“NEW YEAR – POSITIVE CHANGES!”

Correspondent Town Hall Series

Wednesday, February 9, 2011
2:00 – 4:00 p.m. EST

Dial in: 888.790.2750
Pass Code: New Year
Agenda

• Recent “Good News”
• Benefits of Using the SunTrust “Eligibility” Checklists
• Income Analysis Presentation
• Question & Answers
CORRESPONDENT DIVISION: RECENT “GOOD NEWS”

- Implemented Fannie’s 3% DTI tolerance – Loans Closed on after 10/12/10 (See bulletin COR 10-288)
- Reinstated delegated underwriting authority on conventional loans with subordinate financing – 11/16/10. (See bulletin COR 10-323)
- Aligned verbal voe requirement with agency guidelines – 11/19/10 (See bulletin COR 10-328)
- Published STM Agency and Agency Plus overlays – 11/26/10 (See bulletin COR 10-336)
- Revised DU Refi Plus product to allow lenders to Opt Out, even if findings indicate loan is DU Refi Plus eligible – 11/26/10 (See bulletin COR 10-338)
- Published new and improved Fraud Prevention Certification - 12/03/10. (See bulletin COR 10-345)
- Revised mandatory requirement of DU Re-Underwriting/Resubmission checklist- now optional - 01/07/11. (See bulletin COR 11-006)
- Eliminated documented evidence that DO is in final status – 01/07/11. (See bulletin COR 11-006)
- Accepting Allonges on conventional loans – 01/07/11. (See bulletin COR 11-005)
- Published income clarification guidance – 1/10/11 (See bulletin COR 11-010)
- Reduced lock extension pricing on 7, 15, 21, 30, and 37 day extension periods for loans locked on or after 1/24/11 (See bulletin COR 11-020)
THE BENEFIT OF USING THE SUNTRUST “ELIGIBILITY” CHECKLISTS

- Certain eligibility criteria for certain SunTrust Mortgage products must be evaluated outside of the Automated Underwriting System (AUS) in order to determine SunTrust credit overlays have been met.

- The “Eligibility Checklists” were developed to insure each applicable loan product’s credit overlays, were considered during the origination and/or underwriting process.

- If the loan meets all of the criteria on the eligibility checklists, it has met all of the SunTrust credit overlays for that product.

- Eligibility checklist are located within Section 1.05 Underwriting and in each applicable product description.
NEW! INCOME ANALYSIS GUIDANCE

• The new Income Analysis section provides general guidance for determining income stability and qualifying income.

• This guidance applies to traditionally underwritten and AUS processed conventional loan programs unless otherwise specified in the product description.

• Employment and income are key components of successful home ownership and the ability to repay the loan request.
  – Qualifying income should be stable, predictable, and likely to continue.
  – The borrower must demonstrate the financial ability to repay the proposed real estate transaction in addition to all other debt obligations.

• Sources of income may vary and borrowers may receive primary income from only one source or several different sources.
WHAT DOES SUNTRUST MEAN BY “STABILITY OF INCOME?”

• The borrower must demonstrate a history of receiving stable income for a two (2) year period and a three (3) year continuance.
  – If there is evidence the income will not continue or will no longer be received, the income is not considered stable and cannot be used as income to support the loan request.
• In deciding whether to use income to qualify the borrower, the likelihood of continuance of all income sources must be assessed and supported in the loan file.
• Demonstrate the likelihood that a consistent level of income will continue for borrowers with less than predictable sources of income. This type of income must be verified and the file contain information about prior earnings.
• Examples of less than predictable income sources include:
  – commissions,
  – bonus,
  – substantial amounts of overtime pay, or
  – employment that is subject to time limits, such as contract employees or tradespersons
• Once income is defined as stable, it may be used as qualifying income.

HOW DO I DETERMINE “EMPLOYMENT STABILITY?”

• Generally, the employment requirements for an applicant are a minimum of six (6) months in current position and two (2) years in the same line of work to document stability and continuance.
• A minimum two (2) year employment history must be reflected on the application.
• The purpose of reviewing employment history is to insure that the borrower has received stable income from employment and other acceptable sources.
• There must be a reasonable expectation that the employment will continue in the foreseeable future.

Remember. . . Employment requirements are defined in each of the product descriptions.
WHAT ARE “ACCEPTABLE” SOURCES OF INCOME?

• Generally, sources of income are classified as acceptable and non-acceptable and are specified within the product descriptions. If a specific income source is not listed in the product guidelines, SunTrust Mortgage will always revert back to the definition of stable income to determine acceptability.

• Acceptable Sources are:
  – Hourly Income
  – Wage Earner / Salaried Income
  – Self-Employed Income
  – Rental Income, and
  – Non-Employment Sources of Income.

• Since there are so many forms of “non-employment sources,” let’s list them. . . Remember, you must see specific product guidelines for acceptability and documentation requirements.
NON-EMPLOYMENT SOURCES OF INCOME

- alimony,
- separate maintenance,
- child support,
- foster care,
- child support,
- unemployment,
- welfare,
- aid to dependent children,
- disability/worker’s compensation,
- retirement,
- pension,
- Social Security,
- annuity,
- IRA,
- military/VA benefits,
- trust,
- dividends and interest,
- inheritance,
- guaranteed income,
- Notes receivable,
- mortgage differential,
- cost of living allowance,
- rents,
- royalties, and
- capital gains.
WHAT ARE THE “UNACCEPTABLE” SOURCES OF INCOME?

• The examples of unacceptable income sources for SunTrust:
  – asset depletion (i.e., non-retirement account withdraws),
  – capital withdrawals,
  – draw income,
  – illegal income,
  – gambling earnings,
  – income not reported on tax returns,
  – trailing co-borrower income,
  – VA education benefits, and
  – Any income that cannot be documented or verified
INCOME CALCULATION FORMULAS

• The following calculation formulas are being provided to assist in accurately calculating qualifying income.
• Income documentation must be carefully reviewed to determine how the borrower is compensated, as well as the frequency (i.e., hourly, weekly, bi-weekly, bi-monthly, monthly, etc.).
• **Hourly**
  – Hourly rate \times \text{number of hours worked} = \text{weekly pay}
  – \text{Weekly pay} \times \frac{52 \text{ weeks}}{12 \text{ months}} = \text{monthly base income}
• **Weekly**
  – Weekly base salary \times \frac{52 \text{ weeks}}{12 \text{ months}} = \text{monthly base income}
• **Bi-weekly Salary**
  – Borrower is paid every 2 weeks for 80 hours with 26 pay periods.
  – Bi-weekly base salary \times \frac{26 \text{ pay periods}}{12 \text{ months}} = \text{monthly base income}.
• **Semi-monthly Salary**
  – Borrower is paid on 1\text{st} and 15\text{th} of each month for 86.67 hours with 24 pay periods.
  – Semi-monthly base pay \times \frac{24 \text{ pay periods}}{12 \text{ months}} = \text{monthly base income}.
• **Monthly**
  – Borrower is paid once a month for 173.33 hours per pay period.
  – Adequate documentation must be in the loan file to verify the number of monthly pay periods for the borrower.
  – To accurately calculate this income, multiply the monthly amount by the verified number of months paid and then divide by 12 months.
HOW DO I FACTOR IN UNREIMBURSED BUSINESS EXPENSES?

• Unreimbursed business expenses must be subtracted from the borrower’s qualifying income before determining housing and total debt-to-income ratios.

• Unreimbursed business expenses are usually found on Schedule A and Form 2106 of the personal federal tax returns (1040s) and/or IRS tax transcripts.

• Generally, a two (2) year average is used, unless the amount of expenses is increasing.

• If expenses are increasing, use a one (1) year average of the amount reported on the most recent tax returns/transcripts.

• Unreimbursed business expenses are not limited to self-employed borrowers, but can occur in several different job types, including commissioned employees, teachers, truck drivers, etc.

• Careful review of federal tax returns and IRS transcripts must be completed when determining borrower’s unreimbursed business expenses and qualifying income.
WHAT IS THE IMPORTANCE OF “CROSS-CHECKING” MY INCOME CALCULATIONS?

• Inaccurate calculations may have a severe impact on the borrower’s qualifying income.

• Example: a teacher is paid $3,000 per month for nine (9) months.
  – Correct calculation: $3,000 x 9 months = $27,000 / 12 months = $2,250
  – Incorrect calculation: $3,000 x 12 months = $36,000 / 12 months = $3,000

• To cross check the income, two (2) basic calculations for each borrower should be performed.

• Calculate the base pay and then determine the year-to-date average calculation for comparison.

• The lesser of the two (2) is the most conservative approach.

• Factor in changes to salary, overtime, and promotions when determining which calculation to use for qualifying.

• Low year-to-date earnings should be addressed and/or documented accordingly in the loan file, even if the more conservative income is used to qualify.

• Insure compliance with established guidelines and policies.
HOW DO I DETERMINE RENTAL INCOME?

- Using the SunTrust "Rental Income/Schedule E Calculation Worksheet for COR 0602, Line 22 of Mr. Smith's Schedule E for 2009 reflects a loss of -5,369. The depreciation from line 20 is added back $1,652.00. Additionally he had other expenses taken from 9,12, 16 totaling $3,252 which we add back. When you add lines 1-7, his "Total Adjusted Net" income/loss was a negative $465.00.

- To determine what income or loss to use in qualifying, divide the income or loss by the number of months represented in the tax return, in this case 12. $465.00 divided by 12 is a negative $38.75. Subtract the full PITI from the credit report which was $453.92.

- This will give you a negative -$492.87 which will be his negative rental income.

### Schedule E - Rental Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Line 22</th>
<th>Line 20</th>
<th>Line 18</th>
<th>Line 9</th>
<th>Line 12</th>
<th>Line 16</th>
<th>Total lines 1 thru 6 (above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Net Rental Income /Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 5369.00</td>
</tr>
<tr>
<td>2.</td>
<td>Depreciation</td>
<td></td>
<td>1652.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Amortization/Casualty Loss/One-Time Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Insurance*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>652.00</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Mortgage Interest</td>
<td></td>
<td>1400.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Taxes*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1200.00</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Total Adjusted Net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 465</td>
</tr>
<tr>
<td>8.</td>
<td>Total Adjusted Net Income (Loss) Both Years</td>
<td>Add Totals (both columns) line 7 (above)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 465</td>
</tr>
<tr>
<td>9.</td>
<td># of Months Rental Income/Expenses Reviewed**</td>
<td>Months of information in tax returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>10.</td>
<td>Subtotal Average Income (Loss) For This Property</td>
<td>Divide line 8 by 9 (above)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 38.75</td>
</tr>
<tr>
<td>11.</td>
<td>Subtract Full PITI Payments For This Property</td>
<td>From Credit Report, Mortgage Stmt or Equivalent*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>463.92</td>
</tr>
<tr>
<td>12.</td>
<td>Average Net Monthly Income (Loss) For This Property</td>
<td>Subtract line 11 from line 10 (above)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 492.87</td>
</tr>
</tbody>
</table>

- See notes at the bottom of form COR 0602 to address taxes and insurance in the payment.
WHAT ABOUT “DECLINING INCOME?” CAN WE USE IT?

• Income that shows a declining trend may not be considered as qualifying income unless the stability and/or likelihood of continuance, at the current level, can be determined.
  – Declining income must be closely evaluated to determine earnings trends, establish stability and determine a level of assurance of its continuance.
  – Certain income that shows a declining trend may not be considered as qualifying income (for example, bonus and overtime earnings).
  – In order to consider declining income in qualifying the borrower, an earnings trend must be developed AND documented.
HOW DO I JUSTIFY USING DECLINING INCOME?

• Use of declining income should be fully addressed and justified in the loan file, including a comparison of typical earnings prior to the decline.
• Specific justification must be present and documented in the file that addresses the reason for decline.
• Examples include:
  – loss of a major contract,
  – loss of job,
  – employed in new profession or industry, or
  – income level impacted by economic cycle, such as real estate/housing related professionals.
• Analysis of prior year’s earnings, year-to-date and/or monthly base income is necessary to determine if the borrower has had any changes in base pay or position (with same employer), or approved time away from the job, as these occurrences may create the appearance of a declining income trend.
• SunTrust is looking for a conservative income approach used for qualifying. The lender must document income stability and the likelihood of continuance.
• The current economic environment and impacts to the borrower’s continued income level and ability to repay must be considered in analyzing a declining income trend.
• A declining income trend for a borrower requires diligence if the borrower is requesting maximum financing or the product is considered non-traditional mortgage product such as an ARM loan.
ATTACHMENTS/WORKSHEETS/TOOLS

• The calculation used to determine the qualifying income is required in every LP Agency loan file. Lenders may use one of the following worksheets:
  
  – SunTrust Salaried/Hourly Income Calculation Worksheet (COR 1404),
  
  – Fannie Mae Cash Flow Analysis form 1084 for self-employed borrowers, or
  
  – Freddie Mac Income Analysis form 91 for self-employed borrowers, and
  
  – Rental Income/Schedule E Calculation Worksheet (COR 0602).

  **Note:**
  In all other cases SunTrust encourages lenders to include income calculation method documentation in the loan file; however, does not require the above forms to be used in determining the qualifying income.
HOW DO I ENTER THE ACCEPTABLE INCOME IN AUS?

- For LP loans, all income can be grouped together, regardless of the category.

- DU requires each category of income be properly entered in DU (i.e., base, overtime, commission, retirement, etc.).

- Retirement income, pension income, and social security income should not be lumped together in the “Other Types of Income” category. Additionally, bonus and commission income should not be included in the “Base Income” as they need to be enter in DU into the applicable category.

- DU findings will specify the documentation required.

- While DU will determine the minimum income verification documentation required, that level of documentation may not be adequate for every borrower and every situation.
  - If additional documentation is warranted, it should be requested by the underwriter.
SPECIAL CONSIDERATIONS

• Individuals who change jobs frequently require more thorough examination of employment and income.

• A frequent change in employment for reasons other than advancement (i.e., changing careers) or extended periods of unemployment indicate an unreliable work history and unstable income for repayment of the loan request.

• Changes in the same line of work, industry, or occupation for career advancement are acceptable.

• Borrowers in certain industries and occupations experience frequent job changes due to the nature of the work (i.e., seasonal or unskilled labor).
  – The borrowers should not be penalized provided they have demonstrated the ability to maintain satisfactory repayment of debt.

Remember . . . Review the “Stability of Income” topic or the product description on how to document income stability.
SPECIAL CONSIDERATIONS, continued

- Borrowers who are re-entering the workforce after an extended absence may be considered.

- Previous work history in similar occupation/industry or job re-training/education in a new field is documented to demonstrate stability of income used for qualifying.
SPECIAL CONSIDERATIONS, continued

• The examples shown can assist in particular employment/earnings consideration for workers of various types and job categories.
• In all cases, the documentation requirements are suggestions and do not override the specific product descriptions or AUS findings requirements.
• This list is not all inclusive and is provided as a reference tool only.

**Attorney**

• Typically has some percentage of ownership if a partner and usually paid an annual salary plus bonus. If ownership percentage exists, individual will receive K-1 reportable earnings. To assist with calculating income for self-employed borrowers, please refer to the tools on Slide 16 of this presentation.
• Review YTD paystub and VOE to determine annual salary and bonus earnings along with verification of ownership percentage. Depending on ownership percentage, personal tax returns and/or K1s may be required.
• Document income per guidelines/AUS findings once determined if considered self-employed or not.
• Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses or other business losses that must be deducted from qualifying income.
SPECIAL CONSIDERATIONS, continued

**Consultant/Contract Employee**

- An individual with a particular skill-set that is hired on a temporary basis. Typically considered self-employed with unreimbursed business expenses. Generally a 2 year average of earnings is used, assuming YTD earnings support the average. To assist with calculating income for self-employed borrowers, please refer to the tools on Slide 16 of this presentation.
- Review YTD paystub and VOE to determine how individual is paid. Review W2s/1099s.
- Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income.
- Generally entered in DU as self-employed.

**Factory Worker**

- Variable work hours including overtime, shift differential, weekend, and holiday pay and/or paid by piece and/or volume of work completed. (i.e. sewing factory).
- Review YTD paystub and VOE to determine hourly rate, guaranteed hours per week, breakdown of base pay, overtime, shift pay, weekend and holiday pay, etc.
- Generally, use a 2 year average of base & overtime pay. Use a 2 year average of combination of shift/weekend/holiday pay and consider this as “other income”.
SPECIAL CONSIDERATIONS, continued

Military- Active Duty

• Determine if employed by the military as a full time active Military Personnel or part-time Reservist. The type of employment (full or part-time) and likelihood of 3 year continuance will determine if the income is considered stable and acceptable as qualifying income.

• If active Military Personnel and/or active Reservist, review a current Leave & Earnings Statement (LES) and the most recent W2s.

• Other sources of income are reported on the LES. Look for income sources such as basic allowance for housing (BAH), rations (BAS), clothing allowances and any special duty pay, i.e. Hazard, flight, jump pay, etc. that may be considered as qualifying income. Review specific product guidelines to determine acceptability of income/allowances.

Minister

• Ministers and other clergy members are typically paid a monthly base pay plus “other” income. The amount of “other” income may vary widely and may or may not be taxable income. Often, ministers are self-employed and/or have unreimbursed business expenses. Housing allowance is typical and may be considered with acceptable verification and documentation. To assist with calculating income for self-employed borrowers, please refer to the tools on Slide 16 of this presentation.

• Review YTD paystubs and W2s/1099s and personal tax returns to determine income. Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income.
Nurse/RN

- Variable work hours including over-time, shift differential, weekend pay and holiday pay throughout the year.
- Review YTD paystubs and VOE to determine hourly pay rate, guaranteed hours per week, breakdown of base pay, overtime, shift pay, weekend and holiday pay.
- Use a 2 year average of base & overtime, combine & average shift pay, weekend/holiday pay.

Physician

- Possible travel and unreimbursed business expenses. Look for Schedule A and/or Schedule E deductions; often self-employed. Typically has some percentage of ownership in a practice and/or partnership and usually paid an annual salary plus bonus. If ownership percentage exists, individual will receive K1 reportable earnings. To assist with calculating income for self-employed borrowers, please refer to the tools on Slide 16 of this presentation.
- Review YTD paystub and VOE to determine how individual is paid and percentage of ownership. Obtain required personal and/or business tax returns to determine percentage of ownership and unreimbursed business expenses or other business losses which must be deducted from qualifying income.
SPECIAL CONSIDERATIONS, continued

Teacher

• Variable payroll schedule; typically 10 month or 12 month payroll cycle.
• Obtain YTD paystub and VOE to determine base salary (note: remember to calculate based on verified pay schedule).
• Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income

Truck Driver

• Possible travel & unreimbursed business expenses; often self-employed. Review YTD paystub and VOE to determine how individual is paid and what percentage, if any, ownership in the business. Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income. To assist with calculating income for self-employed borrowers, please refer to the tools on Slide 16 of this presentation.

Union Worker

• Possible travel and unreimbursed expenses; typically works for numerous employers throughout the year.
• Review YTD paystub, VOE, 2 year W2s (from all employers) and personal tax returns.
• Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income.
SPECIAL CONSIDERATIONS, continued

**Waiter/Waitress**

- Variable work hours with possible base plus tip earnings.
- Review YTD paystub and VOE to determine how individual is paid (i.e. base separated from tip pay), plus W2s.
- Use 2 year average of base pay plus 2 year average of tip pay, assuming YTD earnings support this level of income and do not indicate a decline.
RESOURCES

• Underwriting Support and General Underwriting Questions
  – Provides underwriting support. Contact the Underwriting Department at 800.382.2111, option 1, then option 4
  – Underwriters are available for questions between 1:00 p.m. to 5:00 p.m. EST.

• Resource Center
  – Provides phone and email support on products, policies, and procedures as well as new product rollout and existing product enhancement. Contact the Resource Center at 800.382.2111, option 1, then option 2

Note: The Income Analysis document is located in STMPartner under the General Section.
Thank You For Attending!

An *Instant Replay* of today’s Town Hall on “Income Analysis” will be available at 5:00 p.m. EST through March 9, 2011 at 5:00 p.m. EST
Replay number: 800.759.3452  Passcode 6399

Look for a copy of the “Questions and Answers!” in the Correspondent bulletin being published on Friday, February 11, 2011.
“QUESTIONS AND ANSWERS!”