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## LPA Mortgages Secured by Properties with an ADU and Other Agency Revisions

Truist Bank (Truist) revises Loan Product Advisor® (LPA<sup>SM</sup>) requirements to align with recently announced Freddie Mac updates. With these updates we:

- Expand our property eligibility requirements for mortgages secured by properties with an Accessory Dwelling Unit (ADU)
- Permit using rental income from an ADU on a subject 1-unit primary residence to qualify the borrower
- Update information regarding using a CHOICERenovation® mortgage offering to pay off the addition or renovation of an ADU

Additionally, we update Agency annual percentage rate (APR) test requirements for investment property purchase and rate/term refinance transactions to remove an incorrect reference to the Homeownership and Equity Protection Act (HOEPA) and replace with a reference to the Revised General Qualified Mortgage (QM) rule.

### Effective Dates

All updates are effective for existing and new applications on or after September 30, 2022.

### Background Information

Freddie Mac 2022-11 announced updates to support the growing popularity of ADUs and their role in increasing housing affordability. In response to this publication, we reviewed impacted standards and identified the need to implement revisions to align with Freddie Mac.

Fannie Mae SEL-2021-08 announced a correction to requirements, previously published in Fannie Mae Lender Letter 2021-11, regarding how the APR-APOR spread for investment property purchase and rate/term refinance transactions should be calculated.

### Bulletin Details

#### Property Eligibility

Previously, a mortgage secured by a property with an ADU was eligible for sale to Freddie Mac only if the property was a 1-unit dwelling. In response to recent zoning and ordinance changes in many geographic areas, Freddie Mac has expanded ADU eligibility requirements to allow one ADU on 2- and 3-unit properties.

## Bulletin Details, continued

### Rental Income Generated from an ADU on a Subject 1-Unit Primary Residence

Previously, rental income generated from an ADU on a 1-unit primary residence could be considered for mortgage qualification only when the borrower had a disability and the rental income was from a live-in aide, or when the mortgage was a Home Possible® mortgage.

Truist has updated our standards to allow rental income generated from an ADU on a subject 1-unit primary residence to be considered when qualifying the borrower for a purchase or a "no cash-out" refinance mortgage, provided certain requirements are met, including but not limited to:

- The ADU must comply with zoning and land use requirements (legal, legal non-conforming or no zoning)
- An appraisal report must be obtained to support the ADU's marketability and include at least one comparable sale with an ADU that is rented. If an automated collateral evaluation (ACE) appraisal waiver is offered, it must not be accepted.
- The appraiser's rental analysis must include a minimum of three comparable rentals that support the market rent of the ADU, and at least one of the comparable rentals must be a property with an ADU.
- The Lender must ensure that the ADU rental income used to qualify the borrower for the mortgage does not exceed 30% of the total stable monthly income.
- At least one qualifying borrower must participate in a landlord education program or have previous landlord experience for a minimum of one year.
- Lenders must use IFI J66 to identify loans with rental income from an ADU on a subject 1-unit primary residence.

### ACE Eligibility in LPA

When rental income generated from an ADU on a subject 1-unit primary residence is used to qualify the borrower, lenders must ignore the ACE appraisal waiver message and the corresponding data in the Assessment Summary of the Feedback Certificate that indicates ACE eligibility, if offered, because an appraisal report must be obtained.

LPA will be updated in the fall of 2022 with a new feedback message reminding lenders that if rental income generated from an ADU on the subject 1-unit primary residence is used to qualify the borrower, an ACE appraisal waiver may not be accepted. This message will only fire if the rental income generated from the ADU is entered into LPA.

## Bulletin Details, continued

### CHOICERenovation Loans and ADUs

We are specifying that Freddie Mac's existing CHOICERenovation mortgage offering provides an option to use a "no cash-out" refinance mortgage to pay off short-term financing that financed ADU renovations, including the addition or renovation of an ADU, that is completed prior to the note date.

### Agency APR Test

In response to a correction published by Fannie Mae, we update Agency APR test requirements for Agency investment property purchase and rate/term refinance transactions (all underwriting methods) to state that the APR/APOR spread should be calculated in accordance with the Revised General QM rule. Updated requirements read as follows:

- **Investment Property Purchase and Rate/Term Refinance Transactions:**
  - *The loan's APR cannot exceed the average prime offer rate (APOR) by 6.5% or more calculated in accordance with the **Revised General QM rule**.*

**Note:** For ARMs, with an initial fixed period of five (5) years or less, lenders must calculate the APR using the maximum interest rate that could apply during the first five years after the first payment is due.

### Notes:

- Previously published requirements incorrectly stated "calculated in accordance with the regulatory provisions of HOEPA in TILA."
- With this correction, published requirements now align with how Truist's APR testing has been performed (on Agency investment property purchase and rate/term refinance loans purchased by Truist) since the reinstatement of the eligibility of Agency investment property transactions (*previously announced in [COR21-055](#)*).

### Revised Materials

Click [Compliance Overview Standard](#) and [Agency Loan Standard](#) to review the revised product materials.

## Other Resources

Support Group	Description and Contact Information:
Correspondent Relations Coordinator	Specific questions on applying this procedure to specific loan files. Contact Correspondent Relations Coordinators at 800.382.2111, Option 1.
Product Support	Provides phone and email support on products, policies, and procedures as well as new product rollout and existing product enhancement. Contact Product Support at 800.382.2111, option 3.

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