

Desktop Underwriter® Training

Understanding the Underwriting Findings Report
April 2019



Agenda

In Today's Session

- Fannie Mae Website
- Understanding Recommendations
- Understanding DU Risk Analysis
- Credit, Income and Asset and Appraisal Messages
- Data Integrity Reminders and Fannie Mae Updates
- Genworth Website

Today's Session Addresses Only Conventional Loans

Fannie Mae Website

Fannie Mae®

Search forms, documents, site content, etc...

Single-Family Originating & Underwriting Pricing & Execution Delivering Servicing Training Technology

Building on our promise to bring simplicity and certainty

Learn more

Originating & Underwriting

We provide information, training, job aids, and more to assist in originating loans for sale to Fannie Mae.

Most Popular

Selling Guide

Mortgage Products and Options

Condo, Co-op and PUD

Technology Applications & Tools

See Technology tab for full list.

Collateral Underwriter

Condo Project Manager

Credit Variance Administration System

Desktop Originator

<http://fanniemae.com/portal/index.html>

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Technology Applications & Tools

See Technology Solutions tab for full list.



Desktop Underwriter

[LAUNCH APP](#)

Manage My Account

[How do I reset my password?](#)

Users: Update
Password/Profile

Admins: Manage
Applications/Users

Upcoming Outage

[Technology Application
Availability](#)

Related Links

[Day 1 Certainty](#)

Desktop Underwriter® (DU®) provides lenders a comprehensive credit risk assessment that determines whether a loan meets Fannie Mae's eligibility requirements.

With Day 1 Certainty®, you get freedom from reps and warrants and greater speed and simplicity. With the [DU Validation Service](#), you can validate loan application data upfront.



Learn How DU Can Help Your Business

[DU Findings Redesign Snapshot](#)

[DU Overview](#)

[DU Nontraditional Credit Underwriting](#)

[Trended Credit Data](#)

New Users: How to Register

To register, contact your company's Technology Manager administrator. Only admins have the

What's New

[DU Findings September Release Notes](#) Aug 28, 2018
Now Available

During the weekend of Sept. 22, 2018, Fannie Mae will implement a new version of the DU Underwriting Findings report. This release includes updates to the look, feel and functionality of the DU Underwriting Findings report to improve its clarity and usability.

[Show All](#)

Release Notes

<https://www.fanniemae.com/singlefamily/desktop-underwriter>

Selling Guide

Single-Family ▾

Originating & Underwriting

Pricing & Execution

Delivering

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Training

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Originating & Underwriting

We provide information, training, job aids, and more to assist in originating loans for sale to Fannie Mae.



Most Popular

- [Selling Guide](#)
- [Mortgage Products and Options](#)
- [Condo, Co-op and PUD](#)

Technology Applications & Tools

See Technology tab for full list.

[Collateral Underwriter](#)

[Co](#)

Part B: Origination Through Closing

This part provides the requirements for originating conventional and government loans for sale to Fannie Mae. It includes the following subparts: Loan Application Package, Eligibility, Underwriting Borrowers, Underwriting Property, Unique Eligibility and Underwriting Considerations, Government Programs Eligibility and Underwriting Requirements, Insurance, Closing: Legal Documents.

<https://www.fanniemae.com/content/guide/selling/index.html>

Desktop Underwriter

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Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Servicing

Desktop Underwriter

LAUNCH APP

Manage My Account +

How do I reset my password?
Users: Update
Password/Profile
Admins: Manage Applications/Users

Upcoming Outage

ALERT: Desktop Underwriter may be unavailable from 9:30 a.m. to 11 p.m. ET Sunday

Fannie Mae®

Desktop Underwriter

Access to Credit and Sustainable Homeownership with Certainty and Simplicity

For more than 20 years Fannie Mae's Desktop Underwriter® (DU®) has helped lenders simplify their loan origination processes, provide borrowers with sustainable homeownership opportunities, and respond quickly to changing market conditions. DU is an automated tool that assists lenders in the underwriting of conforming mortgage loans.

DU provides an assessment of a loan's eligibility for sale and delivery to Fannie Mae. Lenders can access DU through an easy-to-use interface on fanniemae.com or through an integrated third-party or proprietary loan origination system.

Benefits and features that you can count on:

Helping you serve all markets

- Robust underwriting options for purchase, refinance, multi-unit properties, manufactured housing, FHA & VA, fixed-rate, ARMs
- Low down payment for credit worthy low- to moderate-income borrowers through [HomeReady®](#) mortgage and [HFA Preferred™](#), 97% LTV, and [Community Seconds](#)*
- Renovation and Energy Improvements with [HomeStyle® Renovation](#) and [HomeStyle Energy](#)
- Automated underwriting for borrowers without traditional credit

Enhanced risk management

- Automated underwriting guidelines
- Comprehensive risk assessment and eligibility determination
- Potential Red Flag/Quality Control messaging
- DU limited waiver of underwriting representations and warranties
- Enhanced credit risk assessment with use of [Trended Credit Data](#)

Delivers efficiency

- Action-oriented, detailed messages in the DU Underwriting Findings report
- Timely policy updates
- Seamless integration to lenders LOS process and systems
- Easy to use user interface option
- Configurable parameters – ability to inform DU about incorrect foreclosure, bankruptcy, and mortgage delinquency information

Announcement 2019-03

Selling Guide Updates

- HomeReady® Mortgage Loans (Lenders can implement now but must by 6/15/19)
 - Updates to multiple financed properties, boarder income, and MI coverage for HomeReady combined with Homestyle Renovation
- Self-Report Process (moving from email to loan quality management system, Loan Quality Connect)
- Multiple Servicers for Fannie Majors program
- Miscellaneous Selling Guide Updates



Fannie Mae®

Selling Guide Announcement SEL-2019-03

April 3, 2019

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- HomeReady® Mortgage Loans
- Self-Report Process
- Multiple Servicers for Fannie Majors®
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated April 3, 2019.

HomeReady Mortgage Loans

HomeReady mortgage is our premier affordable lending product designed for creditworthy low- to moderate-income borrowers, offering expanded opportunity for financing homes in low-income communities. We have updated our HomeReady policies to include the following:

- **Multiple financed properties:** We are imposing a maximum limit of two financed properties, including the subject property, for all HomeReady mortgage loans. Financed properties owned by a non-occupant borrower do not have to be included. The additional reserves required for multiple financed properties are not applicable to HomeReady loans.
- **Boarder income:** Our current policy states that a boarder may not be obligated on the mortgage loan. We are clarifying that the boarder may also not have an ownership interest in the property.
- **Mortgage insurance coverage:** We are clarifying that HomeReady loans combined with HomeStyle® Renovation may be delivered with the lower level of mortgage insurance coverage permitted for HomeReady.

Effective Date

Lenders may implement these policies immediately. Desktop Underwriter® (DU®) will be updated to include the multiple financed property policy and boarder ownership policy in a future release, at which time these will be required for DU loan casefiles. For manually underwritten loans, lenders must apply these policies for loans with application dates or after June 15, 2019.

Self-Report Process

We require lenders to self-report several matters to us, including breaches of selling warranties, suspected misrepresentation or fraud, loan data and eligibility issues, and issues related to the quality control function. Previously, all self-reporting was done via an email mailbox. With the transition to our new and improved loan quality management system, Loan Quality Connect™, the process for self-reporting will now occur more efficiently within that system. The Guide has been updated to remove references to the mailbox and replace them with references to Loan Quality Connect.

Effective Date

Lenders can take advantage of this change immediately.

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DU Version 10.3 March Updated Release Notes



Fannie Mae®

Desktop Underwriter/Desktop Originator Release Notes DU Version 10.3 March Update

Jan. 28, 2019

Updated March 27, 2019

During the weekend of March 23, 2019, Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.3, which will include the changes described below.

Updated March 27, 2019

The following updates to the DU validation service will be implemented on March 29, 2019:

- Message Consolidation
- Commission Income Validation
- Income Calculation Update

Except for the DU validation service enhancements and the reserves to be verified update, the changes in this release will apply to DU Version 10.3 loan caselines submitted or resubmitted on or after the weekend of March 23, 2019.

The changes in this release include the following:

- DU Validation Service Enhancements – *Delayed until March 29, 2019*
- HomeReady® AMI Determination
- Disaster Message Change
- DU Underwriting Findings Report Updates
- Updates to Align with the *Selling Guide*

DU Validation Service Enhancements

Updated March 27, 2019: The DU validation service enhancements will be implemented on March 29, 2019.

The following changes will be made to the DU validation service.

Message Consolidation – *Delayed to March 29, 2019*

The DU validation service messages for income and employment will be simplified and consolidated. Eleven new messages will replace 41 existing messages.

Report retrieval messages (three): These messages will specify the receipt of third-party vendor reports. These messages will list the reports that were

- received and used;
- received but not used, with the specific reason the report was not used; and
- expected but were not successfully received.

Employment Validation messages (two): These messages specify when employment has been validated. These messages will list the employment that has

- been validated; and
- not been validated, with the specific reason the employment was not validated.

Income Validation messages (three): These messages will specify when income has been validated. These messages will list income types that were

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Announcement 2019-02

Selling Guide Updates

- Eligibility Requirements for Manually Underwritten Loans – changes to align with the credit risk assessment in DU 10.3 focused on multiple risk facts such as lower credit scores with higher DTIs (*Lenders may implement immediately but required for apps dated 6/1/19 and after*)
- Leasehold Estates – Clarifying Lender's responsibilities is to ensure Fannie Mae's first-lien enforceability as part of the terms of the lease
- Occupancy Types – Modified language to remove "physical" or "developmentally" to clarify as inclusive of all disabilities.
- Mortgage Electronic Registration System - consolidated shared requirements for sellers and servicers related to the use of (MERS)



Fannie Mae®

Selling Guide Announcement SEL-2019-02

March 6, 2019

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Eligibility Requirements for Manually Underwritten Loans
- Leasehold Estates
- Mortgage Electronic Registration System
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated March 6, 2019.

Eligibility Requirements for Manually Underwritten Loans

As a result of the adjustment to the credit risk assessment in Desktop Underwriter® (DU®) Version 10.3, we are making corresponding updates to our eligibility requirements for manually underwritten loans. These updates address loans with multiple risk factors, such as lower credit scores and higher debt-to-income ratios. The changes reflect our continued effort to deliver access and affordability while maintaining sustainable homeownership.

These changes did not impact any topics in the *Selling Guide*; however, we have updated the [Eligibility Matrix](#) (which is incorporated by reference into the Guide). For ease of reference, we have shaded the rows where changes were made in the two matrices that apply to manually underwritten loans in Attachment 2 of this Announcement. Refer to the updated *Eligibility Matrix* for complete details.

Effective Date

Lenders may implement these changes immediately but are required to do so for loans with application dates on or after June 1, 2019 and may deliver loans meeting the prior requirements through August 19, 2019.

Leasehold Estates

We have clarified that one of the lender's responsibilities in the proper review of leasehold estates is to ensure Fannie Mae's first-lien enforceability as part of the terms of the lease. Failure to comply with this requirement at any time is a breach of the life of loan representation and warranty.

Mortgage Electronic Registration System

In our continued effort to combine similar content in the *Selling* and *Servicing Guides*, we have consolidated shared requirements for sellers and servicers related to the use of Mortgage Electronic Registration Systems (MERS), Inc. Going forward, sellers/servicers may locate MERS-related content in one, streamlined topic in Part B of the *Selling Guide*.

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Announcement 2019-01

Selling Guide Updates

- Loan Quality Connect™ (Fannie's new platform to manage post-purchase review process – replacing the QAS system)
- Cost of Funds Index (COFI) Retirement
- Requirements for Postponed Improvements
- Removal of second lien references in the Guide



Fannie Mae®

Selling Guide Announcement SEL-2019-01

February 6, 2019

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Loan Quality Connect™
- Cost of Funds Index (COFI) Retirement
- Requirements for Postponed Improvements
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated February 6, 2019.

Loan Quality Connect

Lenders and Fannie Mae have been using the Quality Assurance System (QAS) to manage the post-purchase review process. We have transitioned to Loan Quality Connect, a new platform that replaces QAS. Loan Quality Connect is an interactive loan quality management system in which Fannie Mae and our lenders work together to drive loan quality, providing:

- Simplified technology: One-stop shop for loan file submissions and status updates. Save time and money with simplified document management; no integration required.
- Seamless collaboration: Instant communication tools for process efficiencies; no email or spreadsheets – all documents and communications stay within the system.
- Increased certainty: Instant status updates, real-time loan quality feedback, and self-serve reporting and data visualization. For example, Loan Quality Connect offers the Loan Quality Defect Notice, which provides lenders 15 days to cure significant defects before a resolution request is sent. This feature is exclusive to Fannie Mae.

The Guide has been updated to remove references to QAS and reflect other process changes implemented in Loan Quality Connect. For more information, visit [Loan Quality Connect](#) to access overview videos, eLearnings, and job aids.

Effective Date

Lenders have begun working in Loan Quality Connect. All loan files will be transitioned to Loan Quality Connect by April 30, 2019, and QAS will be retired on that date.

Cost of Funds Index (COFI) Retirement

We currently offer several adjustable-rate mortgage (ARM) plans that use the monthly weighted-average cost of funds index (COFI) as computed each month by the Federal Home Loan Bank of San Francisco. Due to the retirement of this index scheduled to occur in January 2020, with the December 2019 COFI being the last published rate, Fannie Mae is proactively removing all references to this index and associated ARM plans (681, 682, 760, and 761) from the *Selling Guide* and [Standard ARM Plan Matrix](#). We are also retiring all legal documents specific to use of COFI from our website.

Impact on Loan Servicing

We will provide further guidance to servicers on the substitute index for COFI loans that are being serviced on Fannie Mae's behalf in a future communication.

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Day 1 Certainty™

Day 1 Certainty

Day 1 Certainty™ gives lenders freedom from representations and warranties plus greater speed and simplicity, and enables an improved borrower experience.

DAY1
CERTAINTY™

What's New

[Day 1 Certainty Policy Clarifications](#) Mar 28, 2017

The Selling Guide has been updated to reflect policy clarifications for the Desktop Underwriter (DU) validation service and certainty on appraised value components of Day 1 Certainty.

Learn More

[Overview](#)

[Resource Guide](#)

[DU Validation Service](#)
[Verification Report Vendors updated](#)

[Data Vendor Process](#)

[Press Release](#)

Transform Your Business

Find out how we can help you transform your business.

DAY1
CERTAINTY™

OnDemand eLearning Courses

DU/DO/Fannie Mae Connect user credentials are needed to access overview eLearning course.

[Introduction to Day 1 Certainty](#)

[Implementing Day 1 Certainty: DU Validation Service, Property Inspection Waiver, and Certainty on Appraised Value](#)

[DU Validation Service Overview: Income, Employment, and Assets](#)

[DU Validation Service: Quality Control Overview](#)

With Day 1 Certainty, Get Freedom...

Freedom from paper-based processes with validation of income, assets, and employment

[See DU Validation Service](#)



Freedom from appraisal requirements on eligible refi transactions

[See Property Inspection Waiver](#)



Freedom from reps and warrants on appraised value

[See Collateral Underwriter](#)



DU Validation Service

Optional Service via DU – Lenders Must Activate to use

- Execute contract with vendor(s), then execute contract/agreements with Fannie Mae
- Validation Options for Income, Assets and Employment verified by Third Party Data Vendor (i.e. The Work Number® from Equifax®)
- Tax transcripts used from a tax transcript Service used for Social Security Income, pension/retirement income, and self-employment income for sole proprietors (schedule c income)
- Lenders can use one or all of the services
- DU validation service will be applied for ALL DU casefiles underwritten by participating lenders that have activated the service

DU Validation Service

- Lenders obtain borrower consent then orders the “verification report(s)”
- Lender reviews report for any discrepancies with borrower
- Lender enters details into DU and submits
- DU obtains a “duplicate” report from the vendor using loan number or reference number. (Lender loan #, social security number must match in DU to the report)
- DU performs its own income and asset calculation to arrive at a value that is compared to DU.
- Employment status can also be verified
- DU returns messages related to the components submitted for validation:
 - Income is validated on a per-borrower and per-income basis
 - Assets are validated on a loan-level basis
 - Employed is validated on a per-borrower and per-employer basis
- When a component of the file (income, assets, or employment) is validated in DU, Fannie Mae will not enforce representations and warranties with regard to:
 - Accuracy of income calculation, asset calculation, and borrower employment status at the time of closing
 - Integrity of the data from the designated vendor

How It Works-Income Example

Income Calculation Example: Base + Bonus Income

1

Information Current As Of:
Rate of Pay:

3/13/2016
\$4,000 Monthly

The Work Number Report

Year	Base Pay	Overtime	Commission	Bonuses	Other Income	Total Pay
2016YTD	\$9,880.00	\$0.00	\$0.00	\$5,000.00	\$0.00	\$14,880.00
2015	\$46,000.00	\$0.00	\$0.00	\$4,500.00	\$0.00	\$50,500.00
2014	\$45,000.00	\$0.00	\$0.00	\$5,000.00	\$0.00	\$50,000.00

2

DU validation service calculation:

Base = \$4,000

Bonus = $[\$5,000 \text{ (2016 bonus)} + \$4,500 \text{ (2015 bonus)}] / 24 \text{ months} = \395.83

3

DU 1003 John H.

Base Income	\$4,000.00
Overtime	
Bonuses	\$450.00

VALIDATED Base income
NOT VALIDATED Bonus income

4

DU messages:

- 1) Base income for John H of \$4,000 entered on the online loan application has been validated using Verification of Income (VOI) data. The report from The Work Number is acceptable documentation to support this income.
- 2) Bonus income for John H of \$395.83 has been calculated using Verification of Income (VOI) data, which is lower than the bonus income entered on the online loan application for the borrower. The borrower's bonus income must be supported by a paystub and W-2s covering the most recent two-year period, or by a standard Verification of Employment (1005). The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. If a standard Verification of Employment (1005) will be obtained it must include all year-to-date earnings, as well as prior year earnings if a W-2 is not being provided. For guidance on borrowers with less than a two-year history of receiving bonus income, or for any additional information on the verification of bonus income, refer to the Selling Guide. Direct verifications provided by a third party employment verification vendor are acceptable if completed in accordance with the Selling Guide.

Fannie Mae HomeReady®

HomeReady

- Designed for Low-to moderate income borrowers
- See HomeReady webpage for more details
- See Genworth Training on this specific product for further information



Selling Notice

HomeReady® Income Limits 2018

May 22, 2018

Area Median Income estimates (AMIs) are provided to Fannie Mae by our regulator, the Federal Housing Finance Agency. These AMIs are used in determining borrower eligibility for HomeReady mortgage loans.

On June 23, 2018, the 2018 HomeReady income limits will be implemented in Desktop Underwriter® (DU®) and published on our [website](#) for use with manually underwritten loans. DU will apply the 2018 limits to new DU loan casefiles created on or after June 23, 2018. Loan casefiles created prior to June 23 will continue to use the 2017 limits. For manually underwritten HomeReady loans, lenders are encouraged to use the 2018 limits immediately, but are required to use them for loans with application dates on or after August 1, 2018.

For loan casefile submitted or resubmitted on or after June 23, 2018, DU will also use the 2018 income limits and census tract designations when issuing the housing goals Observation messages.

Note that the AMI data in DU and on our website may differ from the median income estimates posted on the U.S. Department of Housing and Urban Development's website.

Our low down payment mortgage designed to help lenders confidently serve today's market of creditworthy low- to moderate-income borrowers.



What's New

New Quarterly Compass Dec 12, 2017

Discover Q4 2017 news and timelines related to Fannie Mae technology, policy, training opportunities, and more.

Show All Coming Webinars

Date & Time

More Loans with Ready Mortgage Jan. 25 at 2 pm

Resources

Products for Loan Officers

Ideal HomeReady Borrowers

- Have low to moderate income
- Are first-time or repeat homebuyers
- Have limited cash for down payment
- Have a credit score ≥ 620 ; borrowers with credit scores ≥ 680 may get even better pricing
- Have supplemental boarder or rental income
- Are looking to purchase or refinance

Cancellable Mortgage Insurance*

Unlike government-insured loans, with HomeReady, borrowers may have the option to cancel their mortgage insurance once their home equity reaches 20%. This can result in lower monthly payments down the road

*Restrictions apply.

Flexible Funding

With HomeReady, cash for down-payment and closing costs can come from multiple sources, including gifts, grants, and Community Seconds® - with no minimum personal funds required.

Get Started with HomeReady



Benefits	HomeReady	FHA
Required down payment	3%	3.5%
Cancellable mortgage insurance*	Yes	No
Immediate appraisal orders from lenders	Yes	No
Free from geographic restrictions on loan amounts	Yes	No
Day 1 Certainty™ freedom from reps & warrants available	Yes	No

*Restrictions apply.

<https://www.fanniemae.com/singlefamily/homeready?cmpid=sln082515>

General Lender Requirements

When underwriting loans with DU, the lender must:

- Employ prudent underwriting judgment
- Confirm the accuracy of the data it submits
- Ensure that the loan complies with all of the verification messages and approval conditions
- Apply due diligence when reviewing the documentation in the loan file
- Review the credit report to confirm the borrower's credit history was accurate and complete
- Determine if there is any potentially derogatory or contradictory information
- Take action when erroneous data, contradictory or derogatory information are in the loan file

Sample Summary Section

Existing and New Summary Section of DU Findings Report

DU Underwriting Findings

SUMMARY

Recommendation	Approve/Eligible
Primary Borrower	John Homeowner
Lender Loan Number	JJ
Submission Date	09/15/2017 02:23PM
First Submission Date	09/15/2017 02:16PM
Submission Number	2

Mortgage Information

LTV/CLTV/HCLTV	80.00% / 80.00% / 80.00%	Note Rate	4.250%
Housing Expense Ratio	7.73%	Loan Type	Conventional
Debt-to-Income Ratio	11.09%	Loan Term	360
Total Loan Amount	\$250000.00	Amortization Type	Fixed Rate
Sales Price	\$312500.00	Loan Purpose	Purchase
Actual/Estimated Appraised Value	\$312500.00	Refi Purpose	

Property Information

Property Address	2505 S Creek Street Mesa, AZ 85208	Number of Units	1
Property Type	Detached	Occupancy Status	Primary Residence

RISK/ELIGIBILITY

1 The risk profile of this loan casefile appears to meet Fannie Mae's guidelines.

2 This loan casefile appears to meet Fannie Mae's eligibility requirements.

3 The risk assessment of the loan casefile may not be accurate because the following accounts on the loan application did not have a minimum monthly payment and DU was unable to calculate an accurate debt-to-income ratio. The lender must ensure the DTI used in the risk assessment is accurate. If a payment must be included in the DTI, the payment amount must be entered on the loan application and the loan casefile resubmitted to DU. If the minimum monthly payment is \$0, the lender must include documentation in the loan file confirming the \$0 payment amount. Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For student loans, the lender may qualify the borrower with the \$0 payment if there is documentation to support that the \$0 payment is associated with an income-driven repayment plan; alternatively, the lender must either use 1% of the outstanding balance as the estimated payment or derive a fully amortizing payment using the student loan documentation.

Borrower	Creditor	Account Number	Balance
John Homeowner	SALLIE MAE	950254520	5000.00

FINDINGS

4 The following risk factors represent strengths in the borrower's loan application:

Summary of Findings

Casefile ID
1386638226

Recommendation
Approve/Eligible

Borrower 1 John Homeowner

Borrower 2 Mary Homeowner

Lender Loan Number JJ1

DU Version 10.2

Submission Number 1

Submission Date 10/09/2018 10:03AM

First Submission Date 10/09/2018 10:03AM

Submitted By a0837jna

Mortgage Information

LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%	Note Rate	4.250%
Housing Expense Ratio	16.32%	Loan Type	Conventional
Debt-to-Income Ratio	26.05%	Loan Term	360
Total Loan Amount	\$156,350.00	Amortization Type	Fixed Rate
Sales Price	\$165,000.00	Loan Purpose	Purchase
Actual/Estimated Appraised Value	\$175,000.00	Refi Purpose	

Property Information

Property Address	2505 S Creek Street, Mesa, AZ, 85208	Number of Units	1
Property Type	Detached	Occupancy Status	Primary Residence

Day 1 Certainty

Property Information

Appraisal Waiver Not Eligible

Collateral Rep & Warrant Not Eligible

Sample Messages

New Enhanced Coloring of Messages Added, Changed or Removed

Existing Messages

VERIFICATION MESSAGES/APPROVAL CONDITIONS

- 7 According to the Social Security Administration (SSA), the Social Security number (SSN) for Penny Public either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.
- 8 This loan is also subject to all other lender specified conditions and must comply with all applicable federal, state, and local laws and regulations.
- 9 If the loan casefile has not already closed, the following documents have expired. While the document values have been used in the underwriting analysis, obtain more recent documents and resubmit the loan casefile to DU. All credit documents must be no more than four months old on the note date. For guidelines on the age of the appraisal or property inspection report, refer to the Fannie Mae Selling Guide.

Borrower	Document Type	Document Date
Penny Public	Credit Report	03/01/2017

- 10 A Lender Credit has been entered in the Details of Transaction. If the lender credit is not the result of premium pricing, verify that the lender is not affiliated with an interested party to the transaction. If the lender is affiliated with an interested party to the transaction, verify that the lender credits plus the seller contributions do not exceed the interested-party contribution limits specified in the Selling Guide. The case is ineligible for delivery to Fannie Mae if the lender credits plus the seller contributions do exceed the limits specified in the Selling Guide.
- 11 This loan casefile was underwritten as a HomeStyle Renovation Mortgage. The lender delivering this loan to Fannie Mae must have separate lender approval to deliver HomeStyle Renovation Mortgages, and must also ensure the loan complies with all HomeStyle Renovation Mortgage guidelines specified in the Fannie Mae Selling Guide.
- 12 If there is a home equity line of credit secured against the subject property the maximum allowable HCLTV is 95 percent and the terms of the home equity line of credit must be verified for compliance with the Fannie Mae Selling Guide. The HCLTV calculation is based on the maximum credit limit of the equity line.
- 13 Loan Level Price Adjustment may be applied when this loan is delivered to Fannie Mae. Refer to the Selling Guide and Loan-level Price Adjustment (LLPA) Matrix on fanniemae.com for specific details.
- 14 Mortgage insurance is required. The lender may either obtain mortgage insurance coverage of at least 6% with an MI loan-level price adjustment, or obtain mortgage insurance coverage of 12%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com for specific details. Verify the mortgage insurance premium is accurately reflected in the loan application.

Credit and Liabilities

- 15 For the following liabilities, the monthly payment on the credit report differs from the monthly payment on the 1003 by more than the selected tolerances. Desktop Underwriter uses the values from the 1003 to calculate the debt-to-income ratio. For each liability, provide documentation that supports



Examples of the Show Changes (Track Changes) Function

New

Show Changes

24 ADDED

According to the Social Security Administration (SSA), the Social Security number (SSN) for John Homeowner either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae. (MSG ID 2807)

25 CHANGED

DU returned the following **standardized address and census tract** for the subject property: 10.2, DO/DU Development Lender 1, 1397492846 2, %a.

- This is the address that DU used in its property valuation and fieldwork recommendation.
- Regardless of the property fieldwork required by DU, if this address is not valid for the subject property, an appraisal based on an interior and exterior property inspection reported on Form 1004 is required for this transaction.
- If the subject property is located in a condominium project, the appraisal must be reported on Form 1073. (MSG ID 1873)

32 REMOVED

Verify that this **second home property** is suitable for year-round occupancy.

The borrower must:

- Occupy the property for some portion of the year,
- Have exclusive control over the property, and
- Not enter into any agreements that require the property to be rented or give a management firm control over the property.

Rental income from a second home may not be used as qualifying income. (MSG ID 1870)

Examples of the Day 1 Certainty Flag and Table Formatting

DAY 1 13

DU accepts the value submitted as the market value for this subject property. This loan is eligible for delivery to Fannie Mae without an appraisal and is eligible for representation and warranty relief on the value, condition, and marketability of the subject property if the **Property Inspection Waiver (PIW)** is exercised by the lender at the time of loan delivery by including Special Feature Code 801 and the Casefile ID in the loan delivery file.

If the waiver is not exercised, an appraisal based on an interior and exterior property inspection is required for this transaction.

Sample Messages

Filtering Options of Messages New Enhanced Coloring of Messages Added, Changed or Removed

Existing Messages

VERIFICATION MESSAGES/APPROVAL CONDITIONS

7 According to the Social Security Administration (SSA), the Social Security number (SSN) for Penny Public either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.

8 This loan is also subject to all other lender specified conditions and must comply with all applicable federal, state, and local laws and regulations.

9 If the loan casefile has not already closed, the following documents have expired. While the document values have been used in the underwriting analysis, obtain more recent documents and resubmit the loan casefile to DU. All credit documents must be no more than four months old on the note date. For guidelines on the age of the appraisal or property inspection report, refer to the Fannie Mae Selling Guide.

Borrower	Document Type	Document Date
Penny Public	Credit Report	03/01/2017

10 A Lender Credit has been entered in the Details of Transaction. If the lender credit is not the result of premium pricing, verify that the lender is not affiliated with an interested party to the transaction. If the lender is affiliated with an interested party to the transaction, verify that the lender credits plus the seller contributions do not exceed the interested-party contribution limits specified in the Selling Guide. The case is ineligible for delivery to Fannie Mae if the lender credits plus the seller contributions do exceed the limits specified in the Selling Guide.

11 This loan casefile was underwritten as a HomeStyle Renovation Mortgage. The lender delivering this loan to Fannie Mae must have separate lender approval to deliver HomeStyle Renovation Mortgages, and must also ensure the loan complies with all HomeStyle Renovation Mortgage guidelines specified in the Fannie Mae Selling Guide.

12 If there is a home equity line of credit secured against the subject property the maximum allowable HCLTV is 95 percent and the terms of the home equity line of credit must be verified for compliance with the Fannie Mae Selling Guide. The HCLTV calculation is based on the maximum credit limit of the equity line.

13 Loan Level Price Adjustment may be applied when this loan is delivered to Fannie Mae. Refer to the Selling Guide and Loan-level Price Adjustment (LLPA) Matrix on fanniemae.com for specific details.

14 Mortgage insurance is required. The lender may either obtain mortgage insurance coverage of at least 6% with an MI loan-level price adjustment, or obtain mortgage insurance coverage of 12%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com for specific details. Verify the mortgage insurance premium is accurately reflected in the loan application.

Credit and Liabilities

15 For the following liabilities, the monthly payment on the credit report differs from the monthly payment on the 1003 by more than the selected tolerances. Desktop Underwriter uses the values from the 1003 to calculate the debt-to-income ratio. For each liability, provide documentation that supports

Examples of the Filtering Function

New

Without Filtering

With Filtering

Show Changes OFF

View

Verification Messages / Approval Conditions

DAY 1 17 This loan casefile may have gone through the DU validation service. Any vendor reports need to be retained in the loan file. The lender remains responsible for investigating any contradictory information in the loan file. (MSG ID 3003)

Employment and Income

DAY 1 23 Verification of Employment and/or Income (VOE/VOI) information on Alice Firstimer was not received from The Work Number. Either information was not ordered from The Work Number by the lender, The Work Number did not have information on the borrower when the lender placed the order, or the Lender Loan Number and borrower Social Security Number entered on the online loan application do not match those provided to The Work Number. (MSG ID 2799)

DAY 1 24 Tax return information on Penny Public's income was not received from Equifax. Either information was not ordered from Equifax by the lender, Equifax did not have information on the borrower when the lender placed the order, or the Lender Loan Number and borrower Social Security Number entered on the online loan application do not match those provided to Equifax. (MSG ID 2999)

BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
Homer Loansseeker	WESTAR LOAN SERV	970058	\$92,000.00

Sample Messages

New Bolded and Bulleted Message Format

Existing Messages

VERIFICATION MESSAGES/APPROVAL CONDITIONS

- 7 According to the Social Security Administration (SSA), the Social Security number (SSN) for Penny Public either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.
- 8 This loan is also subject to all other lender specified conditions and must comply with all applicable federal, state, and local laws and regulations.
- 9 If the loan casefile has not already closed, the following documents have expired. While the document values have been used in the underwriting analysis, obtain more recent documents and resubmit the loan casefile to DU. All credit documents must be no more than four months old on the note date. For guidelines on the age of the appraisal or property inspection report, refer to the Fannie Mae Selling Guide.

Borrower	Document Type	Document Date
Penny Public	Credit Report	03/01/2017

- 10 A Lender Credit has been entered in the Details of Transaction. If the lender credit is not the result of premium pricing, verify that the lender is not affiliated with an interested party to the transaction. If the lender is affiliated with an interested party to the transaction, verify that the lender credits plus the seller contributions do not exceed the interested-party contribution limits specified in the Selling Guide. The case is ineligible for delivery to Fannie Mae if the lender credits plus the seller contributions do exceed the limits specified in the Selling Guide.
- 11 This loan casefile was underwritten as a HomeStyle Renovation Mortgage. The lender delivering this loan to Fannie Mae must have separate lender approval to deliver HomeStyle Renovation Mortgages, and must also ensure the loan complies with all HomeStyle Renovation Mortgage guidelines specified in the Fannie Mae Selling Guide.
- 12 If there is a home equity line of credit secured against the subject property the maximum allowable HCLTV is 95 percent and the terms of the home equity line of credit must be verified for compliance with the Fannie Mae Selling Guide. The HCLTV calculation is based on the maximum credit limit of the equity line.
- 13 Loan Level Price Adjustment may be applied when this loan is delivered to Fannie Mae. Refer to the Selling Guide and Loan-level Price Adjustment (LLPA) Matrix on fanniemae.com for specific details.
- 14 Mortgage insurance is required. The lender may either obtain mortgage insurance coverage of at least 6% with an MI loan-level price adjustment, or obtain mortgage insurance coverage of 12%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com for specific details. Verify the mortgage insurance premium is accurately reflected in the loan application.

Credit and Liabilities

- 15 For the following liabilities, the monthly payment on the credit report differs from the monthly payment on the 1003 by more than the selected tolerances. Desktop Underwriter uses the values from the 1003 to calculate the debt-to-income ratio. For each liability, provide documentation that supports

Examples of the New Bolded and Bulleted Messages Format

New

- 34 Based on the credit report obtained through DU, this loan casefile **must close on or before 8/04/2018**.

- All credit documents must be no more than four months old on the note date, and
- For guidelines on the age of the appraisal or property inspection report, refer to the Selling Guide.
(MSG ID 0420)

- 35 DU does not include cash back received from the transaction in the borrower's cash reserves calculation. Therefore, the amount of **cash back**, \$775.00 has not been included in cash reserves. (MSG ID 0119)

NOTE: For DU Findings Underwriting Reports viewed in the PDF file format. The bolding may be replaced with a larger font size.

Additional File Formats



DU Findings will add two additional file types:

- A new HTML format that incorporates the updated look, feel, track changes and filtering functionality, and improved message readability. The format and display updates to the DU Underwriting Findings report described above will only impact the new HTML version of the Findings report. None of these changes will be seen on the DU Underwriting Findings report for FHA or VA loan casefiles underwritten through DU.
- A PDF option of the new HTML format which will be zipped in a 64 bit encryption.

For integration considerations regarding these new file formats, refer to the DU Underwriting Findings Integration Impact Memo posted on the [Technology Integration](#) page.

Analyzing Reports

SUMMARY: Contains “DU” Recommendation and Purchase Eligibility

DAY 1 CERTAINTY MESSAGES: Day 1 certainty or Enforcement relief on property value)

RISK AND ELIGIBILITY: Provides details on risk recommendation and why loan is NOT eligible for delivery and possible data entry errors

FINDINGS SECTION: Indicates strengths in the file/loan application

VERIFICATION MESSAGE/APPROVAL CONDITIONS SECTION: Contains minimum DU requirements for documentation and potential red flag messages

OBSERVATIONS SECTION: Contains “FYI” for you and your lender

UNDERWRITING ANALYSIS REPORT: Modern 1008/Summary of the transaction

LENDER GUIDANCE FOR USE WITH APPLICANTS: Will appear only on Refer/w Caution Recommendation

Sample DU Findings Report

Summary Section

–Contains “Recommendation

Summary of Findings	
Casefile ID	1386638226
Borrower 1	John Homeowner
Borrower 2	Mary Homeowner
Lender Loan Number	JJ1
DU Version	10.2
Mortgage Information	
LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%
Housing Expense Ratio	16.32%
Debt-to-Income Ratio	26.05%
Total Loan Amount	\$156,350.00
Sales Price	\$165,000.00
Actual/Estimated Appraised Value	\$175,000.00
Months Reserves	32

Recommendation
Approve/Eligible

Summary of Findings	
Casefile ID	1386638226
Recommendation	Approve/Eligible
Borrower 1	John Homeowner
Borrower 2	Mary Homeowner
Lender Loan Number	JJ1
DU Version	10.2
Mortgage Information	
LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%
Housing Expense Ratio	16.32%
Debt-to-Income Ratio	26.05%
Total Loan Amount	\$156,350.00
Sales Price	\$165,000.00
Actual/Estimated Appraised Value	\$175,000.00
Months Reserves	32
Property Information	
Property Address	2505 S Creek Street, Mesa, AZ, 85208
Property Type	Detached
Number of Units	1
Occupancy Status	Primary Residence
Day 1 Certainty	
Property Information	

Recommendations

All other Recommendations have been discontinued

DU Recommendations
Approve/Eligible
Approve/Ineligible
Refer with Caution
Out of Scope
Error

Recommendations -

Approve/Eligible	
Eligible for Fannie Mae's limited waiver of certain mortgage loan eligibility and underwriting representations and warranties?	Yes, as long as the mortgage loan satisfies the applicable requirements related to limited waivers as described in this Guide. (See A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU .)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage loan eligibility criteria?	Yes
Eligible for delivery to Fannie Mae?	Yes, if all approval conditions have been met.

Approve/Ineligible	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No (see A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU)
Satisfies Fannie Mae's credit risk standards/assessment?	Yes, assuming that there is no additional credit risk associated with the eligibility criteria that are not satisfied
Satisfies Fannie Mae's mortgage eligibility criteria?	No
Eligible for delivery to Fannie Mae?	No, unless the lender either resolves the issue that resulted in the ineligibility, or has a negotiated contract that specifically permits delivery of the mortgage (also stated as a negotiated variance in its Master Agreement that covers the ineligible condition specific to the loan transaction).

Recommendations

Refer with Caution	
Eligible for Fannie Mae's limited waiver of certain mortgage eligibility and underwriting representations and warranties?	No
Satisfies Fannie Mae's credit risk standards/assessment?	No, not the standards for DU loans
Satisfies Fannie Mae's mortgage eligibility criteria?	No, not the eligibility criteria for DU loans
Eligible for delivery to Fannie Mae?	Not as a DU loan

Out of Scope Recommendation

An Out of Scope recommendation indicates that DU is unable to underwrite the particular product, mortgage, or borrower described in the submission.

Any mortgage that receives an Out of Scope recommendation must be manually underwritten.

DU Out of Scope Recommendation

- DU is unable to underwrite the particular product, mortgage, or borrower described in the submission
 - Cash Out, Purchase and construction loans with a CLTV > 105%
 - Balloon Terms greater than 30 years

Underwriting Borrowers Without Traditional Credit

DU Version 10.0 includes the ability to underwrite loan casefiles where no borrowers have a credit score.

A tri-merged credit report must be requested for all borrowers on the loan application.

- If the credit report indicates a credit score could not be provided for any of the borrowers due to insufficient credit, the loan may be eligible to be underwritten using DU Version 10.0

Note: Lenders must ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence address of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

Underwriting Borrowers Without Traditional Credit – Eligibility Guidelines

For loan files where no borrowers have established traditional credit, DU will apply the following additional guidelines:

- Principal residence where all the borrowers will occupy the property
- One-unit property (not a manufactured home)
- Purchase or limited cash-out transaction
- Fixed-rate
- Conforming loan amount (may not be a high-balance loan)
- LTV, CLTV and HCLTV may not exceed 90%
- DTI must be less than 40%
 - DU will require the lender verify at least two non-traditional credit sources for each borrower, one must be housing-related
 - A 12 month history is required for each source
 - See Fannie Mae's *Selling Guide* for guidance

Loan Casefiles That Do Not Meet These Guidelines Will Receive An “Out Of Scope” Recommendation

These loans may still be eligible for manual underwriting to existing guidelines for non-traditional credit

Verifying Housing Payments

B3-5.4-03: Verification and Documentation of Alternative Credit

Documenting Rental Housing Payments

If the source of verification for a borrower's rental housing payments is a party other than a professional management company, the lender must obtain 12 months of canceled checks or other evidence of timely payment of the rent—for example, bank statements showing the rental payment being paid each month.

If canceled checks or other evidence of timely payment of rent are not available, the lender (or the credit reporting agency) must check appropriate public landlord-tenant records for the past two years for court filings, judgments, evictions, and dismissal of eviction actions. Third-party vendors may be used to conduct the public records checks.

Public record checks that yield no evidence of court findings, judgments, or evictions are only verification that the payments were made at some point. This verification is not considered to be definitive evidence that rental payments were made in a timely manner. Consequently, the checking of public records cannot be considered as one of the three or four credit sources required to establish a nontraditional credit history. The lender must still verify that the borrower has met the required minimum number of sources of nontraditional credit.

DU Version 10.0

Frequently Asked Questions

During the weekend of June 25, 2016 Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.0. The changes included in this release will apply to new loan casefiles submitted to DU on or after the weekend of June 25, 2016.

Q17. When the borrower without traditional credit lives rent-free and does not have a housing-related source of nontraditional credit, could the loan be eligible for delivery to Fannie Mae?

Borrowers who do not have credit scores and are relying on nontraditional credit sources to qualify must document a housing-related source of nontraditional credit. If the borrower is not able to document a rental history as a source of nontraditional credit, the loan is not eligible for delivery to Fannie Mae.

NOTE: For borrowers that have traditional credit, a housing-related credit reference is not required.

Sample DU Findings Report

Summary Section –Fixed or ARM?

Summary of Findings	
Casefile ID 1386638226	Recommendation Approve/Eligible
Borrower 1 John Homeowner	Submission Number 1
Borrower 2 Mary Homeowner	Submission Date 10/09/2018 10:03AM
Lender Loan Number JJ1	First Submission Date 10/09/2018 10:03AM
DU Version 10.2	Submitted By a0837jna
Mortgage Information	
LTV/CLTV/HCLTV 95.00% / 95.00% / 95.00%	Note Rate 4.250%
Housing Expense Ratio 16.32%	Loan Type Conventional
Debt-to-Income Ratio 26.05%	Loan Term 360
Total Loan Amount \$156,350.00	Amortization Type Fixed Rate
Sales Price \$165,000.00	Loan Purpose Purchase
Actual/Estimated Appraised Value \$175,000.00	Refi Purpose
Months Reserves 32	

Summary of Findings	
Casefile ID 1386638226	Recommendation Approve/Eligible
Borrower 1 John Homeowner	Submission Number 1
Borrower 2 Mary Homeowner	Submission Date 10/09/2018 10:03AM
Lender Loan Number JJ1	First Submission Date 10/09/2018 10:03AM
DU Version 10.2	Submitted By a0837jna
Mortgage Information	
LTV/CLTV/HCLTV 95.00% / 95.00% / 95.00%	Note Rate 4.250%
Housing Expense Ratio 16.32%	Loan Type Conventional
Debt-to-Income Ratio 26.05%	Loan Term 360
Total Loan Amount \$156,350.00	Amortization Type Fixed Rate
Sales Price \$165,000.00	Loan Purpose Purchase
Actual/Estimated Appraised Value \$175,000.00	Refi Purpose
Months Reserves 32	
Property Information	
Property Address 2505 S Creek Street, Mesa, AZ, 85208	Number of Units 1
Property Type Detached	Occupancy Status Primary Residence
Day 1 Certainty	
Property Information	

ARM Qualifying Rate

Qualifying Interest Rate Requirements	
Transaction Type	DU and Manual Underwriting
Fixed-rate mortgages	Note rate
ARMs with an initial fixed-rate period of five years or less	Greater of the note rate plus 2% or the fully indexed rate
ARMs with an initial fixed-rate period of greater than five years	Greater of the note rate or the fully indexed rate

Additional Information About ARM Qualifying for DU Loan Casefiles

For DU loan casefiles, the fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to DU.

If "Lender ARM Plan" is used in DU, DU uses the interest rate entered in the ARM Qualifying Rate field. If no interest rate is entered in that field, DU uses the note rate plus 2% to qualify the borrower.

Always Enter The Index And Margin On ARM Loans

Sample DU Findings Report

Risk/Eligibility

- Why NOT eligible
- How underwritten (specific product/program)
- Potential inaccuracies

Risk / Eligibility

- 1 The risk profile of this loan casefile appears to meet Fannie Mae's guidelines. (MSG ID 0008)
- 2 This loan casefile appears to meet Fannie Mae's eligibility requirements. (MSG ID 0009)
- 3 The risk assessment of the loan casefile may not be accurate because the following accounts on the loan application did not have a minimum monthly payment and DU was unable to calculate an accurate debt-to-income ratio. The lender must ensure the DTI used in the risk assessment is accurate. If a payment must be included in the DTI, the payment amount must be entered on the loan application and the loan casefile resubmitted to DU. If the minimum monthly payment is \$0.00, the lender must include documentation in the loan file confirming the \$0.00 payment amount. Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For student loans, the lender may qualify the borrower with the \$0.00 payment if there is documentation to support that the \$0.00 payment is associated with an income-driven repayment plan; alternatively, the lender must either use 1% of the outstanding balance as the estimated payment or derive a fully amortizing payment using the student loan documentation. (MSG ID 0034)

BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
John Homeowner	SALLIE MAE	950254520	\$5,000.00

Sample DU Findings Report

Findings

- Strengths in the loan application

Findings

4 The following risk factors represent strengths in the borrower's loan application: (MSG ID 1437)

LOAN PURPOSE
Debt-to-Income Ratio
Credit Profile

Sample DU Findings Report

Verification Message/Approval Conditions

- “Heart “of the Findings Report
- Provides minimum documentation
- Refer to the *Selling Guide* for more information
- Follow specific investor overlays, if applicable
- Genworth MI Simply Underwrite for your DU Approve/Eligible loans



Verification Messages / Approval Conditions

- 5 According to the Social Security Administration (SSA), the Social Security number (SSN) for John Homeowner either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae. (MSG ID 0011)
- 6 This loan is subject to all lender specified conditions and must comply with all applicable federal, state, and local laws and regulations. (MSG ID 0278)

We Will Review These Messages In Detail On The Next Few Slides

Sample DU Findings Report

Verification Messages Broken out by Topic:

–General messages

- Potential Red Flag Messages
- Document Expiration date
- MI requirements

–Credit and Liabilities

- Bankruptcy, foreclosures, charge offs
- Late pays, payoff of accounts, omitted liabilities

–Employment and Income

- Documentation requirements

–Assets and Reserves

- Amount to verify
- Liquidation

–Property and Appraisal Information

- Appraisal Type
- Project Review Type

When Viewing In HTML You Can Sort Messages In Any Order

Sample DU Findings Report

Verification Messages Broken out by Topic:

- Sample Potential Red Flag message
- Social Security Alerts

Verification Messages / Approval Conditions

- 5 According to the Social Security Administration (SSA), the Social Security number (SSN) for John Homeowner either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae. (MSG ID 0011)
- 6 This loan is subject to all lender specified conditions and must comply with all applicable federal, state, and local laws and regulations. (MSG ID 0278)

Desktop Underwriter Potential Red Flag Messages - Updated

Messages Must Be Cleared

- Provides message text
- Why message appeared
- Possible ways to clear or resolve



Fannie Mae®

Desktop Underwriter Potential Red Flag Messages

This document is intended to provide greater clarity around what causes Desktop Underwriter® (DU®) to return each potential red flag message and our recommended approach for reviewing information when each of these messages is received. The appearance of these messages does not affect the underwriting recommendation from DU, but are designed to help lenders detect inconsistencies and potentially fraudulent transactions. The absence of any of the following messages does not indicate or imply Fannie Mae's acceptance of the accuracy of the data submitted to DU. Lenders continue to be responsible for the accuracy of the data entered.

Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following
Frozen credit report	<p>Based on the credit data received, a borrower has frozen their account with one of the credit repositories. No data from that repository was used in underwriting the loan casefile. The lender remains responsible for preventing fraud, which includes, but is not limited to, ensuring the borrower's identity has been verified. In addition, the lender must continue to investigate any liabilities or derogatory credit that is disclosed by the borrower but not reflected on the credit report.</p> <p>NOTE: For borrowers without a credit score, a similar message will be issued that will also state there is no data available from the other two repositories.</p>	When credit for one of the borrower is frozen at one of the three credit repositories (Equifax, Experian, or TransUnion).	<p>Borrower's identity to help prevent fraud.</p> <p>Online loan application and file documentation to review and investigate any liabilities or derogatory credit disclosed by the borrower.</p>
Potential Casefile ID	<p>Based on information provided on a prior submission, it appears that the subject property address and/or Doc File ID have been changed. As a reminder, the DU loan casefile ID is used for an individual mortgage loan. The same ID may not be used to underwrite more than one mortgage loan in DU. If a new loan is originated, a new loan casefile must be created and the data in the existing loan casefile be updated to reflect the final terms of the loan that was originally used to underwrite.</p>	When the subject property address or the Doc File ID is changed from the previous submission. Once the message is issued, it will continue to be issued on all resubmissions, even if the information is changed back to the original values.	<p>Current submission data to ensure only data for the specific loan is included in the loan casefile, and previous submission data to ensure no other loans were delivered with that casefile ID.</p>

Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following
Excessive resubmissions	This loan has experienced an unusually high number of submissions. Excessive submissions can indicate improper manipulation of loan application data. We recommend that you review the loan application to ensure accuracy.	An unusually high number of submissions on the loan transaction in combination with changes to certain data elements.	<p>Appraisal to ensure that an accurate value has been provided.</p> <p>Credit documents to check the accuracy and integrity of the borrower's asset and income data.</p>
Liabilities comparison	According to the credit report, the total payments and balances declared on the 1003 differ by more than expected tolerances. Verify that all liabilities belonging to the borrowers are disclosed on the 1003 and that the balances and payments are accurate.	Total liabilities and payments reported on the credit report differ from those declared on the online loan application by more than expected tolerances.	<p>Online loan application:</p> <ul style="list-style-type: none"> ▪ to ensure that all liabilities and payments are being accurately reflected from the credit report; ▪ to determine if one or more liabilities has been removed from the online loan application versus omitted from the total expense calculation.
Manufactured home caution	Desktop Underwriter has identified this property as a manufactured home in Fannie Mae's property database. However, the property type was not identified as a manufactured home in the loan application. The lender should research the subject property type. If the property is a manufactured home, the property type on the loan application must be corrected to accurately reflect manufactured home as the property type and the loan must be resubmitted for underwriting.	The subject property address appears to be a manufactured home, yet Manufactured Home was not selected as the property type on the online loan application.	<p>Appraisal to see if the property type is identified as a manufactured home. If there is uncertainty, confirmation from the appraiser may be required.</p> <p>Online loan application to see whether the subject property address and the property type were entered correctly.</p>

<https://www.fanniemae.com/content/tool/du-potential-red-flag-message-matrix.pdf>

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample general messages

- Credit document Expiration date (*Note it is four months, not 120 days*)

- A Lender Credit was entered in transaction details; A very detailed message appeared; If further questions, refer to the *Selling Guide*

7 Based on the credit report obtained through DU, this loan casefile must close on or before 02/01/2019.

- All credit documents must be no more than four months old on the note date, and
- For guidelines on the age of the appraisal or property inspection report, refer to the Selling Guide.

(MSG ID 0420)



8 A Lender Credit has been entered in the Details of Transaction.

- The lender must review the transaction as lender credits may not be used to fund any portion of the down payment.
- If the lender credit is the result of premium pricing, or a lender funded contribution, the amount of the Lender Credit should not exceed the amount of borrower paid closing costs, discount points, and prepaids.
- If the lender is affiliated with an interested party to the transaction, verify that the lender credits plus the seller contributions do not exceed the **interested-party contribution limits** specified in the Selling Guide.
- If the lender credit plus the seller credits exceed the IPC limits, the property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum IPC; recalculate the LTV/CLTV ratios using the lower of the reduced sales price or the appraised value, and ensure LTV/CLTV complies with Selling Guide limits.

(MSG ID 0824)

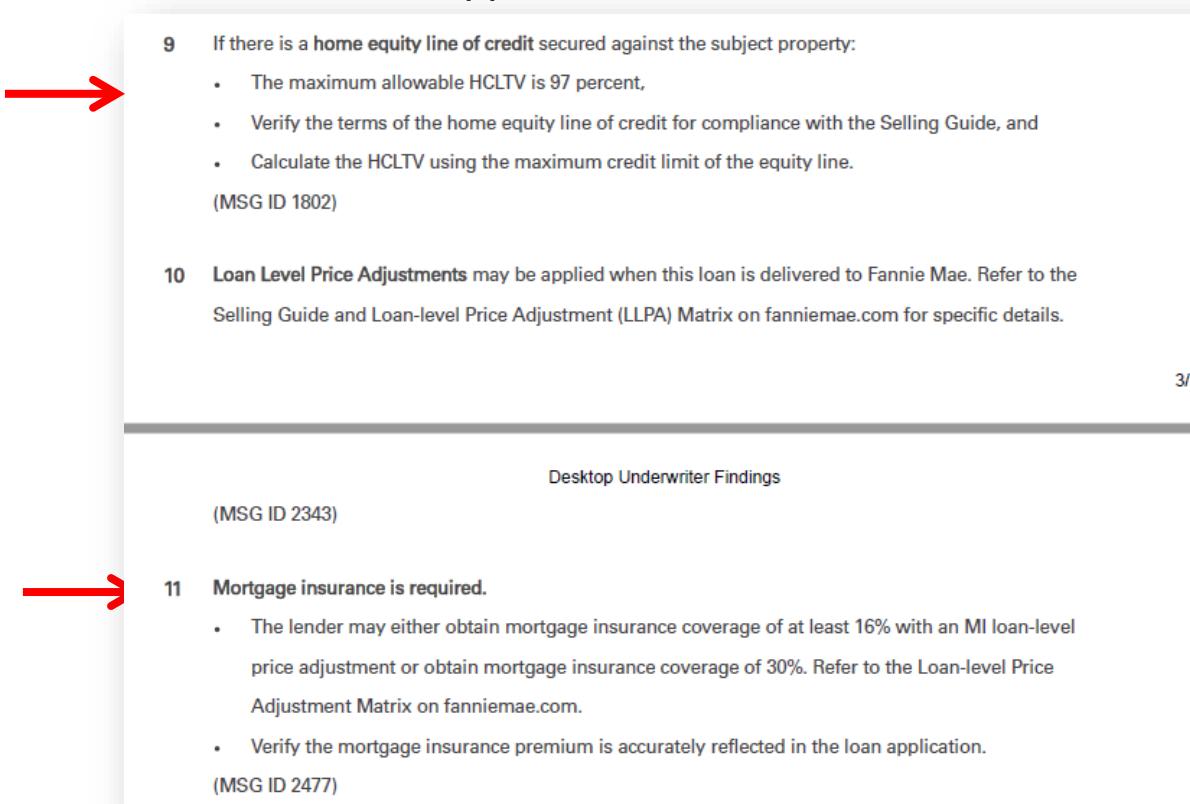
Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample general messages

- Maximum LTV/CLTV/HCLTV

- When MI is needed coverage requirements are provided and a reminder to verify proper premium is included on the loan application



9 If there is a home equity line of credit secured against the subject property:

- The maximum allowable HCLTV is 97 percent,
- Verify the terms of the home equity line of credit for compliance with the Selling Guide, and
- Calculate the HCLTV using the maximum credit limit of the equity line.

(MSG ID 1802)

10 Loan Level Price Adjustments may be applied when this loan is delivered to Fannie Mae. Refer to the Selling Guide and Loan-level Price Adjustment (LLPA) Matrix on fanniemae.com for specific details.

3/11

Desktop Underwriter Findings

(MSG ID 2343)

11 Mortgage insurance is required.

- The lender may either obtain mortgage insurance coverage of at least 16% with an MI loan-level price adjustment or obtain mortgage insurance coverage of 30%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com.
- Verify the mortgage insurance premium is accurately reflected in the loan application.

(MSG ID 2477)

Credit and Liabilities

DU Credit-related Error Codes Job Aid



Fannie Mae®

Desktop Underwriter

Credit-related Error Codes Job Aid

Feb. 26, 2019

This Job Aid provides the description of the error codes that appear in Desktop Originator® (DO®)/Desktop Underwriter® (DU®) related to credit agencies and remedies to help resolve them.

Helpful Tips:

- The maximum number of borrowers permitted on a loan application in DO/DU is four, but the maximum number of borrowers per a credit report pull is two. If there are three borrowers, then the third borrower would need to be on a separate report from the other two borrowers.
- The borrower's present address must be within the U.S., U.S. territories, or certain military addresses located within the U.S. in order to obtain a credit report that is compatible with DU loan casefile requirements. Otherwise, the loan must be manually underwritten.
- For DO/DU to accept a credit report, information from all three credit repositories (Equifax, Experian, and TransUnion) must be included. A score is not required; however, information pertaining to the borrower's credit history is needed to underwrite the loan casefile through DU. A loan casefile can be underwritten using DU when a borrower has placed a freeze on their credit report – as long as the freeze is only placed at one of the three credit repositories.
- One of the most frequent credit errors is the general failure error. Although this error does not provide detailed information, it typically indicates there is no credit report associated with the loan. In these instances, the loan should be submitted for credit and underwriting, reissuing or pulling credit. DU should then give either an underwriting response or receive a more descriptive error.
- Credit agency described below refers to credit provider that you requested your credit report from and Repositories refers to Equifax®, Experian® and TransUnion® credit reporting bureaus.

For additional information on Credit Report Requirements please visit [B3-5.2-01: Requirements for Credit Reports](#)

Credit Error Code	Error Description	Remedy
Merged Credit report not found Size of Merged Credit report is 0 (Zero)	The Social Security Number (SSN) provided in the loan application (1003 form) received by DU does not match the social security number returned in the credit report data provided by at least one of the three repositories.	<ul style="list-style-type: none">▪ Please validate the Social Security Number (SSN) on the 1003 is accurate.▪ If the SSN is inaccurate, update the loan application (1003 form) and resubmit the loan casefile in DU for Credit Only or Credit and Underwriting.▪ If the SSN is accurate, contact your credit reporting agency's Technical Support Department to determine why the SSN(s) provided to DU in the credit data do not match.
111308/140412 111309	Credit report has been updated by the credit agency or repositories	<ul style="list-style-type: none">▪ If the credit report has been changed, then a new credit report will need to be pulled after information is updated on the repository level.

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2.28.19

1 of 12

https://www.fanniemae.com/content/job_aid/desktop-underwriter-credit-related-error-codes-job-aids.pdf

DU 10.0 and 10.1 Updates

Borrowers with Credit Freeze

- DU will underwrite if only one repository is frozen
 - A warning message will be issued by DU reminding lenders of their responsibility
- If two repositories are frozen DU will issue an error message
- If no credit score is generated by the two repositories available, DU will underwrite under the guidelines specific for borrowers without traditional credit

Trended Credit*

Q9. How does the amount a borrower pays on their credit card account demonstrate how they will pay their mortgage?

The trended credit data will be used by the DU risk assessment to evaluate how the borrower manages his/her revolving credit card accounts. A borrower who uses revolving accounts conservatively (low revolving credit utilization and/or regular payoff of revolving balance) will be considered a lower risk. A borrower whose revolving credit utilization is high and/or who makes only the minimum monthly payment each month will be considered higher risk.

To put it into perspective, holding all else equal on a loan...

Research has shown that borrowers who	are	than borrowers who
Never exceed their limit	75% less likely to become delinquent	Exceeded their credit card limit in the last 12 months
Pay off their credit card every month	60% less likely to become delinquent	Only make their minimum payment each month

*DU Version 10.2 will include the use of trended credit for all three of the repositories

Credit Freeze FAQ's

FEDERAL TRADE COMMISSION ESPAÑOL

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Credit Freeze FAQs

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If you're concerned about identity theft, those reported mega-data breaches, or someone gaining access to your credit report without your permission, you might consider placing a credit freeze on your report.

Related Items


Your Source for a Truly Free Credit Repo...

→ **What is a credit freeze?**

→ **Does a credit freeze affect my credit score?**

→ **Does a credit freeze stop prescreened credit offers?**

→ **Can anyone see my credit report if it is frozen?**

→ **How do I place a freeze on my credit reports?**

→ **How do I lift a freeze?**

→ **What's the difference between a credit freeze and a fraud alert?**

What is a credit freeze?

Also known as a security freeze, this tool lets you restrict access to your credit report, which in turn makes it more difficult for **identity thieves** to open new accounts in your name. That's because most creditors need to see your credit report before they approve a new account. If they can't see your file, they may not extend the

<https://www.consumer.ftc.gov/articles/0497-credit-freeze-faqs>

Credit Freeze

If consumers ask for a freeze online or by phone, the credit reporting agency must have the freeze in place within one business day. And when consumers want to lift the freeze, the credit reporting agencies have to make that happen within one hour. (If consumers make the request by mail, the agency must place or lift the freeze within three business days.)



Credit and Liability Messages

Verification Messages Broken out by Topic:

–Credit and Liabilities

- Bankruptcy, foreclosures, charge offs, late pays, omitted accounts
- What accounts were indicated as “to be paid off”
- Mortgage payment that need additional attention

Credit and Liabilities

This message is NOT on your sample findings

12 The following mortgages are either not listed on the credit report, or are on the credit report but not matched to their respective mortgage account on the 1003, or the credit report account has an outstanding balance and the payment history has not been reported in the last 6 months. Verify the payment history for the mortgage. If the mortgage is currently 60 days or more past due, or has been 60 days or more past due in the last 12 months, the loan casefile is ineligible for delivery to Fannie Mae. (MSG ID 1813)

BORROWER	CREDITOR	PAYMENT	BALANCE
mary homeowner	Current Mortgage	\$1,650.00	\$100,000.00

Significant Derogatory Credit Events

B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (07/29/2014)

Summary — All Waiting Period Requirements

The following table summarizes the waiting period requirements for all significant derogatory credit events.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy — Chapter 7 or 11	4 years	2 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none">2 years from discharge date4 years from dismissal date	<ul style="list-style-type: none">2 years from discharge date2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure ¹	7 years	<p>3 years Additional requirements after 3 years up to 7 years:</p> <ul style="list-style-type: none">90% maximum LTV ratios²Purchase, principal residenceLimited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

Not ALL Lenders Allow For Extenuating Circumstances

Selling Guide B3-5.3-09: DU Credit Report Analysis (03/31/2015)

Event	Measurement of Waiting Period
Bankruptcy Foreclosure	<ul style="list-style-type: none">• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete and appear to comply with the applicable waiting period requirements, DU will issue a recommendation, but the lender must still confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete, but do not appear to comply with the applicable waiting period requirements, a Refer with Caution recommendation will be issued. DU uses the date of the credit report to determine whether or not the applicable waiting period has been met. The lender may obtain an updated credit report and resubmit the loan casefile to DU after the required time has elapsed or manually underwrite the loan using the disbursement date to confirm that the waiting period has been met.• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are incomplete, the lender must confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.
Deed-in-Lieu of Foreclosure Preforeclosure Sale	<ul style="list-style-type: none">• DU is not able to determine when the event occurred. Therefore, it is not able to confirm if the applicable waiting period has been met.
Mortgage Charge-Off	<ul style="list-style-type: none">• The lender must confirm the waiting period requirement has been met, and may base its determination on the disbursement date of the new loan.

Prior Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Preforeclosure Sales, and Charge-Off of Mortgage Accounts

Per the requirements of [B3-5.3-07. Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit](#), an amount of time must elapse (the “waiting period”) after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to measure whether or not the applicable waiting period has been met. However, because the credit report date may not result in an accurate calculation of the waiting period (it is earlier than the disbursement date), the lender may use the disbursement date to confirm that the waiting period has been met. See the table below for additional information.



Treatment of Timeshares

Certain timeshare installment loans are reported in the credit report data as mortgage-related. In DU Version 10.0, these agreements would be considered a mortgage and the appropriate mortgage delinquency requirements are applied. DU Version 10.1 will treat all timeshare loans as installment loans.

(Remember DU Does NOT Know The Disbursement Date)

Bankruptcy And Mortgage Delinquency Updates



Updated DU 10.2

- With 10.2 lenders will have the ability to instruct DU to disregard bankruptcy information in the eligibility assessment that is incorrect or due to extenuating circumstances, or disregard excessive mortgage delinquency information that is incorrect
- DU will then issue a message stating the bankruptcy information was not used in the eligibility assessment because DU was instructed to underwrite without it.
- Lenders must document the borrower did not declare bankruptcy, or that the loan meets the applicable waiting period requirements
- For mortgages reported in error, DU will issue a message stating the mortgage delinquency information was not used in the eligibility assessment because DU was instructed to underwrite without it
- Lenders must document the mortgage is not currently past due by two or more payments and that it has not been 60 days or more past due in the last 12 months
- **NOTE:** *Prior* updates allow lenders of disregard foreclosures due to extenuating circumstances or incorrect information

Bankruptcy And Mortgage Delinquency Updates

June
23,
2018

Updated DU 10.2 Sample Data Entry

– Check your specific policy if you are able to override DU with these options

Please review the following questions and update as needed.

	john h	mary h
a. Are there any outstanding judgments against you?	No ▾	No ▾
b. Have you been declared bankrupt within the past 7 years? *	Yes ▾	No ▾
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? *	No ▾	No ▾
d. Are you a party to a lawsuit?	No ▾	▼
e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment?	No ▾	▼
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee?	No ▾	▼
g. Are you obligated to pay alimony, child support, or separate maintenance?	No ▾	▼
h. Is any part of the down payment borrowed?	No ▾	▼
i. Are you a co-maker or endorser on a note?	No ▾	▼
j. Are you a U.S. citizen? *	Yes ▾	Yes ▾
k. Are you a permanent resident alien? *	No ▾	No ▾
l. Do you intend to occupy the property as your primary residence? *	Yes ▾	Yes ▾
m. Have you had an ownership interest in a property in the last 3 years? *	Yes ▾	Yes ▾

Explanation

john h

a.
b. CONFIRMED CR BK INCORRECT
c.
d.
e.
f.

john h

a.
b. CONFIRMED CR BK EC
c.
d.
e.
f.

john h

a.
b.
c.
d.
e.
f. CONFIRMED MTG DEL INCORRECT

Disputed Tradelines and DU 10.1



- When DU issues “Approve/Eligible” using the disputed trade lines:
 - Include the payment, if any, in the DTI but no further documentation is required.

The following tradeline(s) were identified by DU as disputed by the borrower. Because DU issued an Approve recommendation when including the disputed information in the credit risk assessment, no further action is necessary.

<i>Creditor</i>	<i>Account Number</i>	<i>Account Type</i>
<i>ABC Creditor</i>	<i>123456789</i>	<i>Installment</i>

- When loan casefile does not receive Approve recommendation including the disputed trade line, risk will be assessed EXCLUDING the trade line:

The following tradeline(s) were identified by DU as disputed by the borrower. Because DU was not able to issue an Approve recommendation when including the disputed information in the credit risk assessment, the lender must determine if the disputed account belongs to the borrower and confirm the accuracy and completeness of the information on the tradeline. If the borrower is not responsible for the account or the information on the tradeline does not accurately and completely report the account, no further action is necessary regarding the disputed tradeline. If the borrower is responsible for the account and the tradeline information accurately and completely reports the account, the lender may manually underwrite the loan if the transaction is eligible for manual underwriting.

Note: Tradelines reported as medical debt (Account Type Code of MD or Remarks Code of E0166) will not be shown in the disputed tradeline message if also reported as disputed, and lenders will not be required to investigate the disputed medical tradeline.

Authorized Users

Credit Processing Continued..

- Authorized User Accounts: DU considers authorized user accounts in its credit risk assessment. FICO scores may be impacted but DU's risk engine looks at the trade lines and makes a credit recommendation.
- Lenders should underwrite without the benefit of these trade lines *unless* your borrower is the authorized user and you have confirmed they have been making the payments on the account.

DU has identified the following credit report tradelines as accounts belonging to an authorized user:

Creditor	Account Number
Creditor Name	123456789

Accounts Paid off at Closing

- *Funds must be verified to pay off the account (if indicated in DU loan to be paid, DU will add amount to be verified); Underwriters will use discretion and MAY include a payment even if the account is being paid off. The account may remain open after closing*

11. Include **evidence of payoff** of the following debts (other than 30 day accounts) in the loan file: (MSG ID 0225)

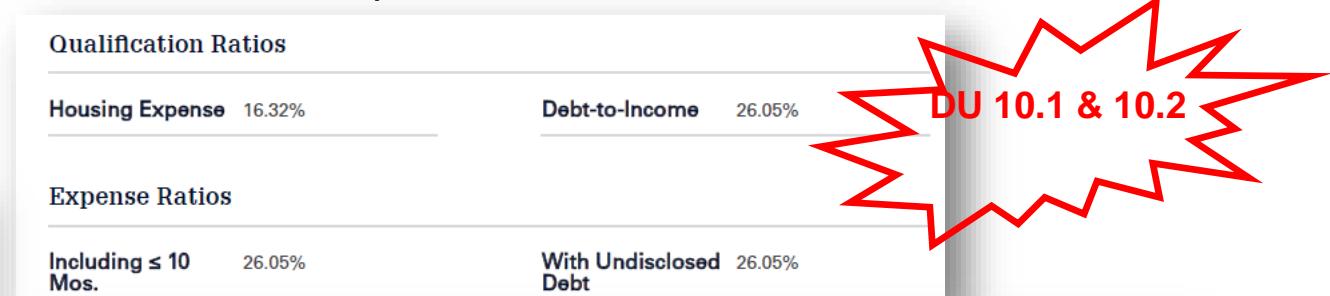
BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
John Homeowner	SALLIE MAE	950254520	\$5,000.00

Credit and Liabilities

For loan casefiles underwritten through DU

- DU determines the maximum allowable debt-to income ratio based on the overall risk assessment of the loan casefile
- DU will apply a maximum allowable total expense ratio of 50% for non-HARP loans

Note Rate	4.250%
Loan Type	Conventional
Loan Term	360
Amortization Type	Fixed Rate
Loan Purpose	Purchase
Refi Purpose	



Maximum Allowable DTI

The maximum allowable debt-to-income ratio (DTI) in DU will be adjusted in DU Version 10.1. Under the adjustment, DU will consider applications with a maximum DTI of 50%. For DTIs above 45% and up to 50%, DU will no longer require certain additional compensating factors. If the DTI on a loan casefile exceeds the maximum allowable DTI of 50%, the loan casefile will receive an Ineligible recommendation.

DU Refi Plus™ loan casefiles submitted to DU Version 10.1 will continue to be subject to the maximum allowable DTI applied to DU Refi Plus loan casefiles in DU Version 10.0.

Last year's update (DU Version 10.1) enabled loans with debt-to-income ratios above 45% (up to 50%) to rely on DU's comprehensive risk assessment, and removed specific rules that had previously set maximum loan-to-value ratio and minimum reserves requirements for those loans. After assessing the profile of loans delivered to us since the DU 10.1 changes went into effect, we are fine-tuning DU's risk assessment to limit risk layering.

This update supports our commitment to prudent risk management, helping lenders to better manage default risk while continuing to provide sustainable homeownership options to borrowers. There will be no change to the [risk factors](#) evaluated by DU.

Credit and Liabilities

The total monthly obligation is the sum of the following:

- Monthly housing expense (PITI)
- Monthly payments on installment debts and other mortgage debts that extend beyond ten months (including deferred installment loans);
- Monthly payments on revolving debts (unless evidence paid off)
 - If debt (all types) verified paid by someone else for at least 12 months the payment may be excluded; Policy includes all types of debts including mortgages
 - Payment history must have no history of delinquencies in the most recent 12-month period

Mortgages Paid by Others

In our April *Selling Guide* Announcement SEL-2017-04, we simplified our requirements for excluding non-mortgage debts from the DTI ratio when the monthly payment is paid by another party. With this update, we are addressing mortgages paid by others. When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the lender may exclude the monthly mortgage payment from the calculation of the DTI ratio if the party making the payments is obligated on the mortgage debt and can document the most recent 12-month payment history with no delinquencies.

SEL 2017-06

- *Continued on next slide.....*

Credit and Liabilities...cont

The total monthly obligation...cont

- 30 Day charge accounts -monthly balance will not be calculated in the DTI but included as reserves in the “required funds to be verified”
- Do not Omit or mark paid by close
 - Verify MOP is “O” on credit report and mapped correctly into DU

25 The balances of the following 30-day accounts listed on the loan application were included in the amount of reserves required to be verified. However, on transactions where reserves are not required to be verified, the 30-day account amount required to be verified will be reduced by any cash-out that the borrower will receive through the transaction. If the funds needed to payoff the account are not available due to the borrower paying off the 30-day account prior to loan closing, the lender must provide documentation that the account was paid in full, and omit the account from the online loan application in order for the balance to be excluded from the amount of reserves required to be verified. If the funds are not available and the account has not yet been paid off prior to closing, the lender must document that the borrower has sufficient assets from eligible sources to payoff the account. (MSG ID 2641)

BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
John Homeowner	UNIVERSAL VISA	6011785239	\$950.00

Underwriting Anal

Funds Required to Close \$156,613.00

Reserves Required to be Verified \$950.00

Total Funds to be Verified \$157,563.00

Cash Back \$0.00

- Monthly payments on lease agreements, regardless of expiration date of lease;
- Any net rental loss from a rental property
- Properties owned free and clear still have tax and insurance that must be documented and included

Credit and Liabilities...cont

Student Loans – Is it Deferred or in Repayment?

– Student Loans in repayment:

- Use the actual payment documented from credit report; If no payment listed
 - Use verified loan terms from student loan lender
 - Documentation supplied by the borrower or
 - 1% of the outstanding student loan balance
 - Or verify loan is an income based repayment and there is a zero payment due

Student Loans

SEL 2017-04

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.
- For deferred loans or loans in forbearance, the lender may calculate
 - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
 - a fully amortizing payment using the documented loan repayment terms.

Credit and Liabilities ...cont

The total monthly obligation is the sum of the following:

- Monthly alimony, child support, or maintenance payments that extend beyond ten months **SEL 2017-06 allows option to reduce income by the monthly Alimony obligation in lieu of a liability**

Alimony Treatment

We are updating the Guide to allow more flexibility on the treatment of alimony paid by the borrower. Lenders will now have the option of reducing the borrower's monthly qualifying income by the amount of the monthly alimony payment in lieu of including it as a monthly payment in the calculation of the debt-to-income (DTI) ratio. Going forward, lenders may choose to use either option – reducing income or treating it as a debt – when qualifying borrowers.

When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. In this case, the lender can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. The lender must still obtain documentation confirming the amount of the alimony obligation.

- Business debt in the borrower's name unless-
 - the account in question does not have a history of delinquency,
 - the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
 - the lender's cash flow analysis of the business took the obligation into consideration

Credit and Liabilities...cont

The total monthly obligation is the sum of the following:

SEL 2018-01 allows option to include a payment in the DTI if certain requirements are met

Federal Income Tax Repayment Plans

In the January *Selling Guide* update we also outlined conditions when an IRS tax repayment plan for delinquent federal income tax payments may be included in the DTI ratio instead of requiring the lien to be paid in full prior to or at closing. DU Version 10.2 will include the following to support this policy update:

- The message issued when a tax lien is found on the borrower's credit report will be updated to refer the lender to the *Selling Guide* to determine eligibility to include the payment due under a federal income tax installment agreement in the DTI ratio instead of requiring payment in full.
- A new DU message will be issued when a borrower answers Yes to Declaration f. on the loan application (*Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee?*). This message will inform the lender that the borrower declared a delinquency or default on a Federal debt or financial obligation, and will refer the lender to the *Selling Guide* to determine eligibility to include the payment due under a federal income tax installment agreement in the DTI ratio instead of requiring payment in full.

– Selling Guide requirements are:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The lender must obtain the following documentation:
 - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
 - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

Credit and Liabilities...cont

The total monthly obligation is the sum of the following:

SEL 2018-09 requires SBA loans secured by the subject to be treated as a subordinated lien

Small Business Administration Loans

We are clarifying that all Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing and included in the calculation of the CLTV and HCLTV ratios. The monthly payment of the subordinate lien must also be included in the borrower's DTI ratio calculation unless the lender can satisfy the requirements in *Business Debt in Borrower's Name* in B3-6-05, Monthly Debt Obligations.

Effective Date

Lenders are encouraged to implement these clarifications immediately, and must implement them by March 2019. The related messaging in DU for loan casefiles with subordinate financing without a corresponding payment will be updated in a future release to reference the exception permitted for SBA loans.

Employment and Income

Read The Verification Messages

Income Verification Messages

16 John Homeowner's income, including commission income, must be supported by a paystub and W-2s covering the most recent two-year period, or by a standard Verification of Employment (1005). The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. If a standard Verification of Employment (1005) will be obtained it must include all year-to-date earnings, as well as prior year earnings if a W-2 is not being provided. For guidance on borrowers with less than a two-year history of receiving commission income, or for any additional information on the verification of commission income, refer to the Selling Guide. Direct verifications provided by a third party employment verification vendor are acceptable if completed in accordance with the Selling Guide.

(MSG ID 2629)

30 The following sources of income were used in the underwriting analysis: (MSG ID 0153)

BORROWER	INCOME TYPE	AMOUNT
Mary Homeowner	Base employment income	\$2,400.00
John Homeowner	Pension retirement income	\$400.00
John Homeowner	Commissions	\$1,000.00
John Homeowner	Base employment income	\$4,500.00

15 Obtain a completed and signed Form 4506-T for each borrower at or before closing.

- If all of a borrower's income has been validated through the DU validation service, a completed and signed Form 4506-T is not required for that borrower.
- Form 4506, Form 4506T-EZ, or Form 8821 may be used in lieu of Form 4506-T.

Refer to the Selling Guide for additional information. (MSG ID 2471)

Fannie Mae Selling Guide

Continuance of Income

Expiration Date Not Defined	Defined Expiration Date*
<p>Lender does not need to document 3-year continuance</p> <ul style="list-style-type: none">• automobile allowance• base salary• bonus, overtime, commission, or tip income• capital gains income• corporate retirement or pension• disability income — long-term• foster-care income• interest and dividend income (unless other evidence that asset will be depleted)• military income• mortgage credit certificates• part-time job, second job, or seasonal income• rental income• self-employment income• Social Security, VA, or other government retirement or annuity	<p>Lender must document 3-year continuance</p> <ul style="list-style-type: none">• alimony or child support• distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh• mortgage differential payments• notes receivable• public assistance• royalty payment income• Social Security (not including retirement or long-term disability)• trust income• VA benefits (not including retirement or long-term disability)

*Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or majority of qualifying income. Lenders must consider the borrower's continued capacity to repay the mortgage loan when the income source expires or the distributions will deplete the asset prior to maturation of the mortgage loan.

Income sources that are not listed above will require lender judgment to determine if documentation of continuance must be obtained.

See B3-3.1-01, General Income Information (08/07/2018)

Income and Employment

Most recent two years tax returns required when the borrower:

- Is employed by family members;
- Is employed by interested parties to the property sale or purchase;
- Receives rental income from an investment property (only one year of tax returns is required unless the borrower meets one or more of the other conditions in this list);
- Receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman
- Receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- Receives income that cannot otherwise be verified by an independent and knowledgeable source;
- Uses foreign income to qualify;
- Uses interest and dividend income to qualify; or
- Receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure such as a Farm in which the borrower has a **25%** or greater ownership interest.

Income and Employment

General Levels of Documentation: Base Earnings

- Recent pay stub dated within 30 days of application and previous one or two years W-2s
- Verbal verification of employment within 10 business days of closing or after closing but prior to loan delivery
- Or a written verification of employment (Written VOE 1005) can be used in place of either of the above documentation as long as it contains applicable information

16 John homeowner's income, including bonus and/or overtime income, must be supported by a paystub and W-2s covering the most recent two-year period, or by a standard Verification of Employment (1005). The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. If a standard Verification of Employment (1005) will be obtained it must include all year-to-date earnings, as well as prior year earnings if a W-2 is not being provided. For guidance on borrowers with less than a two-year history of receiving bonus income, or for any additional information on the verification of bonus income, refer to the Selling Guide. Direct verifications provided by a third party employment verification vendor are acceptable if completed in accordance with the Selling Guide.

Income and Employment

General Levels of Documentation: Bonus and Overtime

- See additional requirements for “Variable” income in the Fannie Mae 2019 Seller Guide Section B3-3.1-01, General Income Information

17 John Homeowner's income, including bonus and/or overtime income must be supported by:

- A paystub and W-2s that covers the most recent two-year period, or
- A fully completed standard Verification of Employment (1005).

When a paystub is obtained it must:

- Be dated no earlier than 30 days prior to the initial loan application date,
- Include all year-to-date earnings, and
- Include sufficient information to appropriately calculate income.

Otherwise, additional documentation must be obtained.

If a standard Verification of Employment (1005) is obtained it must include:

- All year-to-date earnings, and
- All prior year earnings if a W-2 is not being provided.



Refer to the Selling Guide for guidance on borrowers with less than a two-year history of receiving bonus income, or for any additional information on the verification of bonus income.

Direct verifications provided by a third party employment verification vendor are acceptable if completed in accordance with the Selling Guide. (MSG ID 2631)

Announcement 2018-09 Updates

Commission income effective immediately with 2018-09

- All commission income will be treated the same, individual tax returns or tax transcripts will no longer be required.
- Or a written verification of employment (Written VOE 1005) can be used in place of either of the above documentation as long as it contains applicable info

Commission Income Validation

Selling Guide Announcement SEL-2018-09 removed the different treatment of commission income based on the percentage of employment income. The DU validation service will be updated to align with this change.

Currently, when a borrower receives commission income that is 25% or more of total employment income, the DU validation service requires the lender to obtain both a verification of income (VOI)/ verification of employment (VOE) report and tax transcripts to validate the borrower's income. Tax transcripts will no longer be required, and commission income will be treated in the same manner as other wage income and will only require a VOI/VOE report.

NOTE: *This update to commission income validation will only apply to loan casefiles created on or after the weekend of Mar. 23, 2019.*

Announcement 2018-09 Updates

Automobile allowance Policy

- The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio. NOTE: A history of receipt of this income continues to be required.
- Loan files that include qualifying income from an automobile allowance that is calculated following the “actual cash flow approach” must continue to include IRS Form 2106. This includes the practice of directly offsetting an automobile lease payment with an automobile allowance if the lease payment is captured as an expense on Form 2106
- Until the DU validation service is updated, lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation.

DU Messaging was updated the weekend of March 23rd

Income and Employment

General Levels of Documentation: Self-Employment

- Most recent one year personal and federal business tax returns (Only one year required for certain cases but borrowers still must be self-employed for two years) **OR**
- Most recent two years personal and two years federal business tax returns
- Profit and loss statement may be required by your investors or on a case by case basis
- Verbal VOE required to verify existence of a business within 120 calendar days of note date, or after closing but prior to loan delivery for all self employed borrowers

17 If Mary Homeowner's self-employed income is being used for qualifying purposes, the income may be supported by personal and business tax returns covering the most recent one-year period (including all tax schedules), provided the tax returns reflect at least 12 months of self-employment income and the Cash Flow Analysis (Form 1084) or equivalent has been completed. Otherwise, lenders must obtain personal and business tax returns covering the most recent two-year period (including all tax schedules), though the requirement for business tax returns can be waived if personal returns covering the most recent two-year period are obtained, and (1) the borrower has been self-employed in the same business for at least five years, (2) the borrower's individual tax returns show an increase in self-employment income over the last two years, and (3) the borrower is paying the down payment and closing costs with his or her own funds, and is not using any funds from the business account to fund the transaction or satisfy applicable reserve requirements. Refer to the Selling Guide for additional information. (MSG ID 2913)

Announcement 2018-09 Updates

Use of LoanBeam for income 1084 workbook

- Fannie Mae has approved the use of this tool and if lender uses it to calculate income and enter the monthly income amount in DU, Fannie Mae will provide representation and warranty enforcement relief* on the accuracy of the calculation of the amount of self-employment income.
- Lenders must
 - **Determine eligibility of the self-employment income
 - Enter complete and accurate data in the vendor tool
 - Cannot perform any manual overrides of the output results
 - Accurately enter the calculated self-employment income amount in DU and
 - Deliver the loan using Special Feature code 777
- Lenders may receive enforcement relief when using a Fannie Mae-approved tool immediately.
- The list of Approved Vendor Tools is available on Fannie Mae's website

*Rep & Warrant relief is offered when the lender does not make manual overrides to the income amount originally calculated by FNMA SEI 1084 and the non-modified income amount is accurately entered into DU.

**To confirm self-employment income eligibility the lender must confirm minimum history is met; the business is stable (unless the borrower meets the conditions to waive business tax returns); and in the case of business income, the income is distributed to the borrower or the business has adequate liquidity to support withdrawal of business earnings.

Income and Employment

Verbal Verifications of Employment & Existence of the Business

14 Perform and document a verbal verification of employment for each borrower. For all borrowers who are:

- Not Self-Employed- no more than 10 business days prior to the note date, or
- Self Employed- within 120 calendar days prior to the note date.

Direct verification by a third party employment verification vendor is acceptable if:

- Completed within the same timeframes, and
- The information is not more than 35 days old as of the note date.

If the borrower is in the military, obtain either a Military Leave and Earnings Statement within 31 calendar days prior to the note date or a verification of employment through the Defense Manpower Data Center.

<https://mla.dmdc.osd.mil/mla/#/home>

Lenders also have the option of obtaining the verbal verification of employment after the note date (and prior to delivery of the loan to Fannie Mae), but when using this option must ensure compliance with the Selling Guide. (MSG ID 2469)

Income and Employment

General Levels of Documentation: Retirement Income

- When funds are drawn from assets, stocks, bonds or mutual funds, you must factor potential volatility of the income stream and three year continuance required

Employment and Income

13 Document regular and continued receipt of **retirement, government annuity, or pension income** for John Homeowner with one of the following documents:

- Letters from the organization providing the income,
- Retirement award letters,
- Federal tax returns,
- IRS W-2 or 1099 forms, or
- Bank statement.

For loan casefiles that are not underwritten as DU Refi Plus, if retirement income is paid in the form of a monthly distribution from a 401(k), IRA, SEP or Keogh retirement account, document three year continuance of income from the date of the mortgage application.

Documentation of asset ownership must be in compliance with the Allowable Age of Documents policy. (MSG ID 0193)

Income and Employment

General Underwriting Requirements

- Lenders must review the “type” of income earned and entered in DU; income used for qualifying must be reasonably stable and likely to continue at the current levels. **RED FLAG:** Declining income
- Bonus and Overtime must be annualized or not used at all.
- Employment by a relative or an interested party to the transaction requires applicant to provide tax returns regardless of the DU income documentation message
- Second Job must have a minimum typically of a two year history
- Enter self employed income in “base” income field & sure to mark the self employment box
- Non taxable sources of income can typically be grossed up 25% if evidence provided to verify the income is non-taxable
- Handwritten pay stubs, pay stubs that do not contain ytd income or “stale dated” pay stubs are typically not acceptable
- For loans where the borrower will begin employment after the note date, enter time on job as zero years and zero months

Assets and Reserves

Asset And Funds Sections

Observation Section Lists Total Assets Entered By Type; Underwriting Analysis Report Lists Total Funds Required *Including Any Reserves*

Assets Entered By Type

31 The following assets were counted towards available funds. With the exception of cash on hand, all available funds greater than the amount required to close have been added to cash reserves. (MSG ID 0059)

BORROWER	ASSET TYPE	INSTITUTION NAME	AMOUNT
Mary Homeowner	Retirement		\$40,000.00
John Homeowner	Mutual fund		\$10,000.00
John Homeowner	Checking Account		\$10,000.00

Total Funds Required

Funds

Total Available Assets	\$60,000.00	Net Cash Back	\$0.00
Funds Required to Close	\$16,613.00	Excess Available Assets, not required to be verified by DU	\$43,387.00
Reserves Required to be Verified	\$0.00	Months Reserves	32
Total Funds to be Verified	\$16,613.00		
Cash Back	\$0.00		

18 Verify assets totaling \$16,613.00 from the liquid assets listed on the 1003. Refer to the Selling Guide for additional information. (MSG ID 0063)

Additional Reserves May Need To Be Verified If Paying Down Accounts, Paying Off Collections Or Judgments Or Tax Liens

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Assets and Reserves

- Amount to verify, liquidation, discounting of value, documentation requirements
- Access requirements

Funds	
Total Available Assets	\$60,000.00
Funds Required to Close	\$16,613.00
Reserves Required to be Verified	\$0.00
Total Funds to be Verified	\$16,613.00
Cash Back	\$0.00

Assets

18 Verify assets totaling \$16,613.00 from the liquid assets listed on the 1003. Refer to the Selling Guide for additional information. (MSG ID 0063)

19 The value entered for the retirement account must be determined in accordance with the Selling Guide if the funds will be used for reserves. If these assets are needed to support the amount of funds required for closing and reserves, the available account balance must be documented with a recent depository or brokerage account statement. For loan casefiles that are not underwritten as DU Refi Plus, if the funds will be used for down payment or closing costs, receipt of the funds realized from the sale or liquidation of the assets is not required if the value (as determined in accordance with the Selling Guide) is at least 20% more than the amount of funds needed for the down payment and closing costs. Otherwise, receipt of funds realized from the sale or liquidation must be verified. Also for loan casefiles that are not underwritten as DU Refi Plus, if the account allows for withdrawals only in connection with the borrower's employment termination, retirement, or death; or the account does not allow for any type of withdrawal, the retirement asset should not be entered. (MSG ID 0084)

Sample DU Findings Report

Mutual Funds and Standard Depository Messages:

- Proof of liquidation and number of months documentation
- Refers lenders to *Selling Guide* for large deposits (we will discuss on a future slide)

20 The value entered for the **mutual fund** account may be 100 percent of the value of the account if the funds are used as **reserves**. Document the value with a current brokerage account statement.

Except for DU Refi Plus, when the mutual fund account will be used for the **down payment or closing costs** and the estimated liquidation value is at least 20% more than the amount of funds needed for the down payment and closing costs, documentation of the borrower's receipt of the funds from the sale or liquidation of the assets is not required. Otherwise, receipt of funds realized from the sale or liquidation must be verified. (MSG ID 1259)

21 If **depository assets** are needed to support the amount of funds required and reserves:

- Verify these assets with a verification of deposit or bank statements covering a **two-month period**,
- Refer to the *Selling Guide* for guidance on evaluating un-sourced large deposits, and
- Direct verifications provided by a third party asset verification vendor are acceptable if completed in accordance with the *Selling Guide*.

(MSG ID 1880)

Sample DU Findings Report

Stocks or Bond Account Messages:

–Non-vested stock options and non-vested restricted stock are not acceptable sources of funds for the transaction

21 When **fully vested stock or bond account(s)** are needed to support the amount of funds required for **reserves**, the value entered may be 100 percent of the value of the account. Document the value with a current brokerage account statement, copy of the stock certificate accommodated by a newspaper stock list.

When **fully vested stock and bond accounts** are used for the **down payment or closing costs**, if the value is at least 20% more than the amount of funds needed, or if this is a DU Refi Plus loan, documentation of the borrower's receipt of funds from the sale or liquidation of those assets is not required. Otherwise, document the borrower's receipt of funds from the sale of those assets.

Non-vested stock options and non-vested restricted stock are not acceptable sources of funds for the down payment, closing costs, or reserves. (MSG ID 0091)

Assets and Reserves

Fannie Mae Borrower Contribution Policy

- Allows for personal gifts, and in some cases gifts or grants from an entity, employer assistance, and Community Seconds as minimum borrower contribution for certain transactions
- Gift funds are never allowed on Investment
- Gift letters will be required for all loans when gift funds are being used
- Proof of donor's ability and/or transfer to the borrower is required

24 Verify the gift by:

- Obtaining a signed gift letter,
- Documenting the transfer of the funds, and
- Ensuring the gift comes from an eligible source (as defined in the Selling Guide) and does not come from an interested party to the transaction.

If the gift is a grant that the borrower is obligated to repay enter a corresponding liability in Section VI to be included in the debt-to-income ratio and document the terms of the loan. (MSG ID 2573)

Assets and Reserves

The following table describes the minimum borrower contribution requirements for transactions that contain gifts.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	One-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	Two- to four-unit principal residence Second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. ¹ After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves. See B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements , for HomeReady mortgage minimum borrower contribution and down payment requirements.

High Balance Loans DO NOT Require Minimum Borrower Contribution For One Unit Properties

Assets and Reserves

Retirement accounts (401k or IRA)

- Accounts that allow for withdrawals only in connection with the borrower's employment termination, retirement, or death, or the account does not allow for any type of withdrawal should not be entered

The value entered for the retirement account must be determined in accordance with the Selling Guide if the funds will be used for reserves. If these assets are needed to support the amount of funds required for closing and reserves, the available account balance must be documented with a recent depository or brokerage account statement. For loan casefiles that are not underwritten as DU Refi Plus, if the funds will be used for down payment or closing costs, receipt of the funds realized from the sale or liquidation of the assets is not required if the value (as determined in accordance with the Selling Guide) is at least 20% more than the amount of funds needed for the down payment and closing costs. Otherwise, receipt of funds realized from the sale or liquidation must be verified. Also for loan casefiles that are not underwritten as DU Refi Plus, if the account allows for withdrawals only in connection with the borrower's employment termination, retirement, or death; or the account does not allow for any type of withdrawal, the retirement asset should not be entered. (MSG ID 0084)

Selling Guide SEL 2014-06

Large Deposit and Other Asset Policies

Fannie Mae last updated its policy on unsourced deposits in November of 2012. A key purpose of that policy change was intended to help mitigate the risk associated with a borrower incurring undisclosed debt that was not included in the calculation of the borrower's total monthly obligations. The current policy states that when bank statements, typically covering the most recent two months, are used, the lender must obtain a written explanation and documentation for the source of large deposits, defined as a single deposit that exceeds 25% of the total monthly qualifying income for the loan. However, this approach resulted in unintended consequences, particularly in documenting unsourced funds that were not needed to complete the mortgage transaction. Fannie Mae is revising this policy to focus only on those funds that are actually required for the transaction, which will continue to mitigate the risk while increasing efficiency for lenders. Other changes related to large deposits include the following:

- The policy is limited to purchase transactions.
- The definition of a large deposit has been changed from 25% of the total monthly qualifying income to 50%.
- When a deposit includes both sourced and unsourced (undocumented) portions, only the unsourced portion must be used in calculating whether the deposit meets the 50% definition.
- When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU).
- The use of business assets for a self-employed borrower as an acceptable source of funds for the down payment, closing costs, and financial reserves is also specifically addressed in this Guide update. The borrower must be listed as an owner of the account and the account must be verified in accordance with B3-4.2-01, Verification of Deposits and Assets. The lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business.

IPC Updates in DU

Updates

- Sales Concessions Field or IPC is being removed from DU and lenders must make the adjustment to the purchase price manually or the purchase contract must be amended to restrict maximum IPC paid

Purchase price: \$300,000

LTV = 94% (IPC limit is 3%)

Seller paid closing costs: \$15,000

Sales concessions: \$6,000 (\$15,000-\$9,000 IPC limit)

a. Purchase price	\$294,000*
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	\$1,500
f. Estimated closing costs	\$3,000
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs	\$298,500
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	\$9,000*
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	\$279,300
n. PMI, MIP, Funding Fee financed	
o. Loan amount	\$279,300
p. Cash from/to Borrower	\$10,200

Insert More

HELOC Information
Undrawn HELOC Amount (For the subject property on

Sales Concessions
IPCs: Excess Financing Concessions or Sales Concessions Amount



* Line a would be adjusted downward by the amount of the sales concession, and Line k would be adjusted downward by the same amount in order for line p to calculate correctly.

Borrowers with Multiple Financed Properties

DU uses the number of financed properties to apply the following eligibility guidelines:

- A minimum credit score of 720 is required for borrowers with 7-10 financed properties
- Borrowers are limited to a maximum of 10 financed properties

Loan Information

FIPS Code	<input type="text"/>
Number of Financed Properties	<input type="text"/> 
Seller Provided Below Market Financing	<input type="checkbox"/>
First Year Buydown Rate	<input type="text"/> 0.000%
Lien Type *	<input type="text"/> First Mortgage 
Payment Frequency	<input type="text"/> Monthly 
Repayment Type	<input type="text"/> Fully Amortizing 
Subject Property Type *	<input type="text"/> Detached 
Balloon?	<input type="checkbox"/>
Balloon Mortgage Term (months)	<input type="text"/>

Borrowers with Multiple Financed Properties

DU Version 10.0 reflects a simplified policy that applies to loans for borrowers with multiple financed properties. The policy requires fewer eligibility overlays and updated reserve requirements, which are automated by DU.

- A new field “Number of Financed Properties” added to additional data screen. It captures the number of 1-4 unit financed properties the borrower is personally obligated on.
- If that field is not completed, DU uses the number of properties in the REO Section that include a mortgage payment or are tagged to a mortgage in the liabilities section
- If neither of the Number of Financed Properties field or the REO section has been completed, DU uses the liabilities section to determine the number of financed properties

12 The **number of financed properties** used in determining the loan's eligibility and minimum reserve requirements was 1.

This information was provided in the **Number of Financed Properties field**. If this information is incorrect, the number must be updated and the loan casefile resubmitted to DU. (MSG ID 3009)

DU Issues A Message Informing The Lender What Number Was Used As The Number Of Financed Properties And Where That Information Was Obtained.

Borrowers with Multiple Financed Properties

– Reserve Requirements

DU determines the reserves required for the other residential financed properties (excluding the borrower's principal residence and the subject property). The reserve amount is determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for all *mortgages & HELOC's disclosed on the application. The percentage is based on the number of financed properties.

RESERVES CALCULATION TABLE	
2 to 6 financed properties (Manually Underwritten and Casefiles Underwritten through DU)	<p>The % of UPB is based on the number of <u>financed properties</u>:</p> <ul style="list-style-type: none">• If 2-4 financed properties, reserves = 2% of aggregated mortgage UPBs for all other* financed properties.• If 5-6 financed properties, reserves = 4% of aggregated mortgage UPBs for all other* financed properties. <p>*Other includes all financed properties which are not the subject property or the borrower's principal residence.</p>
7 to 10 financed properties (DU Casefiles Only)	<p>The % of UPB is based on the number of <u>financed properties</u>:</p> <ul style="list-style-type: none">• If 7-10 financed properties, reserves = 6% of aggregated mortgage UPBs for all other* financed properties. <p>*Other includes all financed properties which are not the subject property or the borrower's principal residence.</p>

**If marked paid by close, omit or if associated with subject property, not included.*

Borrowers with Multiple Financed Properties

Example 2: Six Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Investor	\$78,750	\$776	6 Months PITIA =	\$4,656
Principal	\$133,000	\$946	N/A	\$0
Investor	\$87,550	\$787		
Investor	\$142,500	\$905		
Investor	\$84,950	\$722	$$345,030 \times 4\% =$	\$13,801
Investor	\$30,030	\$412		
	\$345,030		Total =	\$18,457

If The Loan Casefile Does Not Meet The Reserve Requirements, DU Will Issue An Ineligible Recommendation And A Message Will Be Issued.

Property and Appraisal

22 DU could not verify the submitted subject property address for this transaction.

- An **appraisal** based on an interior and exterior property inspection reported on Form 1004 is required for one-unit properties;
- Form 1004C is required for manufactured homes.
- Form 1073 is required for units in condominium projects;
- Form 2090 is required for units in cooperative projects.

Alternatively, modify the subject address and resubmit to determine whether DU is able to verify the updated subject property address. (MSG ID 1824)

Disclosure of Information to Appraisers

2016-09

Currently, we require the lender to provide the appraiser with all amendments made to a sales contract, including amendments that are made after completion of the appraisal. With this update, we have clarified when the appraiser must be provided with updates to the sales contract and circumstances that warrant updates to the appraisal. For example, if the contract is amended in a way that affects the description of the real property used by the appraiser, then the lender must provide the updated contract to the appraiser and the appraisal should be updated. However, minor updates to the contract, such as changes to seller paid closing costs or changes to the contract price, do not require an updated appraisal. In addition, we have updated the policy to require disclosure of changes to financing information (such as loan fees and charges, and subordinate financing provided by interested parties) to the appraiser only for purchase transactions.

A Full Appraisal Is Always Required, Regardless Of The DU Appraisal Option, When The Last Sale Was An REO Or Foreclosure Sale

FAQs

Appraisal Waivers Appraisal and Property-Related



Fannie Mae®

Appraisal and Property-Related Frequently Asked Questions (FAQs)

Updated August 7, 2018

This FAQ document provides responses to common questions related to Fannie Mae's property eligibility and appraisal policies.

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Appraiser Selection and Management	2
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Resources

For additional information about Fannie Mae's appraisal policies, refer to the [Selling Guide](#). Other resources are available on the [Appraisers page](#) on Fannie Mae's website, including tutorials, forms, FAQs on the Uniform Appraisal Dataset (UAD), the Appraiser Independence Requirements (AIR), and more.

FAQs

Property Eligibility

Q1. In the list of ineligible properties, boarding houses are identified as an ineligible property type. Is a group home considered to be a boarding house and therefore an ineligible property type?

No. Group homes are residential structures utilized for occupancy by persons with disabilities and are not considered to be boarding houses. Group homes are an eligible property type according to the requirements of the [Selling Guide](#).

Q2. Why are boarding houses and bed and breakfast properties considered to be an ineligible property type?

Fannie Mae purchases and securitizes mortgage loans secured only by properties that are primarily residential in nature. Boarding houses and bed and breakfast properties are not primarily residential in nature and therefore are not eligible.



Fannie Mae®

Appraisal Waivers

Frequently Asked Questions

September 4, 2018

An appraisal waiver is an offer to waive the appraisal for eligible transactions. Appraisal waiver offers are issued through Desktop Underwriter® (DU®) using Fannie Mae's database of more than 31 million appraisal reports in combination with proprietary analytics from Collateral Underwriter® (CU®) to determine the minimum level of property valuation required for loans delivered to Fannie Mae.

This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae [Selling Guide](#). In the event of any conflict with this document, the [Selling Guide](#) will govern.



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General

Q1. How do lenders get access to appraisal waivers?

Appraisal waivers are available to all lenders who use DU, including through the Desktop Originator® (DO®) interface. No registration is needed.

Q2. Are appraisal waivers available to correspondent lenders?

Yes. A correspondent lender may receive an appraisal waiver offer when submitting a loan casefile to DU. Correspondent lenders should contact their aggregators to discuss aggregator interest in delivering loans with an appraisal waiver to Fannie Mae and to ensure the correspondent is obtaining the appropriate fieldwork to meet aggregator guidelines.

Q3. What are the eligibility requirements for appraisal waiver consideration?

The appraisal waiver offer will be considered on the transactions below:

- One-unit properties, including condominiums
- Limited cash-out refinance transactions:
 - Principal residences and second homes up to 90% LTV/CLTV
 - Investment properties up to 75% LTV/CLTV
- Cash-out refinance transactions:

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Updated September 4, 2018 1 of 8

Appraisal Updates

2018-09 Modular Home Updates

- On-frame modular homes that comply with local building codes, attached to a permanent foundation, and are built using the same materials as comparable stick-built homes are now an eligible property type.
- These homes will follow the same eligibility and underwriting criteria as stick-built homes.
- Clarifying that multi-unit buildings such as attached condos and townhomes may be built using modular construction techniques that comply with local building codes.

DU 10.3 Updates Appraisal Waivers

Effective December 8, Rural High-Needs Appraisal Waiver Available

Appraisal Waiver Changes

The following updates will be made to the appraisal waiver-related messaging issued by DU.

Disaster Impacted Areas

A new message will be issued on loan casefiles for properties located in disaster impacted areas. If the loan casefile received an appraisal waiver offer prior to the disaster, and upon resubmission to DU continues to meet all other appraisal waiver eligibility requirements, DU will continue to offer the appraisal waiver and issue a new message.

This message will indicate that the lender may accept the appraisal waiver offer but must:

- take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster, and
- comply with the property eligibility requirements that pertain to properties affected by a disaster in the *Selling Guide*.

DU will issue the new message, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

NOTE: *This change will be reflected in the December Selling Guide update.*

Rural High-Needs Appraisal Waiver

As specified in [Announcement SEL-2018-07](#), we are offering appraisal waivers for certain home purchase transactions in designated rural high-needs areas. DU will issue the rural appraisal waiver, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

Properties Valued at \$1,000,000 or more

Appraisal waivers will not be offered on refinance transactions when the estimated value of the property (as provided to DU) is \$1,000,000 or more.

NOTE: *DU will apply this change only to loan casefiles created on or after the weekend of Dec. 8. Resubmissions of existing refinance loan casefiles that received the appraisal waiver will not be impacted by the change and lenders can continue to exercise the appraisal waiver.*

Appraisal Waiver Updates

Available for Certain Purchase and Refinance DU Casefiles

- When a casefile is eligible for an appraisal waiver, Fannie Mae accepts the “submitted” value estimate as the market value.
- Fannie Mae provides relief of reps and warranties on the value, condition *and* marketability of the property if the lender exercises the appraisal waiver option.
- To even receive an appraisal waiver message on the DU findings:
 - A prior appraisal must be found for the subject property in Fannie Mae’s Collateral Underwriter® (CU™) data
 - That appraisal must be associated with one of the borrowers on the loan casefile for refinances.
 - Property and transaction must meet criteria found in the *Selling Guide*...see next slide
- Fannie Mae **no longer** is charging the \$75 fee to exercise the option; SFC 801 is used upon delivery
- While Fannie Mae offers an appraisal waiver option, always check your own policies and procedures to ensure no overlay for an appraisal exist

Appraisal Waivers-Ineligible Transactions

The following are **not eligible** for an appraisal waiver offer:

- Properties located in a disaster-impacted area, unless Fannie Mae has received an acceptable appraisal of the property that was completed after the disaster occurred. See Q15.
- When the lender has any reason to believe an appraisal is warranted
- Construction and construction-to-permanent loans
- Two- to four-unit properties
- Loan casefiles in which the value of the subject property provided to DU is \$1,000,000 or greater
- HomeStyle® mortgage products (Renovation and Energy)
- Texas 50(a)6 loans
- Leasehold properties, community land trust homes, or other properties with resale restrictions
- Cooperative units and manufactured homes
- DU loan casefiles that receive an ineligible recommendation
- Loans for which the mortgage insurance provider requires an appraisal
- Loans for which rental income from the subject property is used to qualify

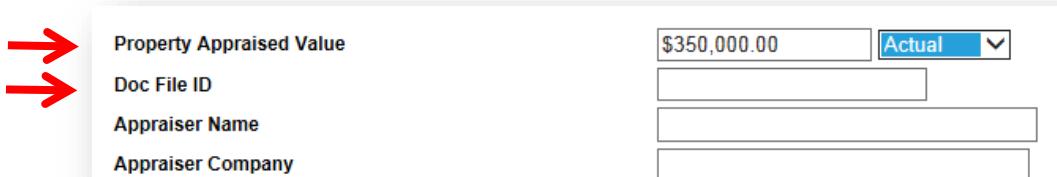
Property Value Enforcement Relief

Fannie offers enforcement relief on reps/warranties related to property value on certain loan casefiles when:

- Appraisal received a CU Risk Score of 2.5 or below, and
- Property type is a one-unit detached, attached or condominium property

The following fields must be provided in DU:

- The Actual Vs Estimated Appraised Value indicator...it must be submitted as “Actual” (Additional Data Screen)
 - The value entered and zip code in UCDP® must match what was entered in DU.
- Doc file ID assigned from UCDP® must be provided (Additional Data Screen)
- Message will appear either way “Eligible for Relief” or “NOT Eligible for Relief”



Property Appraised Value
Doc File ID
Appraiser Name
Appraiser Company

\$350,000.00

Day 1 Certainty

Property Information

Appraisal Waiver Not Eligible

Collateral Rep & Warrant Not Eligible

Property and Appraisal-Condos

If Property Type Condominium, Project Review Type Message Will Appear: **2018-01 detached condos no longer require project approval (excluded manufactured homes)**

Property and Appraisal Information

This property is located in a condominium project. The lender must conduct a review of the project, utilizing the Condo Project Manager (CPM) Expedited or Lender Full Review processes, to determine that it meets the underwriting requirements of the applicable project classification as defined in the Selling Guide. Unless the property is a detached condo, and then a limited review is acceptable under the Selling Guide regardless of the occupancy. If the property is located in a state in which specific project review type guidelines apply, the lender must confirm the loan casefile complies with those guidelines. Refer to the Selling Guide for additional information.

Property and Appraisal Information

This property is located in a condominium project. A limited review can be performed if the property is in an established project and is not ineligible as defined in the Fannie Mae Selling Guide. Otherwise, the lender must review the project to determine that it meets the underwriting requirements of the applicable project classification as defined in the Fannie Mae Selling Guide. If the property is a detached condo, a limited review is acceptable under the Selling Guide regardless of the occupancy. If the property is located in a state in which specific project review type guidelines apply, the lender must confirm the loan casefile complies with those guidelines. Refer to the Selling Guide for additional information.

Condo Project Manager 8.2 Release Notes

On Aug. 18th Condo Project Manager™ (CPM™) was updated to align with the changes related to condo policies communicated in Selling Guide Announcement SEL-2018-05.



Fannie Mae®

Condo Project Manager 8.2 Release Notes

July 16, 2018

New look for Release Notes

We've simplified the layout of the Condo Project Manager (CPM) Release Notes. Lenders can now access all 2018 CPM enhancements in this easy-to-read format; all past updates can be found on the CPM web page.

August 2018 CPM enhancements

On August 18, 2018, CPM will be updated to align with the June 5, 2018 [changes](#) to our condo policies and to make it easier to refer to *Selling Guide* language located throughout CPM. Specifically, improvements to CPM include:

- Removal of three eligibility questions
- Modifications to two eligibility questions
- Extension of established project certification
- Links to *Selling Guide* references



Recent updates

Effective Date	Functionality Improvement	Description
August 18 NEW	Removal of three eligibility questions	<p>The following questions will be removed from CPM:</p> <ul style="list-style-type: none">▪ Question (radio button format): The project has 2-4 units.▪ Applies to: 2-4 unit projects▪ Note: Any current active certifications for 2-4 unit projects will remain as-is and the completed question can be viewed and/or printed.▪ Question: Is the project an investment security?▪ Applies to: new or established projects▪ Note: Any current active certification will remain as-is and the completed question can be viewed and/or printed.▪ Question: Does the condominium represent a legal, but nonconforming use of the land (if zoning regulations prohibit rebuilding to current density in the event of destruction)?▪ Applies to: new or established projects▪ Note: Any current active certification will remain as-is and the completed question can be viewed and/or printed.
August 18 NEW	Modifications to two eligibility questions	Removed the note from the "Does the project operate as a hotel or motel?" and "Does a single entity own more units in the project than what is allowed by the <i>Selling Guide</i> ?" questions.

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7.16.2018 1 of 2

Observations

FYI information

Observations

25 This case was submitted to DU version 10.2 by TEST/TRAINING - Genworth Branch. The following information is associated with this loan: Casefile ID is 1386638226 and Submission number is 1. If the loan is delivered to Fannie Mae, the Casefile ID must be provided at delivery. (MSG ID 0943)

26 The following list of **special feature codes** is provided to assist you in determining which codes may be associated with this loan. Other codes may be required. Refer to the Special Feature Codes list on fanniemaefi.com for a comprehensive list. (MSG ID 1387)

SPECIAL FEATURE CODE	DESCRIPTION
127	DU Loan

27 Based on the data entered, this loan casefile has been identified as a **First Time Homebuyer case**.

- Correctly identify the borrower as a First Time Homebuyer at delivery.
- Refer to the Selling Guide Glossary for additional information on the identification of a first time homebuyer.

(MSG ID 2096)

29 The following credit scores are included in the credit report: (MSG ID 1132)

BORROWER	CREDIT SCORES
John Homeowner	760 779 785
Mary Homeowner	768 771 783

30 The following sources of income were used in the underwriting analysis: (MSG ID 0153)

BORROWER	INCOME TYPE	AMOUNT
Mary Homeowner	Base employment income	\$2,400.00
John Homeowner	Pension/retirement income	\$400.00
John Homeowner	Commissions	\$1,000.00
John Homeowner	Base employment income	\$4,500.00

31 The following assets were counted towards available funds. With the exception of cash on hand, all available funds greater than the amount required to close have been added to cash reserves. (MSG ID 0059)

BORROWER	ASSET TYPE	INSTITUTION NAME	AMOUNT
Mary Homeowner	Retirement		\$40,000.00
John Homeowner	Mutual fund		\$10,000.00
John Homeowner	Checking Account		\$10,000.00

Underwriting Analysis

Page #1 Validate the details

Underwriting Analysis Report

Recommendation	Approve/Eligible
Borrower 1	John Homeowner
Borrower 2	Mary Homeowner
Lender/Loan Number	JJ1
Submission Date	10/09/2018 10:03AM

Casefile ID	1386638226
Submitted By	a0837jna

Property Information

Property Address	2505 S Creek Street, Mesa, AZ, 85208
Property Type	Detached

Number of Units	1
Occupancy Status	Primary Residence

Mortgage Information

8

Loan Type	Conventional
Amortization Type	Fixed Rate
Balloon	No
Community Lending	No
Payment Frequency	Monthly
Lien Type	First Mortgage
Arnt. Subordinate Fin.	\$0.00
Loan Purpose	Purchase
Refi Purpose	
Owner Existing Mtg	
Buy Down	No
LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%

Income

Base	\$6,900.00
Bonus	\$0.00
Other	\$400.00
Subj. Pos. Cash Flow	\$0.00

Desktop Underwriter Findings	
Loan Amount	\$156,350.00
Financed MI Amount	\$0.00
Total Loan Amount	\$156,350.00
Sales Price	\$165,000.00
Actual/Estimated Appraised Value	\$175,000.00
P&I	\$769.15
Note Rate	4.250%
Qualifying rate	4.250%
Bought Down rate	0.000%
Term (Months)	360

Underwriting Analysis

Page #2 Validate the details

Qualification Ratios

Housing Expense 16.32%

Debt-to-Income 26.05%

Expense Ratios

Including ≤ 10 Mos. 26.05%

With Undisclosed Debt 26.05%

Proposed Monthly Payment

I/2018		Desktop Underwriter Findings	
First P&I (Qualifying)	\$769.15	Total Housing Payment	\$1,354.68
Second P&I	\$0.00	Negative Net Rental	\$0.00
Hazard Insurance	\$150.00	Subj. Neg. Cash Flow	\$0.00
Taxes	\$200.00	All other Payments	\$807.10
Mortgage Insurance	\$235.53	Total Expense Payments	\$2,161.78
HOA Fees	\$0.00	Present/Principal Housing Payment	\$0.00
Other	\$0.00		

Funds

Total Available Assets \$60,000.00

Funds Required to Close \$16,613.00

Reserves Required to be Verified \$0.00

Total Funds to be Verified \$16,613.00

Cash Back \$0.00

Net Cash Back \$0.00

Excess Available Assets, not required to be verified by DU \$43,387.00

Months Reserves 32

The Recommendation for this case is: Approve/Eligible

LEGAL DISCLAIMER: The DU Findings Report does not constitute an approval or denial of the loan application. It may only be used by the lender making the credit decision, and may not be provided to a realtor, borrower or other third party. Lenders must comply with all laws and regulations, including those relating to privacy and nonpublic personal information, when handling the DU Findings Report.

Reminders

Lenders are responsible for integrity of the data submitted to DU

- Do you have all pages to the bank statement and are all large deposits addressed and sourced?
- Retirement accounts? Access verified if required? Fully vested? Did you subtract any outstanding loans and is applicant fully vested?
- Truncated account numbers allowed as long as the last four digits are displayed
- Paying off a second mortgage? Verify it was used to purchase the property or treat the loan as a cash out. Also verify seasoning requirements for ownership and taking cash out.
- Refinance: Is the property currently offered for sale or has it been offered for sale in the past six months? **For refinance transactions, properties must have been taken off the market as of loan disbursement date.**
- Is Property type entered correctly (condo, PUD, manufactured home)
- Are the HOA dues, flood insurance or MI payments included in the housing payment, if applicable? Do you have written support?
- Does the occupancy make sense? Are the “Potential Red Flags” cleared as per the DU findings report?
- Are all the assets per DU verified plus any additional that are needed to payoff a judgment or collection? Evidence of liquidation if needed? Additional reserves?

Reminders & Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- Deferred loans must always be included in the debt ratio; Use amount on credit report, 1% of unpaid balance or actual verified payment
- Student loans in repayment use actual payment per credit report or student loan documentation; Payment may be zero if verified and IBR plan and the payment is zero.
- Lease Payments must always be included in the debit ratio regardless of number of payments remaining
- Installment/lease debt without a payment on the credit report, you must obtain documentation to verify the actual monthly payment amount (Exception: Deferred Student loans see *Selling Guide*)
- Include revolving debt unless being paid off prior to or at closing; A payment may still be used based on underwriter judgment
- Income: Break it out by type, check trends, history of receipt
- Do names, addresses and social security numbers match from document to document?
- Discontinuance of the Form 1004MC effective August 7, 2018
- Introduction of the High Loan-to Value Refinance Option which replaces the current DU Refi Plus™ and Refi Plus™ (Applications may be taken November 1, 2018)

Reminders & Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- Loans in process where an appraisal has been ordered and submitted and the property is in a designated disaster area, property will become eligible for a PIW on a future transaction if it meets requirements of *Chapter B4-1,4-10, Appraisal Waivers*
- Tax Liens may be included as a debt instead of having to payoff, see guidelines to be able to include as a payment
- Field reviews are no longer required for properties with values over \$1,000,000 with LTV/CLTV over 75%
- Lenders required to choose the most reliable appraisal when two appraisals are obtained
- Waiver of project reviews for all detached condo units (excluding manufactured homes) and allow use of C-T-P financing for detached condo units
- HomeStyle Renovation eligibility allows LTV up to 97% for 1-unit primary homes
- Anything entered in these new fields, the casefile will be underwritten as a HomeStyle Energy Mortgage)
 - Energy Improvement Amount PACE Loan Payoff Amount
- Allow lenders to underwrite loans (either with DU or through manual underwriting) for borrowers who have frozen credit at only one of the three national credit repositories.
- Native American tribes and their instrumentalities as eligible providers for Community Second Mortgages

Reminders & Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- DU casefile or the Doc File ID may not be used more than once and a new error message will appear if a lender attempts to do so
- DU loan casefile archival policy is extended from 270 days (9 months) to 28 months and DU will now use the date the casefile file was last submitted to determine archival date
- Fannie Mae does allow loans to be closed in the name of a trust but exceptions are allowed for Inter Vivos Revocable Trusts
- To exclude a liability that someone else pays requires documentation for 12 months showing timely payment and to exclude a mortgage, they must be a co-signer
- When excluding a mortgage payment that someone else has been verified making the payments, it is the PITIA that can be excluded as long as no rental income is being used from that property; Note that the property **MUST** be included in the borrower's multiple financed property count & the UPB for the mortgage must be included in the calculation of reserves for multiple financed properties
- Premium pricing (which is a when a borrower selects a higher interest rate in exchange for a lender credit) cannot be used for any portion of the down payment or reserves and should not exceed the closing costs.
- Lender credits derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction

Reminders & Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- An appraisal waiver is not eligible for investment properties if you are using rental income from the subject property
- Appraisal waiver is not eligible if an appraisal has been uploaded through the UCDP
- Most civil judgements will NOT appear on the credit report due to implementation of the National Consumer Assistance Plan in 2017; Fannie Mae policy did not change. The Selling guide defines lender responsibilities and requirements for payoff of liens, judgments and undisclosed liabilities

MI Termination FAQ's



Fannie Mae®

Borrower-Initiated Mortgage Insurance Termination Requests Using SMDU™

Frequently Asked Questions

February 6, 2019

Updated policy requirements for the borrower-initiated termination of conventional mortgage insurance (MI) will simplify the process of evaluating borrower-initiated requests for MI termination. This streamlined process will deliver a better customer experience for both servicers and borrowers. Listed below are frequently asked questions related to the implementation of the MI termination policy using Servicing Management Default Underwriter™ (SMDU™).

Servicers are encouraged to implement the MI termination policy based on Original Value as early as Jan 1, 2019, and MI termination policy based on Current Value as early as March 1, 2019, (when the capability to do so using SMDU becomes available); however, implementation is required by September 1, 2019.

Borrower-Initiated MI Termination Request Policy changes

Q1. Where can I find details on the new borrower-initiated MI termination request announcement?

The complete details on the updated policy changes are described in [Lender Letter LL-2018-09](#) and included in the December Servicing Guide update.

Q2. What are the changes to the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on Original Value of the property?

Beginning on January 1, 2019, for borrower-initiated MI termination requests based on Original Value of the property, the servicer can use the Automated Valuation Model (AVM) value used by SMDU to determine the current value of the property for purposes of determining the mortgage loan's eligibility for MI termination.

Q3. What are the changes to the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on the Current Value of the property?

Beginning on March 1, 2019, for borrower-initiated MI termination requests based on Current Value of the property, the servicer can use the BPO or appraisal* ordered through SMDU to verify the Current Value of the property. When the reason for ordering a BPO or appraisal is due to substantial improvements of the property then a description of those substantial improvements must be provided with the valuation request.

When an evaluation of mortgage insurance is based on the Current Value due to substantial improvements and the loan seasoning is less than two years, the loan-to-value (LTV) threshold is now 80% or less.

*if the servicer determines it is required by law

Q4. If the servicer orders a BPO or appraisal through SMDU to terminate MI and that value is lower than SMDU's AVM, can the AVM still be used to determine the amount the borrower needs to pay down the UPB to satisfy the LTV ratio requirement?

No, once a BPO or appraisal is successfully ordered, that value then becomes the "As Is Value" and must be used for the evaluation. The BPO or appraisal value is good for 120 days. The 120 day count starts on the date the Valuation Order is completed, which is also the same date SMDU evaluates the loan. If the borrower disagrees with the BPO or appraised value, the servicer may submit an appeal as long as the criteria is met. See question Q11 for additional information.

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<https://www.fanniemae.com/content/faq/mi-termination-faqs.pdf>

Fannie Mae Communications

Release Notes DU 10.3 March Update

**During the weekend of March 23, 2019
An update to DU 10.3 will be
implemented. Changes will include-**

- DU Validation Service Enhancements
- HomeReady AMI Determination
- Disaster Message Change
- DU Underwriting Findings Report Updates
- Updates to Align with the Selling Guide



Fannie Mae®

Desktop Underwriter/Desktop Originator Release Notes DU Version 10.3 March Update

Jan. 28, 2019

During the weekend of March 23, 2019, Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.3, which will include the changes described below.

Except for the DU validation service enhancements and the reserves to verified update, the changes in this release will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of March 23, 2019.

The changes in this release include the following:

- DU Validation Service Enhancements
- HomeReady® AMI Determination
- Disaster Message Change
- DU Underwriting Findings Report Updates
- Updates to Align with the *Selling Guide*

DU Validation Service Enhancements

The following changes will be made to the DU validation service.

Message Consolidation

NOTE: *These message consolidation changes will only impact loan casefiles created on or after the weekend of Mar. 23, 2019.*

The DU validation service messages for income and employment will be simplified and consolidated. Eleven new messages will replace 41 existing messages.

Report retrieval messages (three): These messages will specify the receipt of third-party vendor reports. These messages will list the reports that were

- received and used;
- received but not used, with the specific reason the report was not used; and
- expected but were not successfully received.

Employment Validation messages (two): These messages specify when employment has been validated. These messages will list the employment that has

- been validated; and
- not been validated, with the specific reason the employment was not validated.

Income Validation messages (three): These messages will specify when income has been validated. These messages will list income types that were

- validated;
- not validated because DU calculated a lower amount of income than the income entered into DU; and
- not validated, with the specific reason the income was not validated.

NOTE: *These messages will include a "vendor match" field. This is the value found on the report that allowed DU to identify the income source (the employer name). By specifying this value, lenders will be able to review the appropriate section of the report to determine if there is conflicting or contradictory information.*

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https://www.fanniemae.com/content/release_notes/du-do-release-notes-03232019.pdf

Lender Letter LL-2018-06

Lender Letter 2018-06 included the following topics:

- Employment directly affected by the shutdown
- Government verifications (e.g., IRS, SSA)
- Selling and Servicing loans requiring flood insurance
- Inability for borrower to make scheduled payments resulting from shutdown and forbearance (including those currently in a repayment plan or Trial Period plan)



Fannie Mae®

Lender Letter LL-2018-06

December 26, 2018

To: All Fannie Mae Single-Family Sellers Impact of Federal Government Shutdown

Federal employees across the country may be affected by the federal government shutdown, including employees who work for government contractors, vendors, and other businesses that rely on work from government agencies or that offer goods and services to members of the government workforce in their localities.

We are providing temporary guidance on selling and servicing policies that may be impacted by the federal government shutdown that occurred on December 22, 2018. This guidance assumes that the shutdown will be temporary in nature. These temporary policies are effective immediately, and will automatically expire when the federal government resumes full operations. If the shutdown lasts for a prolonged period, we may provide additional guidance.

Selling Policies

Employment Directly Affected by the Shutdown

For borrowers employed by the federal government or other individuals whose employment is directly impacted by the shutdown, a loan is not rendered ineligible for purchase or securitization by Fannie Mae solely based upon the shutdown. The following guidance relates to our standard employment policies:

- If the lender is unable to obtain a verbal verification of employment (VOE) during the shutdown, the *Selling Guide* already permits the lender to obtain the verbal VOE after loan closing, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible for sale to us.
- For borrowers in the military, the *Selling Guide* currently allows for a Leave and Earnings Statement dated within 30 calendar days (or 31 days for longer months) prior to the note date in lieu of a verbal VOE.
- If a borrower is furloughed on or after closing of the mortgage loan due to the shutdown, the loan remains eligible for sale, provided the lender has been able to obtain all required documentation (for example, paystubs, IRS W-2s, verbal VOEs) prior to delivery of the loan.
- If employment has been validated by the Desktop Underwriter® (DU®) validation service, the validation will remain eligible for representation and warranty relief on employment provided the lender complies with the "close by" date in the DU message. Otherwise, the standard guidance provided above related to obtaining a VOE would apply.

Government Verifications

In some instances, we require validation through a government agency, such as the IRS and the Social Security Administration (SSA), for certain documentation or information provided by the borrower. During the shutdown, these requests may not be processed. We are implementing the following temporary policies with regard to those two agencies.

IRS Transcripts: We require lenders to have each borrower (regardless of income source) complete and sign a separate IRS Request for Transcript of Tax Return (Form 4506-T) at or before closing, except when all of a borrower's income has been validated by the DU validation service. We do not require lenders to obtain tax transcripts from the IRS prior to closing, but do require that it be included as part of the lender's post-closing quality control processes (unless all borrower income has been validated through the DU validation service).

As part of the DU validation service, DU can validate certain income types using tax transcript data obtained from an eligible verification report. As a result of the shutdown, requests for those verification reports may not be fulfilled with the

Announcement 2018-09

Selling Guide Updates

- Calculating Self-employment Income...see income section
- Commission and Unreimbursed Business Expenses
 - Removing different treatment of commission income based on percentage..see income section
- On-Frame Modular and Modular Construction Updates...see appraisal section
- Small Business Administration Loans ...see liability section
- Clarification on Flood Insurance..see *Selling Guide*
- Implementation of DU 10.3
- Miscellaneous Updates to B2-3-01 and B5-5.3-02



Fannie Mae®

Selling Guide Announcement SEL-2018-09

December 04, 2018

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Calculating Self-employment Income
- Commission Income and Unreimbursed Business Expenses
- DU Version 10.3
- Appraisal Waiver Policy for Disasters
- On-Frame Modular and Modular Construction
- Small Business Administration Loans
- Kroll Rating Agency
- Flood Insurance
- Miscellaneous Updates

Each of the updates is described below. The affected topics for each policy change are listed on the Attachment. The *Selling Guide* provides full details of the policy changes. The updated topics are dated December 04, 2018.

In addition, we have updated the Uniform Underwriting and Transmittal Summary ([Form 1008](#)). We worked jointly with Freddie Mac to update this form. As a reminder, it is only required for manually underwritten loans. Lenders can begin using the updated form immediately, but must do so by July 1, 2019.

Calculating Self-employment Income

In response to lender feedback, we have updated the self-employment income calculation and evaluation policy. Our current policy allows lenders to use vendor tools to calculate self-employment income. These tools can be used to complete the cash flow analysis provided the tool applies the same principles as Fannie Mae's Cash Flow Analysis ([Form 1084](#)).

One such tool that lenders can use to calculate self-employment income is LoanBeam's FNMA SEI 1084 workbook. We have approved this tool and the calculations it performs. If lenders use it to calculate income and enter the monthly income amount in Desktop Underwriter® (DU®), we will provide representation and warranty enforcement relief on the accuracy of the calculation of the amount of self-employment income. The lender

- determines the eligibility of the self-employment income,
- must enter complete and accurate data in the vendor tool,
- cannot perform any manual overrides of the output results,
- accurately enters the calculated self-employment income amount in DU, and
- delivers the loan using Special Feature Code 777.

The Guide has been updated to reflect the use of approved vendor tools and the criteria that will result in enforcement relief. The list of Approved Vendor Tools is available on Fannie Mae's [website](#). In addition, the [Special Feature Codes](#) list has been updated to include SFC 777.

Effective Date

Lenders may receive enforcement relief when using a Fannie Mae-approved vendor tool immediately.

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Originating & Underwriting Training

The Originating & Underwriting Training page provides Fannie Mae training on originating & underwriting loans, our underwriting applications, and best practices. Training solutions include live webinars, virtual classrooms, on-demand eLearning courses, job aids, and FAQs

Find the Training Resources You Need

[Originating & Underwriting](#)[Pricing & Execution](#)[Delivering](#)[Servicing](#)[Live Web Seminars](#)

Related Training

[Technology Manager](#)

General Underwriting

Mortgage Products

Loan Quality

Technology Solutions

Training focusing on underwriting the borrower and the property.

Job Aids / FAQs

[FAQs | Appraisal and Property Related Frequently Asked Questions](#)[FAQs | Appraiser Independence Requirements](#)[FAQs | Automated Property Service](#)[FAQs | Project Insurance Requirements](#)[FAQs | Project Standards Requirements](#)[FAQs | Property Inspection Waiver \(General Questions\)](#)

Online Courses / Microlearning

[Appraising Rural Properties](#)[Assessing Income from Self-Employment](#)[How to Underwrite Loans to Non-U.S. Citizen Borrowers](#)[Market Conditions Addendum Form](#)[Qualifying the Borrower Video Series](#)[UAD Interactive Reference Manual](#)

Genworth Underwriting Guidelines



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LOG IN TO:

- ORDER MI
- MANAGE MI
- VIEW ACCOUNT

MI & RATES

UNDERWRITING & GUIDES

LOS & CONNECTIONS

GENWORTH TOOLKIT

TRAINING

YOU-CENTRIC

[View Underwriting Guides](#)

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[About Contract Services UW](#)

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Let's be you-centric.

Let's quote quick.

Let's wow new



Underwriting
Innovate Underwriting

[KNOW MORE](#)



Rate ExpressSM
Find Rates Quick

[GET A QUOTE NOW](#)



LOS
Streamline Your Systems

[LET'S GO](#)

Genworth Mortgage Insurance



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Genworth Rate Express®



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LOG IN TO:

- ORDER MI
- MANAGE MI
- VIEW ACCOUNT

MI & RATES

UNDERWRITING & GUIDES

LOS & CONNECTIONS

GENWORTH TOOLKIT

TRAINING

Get A Quote - Rate Express

View Rate Cards

Explore MI Products

Learn About MI

Understand Your Master Policy

Compare MI & FHA

TIONS THAT MATTER

add value.
underwrite fast.
be you-centric.
quote quick.

Genworth Mortgage Insurance

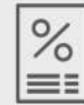


LEARN MORE



Underwriting
Innovate Underwriting

[KNOW MORE](#)



Rate ExpressSM
Find Rates Quick

[GET A QUOTE NOW](#)



LOS
Streamline Your Systems

[LET'S GO](#)

LOS Connections



800 444.5664 | [Email](#) | [Search](#)

LOG IN TO:

- ORDER MI
- MANAGE MI
- VIEW ACCOUNT

MI & RATES

UNDERWRITING & GUIDES

LOS & CONNECTIONS

GENWORTH TOOLKIT

TRAINING

YOU-CENTRIC SOLUTIONS

Let's do
Let's up
Let's be
Let's quote
Let's wow

- Submit on our Site
- Submit with your LOS
- Use Optimal Blue & Doc Delivery
- Access Paper Applications

Genworth Mortgage Insurance

fast.
centric.
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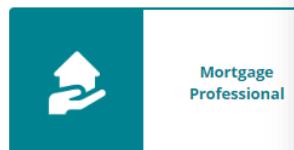
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Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, 2- to 4-unit Property)



Fannie Mae Rental Guide (Calculator 1038)

Worksheet for calculating qualifying rental income for Fannie Mae Form 1038 (Individual Rental Income from Investment Property)



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Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property)



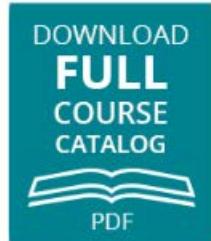
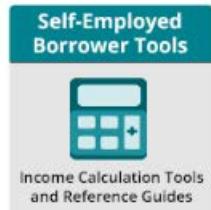
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Fannie Mae Comparative Analysis Form 1088 (2017-2018)

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Fannie Mae Form 1084
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This week's #Economic Report covers January new home #sales and the labor market, which shows 7.6 million job openings in January, 1 million more than 12 months ago. [ow.ly/lxWC30o6WxI](#) @LiuEcon #GenworthMI

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