

Correspondent Mortgage Bulletin

Information for Correspondent Lenders of SunTrust Mortgage, Inc.

January 24, 2014 • COR14-016



Alert

Update

Reminder

Clarification

Training
Information

Preview

Changes to Acceptability of Subordinate Financing with a Prepayment Penalty

SunTrust Mortgage, Inc. updates guidance pertaining to loan transactions that include subordinate financing with a prepayment penalty.

Intended Audience

Origination Processing	Secondary Marketing	Underwriting	Closing Delivery Funding	Compliance Legal	Other
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Effective Dates

Friday, January 24, 2014
Effective for all applications taken on or after this date.

Background Information

Fannie Mae will purchase loans which include subordinate financing with a prepayment penalty, under certain circumstances. Freddie Mac does not share the same restrictions with regard to these transactions. In order to execute consistently, SunTrust Mortgage will adopt Fannie Mae's more restrictive guidance for these loans.

Bulletin Details

Subordinate Financing with a Prepayment Penalty

The following guidance applies for all Agency, Agency Plus, and Key loan programs:

- Secondary financing (new or existing) which could impose a penalty for prepayment is not acceptable unless:
 - The subordinate financing is:
 - originated in conjunction with the first mortgage, or
 - left in place at the origination of the new first mortgage, so long as the subordinate financing is in the form of a home equity line of credit (HELOC), and is re-subordinated to the first mortgage.

Action Required

Origination, Processing, and Underwriting, Closing, Delivery and Funding

Starting January 24, 2014
Follow new requirements for loan transactions that include subordinate financing with a prepayment penalty.

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Bulletin Details, continued

Subordinate Financing with a Prepayment Penalty, continued

- the maximum term of the prepayment penalty period does not exceed three years from the note date of the subordinate mortgage, and
- the maximum prepayment penalty, does not exceed the lesser of 1% of the unpaid principal balance of the subordinate mortgage note at the time of prepayment, or \$500.00, or
- the prepayment penalty clause has lapsed (for a HELOC or closed-end second mortgage)

Notes:

- Valid for one-unit primary residences and one-unit second homes only.
- A prepayment penalty is a charge imposed for paying all or part of the transaction's principal before the date on which the principal is due, other than a waived, bona fide third-party charge that the lender imposes if the borrower prepays all of the transaction's principal sooner than 36 months after loan closing.
 - Recouped fees may be deemed a prepayment penalty under state laws, in which case the second loan/line may not be eligible for subordination.

This updated guidance does not apply to the FHA, VA, and DU Refi Plus™ loan programs.

Revised Materials

Click [Agency Loan Programs](#), [Agency Plus Loan Program](#), [Key Loan Program](#), and [Agency Credit Overlay Matrix](#) to view the revised materials.

Former Guideline

Previously, SunTrust allowed subordinate financing with a prepayment penalty if the penalty was less than \$500, recouped closing costs for lender paid fees if the borrower paid the loan of early, or if the prepayment penalty had lapsed.

Other Resources

Support Group	Description and Contact Information:
Account Manager or Correspondent Relations Coordinator	Specific questions on applying this procedure to specific loan files. Direct contact information for each account manager or correspondent relations coordinator is located in General Section 1.01: The Correspondent Division
Resource Center	Provides phone and email support on products, policies, and procedures as well as new product rollout and existing product enhancement. Contact the Resource Center at 800.382.2111, Option 1, Option 2.

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