

Alert

Update

Reminder

Clarification

Training
Information

Preview

Agency Rental Income, Self-Employment Income, and Shared Appreciation Revisions

Truist Bank (Truist) revises Agency non-AUS and Desktop Underwriter® (DU®) requirements as a result of previously announced Fannie Mae updates. With these updates we:

- revise documentation requirements for rental income used towards qualifying and reconcile differences in the way income earned from subject and non-subject properties is determined
- clarify the requirements for use of self-employment income when the borrower has less than a two-year history of self-employment
- revise requirements related to the allowance of one-year of personal and business tax returns to document self-employment income
- clarify shared appreciation requirements related to the repayment of the Community Seconds loan and the payout of appreciation proceeds

To improve the presentation of our published Agency requirements, we also refresh non-AUS rental income documentation requirements to remove references to *Single-Family Comparable Rent Schedule* (Form 1007) requirements for a **subject** one-unit investment property (*due to the previously published ineligibility of non-AUS investment property transactions*).

Effective Dates

- The new rental income updates are effective for new loan applications dated on or after January 1, 2024.
- For non-AUS loans, the self-employment income updates are effective for new loan applications dated on or after January 1, 2024. For DU loans, the self-employment income updates are effective for DU loan casefiles created on or after January 1, 2024.
- The shared appreciation related updates are effective immediately for existing and new loan applications on or after December 15, 2023.

Background Information

Fannie Mae SEL-2020-03 and SEL-2023-09 announced updates related to rental income documentation requirements. Fannie Mae SEL-2023-09 also announced updates related to the length of self-employment and tax return requirements for self-employed borrowers. Fannie Mae SEL-2023-10 provided additional clarification regarding shared appreciation transaction requirements. In response to these publications, we reviewed impacted standard documents and identified the opportunity to implement revisions to align with Fannie Mae requirements. We also continue to identify opportunities to improve the presentation of our published Agency requirements.

Bulletin Details

Rental Income

For non-AUS and DU loans, we revised rental income requirements as follows:

- aligned the use of rental income that can be considered for qualifying purposes for **non-subject** rental properties that have become rental properties within the last 12 months (investment properties or two- to four-unit primary residences), with that of rental income from the **subject** property

Important Note: This update will require the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited.

- clarified the treatment of rental income when multiple rental properties are owned as follows:
 - when rental income is considered from multiple rental properties, the rental income for all non-subject properties is first calculated for each property, then aggregated; the aggregate total of the income (or loss) is then added to the borrower's total monthly income or included in their monthly obligations, as applicable
- updated documentation requirements for lease agreements as follows:
 - Form 1007 or Form 1025 (as applicable per underwriting method and property type), must support the income reflected on the lease agreement *or* the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments
- refreshed documentation requirements related to when there is a lease on the property that is being transferred to the borrower to more closely align with Fannie Mae's language and/or presentation of guidance (*requirements intent remained the same*)
- provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year

In support of our standards improvement initiative, we also removed non-AUS requirements related to the *Single-Family Comparable Rent Schedule* (Form 1007) for a **subject** one-unit investment property from the "Rental Income" subtopic (*due to the ineligibility of non-AUS investment property transactions, previously published in Product Release [COR21-013](#)*). With this improvement update, Fannie Mae rental income documentation requirements related to Form 1007 for a **subject** one-unit investment property will now be included in the DU requirements section only.

Note: Rental income from a **non-subject** investment property remains eligible under non-AUS requirements. See the "Rental Income" subtopic in today's revised product materials for documentation requirements for rental income from property other than the subject property.

Bulletin Details, continued

Length of Self-Employment

For non-AUS and DU loans, we clarified the requirements for use of self-employment income when the borrower has less than a two-year history of self-employment. The clarifications include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12 months of self-employment income from the current business.

Tax Return Requirements for Self-Employed Borrowers

For non-AUS and DU loans, we revised requirements to allow one year of personal and business tax returns when:

- all self-employed businesses have been in existence for five years, and
- the borrower has had a 25% or greater ownership interest for the last five consecutive years.

Shared Appreciation

For non-AUS and DU loans, we:

- provided additional clarification to the repayment distribution requirements to permit acceleration of a shared appreciation payment in connection with an unauthorized transfer of ownership or change in occupancy status of the property
- clarified what portion of shared appreciation proceeds must be applied against the first mortgage loan as follows:
 - If the shared appreciation loan becomes due and payable, all amounts then due and payable to the first mortgagee must be paid first, followed by other entitled parties, such as the shared appreciation provider and the borrower.

Before and After Matrix

[Click here](#) to see the before and after matrix that provides a detailed overview of all standard revisions.

Revised Materials

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

Former Standards

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

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.

This information is for use by mortgage professionals only and should not be distributed to or used by consumers or other third parties. This is not for solicitation of sales. Information is accurate as of date of posting and is subject to change without current product details and lending procedure. Truist Bank does not guarantee or assume liability for any third-party products or services. Truist Bank is an Equal Housing Lender. ©2023 Truist Financial Corporation. All rights reserved.