

Selling Notice

March 24, 2015

Self-employed Income Policy

In SEL-2014-16, *Selling Guide Updates*, Fannie Mae announced a number of changes and clarifications to the policy that pertains to underwriting self-employed borrowers. In addition, the Cash Flow Analysis (Form 1084) was also updated to reflect the policy updates and align with IRS tax forms and terminology.

Fannie Mae has received a number of questions from lenders about business income reported on Schedule K-1. This Notice addresses two of these policies:

- 1) Fannie Mae is clarifying that for borrowers with business income reported on Schedule K-1 who own less than 25% of the business, the lender is not required to consider business losses in the evaluation of income.
- 2) The update included a clarification that business income may be used in qualifying the borrower only when there is a history of income distribution to the borrower consistent with the level being used to qualify. This clarification applied to business income reported on Schedule K-1 and the use of the *lesser of* ordinary income or distributions in qualifying the borrower.

In light of the questions on 2) above, Fannie Mae is delaying the mandatory implementation of the self-employed income policies while Fannie Mae re-evaluates the treatment of business income reported on Schedule K-1. At their discretion, lenders may choose to move forward with implementation of some or all of the self-employed income policies announced in SEL-2014-16, many of which provided additional clarity and flexibility for borrowers; however, they are not required to do so until further notice. In addition, the prior version of Form 1084 (dated 10/01) has been reposted on Fannie Mae's website for lenders that choose to use this version of the form in the mean time.

Fannie Mae plans to announce changes or clarifications to the policy and the mandatory effective date in the future.

Lenders who have questions should contact their Customer Account Team.