

Product Support Bulletin



Information for Correspondent Lenders of SunTrust Mortgage, Inc.
October 23, 2015 • COR15-046

Alert

Update

Reminder

Clarification

Training
Information

Preview

Agency Self-Employed Income and Other Revisions

SunTrust Mortgage, Inc. revises Agency self-employed income, schedule K-1 income, attached planned unit development (PUD), and condominium project eligibility review requirements in response to recently announced Fannie Mae updates. Additionally, we provide Agency overlay relief by aligning certain Freddie Mac Loan Prospector (LP) streamlined accept income documentation guidelines with Freddie Mac's requirements. With this publication, we remove an additional six Agency overlays!

Intended Audience

Origination
Processing

Secondary
Marketing

Underwriting

Closing
Delivery
Funding

Compliance
Legal

Other

Effective Dates

Friday, October 23, 2015

All updates are effective immediately for both existing and new loan applications on or after this date.

Background Information

In SEL-2015-09, Fannie Mae announced updates to their self-employed income, schedule K-1 income, attached PUD, and condominium project eligibility review requirements. In response to this publication, we reviewed impacted guidelines for all underwriting methods. We identified opportunities to implement revisions to 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

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

Action Required

Origination, Processing, Secondary Marketing, Underwriting, Closing, Delivery, Funding, Compliance, and Legal Starting October 23, 2015

Apply the guidelines outlined in this bulletin and related Before-and-After Matrix.

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Bulletin Details, continued

Guideline Updates

A summary of the updates are as follows:

- For non-AUS and DU loans, aligning with Fannie Mae by:
 - Revising self-employed income guidelines to include parameters under which schedule K-1 business income without a history of distribution may be included to qualify self-employed borrowers
- Note:** Fannie Mae revised their *Cash Flow Analysis* ([Form 1084](#), dated 08.25.2015) to incorporate this change and instructions to improve ease of use. Use Form 1084 or any other type of cash flow analysis that applies the same principles as Fannie Mae's form as a tool to assist in income calculation for non-AUS and DU loans.
- Clarifying that a written evaluation of self-employment income is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss)
 - Revising self-employed income guidelines to reflect that when a borrower who is qualified using only income that is not derived from self-employment and a self-employed co-borrower jointly apply for a mortgage and the co-borrower's income will not be used for qualifying purposes, the co-borrower's last two years of complete individual and business tax returns or other financial information related to the business are not required. Instead, the co-borrower may provide a copy of the first page of his or her latest individual federal income tax return, which will enable the lender to determine whether there was a meaningful business loss
 - Removing the requirement that attached PUDs be reviewed against the ineligible projects criteria
 - Revising the examples of non-incidentual business income listed under the ineligible condominium projects characteristics as follows:
 - We removed reference to income earned by the HOA that is the result of lease agreements with telephone, cable, and Internet companies as an example of non-incidentual income. This income does not meet the definition of active ownership or operation of amenities or services available to unit owners and the general public; therefore, the 15% cap (relative to the project's operating budget) does not apply to this type of income.
- For non-AUS and DU loans, revising property insurance verification requirements for PUD projects as follows:
 - The verification of the existence and adequacy of homeowner association (HOA) hazard and liability insurance coverages on the common areas is no longer required
- For non-AUS, DU, and LP loans:
 - Removing the overlay for self-employed borrowers that previously **required** a year-to-date profit and loss statement if the borrower's loan application is dated more than 120 days after the end of the business's tax year
 - Aligning with Fannie Mae and Freddie Mac by incorporating specific income verification and documentation requirements for schedule K-1 income borrowers with less than a 25% ownership interest in a business

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Bulletin Details, continued

Guideline Updates, continued

- For LP loans:
 - Removing the overlay that previously required the most recent **two years** of tax returns for LP streamlined accept documentation of the following types of income:
 - Borrowers Employed by a Family Member or Interested Party to the Transaction
 - Rental Income
 - Royalty Payment Income
 - Tax Exempt Income

Note: LP streamlined accept documentation for the above referenced income types now align with Freddie Mac requirements.

Before and After Matrix

[Click here](#) to see the before-and-after matrix that provides a detailed overview of the guideline updates effective immediately for existing and new loan applications on or after October 23, 2015.

Impact of Updates to our Agency Overlays Matrix

We updated the Agency Overlays Matrix to reflect the overlays removed as a result of the updates outlined in this bulletin. We will continue to evaluate opportunities to remove overlays throughout the year.

Revised Materials

Click [Agency Loan Programs](#), [Condominium and PUD Approval Requirements](#), [Correspondent Agency Overlay Matrix](#), and Certification of Project Compliance: Condominium/PUD Lender Warranties – Agency and Non-Agency Loan Products ([COR 0212a](#)) to review the revised product materials.

Former Guidelines

See the before-and-after matrix 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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