

## UPDATED GUIDELINE SUMMARY

EMET Mortgage is announcing policy updates for CONVENTIONAL CONFORMING PRODUCTS to align with guidance released from Fannie Mae SEL 2024-01. The following updates will apply to all DU loans accordingly effective immediately.

CONVENTIONAL CONFORMING PRODUCTS	
Section	Update Summary
<p>Use of Business Income (<u>All borrowers using Schedule K-1 income</u>) (DU Loans)</p>	<p>The following clarification applies to both self-employed borrowers and borrowers with less than a 25% interest in a business.</p> <ul style="list-style-type: none"> <li>▪ If distributions are less than ordinary income, distribution amount can be used without additional documentation.</li> <li>▪ If ordinary income needs to be used, documentation is needed to support business liquidity.                             <ul style="list-style-type: none"> <li>- A method other than the Quick Ratio or Current Ratio to confirm business liquidity can be used with documented rationale.</li> <li>- The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.</li> </ul> </li> </ul>
<p>Use of Business Income (<u>Borrower with less than 25% ownership</u>) (DU Loans)</p>	<p>The following requirement update applies to the borrower with less than a 25% interest in a business.</p> <ul style="list-style-type: none"> <li>▪ If the business tax returns are provided, the viability of the business is not required to be analyzed. Only requires to focus solely on the borrower’s proportionate share of business income as reflected on Schedule K-1.</li> <li>▪ Income reported on K-1 can only be considered if one of the following is documented:                             <ul style="list-style-type: none"> <li>- The income was actually distributed to the borrower consistent with level of business income being used to qualify, or</li> <li>- The business has adequate liquidity to support the withdrawal of earnings.</li> </ul> </li> </ul>