

Product Support Bulletin

Information for Correspondent Lenders of SunTrust Mortgage, Inc.
March 27, 2015 • COR15-017



Alert

Update

Reminder

Clarification

Training
Information

Preview

Agency Self-Employed Income and Other Revisions

SunTrust Mortgage, Inc. revises Agency self-employed income guidelines in response to recently announced Fannie Mae clarifications. Additionally, we announce other Agency guideline revisions to more closely align with Fannie Mae and Freddie Mac requirements.

Intended Audience

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

Friday, March 27, 2015

All updates, except the self-employed income, K-1 income, and student loan updates, are effective immediately for both existing and new loan applications on or after this date.

Wednesday, April 1, 2015

All self-employed income, K-1 income (for borrowers not meeting the definition of self-employed), and student loan updates are effective for new loan applications on or after this date.

Background Information

Fannie Mae recently announced updates impacting several Agency guidelines in the following publications: Fannie Mae Announcements SEL-2014-16 and 2015-01. Fannie Mae further modified self-employed income guidance in their Selling Notice published March 24, 2015. In response to these publications, we reviewed impacted guidelines for all underwriting methods. We identified opportunities to implement revisions to more closely align with Fannie Mae and Freddie Mac requirements, while managing risk to our business.

Additionally, we continue to provide Agency overlay relief and guideline simplification to be competitive and to offer market contemporary terms.

Bulletin Details

Impacted Loan Programs

Updates outlined in this bulletin impact the following Agency loan programs:

- Standard Agency
- Agency Plus
- DU Refi Plus™
- Texas Cash-Out Refinances [50(a)(6)] First Mortgages

Action Required

Origination, Processing, Secondary Marketing, Underwriting, Closing, Delivery, Funding, Compliance, and Legal

Starting March 27, 2015

Apply the guidelines that are effective immediately.

Starting April 1, 2015

Apply the revised self-employed income, K-1 income (for borrowers not meeting the definition of self-employed), and student loan guidelines, for new loan applications received on or after this date.

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Bulletin Details, continued

Impacted Loan Programs, continued

Note: Review the before-and-after matrices subsequently presented in this bulletin for a detailed overview of the impacted loan programs per update, underwriting method, and effective date.

Self-Employed Income Updates

A summary of the updates are as follows:

- For non-AUS and DU transactions with Schedule K-1 partnership (IRS Form 1065) or Schedule K-1 s-corporation (IRS Form 1120S) income, aligned with Fannie Mae as follows:
 - Clarified we require the most recent two years of Schedule K-1's when using business income to qualify
 - Clarified that business income may be used in qualifying the borrower only when there is a history of income to the borrower consistent with the level being used to qualify
 - Expanded the reference to ordinary income to include net rental real estate and other net rental income

Important Note:

- Fannie Mae revised their *Cash Flow Analysis* [Form 1084 (dated 12/14)] to reflect a revised method of calculation for Schedule K-1 income, which is based on the *lesser* of ordinary income or distributions. However, in response to Fannie Mae's recently published Selling Notice, SunTrust Mortgage is not requiring the revised calculation method for Schedule K-1 income. We will allow the use of both ordinary income (including net rental real estate and other net rental income) and income from distributions. Therefore, we will continue to use [Form 1084 \(dated 10/01\)](#) as a tool to assist in income calculation for non-AUS and DU loans.
- For non-AUS and DU transactions, aligned with Fannie Mae by clarifying that a lender is not required to prepare a written analysis of the self-employed borrower's personal income when the borrower is qualified using only salaried income (not derived from self-employment) and self-employment is a secondary and separate source of income (or loss).
- For non-AUS and DU transactions, if a borrower is self-employed and you do not use the self-employment income for qualifying purposes, we now require the self-employed borrower to provide a complete copy of his or her latest individual federal income tax return to determine whether there was a meaningful business loss. The requirement for a *complete copy* of the latest individual federal tax return is a new overlay.
- For non-AUS and DU transactions, aligned with Fannie Mae by clarifying that a lender is required to perform an analysis of the borrower's business income when a borrower relies on the business income to qualify and business tax returns are required.
- For non-AUS, DU, and LP transactions, we now require a year-to-date profit and loss statement (audited or unaudited) if the borrower's loan application is dated more than 120 days after the end of the business's tax year to support the determination of the stability or continuance of the borrower's income.

Notes:

- The above *requirement* for a profit and loss statement is a new overlay.
- We removed the overlay requirement for an audited profit and loss statement when income reported on the profit and loss statement increases and you use the increased income to qualify the borrower.
- Incorporated specific guidance on the five principal self-employed business structures (i.e., sole proprietorships, partnerships, limited liability companies [LLCs], s-corporations, and corporations).

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Bulletin Details, continued

Schedule K-1 Income Updates for Borrowers Who Do Not Meet the Definition of Self-Employed (i.e., < 25% Ownership Interest in the Business)

For non-AUS and DU transactions, we aligned with Fannie Mae as follows:

- For income documentation purposes, clarified we require the most recent two years of individual tax returns and Schedule K-1's
- Clarified that business income may be used in qualifying the borrower only when there is a history of income to the borrower consistent with the level being used to qualify. Include K-1 income only; do not include losses in this calculation.
- Expanded the reference to ordinary income to include net rental real estate and other net rental income

Other Agency Updates

A summary of the other Agency updates are as follows:

- For non-AUS, DU, and LP transactions, aligned appraisal requirements regarding adjustments to comparable sales with Fannie Mae and Freddie Mac by removing the 15% net and 25% gross adjustment requirements. Appraisers must provide appropriate market based adjustments without regard to limits on the size of the adjustments.
- For non-AUS and DU transactions, aligned student loan guidelines with Fannie Mae by modifying the monthly payment calculation from 2% to 1% of the outstanding balance. For all student loans, regardless of their payment status, the lender must now use the *greater* of the 1% calculation or the actual documented payment. We allow an exception to use the actual documented payment if it will fully amortize the loan over its term with no payment adjustments.

Note: LP monthly payment calculation guidelines remain unchanged. If no monthly payment is reported on a student loan that is deferred or is in forbearance, the lender must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 2% of the outstanding balance for qualifying purposes.

- For non-AUS, DU, and LP transactions, revised flood insurance requirements for non-residential detached structures (that serves as part of the security for the mortgage loan and has any part located in a SFHA) to only require flood insurance when the non-residential detached structure has a value (as reported on the appraisal, if obtained) of \$10,000 or more. This revision modifies an existing overlay.
- For non-AUS and DU transactions (as applicable), aligned documentation requirements (asset, credit, income, and liabilities) with Fannie Mae to allow:
 - Any available technology to reproduce copies of documents in the mortgage loan file such as a photocopier, facsimile machine, document scanner, or camera, and
 - A borrower explanation of derogatory credit (i.e., extenuating circumstances) to be in the form of a letter or email from the borrower, or some other form of written documentation from the borrower

Note: We also clarified our extenuating circumstances guidelines to provide examples of supporting documentation.

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Bulletin Details, continued

Other Agency Updates, continued

- Revised and/or clarified leasehold estate guidelines:
 - For non-AUS and DU loans, aligned with Fannie Mae by:
 - Removing the overlay that previously prohibited mixed-use leasehold estates
 - Removing the exception that previously permitted the leasehold estate term to be less than five years beyond the mortgage maturity if fee simple title vested at an earlier date to a homeowners' association
 - Incorporating the clarification that in the event the mortgage is secured by the sublease of a leasehold estate, it must be documented that the default under the leasehold estate will not result in the termination of the sublease

Note: Leasehold transactions remain ineligible for LP transactions. This is an existing overlay.

- For standard Agency (non-AUS and DU) transactions, aligned with Fannie Mae to provide additional flexibility for borrowers by allowing video conferencing as an acceptable format for pre-purchase homebuyer education and counseling.

Other Guideline Improvements

All other updates made were in support of our guideline improvements initiative (i.e., adopting Agency specific language, eliminating redundancies, relocating guidance, and underlining overlays in the updated topics).

Examples include, but are not limited to, the following:

- Revised guidelines to adopt Agency (Fannie Mae and Freddie Mac) specific language and/or underline overlays. Guideline intent remained the same.
 - Automobile Allowances and Expense Account Payments
 - Business Assets
 - Capital Gains Income
 - Deferred Installment Debt
 - Verbal Verification of Employment
- For transparency, underlined the following *existing* overlays in the impacted guideline topics/subtopics:
 - Not allowing an attorney/title agent to close his/her own loan or that of an immediate family member.
 - A short form title policy is not acceptable on a property purchased at auction.
 - LP undisclosed debt guidelines must follow conventional non-AUS guidelines.
 - Borrowers must start their employment before closing.
 - For non-STM to STM DU Refi Plus transactions:
 - The maximum DTI is 45% for Agency transactions and Agency Plus transactions.
 - If the borrower's proposed mortgage P&I increases by more than 20% of the current mortgage P&I (or interest only) payment, the maximum qualifying ratios are 31/45%.

Before-and-After Matrices

[Click here](#) to see the before-and-after matrix that provides a detailed overview of the updates effective immediately for new and existing loan applications on or after March 27, 2015.

[Click here](#) to see the before-and-after matrix that provides a detailed overview of the updates effective for new loan applications on or after April 1, 2015.

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Bulletin Details, continued

Impact of Updates to our Agency Overlays and Agency Overlay Matrix

With the release of the above referenced updates, we removed 9 Agency overlays! We added two new overlays and modified an existing overlay (as previously referenced) to mitigate risk and/or support stability/continuity of income.

We updated the Agency Overlay Matrix to reflect the overlays removed as a result of these updates. In addition, we also updated the Agency Overlay Matrix to reflect any new overlay and the overlays we have maintained (that are related to the topics addressed in this bulletin), including those that previously existed; however, not previously reflected on the overlay matrices. We will continue to evaluate opportunities to remove overlays throughout the year.

Revised Materials

Click [Agency Loan Programs](#), [DU Refi Plus™ Loan Program](#), [Appraisal Guidelines](#), [Hazard and Flood Insurance](#), [Leasehold Estate Guidelines](#), [Properties Purchased at Auction](#), [Short Sale and Restructured Mortgage Loans](#), [Title Insurance](#), [Verbal Verification of Employment](#), and [Correspondent Agency Overlay Matrix](#) to review the revised product materials.

Former Guidelines

See the before-and-after matrices provided in the Bulletin Details section to access the former guidelines.

Other Resources

Support Group	Description and Contact Information:
Correspondent Relations Coordinator	Specific questions on applying this procedure to specific loan files. Direct contact information for each correspondent relations coordinator is located in General Section 1.01: The Correspondent Division.
Emerging Banker Account Executive	Specific questions on applying this procedure to specific loan files. Direct contact information for each account executive is located in General Section 1.01: The Correspondent Division.
Product Support	Provides phone and email support on products, policies, and procedures as well as new product rollout and existing product enhancement. Contact Product Support at 800.382.2111, option 4.

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