortgage. What is “full monthly payments” referring to?

The payments made under a loss mitigation program other than those specifically addressed in the Bulletin must be in the full amount required under the note or any other agreement that permanently alters the payment amount, such as a Loan Modification agreement.

Q6: [NEW 03.11.21] If the borrower has entered a loss mitigation program and is required to make at least three timely payments, as described in Bulletin 2020-17, must those payments be consecutive monthly payments?

Yes. The three payments must be made in three consecutive months, i.e. at least three consecutive monthly payment due dates must have passed in accordance with the loss mitigation option. For example:
On June 15th the borrower…

<table>
<thead>
<tr>
<th>The borrower makes three payments…</th>
<th>New loan may close no sooner than…</th>
<th>Additional Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enters into a repayment plan, a loan modification trial period plan, a payment deferral agreement, or other loss mitigation solution requiring at least 3 monthly payments in accordance with Bulletin 2020-17.</td>
<td>As they become due for…</td>
<td></td>
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<td></td>
<td>• July 1st payment</td>
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<td></td>
<td>• August 1st payment</td>
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<td></td>
<td>• September 1st payment</td>
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<tr>
<td>In one lump sum</td>
<td>September 1st</td>
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<td></td>
<td>Note: Once the borrower makes the third payment for the month it is due (September), the borrower may close on a new loan</td>
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</tbody>
</table>

Reinstatements

Q1: [06.04.20] What does Freddie Mac mean by “the existing mortgage was fully reinstated?”

As stated in Guide Section 9203.3, a full reinstatement occurs when the borrower restores a delinquent mortgage to current status by paying the total delinquent amount, including advances, delinquent principal and interest, legal costs and other expenses incurred and that are past due under the Note and the Security Instrument.

Q2: [06.04.20] Does the Seller need to document the source of funds used to fully reinstate a delinquent mortgage?

Yes, when a lump sum payment is made to reinstate a mortgage on or after the application received date of the new mortgage, the Seller must document the source of funds used to reinstate the mortgage per the requirements in Guide Section 5501.3. The source of funds must be an eligible source as described also in Section 5501.3. If the mortgage was reinstated before the application received date of the new mortgage, verification of source of funds is not required.

Other

Q1: [06.04.20] Do the requirements in Bulletin 2020-17 apply only to the borrower’s existing mortgage(s) that are in forbearance?

No; the requirements of Bulletin 2020-17 apply to all of the borrower’s existing mortgages.

Q2: [06.04.20] If Loan Product Advisor® returns a Risk Class of Accept on the last feedback certificate, does the Seller still get relief of representations and warranties for the borrower’s creditworthiness?

Yes, provided that all other requirements of the Seller’s Purchase Documents are met, including the requirements described in Guide Bulletin 2020-17.

Q3: [06.04.20] If a borrower owns a residential property that is pending sale and will close before the note date of the new mortgage, does the Seller have to perform additional due diligence required in Guide Bulletin 2020-17 with respect to the mortgage secured by the property that is pending sale?

No, the additional due diligence described in Bulletin 2020-17 is not required as long as the Seller documents in the mortgage file that the property was sold and the mortgage was paid off before the note date of the new mortgage.

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Q4: [06.04.20] Is a borrower eligible for a new mortgage to be sold to Freddie Mac if he or she makes 3 timely payments following a short sale or deed-in-lieu of foreclosure?

The requirements of Guide Topic 5200, Credit Assessment, continue to apply: the mortgage must be submitted to Loan Product Advisor and receive a Risk Class of Accept, or if the mortgage is manually underwritten, including mortgages with Caution Risk Class, the recovery time periods for reestablishment of credit in Guide Section 5202.5 must be met.

Q5: [07.29.20] Do the temporary purchase and refinance eligibility requirements for borrowers with existing mortgages announced in Bulletin 2020-17 apply to all of the borrowers’ consumer debts or just existing mortgages?

The requirements of Bulletin 2020-17 apply only to borrower’s existing mortgages, and do not apply to other types of consumer debt.

Q6: [10.07.20] Is a credit supplement an acceptable form of additional due diligence to confirm the current status of the borrower’s existing mortgage(s), as required in Bulletin 2020-17?

A credit report supplement may be acceptable to meet the requirements of Bulletin 2020-17 depending on the specific information provided in the supplement. For example, a supplement may be acceptable in the context with other available information if it documents a direct contact with the mortgage servicer and verifies the date the last payment was made and the due date of the next payment. On the other hand, a supplement that only provides the current status of the mortgage such as “current” or “paid as agreed” could not be considered meeting the requirement for additional due diligence in Bulletin 2020-17.

For more information, visit our COVID-19 Resource Center

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