Section 2.06 – Key Loan Standard

In this Product Description

This product description contains the following topics.

Overview

Program Summary

The overall objective of our residential lending function is to participate in the growth of our communities, and in the process, enhance the company's long-run profitability, return on assets, and return on equity. It is the intent of our company's senior management to operate a conservative banking institution with a sound residential loan portfolio wherein our charge-offs and classified loans will be among the lowest in the industry. Senior management also believes that the residential lending function must reach every level of the community and fulfill its legitimate consumer needs. Therefore, it is our policy to encourage residential loans while ensuring that our company's standards for safety and soundness are properly supported.

This product description describes product standards and requirements for Fully Amortizing Fixed Rate and Adjustable-Rate Mortgage Options offered with the Key Loan program.

Required Checklist for the Key Loan Delegated Transactions

To ensure that the loan is being originated within the standards of the Key Loan Standard, the *Key Loan Eligibility Checklist* (COR 0650) is REQUIRED to be completed and placed in the loan file on ALL delegated Key Loan transactions.

Features and Benefits

Features and Benefits of the Key Loan Standard are as follows:

Features	Benefits
Loan amounts up to $3,000,000.	More borrowing power.

Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- 2025
- 2024
- 2023
- 2022
- 2021
- 2020
- 2019

Loan Terms

Assumptions

- Fixed rate products are not assumable, except as permitted by state and federal law.
- ARM products (5/6-Month, 7/6-Month and 10/6-Month ARMs) are assumable after the initial fixed rate period (i.e., after 60 months for the 5/6-Month ARM, after 84 months for the 7/6-Month ARM, and after 120 months for the 10/6-Month ARM).
- Borrower(s) must contact their current mortgage servicer for additional information.

Loan Terms

The table below shows eligible loan terms.

Product	Eligible Loan Term
Fully Amortizing Fixed Rate	15 or 30 Years
Fully Amortizing 5/6-Month SOFR ARM	10-30 years
Fully Amortizing 7/6-Month SOFR ARM	10-30 years
Fully Amortizing 10/6-Month SOFR ARM	15-30 years

Maximum Loan Amount

The maximum loan amount is $3,000,000.

Minimum Loan Amount

- The minimum loan amount is always one ($1) dollar above the conforming loan limit.

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Maximum Loan-to-Value (LTV)

Maximum Loan-To-Value (LTV)

- If the property is deemed to be located in a declining market as noted by the *Declining Market Index*, the maximum allowable LTV/TLTV for the product as stated in the product standards will require a reduction to the LTV/TLTV as previously outlined in the Declining Market Index.
- See the "Declining Markets" subtopic in the "Appraisal Requirements" topic in 2.06 Key Loan Standards for additional information.

Owner Occupied – Purchase/Rate-Term* (1-Unit SFR/1-Unit PUD & Condo) – Fixed Rate and 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs					
Property Type	Loan Amount	FICO 680-699	FICO 700-719	FICO 720-739	FICO 740+
		LTV/TLTV	LTV/TLTV	LTV/TLTV	LTV/TLTV
1-Unit SFR /PUD & Condo	$1,500,000	70%	80%	85%[1]	89.99%[1]
	$2,000,000	65%	75%	80%	80%
	$3,000,000	N/A	N/A	75%	75%

[*] *Declining market reductions to the maximum LTV/TLTV are waived for rate/term refinance transactions when the borrower's current loan is in the Truist portfolio. Refer to the* "Declining Markets" subtopic in the "Appraisal Requirements" topic in 2.06 Key Loan Standards for additional information.
[1] *Maximum LTV for Texas Section 50 (a)(6) Mortgages is 80%; refer to Section 2.01c - Texas Section 50(a)(6) Mortgages for more detail.*

Owner Occupied – Cash-Out – Fixed Rate and 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs					
Property Type	Loan Amount	FICO 680-699	FICO 700-719	FICO 720-739	FICO 740+
		LTV/TLTV	LTV/TLTV	LTV/TLTV	LTV/TLTV
1 Unit/PUD	$1,500,000	70%	70%	70%	75%
	$2,000,000	N/A	N/A	N/A	55%
Owner Occupied – Cash-Out (Condo) – Fixed Rate and 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs					
Property Type	Loan Amount	FICO 680-699	FICO 700-719	FICO 720-739	FICO 740+
		LTV/TLTV	LTV/TLTV	LTV/TLTV	LTV/TLTV
Condo	$1,500,000	70%	70%	70%	70%

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Maximum Loan-to-Value (LTV), (continued)

Maximum Loan-To-Value (LTV)

2nd Home – Purchase/Rate-Term* – Fixed Rate and 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs					
Property Type	Loan Amount	FICO 680-699	FICO 700-719	FICO 720-739	FICO 740+
		LTV/TLTV	LTV/TLTV	LTV/TLTV	LTV/TLTV
1Unit/PUD	$1,000,000	70%	75%	75%	80%
	$1,500,000	70%	70%	70%	75%
	$2,000,000	N/A	N/A	60%	65%
2nd Home – Purchase/Rate-Term (Condo)* – Fixed Rate and 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs					
Property Type	Loan Amount	FICO 680-699	FICO 700-719	FICO 720-739	FICO 740+
		LTV/TLTV	LTV/TLTV	LTV/TLTV	LTV/TLTV
Condo	$1,000,000	70%	70%	70%	75%
	$1,500,000	70%	70%	70%	70%

**Declining market reductions to the maximum LTV/TLTV are waived for rate/term refinance transactions when the borrower's current loan is in the Truist portfolio. Refer to the* "Declining Markets" *subtopic in the "Appraisal Requirements" topic in 2.06 Key Loan Standards for additional information.*

Standard Maximum Loan-to-Value: Second Home – Cash-Out Refinance

Not Eligible

Standard Maximum Loan-to-Value: Investment Property

Not Eligible

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Maximum Number of Financed Properties & Borrower Exposure

Reference: See Section 1.22: Maximum Number of Financed Properties and Borrower Exposure Standard of the *Correspondent Seller Guide* for requirements.

Prepayment Penalty

There is no prepayment penalty.

ARM Disclosures

Reference: See General subtopic in the Application and Consumer Compliance topic subsequently presented in this product description for additional information.

ARM Parameters

Conversion Option
A conversion option is not available. All Key Loan Program SOFR ARM products are non-convertible.

Interest Rate Adjustment

ARM Program	Interest Rate Adjustment
5/6-Month SOFR ARM	The interest rate will be fixed for a period of five (5) years (60 payments). The initial rate change will take place on the sixty-first (61st) payment due date and on that day every 6 months thereafter, using the current index figure 45 days before the first interest rate adjustment.
7/6-Month SOFR ARM	The interest rate will be fixed for a period of seven (7) years (84 payments). The initial rate change will take place on the eighty-fifth (85th) payment due date and on that day every 6 months thereafter, using the current index figure 45 days before the first interest rate adjustment.
10/6-Month SOFR ARM	The interest rate will be fixed for a period of ten (10) years (120 payments). The initial rate change will take place on the one hundred and twenty first (121st) payment due date and on that day every 6 months thereafter, using the current index figure 45 days before the first interest rate adjustment.

Index
The index is the 30-day average of the Secured Overnight Financing Rate (SOFR) as published by the Federal Reserve Bank of New York.

Margin/Floor
- For 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs, the base margin is 3.00%.
- The floor is 3.0%.

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ARM Parameters, continued

Interest Rate Caps
The following table shows caps that apply to the applicable ARM programs:

ARM Program	Caps	Index
5/6-Month ARM	• 2% cap, up or down, on the initial change, • 1% cap, up or down, on each subsequent 6-month change thereafter, and • 5% lifetime cap (over the note rate), only on increases.	SOFR
7/6-Month ARM	• 5% cap, up or down, on the initial change, • 1% cap, up or down, on each subsequent 6-month change thereafter, and • 5% lifetime cap (over the note rate), only on increases.	SOFR
10/6-Month ARM	• 5% cap, up or down, on the initial change, • 1% cap, up or down, on each subsequent 6-month change thereafter, and • 5% lifetime cap (over the note rate), only on increases.	SOFR

Negative Amortization
Negative Amortization is not available.

Eligible Transactions

Construction Lending

- Upon completion of the construction of a home, the conversion of an interim construction loan or term note into permanent financing may be considered a purchase money transaction or a refinance transaction depending on the type of closing (one-time closing or two-time closing).

Construction Lending Single-Closings

Construction Lending – Parameters for Single Closings

- **Conversion of Construction-to-Permanent Financing Overview**
  - The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new primary single-unit residence (second homes are ineligible). Complete tear down transactions are allowed under these Construction Lending – Single-Closing transaction requirements.
  - Construction-to-permanent financing can be structured as a transaction with one closing. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.
  - All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Truist. The lender must retain in its individual loan file the documents outlined within the subsequent section titled Age of Appraisal Documents. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.
  - The lender must use the uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property.
  - Attached units in a condo project are ineligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.

- **Single-Closing Construction Lending Transaction Overview**
  - Single-closing construction lending transactions must be underwritten by lenders with delegated authority; these transactions are not eligible for non-delegated underwriting.
  - Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent financing at the same time. When a single-closing transaction is used, the lender will be responsible for managing the disbursement of the loan proceeds to the builder, contractor, or other authorized suppliers.
  - Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage loan upon completion of the construction.

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Construction Lending Single-Closings, continued

- **Single-Closing Construction Lending Transaction Overview**, continued
  - Loans that combine construction and permanent financing into a single transaction cannot be purchased by Truist until the construction is completed and the terms of the construction loan have converted to the permanent financing.
  - Payoff of cost of overruns and separately contracted improvements that were incurred outside of the interim construction financing are not allowed for single closing construction lending transactions.

    Reference: See subsequent topic “Modifications of Single-Closing Construction-to-Permanent Mortgages” regarding an increase in the original loan amount.

- **Terms of Construction Loan Period**
  - The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 24 months and the total period may not exceed 24 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 24 months. After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period).
  - As examples, lenders may structure the construction loan period as follows:
    - 6–month construction period with up to 18 months of construction extensions,
    - 12–month construction period with up to 12 months of construction extensions,
    - 18–month construction period with up to 6 months of construction extensions, or
    - 24-month construction period. No extensions permitted.
  - Exceptions to the total period of 24-months will not be granted. If the construction loan period exceeds the requirements above, the lender must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible (see “Construction Lending – Two Closings”).

- **Eligible Loan Purposes**
  - A single-closing construction-to-permanent mortgage loan may be closed as:
    - a purchase transaction, or
    - a limited cash-out refinance transaction.
  - When a purchase transaction is used, the borrower is not the owner of the lot prior to the close of the interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.
  - When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot prior to the closing of the interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a “true” limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply. See the “Limited Cash-Out Refinances” subtopic for additional guidance.

    Note: Cash-out refinance transactions are not eligible for single-closing construction-to-permanent mortgages.

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Construction Lending Single-Closings, continued

- **Calculating the LTV Ratio**
  - Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, TLTV, and HTLTV ratios, as applicable.
  - The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below:

Transaction Type	Lot Ownership	LTV Ratio Calculation
Purchase	Borrower is **not** the owner of record of the lot prior to the close of the interim construction financing	Divide the loan amount of the construction-to-permanent financing by the lesser of: • the purchase price (sum of the cost of construction and the sales price of the lot), or • the “as 100% completed” appraised value of the property (the lot and improvements).
Limited Cash-out Refinance	Borrower is the owner of record of the lot ≥12 months prior to the close of the interim construction financing.	Value used to calculate the LTV is based on the appraised value, as 100% completed.
	Borrower is **not** the owner of record of the lot ≥12 months prior to the close of the interim construction financing.	Not eligible
	Borrower acquired the lot as a gift or by inheritance (regardless of date of acquisition)	Value used to calculate the LTV is based on the appraised value, as 100% completed.

- **Modifications of Single-Closing Construction-to-Permanent Mortgages**
  - If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:
    - The modification must take place prior to or at the time of conversion.
    - Only the following loan terms may be modified in a single-closing transaction:
      - interest rate,
      - loan amount,
      - loan term, and
      - amortization type.

      Notes:
      - The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization.
      - Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.

    - The loan must be underwritten based on the terms of the loan as modified and delivered.

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Construction Lending Single-Closings, continued

- **Modifications of Single-Closing Construction-to-Permanent Mortgages,** continued

    - Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property.
    - If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that:
        - extends the effective date of the coverage to the date of the recording of the modification agreement;
        - increases the amount of the policy to the new modified loan amount; and
        - confirms that the lien of the mortgage, as modified, continues to be a first lien.

    Note: Both the original construction loan amount at closing and the final modified loan amount must meet the loan limits currently in effect.

    - The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents.
    - The modification must be documented on one of the following:
        - *Loan Modification Agreement (Providing for Fixed Interest Rate)* (Fannie Mae Form 3179);
        - *Loan Modification Agreement (Providing for Adjustable Interest Rate)* (Fannie Mae Form 3161*);* or
        - a substantially similar document.

- **Underwriting Single-Closing Construction-to-Permanent Mortgages**
    - The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing.
    - If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten.

- **Age of Credit Documents**
    - All credit documents must be no more than 120 calendar days old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, assets for reserves/fees for modification costs and credit report documents must be no more than 120 calendar days old at the time of conversion to permanent financing.

- **Age of Appraisal Documents**
    - For all single-closing transactions, the effective date of the appraisal must be no more than 120 calendar days prior to the note date (that is, the closing date of the construction loan). Additionally, at the time of completion of construction, an *Appraisal Update and/or Completion Report* (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the Requalification Requirements, below.

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Construction Lending Single-Closings, continued

- **Requalification Requirements**
  - Requalification of the borrower(s) is required at the time of conversion to permanent financing if:
    - the LTV ratio increased due to a decline in property value,
    - updated credit documents were obtained, or
    - as otherwise required per the modified loan term in the table above.
  - To be eligible for purchase by Truist, the loan must be eligible per Key eligibility requirements.
  - When requalification is required:
    - the LTV ratio must be adjusted based on the updated appraisal, if applicable;
    - if credit documents exceed the age of documentation requirement (120 calendar days), the updated income, credit, and liability information must be considered; and
    - the loan data at delivery must match the data considered in the final requalification of the loan.

- **Loan Conversion Documentation Options**
  - The construction loan may be converted into a permanent loan in either of the following ways:
    - **Option 1**: A construction loan rider must be used to modify the uniform instrument that will be used for the permanent loan. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent mortgage is delivered. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent loan will begin and end. The lender also will need to record the amended documents before the permanent loan is sold.
    - **Option 2**: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent loan is delivered.
  - The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.

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Construction Lending Two-Closings

Construction Lending – Parameters for Two Closings

- The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.
- Construction-to-permanent financing can be structured as a transaction with two separate closings.
- Two-closing construction-to-permanent mortgage transactions utilize two separate loan closings with two separate sets of legal documents. A modification may not be used to update the original note, rather a new note must be completed and signed by the borrower(s). The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements. The borrower must hold title to the lot, which may have been previously acquired.
- All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Truist. The lender must retain in its individual loan file a Form 1004D of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.
- Truist does not provide financing for construction loans; however, Truist does purchase loans that were used to provide the permanent financing.
- The lender that provides the permanent long-term mortgage may be a different lender than the one that provided the interim financing. Only the permanent long-term mortgage is eligible.
- The lender must underwrite the borrower based on the terms of the permanent mortgage.
- Overruns are acceptable for two-time closing construction transactions if supported by a contract or contract addendum and appraisal, specifically as follows -
  - Builder/subcontractor is paid on the CD for the amount of the contract overruns, or subordinate recorded lien used for documented overruns is paid on the CD, and
  - the appraisal has been updated to reflect overrun improvements.

Eligible Loan Purposes & Calculating the LTV Ratio:

- In a two-closing construction-to-permanent transaction, the permanent mortgage delivered to Truist may be closed as:
  - a limited cash-out refinance transaction, or
  - a cash-out refinance transaction.

- Appraisal Date Requirements (including appraisal re-use requirements) and Appraisal Requirements for New Construction Properties as outlined within Section 1.07 Appraisal Standard must be followed.

  Note: Cash-out transactions require a new appraisal.

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Eligible Transactions, Continued

Construction Lending Two-Closings, continued	**Eligible Loan Purposes & Calculating the LTV Ratio, continued**: • Two-closing construction-to-permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, TLTV, and HTLTV ratios, as applicable, as outlined within subsection Maximum Loan-To-Value (LTV). For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard eligibility and underwriting requirements apply. • Attached units in a condo project are not eligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.
Construction Lending - Eligible Permanent Mortgage Products	• Fixed Rate (Fully Amortizing) • Fully Amortizing 5/6-Month SOFR ARM • Fully Amortizing 7/6--Month SOFR ARM • Fully Amortizing 10/6-Month SOFR ARM

Installment Land Contracts

- Proceeds of a mortgage transaction that are used to pay off the outstanding balance on an installment land contract (or contract or bond for deed) may be considered either a purchase transaction or a limited cash-out (rate/term) refinance transaction.
- Cash out refinances are ineligible.
- The installment land contract must be recorded.
- A copy of the executed land contract or contract for deed must be included in the loan file.
- If the land contract was recorded within the 12 months preceding the date of the loan application, the transaction must be considered a purchase transaction.
- For purchase transactions, all of the loan proceeds must be used to pay the outstanding balance under the contract, and no loan proceeds may be disbursed to the borrower.
    - The LTV for purchase transactions is based on the lesser of the following:
        - total acquisition cost (purchase price indicated on the original land contract or contract or bond for deed, plus any cost the purchaser incurs for rehabilitation, renovation, or energy conservation improvements, as documented in the file) or
        - the current appraised value.
- For refinance transactions, the land contract must have been recorded more than 12 months prior to the loan application.
    - For refinance transactions, the file must include third party documentation evidencing payments in accordance with the land contract or contract for deed for the most recent twelve (12) months.
    - The LTV for limited cash-out (rate/term) refinance transactions is based on the current appraised value.
- The Closing disclosure must reflect the applicable transaction (i.e., if purchase, seller issues should be addressed; if refinance, there should not be a reference to a seller – seller is treated as an existing lien).
- The above standards apply regardless if title to the subject property has transferred to our borrowers.
- Any second liens must be paid off with the new loan if they are purchase money seconds.
- Properties with a second lien that are not purchase money may not be re-subordinated.

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Non-Arm's Length/Conflict-of-Interest

General

- Certain types of loan transactions may generate an increased risk due to the relationships of the people or companies involved in the transaction. Additional due diligence must be taken during the loan origination process when assessing the risk of these types of loans. Prudent underwriting and thorough analysis of the parties to the transaction may reveal a non-arm's length or conflict-of-interest concern.
- Non-Arm's Length/Conflict-of-Interest transactions are eligible as outlined within this document; however, require additional scrutiny to mitigate risk associated with fraud.

Definitions: Non-Arm's Length

- A non-arm's length transaction occurs when a direct personal, business or financial relationship exists between the borrower and another interested party to the loan transaction that could potentially influence a decision with regards to price or costs for closing the loan. Interested parties to the loan transaction could include, but are not limited to the following:
- builder,
- developer,
- seller,
- lender,
- mortgage broker,
- real estate broker/realtor,
- appraiser/appraisal company,
- closing attorney/settlement agent/settlement company,
- employee, or
- employer.
- This relationship may add additional risk by masking or misrepresenting the terms of the loan and may require additional review and documentation.

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Non-Arm's Length/Conflict-of-Interest, continued

Definitions: Conflict-of- Interest

- At times, the relationship between the borrower and another interested party to the transaction are not the only relationships of concern. Any party to the transaction who has a direct or indirect personal, business, or financial relationship could represent a conflict-of-interest, because this relationship may influence the transaction. Conflict-of-interest relationships include, but are not limited to the following:
- The realtor or lender is the seller of the property,
- the property builder is the real estate broker/realtor,
- the real estate broker/realtor is acting as the listing and/or selling agent for a property they own,
- the lender is the mortgage holder,
- the borrower is employed by the lender,
- the lender is providing second mortgage financing behind a Truist first mortgage,
- the closing agent or agency has a business, personal, or ownership interest/stake/joint venture/partnership with the lender, borrower, realtor, builder, or seller,
- the transaction involves a vendor (such as an appraiser, settlement agency or title company) who is involved in the lending process of the subject property,
- an employee of the lender (loan officer, processor, underwriter, etc.) is the seller, or is related to, or associated with, the seller of the property,
- Employees of the Correspondent lender may NOT be directly involved in the underwriting of a loan for an immediate family member(s), and/or
- Truist standards prohibit individuals with an interest in the property or transaction (whether direct or indirect, financial or otherwise) from influencing the selection or engagement of the appraiser.

Reference: See the *Appraiser Independence Requirements* topic in General Section 1.07 Appraisal Standard in the *Correspondent Seller Guide* for further details.

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Non-Arm's Length/Conflict-of-Interest, continued

Identifying a Non-Arm's Length or Conflict of Interest Transaction

- Factors may be present that could indicate possible non-arm's length or conflict-of-interest transactions. They include, but are not limited to, the following examples:
  - Parties related by blood, marriage or domestic partner.
  - Parties related by a business relationship.
  - An employee is purchasing a property from their employer.
  - Mortgagors employed in the real estate or construction trades who are involved in the construction, financing or sale of the subject property.
  - The subcontractor is purchasing the home from the builder or developer.
  - A short sale transaction evidenced by a recent Notice of Default or a purchase price insufficient to fully satisfy existing lien(s), and borrower has at one time or another occupied the subject property.
  - Property flipping transactions.
  - Property purchased at auction.

- The following transactions are usually considered "arm's length" even though they are between family members.
  - Spousal buyout - evidence that both parties are currently on title must be documented.
  - Interest buyout of inherited property - evidence of estate, death, recent transfer of ownership must be documented
  - Gift of Equity

Reference: See applicable loan sections for additional information on spousal buyout, inherited property, or gift of equity.

Ineligible Settlement Agent Standards
Reference: See General Section 1.39: Ineligible Settlement Agent Standard in the Correspondent Seller Guide to access the Truist Ineligible List.

Eligible Occupancy Type
- Primary Residence
- Second Home

Note: Mortgage loans on newly constructed homes secured by a second home are not allowed if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

Maximum LTV/TLTV/ HTLTV
Follow current maximum product LTV/TLTV/HTLV requirements.

Transaction Type
Purchases and Refinances

Continued on next page

Non-Arm's Length/Conflict-of-Interest, continued

Property Ownership
On purchase transactions, verification the borrower is currently not on title, nor has been on title to the subject property in the previous twenty-four (24) months prior to application.

Documentation: General
The borrower, or other interested parties to the transaction, must provide written explanation stating the relationship and reason for transaction.

Documentation: Appraisal
A full appraisal is required for all non-arm's length/conflict-of-interest transactions, and must include:

- Verification of the purchase price,
- Last sale date,
- A recent listing of the subject property.

Underwriting Requirements
If a non-arm's length or conflict-of-interest transaction is identified, the proper level of due diligence must be performed by utilizing all applicable fraud tools to ensure the transaction is eligible and that the relationship between the parties has not influenced or compromised the transaction or is not fraudulent.

Property Assessed Clean Energy (PACE) Loans

- Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to refinance residential energy improvements and are generally repaid through the homeowners' real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages.
- A purchase or refinance (limited cash-out and cash-out) loan transaction with a PACE loan remaining in a first or subordinate lien position to the new mortgage transaction is not eligible. All PACE obligations must be paid off as a condition to obtaining a new mortgage loan.
  - On a limited cash-out refinance transaction, the proceeds from the new mortgage transaction may not be used to pay off the PACE loan.
  - On a cash-out refinance transaction, it is acceptable to use the proceeds from the new mortgage transaction to pay off the PACE loan.
- For purchase and refinance transactions, funds to pay off the existing PACE loan must be documented.

Continued on next page

Purchase Transactions

- The borrower may not receive any cash back through a purchase money transaction, other than an amount representing:
  - a reimbursement for the borrower in advance (i.e. earnest money deposit, appraisal, and credit report fees, etc.), or
  - a legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears.
- If the borrower receives cash back for a permissible purpose (as outlined above), it MUST be confirmed that the minimum borrower contribution requirement associated with the selected mortgage product, if any, has been meet.

Refinance Transactions

See the *Refinances* topic subsequently presented for information on refinance transactions.

Continued on next page

Validation of Parties to the Mortgage Transaction

- For all transactions, it must be confirmed, as of the note date, that all borrowers and all parties that played a role in the origination of the mortgage or the underlying real estate transaction are not found on the U.S. General Services Administration Excluded Parties List GSA EPL, HUD Limited Denial of Participation List HUD LDP, or Truist Ineligible Lists.
    - If a party whose name is on the GSA EPL, HUD LDP, or Truist Ineligible List is a borrower on the mortgage or played a role in the origination of a mortgage or the underlying real estate transaction, the mortgage is not eligible to be funded by Truist.

  Notes:
    - Name variations (AKAs) including maiden names, etc. shown on the credit report, in addition to the borrowers' names must be checked.
    - Parties to the transaction must be checked prior to the loan closing, but not rechecked after the closing documents have been returned.
    - If a positive result for any of the parties to the transaction is returned, additional due diligence and investigative measures are required to ensure that the applicable party to the loan is not the party found on the exclusionary list (using information such as prior addresses and employment checks).

- The lender is required to document and implement as part of its hiring process a procedure for checking all employees, including management, involved in the origination of mortgage loans (including application through closing) against the GSA EPL, the HUD LDP List, and the Federal Housing Finance Agency's (FHFA) Suspended Counterparty Program (SCP) list.
- Allowing individuals on these lists to manage or perform origination functions may increase the lender's exposure to fraud. Therefore, Truist requires that if, at the time of hire, the lender has determined that an individual is on the GSA, LDP, or SCP list, the lender may not permit that employee to manage or perform origination functions on loans funded or purchased by Truist.

  Note: An individual confirmed to be on one of these lists for any reason may not be permitted to manage or perform origination functions on any loans funded or purchased by Truist. For example, an individual who is excluded from participating in HUD multifamily programs should be excluded from involvement in the origination of any Truist loans.

- Lenders can access the GSA, LDP, and SCP lists via the links provided below:
    - GSA EPL – available through GSA's System for Award Management website. The review of GSA EPL must include a search for actions taken across all federal agencies.
    - HUD's LDP List – available through HUD's website.
    - FHFA's SCP List – available through FHFA's website.
- The GSA and LDP lists are also available via AllRegs.

- **Documentation Requirements**
    - Certification of exclusionary list results must reflect the date checked, validate that all parties to the transaction are not reflected on any lists, and retained in the loan file.

Reference: See the "Truist Ineligible List Certification" topic in Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional information.

Eligible Transactions, Continued

Fraud Prevention	Reference: See Section 1.19 Fraud Prevention Standard in the *Correspondent Seller Guide* for additional information on fraud prevention.
Higher Priced Mortgage Loans (HPML) and Higher Priced Covered Transactions (HPCT)	Key Loans are eligible for HPML and HPCT transactions.

Refinances

Continuity of Obligation

Reference: See the *Cash-Out Refinance, and Limited Cash-Out (Rate/Term) Refinance* subtopics for additional information.

- The objective of the continuity of obligation requirement is to address refinance transactions that include a borrower that is on title, but not obligated on the original mortgage note being satisfied.
- The continuity of obligation standards do NOT apply for properties recently inherited, spousal/partner buyouts, installment land contract transactions, or properties owned free and clear.
- An acceptable continuity of obligation (assuming that there is an outstanding lien against the property) exists when:
  - there is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, OR
  - the borrower has been on title for at least 12 months (but not obligated on the existing loan being refinanced) AND residing in the property for at least 12 months AND has either:
    - paid the mortgage for the last 12 months (including the payments for any secondary financing), OR
    - can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.

  Note: The existing loan being refinanced and the title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of ownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement.

- Loans with an acceptable continuity of obligation may be underwritten and priced as either a limited cash-out (rate/term) or a cash-out refinance based on standard definitions.

  Reference: See the *Cash-Out Refinance and Rate/Term Refinance* subtopics subsequently presented for additional information.

- If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, the following applies:
  - the loan must be underwritten and priced as a cash-out refinance transaction,
  - the borrower must be on title for a minimum of six (6) months prior to loan application, and
  - the maximum LTV/TLTV/HTLTV ratio will be limited to 50% based on the current appraised value.
- If the borrower is currently on title, but there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance.

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Cash-Out Refinance

- The LTV is based on one of the following:
  - If the borrower has owned the property for less than twelve (12) months from the date of the application, the LTV/TLTV/HTLTV is based on the lesser of the acquisition cost or the current appraised value.
  - If the borrower has owned the property for at least twelve (12) months from the date of application, the LTV/TLTV/HTLTV is based on the current appraised value.
  - Gifted property within the most recent twelve (12) month period is limited to a maximum of 60% LTV/TLTV based on current appraised value.
- Cash-out refinance transactions must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation or dissolution of a domestic partnership).
- Cash-out transactions are permitted to pay off a construction single-closing loan where six (6) permanent mortgage payments have been made.
- Cash-out refinance transactions are not eligible if the existing loan is a "restructured mortgage."
- For cash-out refinance transactions, six (6) months' minimum seasoning is required, with 0 x 30-day late payments. The borrower's existing mortgage must be current (no more than 45 days may have elapsed since the last paid installment date) based on the unexpired credit report used for qualifying.

  Notes:
  - The six (6) months minimum seasoning is based on the date the borrower took title and the current loan application date.
  - The title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of ownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement.
  - Seasoning requirements do not apply to borrowers meeting the requirements found in the Delayed Financing Cash-Out Refinance section subsequently presented.
  - Recommended documentation to assist in evidencing that the seasoning requirement is met includes, but is not limited to, a copy of the Closing Disclosure from the previous transaction and a copy of the borrower's current credit report.

- In the case of a family transfer that occurred in the previous twelve (12) months, verify the property was not in default at the time of transfer.

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Cash-Out Refinance, (continued)

- See the table below for maximum cash-out standards:

Property Type	LTV/TLTV	Max Cash-Out
SFR, PUD, Condo	>50%	$350,000, including paid debts, unseasoned subordinate financing and cash-in-hand.
SFR, PUD, Condo	≤50%	Unlimited to the maximum loan amount, including paid debts, unseasoned subordinate financing and cash-in-hand.

- **Texas Equity Section 50(a)(6) Transactions**
  References:
  - See Section 2.01c – Texas Section 50(a)(6) Mortgages for guidance regarding Texas Equity Section 50(a)(6) transactions.
  - See the "Overview topic in Section 2.01c – Texas Section 50(a)(6) Mortgages for a description of Texas Non-Equity 50(a)(4) and 50(a)(5) refinance transactions.
- **Texas Section 50(f)(2) Refinance Transactions:** Converting a 50(a)(6) loan to a 50(a)(4) standard limited cash-out (rate/ refinance) loan is referred to as a Texas Section 50(f)(2) refinance transaction and is permitted if the following conditions are met:
  - The Section 50(f)(2) refinance is not closed before the first anniversary of the date the Section 50(a)(6) home equity loan was closed;
  - No additional funds are advanced other than funds advanced to refinance the Section 50(a)(6) equity loan or actual costs required by the lender to refinance the debt; and the borrower may not receive incidental cash back;
  - The principal amount of the refinance when added to the aggregate total of the outstanding principal balances of all valid encumbrances of record against the homestead does not exceed 80% of the homestead's fair market value on the date of the refinance; and
  - The lender provides the owner the written notice prescribed by Article XVI, Section 50(f)(2)(D) of the Texas constitution on a separate document within three business days of application and at least 12 days before the refinance is closed.

- Texas Non-Equity Section 50(a)(4) and 50(a)(5) Transactions
  Reference: See the "Overview" topic in Section 2.01c – Texas Section 50(a)(6) Mortgages for a description of Texas Non-Equity 50(a)(4) and 50(a)(5) refinance transactions.

Ineligible Cash-out Transactions
The following list includes examples of transaction types that are not eligible as cash-out refinances. This list is not comprehensive.

- Cash-out transactions are not permitted to pay off another lender's interim construction loan except on a two-time closing Construction to Permanent transaction.
- For transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for cash-out refinance transactions.
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable laws or regulation.

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Delayed Financing Cash-Out Refinance

If the property was purchased (or acquired) by the borrower within the prior six (6) months of the disbursement date of the new mortgage, the following applies:

- The original purchase transaction was an arms-length transaction.
- The original purchase transaction is documented by a Closing Disclosure, which confirms that no mortgage financing was used to obtain the subject property.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
    - Borrower(s) must be able to exhibit a historic level of assets to support the cash purchase (supported by Schedule B of the last two (2) year's tax returns) or other supportive documentation to verify receipt of such funds. Funds must have been on deposit at least 90 days prior to the date of the original transaction.
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the closing disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

  Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/TLTV/HTLTV ratios for the cash-out transaction).

  Note: Maximum cash-out limitations do not apply.

- The title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of homeownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement.
- All other cash-out refinance eligibility requirements are met with the exception of continuity of obligation, which need not be applied.

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Limited Cash-Out (Rate/Term) Refinance

General

- The LTV is based on the current appraised value, regardless of the length of ownership.
- The transaction must meet all continuity of obligation requirements.
- For rate/term refinance transactions, there is no minimum seasoning requirement.
- Proceeds from a rate/term refinance may be used to pay-off the following:
  - principal balance of an existing first mortgage lien, regardless of age,
  - related closing costs, discount points, prepaids, and/or
  - subordinate mortgage liens that have been seasoned for at least one (1) year. For a junior lien that is an equity line of credit, the seasoning requirement shall be applied to the date of the most recent draw against the equity line unless the draws were less than $2000 (the total draws cannot exceed a total of $2000 in the last 12 months).
- Proceeds from a limited cash-out transaction may not be used to pay off the unpaid principal balance of a Property Assessed Clean Energy (PACE) loan.
- Borrower may not reimburse themselves for home improvements paid out of pocket, this would be considered cash out.
- If a subordinate lien (including equity lines) is to be paid off in the refinance transaction, it must be seasoned for at least one (1) year; otherwise, the transaction will be considered a "cash-out" refinance and not eligible as a rate term refinance. This includes, but is not limited to, home improvement liens evidenced by a Materialmens' or Mechanics' lien on the title binder.
- If secondary financing is not seasoned, it may be included in the refinance if the second lien was incurred at the original purchase of the property (evidenced by a copy of Closing disclosure from the original purchase) or the second was used for documented home improvements.
- If the second was used for home improvements and is not seasoned, the borrower must provide copies of the cancelled checks and receipts and/or a copy of the contract specifying the total of the improvements (if the borrower contracted the work). The appraisal should support the value of the improvements.
- The borrower cannot receive more than the following in cash at closing:
  - loan amounts </= $1,000,000 will be limited to two thousand dollars ($2,000), OR
  - loan amounts > $1,000,000 will be limited to five thousand dollars ($5,000).
- **Texas only**: For any refinance of a Texas Constitution Section 50(a)(6) loan that results in a loan originated in accordance with and secured by a lien permitted by Article XVI, Section 50(a)(4) of the Texas Constitution, an affidavit referenced in Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded in connection with each such transaction.

  Truist Note: In addition to the affidavit requirement outlined above, refinances of an owner's home equity loan as a non-home equity refinance [i.e., non-50(a)(6)] loan under Article XVI, subsection 50(a)(4) of the Texas Constitution must comply with ***all*** Texas state-specific requirements for such transactions.

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Limited Cash-Out (Rate/Term) Refinance, (continued)	**Spousal/Partner Buy-Out and Inherited Properties**
	• A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the following standards are met:
	  ◦ All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction.
	    ▪ A copy of the divorce decree, closing disclosure, will or probate court approval must be provided as verification of the terms of the buyout.
	  ◦ Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
	  ◦ Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing.
	  ◦ The party buying out the other party's interest must be able to qualify for the mortgage pursuant to program underwriting standards.
	  ◦ Payoff to the spouse/partner must be reflected on the Closing disclosure.
	  ◦ The property must be the borrower's primary residence.
	    ▪ Parties who inherit an interest in the property do not have to satisfy this requirement.
	• Purchase money seconds as well as non-purchase money seconds may be paid off through this transaction and remain a limited cash-out (rate/term) refinance.

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Tangible Benefit Form or Appropriate Documentation Required	Reference: See Section 1.35: Compliance Overview Standard for the requirement information and a sample of the form.

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Secondary Financing

General

- The terms of the secondary financing must be fully disclosed in writing for each transaction and must comply with standard Portfolio underwriting secondary financing standards presented in this section.
- TLTV is the "total loan-to-value" of the first AND second mortgage to the sales price/value of the property (if second is HELOC, the total available credit line is used to calculate TLTV/HTLTV).
- If secondary financing is subordinated, a copy of the note, and if the second is a HELOC, a copy of the financing agreement terms on the HELOC is required for the loan file.
    - In lieu of the second mortgage note (or financing agreement) a letter from the lender, on their letterhead, may be obtained only if the subordinate lien is reported on the credit report. The letter must disclose the terms of the secondary financing and confirm if the second lien is subject to a prepayment penalty and if so, outline the terms (i.e., prepayment period).
    - In the case of Employer Assistance, refer to the previous subtopic titled "Employer Assistance" for additional requirements.
- Acceptable title evidence must be obtained showing all secondary financing recorded and clearly subordinate to the first lien.
- Secondary financing must have regular monthly payments of principal or interest only and payments must be included in the debt-to-income ratio.
- The interest rate must be at a market rate.
- Only second mortgages from banks and credit unions are allowed unless otherwise allowed by an employer assistance benefit.
- Seller held and privately held second mortgages are not allowed unless otherwise allowed by an employer assistance benefit.
- Secondary financing cannot be subject to wraparound terms.
- Existing secondary financing lender cannot have the ability to call the loan due and payable within the first five (5) years after the note date of the first lien unless otherwise allowed by an employer assistance benefit.
- Secondary financing (new or existing) which could impose a penalty for prepayment is not acceptable unless:
    - the subordinate loan is a home equity line of credit (HELOC), and the amount of the prepayment penalty, prepayment fee, account closure fee, account termination fee, etc. does not exceed $500.00, or
    - The subordinate loan is a home equity line of credit (HELOC), or closed-end second mortgage where the lender paid for some or all of the borrower's closing costs and allows the lender to recoup the closing costs if the borrower pays the HELOC or closed-end second mortgage off early, or
    - The prepayment penalty clause has lapsed.

Notes:

- The HELOC must be in compliance with all federal, state and local laws.
- Recouped fees may be deemed a prepayment penalty under state laws, in which case the second loan/line would not be eligible for subordination.

Continued on next page

General, (continued)

- Monthly payment must, at a minimum, meet the interest due. If the rate is variable, payments must be constant every 12 months unless otherwise allowed by an employer assistance benefit.
- Secondary financing cannot have negative amortization.
- Variable payments are acceptable if one (1) or more of the following applies:
  - The first mortgage is an ARM (regardless of the initial fixed rate period), or
  - The second mortgage is a HELOC, or
  - The secondary financing in the form of employer assistance in which case the standards outlined in the previous subtopic “Employer Assistance” are followed (refer to the subtopic titled “Employer Assistance” within the Assets section).

Reference: See the “HELOC” subtopic in the “Liabilities and Qualifying Ratios” topic for additional information regarding qualifying payment requirements for existing HELOCs.

New Secondary Financing

- All secondary financing must be subordinate to the new first mortgage.
- Truist accepts secondary financing with a balloon payment in less than five years after the note date of the first lien. The following standards apply:
  - We do not require actual payoff of the account, but the client does need sufficient assets available to pay off the outstanding balance in addition tothe required funds to complete the transaction.
  - Use the account information from the credit report to determine eligibility unless other documentation in the loan file reflects information that is more current.

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Existing Secondary Financing	• Truist accepts secondary financing with a balloon payment in less than five years after the note date of the first lien. The following standards apply:
	  ◦ We do not require actual payoff of the account, but the client does need sufficient assets available to pay off the outstanding balance in addition to the required funds to complete the transaction.
	  ◦ Use the account information from the credit report to determine eligibility unless other documentation in the loan file reflects information that is more current.
	• The existing lender on secondary financing cannot have the ability to call the loan due within the first five (5) years after closing on this loan.

Home Equity Line of Credit (HELOC)	• TLTV is the "total loan-to-value" of the first AND second mortgage to the sales price/value of the property (if second is HELOC, the total available credit line is used to calculate TLTV). • The repayment terms for secondary financing may provide for variable payments. • The terms of the HELOC may also provide a balloon or call option within the first five years after the note date of the first mortgage. • On a simultaneous purchase with a concurrent HELOC, any unutilized portion of the HELOC requires a rescission period. • The borrower MAY NOT access any non-disbursed funds until the rescission period has expired.

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Documenting a Modified HELOC

- Lenders in some cases must reduce the available line of credit on a HELOC to meet the new first mortgage's TLTV and the HTLTV requirements. Obtain one of the following forms of documentation to show a modified line amount for a HELOC:
  1. A complete and recorded Modification Agreement (fully executed by the HELOC lender and all borrowers under the HELOC).
  2. In the event the recorded modification agreement is not back from recordation, an unrecorded modification agreement fully executed reflecting the instrument number or other evidence of submission for recordation stamped by the recorders' office (certified by the clerk of court).
  3. A written agreement between the HELOC lender and the borrower agreeing to the reduction in the credit line amount to a specific amount as of a particular date. All borrowers must sign the written agreement.
  4. A cover letter from the HELOC lender on company letterhead reflecting a signature from the appropriate company representative that includes confirmation of the reduced credit line to a specific amount as of a specific date, along with evidence of the borrower's request/consent to the reduction (preferably in writing).

  Note: Obtain items 1 or 2 for the best evidence of documenting this change whenever possible. Items 3 and 4 are acceptable when the first two are not available. In this case, it is mandatory to maintain appropriately signed documentation.

- If you cannot obtain one of the above forms of documentation, use the original line amount of the HELOC to calculate the TLTV/HTLTV for the new first mortgage.

Geographic Restrictions

Information The following table shows the geographic restrictions:

State	Restriction
Alaska	Properties located in the state of Alaska are not eligible for the Key Loan.
Georgia	Georgia Power leasehold properties are not eligible.
Hawaii	Properties located in the state of Hawaii are not eligible for the Key Loan Program.
Texas	Rate/Term refinances are allowed and must meet all Key Loan standards. If prepaids and taxes are included in the loan amount the following conditions must be met: The prepaids and taxes are limited to 5% of the loan amount. The following language must be included in Schedule B of the Title Insurance: “Possible defect in lien of the insured mortgage because of the insured’s inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage." The following P-39 Standard Language must be included in the Title Insurance Policy: “Company insures the Insured against loss, if any, sustained by the Insured under the terms of this Policy by reason of a final, non-appeasable judgment of a court of competent jurisdiction that divests the Insured of its interest as Insured because of this right, claim, or interest. Company agrees to provide the defense to the Insured in accordance with the terms of this Policy if suit is brought against the Insured to divest the Insured of its interest as Insured because of this right, claim or interest.”

Occupancy/Property Types

Primary Residences

Eligible primary residences include the following:
- one (1) unit properties,
- attached or detached properties,
- log homes,
- modular homes,
- warrantable condos, and
- PUDs.

Reference: See the "Warrantable Condominiums" subtopic subsequently presented in this topic for additional information.

- A primary residence is a property occupied by the borrower for a major portion of the year and that possesses the physical characteristics to accommodate the borrower's immediate family.
- The occupancy type may be considered a primary residence in the following situations with acceptable documentation:
  - parents who are applying for a mortgage to provide housing for a physically handicapped or developmentally disabled adult child who is unable to work or has insufficient income to qualify for a mortgage, or
  - children who are applying for a mortgage to provide housing for elderly parents who are unable to work or have insufficient income to qualify for a mortgage.
- If parents are financing for a disabled child or children financing for elderly parents, the following applies:
  - the disabled child or elderly parents are not required to be on title or on the mortgage loan,
  - "elderly parents" are defined as parents who are not able to work or have insufficient income to afford a home on their own (no minimum age requirement),
  - the loans are eligible as purchases, limited cash-out refinances and cash-out refinances, and
  - acceptable documentation must be included in the loan file to support the transaction. This includes, but is not limited to, tax returns of the borrower which show the disabled adult child as a dependent or tax returns of the elderly parent(s) which documents insufficient income to qualify.
  - **Special Feature Code Requirement:** SFC H32 MUST captured to identify the loan as a primary residence for a disabled child or elderly parent(s).

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Second Homes

- Eligible second home properties include the following:
  - one (1) unit properties,
  - attached or detached properties,
  - log homes,
  - modular homes,
  - warrantable condos, and
  - PUDs.
- The property must be occupied by the borrower for a portion of the year.
- The property must be in a location to function reasonably as a second home (i.e., remote distance from the borrower's primary residence). The second home should not be in the same market as the primary residence.
- Typically, the property is located in either a resort or vacation area or, for convenience, in a city where the borrower works when the primary residence is in a distant suburb.
- The property must be available for the borrower's exclusive use and enjoyment at all times.

  Note: Purchase and refinance transactions, originated to provide housing for a dependent while attending school, do not meet the exclusive use and enjoyment requirement, and therefore, are considered investment properties. Investment properties are ineligible under the Key Loan.

- The property must be suitable for year-round occupancy.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not be significant.
- Rental income from a second home cannot be used to qualify the borrower.
- Property management agreements cannot contain blackout dates.
- The property cannot be subject to timeshares or other shared ownership arrangements/agreements.
- The property cannot be subject to rental pool or subject to inclusion in a mandatory rental pool.
- The property cannot be subject to revenue sharing between owners and the developer or another party.

Investment Property

Not eligible.

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Occupancy Verification

- Correspondent lenders are responsible for determining if the occupancy type submitted for a loan transaction is reasonable based on the application and supporting documentation submitted.
- Borrowers can have only one primary residence, except for allowable situations as defined under the Primary Residence subtopic within the Occupancy/Property Types subtopic previously presented.
- Inconsistencies in the loan file are often indicators that the file contains misrepresentations. One or more "red flags" do not necessarily indicate fraudulent intent; however, several red flags may signal a fraudulent transaction.

  Reference: See Section 1.05a: Occupancy Misrepresentation – Red Flags Standard in the *Correspondent Seller Guide* for additional information.

- One or more of the following documents may be acceptable to determine that the subject property is the borrower's current primary residence:
  - tax returns,
  - bank statements,
  - tax assessment,
  - utility bill, and/or
  - homeowner's insurance policy.

  Notes:
  - Lenders/underwriters may determine that other documentation is acceptable to address occupancy inconsistencies.
  - If during the refinance loan process, mail is sent to the borrower's primary residence and is returned to the lender, additional documentation must be obtained from the borrower to prove the subject property is the borrower's primary residence.

- If Truist, or another lender has provided a loan to the borrower as an owner-occupied residence, and the borrower returns to purchase a new owner- occupied property within a twelve (12) month period from the Note date of the previous transaction then:
  - the borrower must sign an occupancy statement to confirm their intent to occupy the new property as their primary residence, and
  - the borrower must provide a written explanation for the new owner- occupied transaction.
    - The explanation must include reason and/or circumstances for the new transaction (i.e., job change, move up, etc.) and the intent or disposition of the previous property.
    - Documentation may be required to support the explanation, such as a rental agreement or listing agreement.

Reference: See the *Mortgage Payments on Previous Home* subtopic in the *Liabilities and Qualifying Ratios* topic subsequently presented for additional information.

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Occupancy/Property Types, Continued

Short Sale Property	Reference: See Section 1.28 Short Sale and Restructured Mortgage Loans Standard in the *Correspondent Seller Guide* for additional information.
Warrantable Condominiums	Reference: See Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* for warranty standards.
PUDs	Reference: See Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* for warranty standards.

Continued on next page

Leasehold Properties

General

- Leasehold estates are properties that represent an *interest in real property* where the ownership of the land is legally separated from the improvement on the land.
- The owner of a home subject to a leasehold (sometimes referred to as "ground rent") is said to "lease" the land indefinitely, pursuant to a written "ground lease" (typically 99 years in duration, but renewable in perpetuity).
- The owner of the home is obligated to pay a semi-annual or annual rental amount to the ground lease owner.

  Reference: See the "Ground Rent Escrow Requirements" subtopic subsequently presented in the "Closing and Loan Settlement Documentation" topic for additional information.

- Truist allows mortgages that are secured by leasehold estates in those areas where there is a market acceptance and the mortgage covers the mortgagor's leasehold interest in the land.

Identifying a Leasehold Property

- A property may be disclosed as a leasehold estate in several ways:
  - the listing agent may include in the property listing,
  - the appraiser may notate on the appraisal, and

    Note: In cases where the appraiser does not notate a leasehold property, and it is later discovered that the property is a leasehold estate, the appraiser must update the appraisal to include the applicable leasehold information.

    Reference: See Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information concerning appraisals and appraisal requirements.
  - the title company determines from the title search.
- For properties located in the state of Maryland, the Department of Assessments and Taxation maintains a database of all leasehold properties.
  - Maryland ground rent owners may have registered their leasehold in the Maryland Department of Assessments and Taxation's database.
  - Leasehold estates in Maryland must be checked at application, or as soon as it is determined that the property is a leasehold estate, against the Department of Assessments and Taxation's database to confirm whether the property is titled as leasehold.
  - Leasehold estates that are confirmed to be registered with the Maryland Department of Assessments and Taxation database are acceptable without meeting the Conventional Loan programs requirements.
  - A printout from the Maryland Department of Assessments and Taxation's website, showing the registered leasehold property must be placed in the loan file.

Continued on next page

Leasehold Properties, continued

- Leasehold estates that are not registered with the Maryland Department of Assessments and Taxation must meet all conventional leasehold requirements.
- If the lease agreement is not legible, then the leasehold property is ineligible.

  Reference: Click here to access the Maryland Department of Assessments and Taxation's website to search the real property data system for ground rent registrations.

- **Eligible Occupancy/ Property Types**
  - Eligible occupancy/property types include the following:
    - primary residences,
    - second homes,
    - single family dwellings (attached and detached),
    - modular homes,
    - warrantable condominiums, and
    - PUDs.
  - All eligible occupancy/property types must meet the specific first and/or second mortgage program eligibility standards.
- **Ineligible Occupancy/Property Types**
  - Mortgages secured by a mixed used leasehold estate are NOT eligible for origination.
  - Mortgages secured by manufactured homes located on leasehold estates are not eligible.
  - Mortgages secured by properties located within Indian lands that are leasehold estates are not eligible.
  - Georgia Power Leasehold Estates are not eligible.

- **Leasehold requirements**
  - The lease agreement must be reviewed by the Correspondent lender.
  - For condominium transactions underwritten by Truist, the Central Condominium Department will also review the lease agreement, but reserves the right to request the Correspondent client to obtain a legal opinion from the Correspondent client's legal counsel, the title company or the HOA attorney in the cases where it is not clear that all leasehold requirements are met.
  - The lease must meet all of the following requirements:
    - The leasehold estate and improvements must constitute real property, be subject to a mortgage lien and insured by a title policy.
    - The lease must be valid and in full force and effect.
    - All ground rent payments, other payments or assessments must be current and the borrower must not be in default under any other provision of the lease, nor may the ground rent owner have claimed such a default.

Continued on next page

Leasehold Properties, continued

- The estate term must run for at least **five (5) years** beyond the mortgage maturity unless fee simple title will vest at an earlier date in the borrower or a homeowners' association and must be assignable or transferable.
- The lease must guarantee the lender the right to receive at least 30 days notice of default by the borrower and the option to cure the default or take over the borrower's rights.
- The lease must include provisions to protect the lender's interest in the event of a property condemnation.
- The lease must provide that the borrower will pay taxes, insurance and HOA dues related to the land and improvements.
- The lease must provide that the leasehold can be transferred, mortgaged and sublet an unlimited number of times without restriction or upon payment of a reasonable fee and delivery of documentation to the lessor. The lessor may not require credit qualification on any assignee or sublessee.
- The lease **cannot** contain default provisions allowing forfeiture or termination of the lease except for non-payment of the ground rent payments.
- The lease may, but is not required to, include an option for the borrower to purchase the interest in the land (buyout the lease). There can be no time limit when the *option* must be exercised.
- The lease and option to purchase must be assignable.
- The lease must allow the borrower to retain voting rights in any homeowners' association.

Note: Maryland properties will not have to meet the above requirements provided the leasehold estate is registered in the Maryland Department of Assessments and Taxation's database.

- Leasehold properties that do not meet the above requirements must follow **one** of the options outlined below.
  - A leasehold addendum must be prepared by the title company to eliminate or amend any deficiencies. The addendum must be signed by all parties (borrower and ground rent owner) at closing and evidence of recordation of the updated lease with addendum must be provided. ***OR***
  - The leasehold must be bought out. The final title policy must reflect the buyout of the leasehold and fee simple ownership, evidenced by a Fee Simple Warranty Deed.

Note: Maryland properties registered in the Maryland Department of Assessments and Taxation's database do not have to follow one of the options listed outlined above.

Continued on next page

Leasehold Properties, continued

- **Buyout of a Leasehold Property**
  - Buying out the lease provides fee simple title to the property and the ground rent owner's interest and the leasehold is dissolved.
  - The price to buyout the leasehold interest will be the appraised value of the land.

    Notes:
    - For leasehold properties in Maryland, the cost to buyout the leasehold interest is set by state law, using a specific calculation.
    - Information regarding the purchase of the ground lease may be obtained through the Maryland Department of Assessments and Taxation.

  - The cost of redeeming the ground rent may not be financed into the loan amount, on purchase or rate/term refinance transactions.
  - If the borrower is responsible for the cost, sufficient assets to buy-out the leasehold, in addition to the down payment, closing costs and reserves must be documented in the loan file.
  - The final title policy must reflect the buyout of the leasehold and fee simple ownership.
  - The cost of the leasehold buyout must be reflected on the Settlement Statement.
  - At closing, ownership transfer must be evidenced by a Fee Simple Warranty Deed.
- **Leasehold Appraisal Requirements**
  - The appraiser must be provided with a copy of the lease agreement, which details the terms, conditions, and restrictions of the ground lease and they must comment on any effect the terms of the lease have on value and marketability.
  - The appraiser should use sales of similar properties with the same lease terms as comparable sales.
  - If there are no comparable sales of leasehold properties with the same lease terms, the appraiser may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were appraised as fee simple estates.
    - The appraiser must explain why the use of these sales is appropriate, and make appropriate adjustments on the "sales comparison analysis" grid to reflect the market reaction to the different lease terms or property rights appraised.
  - If the appraisal does not initially reflect that the property is a leasehold, the appraiser must update the appraisal to include the applicable information noted above.

Reference: See Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information concerning appraisals and appraisal requirements.

Continued on next page

Leasehold Properties, continued

- **Closing and Loan Settlement Documentation**
  - **Addendum to the Lease Agreement**
    - An addendum to the Lease Agreement is required in all cases where the lease requirements are deficient or missing.
    - The addendum is prepared by the settlement agent/closing attorney.
    - The addendum must reference the original lease being amended, must clearly specify the terms being added or amended and must ensure the lease remains valid and in full force and effect.
    - The addendum must be signed by all parties (the borrower and ground rent owner) at closing and evidence of recordation of the updated lease with addendum must be provided.
    - If the leasehold agreement cannot be amended, the leasehold must be purchased and title converted to fee simple.
  - **Cross Default of Lease Rider**
    - A *Cross Default of Lease Rider* is required for on all non-Agency conventional leasehold transactions.
    - This Rider must be included with the closing documents and amends the security instrument for mortgages secured by leasehold estates so that a default on the lease is, at the lender's sole discretion, a default on the mortgage.
  - **Ground Rent Escrow Requirements**
    - The monthly ground rent must be included in the Proposed Housing Payment and counted in the debt-to-income ratios.
    - Any potential increase in ground rent payments that are scheduled to occur within 12 months of closing must be taken into consideration by the underwriter when calculating the debt-to-income ratios.

    Reference: See Section 1.08: Loan Delivery and Purchase Review Standard in the Correspondent Seller Guide, for additional escrow requirements.

  - ***For Truist Internal Employees Only:***
    - The ground rent escrow data (e.g., number of reserve months, amount due, due date and frequency) **MUST** be input on the origination system.

      Note: When the HOA is responsible for paying the ground lease payments, the "GROUND RENT" fields must be completed on the origination system with the following information: "RES MOS" enter "0" (zero), "NEXT AMT DUE" enter "0.01" (one cent), "MONTH/YEAR' enter first payment date and "FREQ" enter "A".

  - **Security Instrument – Additional Language Requirements**
    - The Settlement Agent must add the following language (as a rider which amends the security instrument or as the second sentence of the last paragraph in Section 9 of the security instrument) on all leasehold transactions:

Continued on next page

Leasehold Properties, continued

Borrower shall not surrender the leasehold estate and interests herein conveyed or terminate or cancel the ground lease. Borrower shall not, without the express written consent of Lender, alter or amend the ground lease.

- **Leasehold Title Insurance Requirements**
  - The leasehold estate and the improvements must be insured by an ALTA 13 Leasehold Endorsement.
  - The title binder must include the ground rent owner's information (name and address where to send payments).

Note: If property is converting to fee simple interest, see the *Buyout of a Leasehold Estate* topic previously presented in this document for additional information.

Reference: See Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide* for additional information concerning title insurance requirements.

Resale/Deed Restrictions

Reference: See Section 1.16a: Resale/Deed Restrictions Standard of the *Correspondent Seller Guide* for additional information.

Maximum Acreage

Key Loan Standard: Maximum acreage is fifteen (15).

For Texas homestead properties secured by a 50(a)(6) mortgage:

- Texas homestead properties secured by a 50(a)(6) mortgage are limited to a maximum of 15 acres. The borrower's property may not exceed the applicable acreage limit as determined by Texas law when the Texas Section 50(a)(6) loan is originated.

- A borrower that owns adjacent land must submit appropriate evidence, such as a survey, that the mortgaged homestead property is a separate parcel that does not exceed the permissible acreage.

  Note: An *inter vivos* revocable trust that meets borrower eligibility criteria may be a borrower under a Texas Section 50(a)(6) mortgage, provided that the trust meets the requirements for a "qualifying trust" under Texas law for purposes of owning residential property that qualifies for the homestead exemption.

Continued on next page

Properties with Two or More Parcels

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must be zoned as "residential".
- The entire property may contain only one residential dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.
- When analyzing the appraisal, the following additional requirements apply:
  - the site description must accurately describe the land and any improvements included in each of the parcels,
  - the comparable sales should have adjoining parcels similar to the subject property,
  - when differences in sites exist between the subject property and comparable sales, any adjustments to comparable sales, or lack of adjustments made to the comparable sales for significant differences must be explained in the appropriate section, and
  - the appraisal report must evaluate the effect any additional land may have on the subject property's value and marketability.

Continued on next page

Modular Housing

- Maximum loan amount is $1,000,000.
- These homes must be single family, detached, one-unit properties.

  Note: Single and double-wide mobile/manufactured homes are not eligible.

- These homes must assume the characteristics of site-built housing and meet local building code.
- They must meet the property standards/specifications as required by Fannie Mae/Freddie Mac for modular housing.
- The property must be classified as real estate.
- Declining market standards apply.

Properties Listed for Sale

- The appraiser must note on the appraisal if a property was listed for sale in the last 12 months. If the property is currently listed for sale when the appraisal is completed, the appraiser must note that it is currently listed for sale.
- If a property was listed for sale in the last 12 months and the borrower was the owner of the property at the time it was listed for sale, the following applies:
  - If the loan is a limited cash-out refinance, the property must be taken off the market on or prior to the application (i.e., 1003) date. For primary residence transactions, the borrowers must confirm in writing their intent to occupy the subject property. In addition, the current maximum LTV/TLTV ratios for the transaction would apply. If at the time of application, the property is currently listed for sale, it must be taken off the market at application and documentation must be provided that the listing agreement is terminated (it is NOT ok just to take the "For Sale" sign down).
  - Cash-out refinance transactions on properties listed for sale within the last six (6) months prior to the loan application are not eligible.

Properties Purchased at Auction

Reference: See General Section 1.25: Properties Purchased at Auction Standard of the *Correspondent Seller Guide* for information on Properties Purchased at Auction.

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Rural Properties

Rural properties and suburban properties with rural characteristics require special consideration in the underwriting and appraisal review process. The following additional requirements apply for these transactions:

- The highest and best use of the property must be residential in nature and not agricultural or ranching.
- Any properties with small barns and stables must be common, typical, and readily marketable, with comparable sales reflecting similar improvements.
- Minimal outbuilding (i.e., small barn or stable) values cannot exceed 10% of the property's appraised value.
- Properties with atypical outbuildings are acceptable when the appraiser's analysis reflects little or no contributory value for them.
- Lenders must determine whether properties with significant outbuildings (such as silos, large barns, storage areas, or facilities for farm-type animals) are residential or agricultural in nature, regardless of whether the appraiser values the outbuildings.
  - Truist requires structurally sound outbuildings with no health or safety issues; the outbuildings cannot detract from value.
- Improvements must represent at least 50% of the entire appraised value.
- Just because a property does not have farm-related, income does not mean that a property is not agricultural or made up of excess vacant land. Make the determination on the nature of the property and not the source of the borrower's income.
- Pasture and cropland cannot exceed 35% of the property's land size, including all excess acreage regardless of current use. Lenders must exercise additional due diligence to determine that this is not a farm and that the highest and best use of the property is residential.
  - Appraisers must comment in detail on the land usage. If a land value is not given, the lender must request the appraiser to complete the land value section in order to make a solid decision.
- Properties with a land value exceeding 35% of the appraised value must show comparable sales to support that the property is common and typical for the area and supported by comparable sales.
  - The appraiser must comment on this topic in detail. If the value is not given, the lender must request this information from the appraiser to make a solid decision.
  - Clear, factual comments must support that the property is residential in nature and is not a farm.
  - Lender must agree with the appraisal.

    Note: Truist Underwriters may opt to escalate the appraisal using the escalation process.

Reference: See the Appraisal Analysis topic and Sales Comparison approach subtopic within the Appraisal Standards for additional information on rural properties.

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Occupancy/Property Types, Continued

Log Homes

Log homes are eligible with the following provisions:
- Log home transactions are capped at a maximum LTV of 80%.
- A minimum of one (1) comparable property in the appraisal report must be a log home.

Ineligible Properties

The following is a list of ineligible properties:
- 2-4 unit properties,
- apartment buildings,
- bed and breakfast properties,
- boarding houses,
- commercial buildings,
- community land trusts
- condominium hotels or condotels,
- cooperatives,
- earth/earth-sheltered and geodesic/dome homes,

  Notes:
  - Homes that have a geothermal heat pump as the main heating and cooling system are eligible.
  - The Underwriter must determine that the appraisal supports the market for this type of property.

- Georgia Power leasehold properties,
- houseboat projects/properties,
- Indian lands that are leasehold estates,
- investment properties,
- leaseholds that do not extend 5-years beyond the loan term and are not typical in the market area,
- mixed-use properties,
- mobile/manufactured homes,
- model homes not eligible for occupancy within 60 days of loan closing,
- non-warrantable condominium/PUD projects,
- properties listed for sale within the last six (6) months (if cash-out refinance), unless Delayed Financing Cash-Out refinance requirements are met,
- properties on acreage exceeding 15 acres,
- projects with legal non-conforming use,
- residential properties zoned commercial or industrial,
- shared equity, properties that are subject to resale control deed restrictions that combine income limitations with resale price controls
- studio condominiums,
- timeshare units,
- unimproved land,
- unique properties, other than those listed above, in which the marketability cannot be established, and
- working farms, ranches, and orchards.

Eligible Borrowers

Non-Occupant Co-Borrowers

- DTI calculations are to be performed separately for the borrower and the non-occupant co-borrower.
- The maximum LTV/TLTV is 70%.
- The non-occupant borrower must be an immediate family member.
- The Note and Security Instrument must be signed by both occupant borrower and non-occupant co-borrower.
- The non-occupant co-borrower cannot have any interest in the sales transaction, such as seller, builder, real estate agent, etc.
- The occupant borrower on the loan transaction must qualify separately with ratios not to exceed 35%/40%.

Inter Vivos Trusts

Reference: See Section 1.08: Loan Delivery and Purchase Review Standard of the *Correspondent Seller Guide* for additional information.

Permanent Resident Aliens

- A permanent resident alien is an individual who is lawfully accorded the privilege of residing permanently in the United States. The following documentation is acceptable:
  - *USCIS Form I-551, Alien Registration Receipt* ("green card"), with an unexpired date on the front.
  - *USCIS Form I-551, Conditional Alien Registration Receipt,* with an unexpired *USCIS I-751*, or
  - If the borrower does not have a "green card', an unexpired passport with an unexpired stamp reading, "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment Authorized" would be acceptable as long as there is a minimum of two (2) years remaining at the time of loan application.

    Note: A "green card" that has no expiration date (issued between March 1977 and 1987) is acceptable with no additional requirements.

- If the "green card" will expire within six (6) months after closing, the borrower must provide the following:
  - Copy of filed *USCIS I-90 Application to Replace Permanent Resident Card*, and
  - Receipt Notice (USCIS I-797 Notice of Action) for the I-90.
- Borrowers with a Conditional Green card (issued for two (2) years) cannot apply for renewal earlier than three (3) months prior to expiration date. One of the following forms (USCIS I-751 or I-829) must be filed before loan application can proceed.
  - *I-751 Petition to Remove Conditions of Residence (green card by marriage)*
  - *I-829 Petition by Entrepreneur to Remove Conditions*

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Permanent Resident Aliens, (continued)

- Permanent resident aliens must meet the following underwriting standards:
  - the maximum LTV/TLTV is 80% with a maximum loan amount of $1,000,000,
  - all borrowers must be eligible applicants according to the Key Loan standards,
  - each borrower on the loan transaction must have a valid social security number,
    - Truist does not allow the use of an Individual Tax Identification Number (ITIN) in lieu of a valid SSN. An ITIN is a nine-digit number, beginning with the number 9, issued by the IRS for tax reporting purposes to non-U.S. citizens who are not eligible to obtain an SSN.
  - the borrower must have two (2) years credit and deposit history in U.S.,

Note: Non-traditional credit documentation is not acceptable.

  - the borrower's employment must have a minimum two (2) year history in the U.S. with employment expected to continue for three (3) years,
  - income from an individual used to qualify for the mortgage must have the appropriate immigration documentation that allows the borrower to live and work in the U.S.,
  - there must be sufficient sourced and accessible reserves, and
  - all borrowers must meet all the same requirements that a U.S. citizen is required for the product with respect to income, assets, employment and credit.
- Refugees and others seeking political asylum who are immigrating to and seeking permanent residency in the United States are also classified as permanent resident aliens. Typically, these types of borrowers are NOT able to produce the standard permanent resident alien documentation outlined above. Therefore, documentation requirements for refugees (or others seeking political asylum) include the following:
  - the borrower must have an acceptable two (2) year credit, 2-year employment and 2-year residency history in the U.S., and
  - an I-94 stamped with employment authorized, or foreign passport stamped "Admission for Permanent Residence" with an unexpired date of an Employment Authorization Document.

Number of Borrowers on Loan Application

No limit.

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Social Security Number Verification

- For loans underwritten by Truist, the borrower's social security number must be verified according to the internal Identity Theft Policy Operational Procedures document on the Truist Intranet.

  Note: Documentation of the borrower's social security number must be retained with the loan file.

Reference: See Section 1.36: Social Security Validation Standard of the *Correspondent Seller Guide* for additional information on validating the Social Security Number.

Ineligible Borrowers

- Corporations,
- Foreign Nationals,
- General Partnerships,
- Limited Liability Corporations,
- Limited Partnerships,
- Land Trusts (including Illinois Land Trusts), and
- Non-Permanent Resident Aliens.

Income

General

- The borrower's ability to repay the loan, as well as stability of income and employment, are important loan qualifying considerations.
- The underwriter must not ignore national, regional, or local economic issues in the employment analysis if it could affect the stability of the employment and income or impact the loan decision. Borrowers should exhibit the potential for maintaining continuous employment and/or income. Any known economic issue relating to employment and/or loss of income, must be addressed by the borrower and the employer.
- Determining continuance of income should focus on the borrower's occupation, tenure, past employment history, probability of consistent receipt.
- Unless otherwise specified, each income source used for qualifying should be reasonably expected to continue for at least three (3) years.
- The borrower must demonstrate a history of stable income for a minimum two (2) year period to be considered qualifying income. If income source has less than a two (2) year history, document, explain, and justify the stability of the income used to qualify the borrower.
- Qualifying income must be recurring, received regularly, and reasonable based on the source, industry, and occupation.
- The most recent 2 years signed Federal income tax returns are required, unless otherwise specified per income type.
- The recommended level of income verification documentation may not be adequate for every borrower and every situation, therefore the underwriter may request additional income documentation if necessary.

Acceptable Income Documentation

- **Requirements – Paystubs and W-2's:**
    - The Lender must verify employment income for all borrowers whose income is used to qualify for the mortgage loan. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.
    - Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.
    - Documents must be computer-generated or typed by the borrower's employer(s), although paystubs that the borrower downloads from the internet are also acceptable. Documents must clearly identify the employer's name and source of information.
    - The documents must clearly identify the borrower as the employee.
    - The information must be complete and legible.
    - The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor.
    - A written VOE in lieu of receiving pay stubs and W-2s is acceptable.
    - A verbal VOE is required on all loans or a written VOE is acceptable in those instances where a verbal is not obtainable.

Continued on next page

General, continued

- **Requirements – Tax Returns**
  - When required, personal federal income tax returns must be a copy of the version filed with the IRS. All supporting schedules must be included.
  - “Most recent” tax return is defined as the last return scheduled to have been filed with the IRS. See the Allowable Age of Federal Income Tax Returns subtopic for additional information.
  - The information must be complete and legible.
  - Each tax return must be signed by the borrower.

- **Requirements – Written Verification of Employment (WVOE)**
  - A written verification of employment (VOE), provided by the borrower’s employer or third-party validation service, in lieu of receiving paystubs and W-2s is acceptable.
  - Written VOEs must be sent directly from the lender to the borrower's employer or third-party validation service and, upon completion, returned directly from that entity to the lender.
  - Facsimile written VOE forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the lender and are considered originals.
  - The loan file must contain legible copies of the originals. The copies must have been made by the originator directly from the originals. Copies provided by any other source, such as the agent or builder, are not acceptable.
  - Refer to the Verification Standards subtopic when using a third-party validation service containing income and employment to satisfy the 10-Day Pre-Closing Verifications (10-Day PCV).
  - **Employment and Income Verifications from a Third-Party Validation Service**
    - A copy of the verification must be retained in the mortgage file and must meet the following requirements:
      - Employment and income verifications must contain sufficient information to determine stable monthly income in accordance with the requirements outlined in this document
      - If the verification is completed using employment and/or income information from an electronic database, the verification must evidence that the information in the database is no more than 35 days old
  - Refer to the “Age of Documentation“ section previously outlined in this subtopic for more information about the age of documentation requirements.

  - **Requirements – 10-Day Pre-Closing Verifications (10-Day PCV)**
    - Verification of the borrower's current employment (10-day PCV) must be obtained in accordance with the requirements of section “Verbal Verification of Employment” section.

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General, continued

- **Verbal Verification of Employment / Pre-Closing Verification (PCV)**
  - **General**
    - A verbal verification of employment (VVOE) is required on ALL loans, except otherwise noted below, for each borrower to verify that the borrower's employer or the self-employed business exists and that the borrower is currently listed as an employee as of the date of performing the VVOE. This applies to ALL jobs where income is being used to qualify, including seasonal jobs, second jobs, and borrowers currently on temporary leave, short term disability, or during a seasonal layoff period. This provides a degree of comfort that the source(s) of income derived from employment and considered in the Underwriter's qualification analysis is authentic and expected to continue.
    - Many employers provide basic job information (employer, title, employment status, and length of time with employer) about their employees to third party vendors (such as The Work Number). A third-party vendor manages employment verification requests using an automated verification process. This method of employment verification is acceptable.

      Note: A written or faxed verification of employment may be obtained when a verbal verification of employment is unavailable, to confirm the borrower's current employment status. The written or fax employment verification must be performed within the same timeframe as, and follow the same requirements stated within the VVOE standards. If the standard written verification of employment is used, and reveals additional information regarding the borrowers employment, such as but not limited to income or previous employment history, then apply due diligence to confirm the loan continues to meet eligibility.

    - The VVOE process does not require confirmation of the borrower's salary, but it can be used to address these and other employment-related concerns as deemed appropriate.

Continued on next page

General, continued

- A verbal, written, or faxed verification of employment (VVOE) must be completed by the correspondent lender or third-party vendor within:
  - ten (10) business days (salaried) / thirty (30) calendar days (self-employed) prior to closing (i.e. Note date) for non-escrow closing states, and
  - ten (10) business days (salaried) / thirty (30) calendar days (self-employed) prior to funding for escrow closing states.
  - Alternatively, lenders may obtain the verbal VOE after closing, up to the time of loan delivery (to Truist). If the verbal VOE cannot be obtained prior to delivery (to Truist), the loan is ineligible.

  Notes:
  - Escrow states are as follows: Arizona, California, Idaho, Nevada, New Mexico, Oregon, Utah, Washington (New York and Rhode Island in some cases).
  - Business days do not include Saturdays, Sundays, or Federal Holidays when obtaining the VVOE.

- Some employment situation may be unique and it may not always be possible to obtain a VVOE in the same manner, nor will actual verbal verification always be involved.
- The borrower's employment information on the loan application (1003), the submitted employment/income documentation and credit report should be reviewed to ensure that the information seems reasonable and consistent.
- The employer or self-employment business and phone number must be independently verified (i.e. FastData, 411, Directory Assistance, telephone book, Corporate websites, Search Systems, Useful Websites tools, etc.).
- All steps taken to complete the VVOE must be clearly documented on the Correspondent Lender's or Truist's *Verbal Verification of Employment* form (COR 0050a or COR 0050b) and all supporting information must be attached.
- Once the VVOE form is successfully completed confirming the borrower's employment status, the loan must close (i.e., Note signed) within 10 business days (salaried) / 30 calendar days (self-employed) of the date the VVOE was completed unless the VVOE is obtained post-closing, in which case the VVOE must be obtained prior to delivery.
- Any steps needed to complete the VVOE can be performed at any time during the loan application process or prior to delivery if performed after closing.
- If the loan does not close within the allotted time, steps to independently verify phone numbers DO NOT have to be repeated – only contacting the employer must be performed again.
- If the VVOE was obtained using an automated verification service, a copy of the confirmation is required in lieu of the VVOE form. At a minimum, the confirmation must contain all information required to satisfy the VVOE such as, employer name, employee's position, date information last updated, "as of" date, etc.

Continued on next page

General, continued

- Every effort must be made to complete the verbal VOE as close to the closing date (Note date) as possible.

  Notes:
  - The requirement for a verbal VOE is not waived in cases when a borrower's employer is closed for an extended period of time or when a borrower is currently on temporary leave or on a seasonal layoff from work. The employers in these cases should still have the ability to be contacted for employment verification purposes. As an example, when schools are closed (i.e., summer break), it is important to remember that many school systems have staff members working during the extended closures that would be authorized to complete a VVOE.
  - For escrow states, it is acceptable to perform the VVOE after closing but VVOE must be completed prior to funding.
  - In the event that a VVOE cannot be completed, the following steps are provided as alternate methods for verifying active employment:
    - Contact the employer directly and ask to speak to the borrower (by name); or
    - Require a copy of the current year's employment contract; or
    - Use the employer's website as it may provide contact information for the staff (i.e. borrower's email address), screen-print all contact information.

- **Documentation**
- The Correspondent lender's "*Verbal Verification of Employment*" form or the Truist form - *Verbal Verification of Employment* (COR 0050a or COR 0050b) must:
  - Be completed and included in the loan file for all borrowers whose income is being used to qualify; and
  - must be legible, and include the following information:
    - The name of the employer or self-employed business
    - The telephone number of the employer or self-employed business
    - The source used to verify the phone number
    - Borrower's current position and title
    - Currently employed
    - Active or on leave
    - Expected return date (if on leave)
    - Name and title of lender's representative who verified employment
    - Name of company that verified employment
    - Date VVOE was completed

Continued on next page

General, continued

- All steps taken to complete the VVOE must be clearly documented on the VVOE form (Correspondent's own form or the Truist form - *Verbal Verification of Employment* (COR 0050a or COR 0050b) and supporting information must be attached in those cases when third-party sources are used.
  - Third-Party Validation Service containing income and employment may also be used for the 10-Day Pre-Closing Verifications (10-Day PCV) provided the following requirements are met:
    - Verification of the borrower's current employment (10-day PCV) must be obtained in accordance with the requirements of the standard verification standards above.
    - Employment information must be verified and documented by the third-party verification service provider directly through the electronic database of the employer or the employer's third-party payroll services provider and must contain the following information:
      - Name of borrower
      - Name of employer
      - Borrower's current employment status
      - Any additional information that was verified
      - Date employment information was issued from the employer to the third-party verification services provider (e.g., effective date, current as of date)
      - Date verification was issued to the lender by third-party verification services provider
    - The form used by the third-party verification services provider must contain the name and contact information of the provider.

Note: These steps may include, but are not limited to:

- the fully completed VVOE form (Correspondent's own form or the Truist form - *Verbal Verification of Employment* (COR 0050a or COR 0050b),
- printed documentation supporting the independently verified employer/self-employed business,
- direct contact information to a referred employee or department qualified to complete the VVOE (from the initial independently verified employer/self-employed business),
- web pages supporting the employer/self-employed business, etc.
- If documentation was sent for verification, the verified documents should also be included the supporting documentation.

Continued on next page

General, continued

- When the only available telephone number for the Employer or Self-Employed Business is a cellular phone, the following additional workflow is provided:
  - Confirm the cellular phone number is issued in the name of the Employer or Self-Employed Business (i.e., via FastData or phone records); or

    Note: If the cellular phone is issued to an individual, the individual should be the business owner.

  - Complete a reverse business look-up using the business name; or
  - Complete a reverse cellular phone number look-up using the cellular phone number.
- A written, electronic or faxed verification of employment (VOE) may be obtained. The written, electronic or faxed employment verification must be performed within the same timeframe as, and follow the same standards as, a verbal VOE.
- If the VOE reveals discrepancies, such as inaccurate dates or the VOE reflects the borrower no longer being employed, then the loan must be returned to underwriting to confirm the loan continues to meet eligibility requirements. If the VOE appears to have been altered (such as by erasures, correction fluid, correction tape, black out, or imperfections), then the loan must be carefully reviewed to determine its authenticity and accuracy.

Continued on next page

General, continued

- **Salaried/Hourly Employed Borrowers**
  - The Correspondent lender or a third-party vendor must verify that the Employer exists and that the borrower is actively employed or that the borrower is currently on temporary leave or on a seasonal layoff from work.
  - The VVOE must be completed by the Correspondent lender prior to the delivery date, but no more than ten (10) business days prior to the date of the Note.
  - In situations when utilizing the independently verified phone number and the Employer's representative provides another number for verification of the borrower's employment, such as the direct line for the Employer's personnel department, the newly obtained number should also be recorded on the VVOE form; however, it is not necessary to independently verify as it was supplied by the Employer.
  - In situations when the Employer's Human Resources, Personnel or Payroll Department is unwilling/unable to provide verbal verification of the borrower's current employment status and confirmation through an automated service such as The Work Number, is not available, the following steps may be used to satisfy the VVOE requirements:
    - Dial the independently verified phone number for the employer and ask to speak to the borrower. If the borrower answers the phone using the independently verified phone number, you have successfully confirmed that the employer currently employs the borrower. If transferred to the borrower's voicemail, exit out and continue to ask for the borrower, as a pre-recorded voicemail recording is NOT sufficient verification that this employer actively employs the borrower.
    - If the borrower does not answer the phone, repeat this process until you speak to an employee of the company that is able to confirm that the borrower is currently employed there.

      Note: Not all employer/employment validation tools are typically used on all loan files; however, in some cases it may be necessary to utilize a combination of validation tools to verify the borrower is actively employed or the existence of the business.

  - When using The Work Number (or other similar vendor tools specific to employment verification), the ten (10) business days prior to close is measured from the date the verification is obtained. This date must be prior to the delivery date, but no more than ten (10) business days prior to the date of the note. The "as of" data on the verification should be no more than <u>35</u> calendar days old from the date the verification was obtained.
  - If the "as of" date is older than 35 calendar days, utilize the independently verified phone number for the employer and ask for the Human Resources, Personnel or Payroll Department. If the Human Resources, Personnel or Payroll Department is unwilling or unable to provide verification of employment, re-dial the same phone number and ask to speak directly to the borrower. If transferred to voice mail, exit out and continue to ask for the borrower, as a voice mail recording is NOT sufficient verification that this employer actively employs the borrower.

Continued on next page

General (continued)

- **Salaried/Hourly Employed Borrowers, continued**
  - It is acceptable for the employer to provide an emailed VVOE as long it is completed and received within ten (10) business days prior to closing (Note date).

    Notes:
    - Utilizing the independently verified Employer's information, the person performing the VVOE must review the emailed VVOE thoroughly to determine that it was completed by an appropriate source, such as Human Resources, Personnel or Payroll Department, the borrower's superior, upper management of the firm or owner of the company.
    - All reasonable steps should be taken to confirm that the sender of the e-mail is the borrower's employer. If there is any reason to doubt the validity of the emailed VVOE, dial the independently verified phone number for the employer and ask to speak to the employee that sent the email.
    - An emailed VVOE may require additional steps above and beyond the standard workflow process in order to confirm that the email was sent from a legitimate source affiliated with the company.
  - ***If the existence of the employer cannot be verified, the loan file is not eligible for purchase by Truist.***
  - If the borrower is currently active in the military, the following is acceptable in lieu of a verbal or written VOE:
    - a verification of employment through the Defense Manpower Data Center website https://www.dmdc.osd.mil/appj/mla; or
    - a Leave and Earnings Statement (LES) dated within 30 calendar days prior to the Note date and an Alive and Well Certification process as outlined below:
      - At the time of closing, the lender must verify that the veteran is alive and not missing in action.
        - E-mail verification is acceptable if the e-mail is identifiable as having come from a military installation, ship, etc.
      - The following certification must also be made by the lender:

        "The undersigned lender certifies that a statement from the borrower's commanding officer (including person authorized to act for said officer), affirmatively indicated that the veteran was alive and not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed."
      - Lenders are expected to make an attempt to obtain information to make the certification; however, if a deployed veteran is cut off from communications, documentation of the lender's efforts may be submitted instead.
        - Documentation must demonstrate that the lender made a good faith effort (i.e., contacted the home base of the employed veteran, copy of returned e-mail, etc.) It is not sufficient for the lender to only notate that "the veteran's spouse said they cannot contact the veteran."

Continued on next page

General, continued

- **Self-Employed Borrowers**
  - The Correspondent lender or a third-party vendor must verify that the Self-Employment business exists and that the business is active.
  - In the case of a Self-Employed borrower, an actual verbal verification of employment will NOT be involved; however, the following applies and must be documented on the VVOE form (Correspondent's own form or the Truist form - Verbal Verification of Employment (COR 0050b).
    - The VVOE must be completed prior to the delivery date, but no more than thirty (30) calendar days prior to closing (i.e. Note date).
    - If the loan does not close within thirty (30) calendar days of performing the VVOE, the verification steps must be repeated and fully documented on the Correspondent's own form or Truist's form Verbal Verification of Employment (COR 0050b) with all supporting documentation attached. Steps to independently verify phone numbers do not have to be repeated, only contacting the employer must be performed again.
    - A third party, such as a CPA, regulatory agency, or the applicable bureau if possible, must verify the existence of the borrower's business.
    - The borrower's business address and phone number must be independently verified (i.e. FastData, directory assistance, telephone book, corporate websites, search systems, useful websites tools, etc.).
    - In situations where the business does not have a verifiable business address, phone number or business listing (i.e. 123 Street LLC for property ownership/management of earned income), the following are provided as alternate methods for verifying the business (in addition to obtaining 4506-C processed IRS Tax Transcripts):
      - Third party verification of the Articles of Incorporation, Limited Liability Company (LLC), etc. registrations with the appropriate regulatory agency, such as the Secretary of State, Department of Revenue, Department of Taxation, etc. or
      - Third party verification of business license/permit with the appropriate regulatory agency, or

        Note: The purpose of verification from a regulatory agency is to confirm that the business has not been dissolved and is currently in good standing; it does not necessarily need to reflect our borrower's name. If questions remain, contact the regulatory agency directly for further clarification and verification.

      - CPA (Certified Public Accountant) letter, business listing for CPA firm and third-party verification of an active CPA license or
      - Obtain borrower's business Bank Statements that confirm regular, consecutive deposits consistent with the level of income indicated on the loan application (1003) and 4506-C IRS Tax Transcripts.

Continued on next page

General, continued

- **Self-Employed Borrowers, continue**

    Notes:
    - Review 4506-C IRS Tax Transcripts to determine a verifiable history between the borrower/business and the CPA.
    - Caution should be taken when using the CPA letter approach because of the personal relationship between the borrower and the CPA.

  - If none of the above (i.e., the borrower is not required to be licensed, SC registration is not required, no verifiable business address or phone number and the borrower prepares their own taxes), then the loan file is not eligible for purchase by Truist.

- **Loan Submission and Underwriting**
  - Review the borrower's employment information on the loan application (1003), the submitted employment/income documentation and credit report should be reviewed to ensure that the information seems reasonable and consistent.
  - The Employer or Self-Employment Business must be independently verified (i.e. FastData, 411, Directory Assistance, telephone book, corporate websites, search systems, useful websites tools, etc.).
  - Salaried/Hourly Borrower: The Correspondent lender must verify that the employer exists and that the borrower is actively employed or that the borrower is currently on temporary leave or on a seasonal layoff from work.
  - Self-Employed Borrower: The Correspondent lender must verify that the Self-Employment business exists and that the business is active. In the case of a Self-Employed borrower, an actual *verbal* verification of employment will NOT be involved.
  - **All steps taken to complete the VVOE must be clearly documented on the VVOE form (Correspondent's own form or the Truist form – *Verbal Verification of Employment* (*COR 0050a* *or* COR 0050b) and supporting information must be attached).**

    Notes:
    - These steps may include, but are not limited to:
      - the fully completed VVOE form (Correspondent's own form or the Truist form - *Verbal Verification of Employment* form (COR 0050a or COR 0050b),
      - printed documentation supporting the independently verified employer/self-employed business, direct contact information to a referred employee or department qualified to complete the VVOE (from the initial independently verified employer/self-employed business),
      - web pages supporting the employer/self-employed business, etc.
    - If documentation was sent for verification, the verified documents should also be included the supporting documentation.

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Unacceptable Sources of Income

The following sources of income are unacceptable for Truist:

- boarder income,
- capital gains,
- capital withdrawals,
- cryptocurrency
- draw income,
- foreign income,
- illegal income,
- gambling earnings,
- income based on future earnings (except as allowed by product standards),
- income not reported on tax returns (except eligible non-taxable income),
- mortgage credit certificates (MCCs),
- projected income (except as allowed by product standards),
- retained earnings,
- room/boarder rent from subject property,
- trailing co-borrower income,
- VA education benefits, and
- any income that cannot be documented, verified, and is not reportable on tax returns.

Continued on next page

1099 Income	• A borrower with 1099 income is considered self-employed if the following applies:
	  • the borrower files a Schedule C with a Federal tax return,
	  • the borrower owns 25% or more of the company that issued the 1099, and/or
	  • the borrower owns 25% or more of the partnership that issued the 1099.
	• If 1099 income reflects income earned from commissions, and the borrower files a 2106 with a Federal tax return, the income is handled under the standards for commission income and the borrower is not considered self-employed.

Age of Documentation	• Employment and income documentation cannot be older than 120 days on the date the Note is signed.
Allowable Age of Federal Income Tax Return	• For some types of sources of income, copies of federal income tax returns (personal returns and, if applicable, business returns) are required. The most recent year’s tax return is defined as the last return scheduled to have been filed with the IRS.

Continued on next page

- The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

<table>
<tr><th>Application Date</th><th>Disbursement Date</th><th>Documentation Required</th></tr>
<tr><td rowspan="3">October 15[1], current year minus one to April 14[2], of current year</td><td>October 15[1], current year minus one to April 14[2], current year</td><td>The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</td></tr>
<tr><td>April 15[1], current year to June 30, current year</td><td>The previous year’s tax return (the return due in April of the current year) is recommended, but not required.

The Lender must ask the borrower whether he or she has completed and filed his or her return with the IRS for the previous year. If the answer is yes, the lender must obtain copies of that return. If the answer is no, the lender must obtain copies of tax returns for the prior two years.</td></tr>
<tr><td>July 1, current year to October 14[2], current year</td><td rowspan="2">The lender must obtain:
• the most recent year’s tax return, OR all of the following:
  • A copy of the IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,

  Note: The lender must review the total tax liability reported on IRS Form 4868 and compare it with the borrower’s tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary to require the current returns in order to proceed.

  • IRS Form 4506-C transcripts confirming “No Transcripts Available” for the tax year, and
  • Returns for the prior two years.</td></tr>
<tr><td rowspan="2">April 15[1], current year to October 14[2], current year</td><td>April[1] 15[1], current year to December 31, current year</td></tr>
<tr><td>January 1, current year plus one to April 14[2], current year plus one</td><td>The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</td></tr>
<tr><td colspan="3">[1]Or the April/October filing dates for the year in question as published by the IRS.
[2]Or the day prior to the April/October filing dates for the year in question as published by the IRS.

Note: For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.</td></tr>
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Alimony and/or Child Support

- The borrower must provide the following:
  - income continuance documentation verifying income will continue for at least three (3) years after loan application (see list below for acceptable documentation), and
  - documentation of income receipt for the last 12 months (i.e., canceled checks, bank statements, etc.).
- Alimony and child support income that is received at least 6 months but < 12 months may be used to qualify on a case-by-case basis provided the income is fully documented (cancelled checks, bank statements, etc.) and demonstrates the payments have been received in a timely manner and in the same amount each month for at least 6 months. The underwriter may require additional documentation to support the payer's ability and willingness to make these payments or the income cannot be used as qualifying income.
- The following is acceptable as income continuance documentation:
  - divorce decree or separation agreement,
  - copy of complete written legal agreement or complete court order describing the payment terms, or
  - copy of a state law requiring alimony and/or child support payment and specifies payment conditions.
- The income cannot be considered as qualifying income if any of the following apply:
  - the payer has been obligated to make payments for less than six (6) months,
  - the payments are not for the full amount, or
  - the payments are not received on a consistent basis.

<u>Reference</u>: refer to the subtopic titled "Alimony, Child Support, and/or Maintenance Payments" for additional requirements if the borrower(s) is paying alimony, child support and/or separate maintenance.

Automotive Allowances and Expense Account Payments

- Must have a minimum of a two (2) year history of receipt and employer must verify that the income will continue.
- When a borrower reports automobile allowances or expense account payments on IRS Form 2106 (Employee Business Expenses) Schedule A or on Schedule C, the following standards apply:
  - the borrower must provide copies of the borrower's tax returns, including all schedules, IRS Form 2106 (Employee Business Expenses), Schedule A (Itemized Deductions) or Schedule C for two (2) years,
  - income is averaged over two (2) years,
  - positive income is added to the borrower's gross income,
  - a 24-month average of expenses must be developed (netting out any automobile depreciation claimed on IRS Form 2106), and
  - net expenses must be deducted from the borrower's income UNLESS such expenses are automobile lease payments or automobile loan payments, in which case they are to be considered part of the borrower's recurring monthly debt obligations.

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Automotive Allowances and Expense Account Payments, continued	• When a borrower uses IRS Form 2106 and recognized —actual expenses for a leased vehicle instead of the —standard mileage rate, the —Actual Expenses section of IRS Form 2106 must be reviewed to identify the borrower's actual lease payments, and then make appropriate adjustments.
	• When the borrower does not report the automobile allowance on either IRS Form 2106 or Schedule C, the following standards apply:
	   • the full amount of the automobile allowance should be added to the borrower's monthly income, and
	   • the full amount of the lease or financing expenditure for the automobile must be added to the borrower's liabilities.
	• Automobile allowances and/or expense account payments cannot be used to offset car payments or other liabilities.

Bonus and Overtime	• The lender must develop an average of bonus or overtime income for the past two (2) years. Overtime/bonus income received for less than two years may be considered provided the income is received a minimum of 18 months and is stable or increasing. A 24-month average must be used for qualifying purposes. • The employer must verify the probability of continuance for bonus and overtime income. • Earnings must be level or increasing (compensating factors must exist if decreases in the last year).
Borrowers Employed by a Family Member or Interested Party to the Transaction	If the borrower is employed by a relative or interested party to the property sale, two (2) years individual federal tax returns, including K1's to show percentage of ownership in the family/interested party business, are required. • Income from family/interested party business should be reflected on most recent federal tax returns. • A letter from the business accountant or a copy of the business articles of incorporation may be used to support the fact that the borrower does not have any ownership in the business.

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Borrowers Re-Entering the Workforce

- A borrower's income may be considered effective and stable when recently returning to work after an extended absence is he/she:
  - is employed in the current job for six (6) months or longer; and,
  - can document a two (2) year history prior to an absence from employment using:
    - traditional employment verifications; and/or
    - copies of IRS Form W-2s or pay stubs.

  Note: An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.

- Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six (6) months.

Commission

- A minimum history of two years of commission income is required.
- If the commission income represents ≤25% of the borrower's total annual employment income, obtain one of the following:
  - most recent YTD paystub **and** W-2 forms covering the most recent two-year period, ***and***
  - a written VOE covering the most recent two-year period.
- If commission income represents >25% of the borrower's total annual employment income, obtain copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years and one of the following:
  - a written VOE covering the most recent two-year period and most recent YTD paystub, OR
  - the borrower's most recent paystub **and** IRS W-2 forms covering the most recent two-year period.

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Depletion of Assets as an Income Source

- This income source is for an established financially experienced borrower(s) who has a proven ability to manage significant asset account(s).
- If any of the qualifying income is derived from depletion of assets, 80% maximum LTV/TLTV/HTLTV will apply.
- Asset account eligibility is defined as:
  - Asset account(s) must be in the borrower(s) personal name or in the name of a Trust that the borrower(s) have full access to.
  - Non-self-employed severance package or non-self-employed lump sum distribution deposited into a non-retirement brokerage or depository account, or eligible retirement savings account.
  - Assets eligible for depletion are as follows:
    - 100% of cash, Certificates of Deposit (CDs), Savings, and Money Market accounts
    - 70% of readily marketable securities which are unencumbered, unrestricted and diversified. Marketable securities include stocks, bonds, and mutual funds traded on national exchanges.
    - 90% of cash surrender value of life insurance.
    - 70% of retirement assets that can be withdrawn without penalty (including 401(k), IRA, Pension Funds, etc.).

    Note: If the borrower(s) has an encumbrance on the asset account(s) then only the "net" asset balance can be used for qualifying.

- Accounts to be established for a minimum of 12 months (see documentation standards below).
- When funds from assets are used in the transaction for down payment and/or closing costs, these assets MUST be subtracted from the available balance prior to calculating the qualifying income.
- Ineligible asset accounts include:
  - Unearned assets – lottery winnings, gambling winnings, proceeds from lawsuits, wind-fall funds, etc.
  - Cross-collateralized / pledged portion of the asset
  - Real estate
  - Commodities
- For borrower(s) using non-retirement account(s) assets to bridge the gap until retirement account(s) are available for distribution, the following standards apply:
  - The non-retirement asset account(s) must be sufficient to cover the qualifying monthly income until retirement begins and the retirement asset account(s) balance(s) must be sufficient to cover the required monthly qualifying income for the full amortization of the loan.

Continued on next page

Depletion of Assets as an Income Source, continued

- Borrower(s) will be qualified on the LOWER of the initial qualifying asset income or the full amortization of the loan qualifying income. See below for example scenarios:

General Description of Borrower	Borrower Examples	Funds Used to Bridge Gap Until Retirement	Income Used to Qualify Borrow
50-year old who has taken early retirement and will not have access to their individual retirement account funds until age 59- 1/2 without penalty	**Borrower A**	**Initial Qualifying Liquid Asset Income** The borrower has $500,000 in liquid assets. To determine initial qualifying income, divide the liquid asset ($500,000) by the full term of the gap (114 months). This equals the Initial Qualifying Liquid Asset income of $4,386.96/month. **Full Amortization of the Loan Qualifying Income** The borrower has $500,000 in liquid assets and $3,000,000 in their individual retirement account. To determine available qualifying income for the term of the loan, add liquid assets ($500,000) and 70% of the individual retirement account balance ($2,100,000) and divide by the term of the loan (360 months). This equals $7,222.22 monthly qualifying income.	The Initial Qualifying Liquid Asset Income of $4,386.96 monthly is used to qualify the borrower because it is lower than the Full Amortization of the Loan Qualifying Income.
	Borrower B	**Initial Qualifying Liquid Asset Income** The borrower has $500,000 in liquid assets. To determine initial qualifying income, divided the liquid asset ($500,000) by the full term of the gap (114 months). This equals the Initial Qualifying Liquid Asset Income of $4,386.96/month. **Full Amortization of the Loan Qualifying Income** The borrower has $500,000 in liquid assets and $500,000 in their individual retirement account. To determine available qualifying income for the term of the loan, add liquid assets ($500,000) and 70% of the individual retirement account balance ($350,000) and divide by the term of the loan (360 months). This equals $2,361.11monthly qualifying income.	The Full Amortization of the Loan Qualifying Income of $2,361.11 monthly is used to qualify the borrower because it is lower than the Initial Qualifying Liquid Asset Income.
Note: Liquid assets are defined as 100% of cash, CDs, savings, and money market accounts and/or 70% of readily marketable securities which are unencumbered, unrestricted, and diversified. Marketable securities include stocks, bonds, and mutual funds traded on national exchanges.			

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Depletion of Assets as an Income Source, continued

- For borrower(s) using non-retirement / trust account(s) assets for depletion of asset income, the following standards apply:
  - The non-retirement / trust asset account(s) balance MUST be sufficient to cover the required monthly qualifying income for the full amortization of the loan.
- The following documentation standards apply:
  - Two months or 60 days complete bank statements or most recent quarterly investment / retirement statement(s) and a verification of deposit when using quarterly statement(s) to verify the current account balance if the statement is over 30 days old.
  - If the borrower is bridging the gap from early retirement until a pension and/or eligible retirement savings account access occurs, then the borrower MUST supply documentation regarding what the amount will be and when it will begin.
  - Borrower(s) on the loan MUST document access to the liquid assets.
  - Accounts to be established for a minimum of 12 months. Accounts open less than 12 months prior to the loan application date must be documented with the source of the funds used to open the account. Age of the account must also be documented. Acceptable documentation for accounts open less than 12 months is a letter from the borrower's Broker/Banker stating the following:
    - how long the account has been opened,
    - the account balance when the asset account was established, and
    - state that the borrower has full access to withdraw the account funds.
- For non-self-employed severance package or non-self-employed lump sum distribution, documentation requirements are as follows:
  - most recent retirement account statement, or
  - non-self-employed severance package or non-self-employed lump sum retirement package (i.e., a lump sum distribution) must be documented with most recent three months personal depository or brokerage statements and employer distribution letter, or check stubs, and 1099R, if received.
- If the asset account(s) is held jointly with another party, then all account owners MUST be on the mortgage loan for the account to be considered in the calculation of qualifying assets for asset depletion income.
- Borrower(s) using investable asset account(s) in a Trust are required to document the following:
  - Copy of the Trust Agreement. The agreement must verify borrower's access to the asset account(s) being used and clearly define any limitations/restrictions to accessing the assets.
  - If the access to the Trust asset account(s) is limited, then a letter from the trustee stating the amount/percentage the borrower(s) may access and what distribution limitations may exist.

    Note: The trustee of the trust must be a financial institution or neutral third party.

- The borrower(s) must have access to sufficient assets to cover the monthly qualifying income for the entire amortization of the loan.
- Eligible withdrawals do not include hardship withdrawals.

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Depletion of Assets as an Income Source, continued	• If the asset account(s) are being used as the depletion of assets income source, then the same asset account(s) are NOT eligible as an asset reserve source. • The underwriter may require additional documentation to establish the amount of assets available to be used as income.

Foster Care	• Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.
	  • Verify the foster-care income with letters of verification from the organizations providing the income
	  • Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if:
	    • the borrower has at least a 12-month history of providing foster-care services, and
	• the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

Gaps in Employment	• If a borrower has a gap of employment, an explanation from the borrower for gaps of greater than 30 days is required. • Detailed letter of explanation and supporting evidence if applicable (i.e. school transcripts, military discharge papers, medical release only stating eligible to work, etc.).
Gross Disposable Income	• Truist calculates the GDI by using the following formula: • Qualifying income minus all debts included in the Debt-to-Income (DTI) calculations.

Housing/ Parsonage Income	• Non-military housing or parsonage allowance may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three (3) years.
	• The borrower must provide either (1) a written VOE or (2) a letter from the employer and paystubs.
	• Documentation must verify the following:
	  • the amount of the housing or parsonage allowance, and
	  • the terms under which the allowance is paid.
	• The housing allowance may not be used to offset the monthly housing payment.

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Income Validation

Use of IRS Form 4506-C to Validate Borrower Income Documentation

- Lenders should have each borrower (regardless of income source) complete and sign a separate IRS Form 4506-C at closing.

  Note: It may be necessary to have the borrower complete and sign multiple IRS 4506–C forms depending on the transcripts required to validate the information used in documenting income.

- If the IRS Form 4506–C is processed prior to closing, the transcript(s) received from the IRS must be used to validate the income documentation provided by the borrower and used in the underwriting process. In this case, because the form has already been processed, a signed IRS Form 4506-C is not required to be included in the loan file.
- The IRS Form 4506-C must be executed (i.e. signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from self-employment or investment income (rental income, interest and dividend income, etc.).

  Note: Transcripts required for personal tax returns used to qualify.

- The processed 4506-C must be returned from the IRS prior to underwriting.

  Note: In cases where the 4506-C is not required to be processed, a signed 4506-C at closing will still be required.

Alternatives to the IRS Form 4506-C

- Not eligible

Completing and Submitting the IRS Authorization Form

- IRS Form 4506–C can be used to obtain transcripts for up to four years or tax periods but only one tax form number can be requested per each IRS Form 4506–C. For example, it is necessary to complete two IRS Form 4506–Cs for a self-employed borrower whose income documentation includes both two years of personal tax returns and two years of business tax returns. One IRS Form 4506–C will be required to obtain a transcript of the personal 1040 returns and another will be required for the business returns (Form 1065, Form 1120, Form 1120A, etc.).
- Lenders must:
  - fill in as the recipient of the tax documents — either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form;
  - indicate that the request is for documentation concerning the year or years for which the borrower’s income was or will be used in underwriting the loan; and
  - date the form(s) with the date on which the borrower signs the form (or ascertain that the borrower dates the form when he or she signs it).

- IRS Forms 4506-C and 4506 are valid for 120 days after completion (including signature) by the borrower.

  Note: The borrower should not be required to sign an IRS authorization form before all items on the form, including the transcript being requested, the years/tax periods, and the date, have been completed.

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Income Validation, (continued)

Retaining the Tax Documents

- All tax documents, including the IRS Form 4506-C transcript received from the IRS, and any subsequent explanation or documentation of discrepancies must be retained in the loan file for QC review.

Recently Filed Tax Returns

- If the loan transaction involves a borrower who has recently filed the most recent tax year return and the transcript is not available from the IRS, the following must be provided:
  - most recent prior tax year's 1040 transcript, AND
  - copy of borrower-signed most recent 1040s with either:
    - a copy of receipt for electronically filed returns, or
    - an IRS stamped received copy of the 1040, or
    - a Summary Transcript provided by the IRS.
- If the most recent prior year's tax transcripts and the most recent year tax returns show earning trends as stable or increasing, lenders may use an average of the prior year and current year earnings to qualify the borrower.

  Note: If using most recent tax year-end P&L for qualifying purposes the P&L must be audited

- If most recent prior tax year and most recent tax year show a decrease in the earnings trend, and current year-to-date reflects an increase in earnings, then use the average of the prior tax year and most recent tax year to qualify.
- If all three years show a decrease in earnings trend, the loan may not be acceptable to Truist without documented and specific justification for the decline. Use of declining income should be fully addressed and justified in the loan file, including a comparison of typical earnings prior to decline.

Most Recent Tax Returns Have Not Been Filed

- The following guidance has been provided regarding borrowers who have not filed tax return(s):
  - If a borrower has filed an extension, the following is required:
    - Evidence that the extension was filed;
    - Processed 4506-C showing "No Record Found" for most recent tax year; and
    - For self-employed borrowers:
      - the prior tax year's 1040 transcript, most recent year-end P&L and current year-to-date P&L to evaluate earnings trend as indicated below.
      - If earnings trends are stable or increasing, then use the average of most recent prior tax year, most recent tax year and current year-to-date to qualify.
      - If the prior tax year and the most recent tax year show a decrease in the earnings trend and the current year-to-date reflects an increase in earnings, then use average of the prior tax year and the most recent tax year to qualify.
      - If all three years show a decrease in earnings trend, the loan may not be acceptable to Truist without documented and specific justification for the decline. Use of declining income should be fully addressed and justified in the loan file, including a comparison of typical earnings prior to decline.

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Income Validation, (continued)

Borrowers on Temporary Leave/Short Term Disability

- Qualifying income may include available liquid assets as supplemental income which would not be included on the tax transcripts.

Other Unique Validation Types
Newly Employed Borrower – Previous Full Time Student

- Borrowers who are newly employed and were full time students immediately prior to the new employment must provide school transcripts to document they were a full-time student for the most recent two (2) full years. The signed IRS 4506-C form is still required in the loan file.

Amended Tax Returns

- Amended tax returns are typically filed using IRS Form 1040X and are used to correct information on a previously filed tax return.
- In certain circumstances amended returns may be acceptable however an in-depth review which must be made by the Truist Underwriter or Delegated Underwriter to determine if they would be acceptable.
- Under no circumstances are amended returns acceptable if the loan has already been reviewed and denied by Truist or the Delegated Underwriter.

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Income Validation, continued

Rejected IRS Form 1040 Transcripts

- When the IRS rejects the borrower's request for 1040 tax transcripts due to identity theft or other reasons, Truist will accept alternative documentation.
- Lenders should use discretion when validating the borrower's income. This could include items such as the prior year tax transcripts, a police report, institutional written VOEs, bank statements supporting payroll deposits, or any other documentation deemed supportive, based upon the specific situation.
- Follow the standards outlined in the table below when the IRS rejects an IRS Form 4506-C request for identity theft or other reasons.

When the Reason for the IRS Rejection is…	Then provide…
• Unable to Process, or • Limitation	• Evidence the IRS rejected the IRS Form 4506-C request, • A borrower-obtained Record of Account Transcript, in pdf format, for all applicable years missing from the www.irs.gov website, and • A signed IRS Form 4506-C for the year(s) impacted by the IRS rejection. Notes: • The Record of Account Transcript combines information from the tax account and the tax transcripts. • This transcript must validate that the documents provided by the borrower are accurate and may not be used in lieu of the tax returns provided by the borrower. • You may need to access the IRS website, "Get Transcripts" several times, as the location may be temporarily unavailable.

Identity Theft	• Proof identification theft was reported to and received by the IRS (IRS Form 14039) or
	• A copy of the notification from the IRS alerting the taxpayer to possible identification theft, and
	• Validation of the reported income on the tax returns by providing the following documentation:
	  • Borrower obtained Record of Account Transcript, in pdf format, for all applicable years missing from www.irs.gov, or all of the following:
	    • W-2 or 1099 transcripts which match the W-2 or 1099 income reflected on the transcripts,
	    • Validation of prior tax year(s) income (income for the current year must be comparable to prior to year(s),
	    • 1099 Mortgage interest should match reported interest on Schedule A or Schedule E (if applicable),
	    • 1099G Unemployment should match reported unemployment (if applicable),
	    • 1099 Dividend and Interest should match reported dividend and interest income (if applicable)

Note: Do not use the standards reflected above when a "no record found" or "data does not match" response is received from the IRS. Instead follow the current requirements outlined in "Most Recent Tax Returns have not been Filed", previously presented in this section.

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Interest and Dividend Income	• Interest earned on funds used for down payment and/or closing costs cannot be used in calculating income. • Underwriters determine the expected future interest and dividend income based on the remaining balance of the asset. The underwriter may calculate an average rate of return and apply this average to the remaining asset balance to determine qualifying income. • The underwriter also determines stability of the qualifying income and the likelihood that it will continue. • The borrower must provide two (2) years of the most recent account statements (monthly, quarterly, or annually) or the most recent two (2) years signed personal individual Federal tax returns. • The IRS Form 4506-C must be executed (i.e. signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from interest and dividend income. • Income is averaged over two (2) years. • Interest and dividend income must be reported on Schedule B of IRS Form 1040 in order to be used.
K-1 Income less than 25% owner	The borrower must provide 2 years federal income tax returns + K-1s, and one of the following: • Distribution schedule or • YTD pay stub, or • Satisfactory written VOE.
Long Term Disability	• Long-term disability cannot have a defined expiration date and must be expected to continue. • The requirement for re-evaluation of benefit eligibility is not considered a defined expiration date. • Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine the borrower's current eligibility, amount and frequency of payments and if there is a contractually established termination or modification date. **Truist Note:** Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed. **Note:** See the Social Security Income subtopic subsequently presented for additional information.

Continued on next page

Military Income

- All salaried or hourly wage income standards apply, as well as:
  - provide proof that entitlements (i.e., housing allowances, flight or hazard pay, rations, etc.) if applicable, are expected to continue.
  - If the borrower can document this income is non- taxable this portion of the borrower(s) qualifying income can be grossed up by the lower of 25% or by the borrower appropriate Tax rate.

Mortgage Differential Payments

- An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments and will continue for at least the next three years.
- When calculating the qualifying ratio, the differential payments should be added to the borrower's gross income.
- The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.
- Verification requirements for income from mortgage differential payments are as follows:
  - Obtain written verification from the borrower's employer confirming the subsidy and stating the amount and duration of the payments.
  - Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
  - If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter.
  - For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the allowable age of credit documents standards.

Notes Receivable

- The borrower must provide all of the following:
  - a complete copy of the note (to verify amount, length of note payment and that income will be received for at least three (3) years from application date), and
  - verification that income has been received for the last 12 months (i.e., deposit receipts, bank statements, or tax returns).
  - If the borrower is not the original payee on the Note, documentation is required to verify that the borrower is able to enforce the Note.

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Part-Time or Second Job Income

- The borrower must provide the following:
  - pay stubs for a 30-day period and W-2s for 2 years, OR
  - WVOE covering the most recent two years, which shows income and employment information.
- The borrower must have a 24-month uninterrupted history with a strong likelihood of continuation. Income is calculated on an average of the pay stub(s) and W-2(s) earnings or federal tax returns.
- An earnings trend must be established.
  - If the earnings are stable or increasing, an average of the income is used for qualifying purposes.
  - If the trend was declining, but has since stabilized, the income must be based on the current stable earnings.
  - If the trend is declining, the income should not be considered for qualifying purposes unless there are significant documented compensating factors.
- A borrower may have a history that includes different employers, which is acceptable as long as the income has been consistently received.
- Part-time income received for less than two years may be considered provided the income is received a minimum of 18 months and is stable or increasing.

Notes:

- For qualifying purposes, “part-time” income refers to employment taken to supplement the borrower(s) income from regular employment; part-time employment is not a primary job and it is worked less than 40 hours.
- For seasonal income, refer to the Seasonal Income/Seasonal Unemployment Income subtopic.

Public Assistance Income

- Verification requirements for public assistance income includes:
  - Document the borrower’s receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.
  - Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
  - If the income is nontaxable, the lender can develop an adjusted gross income for the borrower.

    Reference: See “Tax Exempt Income” section for further guidance regarding adjusted gross income for non-taxable income.

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Rental Income

- Rental income is an acceptable source of stable income, if the amount used as rental income is not in cryptocurrency and if the likelihood of the continuance of the income can be established.
  - Rental income from the borrower's primary residence (a one-unit primary residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower.
- To demonstrate stability and continuance, documentation requirements when rental income is used as part of the borrower(s) qualifying income is as follows:
  - Borrower(s) must demonstrate at least a 24-month history of managing rental properties with no gaps greater than three (3) months. A copy of borrower(s) most recent two years signed and dated individual Federal tax returns including all schedules is required.
  - The IRS Form 4506-C must be executed (i.e., signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from rental income.
  - If the property is owned at least 6 months, but less than 24 months, rental income may be qualified utilizing:
    - a copy of the current lease, and
    - 6 months bank statements proving the rental income has been consistently received.

    Notes:
    - A copy of the lease agreement may be used to determine rental income only if the property is not on the Schedule E because it was acquired subsequent to filing the tax return, along with the following documentation:
      - Copy of the security deposit from tenant, and
      - Proof of rent received by the borrower(s) since inception of lease.
    - When a current lease agreement is used, the net rental income will be 75% of the rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.

  - If property is owned more than 24 months, rental income may be qualified utilizing:
    - 24-month rental history filed on Schedule E of the borrower's personal tax returns, or business tax returns when the rental property is owned through a business.

- **Rental Income Received from the Subject Property that is Currently Occupied as the Borrower(s) Primary Residence**
  - See Liabilities/Mortgage Payments on the Previous Home section and Assets/Determining Equity on Previous Home section for additional information.

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Retirement Income

- The borrower must have unrestricted access without penalty to accounts.
- The borrower must document regular and continued receipt of the income and must provide one (1) of the following:
  - letter from organization providing the income and duration,
  - copies of retirement awards letter(s),
  - copies of signed Federal tax returns filed with the IRS,
  - IRS W-2s or 1099 forms, or
  - most recent two (2) months or 60 days bank statements reflecting regular deposits.
- If retirement income is paid in the form of a monthly distribution from a 401(k), IRA, or Keogh retirement account, verify there is sufficient balance to allow income payments to continue for at least ten (10) years.

Note: Combining all eligible retirement assets to support 10 yrs. Continuance is acceptable.

- If the borrower has recently retired and set up an account for income draws, income from the principal balance may only be used if a payment schedule has been set up.
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the balance of the asset (less any funds used for down payment, closing costs, prepaids/escrows, and/or financing costs) must be used to determine the number of distributions remaining, to account for the volatile nature of these assets.

Royalty Payment Income

- Must have a two (2) year consecutive history of receipt and be likely to continue for the next three (3) years.
- The borrower must provide all of the following:
  - a copy of the fully executed contract, agreement or statement confirming amount, frequency and duration of the income,
  - most recent two (2) years signed federal income tax returns with all schedules, and
  - the IRS Form 4506-C must be executed (i.e. signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from royalty payment income.

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Salaried or Hourly Wage Earner

- The borrower must provide all of the following:
  - Most recent year to date pay stub or salary voucher
  - W-2s or W-2 transcripts for most recent two years
  - Verbal Verification of Employment obtained no more than 10 Business Days prior to the Note Date and recorded in the loan file
- OR, obtain all of the following:
  - Written Verification of Employment (VOE) form covering the most recent two years, which shows income and employment information
  - Verbal VOE obtained no more than 10 Business Days prior to the Note Date and recorded in the loan file

- IRS W-2 forms must identify clearly employer and the borrower as the employee.

- Borrowers that cannot provide a pay stub that includes at least 30 days of YTD income (for example the borrower applies in January or February or a teacher who is not paid on a 12-month basis, or if recently graduated from school) must meet one of the following three requirements and a satisfactory written VOE (or electronic equivalent VOE).
  - final pay stub from the prior year (from the same employer), or
  - fully executed, valid and non-expired employment contract (including salary information), or
  - satisfactory letter of explanation from the employer.
- If a pay stub does not include at least 30 days of YTD income, then in addition to the required pay stub, supplementary income documentation must be provided such as, but not limited to, a final pay stub from the prior year or a written VOE.
  - The pay stub (or supplementary income documentation) must include sufficient information to appropriately calculate income.
  - The pay stub must be from the current job with W-2s from all jobs held in the prior years.

Borrower(s) Starting new Employment and/or Relocating with Same Employer

- Borrowers must start their new employment before closing.
- To use the income from a borrower's new employment, obtain **one of** the following three items **and** a verbal VOE:
  - YTD pay stub reflecting at least 30 days of YTD earnings from the new employer, or
  - fully executed employment offer letter (including salary information) or fully executed, valid and non-expired employment contract (including salary information), or
  - satisfactory written VOE.

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Seasonal Income / Seasonal Unemployment Income	• For seasonal income:
	  ◦ Verify that the borrower has worked in the same job (of the same line of seasonal work) for the past two years.
	  ◦ Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
	• For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.
	• Verification requirements for income from unemployment benefits, such as those received by seasonal workers include documenting that the borrower has received the payments consistently for at least two years by obtaining copies of signed federal income tax returns.
	• Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower's signed federal income tax returns. Verify that the seasonal income is likely to continue.

Section 8 Homeownership Assistance Payments	• A monthly subsidy may be treated as income, if the borrower is receiving subsidies under the housing choice voucher ownership option from a Public Housing Agency (PHA). ◦ If the borrower is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and can be "grossed up" by 25%, which means that the amount of subsidy, plus 25% of that subsidy may be added to the borrower's income from employment and/or other sources. • Truist may treat this subsidy as an "offset" to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the consumer's hands. It must be paid directly to Truist or placed in an account that only Truist (the servicer) may access. **Note:** Housing Voucher payments delivered directly to servicer (not to borrower) require special service handling. Contact Purchase Relations to ensure there are no client service failures.

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Self-Employed Borrower

- A self-employed individual is considered such if he/she owns at least 25% of a business from which income is received. However, if a borrower files a Schedule C, he/she is defined as self-employed regardless of the percentage of ownership in a company (i.e., real estate agents and hair stylists).
- The borrower must be self-employed for at least two (2) years to use income for qualifying.
- If income from a current business less than two (2) years old is being used to qualify, the business must be in the same line of work as previous self-employed businesses.
- Verification of employment for self-employed borrowers (owns 25% or more of a business from which qualifying income is derived) is as follows:
  - most recent two (2) years of individual, signed Federal tax returns with all schedules,
  - the IRS Form 4506-C must be executed (i.e. signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from self-employment income,
  - most recent two (2) years of corporate, S-Corp, LLC, and/or partnership (if applicable), signed federal tax returns with all schedules,
  - a signed copy of the YTD balance sheet, regardless of corporate structure, and YTD profit and loss statement for the business (may not be more than 120 days old as of the note date); and

    Notes:
    - P&L statements must be audited when income reported on the P&L increases / decreases and the P&L income is used to qualify the self-employed borrower.
    - If the borrower(s) and/or Business file quarterly tax Returns (form 941), a copy of the quarterly return may be used in lieu of the P & L and need to be validated as part of the IRS Form 4506-C request.

  - a verbal verification of employment must be completed.

    Reference: See the "General" subtopic in the Income section previously presented in this document for additional VVOE guidance.

- If current year taxes have been filed, proof of filing may be required (i.e., canceled checks or IRS stamp on the tax return).
- If the borrower is relocating to a different geographic area, the borrower must document and fully explain how it was determined that the income will continue at the same level or greater and will not be negatively impacted by the new location.
- Self-employed borrowers physically relocating their business which will require redevelopment or restarting the entire business in a new location will not be eligible for consideration for qualifying purposes.
- If there is evidence of residential properties owned by the LLC or personally, additional documentation may be required, in order to fully evaluate the impact of the residential properties on the maximum number of financed properties used to qualify.
- If the Underwriter has concerns about the borrower(s) ability to repay the debts, then additional documentation may be required.

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Self-Employed Borrower(s) Income Not Used to Qualify

- If income from self-employed borrower(s) business is not being used for qualification purposes, the business must still be analyzed to ensure that it will not negatively affect the borrower(s) personal income or assets.
- The borrower(s) signed individual federal tax returns for the prior 2 years must be obtained to determine if there is a business loss that may have an impact on the stable monthly income used for qualifying.
- If a business loss is reported on the borrower(s) signed individual federal tax returns, additional documentation (i.e. YTD P&L and balance sheet) may be required in order to fully evaluate the impact of the business loss on the income used for qualifying.
- Self-employment losses from the non-borrowing spouse can be excluded from the borrower's qualifying income subject to verification that the borrower has no interest in the business. If the borrower has an interest in the non-borrowing spouse business, then the full amount of the loss is deducted from the borrower's qualifying income.

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Social Security Income

- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- However, if the Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.
- Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Type of Social Security Benefit	Borrower is drawing benefit from own account/work record[1]	Borrower is drawing benefits from another person's account/work record[1,2]
Retirement	• Social Security Administrator's (SSA) Award Letter	• SSA Award Letter, ***and*** • Proof of current receipt, ***and*** • Three-year continuance (e.g., verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplemental Social Security Income (SSI)	• SSA Award Letter, ***and*** • Proof of current receipt	N/A

[1] An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

[2] Examples of how a borrower might draw social security benefits from another person's account/work record and use the income for qualifying:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
- A borrower may use social security income received by a dependent (a minor or disabled dependent).

Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed.

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Tax-Exempt Income

- When using nontaxable income to adjust the borrower's gross income, the lender should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.
- The lender must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.
- If the income is verified to be non-taxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income. In order to gross up income, obtain the most recent year's tax return and transcripts to verify the nontaxable portion. The tax-exempt portion may be grossed up by 25%. If the borrower is not required to file a Federal tax return, the tax rate to use is 25%.

Temporary Leave and Short-Term Disability

- Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.
- If a lender is made aware that a borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.
  - The borrower's employment and income history must meet standard eligibility requirements.
  - The borrower must provide written confirmation of his or her intent to return to work.
  - The lender must document the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.

    Note: Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee's system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents standards.)

  - The lender must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.

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Temporary Leave and Short-Term Disability, (continued)

- The lender must obtain a verbal verification of employment in accordance with guidance subsequently presented in the "Verbal Verification of Employment" topic. If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.
- The lender must verify the borrower's income in accordance with standard guidance for the income source. The lender must obtain:
- the amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

Notes:
- Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.
- When a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term payments must be used in determining the borrower's stable income.

- **Requirements for Calculating Income Used for Qualifying**
  - If the borrower will return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying
  - If the borrower will not return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. Following are instructions on how to calculate the "supplemental income":
- **Supplemental income amount = available liquid reserves divided by the number of months of supplemental income**
  - *Available liquid reserves*: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
  - *Number of months of supplemental income*: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.
  - After determining the supplemental income, the lender must calculate the total qualifying income.
  - **Total qualifying income = supplemental income plus the temporary leave income**
  - The total qualifying income that results may not exceed the borrower's regular employment income.

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Temporary Leave and Short Term Disability, (continued)

Note: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if he or she intends to take leave in the future.

- In addition to the above standards, the following applies for worker's compensation:
  - Benefits that have a defined expiration date must have a remaining term of at least three (3) years from the date of the mortgage application in order to be used for qualifying the borrower.
  - A copy of the borrower's disability policy or benefits statement must be obtained to verify the amount of the disability payments and to determine whether there is a contractually established termination or modification date.
- A statement from the benefits' payer (insurance company, employer, or other qualified and disinterested party) must be obtained to confirm the borrower's current eligibility for the disability benefits.

Tip Income

- Verification of tip income includes:
  - Obtain the following documents:
    - the borrower's recent paystub and
    - IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer.
- Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years.
- The lender must determine the amount of tip income that may be considered in qualifying the borrower.

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Trust Income

- The borrower must provide a copy of the trust agreement or a trustee's statement that verifies the amount of the Trust, frequency of the distribution, and duration of the payments. However, if this documentation does not include information about the historical level of distributions from the trust, complete copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two (2) years (including Schedule E) must be obtained.
- If tax returns are used to validate the trust income, the IRS Form 4506-C must be executed (i.e. signed by all borrowers) AND processed if the income used to qualify for the mortgage loan is derived from trust income.
- Documentation must also verify that the income will continue for at least seven (7) years.
- Trust account funds may be used for the required cash investment provided the borrower(s) can:
  - document the withdrawal, and
  - Trustee to verify that withdrawal will not negatively impact the income.

VA Benefits Income

- Document the borrower's receipt of VA benefits with a letter or distribution form from the VA.
- Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.)

Note: Education benefits are not acceptable income because they are offset by education expenses.

Liabilities and Qualifying Ratios

General Information on Liabilities

Analysis of the loan file must include all liabilities affecting income or assets that will affect the borrower’s ability to fulfill the mortgage payment obligation.

For each liability, the underwriter must determine the unpaid balance, the terms of repayment, and the borrower’s payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the borrower or creditor.

If the credit report does not contain a reference for each significant open debt shown on the loan application, including outstanding mortgage debt, bank, student, or credit union loans, a separate credit verification must be provided.

If a current liability appears on the credit report that is not shown on the loan application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower’s explanation.

If the borrower discloses, or it is discovered that additional liabilities after the underwriting decision has been made, up to and concurrent with closing, the borrower's debt-to-income ratio must be recalculated.

Refer to the specific subsequent liability topics for guidance. If the liability calculation/treatment is not addressed utilize 1% of the outstanding balance in the following scenarios:

- no payment exists on the credit report and documentation cannot be evidenced to show a payment, or
    - Subsequent Liabilities topics (e.g. Student Loans, etc.) outlined within this document do not address unusual payment structures (e.g. balloon payments, negative amortization, etc.).

Acceptable Documentation

- Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered in hardcopy or via email or other electronic means.
- Age of credit documents:
    - For all mortgage loans (existing and new construction), the credit documents must be no more than 120 days old on the note date.
    - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit documents are older than allowed, the lender must update them.

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Qualifying Rate

The borrower must be qualified based on the maximum interest rate that may apply during the five-year period after the first regular periodic payment is due. For fully amortizing, traditionally underwritten loans, the following standards apply:

Fixed Rate
The borrower is qualified at the fully amortizing note rate.

5/6-Month SOFR ARMs
The borrower is qualified based on the GREATER of:
- Note rate + Initial Cap (2%) or
- Fully indexed rate (Index + Margin)

7/6-Month and 10/6-Month SOFR ARMs
- Unless otherwise noted below, the borrower is qualified based on the initial note rate.
- For the following transactions, the borrower is qualified based on the greater of the Initial Note rate, or Fully Indexed rate (Index + Margin):
  - HPML Transactions
  - Loans in the following states:
    - Maryland
    - Massachusetts
    - New Mexico

Qualifying Ratios

- The housing ratio includes the PITIA of the borrower's primary residence regardless of the subject property occupancy.
- The debt ratio includes housing ratio items, installment loans, revolving credit, mortgage payments on properties other than the primary residence and any other monthly debt.
- The standard maximum DTI (debt-to-income) ratio is 43%, regardless of the TLTV.

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Alimony, Child Support, and/or Separate Maintenance Payments

- When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments must continue to be made for more than 10 months, the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and flexibilities are allowed for alimony and separate maintenance (see below). Alimony, child support and/or separate maintenance with 10 or fewer monthly payments remaining are not included in the debt ratio calculation if the borrower has sufficient assets to pay off the debt over and above required reserves and funds required for closing.
- A complete copy of the divorce decree or separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.
- For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

Balloon Loans

- Balloon debt payments on any type of loan with a balloon payment are acceptable if the payment comes due in less than five (5) years after the Note date, when the following standards are met:
  - Truist does not require actual payoff of the account, but the borrower does need sufficient assets available to pay off the outstanding balance in addition to the required funds to complete the transaction.
  - Use the account information from the credit report to determine eligibility unless other documentation in the loan file reflects information that is more current.

Reference: See the Secondary Financing topic previously presented for additional information when the balloon debt is a second lien.

Bridge/Swing Loans

- When a borrower obtains a bridge (or swing) loan, the funds from that loan can be used for closing on a new principal residence before the current residence is sold.
- This creates a contingent liability that must be considered part of the borrower's recurring monthly obligations and included in the debt ratio, along with the payment on that previous home.
- This requirement is waived, and the debt is not included in the DTI ratio if the following documentation is provided:
  - a fully executed sales contract for the current residence, and
  - confirmation that any financing contingencies have been cleared, and
  - any contractual or state required due diligence periods have passed.

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Business Debt in Borrower's Name

- When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.
- A business debt in the borrower's name must be counted in the debt ratio in any of the following situations:
    - If the account has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.
    - If the business does not provide sufficient evidence that the obligation was paid out of company funds.
    - If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- A business debt in the borrower's name is not counted in the debt ratio if:
    - the account in question does not have a history of delinquency,
    - the mortgage file contains evidence that the debt has been paid timely by the borrower's business for no less than the most recent 12 months (i.e., canceled checks, business account statements, etc), and
    - the lender's cash flow analysis of the business took the payment of the obligation into consideration.

Court-Ordered Assignment of Debt

- When a borrower has outstanding debt that was assigned to another party by court-order (divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability.
- The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.
- The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment.
- The lender cannot disregard the borrower's payment history for the debt before its assignment.
- Documentation requirements:
    - A copy of applicable pages from a court order (i.e., divorce decree or separation agreement)
    - Transfer of ownership (if applicable)
- It is not necessary to verify that payments are being made by the party to whom the debt was assigned.

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Debt Paid by Others

- When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or real estate agent).
  - Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.
- When a borrower is obligated on a mortgage debt, but is not the party who is actually repaying the debt, the full monthly housing expense (PITIA) may be excluded from the borrower's recurring monthly obligations if:
  - the party making the payments is obligated on the debt,
  - there are no delinquencies in the most recent 12 months, and
  - the borrower is not using rental income from the applicable property to qualify.

  Note: When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.; refer to Section 1.22: Maximum Number of Financed Properties and Borrower Exposure Standard of the Correspondent Seller Guide for requirements.

- In order to exclude the non-mortgage or mortgage debt from the borrower's DTI ratio, document satisfactory 12-month payment history by obtaining the most recent 12 month's cancelled checks or bank statements from the party making the payments. Alternative similar documentation verifying the payments such as PayPal, Venmo, etc. is acceptable; documentation must reflect no delinquent payments.
- If the borrower(s) is an employee of the business and the debt is paid by the business, follow non-mortgage debt exclusion criteria above.

Deferred Installment Debt

- Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations.
- For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.
- When a monthly payment on an installment debt, other than a student loan, is listed as deferred or in forbearance, the lender must obtain documentation verifying the monthly payment amount.

References:

- See the "Student Loans" subtopic for guidance on deferred student loans.
- See the "Installment Debt" subtopic for guidance on installment debt that is not in a period of either deferment or forbearance.

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Federal Income Tax Installment Agreements

- When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly payment amount may be included as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:
  - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
  - The following documentation is required:
    - payment history on the plan reflecting zero 30-day late payments on the installment plan as follows:
      - for plans that have been in place for more than 12 months, provide most recent 12-month history.
      - for plans that have been in place for less than 12 months, provide a history since the inception of the plan; at least one payment must have been made prior to closing.
    - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
    - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

    Note: As a reminder, lenders remain responsible under the life-of-loan representations and warranties for clear title and first-lien enforceability.

  - The payments on a federal income tax installment agreement can be excluded from the borrower's DTI ratio if the agreement meets the terms outlined in the following liabilities subtopics:
    - ”Debts Paid by Others” or
    - “Installment Debt”
- If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS. See the subtopic presented titled “Collections, Judgments, Liens, and Charge Offs”.

Garnishments

All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes. Garnishments with 10 or fewer monthly payments remaining are not included in the debt ratio calculation if the borrower has sufficient assets to pay off the debt over and above required reserves and funds required for closing.

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Home Equity Lines of Credit (HELOCs)

HELOC transactions are considered part of the borrower's recurring monthly obligations using the following guidance:

- **HELOCs with a balance**: use the payment as reflected on the credit report, the borrower's monthly HELOC statement, or 1% of the full line amount if neither of these options are available.
- **Existing HELOCs without a balance**:1% of the current HELOC credit limit is required within the borrower's recurring monthly debt obligations.
- **New or Simultaneous Close HELOCs, regardless of lender**: HELOCs closing simultaneously or when there is a documented commitment in the loan file to open a HELOC on the subject or other real estate owned property, the greater of 1% of full line amount or the documented payment amount based on the initial draw is required within the borrower's recurring monthly debt obligations.

Installment Debt

- All installment debt that is not secured by a financial asset (including student loans, automobile loans, personal loans, and timeshares) must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining.
- An installment debt with 10 or fewer monthly payments remaining are not included in the debt ratio calculation if the borrower has sufficient assets to pay off the debt over and above required reserves and funds required for closing.
- If the installment debt is not considered, document acceptable justification for excluding in the debt-to-income ratio.
- Installment accounts may be paid down to ten (10) or less remaining payments if the borrower has sufficient assets to both pay down and pay off the debt over and above the required reserves and funds required for closing.
- Installment debt secured by cryptocurrency must be factored in the debt-to-income ratio calculation unless it meets the exclusionary rules within this section.

Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

References:

- See the subtopic "Debt Paid by Others" if a borrower has co-signed a debt but is not making the payments.
- See the subtopic "Federal Income Tax Installment Plan Agreements" for treatment of payments due under a federal income tax installment agreement.

Lease Payments

Lease payments are included in the debt ratio regardless of remaining payments.

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Loans Secured by Financial Assets

- When a borrower uses their financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.
- The lender is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided a copy of the applicable loan instrument or documentation–shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Note: Payment on any debt secured by virtual currency is an exception to the above requirement and must be included when calculating the debt-to-income ratio.

Mortgage Assumptions

- If the borrower's ownership was bought out of a property on an assumption (with or without release of liability), the mortgage payment is not included in the debt ratio if the borrower provides the following:
  - a complete copy of the formal, executed assumption agreement, and
  - documentation of ownership transfer (i.e., Closing Disclosure), and
  - Proof the Assumptor (property purchaser(s)) mortgage history is current and not been 30 days or more past due in the last 12 months.
- If the payment has been 30 or more days past due in the last 12 months and the LTV is greater than 75% the payment is counted against the borrower.

  Note: Value of the property, as established by an appraisal or the sales price on the Closing disclosure from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.

Mortgage Payments on Previous Home

Current Principal Residence Pending Sale

- If the current primary residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the new transaction, the borrower(s) must qualify with both the current and proposed mortgage payments.
- This requirement is waived, and the debt is not included in the DTI ratio if the following documentation is provided:
  - a fully executed sales contract for the current residence, and
  - confirmation that any financing contingencies have been cleared, and
  - any contractual or state required due diligence periods have passed.

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Mortgage Payments on Previous Home, continued

Conversion of Primary Residence to Second Home

- If the current primary residence is being converted to a second home the following applies:
  - both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction, AND
  - reserves of six (6) months PITI must be documented for the conversion property, in addition to the reserve requirement for the proposed mortgage.

Reference: See the "Maximum Loan-to-Value (LTV)" subtopic in the "Loan Terms" topic for additional standards and terms.

Conversion of Primary Residence to Investment Property >= 25% Equity

- Rental income from a current primary residence with >=25% equity that is being converted to an investment property is acceptable. If the current primary residence is being converted to an investment property, the following applies:
  - Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction.
  - Up to 75% of the rental income may be used to offset the mortgage payments in qualifying the borrower ONLY if there is documented equity ofat least 25% in the existing property [derived from a current (dated within 60 days of the Note date for the new transaction) full (i.e., 1004) appraisal].
  - Borrowers with a current 1–4-unit primary residence that will be converted to an investment property must meet the 25% required equity position to utilize the rental income from ANY of the property's units regardless if the units were previously occupied by the borrower or not.
  - If there is an existing HELOC on the previous primary residence, then the total line amount (total available credit line) of the HELOC must be utilized when calculating the 25% equity, except as follows:
    - if the HELOC credit limit has been permanently modified from the original amount, then the qualifying HTLTV is calculated based on the higher of the UPB or modified HELOC limit amount. Appropriate documentation that the HELOC has been permanently modified must be included in the loan file.
  - The borrower must have at least two (2) years' experience as a landlord within the last five (5) years as evidenced by two (2) years tax returns. If the borrower does not have at least two (2) years' experience as a landlord as evidenced by two (2) years tax returns, rental income can only be used to offset (reduce) the debt service of the existing mortgage PITIA payment (meaning positive rental income cannot be utilized for qualifying).
  - Reserves of six (6) months PITIA must be documented for the conversion property, in addition to the reserve requirement for the proposed mortgage.

- Rental Income cannot be in cryptocurrency and must be documented with:
  - a copy of the fully executed lease agreement, AND
  - the receipt of a security deposit from the tenant and deposit into the borrower's account.

  Reference: See the "Maximum Loan-to-Value (LTV)" subtopic in the "Loan Terms" topic for additional standards and terms.

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Mortgage Payments on Previous Home, continued

Conversion of Primary Residence to Investment Property < 25% Equity

- If the 25% equity in the property cannot be documented, rental income may NOT be used to offset the mortgage payment and the following standards apply:
  - both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction, AND
  - reserves of six (6) months PITIA must be documented for the conversion property, in addition to the reserve requirement for the proposed mortgage.
- If there is an existing HELOC on the previous primary residence, then the total line amount (total available credit line) of the HELOC must be utilized when calculating the 25% equity, except as follows:
  - if the HELOC credit limit has been permanently modified from the original amount, then the qualifying HTLTV is calculated based on the higher of the UPB or modified HELOC limit amount. Appropriate documentation that the HELOC has been permanently modified must be included in the loan file.

Reference: See the "Maximum Loan-to-Value (LTV)" subtopic in the "Loan Terms" topic for additional standards and terms.

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Open 30-Day Accounts	• For 30-day accounts (i.e., accounts that require the balance to be paid in full monthly), the full amount of the outstanding account balance must be included in the debt payment-to-income ratio, or it must be verified that the borrower has sufficient funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the borrower for the mortgage, and the source of funds must be an eligible source as described in the "Assets" topic previously outlined in this document. • If the current balance has been converted to a revolving or installment plan per the terms of the contractual agreement, the borrower must provide the most recent account statement confirming the revolving or installment balance and evidencing the monthly payment. Note: For any 30-day portion of the account balance, the borrower must have sufficient funds to pay the 30-day balance in full above and beyond required funds for closing and reserves. • If the borrower paid off the account balance prior to closing, the borrower may provide proof of payoff in lieu of verifying funds to cover the account balance. **Notes:** • See subsequently presented topic "Debt Paid by Others" if the debt is being paid by the borrower's employer. • See subsequently presented topic "Business Debt in Borrower's Name" if the borrower(s) is self-employed and the business pays the monthly account.

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Privately Held Mortgages

- If a borrower is refinancing a "privately held mortgage", the following payment verification requirements apply:
  - A housing payment history of 24 months must be met.
    - The privately held mortgage payments must be verified with either cancelled checks, online transfer, PayPal, Venmo, bank statements (if the payment is automatically withdrawn from the borrower's account) or other documentation.
  - Evidence must be included in the loan file that the lien being paid off is a current recorded lien against the subject property.
- All other credit history requirements apply.

Note: A "privately held mortgage" is a mortgage or trust deed which is granted to a borrower with private monies and is between an individual investor, partnership, LLC, trust, etc., who has interest in the property and/or the person who purchased the property.

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Property Taxes, Insurance, and HOA Assessments

- The taxes, insurance and HOA assessments, if applicable, due on a property owned or being purchased by a borrower **must always** be considered in the borrower's debt to income ratios, including properties that are currently owned free and clear.
  - If the transaction is new construction, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
  - The lender must qualify the borrower based on real estate taxes for improved property as provided by the title company and/or the specific county assessor's office.
  - In certain states, taxes may have been capped for the current seller, however when calculating the monthly payment, the lender must use the new tax projection which can often come from the title company.
  - The amount of taxes will be reduced based on federal, state, or local jurisdiction requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
  - If there is a tax abatement on the subject property that will last for five years or less from the note date, qualify the borrower at the full tax rate.
    - For tax abatements that last more than five years, the borrower must be qualified based on the highest tax amount due during the first five years.
- Generally, it is assumed that, if the mortgage has been reported to the credit repositories, the payment includes taxes and insurance. This assumption also includes mortgages that are not on the credit report and other verification has been provided.
- If the mortgage is with a private individual, it is assumed that the payment does NOT include taxes and insurance.

  Reference: See *Privately Held Mortgages* subsequently presented in the Credit Requirements topic for additional information regarding payment verification requirements for privately held mortgages.

- If the borrower discloses that the mortgage payment does not include taxes and/or insurance or the mortgage is with a private individual, lender must obtain documentation of the actual taxes, insurance, and if applicable, HOA fees.
- Other properties owned by the borrower identified on the loan application as a condominium, PUD, or townhouse must document HOA fees, even if the mortgage payment reflects on the credit report.

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Revolving Debt

- Revolving charge accounts and unsecured lines of credit are open-ended accounts and must be included in the borrower's monthly debt ratio.
- These tradelines include credit cards, department store charge cards, and personal lines of credit.
- Revolving debt or unsecured lines of credit can be paid off to qualify the borrower if the borrower utilizes their own funds from acceptable sources.
- Acceptable sources to pay off the debt must be consistent with assets utilized as funds for closing, down payment, and reserves. Documentation to evidence the payoff of a debt should be included in the file.
- Acceptable documentation to evidence the payoff of a revolving debt includes but is not limited to the following:
  - recent account statement,
  - letter from the issuing company,
  - credit report supplement,
  - payoff statement, and / or
  - copy of a cancelled check.

Notes:

- If there is a balance on an unsecured line of credit or revolving account but there is no payment on the credit report, the minimum payment is calculated as the greater of $10 or 5% of the outstanding balance.
- If there is not a balance on an unsecured line of credit or revolving account, a payment does not need to be counted.
- Documentation from other third-party sources can justify the use of a lower monthly payment.
- Revolving debt cannot be paid **down** to qualify.
- Equity lines of credit secured by real estate should be included in the housing expense.

Reference: See the Home Equity Lines of Credit (HELOC) subtopic previously for additional information.

Continued on next page

Student Loans

- For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must use the greater of the following to determine the monthly payment to be used as the borrower's recurring monthly debt obligation:
  - 1% of the outstanding balance, or
  - the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the borrower).
- If the payment currently being made cannot be documented or verified, 1% of the outstanding balance must be used.

Note: If the actual documented payment is less than 1% of the outstanding balance and it will fully amortize the loan with no payment adjustments, the lender may use the lower, fully-amortizing monthly payment to qualify the borrower.

Undisclosed Debts

- Information disclosed on the loan application must be accurate and current through loan closing. This information includes (but is not limited to) any additional credit applied for or incurred during the application process and through loan closing.
- If the borrower indicates new debt has been incurred which is not present on the initial application or on the credit report, documentation must be obtained from the borrower which indicates the balance and payment of the debt. This information must be included as a liability on the 1003 and the loan must be re-evaluated and/or re-priced based on this new information.
- The final loan application (1003) must accurately reflect all liabilities at the time of closing.

  Note: A second credit report is not required to be pulled prior to closing and/or prior to purchase to validate if the borrower has incurred any additional debt. However, if the Correspondent client's process includes pulling new credit or credit is pulled in error, prior to closing, the loan must be re-evaluated.

Authorized User Accounts

When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

Consideration of Authorized User Accounts

- Credit report tradelines that list a borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.
  - An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse and the spouse is not a borrower in the mortgage transaction.
  - An authorized user tradeline may be used if the borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application. If the borrower cannot supply documentation, the account cannot be considered in the credit analysis or for meeting tradeline requirements.
  - If written documentation of the borrower's monthly payments on the authorized user tradeline is provided, then the payment history – particularly any late payments that are indicated – must be considered in the credit analysis and the monthly obligation must be included in the debt-to-income ratio.

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Bankruptcy/Foreclosure and/or Deeds in Lieu

- A borrower must have been discharged or dismissed from a Chapter 7 or 11 bankruptcy at least seven (7) years prior to loan application.
- The borrower cannot have had a foreclosure or deed in lieu of foreclosure within the seven (7) year period prior to loan application.
- The borrower cannot have a history of a previous foreclosure or Deed-in-Lieu with Truist. The borrower cannot have scheduled a Truist mortgage to be discharged or dismissed as part of a previous bankruptcy.
- If Chapter 13, bankruptcy must be:
  - discharged or dismissed at least four (4) years prior to loan application, and
  - MUST have a satisfactory Bankruptcy Court payment history. This history must cover payments from Approval of Chapter 13 plan to Discharge.
- Borrowers with more than one (1) bankruptcy filing are not eligible.
- When bankruptcy, foreclosure and/or deed-in-lieu of foreclosure information appears in the tradeline section of the credit report, but not in the public records section, use the bankruptcy, foreclosure and/or deed-in-lieu of foreclosure date showing under the tradeline section on the credit report to meet these requirements.
- The borrower must have re-established a satisfactory credit history and demonstrate the ability to manage his/her financial affairs since the time of the discharge/dismissal.
- The borrower must show a re-established satisfactory credit history as follows:
  - minimum four (4) credit references (one must be a traditional credit reference and one must be housing related),
  - at least three (3) credit references must have been active 24 months before application and all accounts must be current as of loan application,
  - no more than 2 x 30-day lates on installment or revolving debt in the 24 month before loan application,
  - no 60+ day lates on installment or revolving debt since discharge or dismissal,
  - no past due housing payments since discharge,
  - no new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments, unpaid collections, garnishments, liens, etc. since discharge or dismissal,
  - minimal usage of revolving accounts, including accounts with high balances-to-limits (i.e., balances should not typically be more than 50% of the limits), and
  - the credit score for the LTV/TLTV loan amount combination is required for all borrowers.
- Documentation must include a copy of the bankruptcy petition, the schedule of debts and discharge or dismissal, and a letter of explanation from the borrower.

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Collections, Judgments, Liens, and/or Charge-Offs

- Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanic's or materialmen's liens, and liens that have the potential to affect lien position or diminish the borrower's equity—must be paid off at or prior to closing.
- Not more than $2,000 in aggregated balance(s) in judgment, collection, and/or charge-offs may remain unpaid after closing, and not more than $1,000 in aggregated balance(s) that are from revolving or installment debt may remain unpaid after closing. No accounts may be paid down to meet these standards, they must be paid off.
- For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, also see subsequent subtopic "Federal Income Tax Installment Agreements".

Note:

- Medical collections and/or debt listed on a credit report cannot be used as a negative factor when making a credit decision for borrowers living in California.

Consumer Credit Counseling

- Borrowers that have been in CCC are ineligible for financing for five (5) years from their completion date.

Continued on next page

Credit History Analysis

General Information

- There cannot be any major adverse credit reported in the last 24 months on revolving or installment accounts.
- The borrower(s) ***entire*** credit history must be reviewed to determine that there is not a pattern of delinquent payment history.
- The borrower's credit history may be documented by any of the types of traditional credit reports (i.e., merged in-file or full RMCR).
- Truist does not permit the use of credit reports from a foreign country.
- Provided there is not impact to the borrower's ability to qualify, no research or explanations are required for tradelines that have not been reported by the creditor in one year or more.
- Information may be required of the borrower, including an explanation letter of late payments (with supporting documentation).
- Documentation of late payments is based on underwriting discretion upon full analysis of the loan file.

Minimum Tradeline Requirements

- The credit report must contain a minimum number of tradelines, sufficient seasoning and the minimum required credit score applicable to the transaction.
- There can be no 30-day late payments in the last 24 months on any mortgage (1st, 2nd, or HELOC) or rental accounts for all primary, second home, and investment properties, meaning the borrower's existing mortgage or rental payments must be current (no more than 45 days may have elapsed since the last paid installment date) based on the unexpired credit report used for qualifying.
- An acceptable borrower(s) credit report must satisfy one of the following options:

  Note: At least one borrower on the loan must have a non-disputed installment or mortgage debt tradeline for either Option 1 or Option 2 below.

  <u>Option 1</u>
  - The credit report contains a total of at least three (3) open non-disputed tradelines; one (1) of which must be a non-disputed installment or mortgage tradeline,
  - each of the three (3) tradelines must be open for at least 24 months, and
  - each of the three (3) tradelines must be updated within the last six (6) months.

  <u>Option 2</u>
  - The borrower(s) must have a credit history of at least five (5) years,
  - the credit report must contain at least five (5) non-disputed tradelines (open, paid or closed); one (1) of which must be a non-disputed installment or mortgage tradeline (open, paid or closed),
  - individual tradelines may be established for less than a five (5) year period, and
  - the tradelines being evaluated in Option 2 must have had activity within the most recent five (5) year period.

    Notes:
    - Generally, a non-traditional credit history is not acceptable.
    - Authorized user accounts may not be used to meet the minimum tradeline requirements.

Continued on next page

Credit History Analysis, (continued)

Borrowers Not Meeting the Minimum Tradeline Requirements

- Credit reports that contain too few qualifying tradelines, insufficient trade history and/or do not meet the above tradeline requirements may be considered on a case-by-case basis.
- Not eligible for First Time Homebuyers.
- All borrower(s) and co-borrower(s) with a credit score must meet minimum credit score requirements.

  Reference: See the "Maximum Loan-to-Value (LTV)" subtopic in the "Loan Terms" topic for specific credit score requirements.

- Borrowers not meeting the minimum tradeline requirements are eligible provided all below requirements are met:
  - maximum loan amount $1,000.000,
  - maximum 70% LTV/TLTV/HTLTV,
  - minimum gross disposable income (GDI) $6,000,
  - 24 months reserves,
  - no major derogatory credit in the last 24 months,
  - not more than $1,000 in aggregated balance(s) in judgments, collections, and/or charge-offs may reflect on the credit report,
  - any open judgment, collection, and/or charge-off must be paid at closing, and
  - a housing history with no late mortgage or rental payments in the last 24 months, meaning the borrower's existing mortgage or rental payments must be current (no more than 45 days may have elapsed since the last paid installment date) based on the unexpired credit report used for qualifying.

  Note: The underwriter may require additional non-traditional credit as a compensating factor.

- Files must meet all other credit, income, and collateral standards WITHOUT exception.

Borrower Meeting Tradeline Requirements with a Co-Borrower Not Meeting Tradeline Requirements

- The borrower meeting tradeline requirements must meet the credit score and all product/underwriting standards.
- If the co-borrower has a credit score, and if the co-borrower's income is required to qualify, the credit score must meet product requirements.
- Compensating Factor Code EN2 must be captured in the origination system for borrowers meeting tradeline requirements, but the co-borrower does not.
- No additional restrictions apply to these transactions.

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Credit Score Requirements

- When credit scores are required, the qualifying score is identified as follows:
  - if there are three (3) scores, the middle score is used, or
  - if there are two (2) scores, the lowest score is used.
- At least two of the three credit bureaus must provide a credit score.
- The use of a credit score from a foreign country is not permitted.
- When there are multiple borrowers involved, the lowest applicable credit score among the borrowers is the minimum representative score.
- When using credit scores, the following factors cannot be used as offsets for credit weaknesses, as they have been factored into the score:
  - age of derogatory information,
  - number/proportion of accounts paid as agreed versus delinquent,
  - types of accounts paid as agreed vs. the types of accounts that are delinquent, and/or
  - recent pay-down of account balances.

References:

- See the “Maximum Loan-to-Value (LTV)” subtopic in the “Loan Terms” topic for specific credit score requirements.
  - See the Credit History Analysis subtopic subsequently presented for additional information on borrower(s) not meeting minimum tradelines.

Duplicate Public Records

If it is unclear from the credit report that an item is duplicated, each item should be treated individually and appropriate documentation must be obtained.

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Inquiries

- If the credit report reflects credit inquiries from lenders (including Truist Bank) within 120 days of the credit report date, explanation for all inquiries referenced, EXCEPT for the inquiry made by the originating lender that is directly related to the subject mortgage loan application, is required.

  Note: An explanation for the credit inquiry made by the originating lender that is directly related to the subject mortgage loan application is not required.

- If the explanation reveals that new debt has been incurred which is not present on the initial application or on the credit report, documentation must be obtained from the borrower which indicates the balance and payment of the debt. This information must be included as a liability on the 1003 and the borrower must be requalified and/or the loan re-priced based on this new information.

  Note: At this time, Truist will not be pulling a new credit report prior to purchase to validate if the borrower has incurred any additional debt.

Past Due Accounts

- All past due accounts must be brought current at or prior to closing.
- Additional underwriter review and consideration is required when there are past due accounts reported in the last 24 months.

Short Sales

Reference: See Section 1.28: Short Sale and Restructured Mortgage Loans Standard of the *Correspondent Seller Guide* for additional information on Short Sales.

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Unverified Liabilities

- If there are liabilities disclosed by the borrower but not on the credit report, independent verification is required.
- Verification of such liabilities is based on underwriting discretion upon full analysis of the loan file. The underwriter must determine if verification is necessary to support an approval (if not verified, an explanation is required as to why the liability is immaterial).

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Documentation

General Information
- Credit documents cannot be older than 120 days on the date the Note is signed.

Credit Report
- *Full Residential Mortgage Credit Reports* (RMCR's) or in-file credit reports are acceptable.
- If an in-file credit report is used, it must provide merged information from at least three (3) national repositories.
- If an account on the credit bureau report has not been updated within 90 days, an updated credit report or written verification of the account must be obtained.
- Provided there is no impact on the borrower's ability to qualify, no research or explanations are required for trade lines that have not been reported by the creditor in one year or more.

Verification of Mortgage/Rent
- A 24-month housing history verification is required for each borrower on the loan.
  - The 24-month housing history can represent mortgage, rental, or a combination of the two.
  - Borrowers(s) who do not having a housing payment history for the most recent 24 months (such as living rent free for any period during the most recent 24 months or owns their residence free and clear) may be eligible using the guidance at the end of this subtopic.
- Verification of the **most recent** 24-month housing payment history is required using one or a combination of the following:
  - Credit bureau report references this verification source cannot be used if the mortgage/rental is privately held, (see below for private rent/mortgage guidance),
  - Payment verification / documentation via the borrower's canceled checks, online transfer, PayPal, Venmo, depository statements or other alternative documentation (always required if the mortgage/rent is privately held),

    Note: Documentation from payment services such as online transfers, PayPal, Venmo, etc. is allowed with evidence that such payments are consistent with the housing payment indicated on the application and other supporting documentation in the loan file.

  - Standard mortgage verification (VOM) and/or or verification of rent (VOR) except that a direct verification of housing payment (VOR or VOM) may not be completed by a family member or an interested party to the transaction, (see below for rent/mortgage paid to a family member or interest party to the transaction).
  - Loan payment history from the servicer, and/or
  - Borrower(s) year-end mortgage account statement which includes a history of payment receipt, with documentation representing payments made for any months that have elapsed since the year-end statement was issued (via canceled checks, online transfer, PayPal, Venmo, or other similar documentation).

Continued on next page

Documentation, (continued)

- **If the borrower(s) mortgage and/or rental is privately held and/or held by a family member or interested party**
  - Payment verification evidencing sufficient and timely payments as agreed is required via the borrower(s) canceled checks, online transfer, PayPal, Venmo, depository statements or other alternative similar documentation is required.

- **If the borrower owns their current residence free and clear** for ≥24 months as documented in the file, a 24-month history of mortgage is not required.

- **If the borrower(s) does not have a housing history for the <u>most recent</u> consecutive 24 months (such as a scenario where the borrower was living rent/mortgage free),** obtain verification for the number of months immediately preceding the housing payment gap to document a complete 24 months of payment history utilizing the following standards:
  - Obtain a 24-month housing history (mortgage, rental, or combination of the two) with the following documentation:
    - written explanation of the period when there was no housing payment and
    - verification of the rental/mortgage history totaling 24 months utilizing one or a combination of the documentation methods above.

Cash Requirements

1031 Tax Exchange (also known as Like Kind Exchanges)	• Assets for down payment, closing costs or reserves from a "like-kind exchange," aka 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.
	• In all cases, when using a 1031 tax exchange, the subject property must be a second home. Primary residences are not eligible.
	• The loan closing must be handled by a qualified intermediary (typically, an escrow company or licensed exchange company) who enters into a written agreement with the borrower.
	• The qualified intermediary cannot be an agent, investment banker, broker, employee of the borrower, or related family member.
	• The following documentation is required:
	    • a complete copy of the fully executed exchange agreement(s),
	    • a complete copy of the contract(s),
	    • a copy of the escrow accounts (i.e., documentation verifying assets being held on deposit by the intermediary),
	    • a complete copy of the settlement statement for the subject property, and
	    • evidence that title of the subject property is transferred from the intermediary to the borrower at the time of settlement.
	    • In addition to the above, a written statement provided by a CPA is required for second homes confirming the purchase of the second home is an acceptable use of the 1031 Exchange funds.

529 Plans	• Typically, a 529 College Savings Plan is an eligible source of funds for down payment, closing costs and financial reserves provided that the borrower is the owner of the account, and the account is revocable. The lender is responsible for evaluating the terms of the plan and calculating the effective net balance (after any potential fees, taxes, or penalties that would reduce the balance are considered). • To determine if liquidation is required, the lender must understand where the money is invested (stocks, bonds, mutual funds, etc.) and based on the effective net balance, follow the standard policies outlined in the subsequent applicable asset type subtopics".

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Anticipated Sales Proceeds

- **Overview**
  - If the borrower's currently owned home is listed for sale but has not been sold, the borrower may be qualified on the basis of anticipated sales proceeds. The actual proceeds received by the borrower must be documented.

- **Determining the Amount of Net Proceeds**

Sales Price Established?	Net Proceeds Calculation
Yes	Sales Price – (Sales Costs + All Liens) = Estimated Proceeds
No	90% of Listing Price – All Liens = Estimated Proceeds **Note**: The 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

- **Sales Proceeds Needed for Down Payment, Closing Costs and Reserves**
  - If the proceeds from the sale of a currently owned home are needed for the down payment, closing costs or financial reserves on the new house, verify the source of funds by obtaining a copy of the final Settlement/Closing Disclosure Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home. The "final Settlement/Closing Disclosure Statement" on the existing home is the version signed by our borrower identified as the seller, or authorized settlement agents.

- **Like-Kind Exchanges**
  - Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible in certain scenarios if properly documented and in compliance with Internal Revenue Code Section 1031; see the "1031 Tax Exchange (also Known as a Like Kind Exchange)" subtopic previously referenced in this topic for additional information.

- **Employee Relocation**
  - When the borrower's employer assumes the responsibility for paying off the existing mortgage in connection with a corporate relocation plan, a copy of the executed buy-out agreement may be used to document the source of funds.
  - A photocopy of a sales contract or listing agreement is not considered an acceptable source of verification of proceeds from the sale.

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Cash Requirements, Continued

Assets

- All assets disclosed on the final loan application must be verified.
- Assets may be used as funds for closing (closing cost and prepaids), down payment, and reserves unless otherwise stated below or within each subsequent subtopic are as follows:
    - 1031 tax exchange (2nd home)
    - 529 plans
    - bonds
    - borrower's real estate commission
    - bridge/swing loans
    - business assets
    - cash value of life insurance
    - checking, savings, money market, certificates of deposit (CDs), or other depository accounts
    - credit card rewards points (converted to an eligible source of funds)
    - credit cards
    - employer assistance
    - foreign assets
    - gifts (personal gifts)
    - Individual Development Accounts (IDAs)
    - loans/borrowed funds secured by an asset
    - mutual funds
    - net equity
    - pooled savings (community savings funds)
    - rent credit for option to purchase
    - retirement funds
    - sale of personal assets
    - secured borrowed funds
    - stock
    - stock options (vested)
    - trade equity
    - trust accounts
    - virtual currency, also known as cryptocurrency (liquidated into an eligible source of funds)

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Assets, (continued)

- The following list shows ineligible sources of closing costs, down payment, and reserves:
  - bridal registry funds
  - cash-on-hand
  - credit cards (except for certain fees)
  - cross collateralization
  - gifts from an ineligible donor (see the "Gifts (Personal Gifts)" subtopic subsequently presented in this document for additional information)
  - hedge funds
  - lines of credit-on-credit cards
  - overdraft protection on checking accounts
  - salary advance from employer (unsecured loan)
  - signature loans
  - sweat equity
  - thinly traded, highly volatile, recently issued stocks
  - unsecured borrowed funds except in the form of Employer Assistance
  - Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minor Act (UTMA) Custodial Accounts, and/or
  - unverified sale of assets.

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Borrower Earned Real Estate Commission

- Earned real estate commission refers to the borrower's portion of a real estate commission earned from the sale of the subject property being purchased when the borrower is acting as their own real estate agent. The borrower's earned real estate commission may be used as an eligible source of funds for down payment and closing costs. The borrower's earned real estate commission may be used as an eligible source of funds for down payment and closing costs provided the borrower is a licensed real estate agent and will receive a sales commission from the purchase of the subject property.
- Documentation Requirements
  - The settlement statement must reflect the commission earned by the borrower, and
  - the earned commission amount must be credited towards the mortgage loan.

Bridge/Swing Loans

- A bridge (or swing) loan is an acceptable source of funds for down payment and closing costs provided that the following requirements are met:
  - The bridge loan cannot be cross collateralized against the new property.
  - The borrower’s ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations must be documented. See the Liabilities topic “Bridge/Swing Loans” for more information on how to treat the contingent liability.
- The bridge loan can be an equity line or loan from a lender securing the property listed for sale.
- There is no limit on the term of a bridge loan.

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Business Assets as Source of Closing Funds

- Business assets are an acceptable source of funds for down payment, closing costs, or reserves, if all of the following requirements are met:
  - The borrower must be listed as 100% owner of the business and the account must be verified.
  - A full analysis of the business financials must consider the current effect of the asset withdrawal on the business and must consider how the withdrawal will impact the viability of the business in the future.
    - Two (2) months of the most recent business asset/ bank statements are required to evaluate cash flow.
      - The most recent statement may not be dated more than 45 days prior to the application to date.

      Truist Note:
      - Supplemental statements may be necessary to evidence additional funds needed for the transaction, or to satisfy a liability prior to closing.
        - Supplemental statements must include the borrower(s) name, account number, and transaction history.
        - Supplemental statements must contain a transaction history which covers the period from the date of the most recent statement (dated within 45 days prior to the application date) to the date of the supplemental statement.
        - Supplemental statements may be computer generated forms, including online account or portfolio statements.

  - A business cash flow/liquidity analysis, via the Quick Formula Ratio referenced below, must be performed to confirm the impact of the withdrawal on the business.
    - A ratio of 1.0 (i.e. the company has exactly enough assets to satisfy liabilities) or greater is acceptable.

    About the Quick Formula Ratio:
    - The Quick Formula Ratio is (current assets – inventory) ÷ current liabilities.
    - The loan file must contain verification that the Quick Formula Ratio was performed, including documentation of the results.

Cash on Hand

- Cash on hand is not an acceptable source of funds for the down payment or closing costs.

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Cash Reserves

- Cash reserves must be comprised of eligible assets that a borrower can readily access. Refer to the “Assets” subtopic previously presented for additional information.
- Cash reserves must include the following components of the monthly housing expense (PITIA):
  - principal and interest
  - hazard, flood, and mortgage insurance (MI) premiums
  - real estate taxes
  - ground rent
  - special assessments with more than ten (10) monthly payments remaining
  - HOA dues (excluding any utility charges that apply to the individual unit)
  - monthly cooperative corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower’s unit)
  - subordinate financing payments
- Cash reserves for all transactions are based on the fully amortizing PITIA payment at the qualifying rate.
- The borrower may not use gift funds to satisfy any portion of the cash reserve requirement.
- If the transaction involves a cash-out refinance, cash received by the borrower at closing is NOT considered “reserves” or an asset.
- 6-months reserves required for previous home if not sold prior to closing.
- Reserve requirements are as follows:
  - **Standard LTV/TLTV**

Loan Amount	Reserves Requirement
</= $1,000,000	6 months
>$1,000,000 up to $2,000,000	12 months
>$2,000,000	24 months
Note: In addition to the reserves shown above, if the borrower owns multiple financed properties, additional reserves of 2 months PITIA are required for each additional financed property owned regardless of occupancy type for the subject property.	

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Cash Value of Life Insurance

- The cash value of a life insurance policy (not the face value) is an acceptable source for the down payment, closing costs, and reserves. The borrower must be the owner of the policy and not the beneficiary.
- **Documentation requirements**
  - Provide documentation from the life insurance company verifying the following:
    - Policy owner(s),
    - Period covered and current cash value, and
    - Any outstanding loans.
  - If the funds are needed for down payment or closing costs, document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.
- If the cash-value of the life insurance is being used for reserves, the cash-value must be document but does not need to be liquidated and received by the borrower.

Checking, Savings, Money Market, Certificate of Deposit (CD), or Other Depository Accounts

- Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves.
- Funds must be verified as described in the "Documentation" subtopic subsequently presented in the Cash Requirements section of this document for additional information. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.

References:

- See the Large Deposits subtopic subsequently presented in this topic for additional information.

Closing Disclosure Credits

- Credits on the Closing Disclosure (other than POC items) cannot be considered the borrower's cash funds and should not be added to assets or used as additional down payment.
- This includes pro rata real estate taxes to be credited from the seller.

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Credit Card Financing

- Certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, are permitted to be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.
- Credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of two (2%) of new loan amount, not to exceed $10,000 and if:
  - the borrower's credit card payment is recalculated to account for the new charge and is included in the qualifying ratio calculation, **OR**
  - borrower has sufficient liquid funds/financial reserves documented in the file to cover these charges in addition to funds needed for other closing costs, down payment and reserve requirements.

Notes:

- Ordering a new credit report identifying the new credit card balances and payment based on the fees charged to the credit card is not required.
- To re-calculate the balance and payment to include in the qualifying ratios, users may add the amount charged to the existing credit card balance. A new credit card payment may be calculated by adding five percent (5%) of the new charged amount to the existing credit card payment being reported.
- The amount charged is not required to be paid off at or prior to closing.
- A copy of the charge receipt or authorization must be included in the loan file.
- The Closing Disclosure must reflect a POC credit to the borrower for the amount charged.
- Debit/check cards may be used to pay common and customary fees paid outside of closing (POC), such as application fees, closing costs and/or prepaid items; however, debit/check cards are not subject to the Credit Card standards outlined in this subtopic.
  - The amount placed on the debit/check card to pay POCs is treated and documented the same as if the POCs were paid by check.
- No one may collect any loan-related fee other than the estimated cost of the credit report before the borrowers have received the initial TIL provided by or on behalf of the intended creditor/lender on the transaction.

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Cash Requirements, Continued

Credit Card Reward Points

- Credit card reward points are permitted as acceptable funds for use towards closing costs, down payment, and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. The following requirements apply:
  - If the credit card reward points are converted to cash and deposited into the borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In this event, follow the requirements subsequently outlined in the "Large Deposits" subtopic.

- If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, provide evidence that the reward points were:
  - available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and
  - converted to cash prior to the closing of the loan.

Deposits on Sales Contract (Earnest Money Deposit)

- **Sales Contract Deposit**
  - The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs. See subsequent subtopic "Virtual Currency" for additional information, as applicable.

- **Verification of Source of Funds**
  - If the deposit is being used as part of the borrower's minimum contribution requirement, verify that the funds are from an acceptable source.
  - A Request for Verification of Deposit must indicate that the average balance for the past two months was large enough to support the amount of the deposit.
  - Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the cancelled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.
  - If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

- **Documentation for Receipt of the Deposit**
  - Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

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Donations from Entities

Overview

- Borrowers of a loan secured by a primary residence may use funds donated from acceptable entities for all or part of the down payment or closing costs or subject to the minimum borrower contribution requirements. These funds are referred to as a grant.
- Donations from entities cannot be a secured lien against the subject property.
- The grant cannot be in the form of secondary financing.
- Grant funds must be funded by one of the following entities, provided they are not the property seller or other interested party in the transaction:
  - a church;
  - a federal agency, state, county, or similar political subdivision of a state;
  - any city, town, village, or borough of a state that:
    - has a local government and that has been created by a special legislative act,
    - has been otherwise individually incorporated or chartered pursuant to state law,
    - or is recognized as such under the constitution or by the laws of the state in which it is located;
  - housing finance agency as defined in 24 C.F.R. §266.5;
  - non-profit organization (excluding credit unions) exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
  - regional Federal Home Loan Bank under one of its affordable housing programs;
  - employer where the borrower is an employee (see the "Employer Assistance Housing Programs" subtopic subsequently presented in this topic for additional information about grants from employers);
  - an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131; or
  - public agency.

Minimum Borrower Contribution Requirements

The borrower must provide the required minimum down payment from their own cash funds for the applicable first mortgage product.

Documentation Requirements

- The grant must be documented with a copy of the letter awarding the grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the grant. The document must include language indicating that repayment of the grant is not expected, and how the funds will be transferred to the borrower, lender, or closing agent.
- The grant must be documented with a copy of the letter awarding the grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the grant. The document must include language indicating that repayment of of the grant is not expected, and how funds will be transferred to the borrower, lender or closing agent.
- The transfer of grants must be documented with a copy of the donor's canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual loan file.

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Cash Requirements, Continued

Donations from Entities, continued	• Funds are not eligible if donated to an acceptable entity from the property seller or other interested party to the transaction and the entity passes the funds to the borrower for down payment. Such funds, however, may be used for closing costs/prepaids and are subject to seller contribution limits. • Funds are eligible for use as down payment if they are donated to an acceptable entity from the lender (with no assurance that the funds will be used to assist borrowers obtaining mortgages through the lender) or from the borrower's employer and are not tied to a particular transaction.
Down Payment Requirements	• The borrower must make a down payment of at least 5% from their own cash funds. • The borrower may use gift funds for any additional down payment (over and above the required minimum (5%) and for all closing costs.
Earnest Money Deposit	See the "Deposit on Sales Contract" subtopic subsequently presented in this topic for additional information and requirements on verifying an earnest money deposit for a purchase transaction mortgage.

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Cash Requirements, Continued

Employer Assistance

- Forms of Employer Assistance
  - The employer assistance may be in the form of:
    - a grant,
    - a direct, fully repayable second mortgage or unsecured loan,
    - a forgivable second mortgage or unsecured loan, or
    - a deferred-payment second mortgage or unsecured loan.
- A borrower of a mortgage loan secured by a primary residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to minimum borrower contribution requirements.
- Funds must come directly from the employer, including thru an employer's affiliated credit union.
- When employer assistance is extended as a secured second mortgage, the transaction must satisfy the requirements for mortgages subject to subordinate financing.

- **Documentation Requirements**
  - The Employer Assisted Housing Program must be an established, ongoing, company-wide employer benefit program, not just an accommodation developed for an individual employee.
  - The dollar amount of the employer's assistance must be documented.
  - An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
  - Terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
  - Borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

- **Eligible Repayment Terms for Employer Subordinate Financing**
  - If the Employer Assistance is fully repayable, the required monthly fully amortizing payment must be included when calculating the monthly debt payment-to-income ratio. If the payment is interest only or not specified, then 1% of the balance must be utilized in the debt-to-income ratio. If the monthly payment of principal and interest or interest only begins on or after the 61st monthly payment under the first lien mortgage or if repayment of the loan is due only upon sale or default, the amount of the monthly payment may be excluded from the monthly debt payment-to-income ratio.

Foreign Assets

- All sources of funds used for down payments, closing costs and financial reserves must be fully documented. All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.
- When the source of those funds originates from assets located outside of the U.S. and its territories, those assets require:
  - documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and
  - verification of the funds in U.S. dollars prior to the loan closing.
- Large deposits must be evaluated in accordance with the requirements outlined in the "Large Deposits" subtopic subsequently presented in this topic.

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Gift Funds (Personal Gifts)

- A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gifts funds may fund all or part of the down payment or closing costs subject to the minimum borrower contribution requirements. The borrower may not use gift funds to satisfy any portion of the cash reserve requirement.

Acceptable Donors

- A gift can be provided by:
  - a relative defined as the borrower's spouse, child, or other dependent, or by any other individual related to the borrower by blood, marriage, adoption, or legal guardianship; or
  - a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of a domestic partner), individual engaged to marry the borrower, former relative, or godparent.
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

  Note: Gift funds from the seller who is also an acceptable donor and not affiliated with any other interested pay to the transaction are allowed.

Minimum Borrower Contribution Requirements

- See the Down Payment Requirements subtopic for guidance regarding the borrower's minimum required contribution.
  - A borrower's minimum required down payment may come from a gift from a relative or domestic partner, who has lived with him or her for the past 12 months and will continue to do so, or from a fiancé, or fiancée, if both individuals will reside in the home being purchased. Standard gift documentation must be provided to verify these requirements.
  - Refer to the subsequent subtopic "Pooled Savings (Community Savings Fund)" when the funds on deposit are provided by the borrower and other member(s) of a group of related persons who are residing together.

Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. When the gift is sourced by a trust established by an acceptable donor or an estate of an acceptable donor, the gift letter must be signed by the donor and list the name of the trust or the estate account.

- The gift letter must:
  - specify the actual or the maximum dollar amount of the gift;
  - include the donor's statement that no repayment is expected; and
  - indicate the donor's name, address, telephone number, relationship to the borrower and donor's signature.

  Note: It is not acceptable to notate the loan file/application with the gift donor information in lieu of a gift letter.

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Gifts (Personal Gifts), continued

Verifying Donor Availability of Funds and Transfer of Gift Funds
Verification that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account, or trust or estate account owned by the donor) or have been transferred to the borrower's account is required. Acceptable documentation includes the following:

- a copy of the donor's canceled check;
- a copy of the donor's check and the borrower's verification of deposit;
- a copy of the donor's withdrawal slip and the borrower's verification of deposit;
- evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent;
- a copy of the donor's check to the closing agent; or
- a settlement statement showing receipt of the donor's check.
- When the funds are not transferred prior to settlement, document that the donor gave the closing agent the gift funds in the form of an electronic transfer, certified check, cashier's check or other official check.

Gifts of Equity

- A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction.
- A gift of equity is permitted:
  - for primary residence and second home purchase transactions (cash back is not permitted);
  - can be used to fund all or part of the down payment and closing costs (including prepaid items);
  - cannot be used toward financial reserves.
- The acceptable donor and minimum borrower contribution requirement for gifts also apply to gifts of equity (refer to the previous subtopic "Gifts (Personal Gifts)".

  When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to the applicable product standards for interested party contribution requirements.

- **Documentation Requirements**
  - The following documents must be in the loan file:
    - A signed gift letter (refer to the previous subtopic "Gifts (Personal Gifts)".
    - A full appraisal report is required that supports the sales price of the subject property and includes the amount of the gift of equity.
  - The settlement statement listing the gift of equity (the gift of equity must be shown as a credit on the Closing Disclosure and the dollar amount must match the dollar amount on the gift letter).
  - See the Gifts (Personal Gifts) subtopic previously presented for additional information.

  Note: If land was deeded to the borrower as a gift before loan application, gift standards do not apply.

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Individual Development Accounts (IDAs)

- Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs.
- Non-profit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:
  - the use of parallel "savings" account that is separate from the homebuyer's savings account,
  - separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer, and
  - the use of a trustee account that contains both the homebuyer's funds and the agency's matching funds.
- When a homebuyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the non-profit agency account to the closing agent via a single check or multiple checks.
- If the agency's matching funds are held in an account that is separate from the homebuyers account, the matching funds need not be commingled with the homebuyer's funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.

Use of IDA Funds to Meet Borrower Minimum Contribution Requirements

- Funds that the borrower deposited into an IDA may be used for either the closing costs and/or the down payment. Depending on the repayment terms of the IDA program, the borrower may or may not be required to meet the minimum down payment requirements from his or her own funds as outlined below.
- If the non-profit agency does not require repayment of the matching funds and does not file a lien against the property, the following conditions apply:
  - the borrower may use the matching funds for some or all of the down payment (and closing costs), without first being required to meet the minimum down payment requirement from his or her own funds
- If the non-profit agency requires repayment of the matching funds, agrees to defer or forgive repayment provided certain conditions are met, or files a lien against the property,
  - the borrower may use the matching funds to supplement the down payment and/or closing costs provided the borrower has met the minimum borrower contribution.

Documentation Requirements

- Document how the nonprofit agency's IDA program operates to verify if funds must be repaid.
- Determine that the borrower satisfied the program's vesting requirements.
- Document the borrower's regular deposits into the account and the agency's regular deposits matching funds into the account (i.e., copies of all applicable months of bank statements to reflect deposits totaling the balance).

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Large Deposits

- When bank statements are used for qualifying, the lender must evaluate large deposits, which are defined as a single deposit or multiple deposits over a one month period that exceeds 50% of the total monthly qualifying income for the loan. See the subtopic "Virtual Currency" for additional information when a large deposit may be from virtual currency that was exchanged into U.S. dollars.
- Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	• Documentation or explanation for large deposits is not required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase transactions	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. • Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. • Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes. **Note**: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.

Notes:

- If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation.
- However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

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Loans/Borrowed Funds Secured by an Asset

- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and financial reserves, since borrowed funds secured by an asset represent a return of equity.
- Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets [such as savings accounts, certificates of deposit, stocks, bonds, eligible retirement savings accounts, and the cash value of life insurance policies.
- If a secured loan does not require monthly payments, the lender must calculate an equivalent amount and consider that amount as a recurring debt. See the Liabilities topic subsequently presented in this document for additional guidance.

  Notes:
  - Borrowed funds that are secured by virtual currency may not be used as a source of funds for the down payment, closing costs and/or financial reserves.
  - It is acceptable for a lender to provide secured lending for BOTH the downpayment and the financing of the new mortgage loan. The lender must provide written documentation ensuring that the collateral for the secured loan has a value of at least the amount of the loan/line amount.

- When the loan/line is secured by the borrower's financial assets, monthly payments for the loan/line do not have to be considered as long-term debts in the total debt ratio.

Reducing the Asset by the Amount Borrowed

- If the borrower uses the same financial asset as part of their financial reserves, value of the asset must be reduced by the amount of proceeds and related fees for the secured loan.

Documentation Requirements

The following must be documented:

- the terms of the secured loan,
- evidence that the party providing the secured loan is not a party to the sale, and
- evidence that the funds have been transferred to the borrower.

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Pooled Savings (Community Savings Funds)

- Funds from a community savings account or any other type of pooled savings may be used for down payment and/or closing costs if the borrower can document regular contributions to the fund.
- Eligible asset types for borrower personal funds include:
  - Funds on deposit in a Community Savings System that are deposited by the borrower (a non-profit community organization must administer the savings system).
  - Pooled funds
- Pooled funds are funds on deposit provided by the borrower and other member(s) of a group of related persons who:
  - Have resided together for at least one year,
  - Will continue residing together in the new residence, and
  - Are "pooling" their funds to buy a home.

Note: Funds provided by related persons who do not reside with the borrower are subject to the requirements for gift funds.

Documentation Requirements

Asset Type	Documentation Requirements
Community Savings Systems Accounts – Borrower Contributions	Provide Community Savings Systems account statements or a direct account verification identifying the nonprofit community organization as the administrator and showing all borrower contributions. The borrower's obligation to continue making contributions to the fund must be considered as part of the borrower's debt when calculating the total debt-to-income ratio.

Pooled Funds	Provide the following:
	• Evidence that the borrower and the related person have resided together for at least one year.
	• Documentation verifying the pooled funds per the requirements for the applicable asset type.
	• A written statement (signed letter or e-mail) directly from the borrower, executed at application, attesting to all of the following:
	  • source of the pooled funds;
	  • pooled funds were not borrowed by the contributing related person;
	  • relationship between the contributing related person and the borrower (for example, the affidavit might state that the related person is the borrower's uncle or that the related person is the cousin of the borrower's spouse); and
	  • related person has resided with the borrower for the past year and intends to continue residing with the borrower in the new residence for the foreseeable future.
	
	Note: the written statement need not be notarized or acknowledged but must be kept in the mortgage file.

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Rent Credit for Option to Purchase

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

Documentation Requirements
Obtain the following documentation:

- A copy of the rental/lease purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount, and specifying the terms of the lease with the option to purchase.
- Copies of the borrower's canceled checks or equivalent documentation evidencing the rental/lease payments for the last 12 months.
- Market rent as determined by the subject property appraisal.

Repair Credit

- Eligible only on primary residences.
- Repair credit cannot exceed the actual amount of closing costs and prepaids.
- Repair credit cannot affect the property value or habitability. If new construction, the final Certificate of Occupancy (CO) is required before closing.
- The cost of property repairs are not permitted unless the funds are placed into an escrow account pending the substantiated completion of the proposed improvements or repairs.

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Retirement Funds

- Vested funds from eligible retirement savings accounts may be used as the source of funds for the down payment, closing costs and financial reserves. The following account types are considered eligible retirement savings accounts:
  - IRA,
  - SEP Plan,
  - Keogh Plan,
  - 401(k),
  - 403(b)
  - Thrift Savings Plan, and
  - Government Sponsored 457(b)

  Note: Non-Government Sponsored 457(b) accounts are considered an ineligible source of funds for down payment, closing costs and financial reserves.

- In order for the retirement accounts to be considered as effective reserves, the borrower must have vested funds in the account.
- A copy of retirement account plan must be obtained and reviewed to insure vested funds are eligible for withdrawal (not borrowed, such as a loan), regardless of the borrower's age or employment status.
- Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination or death are not eligible.
- Obtain a complete copy of the most current retirement account statement identifying the borrower's vested amount and the terms and conditions for loans or the withdrawal of funds.
- The asset value is calculated as follows: vested amount X 60% minus the outstanding balance of any loan(s).
- When used for the down payment or closing costs, if the value of the combined asset(s) (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented with the following:
  - a copy of the check representing account funds (if funds are used for down payment or closing costs), and
  - a copy of the deposit receipt where funds were deposited into the borrower's account or a complete copy of the bank statement reflecting the deposit (if funds are used for down payment or closing costs).
- When funds from these sources are used for the down payment or closing costs, any applicable withdrawal penalties or income tax must be subtracted so that only the "net withdrawal" is counted.
- When funds from these sources are used for financial reserves, the funds do not have to be actually withdrawn from the account.
- When a retirement account only allows withdrawals in connection with the borrower's employment termination, retirement, or death, these funds should not be considered.

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Cash Requirements, Continued

Sale of Personal Assets

- Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

- **Documentation Requirements**
  - The borrower's ownership of the asset for all asset types that are titled assets, for example, an automobile title.
  - The value of the asset (as determined by an independent and reputable source). The lesser of the estimated value (as determined by the independent source) or actual sales price must be used when determining the amount of funds for the transaction. For example, a borrower plans to sell their vehicle. The value as determined by an independent source is $10,000; the sales price of the vehicle is $12,000. $10,000 can be added to the borrower's available funds even if the sale has already occurred.
  - Transfer of ownership of the asset (as documented by either a bill of sale or statement from purchaser).
  - The borrower's receipt of the sale proceeds from documents such as deposit slip, bank statement or copy of purchaser's canceled check or an equivalent payment source.

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Stocks, Stock Options, Bonds and Mutual Funds

- Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified.
- The borrower's ownership of the account or asset must be verified.
- The value of the asset and any related documentation must meet the requirements outlined in the table below:

Asset Type	Determining the Value of the Asset
Stocks and Mutual Funds	The value of the asset (net of any margin accounts) must be determined by obtaining either: • the most recent monthly or quarterly statement from the depository or investment firm; or • a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Stock options	The value of vested stock options can be documented by: • a statement that lists the number of options and the option price, and • using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. Note: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.
Government Bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.

- When used for the down payment or closing costs, if the value of the combined asset(s) (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.
- When used for reserves, 70% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Note: Privately held stock/stock options may only be used if they are liquidated for down payment, closing costs, or reserves.

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Trade Equity

- **Definition**
  - Trade equity is the equity that results from a property purchaser giving his or her existing real property as trade as all or part of the down payment for the property that is being purchased.

- **Trade Equity**
  - Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution provided the following requirements are met:
    - The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
    - The borrower must make the minimum required contribution from their own funds unless:
      - the LTV or CLTV ratio is less than or equal to 80%; or
      - the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.
  - These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

Note: Trade equity is entered in the loan application as a credit to the transaction, which will reduce the borrower's required funds to close.

- **Calculating the Equity Contribution**
  - The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.
- **Documentation Requirements**
  - For real property, the transfer deed must be recorded. In addition, obtain the following:
    - A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
    - Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

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Trust Accounts

- Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs, and reserves provided the borrower has immediate access to the funds.
- To document trust account funds, use the following requirements:
  - copy of the trust agreement, or
  - signed statement from the trustee or trust manager that documents the following information:
    - identifies the borrower as the beneficiary,
    - confirms that the borrower has access to all or a certain specific amount of the funds, and
    - confirms that the trust has the assets to disburse funds needed by the borrower.
- When trust funds are needed for closing, evidence of receipt of the disbursed funds from the trust is required.

Unsecured Loans

Unsecured loans are not an acceptable source of funds for the down payment, closing costs, or financial reserves with the exception of Employer Assistance as outlined within the topic titled "Employer Assistance."

Verification of Deposit

- A fully executed verification of deposit, or
- current two (2) months or 60 days complete bank statements showing beginning and ending balances, or
- most recent complete quarterly bank statements, if received quarterly.
- Explanations are required for large deposits on the bank statements and these deposits may require additional documentation.

  Reference: See the Large Deposits subtopic previously presented in this topic for additional information.

Note: If Asset income is being used to qualify the borrower, additional asset documentation will be required.

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Virtual Currency (also known as cryptocurrency)

- Virtual currency that has been exchanged into U.S. dollars is acceptable for the use of down payment, closing costs and financial reserves if the following requirements are met:
  - there is documented evidence that the virtual currency has been exchanged into U.S. dollars prior to closing and is held in a U.S. or state regulated financial institution,
  - the funds are verified in U.S. dollars prior to the loan closing, and
  - virtual currency must be from a regulated exchange (CoinBase, Robinhood, Kraken, etc.) as listed on the Financial Crimes Enforcement Network MSB Registrant List under their Legal or DBA name. If the exchange is not listed within the registrant list, the cryptocurrency is not eligible.
- A large deposit may be from virtual currency that was exchanged into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's virtual currency account.
- Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.
- Documentation requirements for liquidated virtual currency:
  - Borrower must provide proof of ownership of the virtual currency for at least 12 months prior to the note date, or
  - If the virtual currency units have been owned for less than 12 months, proof of funds used to purchase the virtual currency came from an eligible source is required.
  - Screenshots from exchange account are acceptable documentation.

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Documentation

- All assets needed to complete the transaction (used for the down payment, closing costs, or financial reserves) must be documented with evidence that the funds are from an acceptable source.
- Current balance and/or transaction history obtained via on-line banking must identify the financial institution, the last four digits of the account number, the borrower's name, the account balance, and source of information (i.e., URL reflected on document).
- Copies and/or fax copies of documentation may be provided directly from the borrower to the lender with written certification from the borrower that the copies are true and correct copies of the original documents.
- Internal documentation may be used if the company provides the information on a document with company letterhead and the signature of an authorized employee.
- One (1) of the following must be provided:
  - a fully executed verification of deposit, or
  - most recent 2 months or 60 days complete bank statements showing beginning and ending balances, if received monthly, or
  - most recent complete quarterly bank statements, if received quarterly.
- Explanations are required for large deposits on the bank statements and these deposits may require additional documentation. See the Large Deposits section for additional information.
- Asset documents cannot be older than 120 days on the date the Note is signed.

Copies of Bank Statements or Investment Portfolio Statements

- All statements must:
  - clearly identify the financial institution,
  - clearly identify the borrower as the account holder,
  - include at least the last four digits of the account number,
  - include the time period covered by the statement,
  - include all deposits and withdrawal transactions (for depository accounts),
  - include all purchase and sale transactions (for financial portfolio accounts), and
  - include the ending account balance.

Asset Account Statements

- Asset Account Statements must:
  - Identify the financial institution
  - Identify the account owner(s)
  - Identify the account number, which at a minimum must include the last four digits
  - Show all transactions
  - Show the period covered
  - Show the ending balance
  - Show any outstanding loans secured by the asset

Contributions by Interested Parties

General

Reference: See Section 1.13: Interested Party Contributions Limits Standard of the *Correspondent Seller Guide* for additional information.

Lender Credits

- If applied to closing costs, seller contribution limits do not apply.
- If applied to prepaids, seller contribution limits apply.

Seller Contributions

The following table shows information on maximum seller contribution limits.

Primary Residences and Second Homes	
TLTV	**Max Contribution %**
80% and below	6%
Above 80%	3%

Note: The limits are based on TLTV and not LTV.

Temporary Interest Rate Buydowns

Not eligible.

Mortgage Insurance

General

Not required.

Appraisal Requirements

General

The table below reflects minimum appraisal requirements based on loan amount.

Loan Amount or Combined Total Loan Amount[1]	Appraisal Requirements
< $1,500,000[2]	One (1) full appraisal by a State Certified Appraiser
>/= $1,500,000 and </= $3,000,000	Two (2) full appraisals by State Certified Appraisers

[1] The total loan amount includes the outstanding balance on second mortgages and the total credit line amount on home equity lines of credit (HELOCs).
[2] Two full appraisals are required on family transfer transactions when the loan amount or combined loan amount is >/= $1,000,000.

- Homes that have a geothermal heat pump as the main heating and cooling system are eligible. The Underwriter must determine that the appraisal supports the market for this type of property.

References:

- See Section 1.07: Appraisal Standards of the *Correspondent Seller Guide* for additional information.
- See Section 2.01c: Texas Section 50(a)(6) Mortgages Standard for additional information regarding appraisal requirements.

Continued on next page

Declining Markets

Standard Summary

- The requirements covered in these standards apply to all properties located in a declining market as determined by either the appraiser of the subject property or the *Declining Market Index*.
  - The *Declining Market Index* defines which level of LTV/TLTV reduction is necessary for both the first mortgage and the Truist second mortgage based on the state, geography, and MSAs.
  - The *Declining Market Index* is a list of declining markets that is published on a quarterly basis or as necessary based on valuation shifts in the housing market.
- It is the responsibility of all Truist teammates and/or Correspondent personnel involved in the appraisal review and/or approval to know these standards and apply the appropriate first or second mortgage standards to the subject transaction.
- If it is determined that the subject property is located in a declining market, the standards in this section must be followed.
- Declining market reductions to the maximum LTV/TLTV are waived for rate/term refinance transactions when the borrower's current loan is in the Truist portfolio.
  - To determine if the loan is eligible for the declining market LTV/TLTV reduction waiver, email the Inside Sales Team and provide the current Truist loan number at CRC.correspondent@truist.com. Truist will return an email stating whether the loan qualifies for the declining markets LTV/TLTV reduction waiver.
  - If the loan is eligible for the declining market LTV/TLTV reduction waiver, the validation email from Truist must be placed in the loan file.

Determining if Subject Property is in a Declining Market

- A property shall be deemed to be located in a declining market if either of the following apply:
  - The appraiser marked the appraisal report that property values are declining or referenced that values are declining in the appraisal comments, or
  - the *Declining Market Index* indicates a declining market.

  Note: If the property is located in a declining market, these standards supersede appraisal valuation standards as outlined in the individual product requirements.

- If the property is deemed to be located in a declining market as noted by the *Declining Market Index* list, the maximum allowable LTV/TLTV for the product as stated in the product standards will require a reduction to the LTV/TLTV as previously outlined in the *Declining Market Index.*
- If the property is deemed to be located in a declining market as noted by the appraiser, but the area in which the property is located is not reflected on the *Declining Market Index*, a 5% reduction to the LTV/TLTV will be required.

Continued on next page

Declining Markets, continued

Acceptable Appraisal Reports

- If the subject property is located in a declining market, a full appraisal must be obtained in order to document value.
- For purposes of this document, a full appraisal is *Fannie Mae Form 1004/Freddie Mac Form 70* (Uniform Residential Appraisal Report), *Fannie Mae Form 1073/Freddie Mac Form 465* (Individual Condominium Unit Appraisal Report), or *Fannie Mae Form 1025/Freddie Mac Form 72* (Small Residential Income Property Appraisal Report – 2-4 Family).
- Update/Recertification of Value:
    - If the effective date of the appraisal is greater than 120 days from the projected close date, an *Update of Value* (Form FNMA 1004D/Freddie Mac Form 442) must be used to certify value has not declined.
    - If the subject property has declined in value another full appraisal is required prior to closing and the market value on the second full appraisal must be used for the LTV/TLTV calculation.

General Appraisal Standards

- The appraisal must be reviewed thoroughly by an underwriter to ensure the marketability and value of the property is valid and supported.
- If the loan transaction must be approved by an individual with higher lender authority, that individual must also approve the appraisal report.
- The underwriter is expected to use his/her discretion in relation to all transactions and to perform the level of due diligence necessary to ensure the subject's value and marketability is substantiated.
- Careful attention must be given to an appraisal report for properties located in markets with declining values to mitigate risk and ensure compliance with Truist standards.

  Note: It is not acceptable for the appraiser to ignore these issues and not report the factual property value trends and market conditions.

Neighborhood Analysis

- **Property Values/Housing Trends**
    - The appraiser must state if housing values are declining in the "Housing Trends" section of the Neighborhood analysis and comment on the reason for decline. The Demand/Supply and marketing time sections should support the option selected in the Property Values section.
- **Demand, Supply and Marketing Time**
    - If demand/supply is noted as over-supply the appraiser must comment on the reason for the over-supply and the impact on the value of the subject property.
    - If marketing time is noted as exceeding six (6) months the appraiser must comment on the reason for the extended marketing period and its effect on the value of the subject property.

Continued on next page

Declining Markets, continued

Neighborhood Analysis, continued

- **Market Conditions**
  - The “Market Conditions” narrative section should provide a detailed description on neighborhood market activity and support the neighborhood housing trends marked. The appraiser should use additional information to support the conclusion if possible.

Sales Comparison Analysis

- Selection of comparable sales and associated adjustments should be consistent with the findings communicated in the “Neighborhood Analysis” section of the appraisal report.
- The most recent data available must be used for the comparable sales.
  - There must be at least three (3) sales closed within the previous six (6) months. If sales within six (6) months are not available the appraiser must comment on the lack of recent market activity and the effect on the value and marketability of the subject property.
- If the subject is located in a declining market, at least one (1) pending sale and/or current listings from the market should be included to validate the value as well as market activity. This is in addition to the three (3) closed sales. If listings/pending sales are not available the appraiser should comment on the lack of recent market activity and the effect on the value and marketability of the subject property.
  - The appraiser should exercise caution in using the highest listings available and represent competitive properties in the neighborhood.
  - The appraiser should adjust the listings accordingly to reflect the listing to sales price ratios for the subject neighborhood.
  - Days on market should be verified and reported for each pending sale/listing to support the appraiser’s estimate of marketing time as reflected on the first page of the report.
- Comparables that are older than ninety (90) days should be analyzed and appropriate negative time adjustments should be made to reflect declining values in the neighborhood.
- Excessive sales concessions can artificially inflate the sales price of a property.
- Particular attention should be given to unusual sales or financing concessions and a detailed explanation provided.
- Comparable sales from inside the subject’s immediate neighborhood should be used if at all possible.
  - If all comparable sales used are from outside the subject’s neighborhood the appraiser must provide a detailed explanation as to why no sales were available in the immediate neighborhood. In addition, the appraiser must provide an explanation why the specific comparable sales were selected.
  - Location of the outside sales must be analyzed and adjustment for location made if deemed appropriate.

Continued on next page

Declining Markets, continued

Sales Comparison Analysis, continued

- If more recent comparable sales are available outside the subject neighborhood at least one (1) sale from the subject's neighborhood should be used.
- Additional comparable sales are acceptable and should be included as needed to support the final value conclusion.

  Reference: See the "Sales Comparison Approach" subtopic in the "Appraisal Analysis" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information on selecting the comparables.

Construction-to-Permanent Modification (One-Time Close) Appraisal Review Standards

- Existing appraisal standards apply for construction-to-permanent one-time and two-time loans located in an area of declining values with the following exceptions:
  - If the subject property is located in a declining market at time of completion, the appraiser must complete both of the following sections of the appraisal form 1004D/442 at time of final inspection.
    - Summary Appraisal Update section, and
    - Certification of Completion section.

New Construction Appraisal Review Standards

- The contract/sales date and projected closing date should be reported and analyzed.
- Time differences in marketing conditions between the contract/sales date and the effective date of the appraisal should be carefully reviewed for impact on the subject property value.
- The appraisal should contain at least one (1) sale from within the subject subdivision and one (1) sale from outside the subdivision.
- The appraiser should report the builder of the comparables in addition to the builder of the subject property if the comparables are also new construction.

Continued on next page

Declining Markets, continued

Lock Procedures

- The *Declining Market Index* will be updated as market conditions warrant. With each *Declining Market Index* update, the appropriate guidance will be provided related to loans currently in the pipeline.
- Locked loans where the subject property was not in a declining market when the loan was originally locked will be honored even if the new *Declining Market Index* indicates the property is now in a declining market provided the loan closes prior to lock expiration.
- Lock extensions and re-locks on properties that are deemed to be in a declining market due to updates to the *Declining Market Index* may be granted however, the original terms of the loan may not be available.
- Borrowers should be counseled to understand that the original terms of the loan may not be available if the lock expires.
- Loans locked on properties deemed to be in a declining market will remain as originally locked even if updated information from the appraiser or the *Declining Market Index* indicate the property is no longer in a declining market.

Electronic Signatures

Electronic signatures on appraisals are acceptable.

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Properties Affected by a Disaster

Overview

- The purpose of these standards is to determine what defines a disaster area and when an additional property inspection is required.
- Adverse events that receive Individual Assistance in a formal declaration issued by local, state or federal department of emergency management are required to follow these standards.
- In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region, additional due diligence is required to determine whether the disaster area standards must be followed. There may be situations when an inspection may be warranted or required by Truist, even when the FEMA declaration has not granted Individual Assistance.
- Correspondent lenders are responsible for determining those areas impacted by the adverse event and to take the appropriate action as stated in these standards to ensure the subject property has not been adversely affected. This applies to all loans sold to Truist, including loans that have been underwritten by Truist.
- If at any time, there is knowledge of a recent adverse event or reason to believe the subject property might be impacted by a recent adverse event, the lender must be cognizant and use caution when processing, underwriting, or closing loans in an area that may have been impacted by adverse events.
- These standards must be followed even if the loan has already received an underwriting approval.
- In the event of a federally declared disaster or state of emergency, Truist may receive specific instructions or procedures from our investors that may require additional documentation or assurances. Communication regarding any additional requirements will be released as soon as it is available.
- Correspondent lenders are reminded of their representations and warrants under the *Correspondent Loan Purchase Agreement* for Secured Property condition.

What Determines a Disaster Area

- A disaster area is an area where an adverse event has occurred.
- An adverse event is defined as one that causes substantial damage to numerous homes or a disruption in the economy in a geographic area.
- Adverse events include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

FEMA

- FEMA maintains a current list of all federally declared disaster areas on the FEMA website.
- If the FEMA website is not available, FEMA may be contacted at (202) 646-4600 or (800) 621-FEMA (3362) for the listing.

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Properties Affected by a Disaster, (continued)

Time Periods for Following Disaster Area Standards

- These disaster standards must be followed for 90 days following the:
  - Incident period ending date, or
  - The date of the adverse event occurrence if the incident period end date is not clear.

    Notes:
    - The incident period end date is the date designated by FEMA that establishes the end of an adverse event.
    - There may be instances when there is a time lapse between the date that an adverse event occurs and FEMA assigning an incident number. In these cases, the date of the adverse event should be used.
    - Truist reserves the right to extend this time period beyond 90 days in situations of catastrophic disasters. Extensions will be communicated by memorandum or email, when necessary.

Inspection Standards

- A completed acceptable inspection report must be obtained to ensure no damage to the property.
- The property inspection report must be completed by an independent, approved third party vendor or a licensed third-party professional to certify the condition of the subject property.
- Home inspectors and general contractors must meet the state and/or local licensing/certification requirements, where required.
- No party to the loan transaction is permitted to complete the inspection report.
- The inspection report must include color photographs that show the front and street scene view (both directions) of the property. If the property inspection reveals damage, the inspector may need to provide additional photographs.
- The loan file must be documented with both the inspection report and evidence of inspector licensing.
- The inspection report cannot be used to validate/recertify or estimate market value of the property, but must identify any impact to habitability, marketability, and value.
- Truist requires any damage to be repaired and re-inspected, prior to loan delivery.
- Truist accepts the following inspection formats for a required inspection after an adverse event:
  - A final inspection or appraisal update (Fannie Mae Form 1004D/Freddie Mac Form 442) signed by the original appraiser, OR
  - a licensed appraiser, home inspector, general contractor, or third-party inspection company must complete the acceptable inspection report.

Continued on next page

Properties Affected by a Disaster, (continued)

- If the inspection report identifies any significant damage, a licensed appraiser must complete an interior inspection prior to Truist purchasing the loan with color photographs and an estimate of repair costs.
  - If the extent of the damage is equal to or less than $15,000 and the property is considered habitable, the repairs must be completed, or an escrow must be established, before closing the loan.
  - If the extent of the damage is greater than $15,000, or the property is not habitable, repairs must be completed prior to closing.
- For Emergency Declarations made in anticipation of a pending adverse event, no additional inspection is required until the adverse event has actually occurred.

Adverse Event Occurs Prior to Closing

- If Appraisal Received:
  - The appraiser must comment on the adverse event and certify that there has been no decline in value.
  - If damage is evident, the property must be repaired and re-inspected.

Adverse Event Occurs After Closing and Prior to Purchase or Funding

- Truist will suspend the loan until acceptable documentation is received based on the below criteria for loans to be eligible for purchase/funding:
- If appraisal received:
  - An acceptable inspection report or Appraisal Update and/or Completion Report – Form 1004D must be obtained by the Correspondent lender.
  - If damage is evident, the property must be repaired and re-inspected.

Re-verification of Employment and Income

- If a disaster incident occurs **after** the Verbal Verification of Employment (VVOE), the lender must obtain an additional VVOE to ensure the borrower is still employed and that they are continuing to receive the same amount of income stated on the loan application).
- If at the time of closing, the borrower is no longer employed or the qualifying income has been reduced (i.e. verify for self-employed borrowers that the business is not impacted by the adverse event), this information must be reported to the underwriter for evaluation and re-approval prior to closing the loan.

Property Flipping

Reference: See the *Property Flipping Standards* topic within General Section 1.07: Appraisal Standard document in the *Correspondent Seller Guide* for additional information.

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Transferred Appraisals

- A lender may deliver to Truist a loan containing an appraisal prepared by an appraiser selected by another lender.
- The loan file must contain a transfer letter, signed by an officer of the transferring lender, indicating that the appraisal was obtained in a manner consistent with the Appraiser Independence Requirements.
- The appraisal must be received directly from the transferring lender, and cannot be received by an individual with a financial interest in the transaction. All appraisals delivered to Truist must meet Truist eligibility standards as outlined in the *Correspondent Seller Guide*.
- Transferred appraisals must be acceptable without corrections, revisions or updates.

Lender Responsibilities

- **Lender Responsibilities**
  - The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Truist requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property.
  - If an appraisal is obtained, the lender is responsible for:
    - providing the borrower disclosures and requirements described in the "Appraisal Quality Matters" subtopic presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard;
    - compliance with the *Appraiser Independence Requirements*;
    - selection of the appraiser;
    - compliance with the Uniform Appraisal Dataset (UAD) when applicable;
    - ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae requirements;
    - successful submission of the appraisal through the UCDP prior to delivery;
    - continually evaluating the appraiser's work through the quality control process; and
    - ensuring the appraisal does not contain subjective and prohibited language relating to discriminatory practices and appraisal bias.

- **Confirmation and Documentation of the Current Owner**
  - Publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value. The lender must confirm that the property seller in a purchase transaction (or the borrower in a refinance transaction) is the owner of the subject property.

Continued on next page

Lender Responsibilities, continued

- **Confirmation and Documentation of the Current Owner**, continued
  - Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:
    - a copy of a recorded deed, mortgage, or deed of trust,
    - a recent property tax bill or tax assessment notice,
    - a title report,
    - a title commitment or binder, or
    - a property sale history report.
  - This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing and closing.
  - When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

- **Objective and Unbiased Appraisals**
  - A lender must ensure that the appraiser:
    - described the property and the neighborhood in factual, unbiased, and specific terms;
    - considered all factors that have an effect on value; and
    - was objective and unbiased in the development of the opinion of market value in the appraisal report.
  - A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur in the appraisal report as the result of what an appraiser states, or fails to state. The lender and appraiser must ensure the appraisal is not in violation of any unacceptable appraisal practices. See "Unacceptable Appraisal Practices" subsequently presented in this subtopic for additional information.

- **Reporting Unfavorable Conditions**
  - The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. See "Property Condition and Quality of Construction of the Improvements" presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for further information.

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Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value (including responses to requests for an ROV) that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- reference to crime rate or related data;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
    - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
    - "poor neighborhood";
    - "good neighborhood";
    - "crime " (and its variants);
    - "desirable neighborhood or location"; or
    - "undesirable neighborhood or location";
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make adjustments when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser’s verification of the information from a disinterested source;
- development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP.

Automated Underwriting System (AUS) Issues

AUS Eligibility

The Key Loan is not eligible for automated underwriting.

Rates, Points and Lock-Ins

Interest Rate and Price

The initial interest rate and discount points are established by Truist. Refer to Truist's Rate Sheet.

Registration and Lock-In

It is important that the loan type be communicated when the loan is registered or locked.

Reference: See Section 1.03: Loan Registration and Lock-in Procedures Standard of the *Correspondent Seller Guide* for additional information

Program Code

The following table shows the program code:

Key Fixed Rate & 5/6 Month, 7/6 Month & 10/6-Month SOFR ARMs	Product Code
Key Fixed Rate, 15 Year	KEY15
Key Fixed Rate, 30 Year	KEY30
Key 5/6-Month SOFR ARM	PAS56
Key 7/6-Month SOFR ARM	PAS76
Key 10/6-Month SOFR ARM	10PAS6

Application and Consumer Compliance

General	• All consumer disclosures or notices required by federal, state and local laws and regulations must be complied with. This includes, but not limited to, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Truth-in Lending Act, the Fair Credit Reporting Act., all as amended, and with all applicable usury limitations. • Further, all consumer disclosures relating to the mortgage loan must have been properly given on a timely basis and in compliance with applicable laws, rules and regulations. Reference: Please refer to Section 1.35: Compliance Overview Standard in the *Correspondent Seller Guide* for further information on consumer disclosures, consumer handbooks, compliance and predatory lending.
Loan Application Requirements	Truist requires the initial Uniform Residential Loan Application (Form 1003/65) to be **fully executed by all borrowers and the lender's interviewer prior to the closed loan file submission to Truist.** **Note:** Truist will accept photocopies, facsimile or imaged electronic documents to satisfy this requirement.
Handbook on Adjustable-Rate Mortgages & Program Disclosures	• Consumer Handbook on Adjustable-Rate Mortgages • Reference: Please refer to Section 1.35: Compliance Overview Standard in the *Correspondent Seller Guide* for further information on consumer disclosures, consumer handbooks, compliance and predatory lending. **Program Disclosures** • Lenders must provide borrowers with disclosures in compliance with all applicable laws. • An ARM program disclosure must be presented to and signed by the borrower when originating an ARM transaction. The disclosure must be present in the file.

Loan Submission and Underwriting

Underwriting/ Loan Submission	• The originating lender is responsible for reviewing the credit package according to the standards and requirements this product description prior to submitting the file to Truist for underwriting. • For appropriate order of the documents in the credit package, complete the *Correspondent Underwriting Checklist* (COR 0005).
MI Contract Underwriting	Not eligible

Reviewing Sales Contracts	• The lender must review the executed sales contract.
	    • The lender must take reasonable steps to determine that the sales contract is validly signed by the correct parties in all required places.
	• The lender must obtain all signed copies of the sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by the borrower and seller.
	• If the seller(s) is/are an entity (i.e., LLC, Corporation, Trust, etc.), provide evidence that the person signing the contract is authorized to act on behalf of the entity.
	• At least one of the borrower(s) on the loan application must be identified as the purchaser/buyer on the sales contract and the appraisal, unless there is a product or state specific requirements that purchasers on the sales contract must be on the loan application and appraisal.
	• Sales price on the fully executed sales contract, loan application, and appraisal must match as of the effective date of the appraisal.
	    • Explanations for any discrepancies that affect the subject property value or description must be documented and/or corrected.
	    • Changes to the sales contract, made after the effective date of the appraisal, are acceptable and do not require the appraisal to be updated, provided the changes do not affect the subject property value or description.
	• Sales concessions and/or personal property on the sales contract must be considered in the appraiser and underwriter’s analysis. In some cases, personal property and/or sales concessions may impact the maximum LTV/TLTV/HTLTV.
	• If the sales contract indicates private water and/or sewage systems and if the appraiser indicates there is evidence of possible failure (ponding, puddles, sewage smell, etc.), an inspection is required and any identified deficiencies must be repaired prior to closing.

Closing and Loan Settlement Documentation

General

The following closing standards are specific to the Key Loan. Unless specified below, all closing forms and documentation should follow standard Truist requirements.

Reference: Refer to the following sections of the *Correspondent Seller Guide* for additional Truist closing information.

- Section 1.08: Loan Delivery and Purchase Review Standard
- Section 1.12: Completion Escrow Standard
- Section 1.14: Hazard and Flood Insurance Standard
- Section 1.16: Title Insurance Standard

Note: See Section 2.01c: Texas Section(50)(a)(6) Mortgages Standard for Closing and Loan Settlement requirements and additional information.

Escrow Waivers

Escrow waivers are allowed according to the requirements in the Waiver of Escrow standards within general Section 1.08: Loan Delivery and Purchase Review Standard and Section 1.14: Hazard and Flood Insurance Standard.

Document Warranties

- Lenders must use the mortgage documents for conventional mortgage loans that are correct for the jurisdiction, the mortgage type, the lien type and the property type.
- The lender must use the most current version and appropriate forms. In some cases, the mortgage forms may have to be adapted to meet the lender's jurisdictional requirements
- Any changes made to multi-state documents must comply with all applicable laws.
- Truist relies upon your representations and warranties that the loans are enforceable in accordance with the terms of the Correspondent Lender agreement and comply with all applicable laws.
- Accordingly, it is advisable that forms and documents be reviewed by your legal counsel for compliance with the laws of the state in which each loan is made.

Document Review Fee

For all loans, a document review fee will be charged and will be deducted from proceeds at loan purchase.

Reference: See General Section 1.08: Loan Delivery and Purchase Review Standard, in the *Correspondent Seller Guide*, for information on fee charges.

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Life Estate Tenancy	Ineligible.
Power of Attorney	Reference: See General Section 1.08: Loan Delivery and Purchase Review Standard, in the *Correspondent Seller Guide* for information on power of attorney standards.
Principal Curtailments	• If the Closing Disclosure reflects the borrower receiving more cash back than is permitted for a limited cash-out refinance, the lender can apply a principal curtailment for the excessive cash back. This is to reduce the amount of cash back to the borrower, thus bringing the loan into compliance with the maximum cash-back requirement. Otherwise, the loan amount must be re-calculated and loan documents updated. ◦ If the lower loan amount based on the principal curtailment would result in a loan pricing adjustment, then the loan amount must be recalculated. • The maximum amount of the principal curtailment cannot exceed $1,000. • If a principal curtailment is made at the time of closing, it must be documented on the Closing Disclosure with the amount of the principal curtailment and reason. • No other loan documents (i.e., Loan Estimate, Initial Disclosures, and 1003) must reflect the principal curtailment amount. These documents must only show the maximum allowable cash back to the borrower.

Property Insurance	• In addition to standard Truist standards, the following requirements apply:
	  ◦ The company used to insure the property must be rated as follows:
	    ▪ a “B+” or better in Best’s Insurance Reports,
	    ▪ an “A” or better by Demotech, Inc., and/or
	    ▪ a “Class VI” financial rating in Best’s Key Rating Guide.
	• The policy must have the standard clause that requires the insurance carrier to notify the named mortgagee at least ten (10) days before any reduction in coverage or cancellation of the policy.
	• The name and address of the agent as well as the agent’s signature is required to appear on the policy.

Right of Rescission	If the loan is a refinance transaction, the Right of Rescission cannot be waived at any time.

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Closing and Loan Settlement Documentation, Continued

Title Insurance

- In addition to standard Truist standards, the following requirements apply:
- The title commitment and/or binder must be marked-up and acknowledged with the signature of the closing agent.
- The mark-up must reflect the title exceptions that will be removed or insured.
- The closing instructions must recite all modifications required to the title commitment together with a listing of required title endorsements.
- An encroachment on the mortgaged premises by improvements on an adjoining property are acceptable provided the encroachments meet the following conditions:
  - extends one (1) foot or less over the property line of the mortgaged premises,
  - has a total area of 50 square feet or less,
  - does not touch any buildings, and
  - does not interfere with the use of any improvements on the mortgaged premises or the use of the mortgaged premises not occupied by the improvements.

Work Completion Escrow Holdback

Reference: Please refer to Section 1.12: Completion Escrow Standard, in the *Correspondent Seller Guide* for further information on completion escrows.

Closing Legal Documents

The following table shows the applicable closing legal documents and forms for the **Fixed and Adjustable Rate** loans.

Legal Documents	Investor Form
Fixed Rate Note	Fannie Mae/Freddie Mac 3200 or state specific version
Non-Convertible Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR Adjustable-Rate Note	Fannie Mae/Freddie Mac 3442 or state specific version
Security Instrument	Fannie Mae/Freddie Mac state specific version
Non-Convertible Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR Adjustable-Rate Rider	Fannie Mae/Freddie Mac 3142 or state specific version
Second Home Rider, if applicable	Freddie Mac 3890
1-4 Family Rider, if applicable	Fannie Mae/ Freddie Mac 3170
Condominium Rider, if applicable	Fannie Mae/ Freddie Mac 3140
PUD Rider, if applicable	Fannie Mae/ Freddie Mac 3150