

# Product Release

Information for Correspondent Lenders of SunTrust Bank  
March 15, 2019 • COR19-009



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## Agency Guideline Revisions

SunTrust Bank (SunTrust) revises Agency product guidelines to align with recently announced Fannie Mae and Freddie Mac updates. With these updates we:

- revise Desktop Underwriter® (DU®) self-employment income guidelines to permit the use of LoanBeam's FNMA SEI 1084 workbook to calculate self-employment income (*for DU loans underwritten by a Correspondent lender with delegated underwriting authority only*)
- revise requirements related to:
  - automobile allowances (non-AUS and DU)
  - commission income (all underwriting methods)
  - unreimbursed business expenses (all underwriting methods)
- clarify general property eligibility requirements (non-AUS and DU)
- add on-frame modular homes as an eligible property type (all underwriting methods)
- provide additional flexibility to modular home construction guidelines (non-AUS and DU) and remove all Loan Product Advisor® (LPA®) overlays relating to modular, prefabricated, panelized, and sectional housing
- clarify requirements for Small Business Administration loans (non-AUS and DU)
- add Kroll Bond Rating Agency as an acceptable property insurance rating agency (non-AUS and DU)
- revise/clarify flood insurance requirements (non-AUS and DU)
- update guidance related to Fannie Mae's DU loan casefile archival policy

We also announce an upcoming DU validation service update regarding commission income validation and continue to improve the presentation of our guidelines.

### Effective Dates

- The DU validation service update regarding commission income validation is effective for DU loan casefiles created on or after the weekend of March 23, 2019.
- The Small Business Administration loans and flood insurance updates are effective immediately for new loan applications on or after March 15, 2019.
- All other updates are effective immediately for new and existing loan applications on or after March 15, 2019.

### Background Information

Fannie Mae SEL-2018-09, DU Version 10.3 March Update Release Notes, and Freddie Mac Bulletin 2019-4 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 Fannie Mae and Freddie Mac requirements.

Additionally, in support of our guideline improvement initiative, we identified opportunities to refresh our guidelines to promote clarity, consistency, and to more closely reflect the Agencies' presentation of guidance.

### Bulletin Details

#### Calculating Self-Employment Income for DU Loans

We now permit the use of a Fannie Mae approved vendor tool (i.e., LoanBeam's FNMA SEI 1084 workbook) to calculate self-employment income for DU loans. DU loans where the use of a Fannie Mae approved vendor tool is used to complete the written analysis and to calculate self-employment income **must** be underwritten by a Correspondent lender approved by SunTrust for delegated underwriting authority. At this time, these transactions are not eligible for purchase if SunTrust underwrites the loan. See the applicable attached before and after matrix for additional details.

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## Bulletin Details, continued

### Calculating Self-Employment Income for DU Loans, continued

Use Special Feature Code (SFC) 777 to identify a DU mortgage that used LoanBeam's FNMA SEI 1084 workbook to calculate self-employment income.

**Note:** [Click here](#) for the appropriate process to notify SunTrust of this required SFC. This information is also located within Section 1.08: Loan Delivery and Purchase Review of our *Correspondent Seller Guide*.

### Automobile Allowances, Commission Income, and Unreimbursed Business Expenses

- For non-AUS, DU, and LPA loans:
  - We revise documentation and income calculation requirements for commission income when the borrower's commission income is 25% or more of the total income as follows:
    - Individual tax returns are no longer required
    - We no longer consider unreimbursed business expenses when calculating commission income

#### Notes:

- As a result of this change, the documentation and income calculation requirements are now the same for all commission income, regardless of its percentage of the total income.
- On the weekend of March 23, 2019, Fannie Mae updates their DU validation service to remove the different treatment of commission income based on the percentage of employment income.
  - Currently, when a borrower receives commission income that is 25% or more of total employment income, the DU validation service requires the lender to obtain both a verification of income (VOI)/verification of employment (VOE) report and tax transcripts to validate the borrower's income. Tax transcripts will no longer be required, and commission income will be treated in the same manner as other wage income and will only require a VOI/VOE report.
- We also remove the requirement for IRS Form 2106, *Employee Business Expenses*
- For non-AUS and DU loans, we revise automobile allowance guidelines as follows:
  - The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio. A history of receipt of this income continues to be required.

#### Notes:

- These above updates are a result of 2018 tax law changes that prevent lenders from being able to identify unreimbursed business expenses.
- Fannie Mae is updating DU messages to reflect these changes on the weekend of March 23, 2019.
  - **For Loans Not Utilizing the DU Validation Service:** Until March 23, 2019, disregard the requirement to obtain IRS Form 1040 or Form 2106 for commission income and automobile allowance.
  - **DU Validation Service Loans:** Until the DU validation service is updated on March 23, 2019, lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation.
- Freddie Mac is updating applicable LPA feedback messages at a later date to reflect these changes. Until then, disregard the feedback messages requiring tax returns covering a two-year period when commission income is greater than or equal to 25% of the total income from the commissioned employment.

### General Property Eligibility Requirements

For non-AUS and DU loans, we clarify general property eligibility requirements to state the following:

- The mortgaged premises must be secured by an interest in real property within the meaning of the Internal Revenue Code as such term is defined in 26 C.F.R. § 1.856-3 (see the applicable attached before and after matrix for additional details)

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## Bulletin Details, continued

### On-Frame Modular and Modular Construction

- For non-AUS, DU, and LPA loans, on-frame modular homes are now an eligible property type (see the applicable attached before and after matrix for additional details regarding eligibility requirements)

**Note:** With this update, we remove an existing LPA overlay!

- For non-AUS and DU loans, we also clarify guidelines to state that multi-unit buildings such as attached condos and townhomes may be built using modular construction techniques that comply with local building codes
- For LPA loans, we also remove the existing overlay that required LPA loans to follow non-AUS requirements. LPA requirements now align with Freddie Mac, which indicate that standard LPA mortgage and property eligibility requirements apply

### Small Business Administration (SBA) Loans

For non-AUS and DU loans, we clarify guidelines to reflect the following related to SBA loans:

- SBA loans secured by the subject property must be treated as subordinate financing and included in the calculation of the TLTV and HTLTV ratios
- The monthly payment of the subordinate lien must be included in the borrower's DTI ratio calculation **unless** the lender can satisfy the "Business Debt in Borrower's Name" requirements (outlined in the Agency Loan Programs product description)

**Note:** Fannie Mae is updating the related messaging in DU for loan casefiles with subordinate financing without a corresponding payment on the weekend of March 23, 2019 to reference the exception permitted for SBA loans.

### Kroll Rating Agency

For non-AUS and DU loans, we add Kroll Rating Agency as an acceptable property insurance rating agency.

### Flood Insurance

For non-AUS and DU loans, we revise/clarify flood insurance requirements as follows:

- A condo homeowners' association is no longer required to maintain a master flood insurance policy for two- to four-unit projects; we now permit individual policies covering a single unit
- Loans in a community in the Emergency Program of the National Flood Insurance Program (NFIP) are no longer required to maintain coverage to make up the difference between what is available through the Emergency Program and the Regular Program. Coverage available under the Emergency Program through the NFIP or a private policy with equivalent coverage is acceptable until the community is approved to participate in the NFIP Regular Program
- If the property is located within a Coastal Barrier Resources System (CBRS) or an Otherwise Protected Area (OPA), flood insurance is required and the lender must verify that the flood insurance policy meets Fannie Mae's requirements (even if the property securing a mortgage loan is not in a special flood hazard area)
- Projects with over 25% commercial space that maintain a master flood insurance policy must obtain coverage, either through a single private policy or a private supplemental policy in conjunction with a General Property Form flood master policy through the NFIP, to equate to coverage available to projects maintaining a Residential Condominium Building Association Policy
- A flood insurance declarations page may not be used to verify that private insurance coverage is equivalent to NFIP coverage; the full policy must be reviewed
- For flood insurance coverage for units in a project, the contents coverage for the building must be the lesser of 100% of the insurable value or the NFIP maximum available (not 100% of the insurable value)
- A mortgagee clause is not required for NFIP master policies or policies through a private insurer

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## Bulletin Details, continued

### DU Loan Casefile Archival Policy

We revise guidelines to reflect that DU loan casefiles are archived and no longer retained in DU 28 months from the date the loan casefile was last updated.

### Other Guideline Improvement Updates

In addition to the updates previously outlined in this communication, we further revise the guideline topics outlined below to promote clarity, consistency, and to more closely reflect the Agencies' language and/or presentation of guidance. For these guideline improvement revisions, guideline intent remains the same.

- Eligible Occupancy/Property Types
- Flood Insurance Coverage Requirements
- Property Insurance Requirements for Insurers

### Before and After Matrices

- [Click here](#) to see the before and after matrix for a detailed overview of the DU validation service commission income validation updates.
- [Click here](#) to see the before and after matrix for a detailed overview of the SBA loans and flood insurance updates.
- [Click here](#) to see the before and after matrix for a detailed overview of all other updates.

### Revised Materials

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

**Important Note:** We will incorporate the updates to the DU validation service guidelines related to commission income validation in the Agency Loan Programs product description on **next** Friday, March 22, 2019.

## Former Guidelines

See the before and after matrices provided in the Bulletin Details section of this bulletin 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 3.

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