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LPA Cash-Out Refinance Seasoning Requirement and Other Revisions

Truist Bank (Truist) revises Loan Product Advisor® (LPASM) requirements to align with recently announced Freddie Mac updates. With these updates, we:

- add a 12-month seasoning requirement for a mortgage that is being paid off with proceeds of a cash-out refinance
- expand the list of eligible gift donors to include unrelated individuals with close family-like ties to the borrower, a trust established by a related person, and an estate of a related a person
- specify that requirements for temporary leave income do not extend to employer-initiated actions, such as furloughs and layoffs
- permit exclusion of property-related contingent liabilities from the debt payment-to-income (DTI) ratio
- remove the requirement that court assigned debt must be secured in order to be excluded from the DTI ratio
- incorporate the definition of non-arm's length transactions

Effective Dates

- The cash-out refinance seasoning requirement update is effective for new loan applications on or after January 13, 2023.
- All other updates are effective immediately for existing and new loan applications on or after January 13, 2023.

Background Information

Freddie Mac Bulletin 2022-25 announced updates impacting various LPA requirements. In response to this publication, we reviewed impacted product standards and identified the opportunity to implement revisions to align with Freddie Mac requirements.

Bulletin Details

Cash-Out Refinance Seasoning Requirement

When proceeds of an LPA cash-out refinance are used to pay off a first lien mortgage, the first lien mortgage being refinanced must be seasoned for at least 12 months (i.e., at least 12 months must have passed between the note date of the mortgage being refinanced and the note date of the cash-out refinance), as documented in the loan file. This seasoning requirement does not apply when the first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC).

Note: LPA will be updated with a new feedback message to support this new seasoning requirement in a future release.

Bulletin Details, continued

Eligible Gift Donors

For LPA loans, we expand the list of eligible gift donors by:

- expanding the definition of related person to include unrelated individuals with close, family-like ties to the borrower (this update expands the list of eligible donors of gift funds and gifts of equity used as a source of funds for the mortgage transaction)
- adding a trust established by a related person and an estate of a related person as eligible donors of gift funds and gifts of equity

Temporary Leave Income

For LPA loans, we specify that requirements for temporary leave income do not extend to employer-initiated actions, such as furloughs and layoffs.

Exclusion of Property-Related Contingent Liabilities from the DTI Ratio

For LPA loans, we expand requirements for contingent liabilities to permit exclusion of property-related expenses (e.g., taxes, insurance, homeowners association dues, etc.) from the monthly DTI ratio when documentation in the loan file confirms that a party other than the borrower has been making timely payments for the most recent 12 months and the party making the payments is not an interested party to the subject real estate or mortgage transaction.

Court Assigned Debt

For LPA loans, we remove the requirement that the debt must be secured in order to be excluded from the monthly DTI ratio if the obligation to make the payments on the debt has been assigned to another party by a documented court order, such as a divorce decree.

Non-ARM's Length Transactions

For LPA loans, we incorporate the following definition of non-arm's length transactions into our Underwriting standard document: "Non-arm's length transactions are purchase transactions between parties who are related, are affiliated, or have a pre-existing personal or business relationship."

Before and After Matrix

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

Revised Material

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

Former Standards

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

Other Resources

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

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