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Agency LPA Income, Prorated Tax Credits, and In-File Credit Reports Revisions

Truist Bank (Truist) revises Agency Loan Product Advisor® (LPASM) requirements as a result of previously announced Freddie Mac updates. With these updates we:

- revise requirements related to the following income topics:
 - trust income
 - employed income history, earnings types, and income calculation
- revise requirements related to prorated real estate tax credits paid by the property seller
- remove references to the option of ordering in-file credit reports through LPA, aligning published requirements with LPA functionality

Effective Dates

- The revised trust income requirements are effective for new loan applications dated on or after March 15, 2024.
- The remaining income, prorated real estate tax credits, and in-file credit reports updates are effective immediately for existing and new loan applications on or after March 15, 2024.

Background Information

Freddie Mac Bulletin 2022-10 announced updates related to prorated real estate tax credits and in-file credit reports. Freddie Mac Bulletin 2023-22 announced employed income history, earnings types, and income calculation updates. Freddie Mac Bulletin 2024-1 announced updated trust income requirements. In response to these publications, we reviewed impacted standard documents and identified the need to implement updates to align with Freddie Mac requirements.

Bulletin Details

Trust Income

For LPA loans, we revised trust income requirements as follows:

- **History of Receipt for Trust Income with a Pre-Determined Fixed Payment:** Receipt of income for the most recent one-year must now be documented (*previously, history of receipt was not required*).
- **Documentation of Continuance for all Trust Income Types:** Specified that when the borrower is the trustee, a letter from a trustee is not acceptable documentation to support continuance.

Note: The LPA trust income feedback message will be updated on March 17, 2024 to support these changes.

Bulletin Details, continued

Employed Income History, Earnings Types, and Income Calculation

For LPA loans, we expanded certain requirements and provided additional specificity and guidance related to determining the appropriate income calculation and analysis when underwriting a borrower with employed income. *These updates do not represent a tightening of our existing requirements.* Highlights of the updates are outlined in the table below.

Topic	Update
Employment History Requirements (Primary Employment – Minimum 12-Month History)	Expanded the 12-month minimum employment history requirement for fluctuating hourly earnings to permit prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on the income trend analysis.
Determining the Earnings Type	Provided additional specificity, including updated descriptions and examples, to assist in determining the borrower’s earnings type so the appropriate income analysis and calculation are used to qualify the borrower.
Employed Income Calculation – General Requirements and Guidance	<p>Provided additional guidance on general underwriting topics related to income calculation, including:</p> <ul style="list-style-type: none"> • Pay frequency • Documented income breakdowns to include the purpose and verification method • Verification of pay raises to include the purpose and verification method, as well as how and when to use the calculation method that applies the current pay rate to the average number of hours worked during the prior and current year
Fluctuating Employment Earnings – Income Calculation Method and Trend Analysis	<p>For income trend analysis, we made the following updates based on the degree of income fluctuation:</p> <ul style="list-style-type: none"> • Degree of Fluctuation ≤ 10%: Emphasized that no additional analysis or documentation is required • Degree of Fluctuation > 10% – ≤ 30%: Expanded requirements to state that no additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise

Prorated Real Estate Tax Credits

For LPA loans, we updated requirements for prorated real estate tax credits paid by the property seller in areas where real estate taxes are paid in arrears. Revised requirements now specify that the credit may be considered in determining the funds required to be verified for the mortgage transaction when an escrow account is established and includes the portion of taxes owed by the property seller for the period they owned the property. In such cases, the prorated real estate tax credit from the property seller may offset that portion of the charge for the establishment of the escrow account.

In-File Credit Reports Requested Through LPA

For LPA loans, we revised requirements to remove references to the option of ordering in-file credit reports through LPA. This aligns with LPA functionality, which no longer supports requests for direct credit in-files.

Bulletin Details, continued

Before and After Matrix

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

Revised Material

Click [Agency Loan Standard](#) to review the revised product material.

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.

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