



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING –
FEDERAL HOUSING COMMISSIONER

Date: July 28, 2020

Mortgagee Letter 2020-23

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject COVID-19 Multisubject: Updated Temporary Guidance for Verification of Self-Employment; Rental Income; 203(k) Rehabilitation Escrow Account

Purpose The purpose of this Mortgagee Letter (ML) is to inform Mortgagees of Single Family's modification of requirements in response to impacts from the Presidentially-Declared COVID-19 National Emergency including:

- Modification to self-employment income requirements by issuing guidance for verification of business operations;
- Modification to rental income requirements; and
- Modification to the Approval of Extension Requests and Release of Funds under FHA 203(k) Rehabilitation Mortgage Insurance Program.

Mortgagee Letter 2020-23, Continued

Effective Date The verification of business operations for self-employed borrowers and Rental Income guidance in this ML is effective for cases with Note Dates on or after July 28, 2020 through November 30, 2020.

The administration of the 203(k) Rehabilitation Escrow guidance for borrowers in forbearance in this ML is effective immediately for open escrow accounts through November 30, 2020.

Policy updates in this ML are temporary and will not be incorporated into the HUD Single-Family Housing Policy Handbook 4000.1.

**Public
Feedback**

HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

**Affected
Programs**

As further detailed in this ML, the verification of self-employment and verification of Rental Income guidance apply to Single Family Title II Forward Mortgage and HECM Programs. The 203(k) escrow administration guidance applies solely to the 203(k) Rehabilitation Program.

Background

On March 13, 2020, President Trump declared a National Emergency concerning the Coronavirus (COVID-19) pandemic and initiated actions to stem the threat to public health and the American economy. Many of these actions include the need to avoid contact with other people or to stay at home. Due to the restrictions imposed by the COVID-19 National Emergency and in compliance with State and Local government directives many businesses throughout the country had to reduce the scope of their operations or completely close their doors. Mortgagees are therefore experiencing an additional layer of challenge as they attempt to determine income stability for self-employed Borrowers and for Borrowers who rely on receipt of rental income. In recognition of these and other challenges that Mortgagees are experiencing during these unprecedented times, FHA is temporarily updating its income requirements for self-employed Borrowers and Borrowers who rely on the receipt of rental income to qualify for an FHA-insured mortgage. Additionally, FHA is clarifying its guidance for servicing the 203(k) Rehabilitation Escrow Account for Borrowers who are in a COVID-19 related mortgage payment forbearance. The implementation of these temporary measures is expected to mitigate or offset potential risk of default that results in a claim against the MMIF while maintaining FHA's countercyclical role in the market.

Summary of Changes

Changes include:

1. Temporary changes to the Self – Employment Income policy to add requirements for Mortgagees to verify the existence and operating status of the Borrower’s business.
 2. Temporary changes to the Rental Income policy to address receipt of rental income.
 3. Temporary flexibility to the guidance governing the administration of the 203(k) Rehabilitation Escrow Account to allow for approval of Extension Requests and Release of Funds for borrowers in forbearance due to COVID-19-related financial hardships.
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Verification of Self-Employment for Forward Mortgage and HECM

When self-employment income is used to qualify the Borrower, the Mortgagee must verify and document that the income derived from self-employment is stable with a reasonable expectation that it will continue.

Due to the continued impact of the COVID-19 National Emergency on economic conditions and businesses throughout the country, in addition to the requirements in SF Handbook 4000.1 Sections II.A.4.c.x(C) and II.A.5.b.x(C) Self-Employment Income – Required Documentation (TOTAL and Manual) and Section 3.26 of the HECM Financial Assessment and Property Charge Guide, the Mortgagee must verify the existence of the borrower’s business within 10 calendar days prior to the date of the Note to confirm that the Borrower’s business is open and operating.

The Mortgagee must obtain one of the following to verify and confirm that the business is open and operating:

- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
 - evidence of current business receipts within 10 days of the note date (payment for services performed);
 - lender certification that the business is open and operating (lender confirmed through a phone call or other means); or
 - business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).
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- Rental Income** In addition to the requirements in SF Handbook 4000.1 Sections II.A.4.c.xii(I) and II.A.5.b.xii(I) Rental Income (TOTAL and Manual) and Section 3.50 through Section 3.55 of the HECM Financial Assessment and Property Charge Guide where a borrower is qualifying utilizing rental income, for each property generating rental income the Mortgagee must either:
- Reduce the effective income associated with the calculation of rental income by 25%, or
 - Verify 6 months PITI reserves (this option is applicable to Forward only), or
 - Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property).
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203(k) Rehabilitation Escrow Account SF Handbook 4000.1, II.A.8.a.xvii(B) Extension Requests, states that if the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current. Additionally SF Handbook 4000.1, II.A.8.a.xx Servicing, states that if the mortgage is delinquent, the Mortgagee may refuse to make further releases from the rehabilitation escrow account and that the project must stop if the Mortgage is in payment default.

FHA is providing a temporary flexibility allowing Mortgagees to continue administering the Rehabilitation Escrow Account, including the approval of extension requests and release of funds, which will allow the project to continue for mortgages where the Borrower is in forbearance due to the impacts of COVID-19.

The Mortgagee is still required to obtain:

- An explanation for the delay from the Borrower, contractor, or Consultant when reviewing extension requests; and
 - A new estimated completion date.
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Mortgagee Letter 2020-23, Continued

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Questions

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

Len Wolfson
Assistant Secretary for Housing –
Federal Housing Commissioner (Acting)

Mortgagee Letter 2020-23, Continued

Internal HUD Distribution:						
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