

Alert

**Update**

Reminder

Clarification

Training  
Information

Preview

## DU Value Acceptance + Property Data, LPA ACE, and Other Agency Revisions

Truist Bank (Truist) revises Agency non-AUS, Desktop Underwriter® (DU®) and Loan Product Advisor® (LPA<sup>SM</sup>) requirements as a result of recently announced Fannie Mae and Freddie Mac updates. With these updates we:

- for DU loans, revise value acceptance + property data requirements to reflect condominiums as an eligible property type and incorporate other updates relevant to value acceptance + property data
- for non-AUS and DU loans:
  - clarify income calculation requirements for self-employed borrowers and borrowers with less than a 25% interest in a business
  - update nontraditional credit history requirements to include additional examples of nontraditional credit references related to housing expenses
  - clarify qualifying rate requirements for 7/6-Month and 10/6-Month SOFR ARM transactions
  - revise the list of unacceptable appraisal practices
  - incorporate requirements related to loans requiring flood insurance during a National Flood Insurance Program (NFIP) lapse
- for LPA loans:
  - revise automated collateral evaluation (ACE) appraisal waiver requirements to reflect cash-out refinances as an eligible transaction type
  - revise age of tax return requirements
  - clarify requirements related to the Internal Revenue Service (IRS) Form 4506-C
  - revise requirements for direct account verifications
- for non-AUS, DU, and LPA loans, clarify signature requirements for notes

We also refresh various LPA requirements to align with Freddie Mac's wording and/or presentation of guidance (*intent of requirements remain the same*).

### Effective Dates

All updates are effective immediately for existing and new loan applications on or after April 19, 2024.

### Background Information

Fannie Mae SEL-2024-01 and Freddie Mac Bulletins 2024-1 and 2024-3 announced updates impacting various Agency requirements. In response to these publications, we reviewed impacted standard documents and identified the opportunity to implement revisions to align with Fannie Mae and Freddie Mac requirements. We also continue to identify opportunities to improve the presentation of our published Agency requirements.

## Bulletin Details

### DU Value Acceptance + Property Data

For DU loans, we revised value acceptance + property data requirements as follows:

- expanded property type eligibility to include condominiums (attached and detached)
- removed references to “C6 condition and Q6 quality” since the Uniform Property Dataset (UPD) does not require the collection of condition and quality ratings
- removed reference to “property data collection to be obtained after the initial DU offer” to allow property data collection use in multiple transactions

Additionally, we added reference to the *Individual Condominium Unit Appraisal Report (Hybrid)* (Form 1073 Hybrid), for use when the value acceptance + property data offer is lost due to changes in qualifying loan characteristics.

**Reminder:** *DU loans originated with a DU value acceptance + property data offer (or hybrid appraisal) must be underwritten by the Correspondent lender (approved by Truist for delegated underwriting authority).*

### Use of Business Income

For non-AUS and DU loans, we clarified income calculation and documentation requirements for borrowers using business income to qualify.

- The following updates apply to self-employed borrowers and borrowers with less than a 25% interest in a business:
  - A lender may use a method other than the Quick Ratio or Current Ratio to confirm business liquidity, as applicable. When an alternative method is used, a documented rationale must be provided.
  - The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.
- The following updates are applicable only to borrowers with less than a 25% interest in a business:
  - If business tax returns are provided, the lender is not required to analyze the viability of the business. The lender may focus solely on the borrower’s proportionate share of business income as reflected on the Schedule K-1.
  - Income reported on Schedule K-1 can only be considered for qualifying if the lender verifies that the income was actually distributed to the borrower consistent with the level of business income being used to qualify, or the business has adequate liquidity to support the withdrawal of earnings.

### Eligible Types of Nontraditional Credit References

For non-AUS and DU loans, we expanded the list of eligible nontraditional credit references related to housing payments to include real estate tax payments made on a primary residence, regardless of the payment frequency (for homes owned free and clear). We also provided additional clarity related to guidance for rent and privately held mortgage loan housing payment references.

## Bulletin Details, continued

### Qualifying Rate for 7/6-Month and 10/6-Month SOFR ARMs

For non-AUS and DU loans, we clarified qualifying rate requirements for Agency 7/6-Month and 10/6-Month SOFR ARMs to reflect that borrowers must be qualified using **no less than** the note rate for 7/6-Month and 10/6-Month SOFR ARMs that are not:

- Higher-Priced Covered Transactions (HPCTs)
- Higher-Priced Mortgage Loans (HPMLs)
- Loans in the following states: Maryland, Massachusetts, and New Mexico

### Unacceptable Appraisal Practices

For non-AUS and DU loans, we added “crime rate or related data” and “crime (and its variants)” as examples to the list of unacceptable appraisal practices.

### Flood Insurance Requirements

For non-AUS and DU loans, we incorporated previously issued temporary requirements related to loans requiring flood insurance during a NFIP lapse.

### LPA ACE Eligibility

For LPA loans, we revised ACE appraisal waiver requirements to reflect cash-out refinance transaction eligibility. The maximum LTV/TLTV ratios are 70% for a cash-out refinance mortgage secured by a primary residence and 60% for a cash-out refinance mortgage secured by a second home.

**Important Note:** For an LPA cash-out refinance mortgage that was previously identified as eligible for an ACE+ Property Data Report (PDR) offer; however, after resubmission to LPA, the Last Feedback Certificate identifies the mortgage as eligible for an ACE appraisal waiver offer:

- The lender may accept the ACE appraisal waiver offer only if a PDR has **not** already been obtained.
- If a PDR has already been obtained, the PDR must be submitted to Freddie Mac via the Beyond ACE application programming interface (bACE API) and the cash-out refinance mortgage must continue with the ACE+ PDR offer (if eligible), regardless of the ACE eligibility reflected on the Last Feedback Certificate.

### Age of Tax Returns

For LPA loans, we revised the age of tax return requirements as follows:

- updated the requirements to reflect dates specific to the 2023 tax year
- expanded requirements to permit alternative documentation in lieu of the IRS confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows:
  - Confirmation business tax returns were filed after IRS filing due date for the prior year(s) (e.g., 2022 business tax return in file was signed later in the year (e.g., October)) or documentation from third-party tax return preparer confirming 2023 business return has not yet been filed; and

## Bulletin Details, continued

### Age of Tax Returns, continued

- Documented evidence of continued income stability using at least one of the examples listed in the “Self-Employment Income/Business and Income Analysis” requirements in the row labeled “Business and/or individual tax return(s) – most recent calendar year not yet available” (*outlined in the Agency Loan Standard document*)
- specified that for all mortgages with note dates on or after November 01, 2024, the most recent tax return(s) must be no older than 2023, regardless of other factors such as tax filing extension status or IRS tax filing relief status

### IRS Form 4506-C

For LPA loans, we revised requirements to specify that the signed IRS Form 4506-C must be maintained in the mortgage file.

### Direct Account Verifications

For LPA loans, we revised requirements for direct account verifications. With this update, verifications that are generated electronically by a financial institution are not required to contain the title, signature, and phone number of a representative of the financial institution, which more closely aligns with the requirements for third-party asset verifications.

### Signature Requirements for Notes

For all underwriting methods (non-AUS, DU, and LPA), we clarified signature requirements for notes to reflect that an individual who is not a loan applicant but whose credit is used in qualifying for the loan pursuant to a requirement of applicable law, is not required to sign the note, but if they have an ownership interest in the property must be named in and sign the security instrument.

### Standards Improvements Updates

For LPA loans, all other updates made to the requirements outlined below were in support of our standards improvement initiative. With these additional updates, we refreshed LPA requirements to align with Freddie Mac’s wording and/or presentation of guidance (*intent of requirements remained the same*):

- ACE
- Age of Documentation Requirements
- Age of Tax Return Requirements
- Homeownership Education
- Self-Employment Income
- Underwriting the Borrower: Borrower Cash Flow Included in the Loan Product Advisor Assessment
- Underwriting the Borrower: Rent Payment History Included in the Loan Product Advisor Assessment

## Bulletin Details, continued

### Before and After Matrices

- [Click here](#) to see the before and after matrix that provides a detailed overview of all non-AUS and DU requirements revisions.
- [Click here](#) to see the before and after matrix that provides a detailed overview of all LPA requirements revisions.

### Revised Material

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

## Former Standards

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

## Other Resources

Support Group	Description and Contact Information:
Correspondent Relationship Coordinator	Specific questions on applying this procedure to specific loan files. Contact your Correspondent Relationship Coordinator 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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