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Freddie Mac Updates Stable Monthly Income Guidelines

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On November 4, 2011 Freddie Mac issued Bulletin 2011-21 regarding changes made to Section 37.13 of the Single Family Seller/Service Guide. Updates and additions have been made to this section of the Guide to provide clarification and changes to the topic of stable monthly income. The changes will become effective February 12, 2012 however these changes can be implemented immediately. Some of the changes and addition to Section 37.13 as described below.

Freddie Mac Bulletin 2011-21 can be viewed in its entirety in AllRegs:

<http://www.allregs.com/ao/main.aspx?did2=4f04a4cd23b74fd69630a4cd1182c390>

Temporary Leave

Freddie Mac has added temporary leave income

as an eligible source of qualifying income under the category of employed income. The temporary leave income used to qualify the borrower for the new mortgage will depend on when the borrower is expected to return to the employment/position held prior to the temporary leave.

1. If the borrower WILL be returning to their employment prior to the new mortgage's 1st payment due date, the lender may qualify the borrower using the expected earnings upon the borrower's return to their employment.
2. If the borrower WILL NOT be returning to their employment prior to the new mortgage's 1st payment due date, the lender may qualify the borrower using the borrower's gross monthly employment income received during the temporary leave. In some instances, a borrower may receive reduced income or no income from the employer while on temporary leave. The borrower's qualifying income can then be supplemented by or qualified with any temporary leave income sources, such as short-term disability insurance, as well as available liquid assets. The combination of temporary leave income sources and/or available liquid assets may not exceed the gross monthly income the borrower is expected to earn upon return to their employment.

◦ Income received from temporary sources must

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be adequately documented to verify the amount, consistency and duration of the temporary income if it is to be used to qualify the borrower. Any available liquid assets used as an income supplement must be documented in accordance with Sections 37.22 and 37.23 of the Seller/Servicer Guide. The assets used for a qualifying income source may not be assets needed for the transaction. These funds would include assets needed for down payment, closing costs, prepaid expenses, reserves, etc. The Seller must provide a written analysis of the temporary income calculation and rationale used to qualify the borrower.

◦ In both instances, the Seller must obtain from the borrower a letter of confirmation stating the intent to return to work and the expected date of return. In addition, the Seller must verify with the borrower's employment and income prior to the temporary leave. The borrower's employer must verify the borrower's right to return to work, the expected wages upon returning as well as the agreed date of return. The borrower's leave is no longer considered temporary if it is determined or revealed that the borrower does not intend to return to their employment or if the employer does not commit to the borrower's right to return to work. Application for or receipt of long-term disability does not constitute temporary leave. Long-term disability benefits may be used to qualify the borrower in accordance with Section 37.13(c).

Other Income (non-employed/non-self-employed income)

Freddie Mac has provided clarification regarding other income sources and the acceptability of the income for qualifying. Generally, borrowers should be able to demonstrate a 2 year history of receipt of the other income as well as demonstrate a likelihood of continuance of at least 3 year. Depending on the type of other income, a 2 year history of receipt is not required

in order to use the income for qualifying the borrower; however there must always be a reasonable expectation of continuance for at least 3 years. Freddie Mac has identified eight factors for determining the likelihood of continuance for other income.

1. Are the payments received as a result of a written agreement, court decree or law?
2. How long have the payments been received?
3. Are the payments received on a regular basis (for example: monthly, biweekly or weekly frequency)
4. Are the payment amounts received consistent?
5. Are there procedures available to compel payments?
6. Have full or partial payments been made?
7. If payments made are for support for minor a child, what is the age of the child?
8. Is there any eligibility criteria for the continued receipt of the income?

Four categories of other income have been added to Section 37.13(c) to provide additional detail on eligibility and documentation required. These categories are: Retirement, Survivor and Dependent Benefit Income, Long-term Disability and Social Security Supplemental Security Income. Evidence of receipt of these 4 types of income need only be documented for the most recent two months rather than a two year history. The type, source, amount and duration of these sources of other income must be documented in the loan file. Long-term disability and Social Security Supplemental Security Income may be contingent upon re-evaluation of medical eligibility however this is not considered an

indication that the benefit payments will not continue. The Seller must determine, as with all other sources of other income, that there is a likelihood of continuance for at least 3 years. If the benefit payments reflect an expiration date or have an insufficient balance remaining to maintain payments for at least 3 years, the income should not be considered stable monthly income for qualifying the borrower.