

# Key Loan Program Temporary COVID-19 Related Guidance

## Temporary COVID-19 Related Restrictions and Flexibilities

The following temporary COVID-19 related guidance applies to delegated and non-delegated Key Loan Program transactions until further notice:

- **Appraisal requirements:**

- Exterior appraisals (Form 2055/Form 1075) are permitted as follows:
  - Loan Amounts up to \$750,000 - Max LTV/CLTV 75%
  - Loan Amounts \$750,001 to \$1,000,000 - Max LTV/CLTV 70%

**Notes:**

- Loan files must include date-stamped photos of the living room, family room, kitchen(s) and bathrooms. Photos of each room within an accessory unit and the exterior, if applicable, are required. Rear photos, although not a standard requirement for Form 2055, are required.
- Loan Amounts > \$1,000,000 continue to follow standard Key Loan program guidelines.

- **Age of Documentation**

- Income and asset documentation cannot be older than 60 days as of the note date.
- If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the Lender receives employment and income verification directly from a third-party employment verification vendor, the information in the vendor's database must be no more than 60 days old as of the note date.

- **Assets:**

- When using assets for income, the expiration date of the asset documentation must meet temporary "Age of Documentation" requirements as referenced above. However, if the most recent statement exceeds 30 days, a current value must be provided within 30 days of closing and used for the income calculation.

- **Income Trends and Stability for Non-Fluctuating Employment (i.e. Salaried and Non-fluctuating/ Non-Variable Hourly)**

- If the Underwriter determines that the income interruption/furlough (e.g., reduced, discontinued) occurred solely due to the economic conditions created by the pandemic, and it is documented that the borrower is back at work full-time, the base earnings (i.e. salaried income or non-fluctuating hourly) can be used for qualifying no matter if the year-to-date figures are stable or decreasing as a result of COVID-19. The Underwriter's written analysis of the income should include this determination.

- **Declining Income Trends and Stability for Variable/ Fluctuating Employment (i.e. fluctuating/ variable hourly, overtime, bonus, and commission)**

- Due to the recognition of the COVID-19 pandemic as an on-going event, breaks in employment impacting year-to-date income cannot be ignored in the income calculation. Because of the on-going nature of the pandemic, it must be treated as a current factor in employment and not a singular event, such as an isolated injury, causing a break in employment.

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- **Forbearance Eligibility Requirements**

- Status of all mortgage loans on which the borrower is obligated must be determined.
  - Examples of acceptable document include: loan payment history, mortgage payoff statement, mortgage account statement, and verification of mortgage.
- A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements in the table below:

Resolution Method	Eligibility
Reinstatement	If the borrower resolved missed payments through a reinstatement, they are eligible for a new mortgage loan. Document the source of funds if the reinstatement was completed after the application date of the new transaction. Proceeds from a refinance may not be used to reinstate any mortgage loan.
Loss Mitigation Solution	<ul style="list-style-type: none"> <li>• If outstanding payments will be or have been resolved through a loss mitigation solution, the borrower is eligible for a new mortgage loan if they have made at least three timely payments as of the note date of the new transaction as follows:                             <ul style="list-style-type: none"> <li>• For a repayment plan, the borrower must have made either three payments under the repayment plan or completed the repayment plan, whichever occurs first. Note that there is no requirement that the repayment plan be completed.</li> <li>• For a payment deferral, the borrower must have made three consecutive payments following the effective date of the payment deferral agreement.</li> <li>• For a modification, the borrower must have completed the three-month trial payment period.</li> <li>• For any other loss mitigation solution not listed above, the borrower must have successfully completed the program, or made three consecutive full payments in accordance with the program.</li> </ul> </li> <li>• Verification that the borrower has made the required three timely payments may include:                             <ul style="list-style-type: none"> <li>• a loan payment history from the servicer or third-party verification service,</li> <li>• the latest mortgage account statement from the borrower, and</li> <li>• a verification of mortgage.</li> </ul> </li> <li>• If the requirements above are met on an existing mortgage loan being refinanced, the new loan amount can include the full amount required to satisfy the existing mortgage.</li> </ul>

- **Rental Income:**

- Documentation evidencing current receipt of monthly rental income for each rental unit and/or rental property for the most recent two (2) months prior to closing is required. Loans closing after the 15<sup>th</sup> of the month require verification of rental income for the current month.
  - Documentation may include:
    - Bank statement showing deposit of rental income amount as stated in rental agreement,
    - Copies of cancelled checks (front and back) for rental amount as stated in rental agreement, or
    - Other documentation that can establish borrower's receipt of rental income amount as stated in rental agreement (e.g. Venmo, PayPal).

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- **Self-Employed Borrowers:**
  - The self-employed borrower VOE (Evidence of existing business) is required 10 days prior to the note date.
  - Borrower Acknowledgement (for which the borrower attests regarding income/employment and forbearance) must be executed at closing for all loans.
  - The following documentation is required for self-employed borrowers:
    - COVID Business Impact and Continuity Attestation
    - Profit and loss statement:
      - Audited year-to-date (YTD) profit and loss (P&L) statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date and be dated within 60 calendar days prior to the note date.
      - OR
      - Both of the following:
        - Borrower signed unaudited YTD P&L statement reflecting business revenue (i.e. gross receipts or sales), expenses, and net income up to and including the most recent month preceding the application date and be dated no more than 60 calendar days prior to the note date, AND
        - Three months business account statements no older than the latest three months represented on the YTD P&L statement.
  - When self-employed income reflects a decrease on the YTD P&L, the tax returns for the business cannot be included in the income calculation due to the decline. In order to use the P&L statement as the income source to qualify the self-employed borrower,
    - the income must be determined stable, and
    - the P&L statements must be audited. An unaudited P&L statement and supporting bank statements may not be used in this circumstance.
  - Commentary must be provided on the 1008, or memo to the loan file, documenting the rationale and justification of underwriting decision for all loans qualifying with self-employed income.
- **Notes:**
  - Personal asset account statements evidencing business deposits and expenses may be used when the Borrower is an owner of a small business and does not have a separate business account.
  - Upon review, additional documentation may be required to support the stability of the qualifying income. For example, additional bank statements may be requested to support continuance of income.
- **Verbal Verification of Employment (VVOE):**
  - **Salaried/Hourly Wage Earners:**
    - VVOE must confirm the borrower is still employed within 10 business days of the note date. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status is acceptable.
    - Borrower Acknowledgement (for which the borrower attests regarding income/employment and forbearance) must be executed at closing for all loans.
  - **Self-employed Borrowers:** See "Self-Employed Borrowers" above.