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LPA Income and Appraisal Updates

Truist Bank (Truist) revises Loan Product Advisor® (LPA®) requirements to align with recently announced updates from Freddie Mac. With this update, we:

- Modify our LPA standards to address employment/income requirements for borrower with business ownership interest(s) of less than 25%.
- Add examples of prohibitive language in appraisals.
- Expand Desktop Appraisal eligibility to age-based resale-restricted properties and leasehold estates.

Effective Dates

Effective with new and existing loan applications on or after December 2, 2022.

Background Information

Freddie Mac Bulletin 2022-20 announced updated requirements for the treatment of income for borrowers with business ownership interest(s) less than 25%, provided additional examples of prohibitive language in appraisal reports and expanded desktop appraisal eligibility to include age-based resale-restricted properties and leasehold estates. Truist has reviewed standards and identified the opportunity to align with Freddie Mac.

Bulletin Details

Borrowers with Business Ownership Interest Less than 25%

Currently, our standards do not specify requirements for borrowers who hold a business ownership interest(s) of less than 25% and receive ordinary income or guaranteed payments reported on an IRS schedule K-1 for partnerships and S-corporations. We are updating our standards to require that for Borrowers with this income characteristic, Truist must use either:

- The requirements and guidance for self-employed income, or
- The new requirements, as summarized below.

The new requirements include, but are not limited to, the following:

- The Mortgage file must include:
 - Schedule K-1(s) for the most recent two calendar years
 - Year-to-date income documentation, except when this information is not attainable, and the lender is able to document and justify the income stability without this information
 - The Borrower should not have an ownership interest of 25% or more in any business
 - A two-year history of receipt is required. However, in certain instances, a shorter history of no less than 12 months may be considered stable if the lender provides a written analysis and sufficient supporting documentation.

Bulletin Details, continued

Borrowers with Business Ownership Interest Less than 25%, continued

- Historical cash distributions must be reasonably consistent with the ordinary business income
- Verification of current existence of business must be included in the loan file

At this time, Loan Product Advisor issues feedback messages based on whether the Borrower is marked as self-employed (e.g., tax returns versus paystubs and W-2s), and Loan Product Advisor does not consider percentage of business ownership interest (i.e., whether or not it is equal to or greater than 25%) or address Schedule K-1 income. Freddie Mac is currently evaluating how to best provide appropriate feedback messages for these income characteristics and will communicate updates as they become available.

Prohibited Language in Appraisals

Freddie Mac has provided more examples of unacceptable terms and phrases to help identify prohibited language in appraisal reports. We have updated our agency standards to include these examples.

Desktop Appraisal Eligibility

We have expanded desktop appraisal eligibility to include mortgages secured by the following:

- Properties subject to age-based resale-restrictions, and
- Leasehold estates

Before and After Matrix

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

Revised Materials

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

Former Standards

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

Other Resources

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