Agency Guideline Revisions

***Note**: Truist specific overlays are underlined.*

Topic	Impacted Document	Impacted Products	Current Guidelines	Revised Guidelines *(See COR22-019 for the Applicable Effective Dates of These Guideline Revisions)*

Community Seconds	Correspondent Section 2.01 Agency Loan Programs	• Standard Agency (non-AUS & DU)
		• Agency Plus (DU)
		• Agency Plus Select (DU)
		• HomeReady® (non-AUS & DU)
			Secondary Financing / Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)
			
			Non-AUS Loans
			
			***Note**: Below is an EXCERPT only of the guidelines from the above referenced section.*
			
			• **Community Seconds Mortgage Terms/Proceeds**
			  ◦ A Community Seconds mortgage may be funded by a federal agency, municipality, state, county, state or local housing finance agency, non-profit organization, a regional Federal Home Loan Bank under one of its affordable housing programs, a federally recognized Native American tribe and its sovereign instrumentalities, or an employer. It may not be funded by the property seller or any other interested party to the transaction; however, a lender may fund a Community Seconds mortgage that an employer guarantees as part of its affordable housing program.
			  ◦ The Community Seconds financing must be subordinate to the first mortgage purchased by Fannie Mae.
			  ◦ Truist clarifies that Fannie Mae does not allow a HELOC as a community second or in conjunction with a community second.
			  ◦ A borrower of a mortgage loan secured by a primary residence may use funds received from a Community Seconds mortgage to fund all or part of the down payment provided the Community Seconds is not funded in any way through the first lien mortgage, such as premium pricing. Additionally, Community Seconds proceeds may fund closing costs, renovations to the property (including energy-related improvements), or a permanent interest rate buydown.
			  ◦ Community Seconds are not allowed on second homes or investment properties.
			
			• **Minimum Borrower Contribution Requirements**
			  ◦ See the Minimum Borrower Contribution Requirements section in the applicable product description for minimum borrower contribution requirements for transactions that contain Community Seconds.
			  ◦ Non-community lending mortgages may be used in a Community Seconds transaction with the following limitations:
			    ▪ The transaction is limited to a purchase or limited cash-out refinance.
			    ▪ For a limited cash-out refinance transaction, the Community Seconds mortgage holder must acknowledge the lien position by executing a subordination agreement, which must be recorded to ensure enforceability.
			    ▪ Only primary residences are eligible.
			    ▪ The maximum LTV of the underlying first mortgage product remains unchanged.
			    ▪ If the mortgage does not have an independent TLTV cap, the TLTV can be expanded to 105%, provided the subordinate financing meets all conditions of a Community Seconds mortgage.
			    ▪ Non-community lending mortgages do not mandate any income restrictions for the borrower(s); the income limits that the Community Seconds provider imposes will apply.
			
			• **Repayment**
			  ◦ Repayment of the Community Seconds mortgage may be structured in any number of ways as long as the terms are consistent with the type of terms Fannie Mae considers acceptable, such as:
			    ▪ requiring fully amortizing, level monthly payments;
			    ▪ deferring payments for some period before changing to fully amortizing, level monthly payments;
			    ▪ deferring payments over the entire term, unless the mortgage is paid off or the property is sold before the maturity date of the mortgage; or
				Secondary Financing / Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)
				
				Non-AUS Loans
				
				***Note**: Below is an EXCERPT only of the guidelines from the above referenced section.*
				
				• **Community Seconds Mortgage Terms/Proceeds**
				  ◦ A Community Seconds mortgage may be funded by a federal agency, municipality, state, county, state or local housing finance agency, non-profit organization, regional Federal Home Loan Bank under one of its affordable housing programs, a federally recognized Native American tribe and its sovereign instrumentalities, or an employer. It may not be funded by the property seller or any other interested party to the transaction; however, a lender may fund a Community Seconds mortgage that an employer guarantees as part of its affordable housing program.
				  ◦ The Community Seconds financing must be subordinate to the loan purchased by Fannie Mae.
				  ◦ Truist clarifies that Fannie Mae does not allow a HELOC as a community second or in conjunction with a community second.
				  ◦ The borrower of a loan secured by a primary residence may use funds received from a Community Seconds mortgage to fund all or part of the down payment provided the Community Seconds is not funded in any way through the first mortgage, such as premium pricing. Additionally, Community Seconds proceeds may fund closing costs, renovations to the property (including energy-related improvements), or a permanent interest rate buydown.
				
				• **Minimum Borrower Contribution Requirements**
				  ◦ See the Minimum Borrower Contribution Requirements section in the applicable product description for minimum borrower contribution requirements for transactions that contain Community Seconds.
				  ◦ Non-community lending mortgages may be used in a Community Seconds transaction with the following limitations:
				    ▪ The transaction is limited to a purchase or limited cash-out refinance.
				    ▪ For a limited cash-out refinance transaction, the Community Seconds mortgage holder must acknowledge the lien position by executing a subordination agreement, which must be recorded to ensure enforceability.
				    ▪ Only primary residences are eligible.
				    ▪ The maximum LTV of the underlying first mortgage product remains unchanged.
				    ▪ If the mortgage does not have an independent TLTV cap, the TLTV can be expanded to 105%, provided the subordinate financing meets all conditions of a Community Seconds mortgage.
				    ▪ Non-community lending mortgages do not mandate any income restrictions for the borrower(s); the income limits that the Community Seconds provider imposes will apply.
				
				• **Repayment**
				  ◦ Repayment of the Community Seconds mortgage may be structured in any number of ways as long as the terms are consistent with terms Fannie Mae considers acceptable, including:
				    ▪ requiring fully amortizing, equal monthly payments;
				    ▪ deferring payments for some period before changing to fully amortizing, equal monthly payments;
				    ▪ deferring payments over the entire term, unless the loan is paid off or the property is sold before the maturity date of the mortgage; or
				    ▪ forgiving the debt over time.
				  ◦ When the borrower's employer is the provider of the Community Seconds mortgage, the financing

<table>
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<tr><td></td><td></td><td></td><td>

forgiving the debt over time.
When the borrower’s employer is the provider of the Community Seconds mortgage, the financing terms may provide for the employer to require full repayment of the debt should an employee’s employment terminate (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds mortgage.
Where the repayment of the Community Seconds mortgage is deferred for five years or more, a lender is not required to include a monthly payment for the Community Seconds mortgage in its calculation of the borrower’s debt-to-income ratio.
Where repayment is deferred for fewer than five years, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.
Fannie Mae will purchase or securitize a first mortgage with subordinate financing under the Community Seconds option that provides for a balloon payment no earlier than fifteen years from the note date of the first mortgage loan or the maturity date of the first mortgage loan.
The interest rate for the Community Seconds mortgage may not be more than 2% higher than the interest rate of the first mortgage.

Note: Interest that is imposed as a penalty should the mortgage be declared in default and called due and payable under its terms is not subject to this interest rate cap.

The Community Seconds mortgage may not provide for negative amortization.

However, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will otherwise be acceptable as long as:

interest is accrued on a simple-interest basis at a rate that is not more than 75% of the rate of the related First Lien Loan, and the accrued interest is fully deferred until:

sale or transfer of the property,
the mortgage loan is refinanced or other full repayment of the first lien loan, or
declaration of an event of default under the subordinate note or the security instrument, or

the accrued interest is assessed only as a penalty upon declaration of an event of default under the subordinate note or the security instrument.

All other currently published guidelines in this section remain the same.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines.
</td><td>
terms may provide for the employer to require full repayment of the debt should an employee’s employment terminate (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds mortgage.

Where repayment of the Community Seconds mortgage is deferred for five years or more, a lender is not required to include a monthly payment for the Community Seconds mortgage in its calculation of the borrower’s debt-to-income ratio.
Where repayment is deferred for fewer than five years, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.
The maturity date of the Community Seconds mortgage, or the due date of any balloon payment on the Community Seconds mortgage, may not be before the earlier of 15 years after the note date of the first mortgage, or the maturity date of the first mortgage.
The interest rate for the Community Seconds mortgage must be fixed and may not be more than 2% (200 basis points) higher than the initial note rate of the first mortgage.

Note: Interest that is imposed as a penalty should the mortgage be declared in default and called due and payable under its terms is not subject to this interest rate cap.

The Community Seconds mortgage may not provide for negative amortization, however, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will be acceptable provided:

the amount of scheduled monthly interest deferred on the Community Seconds mortgage for any full calendar month within the initial five years (of the Community Seconds loan) may never exceed the scheduled monthly principal payment of the first mortgage for that month (see below for an example);
interest is accrued on a simple-interest basis at a fixed rate; and
the accrued interest is fully deferred until:

sale or transfer of the property,
the loan is refinanced or the first mortgage is paid in full, or
declaration of an event of default under the subordinate note or the security instrument.

Example
In the following example, the loan is eligible as the amount of deferred, accrued interest for July on the Community Seconds loan is less than the scheduled principal payment for the first mortgage for the same month.
<table>
<tr><th>Note date: May
First payment date: July</th><th>First Mortgage</th><th>Community Seconds</th></tr>
<tr><td>UPB</td><td>$150,000</td><td>$30,000</td></tr>
<tr><td>Interest rate</td><td>5%</td><td>7%</td></tr>
<tr><td>Maximum accrued, deferred interest July</td><td>NA</td><td>$175.00 ($30,000 @ 7% / 12)</td></tr>
<tr><td>Scheduled principal payment July</td><td>$180.23</td><td>NA</td></tr>
</table>

All other currently published guidelines in this section remain the same.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines, including the following:
</td></tr>
</table>

Topic	Impacted Document	Impacted Products	Current Guidelines	Revised Guidelines *(See COR22-019 for the Applicable Effective Dates of These Guideline Revisions)*
				• Community Seconds are not allowed on second homes or investment properties.

Single-Close Construction-to-Permanent	Correspondent Section 2.01 Agency Loan Programs	• Standard Agency (non-AUS & DU)
		• Agency Plus (DU)
		• Agency Plus Select (DU)
		• HomeReady® (non-AUS & DU)
			Eligible Transactions / Construction Lending – Single Closings
			
			Note: Truist clarifies that complete tear down transactions are allowed under these Construction Lending – Single-Closing transaction guidelines.
			
			Non-AUS
			• **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 residence.
			• 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 Fannie Mae. The lender must retain in its individual loan file the appraiser's certificate of completion and a photograph 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.
			• The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.
			• <u>Log homes</u>, attached units in a condo project, all co-op projects, and <u>manufactured housing</u> are not eligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.
			
			• **Single-Closing Transaction Overview**
			• 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 upon completion of the construction.
			• Loans that combine construction and permanent financing into a single transaction cannot be pooled or delivered to Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.
			• **Special Feature Code Requirement**: Use SFC 151 to identify single-closing construction-to-permanent mortgage loans.
			
			• **Terms of Construction Loan Period**
			• For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than
				Eligible Transactions / Construction Lending – Single Closings
				
				Note: Truist clarifies that complete tear down transactions are allowed under these Construction Lending – Single-Closing transaction guidelines.
				
				Non-AUS
				• **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 residence.
				  • 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 Fannie Mae. The lender must retain in its individual loan file the appraiser's certificate of completion and a photograph 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.
				  • The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.
				  • <u>Log homes</u>, attached units in a condo project, all co-op properties, and <u>manufactured housing</u> are ineligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.
				
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				  • 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.
				  • Loans that combine construction and permanent financing into a single transaction cannot be purchased by Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.
				  • **Special Feature Code Requirement**: Use SFC 151 to identify single-closing construction-to-permanent loans.
				
				• **Terms of Construction Loan Period**
				  • For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have

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18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 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:

three 6–month periods,
one 12–month period and one 6–month period, or
six 3–month periods.

Exceptions to the 12-month and 18-month periods 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 at the time of the first advance of 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 before he or she receives the first advance of 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.

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.

<table>
<tr><th>Transaction Type</th><th>Lot Ownership Requirement</th><th>LTV Ratio Calculation</th></tr>
<tr><td>Purchase</td><td>The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing.</td><td>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 completed” appraised value of the property (the lot and
</td></tr>
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no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 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:

three 6–month periods,
one 12–month period and one 6–month period, or
six 3–month periods.

Exceptions to the 12-month and 18-month periods 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).

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When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of 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 before he or she receives the first advance of 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.

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<table>
<tr><td></td><td></td><td>improvements).</td></tr>
<tr><td>Limited Cash-out Refinance</td><td>The borrower is the owner of record of the lot at the time of the first advance of interim construction financing.</td><td>Divide the loan amount of the construction-to-permanent financing by the" as-completed" appraised value of the property (the lot and improvements).</td></tr>
</table>

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.
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 original loan amount, as increased; 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

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<table>
<tr><td></td><td></td><td>the "as completed" appraised value of the property (the lot and improvements).</td></tr>
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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.
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 original loan amount, as increased; 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.

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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, subject to certain re-underwriting tolerances.
As described in the table below, re-underwriting tolerances may be applied if the interest rate was modified. (All other modifications require re-underwriting.)

<table>
<tr><th>Loan Term Modified</th><th>Re-underwriting Tolerances</th></tr>
<tr><td>Interest Rate</td><td>For manually underwritten loans, the loan must be re-underwritten if the new, modified interest rate causes the DTI ratio:
to exceed 45%, or
to increase by 3 percentage points or more (if the recalculated DTI ratio is less than 45%).
Reference: See “DTI Ratio Tolerance and Re-Underwriting Criteria” in the “Qualifying Ratios” subtopic, subsequently presented in this document, for additional information.</td></tr>
</table>

Loan Conversion Documentation Options
The construction loan may be converted into a permanent mortgage loan in either of the following ways:

Option 1: A construction loan rider must be used to modify Fannie Mae’s uniform instrument that will be used for the permanent mortgage. 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 mortgage will begin and end. The lender also will need to record the amended documents before the permanent mortgage 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 mortgage 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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines, except as follows:

Modifications of Single-Closing Construction-to-Permanent Mortgages
If the final (modified) terms of the loan do not match the last submission to DU, the loan must be re-submitted to DU (subject to re-submission tolerances referenced below).
Underwriting Single-Closing Construction-to-Permanent Mortgages

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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, subject to certain re-underwriting tolerances.
As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

<table>
<tr><th>Modified Loan Term</th><th>Re-underwriting Tolerances</th></tr>
<tr><td>Interest Rate
Loan Amount</td><td>If the recalculated DTI (based on the change in rate or loan amount) does not exceed 45%, the loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery.

Note: If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements that apply to DTI ratios greater than 36% up to 45%.</td></tr>
</table>

Age of Credit Documents

All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing.
Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:

more reserves are required than were required at the time of original qualification
the full amount of reserves must then be reverified, or
the borrower chooses to bring additional funds to the transaction
the additional funds must come from an eligible source and be documented.

Age of Appraisal Documents

For all single-closing transactions, the effective date of the appraisal must be no more than four months 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.

Reference: See “Appraisal Age, Appraisal Update and/or Completion Report, and Appraisal Use Requirements” subsequently presented in the “Appraisal Requirements” topic for additional information.

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,

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<table>
<tr><th>Topic</th><th>Impacted Document</th><th>Impacted Products</th><th>Current Guidelines</th><th>Revised Guidelines
(See COR22-019 for the Applicable Effective Dates of These Guideline Revisions)</th></tr>
<tr><td></td><td></td><td></td><td>

- 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, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU.
- As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

Loan Term Modified	Re-underwriting Tolerances
Interest Rate	• For loans underwritten through DU, see the permanent re-underwriting tolerances in the *Underwriting the Borrower* topic subsequently presented in this document for guidance.
Loan Amount	• For loans underwritten through DU, see the permitted re-underwriting tolerances in the *Underwriting the Borrower* topic subsequently presented in this document for guidance.

- **Age of Credit and Appraisal Documents**
  - Single-closing transactions with credit and appraisal documents dated more than 4 months but not exceeding 18 months old at the time of the conversion to permanent financing are eligible for delivery if all of the following conditions were met at the time of the original closing of the construction loan:
    - The documents were dated within 120 days of the original closing date of the construction loan.

      Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

    - The LTV, TLTV, and HTLTV ratios do not exceed 70%.
    - The borrower has a minimum representative credit score of 700.
    - The loan casefile was underwritten through DU and received an "Approve/Eligible" recommendation. Manual underwriting is not permitted.
  - If any of the above conditions was not met, or an eligible loan term was modified subsequent to the last DU submission, the lender must:
    - obtain updated credit documents and an appraisal update completed on an *Appraisal Update and/or Completion Report* (Form 1004D), and
    - re-qualify the borrowers before the mortgage loan is delivered.
  - For Agency Plus and Agency Plus Select transactions, the loan amount on the note must be less than or equal to the Agency Plus eligible maximum loan amount at the time of conversion to the permanent phase regardless of lock terms.

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- updated credit documents were obtained, or
- as otherwise required per the modified loan term in the table above.
- To be eligible for purchase by Fannie Mae, the loan must be eligible per Agency eligibility requirements.
- When requalification is required:
  - the LTV ratio must be adjusted based on the updated appraisal, if applicable;
  - if credit documents exceed the four month age of documentation requirement, 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 Fannie Mae's 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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS guidelines, except as follows:

- **Modifications of Single-Closing Construction-to-Permanent Mortgages**
  - If the final (modified) terms of the loan do not match the last submission to DU, the loan must be resubmitted to DU (subject to "Underwriting Single-Closing Construction-to-Permanent Mortgage" and "Requalification Requirements" described below).

- **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, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU.
  - As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

Modified Loan Term	Re-underwriting Tolerances
Interest Rate	See the tolerances and resubmission

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Topic	Impacted Document	Impacted Products	Current Guidelines	Revised Guidelines (See COR22-019 for the Applicable Effective Dates of These Guideline Revisions)
				<table><tr><td>Loan Amount</td><td>requirements in the *Underwriting the Borrower* topic subsequently presented in this document for guidance.</td></tr></table> • For Agency Plus and Agency Plus Select transactions, the loan amount on the note must be less than or equal to the Agency Plus eligible maximum loan amount at the time of conversion to the permanent phase regardless of lock terms. • **Age of Credit Documents** • All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if all of the following conditions were met at the time of the original closing of the construction loan: • The LTV, TLTV, and HTLTV ratios do not exceed 95%. • The representative credit score of the loan is greater than or equal to 700. • The loan casefile was underwritten through DU and received an "Approve/Eligible" recommendation. • If any one of the above conditions was not met or an eligible loan term was modified subsequent to the last DU submission, the lender must: • obtain updated income, employment, and credit report documents no more than four months prior to conversion; and • re-qualify the borrower(s) in accordance with the Requalification Requirements below. • Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies: • more reserves are required than were required at the time of original qualification • the full amount of reserves must then be reverified, or • the borrower chooses to bring additional funds to the transaction • the additional funds must come from an eligible source and be documented. • **Impact on Validation through the DU Validation Service** • If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement relief of representations and warranties to apply. • **Age of Appraisal Documents** • For all single-closing transactions, the effective date of the appraisal must be no more than four months 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.

Topic	Impacted Document	Impacted Products	Current Guidelines	Revised Guidelines (See COR22-019 for the Applicable Effective Dates of These Guideline Revisions)

				Reference: See “Appraisal Age, Appraisal Update and/or Completion Report, and Appraisal Use Requirements” subsequently presented in the “Appraisal Requirements” topic for additional information.
				
				• **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 Fannie Mae, the loan must retain an “Approve/Eligible” recommendation after resubmission to DU.
				  • When requalification is required:
				    • the LTV ratio must be adjusted based on the updated appraisal, if applicable;
				    • if credit documents exceed the four (or 12) month age of documentation requirement, 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.

			Appraisal Requirements / Appraisal Age, Appraisal Update and/or Completion Report, and Appraisal Use Requirements
			
			Non-AUS
			• **Age of Appraisal and Appraisal Update Requirements**
			  • When an appraisal is obtained, the property must be appraised within the 12 months prior to the date of the note and mortgage.
			  • When the effective date of the original appraisal report is more than four months old but less than 12 months from the date of the note and mortgage, the appraiser must perform an appraisal update that includes inspecting the exterior of the property and reviewing current market data to determine whether the property has declined in value since the date of the original appraisal report. This requirement applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within four months prior to the date of note and mortgage.
			  • The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal report and express an opinion about whether the original appraiser’s opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.
			  • The inspection and results of the appraisal update must be reported on the *Appraisal Update and/or Completion Report* (Form 1004D).
			    • 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.
			    • If the appraiser indicates on the Form 1004D that the property value has not declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.
			  • When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. These requirements apply to all appraisals including those that receive appraisal and value
				Appraisal Requirements / Appraisal Age, Appraisal Update and/or Completion Report, and Appraisal Use Requirements
				
				Non-AUS
				• **Age of Appraisal and Appraisal Update Requirements**
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				  • The inspection and results of the appraisal update must be reported on the *Appraisal Update and/or Completion Report* (Form 1004D).
				    • 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.
				    • If the appraiser indicates on the Form 1004D that the property value has not declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.
				  • When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. Except for single-close construction-to-permanent financing loans, these requirements apply to all appraisals including those that receive appraisal and value representation and warranty

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			representation and warranty enforcement relief. • See the "Quality Assurance" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide* for information concerning changes to the appraised value. • See the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for exceptions to the allowable age of appraisal documents for loans impacted by a natural disaster. Reference: For additional information/requirements related to completion reports, see "Postponed Improvements" subsequently presented in this topic. • **Required Exhibits for an Appraisal Update** • At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included. • **Multiple Appraisals of the Subject Property** • If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must: • adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value, • document the reasons for relying on the appraisal, and • submit the appraisal selected by the lender through the UCDP prior to delivery. • These requirements also apply if the lender considers an appraisal to be deficient (see the "Quality Assurance" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide* for additional information). • **Use of an Appraisal for a Subsequent Transaction** • Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met: • The subsequent transaction may only be a limited cash-out refinance. • The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See the preceding section, "Age of Appraisal and Appraisal Update Requirements", for requirements for completing an appraisal update. • The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property. • The borrower and the lender/client must be the same on the original and subsequent transaction, with the following exception: • **Truist Note**: Fannie Mae has further clarified that in the event of a divorce or legal separation, the borrower for the new transaction must be one of the borrowers on the prior transaction, and the file must document that the borrower for the new transaction obtained the property through a divorce or legal separation. **Note**: The appraisal must comply with all other requirements outlined in this document and in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide*. • **Transferred Appraisals** • A lender may deliver to Truist a loan containing an appraisal prepared by an appraiser selected by	enforcement relief. See "Age of Appraisal Documents" in the "Construction Lending – Single Closings" subtopic previously outlined in this document for additional information. • See the "Quality Assurance" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide* for information concerning changes to the appraised value. • See the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for exceptions to the allowable age of appraisal documents for loans impacted by a natural disaster. Reference: For additional information/requirements related to completion reports, see "Postponed Improvements" subsequently presented in this topic. • **Required Exhibits for an Appraisal Update** • At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included. • **Multiple Appraisals of the Subject Property** • If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must: • adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value, • document the reasons for relying on the appraisal, and • submit the appraisal selected by the lender through the UCDP prior to delivery. • These requirements also apply if the lender considers an appraisal to be deficient (see the "Quality Assurance" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide* for additional information). • **Use of an Appraisal for a Subsequent Transaction** • Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met: • The subsequent transaction may only be a limited cash-out refinance. • The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See the preceding section, "Age of Appraisal and Appraisal Update Requirements", for requirements for completing an appraisal update. • The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property. • The borrower and the lender/client must be the same on the original and subsequent transaction, with the following exception: • **Truist Note**: Fannie Mae has further clarified that in the event of a divorce or legal separation, the borrower for the new transaction must be one of the borrowers on the prior transaction, and the file must document that the borrower for the new transaction obtained the property through a divorce or legal separation. **Note**: The appraisal must comply with all other requirements outlined in this document and in Section 1.07: Appraisal Guidelines of the *Correspondent Seller Guide*. • **Transferred Appraisals**

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			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 Fannie Mae eligibility guidelines. **Fannie Mae DU** Follow DU requirements, which are the same as non-AUS guidelines, except as follows: • When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. Except for certain single-close construction-to-permanent financing loans, these requirements apply to all appraisals including those that receive appraisal and value representation and warranty enforcement relief.	• 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 Fannie Mae eligibility guidelines. **Fannie Mae DU** Follow DU requirements, which are the same as non-AUS guidelines.