

Product Support Bulletin



Information for Correspondent Lenders of SunTrust Mortgage, Inc.
November 17, 2017 • COR17-040

Alert

Update

Reminder

Clarification

Training
Information

Preview

Agency LPA Rental Income, Accessory Unit, and Other Revisions

SunTrust Mortgage, Inc. revises Agency Loan Product Advisor[®] (LPA[®]) rental income, accessory unit, and self-employed income guidelines to align with recently announced Freddie Mac updates. We also continue to improve the presentation of our guidelines.

Purchase Deadline for Loan Product Advisor[®] (LPA[®]) Loans Underwritten to Current Rental Income Guidelines

In order to meet Freddie Mac's delivery requirements for LPA loans underwritten to current **rental income** guidelines, we are imposing a purchase cut-off date. Freddie Mac LPA loans originated under current rental income guidelines will be honored; however, they must be purchased by SunTrust Mortgage on or before **December 22, 2017**. See the Effective Dates section below for additional details.

Intended Audience

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

Friday, November 17, 2017

All self-employed income updates are effective immediately for existing and new loan applications on or after this date.

All other updates are effective for new loan applications taken on or after this date.

Friday, December 22, 2017

Freddie Mac LPA loan applications taken prior to November 17, 2017 and underwritten to current rental income guidelines (regardless of submission date to LPA) will be honored under current guidelines; however, these loans must be purchased by SunTrust Mortgage **on or before** this date.

All Freddie Mac LPA loans purchased by SunTrust Mortgage **after** this date (regardless of the loan application date or submission date to LPA) must be underwritten to the revised rental income guidelines.

Background Information

Freddie Mac Bulletins 2017-8 and 2017-12 announced updates impacting Agency LPA rental income, accessory unit, and self-employed income guidelines. In response to these Freddie Mac publications, we reviewed impacted guidelines and identified opportunities to implement revisions to align with Freddie Mac requirements.

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

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Bulletin Details

Rental Income Guideline Revisions

We are aligning with Freddie Mac's revised LPA rental income guidelines. Freddie Mac's revisions focus on evolving housing industry trends in the rental market, such as short-term rental income (e.g., rental income typically derived from sources where a lease is not utilized), and matters impacting the current and historical analysis of stable monthly rental income.

For LPA loans originated under the revised rental income requirements, you must use all of the revised requirements. It is not acceptable to choose to comply with some, but not all, of the revised requirements.

Highlights of Revisions

- For properties not owned/not in service as a rental property in the prior calendar year, adding requirement that if tax returns do not document a one-year history of managing investment property (*occurring within the most recent 36 months*), the rental income may be considered only in an amount up to 30% of the sum of the rental income and all other stable monthly income used to qualify the borrower
- For refinance transactions of properties owned in the prior calendar year(s):
 - Adding requirements and guidance to address the stability of rental income derived from short-term rental income sources (e.g., rental income from a source where a lease is not utilized)
 - Updating requirements for traditional rental market income sources (e.g., rental income from a one-year lease)
- Retiring Form 998, *Operating Income Statement* and adding Form 1000, *Comparable Rent Schedule* requirement, for all 1-unit subject investment properties when rental income is used to qualify
- Providing requirements for the analysis of comparable rent data provided on Form 1000 and Form 72, *Small Residential Income Property Appraisal Report*
- Adding a new [Form 92](#), *Net Rental Income Calculations – Schedule E*, for use when calculating the net rental income using Schedule E
- Removing the requirement to verify operating expenses when rental income is not used to qualify on a subject investment property
- Specifying the property type may be non-residential (e.g. commercial) on a non-subject investment property
- Specify that all rental real estate held in a partnership or S corporation is treated as self-employed income, regardless of the borrower's ownership interest in the business
- Expanding requirements and providing additional specificity and guidance related to the following:
 - Leases
 - Rental Income Eligibility from an Accessory Unit
 - Rental Income Eligibility from a Live-In Aide in the Borrower's 1-Unit Primary Residence
 - Net Rental Income Calculation Requirements
 - Establishing the Debt Payment-to-Income Ratio

Action Required

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

Starting November 17, 2017

Apply the guidelines as outlined in this bulletin and related Before and After Matrices.

By December 22, 2017

Review existing pipeline of LPA loans to ensure loans underwritten to current rental income guidelines are purchased by SunTrust Mortgage by this date.

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Bulletin Details, continued

Additional Accessory Unit Guideline Revisions

For LPA loans, aligning with Freddie Mac by:

- Requiring that the accessory unit have a kitchen and a bathroom
- Providing examples of characteristics that may indicate a 2-unit property rather than a 1-unit property with an accessory unit
- Updating comparable selection requirements for a 1-unit property with an accessory unit that complies with the zoning and land use requirements (legal or legal non-conforming zoning compliance)
- Adding requirements for mortgages secured by a 1-unit property with an accessory unit that does not comply with the zoning and land use requirements (illegal zoning compliance)

Self-Employed Income Guideline Revisions

For LPA loans, aligning with Freddie Mac by:

- Adopting the revised naming convention and revisions to [Form 91](#), *Income Calculations* (previously titled *Income Analysis*)

Note: Freddie Mac revised Form 91 to remove the Schedule E rental income calculations, incorporate additional updates to further support the self-employed income revisions previously announced in bulletin [COR17-013](#), and to provide more comprehensive information for ease of use

- Clarifying guidelines to specify that for rental real estate held in a partnership or S corporation, the requirements outlined in the "Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic do not apply for business rental property

Guideline Improvements

For the below referenced topics, we refreshed guidelines to promote consistency with currently published requirements and/or to adopt Agency specific language/presentation. Guideline intent remained the same.

- Agency and Agency Plus Investment Property
ARMs Maximum LTV/TLTV/HTLTV Ratio
Requirements (*footnote update only*)
- Investment Properties
- Primary Residences
- Second Homes

Before and After Matrices

[Click here](#) to see the before and after matrix that provides a comprehensive overview of all guideline revisions that are effective for new loan applications taken on or after November 17, 2017.

[Click here](#) to see the before and after matrix that provides a comprehensive overview of all self-employed income guideline revisions that are effective immediately for existing and new loan applications.

Revised Materials

Click [Appraisal Guidelines](#), [Agency Loan Programs](#), and [Fannie Mae HomeReady® and Freddie Mac Home Possible® Mortgages](#) to review the revised product materials.

Former Guidelines

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

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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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