

Product Support Bulletin

Information for Correspondent Lenders of SunTrust Mortgage, Inc.
September 30, 2016 • COR16-029



Alert

Update

Reminder

Clarification

Training
Information

Preview

Agency Self-Employed, Schedule K-1 Income and Other Revisions

SunTrust Mortgage, Inc. revises Agency self-employed income, schedule K-1 income, and restructured mortgage loan requirements in response to recently announced Fannie Mae and Freddie Mac updates. Additionally, we announce other Agency guideline revisions to more closely align with and support Fannie Mae and Freddie Mac requirements.

Intended Audience

Origination
Processing

Secondary
Marketing

Underwriting

Closing
Delivery
Funding

Compliance
Legal

Other

Effective Dates

Friday, September 30, 2016

Certain updates are effective immediately for existing and new loan applications taken on or after this date. See the related Before-and-After Matrix provided in the Bulletin Details section for additional information.

Saturday, October 1, 2016

Self-employed income and schedule K-1 income updates are effective for new loan applications taken on or after this date.

Background Information

Fannie Mae and Freddie Mac announced updates impacting several Agency guidelines in the following publications: Fannie Mae SEL-2016-05 and Freddie Mac Bulletin 2016-11. In response to these publications, we reviewed our impacted guidelines and identified opportunities to align with Fannie Mae and Freddie Mac requirements.

Additionally, in support of our guideline improvement initiative, we continue to modify our guidelines to more closely reflect the Agencies' language and presentation of guidance.

Bulletin Details

Self-Employed Income and Schedule K-1 Income Updates

For non-AUS and DU loans with self-employed and/or schedule K-1 income, aligned with Fannie Mae by:

- Removing the requirement to document that the borrower has access to business income, such as a partnership agreement or corporate resolution
- Providing guidance regarding methods to determine adequate business liquidity when the liquidity assessment is required

Note: Confirmation the business has adequate liquidity to support the withdrawal of earnings is required if the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify.

Action Required

Origination, Processing, Secondary Marketing, Underwriting, Closing, Delivery, Funding, Compliance, and Legal Starting September 30, 2016

Apply the guidelines that are effective immediately for existing and new loan applications, as outlined in this bulletin and related Before-and-After Matrix.

Starting October 1, 2016

Apply the revised self-employed income and schedule K-1 income guidelines that are effective for new loan applications, as outlined in this bulletin and related Before-and-After Matrix.

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Bulletin Details, continued

Self-Employed Income and Schedule K-1 Income Updates, continued

- To confirm the business has adequate liquidity to support the withdrawal of earnings, the lender must calculate the liquidity ratio as follows:
 - **The Quick Ratio** (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$
 - **The Current Ratio** (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$
- For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.
- Adopting guidance allowing the VVOE for a self-employed borrower to be obtained within 120 calendar days of the note date (extended from the current 30-day requirement)

Other Guideline Revisions

A summary of the other Agency guideline revisions are as follows:

- For non-AUS, DU, and LPA loans, aligning with Fannie Mae and Freddie Mac by removing the restructured mortgage loan requirements in their entirety.

Note: If the transaction involves refinancing of a previously restructured loan, standard limited cash-out and cash-out refinance guidelines now apply.

- For non-AUS, DU, and LPA cash-out refinance transactions, removing the 70% LTV/TLTV/HTLTV ratio restriction if the property was listed for sale in the six months preceding the disbursement of the new mortgage loan.

Note: Guidelines still reflect that properties currently listed for sale must be taken off the market on or before the disbursement date of the new mortgage loan. This requirement remains an overlay for LPA loans.

Before and After Matrices

[Click here](#) to see the before-and after matrix that provides a detailed overview of the guideline updates effective on or after September 30, 2016.

[Click here](#) to see the before-and-after matrix that provides a detailed overview of the guideline updates effective on or after October 1, 2016.

Revised Materials

Click [Agency Loan Programs](#) and [DU Refi Plus™ Loan Program](#) to review the revised product materials.

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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
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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