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## Freddie Mac LPA Income, Gift, and GreenCHOICE Mortgages Updates

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

- add documentation and analysis requirements for borrowers receiving IRS 1099 Income
- expand personal gifts and gift letter requirements
- allow a gift fund donor to pay the borrower's earnest money deposit (EMD) directly to the builder or real estate agent
- provide additional flexibility for GreenCHOICE® mortgages

### Effective Dates

Effective with existing and new loan applications on or after November 18, 2022.

### Background Information

Freddie Mac Bulletin 2021-25 and 2022-18 announced new guidance related to employment and income characteristics for recipients of IRS Form 1099 income, graduation gifts as an eligible source of gift funds, gift funds used to pay the borrower's earnest money deposit, and GreenCHOICE mortgages. In response to these publications, we reviewed our product standards and identified the opportunity to align with Freddie Mac.

### Bulletin Details

#### Income Reported on IRS Form 1099

Currently, Truist provides limited guidance for treating income received on IRS Form 1099 for services performed and reported on IRS Schedule C as non-self-employed income. This pay structure is often referred to in terms such as "contractor" or "contingent worker."

We are updating LPA standards to specify that for this income characteristic, Truist must use either:

- The requirements and guidance for self-employed income, or
- The requirements and guidance as summarized below
  - The mortgage file must include:
    - IRS Form 1099(s) for services performed for most recent two calendar years
    - Tax return (pages one and two and applicable schedules) for the most recent year
    - YTD income documentation
  - A two-year history of receipt is required. However, in certain instances, a shorter history of no less than 12 months documented on the tax returns may be considered stable with a written analysis and sufficient supporting documentation.

## Bulletin Details, continued

### Income Reported on IRS Form 1099, continued

- IRS Schedule C must evidence the following:
  - Gross receipts or sales are equal to the total amount(s) reported on IRS Form 1099(s)
  - Total expenses are  $\leq 5\%$  of gross receipts or sales after deducting non-cash expenses (e.g., depreciation)
  - Cost of goods sold = \$0
  - 12-month history of 1099 income and reported expenses

### Gift Funds and Gift Letters

In support of expanding access to credit for first-time homebuyers, Truist has updated our LPA standards to:

- Permit graduation gifts from a related or unrelated person(s) as an eligible source of funds for a purchase of a primary residence. The following documentation must be obtained:
  - Evidence of graduation from an educational institution (e.g., diploma or transcripts) that supports the date of graduation
  - A verification of the gift funds in the borrower's depository account. Gift funds must be deposited within 90 days of the date of graduation.
- Allow a gift fund donor to pay the borrower's EMD directly to the builder or real estate agent. Documentation evidencing the transfer of funds from the donor's account in a financial institution to the EMD holder is required.

In addition, gift letters may now state the maximum amount of the gift funds or gift of equity **or** the actual amount. This change will eliminate the need to obtain a corrected gift letter, should the actual amount of the gift be less than the amount stated on the gift letter. As a reminder, this flexibility does not eliminate the requirements for resubmission to LPA when changes to qualifying data exceed LPA's tolerance.

### GreenCHOICE Mortgages

For LPA loans, we revise GreenCHOICE mortgage requirements to provide additional flexibility as follows:

- GreenCHOICE mortgages are now an exception to the requirement that a mortgage placed on a property previously owned free and clear by the borrower must be considered a cash-out refinance.
- Energy reports may now be dated up to 24 months prior to the note date.
- Proceeds may be used to pay down/partially pay off (in lieu of being paid off, as previously required) an existing outstanding debt for funds that were used to finance energy and/or water efficiency improvements completed prior to the note date for a "no cash-out" refinance mortgage, provided that:
  - the remaining balance is included in the debt payment-to-income ratio, and
  - if the remaining balance is re-amortized, the lender must obtain and maintain in the mortgage file sufficient documentation evidencing the new payment.

## Bulletin Details, continued

### GreenCHOICE Mortgages, continued

- The energy report exception, which previously applied only to solar panels, now includes other renewable energy sources such as water efficiency devices, wind turbines, and geothermal systems.

**Reminder:** GreenCHOICE mortgages are ineligible for delivery under the CorrAdvantage execution.

### 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](#) and [Fannie Mae HomeReady® and Freddie Mac Home Possible® Mortgages 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.

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