Genworth
Mortgage Insurance

COVID-19 Related Loan Scenarios

During these unprecedented times, your Genworth team wants to help you get your loan to closing as fast as possible. We have prepared this resource document with the top COVID-19 loan scenarios to assist in the underwriting review process.

LOAN SCENARIO: 1 Self-Employed Borrower

Scenario	• Self-Employed Borrower • Business operations have been impacted by COVID-19
Question 1:	**When should the Profit and Loss (P&L) and bank statement rules apply?**
Response	Lenders are required to obtain the following additional documentation to support self-employed income: • an audited YTD P&L; or • an unaudited YTD P&L statement signed by the borrower and three business depository account statements no older than the latest three months represented on the YTD P&L statement
Question 2:	**What should be included in the analysis of the P&L and bank statements if the business is now resuming operation?**
Response	• Lenders must review the P&L and bank statements to determine the extent to which the business has been impacted by COVID-19 • Comparing the YTD net business income to historical business income • The lender may find it necessary to obtain additional year(s) of individual and/or business tax returns to support the underwriting decision • In addition, to the YTD P&L and three months business depository account statements, as applicable, the lender may also follow the AUS message for the required level of self-employment income documentation
Supplemental Documentation	Examples of additional documents that could be used to assess business operations may include: • Reviewing a current YTD balance sheet, month-to-month or quarterly trending analysis, and/or additional depository account statements • Reviewing an updated business plan • Performing an internet search or verifying business operations through a third-party source

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LOAN SCENARIO: 2

Borrower with Seasonal Income

Scenario	• **Self-employed borrower whose income is earned primarily during the summer or Christmas holiday** • **YTD P&L statement will not reflect this income**
Questions	**Should the lender anticipate that the borrower will not generate the same level of income this summer or winter? If so, on what basis would the lender presume a reduction in income, if the business would not be active during this time of year?**
Response	• The income may be eligible if the lender is able to establish and document the seasonal and cyclical nature of the business income and that it is likely to continue without being negatively impacted by the pandemic. • It may be helpful to obtain business bank statement from the same months of the prior year to determine the typical revenue and expense flow during a non-pandemic time period and compare it to the pandemic time-frame represented on the current bank statements in order to determine the impact during the same time of year, whether it be a high or low point of the revenue. • There should be documentation to determine the stability and viability of the business for the summer/winter of 2020
Supplemental Documentation	If the year-to-date P&L statement and/or supplemental documentation demonstrate the business has been impacted; • Lender should obtain a borrower explanation, published materials, and/or business contract to confirm the continuing nature of the business • Additional business depository statements to demonstrate/compare seasonal business financial stability • Refer to Freddie Mac Question 2 under "Determining income stability with additional analysis and documentation—Freddie Mac FAQs • Refer to Fannie Mae FAQs under Income – Self-employed—Fannie Mae FAQs

LOAN SCENARIO: 3

Borrower with Fluctuating Income

Scenario	• **Borrower has fluctuating or variable income which appears to be COVID-19 related** • **Hourly wage earner has low YTD earnings; due to temporary lay-off and has now returned to work**
Question	**How should the income be calculated if borrower is now returning to work on a full-time basis?**
Response	• When the income trend is declining (i.e. the borrower's YTD income is lower than the prior year W-2 income), the lender 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 borrower from working or earning full income for a period of time and evidence that the borrower's income amount is back to previous levels. • If the income is fluctuating hourly income and it is declining, the income must be calculated in accordance with GSE guidelines, the lender must not include the previous higher levels of income in the calculation.
Supplemental Documentation	Refer to Freddie Mac Guide Section 5303.4(b) and Fannie Mae Selling Guide Chapter B3-3.1-01 for complete details

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LOAN SCENARIO: 4

Borrower Receiving Unemployment Benefits

Scenario	• **Unemployment benefits (ACH deposits) are reflected on self-employed borrower's personal asset statements** • **Borrower has Schedule C income** • **Loan file contains two month's business and personal statements** • **Unemployment benefits appear to be COVID-19 related**
Question	**Would the unemployment benefits be acceptable for qualifying purposes?**
Response	Many individuals have become eligible for assistance and compensation available through Unemployment Insurance Provisions provided in the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the assistance and compensation are temporary in nature and therefore do not represent a stable or continuous source of income. • In this scenario, the unemployment benefits are ineligible for qualifying purposes. • Per the GSEs, unemployment benefits continues to be eligible for use in qualifying only when it is associated with seasonal employment.
Supplemental Documentation	The GSEs include reminders of their unemployment benefits policies in their COVID-19 communications. Refer to the GSEs guidelines for complete details. • Fannie Mae's Selling Guide Section B3.-3.1-09 • Freddie Mac Guide Section 5303.3

LOAN SCENARIO: 5

Furloughed Borrower

Scenario	• **Letter in loan file stating borrower is on periodic furlough a few weeks at a time** • **There is no indication that a periodic furlough is typical for the borrower** • **Employer advised borrower to apply for unemployment benefits while on furlough**
Question	**If the borrower is on periodic furlough and continues receiving income for a specified period of time, can the income be used for qualifying purposes?**
Response	• A borrower who is furloughed or laid off is not considered to be actively employed • 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 • The borrower must have returned to work, with no future furlough indicated at the time of loan closing. If borrower is expected to be furloughed again, the income is not stable.
Analysis	Some additional guidance for consideration when analyzing a borrower that is furloughed due to COVID-19. • If the borrower is not still considered an employee by the employer, there is no employment income that can be used, as unemployment benefits are not an acceptable source of income for qualification purposes. • If the borrower is actively working or on temporary leave, then income that is usual and customary for their occupation (e.g. seasonal employment) may be used for qualification, subject to standard employment and income guidelines. • If borrower is actively working and the income is periodic and not typical for the borrower, it may not be used for qualification purposes.
Supplemental Documentation	The GSEs include reminders of their guidelines for borrowers on temporary leave or furlough in their COVID-19 communications. Refer to the GSEs guidelines for complete details. • Fannie Mae's Selling Guide Section B3.-3.1-09 – Temporary Leave, Fannie Mae LL-2020-03, Fannie Mae FAQs • Freddie Mac Guide Section 5303.5 – Temporary Leave, Freddie Mac Bulletin 2020-14, Freddie Mac FAQs

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Frequently Asked Questions (FAQs)

Topic	Question	Response
Tax Returns	**Scenario:** The loan file does not contain any 2019 tax returns due to the tax filing extension to July 15th. When should 2019 tax returns or a copy of the filed extension be requested?	After the July 15th tax deadline extension, the lender should obtain a copy of the most recent year's tax return filed by the borrower or a copy of the filed extension.
Paycheck Protection Program (PPP) Funds and Business Assets	**Scenario:** Business account statement reflects PPP Funds and lender wants to use these assets for qualifying purposes. How should these funds be treated?	Proceeds from a PPP loan or any similar COVID-19 related loan or grant are not considered business revenue and cannot be used to determine or support self-employed income used for qualifying purposes. Proceeds from a PPP loan cannot be used towards cash to close or reserves. *Refer to Freddie Mac FAQs under Business Assistance Section -* *Freddie Mac FAQs* *Refer to Fannie Mae FAQs 11 and 12 under Income - Self Employed Section -* *Fannie Mae FAQs*
Brokerage Account	**Scenario:** Borrower has a brokerage account which has a cash value component. Can 100% of the cash value be used for qualifying purposes or should the 70% rule for stocks, stock option, or mutual funds be applied?	As the cash portion is like a savings or checking account, the lender may use 100% of the value of these funds with evidence of liquidation or receipt of funds. If the borrower is using stock, stock options, or mutual funds for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

Contact your Genworth representative or the ActionCenter® at 800 444.5664 with questions or requests for additional information.

Genworth Mortgage Insurance provides this summary as a courtesy to our customers. The information included in this document is based on the GSEs' requirements related to COVID-19. These loan scenarios are being provided as additional guidance in response to the most frequently asked questions. This document is not definitive of all aspects of Fannie Mae's and Freddie Mac's COVID-19 related guidelines, nor is it legal advice or a legal opinion, and it may not be relied upon as such. In all instances, refer to the GSEs' communications for complete details.

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