

# “Let’s QC” Webinar Series – Community Lending

## A Closer Look at Income and Innovation

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**Speakers:** Teri Wolcott, Lucy Traylor-Driver, Ethan Northey, and Julie Wilhelm

December 9, 2021





# Session Housekeeping

**Muted Lines:** All lines have been muted upon entry and will remain on mute to prevent interference.

**Recording:** This session is being recorded and will be available on the QC Webpage. If you have any objectives, please disconnect now.

**Questions:** Please enter your questions directly into the Q&A box in the bottom right corner of your screen.

**Technical Issues:** Please use the raise hand icon to request assistance.

**Survey:** Please participate in the short survey at the end of this call.



# LET'S QC

## Welcome!

2021 Q4 “Let’s QC” Webinar –  
Community Lending Series



## Goal of Series



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01

Provide training and guidance

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02

Allow transparency and insight into our quality control loan review process

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03

Give you useful information to incorporate into your underwriting and QC process

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# Agenda



## Trending Defects, Fluctuating & Rental Income, How Asset Income Modeler (AIM) Reduces Defects, Errors & Fraud



### **Topic 1:** **Trending Defects & The Impact of Missing Docs**

- Review top defects from previous quarter
- Impact of missing documentation

### **Topic 2:** **Fluctuating Income & Rental Income**

- Review scenarios related to fluctuating and rental income

### **Topic 3:** **How AIM Reduces Defects, Errors and Fraud**

- Overview of AIM offerings (AIM for Assets and AIM for Income/Self-Employed)
- Recent enhancements



# Topic 1 – Defect Trending

- Review top defects from previous quarter
- Impact of missing documentation



# By the Numbers – Community Lending Segment



# of defects in Q3 2021 decreased from 518 to 450

Q2 2021	Defect	Q3 2021	Result
2,430	Total population of Performing Loans	2,119	13% decrease
518	# of loans with defects	450	13% decrease



# Income Defects - Community Lending Segment



# of defects in Q3 2021 decreased from 518 to 450

Q2 Reviews	Defect	Q3 Reviews	Result
71	COVID Temp Income	80	Increase
62	Income Calculated Incorrectly	49	Decrease
52	Income Docs Missing	37	Decrease
13	Income Not Stable	18	Increase
<b>198</b>	<b>TOTAL INCOME DEFECTS</b>	<b>184</b>	<b>7% decrease</b>





# Credit Defects - Community Lending Segment



# of defects in Q3 2021 decreased from 518 to 450

Q2 Reviews	Defect	Q3 Reviews	Result
8	Credit History Requirements not met	12	Increase
5	Housing Payment History not verified	12	Increase
6	Credit Recovery Period not met	6	Steady
8	Bankruptcy Docs Missing/Insufficient	8	Steady
<b>0</b>	<b>Insufficient Credit Report</b>	<b>11</b>	<b>NEW ADD</b>



# Liabilities Defects - Community Lending Segment



# of Defects in Q3 2021 decreased from 518 to 450

Q2 Reviews	Defect	Q3 Reviews	Result
74	<b>Liability Docs Missing/Insufficient</b>	51	<b>31% Decrease</b>
22	Excess Obligation – Other Payment Calculated Incorrectly	23	Steady
15	Excess Obligation – Docs to Exclude Missing Debt	18	Increase
18	Excess Obligation – Undisclosed Non-Mortgage Debt	14	Decrease
11	<b>Excess Obligation – Housing Payment Incorrect</b>	6	<b>Almost halved</b>





*Performing Loan Reviews closed YTD by Freddie Mac Quality Control*

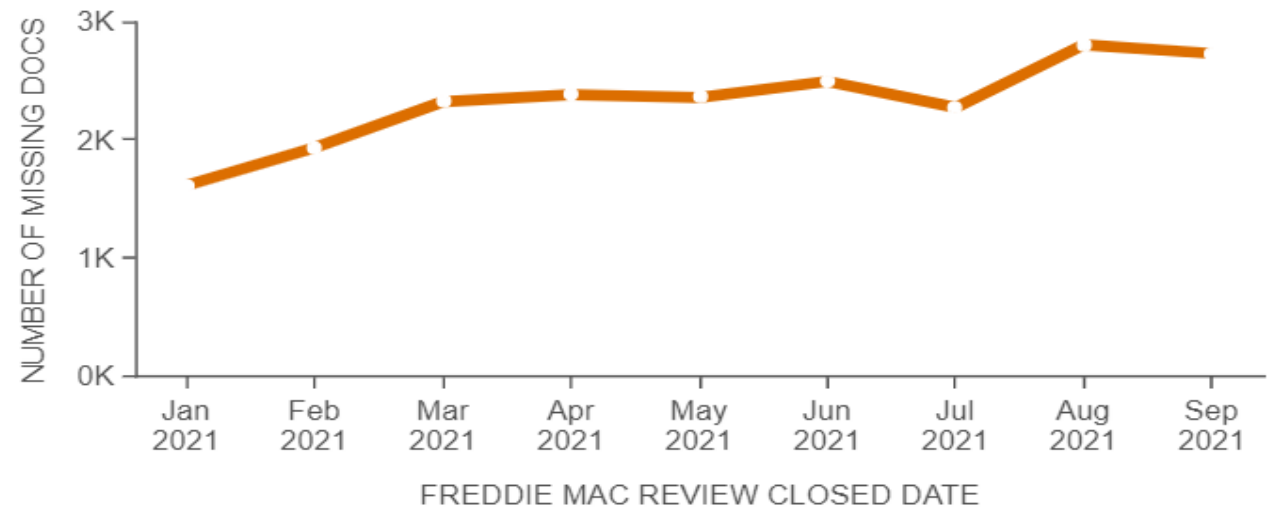
## Missing Document Rate

**19%**

Percentage of loan file requests that contained one or more missing documents. This rate includes missing documents that are still outstanding and missing documents that were requested and eventually received.

### Missing Documents Trending

Trend chart of missing document volume over time.

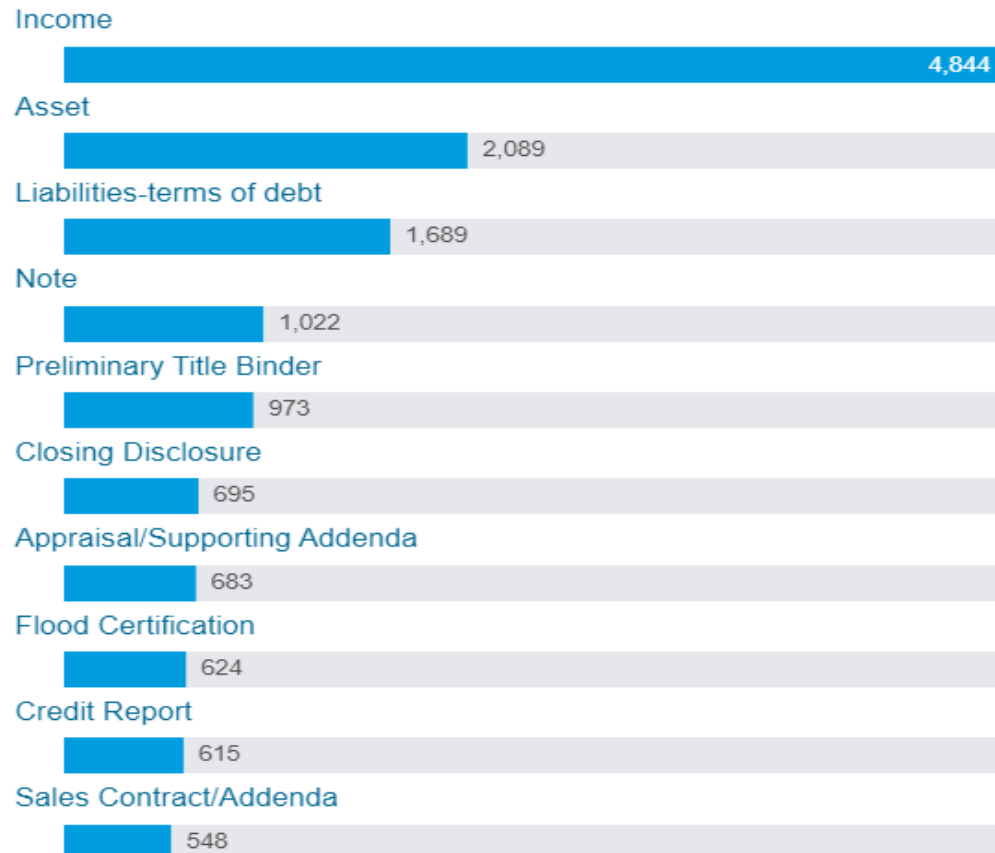


# Top 10 Missing Docs



## Top 10 Missing Documents

The Top 10 most frequently requested missing documents, as well as its overall percentage of all missing documents. If less than 10 documents appear, there are fewer than 10 types of missing documents.



Income, Assets and Liabilities account for 62% of missing document requests.

Note, Title, CD, Appraisal, Flood Cert, Credit Report and Sales Contract represent standard docs required in every file. Reducing these could eliminate 38% of missing document requests.



# Missing Documents

## Best Practices to Avoid Missing Docs

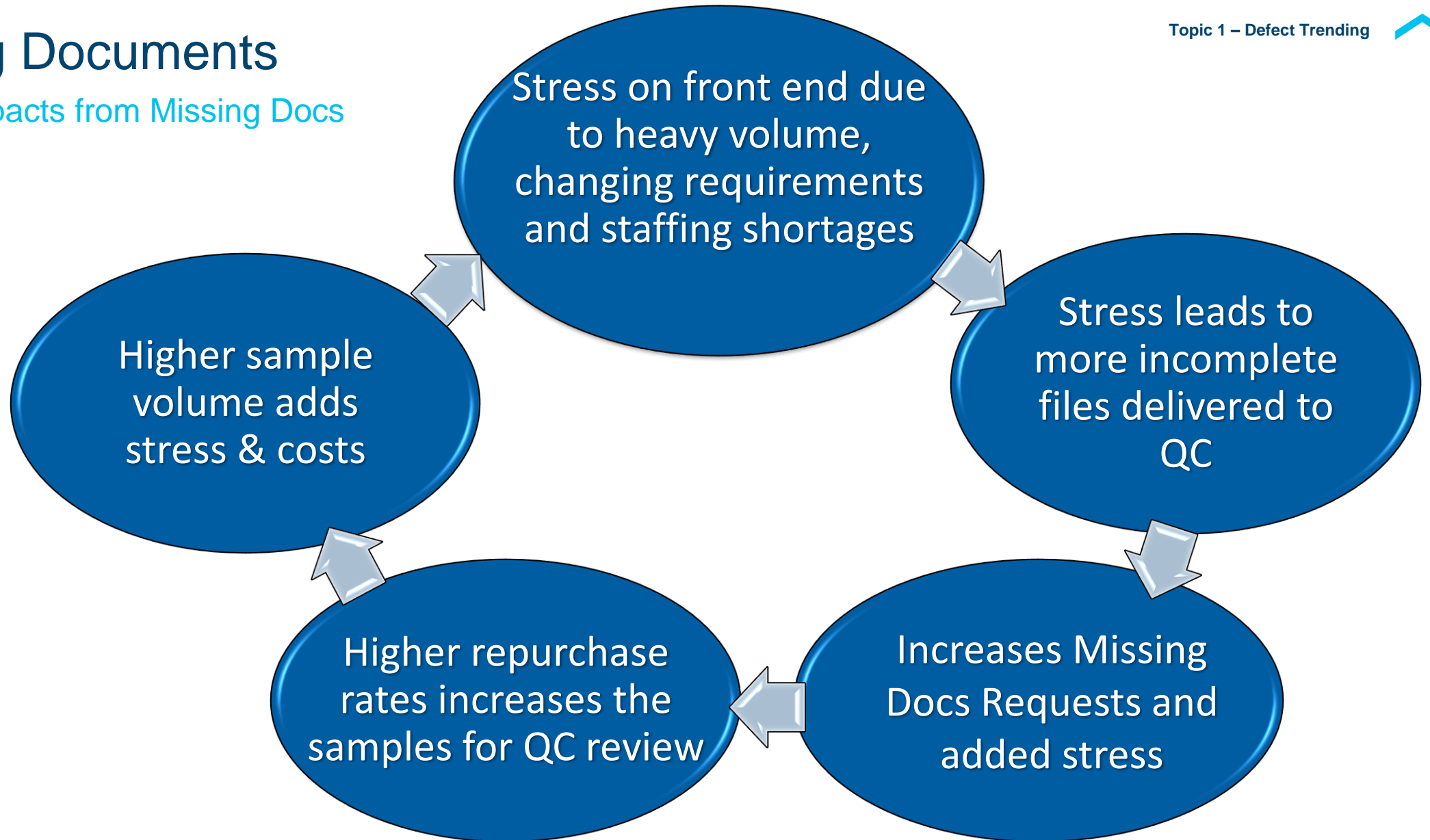
- Stack all files in the same order
- Ensure stacking includes all documents required by investor
- Utilize electronic imaging systems or vendors to ensure consistency
- Audit the process monthly to ensure it is working
- Implement any identified fixes as soon as possible

The Quality Control Document Checklist can be found: [www.sf.freddiemac.com](http://www.sf.freddiemac.com)

ALL MORTGAGES			
The following documents are required for all mortgages as applicable. See below for additional requirements for other specific loans/programs/commitments.			
Critical Loan Documentation		Included	N/A
1.	<b>Borrower Signature Authorization Form</b>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<b>Credit History</b> - Include credit reports, explanation for derogatory items and recent inquiries, other supporting documentation, (e.g., evidence of account payoffs, bankruptcy, etc.)	<input type="checkbox"/>	<input type="checkbox"/>
3.	<b>HUD-1/Settlement Statement/TRID Closing Disclosure</b> - Provide final version of applicable document	<input type="checkbox"/>	<input type="checkbox"/>
4.	<b>Loan Applications: Uniform Residential Loan Applications (Form #65)</b> - Include <u>both the initial</u> (often handwritten) <u>and final</u> (usually typed), dated loan applications. Provide any supporting documentation (e.g., explanation of discrepancies)	<input type="checkbox"/>	<input type="checkbox"/>
5.	<b>Mortgage Insurance Certificate</b> - include any information related to the status of the mortgage insurance (e.g. - rescission/denial notices, explanation for unavailability of Mortgage Insurance)	<input type="checkbox"/>	<input type="checkbox"/>
6.	<b>Note</b> - Include endorsements, modifications, assumptions, releases of liability, and/or ARM Conversion documentation	<input type="checkbox"/>	<input type="checkbox"/>
7.	<b>Property Valuation Documentation:</b> <ul style="list-style-type: none"> <li>• Uniform Residential Appraisal Report with supporting addenda (e.g., building sketch, location map, etc.)</li> <li>• Photos of subject and comparables</li> <li>• Automated Underwriting System (AUS) required collateral assessment documentation</li> <li>• Satisfactory completion certificate and/or recertification of value</li> <li>• For appraisals marked "subject to", provide supporting documentation that all issues have been rectified</li> <li>• Additional supporting documentation (e.g., leasehold documents, recorded community land trust ground lease documentation, articles supporting price adjustments, Operating Income Statement)</li> <li>• Inspection reports (e.g. - roof, septic, foundation, wood-boring/termite, etc.)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
8.	<b>Sales Contract and all Addenda</b> (fully executed)	<input type="checkbox"/>	<input type="checkbox"/>
Additional Required Loan Documentation		Included	N/A
9.	<b>Automated Underwriting System (AUS) Report</b> - Include required documentation for the credit and collateral assessment that show the risk class, all underwriting conditions, as well as all Minimum Assessment Feedback messages	<input type="checkbox"/>	<input type="checkbox"/>
10.	<b>Buy-Down and/or Seller Contribution Documentation</b>	<input type="checkbox"/>	<input type="checkbox"/>
11.	<b>Condominium Project Eligibility documentation</b> - Include evidence that the Condominium Project approval was received from Fannie Mae's PERS <b>OR</b> a Fannie Mae CPM project acceptance certification <b>OR</b> a Condominium Homeowners Association Questionnaire <b>AND</b> any other documents evidencing project eligibility ( <b>Note:</b> required even if a loan receives collateral representation and warranty relief)	<input type="checkbox"/>	<input type="checkbox"/>
12.	<b>FEMA Standard Flood Hazard Determination (FEMA Form 81-93)</b> or equivalent form - Include evidence of flood insurance if applicable	<input type="checkbox"/>	<input type="checkbox"/>
13.	<b>Freddie Mac Prefunding Acceptance Letter or Single Loan Exception</b>	<input type="checkbox"/>	<input type="checkbox"/>
14.	<b>Manufactured Home Appraisal Report (Form #70B)</b>	<input type="checkbox"/>	<input type="checkbox"/>
15.	<b>Miscellaneous Documentation</b> - (e.g., evidence of sale for previous residence, divorce or separation decree, leases, bridge loan documentation, lender loan approval documentation, closing instructions, etc.)	<input type="checkbox"/>	<input type="checkbox"/>

# Missing Documents

## Circular Impacts from Missing Docs



# Key Takeaways



## Topic 1 – Defect Trending & Missing Documents

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**01** Income is still a leading defect for the industry

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**03** Incomplete loan files can lead to increased strain on resources

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**02** Quality begins upfront

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**04** Cyclical strain on resources can be broken with complete loan files

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# Questions?





# Topic 2 – Fluctuating Income and Rental Income

- Review scenarios related to fluctuating and rental income



# Non-Fluctuating and Fluctuating Income

## Guide Section 5303.2

### Non-fluctuating employment earnings

Requirements:

- Pay rate and number of hours worked must be reflected on an ongoing, consistent basis for each pay period and be fully supported by the year-to-date income.
- Earnings may include both salaried and hourly earnings
- Earnings may include part-time earnings

### Fluctuating hourly employment earnings

Requirements:

- Pay rate and number of hours fluctuate each period
- Requires minimum 12- month history



# Fluctuating Income

## Additional employed earnings

**Guide 5303.3** Fluctuating earnings may include, but are not limited to, income types such as commissions, overtime, bonus, tips, Reserve and National Guard, and unemployment compensation associated with seasonal employment.

<b>Stable Monthly Income Requirements</b>	<b>Documentation Requirements</b>
<b>History of Receipt:</b> Two years, consecutive	All of the following: YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV
<b>Continuance:</b> Must be likely to continue for at least the next three years	Or all of the following: Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent calendar years and a 10-day PCV

# Scenario 1

Borrower has worked for a company for 4 years. He receives base salary and overtime income. We have a verification of employment which shows hourly rate of pay and YTD 2021, 2020, and 2019 earnings.

	\$	17.34	Hourly	Average Hours per Week 42	
		Thru 3/27/21			
		YTD 2021	2020	2019	
Base Pay	\$	9,981.76	\$ 36,547.53	\$ 36,010.92	
Overtime	\$	610.46	\$ 1,244.84	\$ 1,718.18	

## Poll Question – How would you calculate overtime income?

- A. 24-month average of 2019 and 2020
- B. YTD 2.87-month average of 2021
- C. 26.87-month average of 2019, 2020 and 2021 YTD
- D. None of the above, income not acceptable

# Scenario 1

Poll

**Answer – C. 26.87-month average of 2019, 2020 and 2021 YTD**

- $(\$610.46 + \$1,244.84 + \$1,718.18) / 26.9 = \$132.84$

# Scenario 2

Borrower who has worked for a company for 5 years. Verification of employment shows earnings declining from 2019. In the file is an email from the borrower’s employer stating the office was closed due to COVID but earnings have now stabilized.

	\$ 37.72	Hourly	
	Thru	11/17/2021	
	YTD	2020	2019
Base Pay	\$43,779.97	\$ 56,081.13	\$ 60,777.64
Overtime			
Bonus		\$ 100.00	\$ 100.00
Total	\$43,779.97	\$ 56,181.13	\$ 60,877.64

### Poll Question – How would you calculate income?

- A. Hourly rate x 40 hours (\$6,538 month)
- B. 2021 YTD income (\$4,142 month)
- C. 2021 and 2020 income (\$4,869)
- D. None of the above, income not acceptable

# Scenario 2

Poll

**Answer – B. 2021 YTD income (\$4,142 month)**

- $\$43,779.97/10.56 = \$49,748$

# Scenario 3

as of 5/15/2021

<b>Earnings</b>	<b>Rate</b>	<b>Hours</b>	<b>This Period</b>	<b>Year to Date</b>
Regular	20.3000	40.00	812.00	14,644.84
Overtime	30.4500	14.10	429.35	1,879.10
Holiday O/T				502.81
Holiday Pay				225.60
O/T Premium				1.19
Personal Time				811.60
Vacation Pay				488.80
Vaccine Bonus				40.00
Voluntary Pay				300.00
			<b>Gross Pay \$1,241.35</b>	<b>18,895.55</b>

- 2020 \$25,454.76
- 2019 \$24,464.01

**Poll Question – Will you consider this income fluctuating or non-fluctuating?**

- A. Fluctuating
- B. Non-fluctuating



# Scenario 3

Poll

**Answer – A. Fluctuating**

# Scenario 4

According to the loan application, borrower worked in their industry for over 3 years, however only 6 months at his current job.

				<b>As of 9/20/21</b>					<b>As of 9/6/21</b>	
<b>Earnings</b>				<b>Year to Date</b>	<b>Earnings</b>				<b>Year to Date</b>	
	<b>Rate</b>	<b>Hours This Period</b>				<b>Rate</b>	<b>Hours This Period</b>			
Regular	14.0000	80.00	1,120.00	19,396.20	Regular	14.0000	79.80	1,117.20	18,276.20	
Overtime	21.0000	1.60	33.60	399.90	Overtime	21.0000	0.70	14.70	366.30	
Holiday	14.0000	8.00	112.00	608.00	Holiday				496.00	
<b>Gross Pay</b>			<b>\$1,265.60</b>	<b>20,404.10</b>	<b>Gross Pay</b>			<b>\$1,131.90</b>	<b>19,138.50</b>	
<b>Deductions Statutory</b>				<b>Year to Date</b>	<b>Deductions Statutory</b>				<b>Year to Date</b>	
			Federal Income Tax	-61.76	716.08			Federal Income Tax	-48.39	654.32
			Social Security Tax	-76.92	1,226.00			Social Security Tax	-68.63	1,149.08
			Medicare Tax	-17.99	286.73			Medicare Tax	-16.06	268.74
			OK State Income Tax	-22.00	191.00			OK State Income Tax	-15.00	169.00
<b>Other</b>						<b>Other</b>				
			Dental Pretx	-21.03*	336.48			Dental Pretx	-21.03*	315.45
			Vision Pretx	-3.92*	62.72			Vision Pretx	-3.92*	58.80
			A/R		35.00					

## Poll Question – How would you calculate the income?

- A. Hourly rate times 79.80 hours/bi-weekly
- B. Hourly rate times 80 hours/bi-weekly
- C. We cannot accept the income

# Scenario 4

Poll

**Answer – C.** We cannot accept the income

# Key Takeaways



## Topic 2 – Fluctuating Income

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- 01** Non-fluctuating earnings have a pre-determined rate of pay and number of hours worked each pay period which is supported by the YTD income

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  - 02** Additional employment earnings (such as Commission and Bonus), the stability is determined based upon historical earnings, make sure to review the income history

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  - 03** Fluctuating hourly employment earnings are wages that are based on an hourly rate of pay however the number of hours fluctuate each pay period

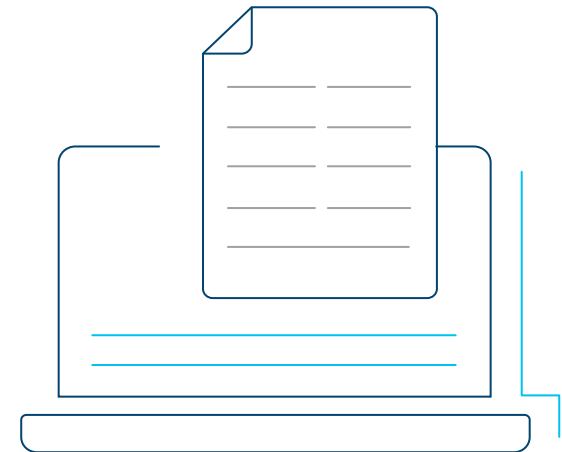
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  - 04** Fluctuating hourly employment must at a minimum have a 12-month earnings history
-

# Rental Income

## Guide Section 5306.1

- Documentation, history and analysis
- Subject property purchase transaction
- Subject property refinance or non-subject property:
  - Purchased in the current calendar year; *or*
  - Placed in service as a rental property in the current calendar year
- Appraisal form requirements documentation and analysis



# Rental Income

## Subject property purchase transaction

- Appraisal Documentation
  - Subject 1-unit Investment Property
    - Form 1000, Single-Family Comparable Rent Schedule
  - Subject 2- to 4-unit Primary Residences and Investment Property
    - Form 72, Small Residential Income Property Appraisal Report
- Rental Income Documentation
  - Subject 1-unit Investment Property
    - Lease, or if a lease is not available, Form 1000
  - Subject 2- to 4-unit Primary Residences and Investment Property
    - Lease, or documentation supporting two months receipt of rental income (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks)

Leases must be current and fully executed, with a minimum original term of one year. If the lease is documented as assigned from the property seller to the Borrower and is in the automatically renewable month-to-month phase of the original one-year (or longer) term lease, then a month-to-month is acceptable.

## Subject property purchase transaction

- Requirements and Analysis
  - The borrower **must currently own a primary residence** to use rental income when purchasing a new rental property in the current calendar year, and
  - Net rental income **can only offset** the principal, interest, taxes/insurance, and when applicable leaseholds and homeowners' association dues, payments on secondary financing of the new rental property
    - If the net rental income exceeds the full monthly payment the excess rental income cannot be added to the borrower monthly income unless the borrower has a minimum of one-year investment property management experience

# Rental Income

Subject property refinance transaction or non-subject property placed in service as a rental property in the current calendar year

- Documentation
  - Lease, and Form 72 or 1000
    - Or in lieu of Form 72 or 1000, documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks supporting two months receipt of rental income)
  - Purchase date or conversion date must be documented
- Requirements and Analysis
  - The borrower must currently own a primary residence to use rental income when purchasing a new rental property in the current calendar year, and
  - Net rental income can only offset the principal, interest, taxes/insurance, and when applicable leaseholds and homeowners' association dues, payments on secondary financing of the new rental property
    - If the net rental income exceeds the full monthly payment the excess rental income cannot be added to the borrower monthly income unless the borrower has a minimum of one-year investment property management experience



# Rental Income

## Property owned in the prior calendar year

- Documentation
  - Complete federal income tax returns for the most recent year including the Schedule E
  - A signed lease may be used if:
    - The property was out of service in the prior year and the loan file contains the event such as a renovation and the Schedule E supports this by the reduced number of days in use and reflects the repair costs; or
    - The property was purchased later in the calendar year the Schedule E supports this by a reduced number of days in use
- In either instance above;
  - Form 72/1000 supporting the income of lease
  - Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments (canceled rent checks supporting two months receipt of rental income)
    - Unless the above requirements are met, a signed lease may not be used and the rental income or loss from Schedule E must be used and annualized for qualifying purposes.

# Rental Income

## Schedule E Analysis

- Does not allow add back of
  - Repairs
  - Mileage
  - Fees associated with property management

The net rental income for each individual property is determined based on the history of income and expenses reported on Schedule E. Calculate the net rental income from Schedule E using [Form 92, Net Rental Income Calculations – Schedule E](#), or a similar alternative form, as follows:

### Rents received

- **Less total expenses**

*Add back the following expenses:*

+ Insurance

+ Mortgage interest paid to banks, etc.

+ Taxes (real estate taxes only)

+ Depreciation and/or depletion

+ Homeowners association dues (if specifically reported as an expense)

+ One time losses (e.g., casualty loss due to documented catastrophic event);

+ Non-cash deductions (e.g., amortization);

# Rental Income

The borrower is purchasing a new investment property. A lease is documented with monthly rents \$1,800. A 25% factor is used for \$1,350 to offset the subject PITI. The borrowers most recent individual federal tax returns reflect this will be the borrower's first investment property. The borrower does not own their primary residence.

## Poll Question

**What rental income would be used?**

- A. \$1,350 positive rental income
- B. An amount that offsets the PITI and associated fees
- C. None, the borrower does not own a primary residence

## Poll

**Answer – C.** None, the borrower does not own a primary residence

# Rental Income

The borrower is purchasing a new 1-unit investment property. Form 70 is documented with monthly rents \$1,375. A 25% vacancy factor is used for \$1,031 to offset the subject PITI of \$900. The borrower owns their primary residence.

## Poll Question

**What rental income would be used?**

- A. An amount that offsets the PITI
- B. \$131 positive rental income
- C. \$1,031 positive rental income

# Rental Income

Poll

**Answer – A.** An amount that offsets the PITI

# Rental Income

The borrower is purchasing a new investment property. The principal, interest, taxes, and insurance associated with the new investment property are \$1,625. A lease is documented with monthly rents \$2,500. A 25% vacancy factor is used for net positive rental income of \$250. This will be the borrower's second investment property; the first investment property is shown on Schedule E of the 2019 and 2020 individual federal tax returns. The borrower does not own their primary residence.

## Poll Question

### What rental income would be used?

- A. \$250 positive rental income
- B. An amount that offsets the PITI and associated fees
- C. None, the borrower does not own a primary residence

**Answer – C.** None, the borrower does not own a primary residence



# Key Takeaways

## Rental Income



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**01**

The borrower must own a primary residence for rental income to offset the PITI when the subject property is a new investment purchase

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**02**

Additional documentation is required when the property is either purchased or placed in service in the current calendar year

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**03**

Rental properties owned more than one year used for rental income must be shown on the Schedule E of the borrower's individual federal tax return

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**04**

Include only allowable fees when adding back Schedule E expenses for determination of rental income

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# Questions?



# Topic 3 – How AIM Reduces Defects, Errors & Fraud

- Overview of AIM offerings (AIM for Assets and AIM for Income/SE)
- Recent enhancements



# AIM Overview

## What is Asset and Income Modeler (AIM)?

AIM is Loan Product Advisor's (LPA's) automated asset, income and employment assessment.

AIM uses **trusted** data from third-party service providers to perform an **unbiased** assessment of a borrower's capacity by **automating** Guide requirements. AIM helps deliver a simpler, more efficient loan origination process.

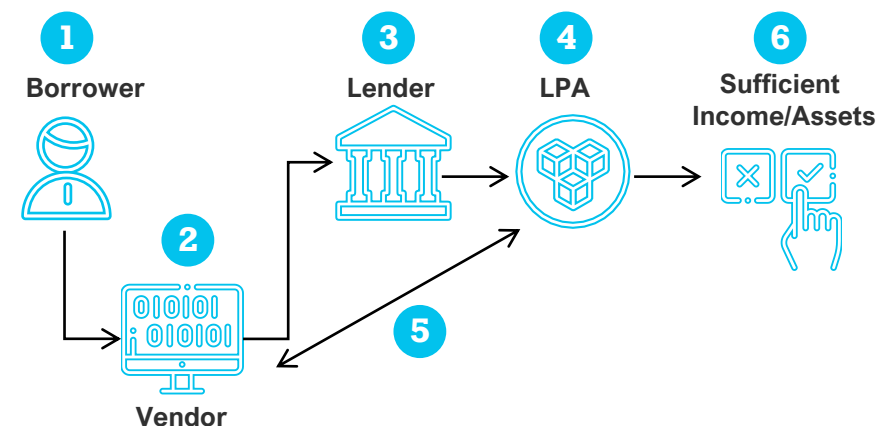
### AIM leverages the following data sources:

- Asset account and transaction data (AIM for Assets)
- Tax return data (AIM for Self Employed (SE))
- Employer data (AIM for Income)

### AIM assesses:

- Sufficient assets for transaction
- Sufficient income for transaction
- Eligibility for representation & warranty (R&W) relief

## How AIM Works?



### Steps

1. Lender requests a verification report of borrower's income or asset information
2. LPA retrieves the report and performs an assessment for representation and warranty relief eligibility
3. LPA returns assessment results in the Feedback Certificate

# AIM for Income using Employer Data

## AIM assesses the following income:

- Base: Non-fluctuating & fluctuating hourly employed earnings
- Bonus, Overtime, and Commission

## AIM leverages:

- Income using employer data
- LPA submission data

## AIM uses the following trusted third-party service providers:

- Equifax & Finicity

## Benefits of using AIM for Income:

- Data sourced directly from service provider prevents fraud
- More comprehensive assessment of total income
- Automation of Guide requirements eliminates manual errors

## R&W relief is granted for:

- Accuracy of the income calculations related to the assessed income on the verification report
- Accuracy and integrity of the data

## Sample Report

THE WORK NUMBER™ VERIFICATION OF EMPLOYMENT			
LUCKY FREDDIE	XXX-XX-0026	- RECORD 1 OF 1	
EMPLOYER:	ENTERPRISE ONE(91001)	CURRENT AS OF 03/15/2020	TWN LOGO
<b>Order Information</b>			
Verified On:	04/14/2020		
Reference #:	100182439139		
<b>Employer</b>			
Employer:	Enterprise One(91001)		
Headquarters Address:	1313 Mockingbird Lane St Louis MO 63146		
Federal Employer Identification Number (FEIN):	Data not provided		
Employer Disclaimer:	Hello! This is a test Employer Disclaimer!		
<b>Employment</b>			
Division:	DEMO 1	Original Hire Date:	01/01/2014
Job Title:	DEMO EMPLOYEE	Total Time With Employer:	6 Years, 3 Months
Employment Status:	ACTIVE		
Most Recent Start Date:	01/01/2014		
<small>NOTICE: INFORMATION CONTAINED IN THE WORK NUMBER VERIFICATION SECTION OF THIS REPORT IS CONSUMER REPORT INFORMATION OBTAINED FROM THE WORK NUMBER. IT CAN BE USED FOR THE FCRA PERMISSIBLE PURPOSE FOR WHICH THIS CONSUMER REPORT WAS OBTAINED, AND THE USER MUST ADHERE TO FCRA REQUIREMENTS, INCLUDING BUT NOT LIMITED TO THE RELEVANT REQUIREMENTS CONTAINED IN THE CFPB'S NOTICE TO USERS OF CONSUMER REPORTS. This verification is system-generated and contains data that originated from the employer's payroll system. If any information is missing, it is because the employer did not provide this information for inclusion in The Work Number verification. Information not provided by the employer is showing as "Data Not Provided." Note, if this person left this employer and was rehired later, the "Total Time with Employer" amount will likely be understated and will only reflect the most recent consecutive months of service. Questions? Call 1-800-367-6880 between 7am-7pm CT Monday through Friday (Hearing impaired clients may call 1-800-424-0263/TTY).</small>			

### Freddie Mac Single Family Seller/Service Guide

- **Guide Section:** 5901 Automated Income Assessment with LPA using employer data

AIM for Self-employed leverages **tax return data** (individual and business tax returns) from trusted third-party service providers.

## AIM assesses the following business structures:

- Sole proprietorship (Schedule C)
- Partnership (1065)
- S Corporation (1120S)

## AIM leverages:

- Tax return data
- LPA submission data
- Lender provided income adjustments

## AIM uses the following third-party service providers:

- LoanBeam, CoreLogic, and LoanCraft

### Benefits of Using AIM for Self-employed

#### Better risk assessment

- More comprehensive assessment of self-employed income
- Automation of Guide requirements which eliminates manual errors

#### R&W relief is granted for:

- The accuracy of the income calculation for the eligible self-employed income shown on the Income Calculation Report, and
- The business and income analysis described in Section 5304.1(d), including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the Borrower

### Freddie Mac Single Family Seller/Service Guide

- **Guide Section:** 5903 Automated Income Assessment with LPA using tax return data

AIM for Assets leverages **account data** from trusted third-party service providers.

## AIM assesses the following depository accounts:

- Checking
- Savings
- Money Market
- Borrower's business checking, savings and/or money market

## AIM leverages:

- Asset account details
- LPA submission data

## AIM uses the following third-party Service Providers:

- Finicity, FormFree, PointServ, and Blend

### Benefits of Using AIM for Assets

#### Better risk assessment

- Data sourced directly from service provider prevents fraud
- Automation of Guide requirements which eliminates manual errors

#### R&W relief is granted for:

- Sufficiency of the borrower's assets to cover the "Total Funds to be Verified" amount indicated on the Last Feedback Certificate
- The accuracy and integrity of the data represented on the asset verification report

### Freddie Mac Single Family Seller/Servicer Guide

- **Guide Section:** 5902 Automated Asset Assessment with LPA using account data

# Enhancements

Enhancement	Description	Process	Benefits of Enhancement
<p><b>Verification of Tax Return Data</b></p>	<p>Verifying tax return data using IRS tax return transcripts</p>	<ul style="list-style-type: none"> <li>• Approved service provider sends signed form 4506 tax transcript request to IRS.</li> <li>• AIM compares transcript to uploaded tax returns, to check for consistency.</li> <li>• If consistency is determined, the accuracy and integrity of the tax return data is confirmed</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce likelihood of fraudulent returns</li> <li>• If comparison between tax returns and tax transcripts uncovers inconsistencies, this is a red flag for sellers to resolve discrepancies</li> </ul>
<p><b>Tax Extension</b></p>	<p>When tax returns are on extension and older tax returns are uploaded:  Enhanced analysis will evaluate continued income stability to determine if older returns can be used to assess income.</p>	<ul style="list-style-type: none"> <li>• AIM will perform personal tax liability analysis using IRS Form 4868 and data from tax returns.</li> <li>• If continued income stability is supported, older returns can be used to assess income. If not, loan must be underwritten traditionally.</li> </ul>	<ul style="list-style-type: none"> <li>• AIM automates Guide requirements which reduces manual calculation errors</li> <li>• Aim confirms the continued income stability when older tax returns are used</li> </ul>
<p><b>Rental Income</b></p>	<p>Provides assessment of rental income</p>	<p>AIM will use the LPA submission, Schedule E tax return data, and rules based on Freddie Mac’s Form 92 (“Net Rental Income Calculations”)</p>	<ul style="list-style-type: none"> <li>• AIM automates Guide requirements which reduces manual calculation errors</li> <li>• AIM will provide feedback messages which confirms whether the submitted income was supported or not</li> </ul>




# Use Case – Tax Transcript Data Compare

## AIM For Self-Employed

### Scenario – Borrower: John Smith

- 1 borrower with 1 business (Schedule C)
- Confirmed match using tax transcript data compare
- R&W eligible

### Application

Business	Submitted Income Amount	LoanBeam Report	LPA Derived Income Amount	Income Data Source	Service Provider	Income Documentation	Loan Level Income RW Eligibility
AAA Inc	\$3,000	\$3,000	✓	Tax Return Data	LoanBeam Ref # 123456 8/22/2021 1:38PM	LoanBeam Report, 2020 tax return (1040), signed 4506-C requesting transcript	

*Calc. & Business Analysis*

### LPA Feedback Certificate

Code	Message Text
FEI0030	Based on Loan Product Advisor's overall assessment, the loan is eligible for income representation and warranty relief.
FEI0240	Loan Product Advisor has confirmed a match between the data on the tax return(s) uploaded to the service provider and the IRS tax transcript data, related to the eligible income types.
FEI0225	JOHN FREDDIE's submitted self-employed income of \$3,000 was assessed using the LoanBeam report. The Income Calculation Report 123456 dated 8/22/2021 1:38PM, tax returns, and all other documentation uploaded to LoanBeam must be retained in the loan file. No further documentation is required for this income.
FEI0068	File must contain verification of current existence of each business through a third-party source for JOHN FREDDIE dated no more than 120 days prior to the Note Date or after the Note Date but prior to the Delivery Date.
FEI0034	Signed IRS Form 4506: any borrower, whose income is used to qualify, is required to sign IRS Form 4506 no later than the Note Date.

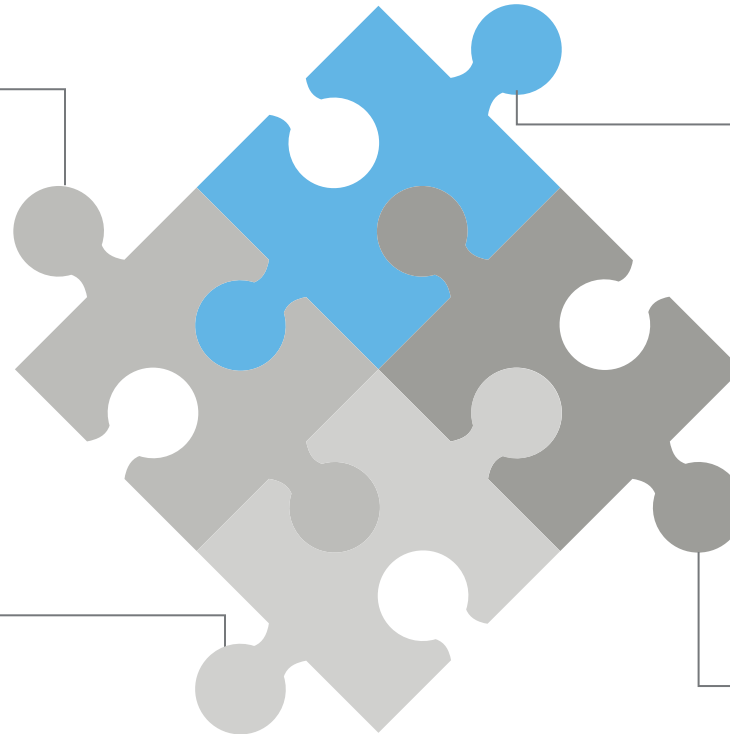
# How AIM Reduces Defects, Errors, and Fraud

## Reduces likelihood of fraud using:

- Data from trusted third-party service providers (AIM for Income and Assets)
- IRS tax transcripts that authenticate the tax return data

## Eliminates manual calculation errors using:

- A consistent set of rules/calculations



## Moves QC up-front:

- Regardless of which AIM offering is used (AIM for Assets, AIM for Income or AIM for SE) the Seller may leverage our tools to ensure the amounts provided to LPA are supported by Freddie Mac

## LPA feedback messages will:

- Indicate if the submitted income or assets are supported
- Alert sellers of potential red flags



# Questions?

# Additional Resources

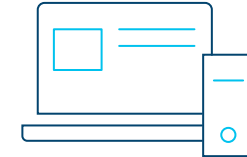


Freddie Mac Learning Center  
[sf.freddiemac.com/tools-learning/freddie-mac-learning/overview](https://sf.freddiemac.com/tools-learning/freddie-mac-learning/overview)

Asset Income Modeler (AIM)  
[sf.freddiemac.com/tools-learning/loan-advisor/our-solutions/aim-asset-income-modeler](https://sf.freddiemac.com/tools-learning/loan-advisor/our-solutions/aim-asset-income-modeler)



Customer Contact Support  
Center  
1-800-FREDDIE



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# Thank you

**“Let’s QC” Quarterly Webinar Series – Community Lending**