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Agency LPA Tolerances, Condo, Age of Tax Return, and Other Revisions

Truist Bank (Truist) revises Agency Loan Product Advisor® (LPA®) guidelines to align with recently announced Freddie Mac updates. With these LPA updates we:

- revise LPA resubmission tolerances for refinance transactions with loan amount changes
- update condominium project requirements related to:
 - 2-4 unit condominium projects
 - detached condominium units
 - “Exempt from Review” project classification requirements
 - the definition of a Master Association
- provide more specific requirements and guidance related to the age of tax returns
- expand guidance to assist in determining self-employed income stability when tax returns from the most recent calendar year are not yet available
- clarify Home Possible guidelines by adding reference to the “Home Possible” Offering Identifier 241
- update the redesigned Freddie Mac Form 65, *Uniform Residential Loan Application* (URLA) guidelines related to translation aids

Additionally, in support of our guideline improvement initiative, we refresh LPA “Underwriting the Borrower” guidance.

Effective Dates

- The following updates are effective immediately for existing and new loan applications on or after February 26, 2021:
 - LPA resubmission tolerances
 - URLA translation aids
 - refreshed LPA “Underwriting the Borrower” guidance
- All other updates are effective immediately for new loan applications on or after February 26, 2021.

Background Information

Freddie Mac Bulletins 2020-43, 2021-2, and 2021-4 announced updates impacting various guideline requirements. In response to these publications, we reviewed impacted guidelines and identified the opportunity to implement revisions to align with Freddie Mac requirements.

In support of our guideline improvement initiative, we identified the opportunity to refresh our LPA “Underwriting the Borrower” guidance to more closely align with Freddie Mac’s language and/or presentation of guidance.

Bulletin Details

LPA Resubmission Tolerances Updates

We update LPA resubmission tolerances for refinance transactions with loan amount changes as follows:

Resubmission is Not Required on Refinance Transactions When:		
	Current Tolerance	New Tolerance
Loan Amount Decreases	No more than 1%	No more than 5%
Loan Amount Increases	N/A	No more than \$500, or up to 1% of the loan amount, whichever is less

Note: The loan amount change must not impact mortgage insurance coverage, and the use of an appraisal waiver is not permitted.

Bulletin Details, continued

Condominium Guideline Updates

For LPA loans, we:

- specify that a mortgage secured by a condominium unit in a 2- to 4-unit condominium project and a detached condominium unit that is located in any type of condominium project must be warranted and delivered under the “Exempt From Review” project classification type
- update the requirements for mortgages warranted/delivered under the “Exempt From Review” project classification type to clarify that lenders must confirm that the condominium project is not a condominium hotel, houseboat project, timeshare project, or project with segmented ownership and does not include manufactured homes (*this applies to mortgages secured by a condominium unit in a 2- to 4-unit condominium project, mortgages secured by a detached condominium unit, and Freddie Mac-owned refinance condominium unit mortgages*)
- revise the definition of a 2- to 4-unit condominium project to clarify that the condominium project cannot have more than four units; those units can be a mix of residential units and not more than one commercial unit
- incorporate the following definition of a Master Association:

“An association that governs (1) multiple affiliated projects, (2) a mixed-use development, (3) sub-associations within the same condominium project, such as residential and commercial units’ sub-associations, or (4) a planned unit development (PUD). It typically manages the affairs that affect the entire planned community or development, whereas the sub-associations handle the affairs pertaining to their specific project(s) or areas of the larger development.”

Age of Tax Return Requirements

For LPA loans, we revise age of tax return guidelines to include a new table that outlines tax return related documentation requirements, based on the application received date and the note date of the mortgage loan. This additional specificity helps ensure that the most recently filed tax returns are obtained and analyzed when determining the borrower’s stable monthly income. See the applicable attached Before and After Matrix for an overview of this new table.

Notes:

- The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the borrower and, if applicable, the borrower’s business. Lenders are encouraged to always confirm with the borrower that the tax returns provided are the tax returns most recently filed with the IRS.
- IRS confirmation verifying transcripts are not yet available for the prior calendar year are always recommended and, in certain instances, are required. See the revised guidelines for additional details.

Self-Employed Income Stability When Tax Returns are Older

For LPA loans, we provide expanded guidance to assist in determining continued self-employed income stability when tax returns for the most recent calendar year are not yet available, as follows.

If the borrower’s federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., borrower and/or borrower’s business filed an IRS extension or tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:

- Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s)
- Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements
- Signed IRS Form 941, *Employer’s Quarterly Federal Tax Return*, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return

Bulletin Details, continued

Self-Employed Income Stability When Tax Returns are Older, continued

- Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s)
- Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available

If the continued stability of the income cannot be determined, then the borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.

Notes:

- The information above is guidance only; it does not contain new requirements. The existing requirement to determine income stability has not changed.
- This guidance does not replace any COVID-19 temporary requirements related to self-employed income; that guidance remains in effect until further notice.

Home Possible Mortgages

We clarify Home Possible Mortgage guidelines to state that when submitting a Home Possible mortgage to LPA, use the valid value “Home Possible” Offering Identifier 241.

Translation Aids for the Redesigned URLA

For LPA loans, we update URLA guidelines to reflect that translation aids for Form 65 and its components are available on Freddie Mac's [Multi-language Resources for Lenders and Other Housing Professionals web page](#). These translation aids complement the applicable English-language documents and may be provided to consumers as supplemental education material when originating single-family residential mortgages. The translation aids are for reference only and are not to be executed.

Other Guideline Improvement Update

In support of our guideline improvement initiative, we refresh LPA “Underwriting the Borrower” guidance to more closely align with Freddie Mac’s language/or and presentation of guidance.

Before and After Matrices

- [Click here](#) to see the before and after matrix that provides a detailed overview of the LPA resubmission tolerances, refreshed LPA “Underwriting the Borrower,” and URLA translation aids guideline updates.
- [Click here](#) to see the before and after matrix that provides a detailed overview of all other LPA guideline updates.

Revised Materials

Click [Condominium and PUD Approval Requirements](#), [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.

Product Release

Information for Correspondent Lenders of Truist Bank
February 26, 2021 • COR21-009



Other Resources

Support Group	Description and Contact Information:
Correspondent Relations Coordinator	Specific questions on applying this procedure to specific loan files. Contact Correspondent Relations Coordinators at 800.382.2111, Option 1.
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 3.

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