Desktop Underwriter® Training

Understanding the Underwriting Findings Report

October 2018

Genworth®

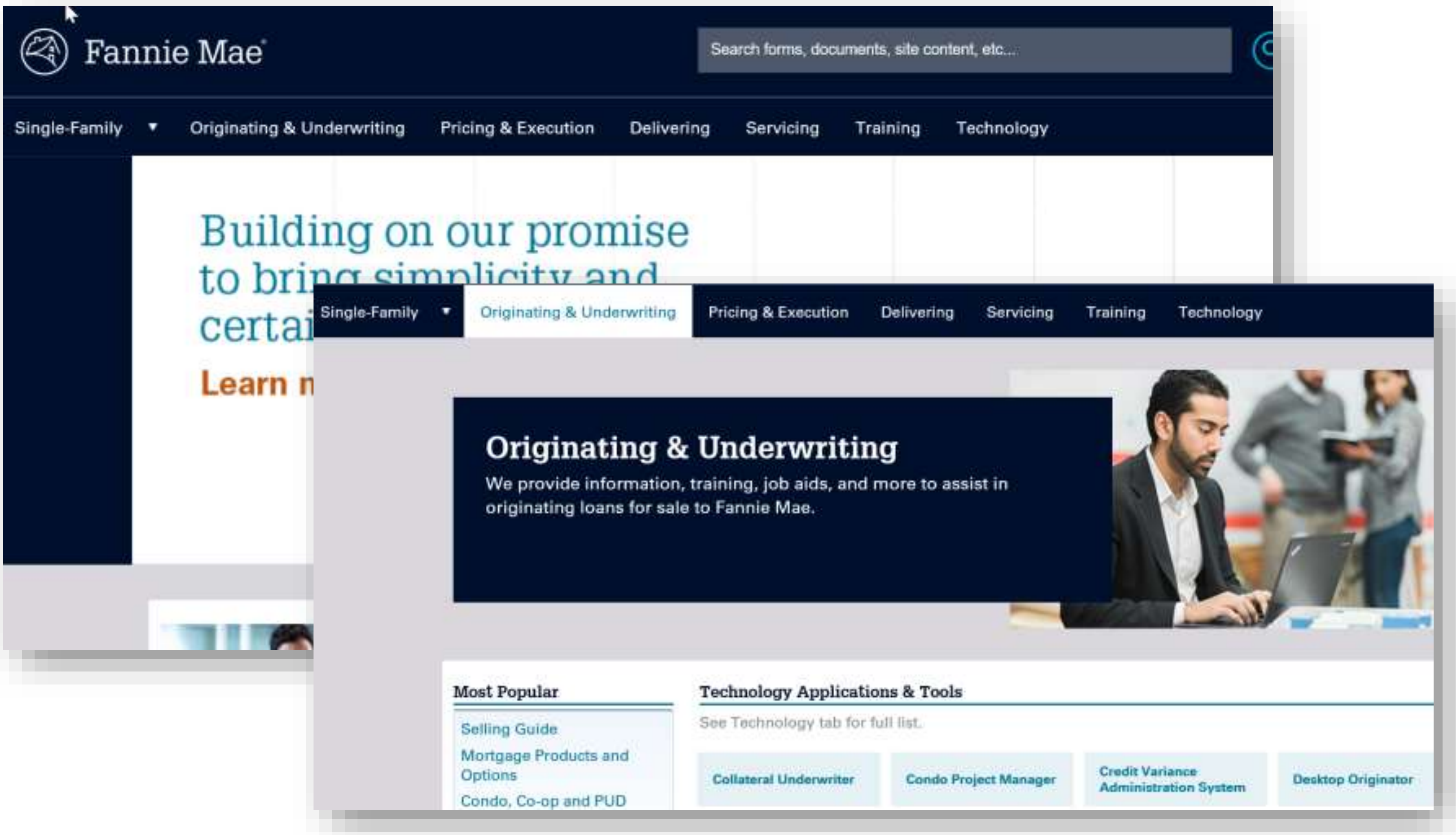
Agenda

In Today's Session

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

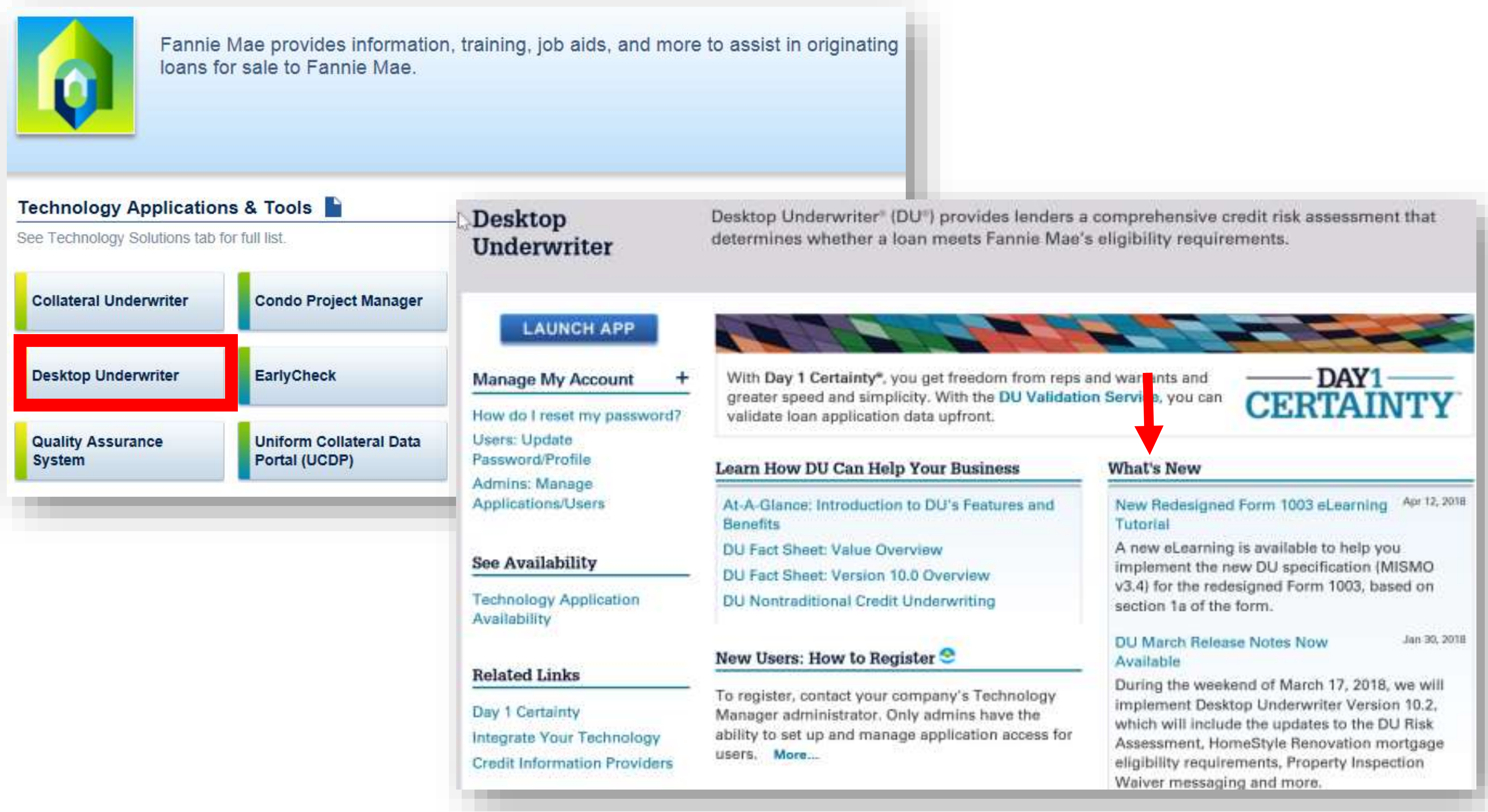
Today's Session Addresses Only Conventional Loans And Excludes DU Refi Plus™ Loan Requirements

Fannie Mae Website



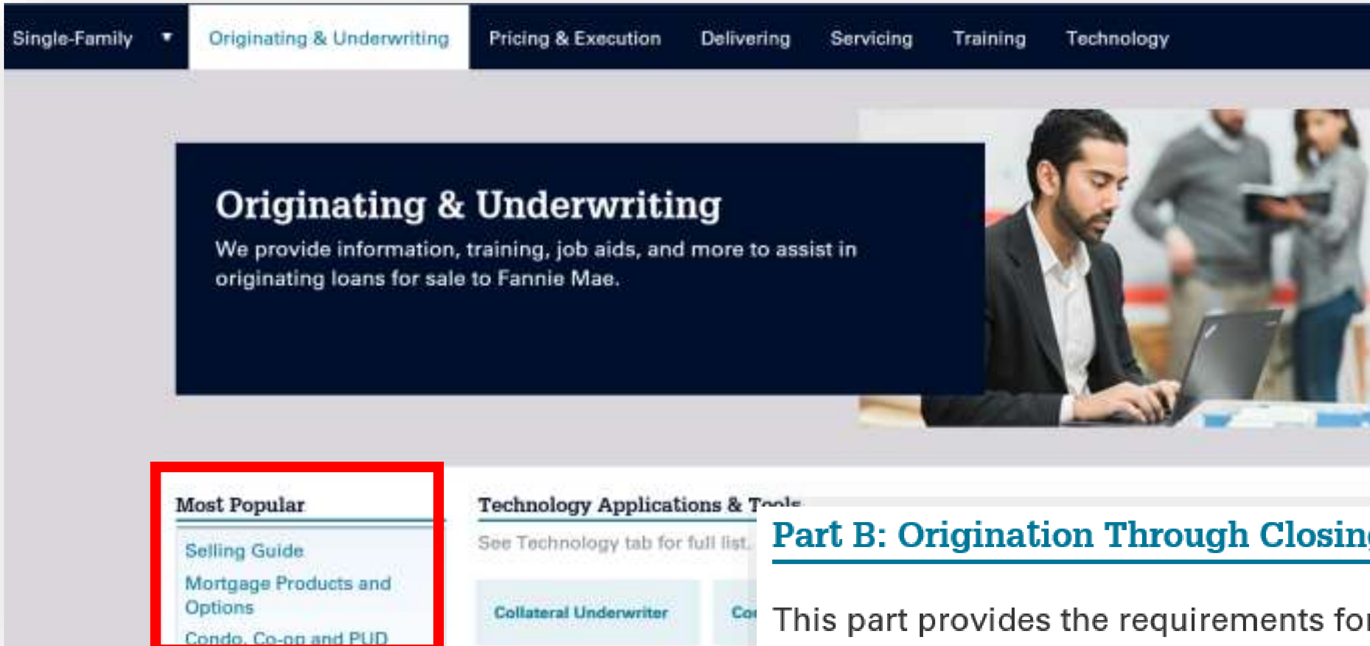
http://fanniemae.com/portal/index.html

Fannie Mae Website



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

Selling Guide



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

Selling Guide SEL 2018-07

Selling Guide Updates

- Renaming of Property Inspection Waivers (PIW) and Property Fieldwork Waiver (PFW) to "appraisal waivers"
- Rural High-Needs Appraisal Waivers (NEW)
  - Loan casefiles that receive Approve/Eligible
  - Purchases only
  - One-unit (excluded manufactured homes) located in a designated rural high-needs area, as defined by Fannie Mae's Duty to Serve obligations.
  - Borrowers with income at or below 100% of the area median income
  - LTV ratios up to 97% and CLTV ratios up to 105% with a Community Second®
  - Appraisal waiver may be combine with other transactions types, such as HomeReady
  - Lenders are required to obtain a home inspection report and review and follow Fannie Mae guidelines for condition to confirm safety, soundness, and structural integrity.
  - Effective date will be later this year and announced in a DU release note

Fannie Mae®

Selling Guide Announcement SEL-2018-07

September 4, 2018

Selling Guide Updates

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

- Renaming of Property Inspection Waivers
- Rural High-Needs Appraisal Waiver
- Seller/Servicer Eligibility
- Liability and Fidelity/Crime Insurance for Projects
- Single-Entity Ownership of Co-op Projects

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 September 4, 2018.

In addition, updates to the following are described in this Announcement:

- Approved Mortgage Insurers List and Mortgage Insurance Forms

Renaming of Property Inspection Waivers

The property inspection waiver (PIW) and property fieldwork waiver (PFW) names have been updated to "appraisal waiver" throughout the *Selling Guide* to align with industry terminology. Currently, PIWs are offered on certain Desktop Underwriter® (DU®) loan casefiles, and PFWs are offered on DU Refi Plus™ loan casefiles. Adopting the term appraisal waivers will provide greater clarity and transparency about waiver offers. This is a terminology change only, and there are no changes to our appraisal policy as a result of this renaming.

Rural High-Needs Appraisal Waiver

In support of our commitment to homeownership sustainability, we are introducing appraisal waivers for certain home purchase transactions in designated rural high-needs areas. The rural high-needs appraisal waiver is for low- to moderate -income borrowers purchasing homes in targeted rural areas. Appraisal waiver offers for eligible transactions are contingent on obtaining a home inspection. The lender must review the home inspection report and follow our property condition guidelines to confirm safety, soundness, and structural integrity. This waiver will be offered through DU on a limited basis and will be considered for the following transactions only:

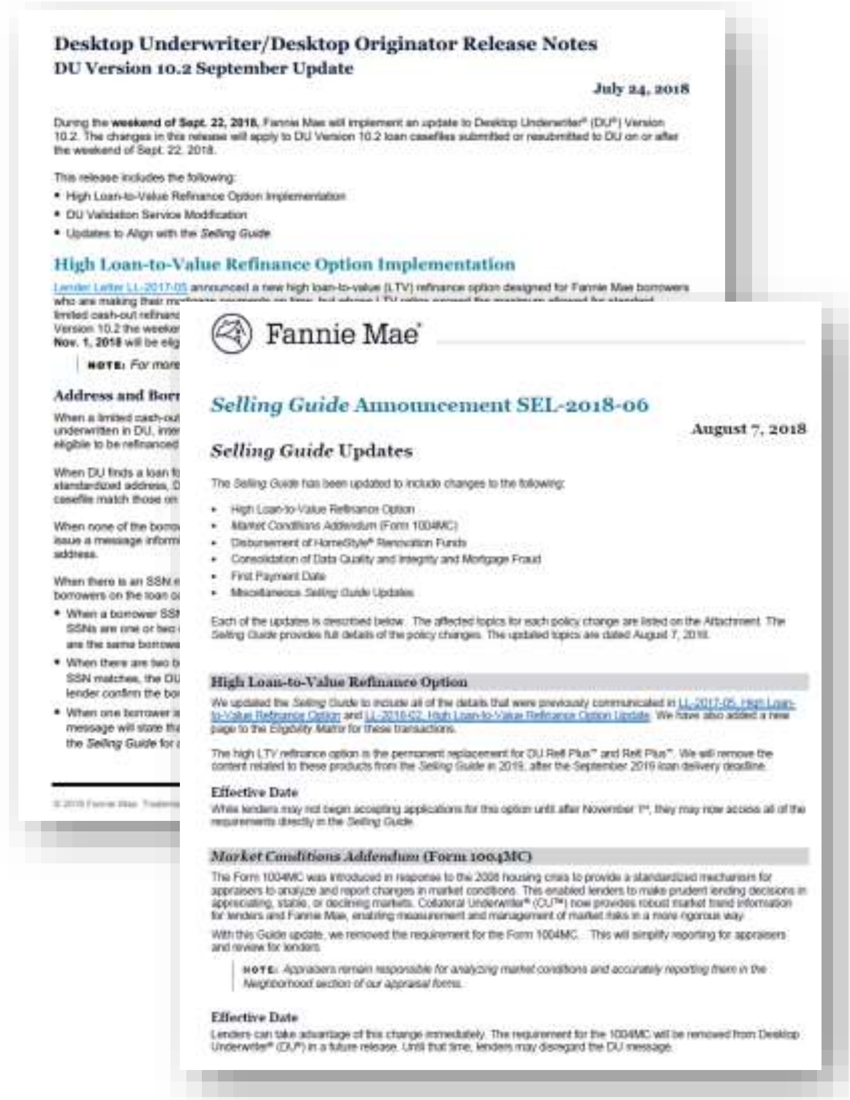
- Loan casefiles that receive an Approve/Eligible recommendation,
- Purchase transactions,
- One-unit principal residence properties (excluding manufactured homes) located in a designated rural high-needs area, as defined by our Duty to Serve obligations,
- Borrowers with income at or below 100% of the area median income,
- LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds®.

This appraisal waiver may be combined with other transactions types, such as HomeReady®.

SEL 2018-06 & 10.2 Release Notes

Selling Guide Updates

- High Loan-to Value Refinance Option which replaces the current DU Refi Plus™ and Refi Plus™ (Applications may be taken November 1, 2018)
- Discontinuance of the Form 1004MC effective immediately
- Clarifying policy for disbursement of funds for HomeStyle® Renovation Funds
- DU loan casefile archival policy is extended from 270 days (9 months) to 28 months and DU will now use the date the date the casefile file was last submitted to determine archival date
- DU Validation Service Modification
  - Updated messages when employment cannot be validated
- Other minor changes and clarifications as follow up to the June *Selling Guide* update



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Lender Letter LL-2018-03

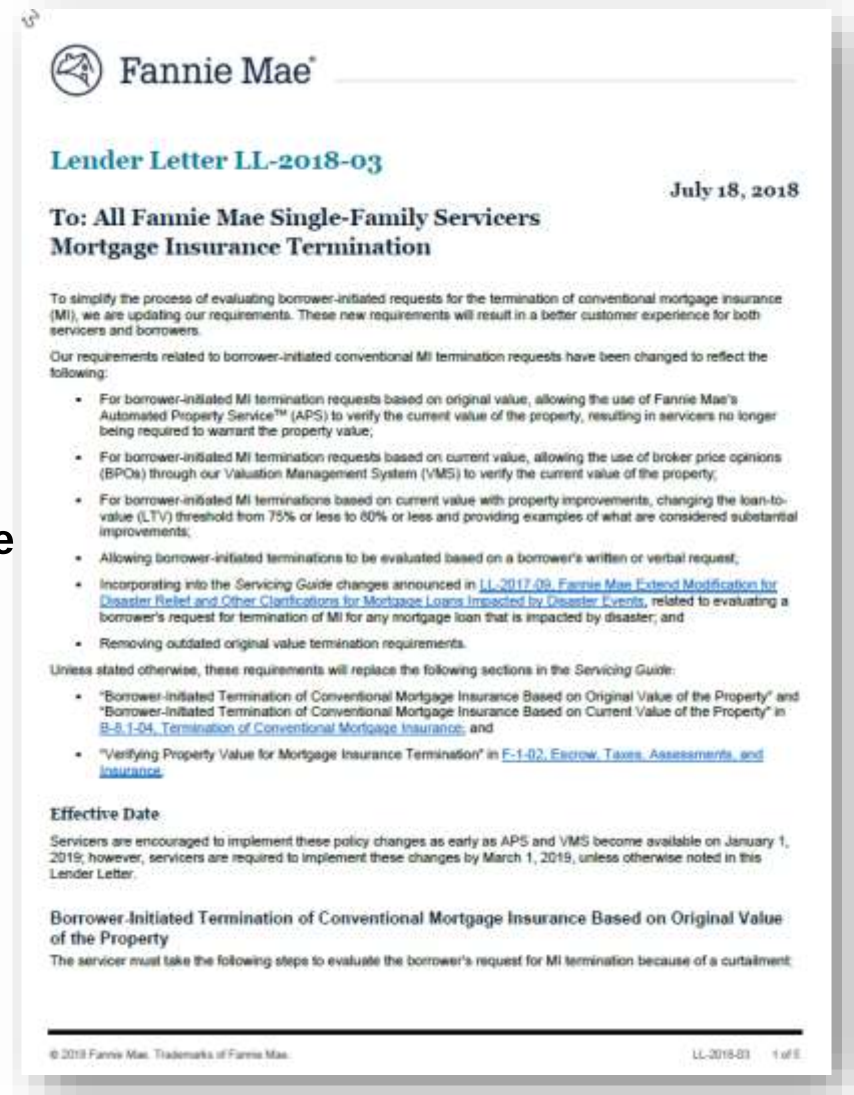
<u>MI Termination Changes – Fannie Mae</u>

For borrower-initiated cancellations based on original value, allow servicers to use Fannie's Automated Property Service™ (APS) to verify the current value of the property so they no longer have to warrant the property value;

For borrower-initiated cancellations based on current value, allow servicers to use BPOs through Fannie's Valuation Management System (VMS) to verify the current value of the property;

For borrower-initiated cancellations based on current value with property improvements, increase the LTV threshold for cancellation from 75% to 80% and provide examples of what are considered substantial improvements; and

Allow borrower-initiated cancellations to be evaluated based on a borrower's written or verbal request.


Fannie Mae

Lender Letter LL-2018-03

July 18, 2018

To: All Fannie Mae Single-Family Servicers
Mortgage Insurance Termination

To simplify the process of evaluating borrower-initiated requests for the termination of conventional mortgage insurance (MI), we are updating our requirements. These new requirements will result in a better customer experience for both servicers and borrowers.

Our requirements related to borrower-initiated conventional MI termination requests have been changed to reflect the following:

- For borrower-initiated MI termination requests based on original value, allowing the use of Fannie Mae's Automated Property Service™ (APS) to verify the current value of the property, resulting in servicers no longer being required to warrant the property value;
- For borrower-initiated MI termination requests based on current value, allowing the use of broker price opinions (BPOs) through our Valuation Management System (VMS) to verify the current value of the property;
- For borrower-initiated MI terminations based on current value with property improvements, changing the loan-to-value (LTV) threshold from 75% or less to 80% or less and providing examples of what are considered substantial improvements;
- Allowing borrower-initiated terminations to be evaluated based on a borrower's written or verbal request;
- Incorporating into the *Servicing Guide* changes announced in LL-2017-09, Fannie Mae Extend Modification for Disaster Relief and Other Clarifications for Mortgage Loans Impacted by Disaster Events, related to evaluating a borrower's request for termination of MI for any mortgage loan that is impacted by disaster; and
- Removing outdated original value termination requirements.

Unless stated otherwise, these requirements will replace the following sections in the *Servicing Guide*:

- "Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Value of the Property" and "Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Value of the Property" in B-8.1-04, Termination of Conventional Mortgage Insurance; and
- "Verifying Property Value for Mortgage Insurance Termination" in F-1-02, Escrow, Taxes, Assessments, and Insurance.

Effective Date

Servicers are encouraged to implement these policy changes as early as APS and VMS become available on January 1, 2019; however, servicers are required to implement these changes by March 1, 2019, unless otherwise noted in this Lender Letter.

Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Value of the Property

The servicer must take the following steps to evaluate the borrower's request for MI termination because of a curtailment

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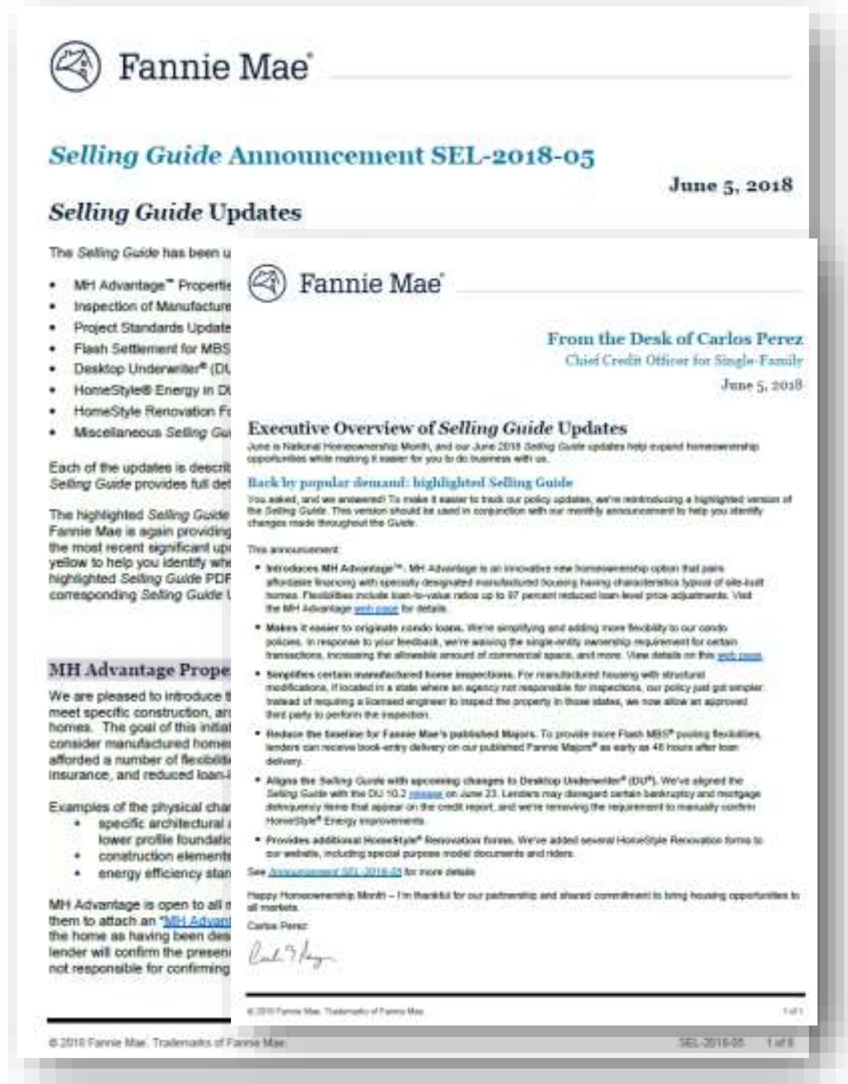
Selling Guide SEL 2018-05

Selling Guide Updates

Included in the announcement were the following:

- MH Advantage™ Properties
- Inspection of MH with structural modifications
- Flash Settlements for MBS
- DU Bankruptcy and delinquency assessment
- HomeStyle® Energy in DU
- HomeStyle® Renovation Forms
- Multiple Appraisal policy clarification
- MI Code update on Approved MIs and Related Identifiers


Fannie Mae

Selling Guide Announcement SEL-2018-05

June 5, 2018

Selling Guide Updates

Fannie Mae

From the Desk of Carlos Perez

Chief Credit Officer for Single-Family

June 5, 2018

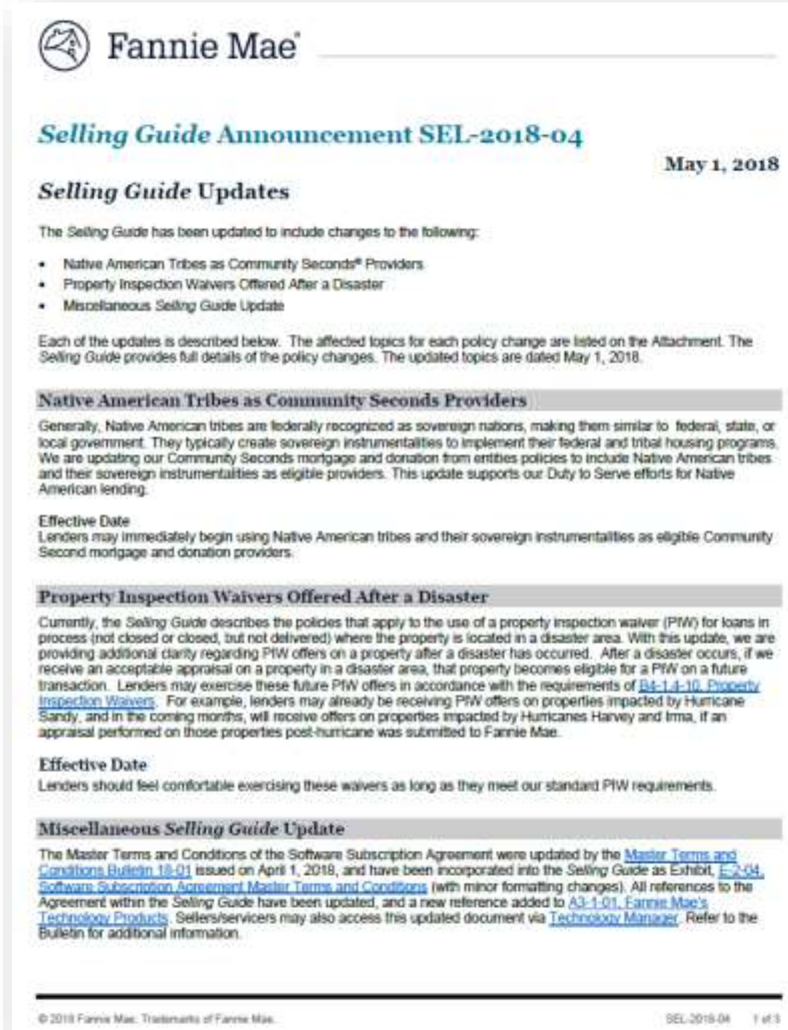
Executive Overview of *Selling Guide* Updates

Back by popular demand: highlighted Selling Guide

Selling Guide SEL 2018-04

Selling Guide Updates

- Native American tribes and their instrumentalities as eligible providers for Community Second Mortgages
- Property Inspection Waiver Updates for Disaster Areas
  - Loans in process where an appraisal as 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, Property Inspections Waivers*



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Selling Guide Announcement SEL-2018-04

May 1, 2018

Selling Guide Updates

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

- Native American Tribes as Community Seconds® Providers
- Property Inspection Waivers Offered After a Disaster
- Miscellaneous *Selling Guide* Update

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 May 1, 2018.

Native American Tribes as Community Seconds Providers

Generally, Native American tribes are federally recognized as sovereign nations, making them similar to federal, state, or local government. They typically create sovereign instrumentalities to implement their federal and tribal housing programs. We are updating our Community Seconds mortgage and donation from entities policies to include Native American tribes and their sovereign instrumentalities as eligible providers. This update supports our Duty to Serve efforts for Native American lending.

Effective Date
Lenders may immediately begin using Native American tribes and their sovereign instrumentalities as eligible Community Second mortgage and donation providers.

Property Inspection Waivers Offered After a Disaster

Currently, the *Selling Guide* describes the policies that apply to the use of a property inspection waiver (PIW) for loans in process (not closed or closed, but not delivered) where the property is located in a disaster area. With this update, we are providing additional clarity regarding PIW offers on a property after a disaster has occurred. After a disaster occurs, if we receive an acceptable appraisal on a property in a disaster area, that property becomes eligible for a PIW on a future transaction. Lenders may exercise these future PIW offers in accordance with the requirements of B4-1.4-10, Property Inspection Waivers. For example, lenders may already be receiving PIW offers on properties impacted by Hurricane Sandy, and in the coming months, will receive offers on properties impacted by Hurricanes Harvey and Irma, if an appraisal performed on those properties post-hurricane was submitted to Fannie Mae.

Effective Date

Lenders should feel comfortable exercising these waivers as long as they meet our standard PIW requirements.

Miscellaneous *Selling Guide* Update

The Master Terms and Conditions of the Software Subscription Agreement were updated by the Master Terms and Conditions Bulletin 18-01 issued on April 1, 2018, and have been incorporated into the *Selling Guide* as Exhibit, E-2-04, Software Subscription Agreement Master Terms and Conditions (with minor formatting changes). All references to the Agreement within the *Selling Guide* have been updated, and a new reference added to A3-1-01, Fannie Mae's Technology Products. Sellers/servicers may also access this updated document via Technology Manager. Refer to the Bulletin for additional information.

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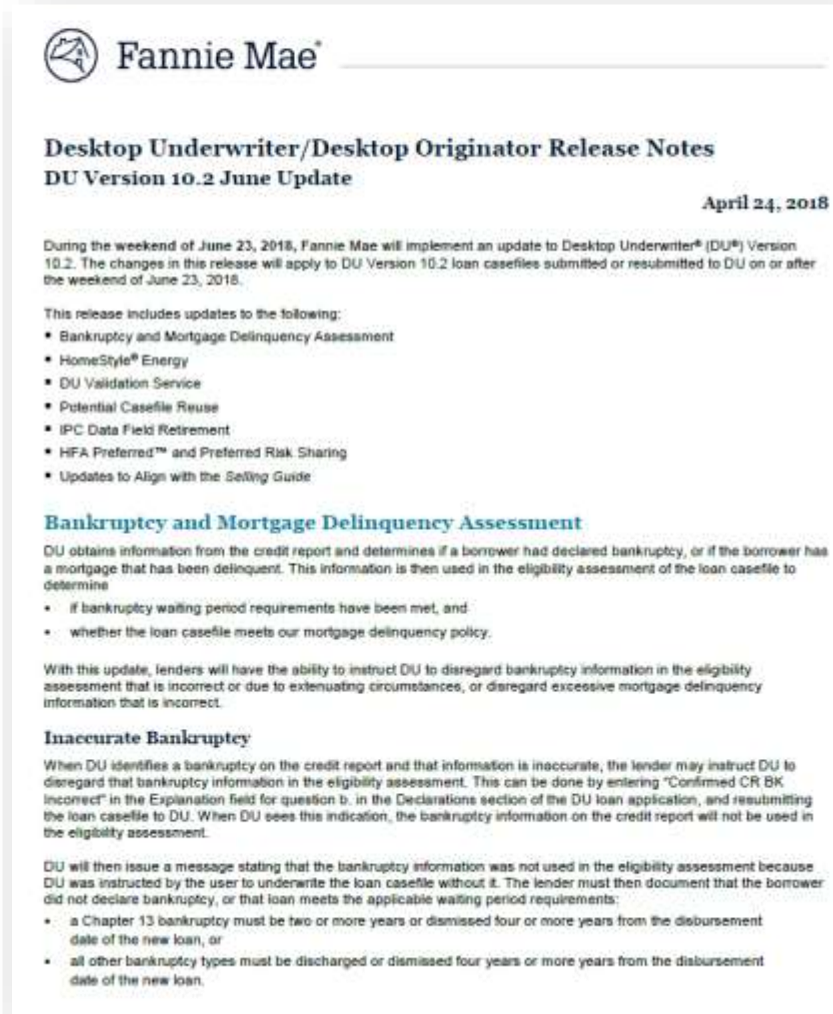
DU 10.2 June Updates

DU Updates Effective June 23, 2018

- Bankruptcy and Mortgage Delinquency Assessment updates
- HomeStyle Energy Updates (anything entered in these new fields, the casefile will be underwritten as a HomeStyle Energy Mortgage)
  - Two new fields added to DU
    - Energy Improvement Amount
    - PACE Loan Payoff Amount
- DU Income Validation Service
  - DU will confirm income is *eligible* for income validation by reviewing months/years on job first (min 12 months is required)
- Potential Casefile Reuse
  - DU casefile or the Doc File ID may not be used more than use and a new error message will appear if a lender attempts to do so
- IPC Data Field Retirement
- HFA Preferred™ and Preferred Risk Sharing
  - Updated messaging
- Detached Condo Updated Messages



Fannie Mae®

Desktop Underwriter/Desktop Originator Release Notes
DU Version 10.2 June Update

April 24, 2018

During the weekend of June 23, 2018, Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.2. The changes in this release will apply to DU Version 10.2 loan casefiles submitted or resubmitted to DU on or after the weekend of June 23, 2018.

This release includes updates to the following:

- Bankruptcy and Mortgage Delinquency Assessment
- HomeStyle® Energy
- DU Validation Service
- Potential Casefile Reuse
- IPC Data Field Retirement
- HFA Preferred™ and Preferred Risk Sharing
- Updates to Align with the *Selling Guide*

Bankruptcy and Mortgage Delinquency Assessment

DU obtains information from the credit report and determines if a borrower had declared bankruptcy, or if the borrower has a mortgage that has been delinquent. This information is then used in the eligibility assessment of the loan casefile to determine

- if bankruptcy waiting period requirements have been met, and
- whether the loan casefile meets our mortgage delinquency policy.

With this update, 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.

Inaccurate Bankruptcy

When DU identifies a bankruptcy on the credit report and that information is inaccurate, the lender may instruct DU to disregard that bankruptcy information in the eligibility assessment. This can be done by entering "Confirmed CR BK Incorrect" in the Explanation field for question b. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the bankruptcy information on the credit report will not be used in the eligibility assessment.

DU will then issue a message stating that the bankruptcy information was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without it. The lender must then document that the borrower did not declare bankruptcy, or that loan meets the applicable waiting period requirements:

- a Chapter 13 bankruptcy must be two or more years or dismissed four or more years from the disbursement date of the new loan, or
- all other bankruptcy types must be discharged or dismissed four years or more years from the disbursement date of the new loan.

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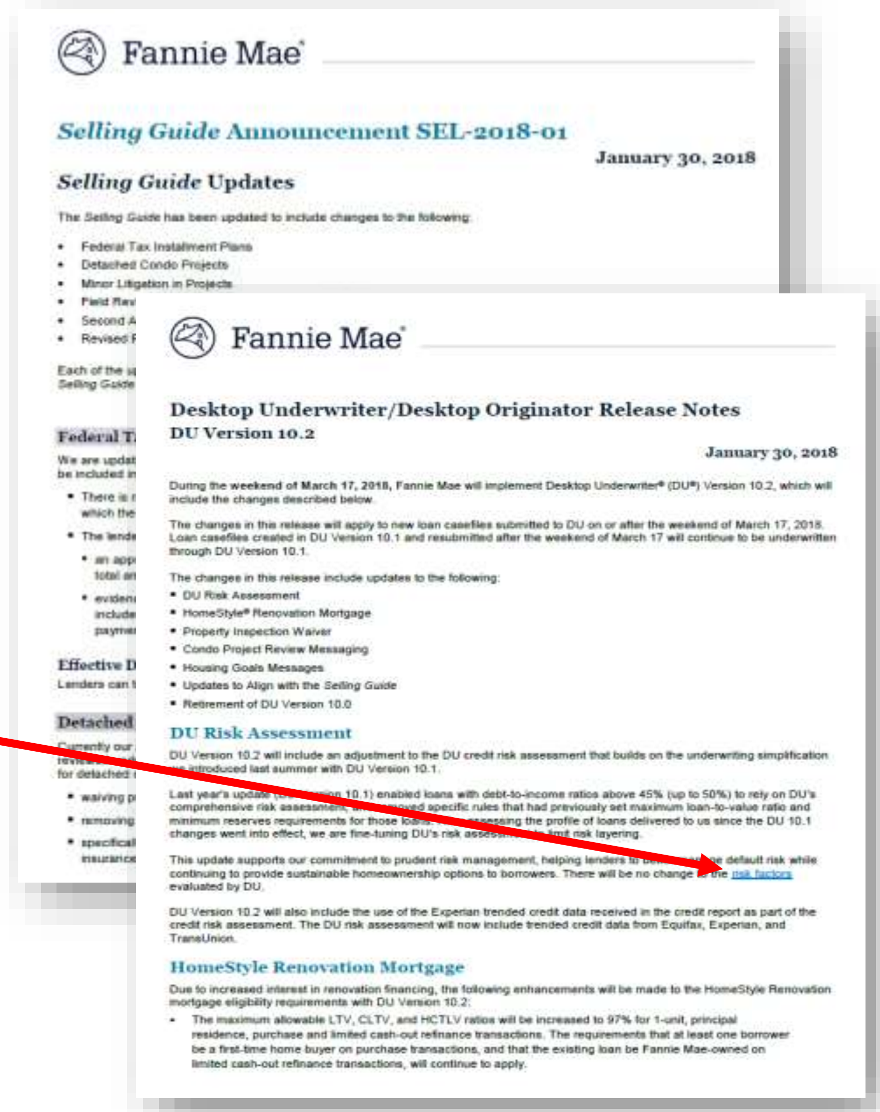
Selling Guide SEL 2018-01

Selling Guide Updates

- Federal income tax repayments may be included in DTI instead of payoff
- Waive project reviews for all detached condo units (excluding manufactured homes) and allow use of C-T-P financing for detached condo units
- Expands project-related minor litigation criteria
- Removes field review for properties with values over $1,000,000 with LTV/CLTV over 75%
- Requires lenders to choose the most reliable appraisal when two appraisal are obtained

DU Updates

- Fannie Mae “Fine Tuning” the DU risk assessment to limit risk layering but NOT changing risk factors
- HomeStyle Renovation eligibility updates
  - Increasing LTV to 97% for 1-unit primary homes
- Property Inspection Waiver messaging updates
- Condo Project Review messaging updates
- Housing Goal messages will now appear
- Retirement of DU 10.0



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Selling Guide Announcement SEL-2018-01

January 30, 2018

Selling Guide Updates

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

- Federal Tax Installment Plans
- Detached Condo Projects
- Minor Litigation in Projects

Fannie Mae

Desktop Underwriter/Desktop Originator Release Notes

DU Version 10.2

January 30, 2018

During the weekend of March 17, 2018, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.2, which will include the changes described below.

The changes in this release will apply to new loan casefiles submitted to DU on or after the weekend of March 17, 2018. Loan casefiles created in DU Version 10.1 and resubmitted after the weekend of March 17 will continue to be underwritten through DU Version 10.1.

The changes in this release include updates to the following:

- DU Risk Assessment
- HomeStyle® Renovation Mortgage
- Property Inspection Waiver
- Condo Project Review Messaging
- Housing Goals Messages
- Updates to Align with the *Selling Guide*
- Retirement of DU Version 10.0

DU Risk Assessment

DU Version 10.2 will include an adjustment to the DU credit risk assessment that builds on the underwriting simplification we introduced last summer with DU Version 10.1.

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

DU Version 10.2 will also include the use of the Experian trended credit data received in the credit report as part of the credit risk assessment. The DU risk assessment will now include trended credit data from Equifax, Experian, and TransUnion.

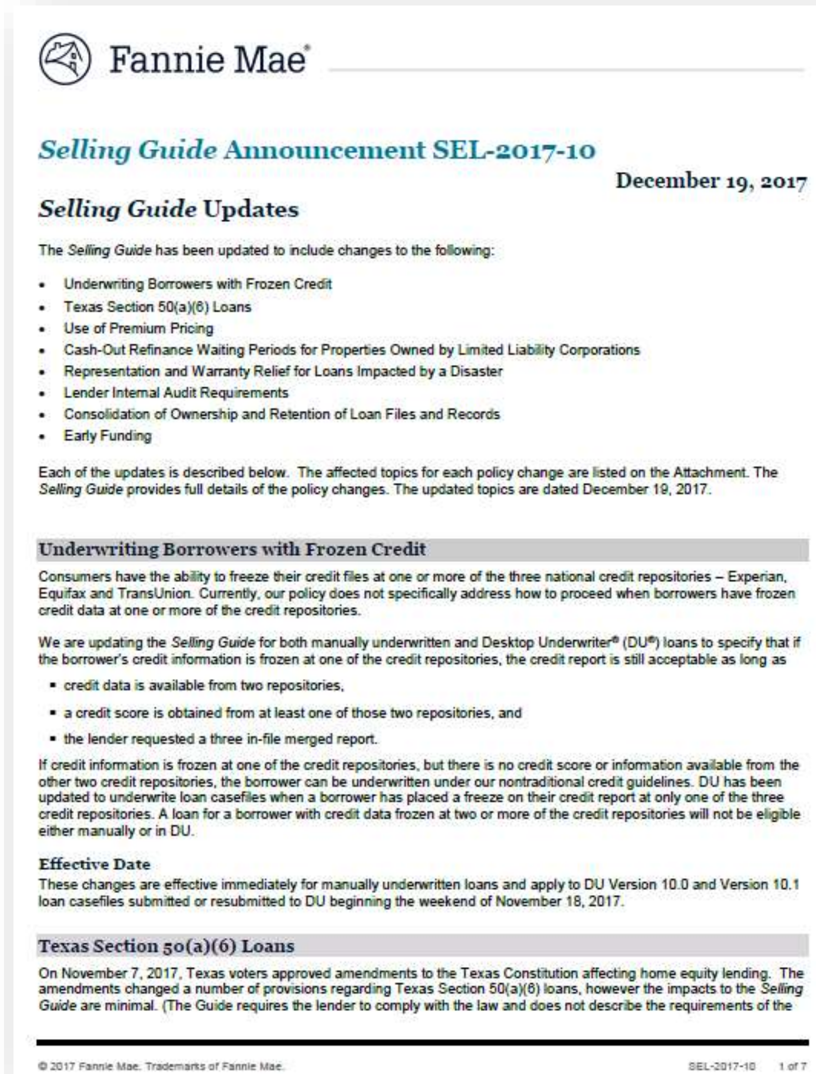
HomeStyle Renovation Mortgage

Due to increased interest in renovation financing, the following enhancements will be made to the HomeStyle Renovation mortgage eligibility requirements with DU Version 10.2:

- The maximum allowable LTV, CLTV, and HCTLV ratios will be increased to 97% for 1-unit, principal residence, purchase and limited cash-out refinance transactions. The requirements that at least one borrower be a first-time home buyer on purchase transactions, and that the existing loan be Fannie Mae-owned on limited cash-out refinance transactions, will continue to apply.

Selling Guide Announcement SEL-2017-10

- 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.
- Provided a definition and additional guidance on premium pricing.
- Updates related to legal changes regarding Texas Section 50(a)(6) refinance loans.
- Align the Selling and Servicing Guides by clarifying the waiting periods for when an LLC is transferred to an individual borrower through a cash-out refinance transaction
- Provided that loans with certain disaster-related forbearance remain eligible for representation and warranty relief based on payment history.
- Added requirements for Seller/Servicer internal audit and management controls
- Expanded the Loan Delivery application to include Early Funding functionality, replacing the Funding Express application.



Fannie Mae®

Selling Guide Announcement SEL-2017-10

December 19, 2017

Selling Guide Updates

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

- Underwriting Borrowers with Frozen Credit
- Texas Section 50(a)(6) Loans
- Use of Premium Pricing
- Cash-Out Refinance Waiting Periods for Properties Owned by Limited Liability Corporations
- Representation and Warranty Relief for Loans Impacted by a Disaster
- Lender Internal Audit Requirements
- Consolidation of Ownership and Retention of Loan Files and Records
- Early Funding

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 19, 2017.

Underwriting Borrowers with Frozen Credit

Consumers have the ability to freeze their credit files at one or more of the three national credit repositories – Experian, Equifax and TransUnion. Currently, our policy does not specifically address how to proceed when borrowers have frozen credit data at one or more of the credit repositories.

We are updating the *Selling Guide* for both manually underwritten and Desktop Underwriter® (DU®) loans to specify that if the borrower's credit information is frozen at one of the credit repositories, the credit report is still acceptable as long as

- credit data is available from two repositories,
- a credit score is obtained from at least one of those two repositories, and
- the lender requested a three in-file merged report.

If credit information is frozen at one of the credit repositories, but there is no credit score or information available from the other two credit repositories, the borrower can be underwritten under our nontraditional credit guidelines. DU has been updated to underwrite loan casefiles when a borrower has placed a freeze on their credit report at only one of the three credit repositories. A loan for a borrower with credit data frozen at two or more of the credit repositories will not be eligible either manually or in DU.

Effective Date

These changes are effective immediately for manually underwritten loans and apply to DU Version 10.0 and Version 10.1 loan casefiles submitted or resubmitted to DU beginning the weekend of November 18, 2017.

Texas Section 50(a)(6) Loans

On November 7, 2017, Texas voters approved amendments to the Texas Constitution affecting home equity lending. The amendments changed a number of provisions regarding Texas Section 50(a)(6) loans, however the impacts to the *Selling Guide* are minimal. (The Guide requires the lender to comply with the law and does not describe the requirements of the

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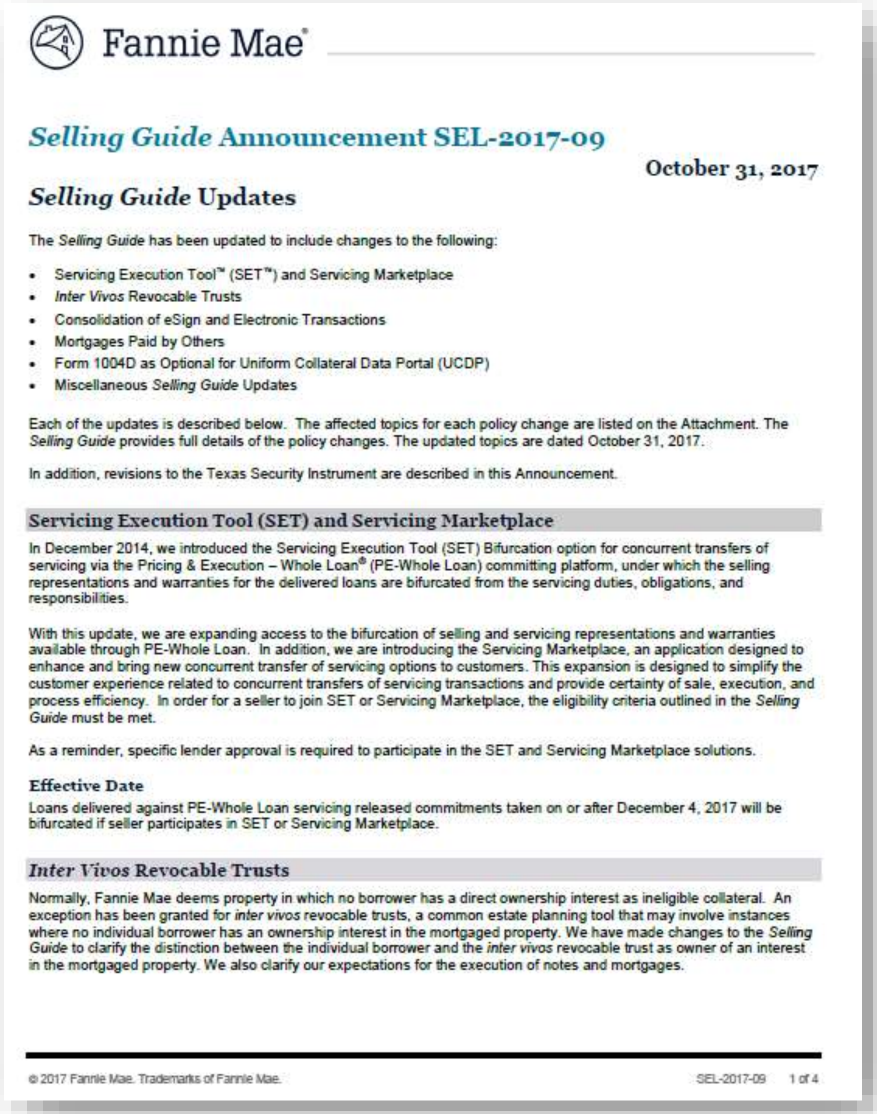
Selling Guide SEL 2017-09

Selling Guide Updates

- Exception made for Inter Vivos Revocable Trusts
- Clarification of Mortgages Paid by Others
  - The full PITIA may be excluded from the DTI provided no rental income is being used from that property
  - The mortgaged property must still 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



Fannie Mae®

Selling Guide Announcement SEL-2017-09

October 31, 2017

Selling Guide Updates

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

- Servicing Execution Tool™ (SET™) and Servicing Marketplace
- *Inter Vivos* Revocable Trusts
- Consolidation of eSign and Electronic Transactions
- Mortgages Paid by Others
- Form 1004D as Optional for Uniform Collateral Data Portal (UCDP)
- 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 October 31, 2017.

In addition, revisions to the Texas Security Instrument are described in this Announcement.

Servicing Execution Tool (SET) and Servicing Marketplace

In December 2014, we introduced the Servicing Execution Tool (SET) Bifurcation option for concurrent transfers of servicing via the Pricing & Execution – Whole Loan® (PE-Whole Loan) committing platform, under which the selling representations and warranties for the delivered loans are bifurcated from the servicing duties, obligations, and responsibilities.

With this update, we are expanding access to the bifurcation of selling and servicing representations and warranties available through PE-Whole Loan. In addition, we are introducing the Servicing Marketplace, an application designed to enhance and bring new concurrent transfer of servicing options to customers. This expansion is designed to simplify the customer experience related to concurrent transfers of servicing transactions and provide certainty of sale, execution, and process efficiency. In order for a seller to join SET or Servicing Marketplace, the eligibility criteria outlined in the *Selling Guide* must be met.

As a reminder, specific lender approval is required to participate in the SET and Servicing Marketplace solutions.

Effective Date

Loans delivered against PE-Whole Loan servicing released commitments taken on or after December 4, 2017 will be bifurcated if seller participates in SET or Servicing Marketplace.

***Inter Vivos* Revocable Trusts**

Normally, Fannie Mae deems property in which no borrower has a direct ownership interest as ineligible collateral. An exception has been granted for *inter vivos* revocable trusts, a common estate planning tool that may involve instances where no individual borrower has an ownership interest in the mortgaged property. We have made changes to the *Selling Guide* to clarify the distinction between the individual borrower and the *inter vivos* revocable trust as owner of an interest in the mortgaged property. We also clarify our expectations for the execution of notes and mortgages.

 SEL-2017-09 1 of 4

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DU 10.0 and 10.1 November Updates

Borrowers with Credit Freeze - Updated weekend of November 18

- 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

Fannie Mae®

Desktop Underwriter/Desktop Originator Release Notes
DU Version 10.0 and 10.1 November Update

October 17, 2017

During the **weekend of November 18, 2017,** Fannie Mae will update Desktop Underwriter® (DU®) Version 10.0 and Version 10.1 to include the change described below. This change will apply to DU Version 10.0 and Version 10.1 loan casefiles submitted or resubmitted to DU on or after the weekend of November 18, 2017.

Frozen Credit Report Update

DU currently issues an error message when a borrower has a security freeze on their credit report with Equifax, Experian, or TransUnion. DU will now be updated to underwrite loan casefiles when a borrower has placed a freeze on their credit report at only one of the three credit repositories.

When credit is frozen at one of the three repositories, the loan casefile will be underwritten using the credit data received from the other repositories, and DU will issue the following Potential Red Flag message.

> *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.*

When credit is frozen at one of the three repositories, and no credit scores are received from the other two repositories, DU will evaluate the loan casefile using the guidelines specific to borrowers without traditional credit and issue a Potential Red Flag message. This new message will inform the lender that the borrower has frozen their account with one of the credit repositories, there is no data available from the other two repositories, and that the lender remains responsible for ensuring the borrower's identity has been verified and any credit disclosed by the borrower is investigated.

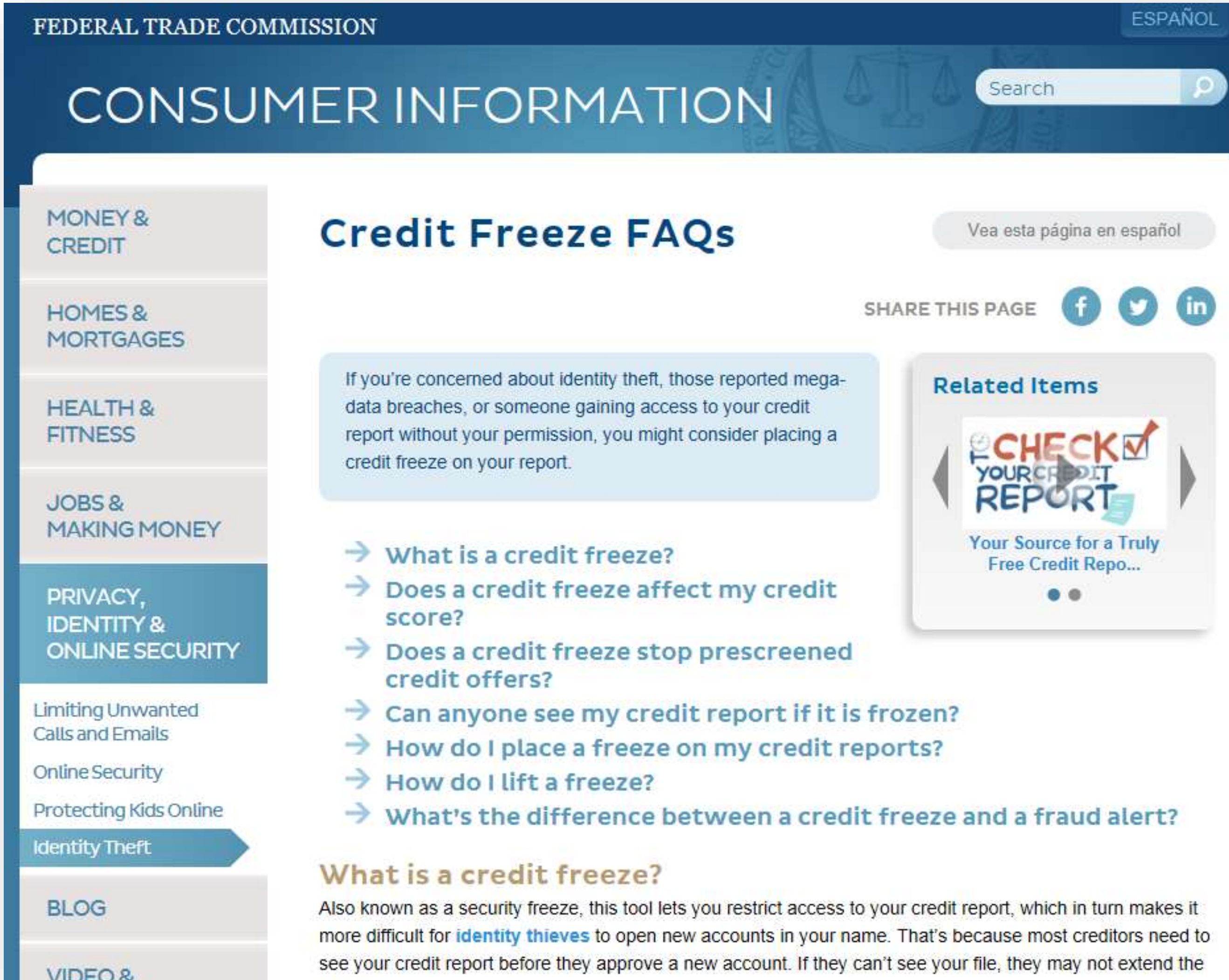
> **NOTE:** *If credit is frozen at two or more of the credit repositories, DU will issue an Error recommendation and a message stating the loan casefile cannot be underwritten because a borrower has frozen their account at two or more credit repositories.*

Additional information regarding manually underwritten loans for borrower who have placed a security freeze on their credit report will be provided in a future *Selling Guide* update.

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae customer delivery team; and mortgage brokers should contact their DO sponsoring wholesale lender. For technology considerations, an Integration Impact Memo will be posted on the Technology Integration page.

Credit Freeze FAQ’s



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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.

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Your Source for a Truly Free Credit Repo...

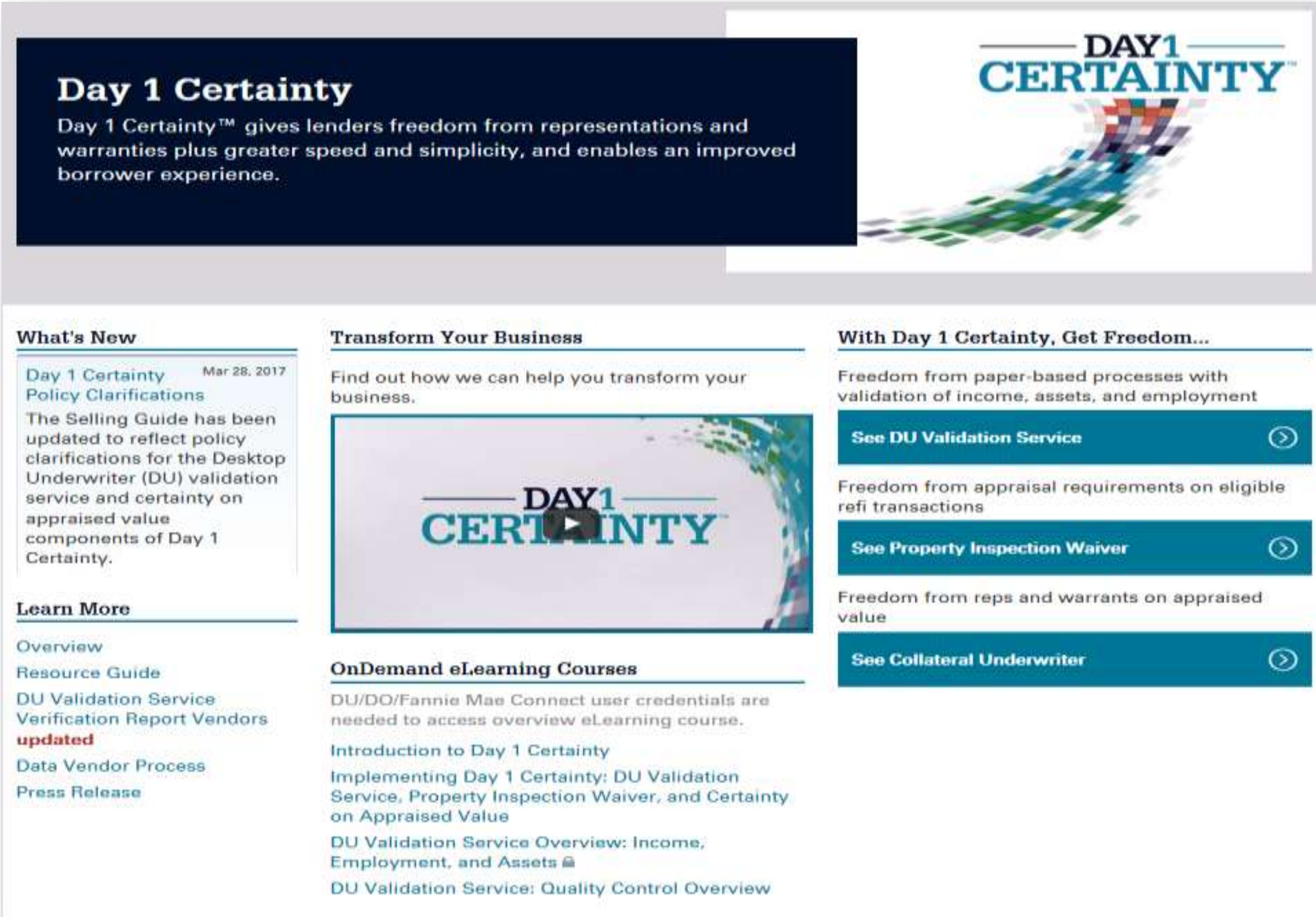
- What is a credit freeze?
- Does a credit freeze affect my credit score?
- Does a credit freeze stop prescreened credit offers?
- Can anyone see my credit report if it is frozen?
- How do I place a freeze on my credit reports?
- How do I lift a freeze?
- What’s the difference between a credit freeze 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

Day 1 Certainty™



https://www.fanniemae.com/singlefamily/desktop-underwriter-validation-service

Genworth

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

The Work Number Report

Information Current As Of: 3/13/2016
Rate of Pay: $4,000 Monthly

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 (2016 bonus) + $4,500 (2015 bonus)] / 24 months = **$395.83**

3

DU 1003 John H.

Base Income	$4,0000.00	VALIDATED **Base income**
Overtime		
Bonuses	$450.00	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.*

DU 10 and Trended Credit - FAQ's

Fannie Mae

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.

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

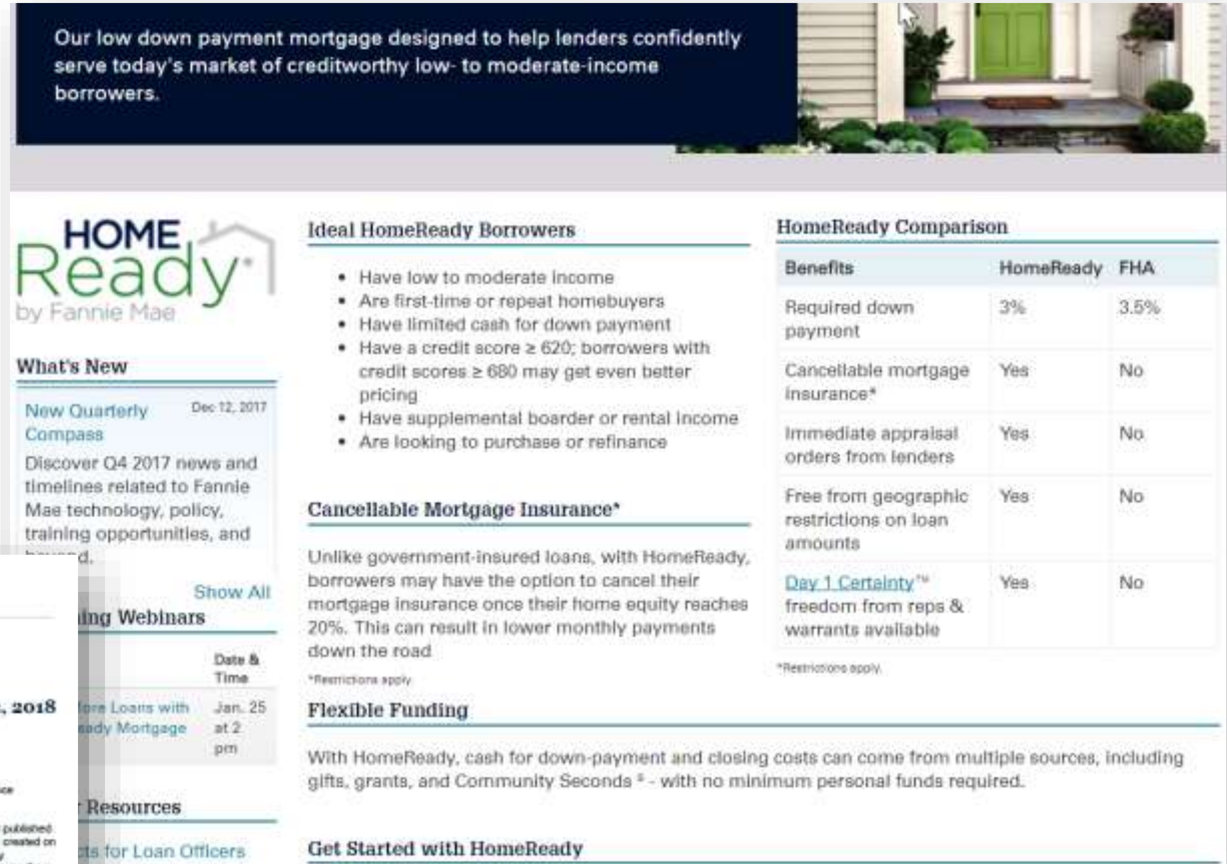
DU Version 10.2 will also include the use of the Experian trended credit data received in the credit report as part of the credit risk assessment. The DU risk assessment will now include trended credit data from Equifax, Experian, and TransUnion.

Genworth

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



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

HOME Ready by Fannie Mae

What's New

New Quarterly Compass — Dec 12, 2017

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

Show All

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

HomeReady Comparison

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

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.

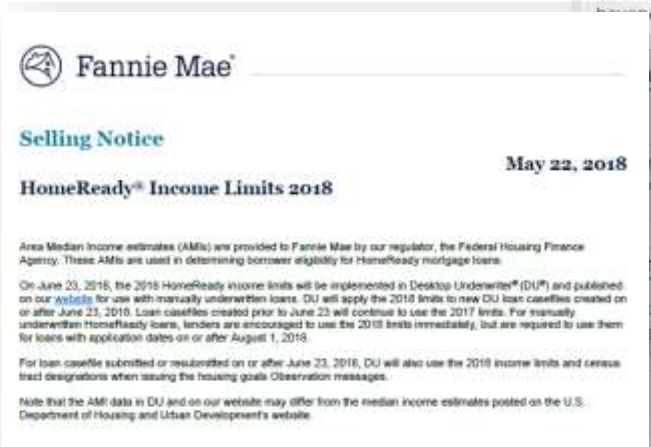
ing Webinars

	Date & Time
ore Loans with ady Mortgage	Jan. 25 at 2 pm

Resources

ts for Loan Officers

Get Started with HomeReady



Fannie Mae

Selling Notice

May 22, 2018

HomeReady® Income Limits 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.

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

General Lender Requirements

When underwriting loans with DU, the lender must:

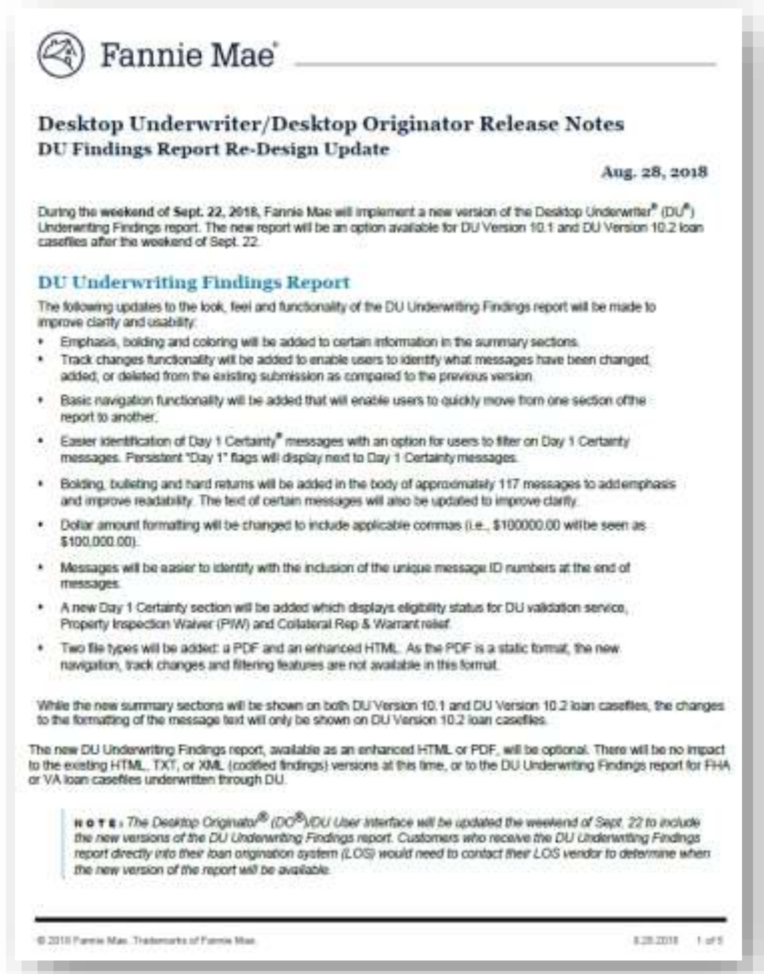
- Employ prudent underwriting judgment
- Confirm the accuracy of the data it submits
- Ensure that the loan complies with all of the verification messages and approval conditions
- Apply due diligence when reviewing the documentation in the loan file
- Review the credit report to confirm the borrower's 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

DU/DO Release Notes August 2018

DU Underwriting Findings Report

Updates to the DU findings report include:

- Emphasis, bolding and coloring to certain information in the summary sections
- Track changes functionality added to enable users to identify what messages have been changed, added, or deleted from the existing submission as compared to the previous version
- Easier identification of Day 1 Certainty® Messages with an option for users to filter "on" Day 1 Certainty messages. Persistent "Day 1" certainly flags will display next to Da 1 Certainly messages
- Bolding, bulleting and hard returns will be added in the body of ~ 117 messages to add emphasis and improve
- Messages will be easier to identify with inclusion of the unique message ID number at the end of messages
- A new Day 1 Certainly section will be added which displays eligibility status for DU validation service, Property Inspection Waiver (PIW) and Collateral Rep & Warrant relief



Fannie Mae®

Desktop Underwriter/Desktop Originator Release Notes
DU Findings Report Re-Design Update

Aug. 28, 2018

During the **weekend** of **Sept. 22, 2018**, Fannie Mae will implement a new version of the Desktop Underwriter® (DU®) Underwriting Findings report. The new report will be an option available for DU Version 10.1 and DU Version 10.2 loan casefiles after the weekend of Sept. 22.

DU Underwriting Findings Report

The following updates to the look, feel and functionality of the DU Underwriting Findings report will be made to improve clarity and usability:

- Emphasis, bolding and coloring will be added to certain information in the summary sections.
- Track changes functionality will be added to enable users to identify what messages have been changed, added, or deleted from the existing submission as compared to the previous version.
- Basic navigation functionality will be added that will enable users to quickly move from one section of the report to another.
- Easier identification of Day 1 Certainty® messages with an option for users to filter on Day 1 Certainty messages. Persistent "Day 1" flags will display next to Day 1 Certainty messages.
- Bolding, bulleting and hard returns will be added in the body of approximately 117 messages to add emphasis and improve readability. The text of certain messages will also be updated to improve clarity.
- Dollar amount formatting will be changed to include applicable commas (i.e., $100000.00 will be seen as $100,000.00).
- Messages will be easier to identify with the inclusion of the unique message ID numbers at the end of messages.
- A new Day 1 Certainty section will be added which displays eligibility status for DU validation service, Property Inspection Waiver (PIW) and Collateral Rep & Warrant relief.
- Two file types will be added: a PDF and an enhanced HTML. As the PDF is a static format, the new navigation, track changes and filtering features are not available in this format.

While the new summary sections will be shown on both DU Version 10.1 and DU Version 10.2 loan casefiles, the changes to the formatting of the message text will only be shown on DU Version 10.2 loan casefiles.

The new DU Underwriting Findings report, available as an enhanced HTML or PDF, will be optional. There will be no impact to the existing HTML, TXT, or XML (codified findings) versions at this time, or to the DU Underwriting Findings report for FHA or VA loan casefiles underwritten through DU.

NOTE: *The Desktop Originator® (DO®)/DU User Interface will be updated the weekend of Sept. 22 to include the new versions of the DU Underwriting Findings report. Customers who receive the DU Underwriting Findings report directly into their loan origination system (LOS) would need to contact their LOS vendor to determine when the new version of the report will be available.*

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Implemented weekend of Sept 22 for casefiles submitted to DU 10.1 and 10.2 (formatting of message text will appear only on DU 10.2 casefiles

Genworth

Sample Existing DU Findings Report

Review of the Different Findings Report Sections

DU Underwriting Findings

SUMMARY

Recommendation	**Approve/Eligible**		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jma
First Submission Date	09/15/2017 02:16PM	DU Version	10.1
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
		Occupancy Status	Primary Residence
Property Type	Detached		

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:

Sample Summary Section

Existing and New Summary Section of DU Findings Report

DU Underwriting Findings

SUMMARY

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jna
First Submission Date	09/15/2017 02:16PM	DU Version	10.1
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
		Occupancy Status	Primary Residence
Property Type	Detached		

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	1397492846	Recommendation	Approve/Ineligible
Borrower 1	John Homeowner	Submission Number	2
Borrower 2	Mary Homeowner	Submission Date	07/26/2018 11:49AM
Lender Loan Number	RfPIs2MI_11	First Submission Date	07/26/2018 01:45PM
DU Version	10.2	Submitted By	w8436ynh

Mortgage Information

LTV/CLTV/HCLTV	76.00% / 76.00% / 78.00%	Note Rate	4.250%
Housing Expense Ratio	2.73%	Loan Type	Conventional
Debt-to-Income Ratio	3.76%	Loan Term	360
Total Loan Amount	$76,000.00	Amortization Type	Fixed Rate
Sales Price	$0.00	Loan Purpose	Refinance
Actual/Estimated Appraised Value	$100,000.00	Refi Purpose	Limited Cash-Out
Months Reserves	7		

Property Information

Property Address	175 13th Street, Washington, DC, 20013	Number of Units	1
		Occupancy Status	Primary Residence
Property Type	Detached		

Day 1 Certainty

Property Information

PIW	Not Eligible
Collateral Rep & Warrant	Eligible

New

Genworth

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 ON

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 Day 1 Certainty

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)

Verification Messages / Approval Conditions 4

Employment and Income

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 Loanseeker	WESTAR LOAN SERV	970950	$82,000.00

Genworth

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

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

REPRESENTATIONS AND WARRANTIES: (NEW) Will appear only when lender is relieved of certain reps/warranties (Day 1 certainty or Enforcement relief on property value)

Sample DU Findings Report

Summary Section

–Contains “Recommendation

DU Underwriting Findings

SUMMARY

Recommendation	**Approve/Eligible**		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jna
First Submission Date	09/15/2017 02:16PM	DU Version	10.1
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

e

esidence

wing 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

Recommendation	**Approve/Eligible**		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jna
First Submission Date	09/15/2017 02:16PM	DU Version	10.1
Submission Number	2		

Genworth

Recommendations

All other Recommendations have been discontinued

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

Genworth

Recommendations - Eligible

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.

Recommendations - Ineligible

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

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

Recommendations - Out of Scope

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

Mortgages that receives an Out of Scope recommendation in DU

- Must be manually underwritten per the *Selling Guide; or*
- Not delivered to Fannie Mae

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

–Mortgage Information

DU Underwriting Findings

SUMMARY

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jna
First Submission Date	09/15/2017 02:16PM	DU Version	10.1

4.250%
Conventional
360
Fixed Rate
Purchase

1
Primary Residence

e's guidelines.

irements.

cause the following accounts
ent and DU was unable to
ure the DTI used in the risk
TI, the payment amount must
tted to DU. If the minimum
in the loan file confirming the
ed as part of the borrower's
r may qualify the borrower
e $0 payment is associated
must either use 1% of the
amortizing payment using the

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

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/15/2017 02:23PM	Submitted By	a0837jna
First Submission Date	09/15/2017 02:16PM	DU Version	10.1
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	

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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 This case does not meet Fannie Mae's eligibility requirements.

2 This loan casefile is ineligible because the LTV cannot exceed 95 percent for fixed-rate HomeStyle Renovation Mortgage transactions secured by a one-unit principal residence.

3 Based on the data entered, the total amount of lender credits appears to exceed the total of the estimated closing costs, discount points and prepaids. The lender must review the transaction as lender non-borrower credits may not be used for down payment.

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

Genworth

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.

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

7 Based on the credit report obtained through Desktop Underwriter, this loan casefile must close on or before 01/01/2018. 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.

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

–Employment and Income

- Documentation requirements

–Assets and Reserves

- Amount to verify
- Liquidation

–Property and Appraisal Information

- Appraisal Type
- Project Review Type

–Reps/Warranties (Day 1 Certainty)

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	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. **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.*	When credit for one of the borrower is frozen at one of the three credit repositories (Equifax, Experian, or TransUnion).	**Borrower's identity** to help prevent fraud. **Online loan application and file documentation** to review and investigate any liabilities or derogatory credit disclosed by the borrower.
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.	**Appraisal** to ensure that an accurate value has been provided. **Credit documents** to check the accuracy and integrity of the borrower's asset and income data.
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.	**Online loan application:** • 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 verses omitted from the total expense calculation.

Trademarks of Fannie Mae. November 2017 1 of 2

Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following
Manufactured home caution	DU 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.	**Appraisal** to see if the property type is identified as a manufactured home. If there is uncertainty, confirmation from the appraiser may be required. **Online loan application** to see whether the subject property address and the property type were entered correctly.

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

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Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample Potential Red Flag message

- Social Security Alerts

VERIFICATION MESSAGES/APPROVAL CONDITIONS

10 According to the Social Security Administration (SSA), the Social Security Number (SSN) entered for Mary Homeowner may not be associated with him/her. The SSN accuracy must be confirmed, and if incorrect, it 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.

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample general messages

- Document Expiration date *(Note it is four months, not 120 days)*
- MI coverage requirements would be found under "Verification Messages", if applicable

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.

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

7 Based on the credit report obtained through Desktop Underwriter, this loan casefile must close on or before 01/01/2018. 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.

8 If there is a home equity line of credit secured against the subject property the maximum allowable HCLTV is 97 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.

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 that need additional attention

Credit and Liabilities

11 With the exception of 30-day accounts, evidence of payoff of the following debts must be included in the loan file.

Borrower	Creditor	Account Number	Balance
John Homeowner	UNIVERSAL VISA	6011785239	950.00

12 The following accounts listed on the loan application were omitted from the underwriting calculations. For each liability that belongs to the borrower, provide documentation that supports the omission. If any of these accounts will be paid prior to or at closing, those accounts must not be omitted, but marked paid by closing and the loan casefile must be resubmitted to DU.

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	• 2 years from discharge date • 4 years from dismissal date	• 2 years from discharge date • 2 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	3 years Additional requirements after 3 years up to 7 years: • 90% maximum LTV ratios[2] • Purchase, principal residence • Limited 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	• 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 Mortgage Charge-Off	• 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. • The lender must confirm the waiting period requirement has been met, and may base its determination on the disbursement date of the new loan.

Selling Guide

B3-5.3-09: DU Credit Report Analysis (07/25/2017)

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

June 23, 2018

Updated DU 10.2

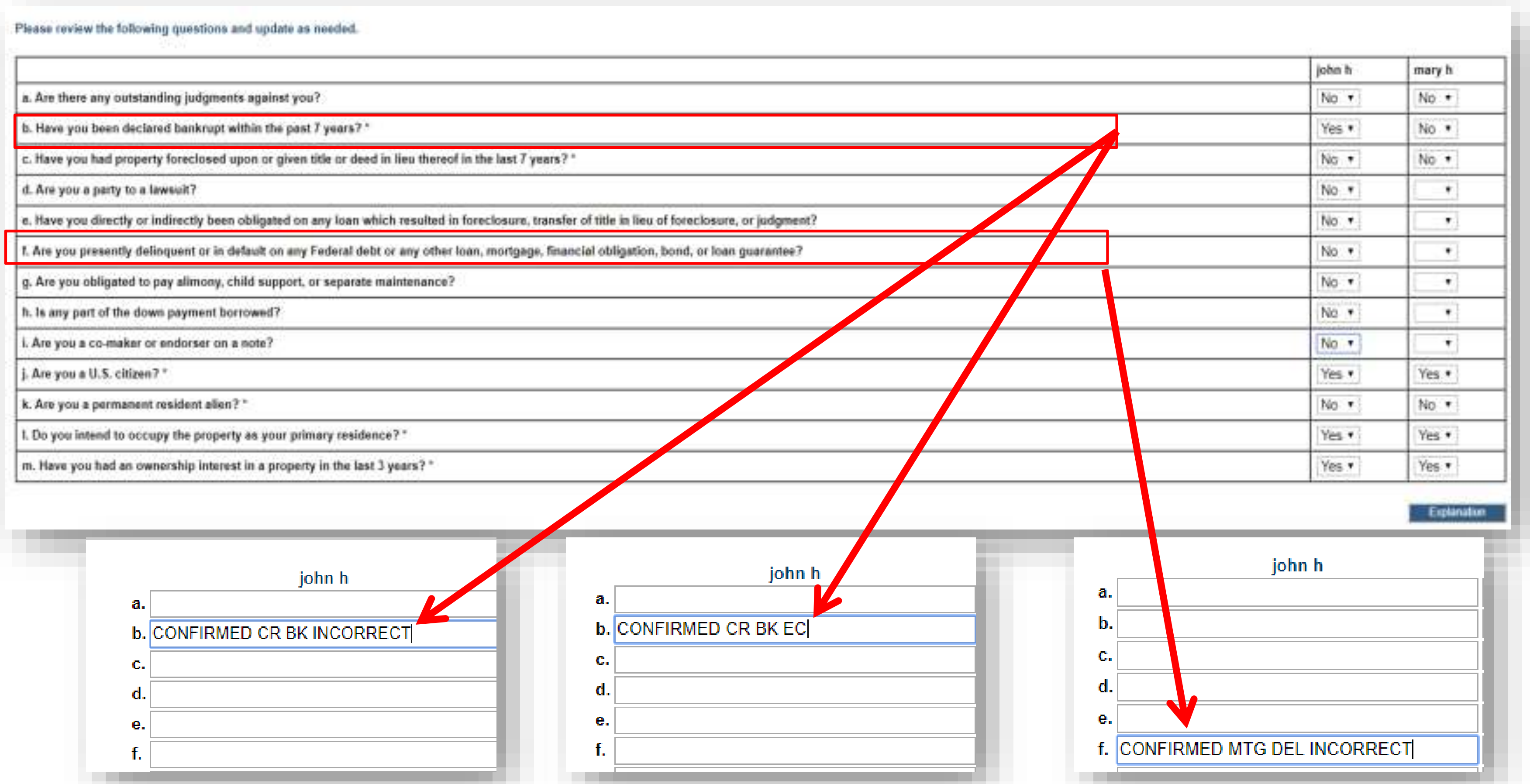
- With 10.2 lenders will have the ability to instruct DU to disregard bankruptcy information in the eligibility assessment that is incorrect or due to extenuating circumstances, or disregard excessive mortgage delinquency information that is incorrect
- DU will then issue an message stating the bankruptcy 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

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

Genworth

Credit Update

Civil Judgements and Tax Liens on Credit Reports

- Most civil judgements and tax liens will not appear on the credit report
- Minimal impact to credit scores
- DU does NOT use credit scores
- The *Selling Guide* defines lender responsibilities and requirements for payoff of liens, judgments and undisclosed liabilities

Fannie Mae™

July 2017

Lender Letter LL-2017-02

June 13, 2017

To: All Fannie Mae Single-Family Sellers and Servicers

Changes to the Reporting of Civil Judgments and Tax Liens on Credit Reports

Background

The three nationwide consumer credit reporting agencies (CRAs) – Equifax, Experian, and TransUnion – have announced plans to implement a public record data standard effective in July 2017 that is designed to improve the accuracy of credit reports. The changes are expected to impact the types of delinquent credit identified on credit reports.

With implementation of the CRAs' National Consumer Assistance Plan (NCAP), most civil judgments and tax liens will no longer be included in credit reports. The CRAs have stated that any impact to credit scores will be minimal, and that there will be no impact to foreclosure and bankruptcy data on credit reports.

This Lender Letter provides clarifications in response to questions we have received from lenders about how the credit report changes will impact the Desktop Underwriter® (DU®) risk assessment, our requirements, and lenders' responsibilities.

Reliability of DU's Risk Assessment

Lenders can continue to rely on the DU risk assessment and recommendation. DU uses judgment and lien information from credit reports as part of the comprehensive risk assessment. If the information is available on the credit report, DU will continue to use the information as part of the risk assessment. As a reminder, credit scores are not considered in DU's comprehensive risk assessment (see *Selling Guide* B3-5.3-09, DU Credit Report Analysis).

To assess the impact to DU of the credit reporting changes, we simulated the expected results of the changes to the reporting of judgments and tax liens on the credit report (including the absence of this information). Our analysis indicates that, even when these items are not visible to DU and therefore not considered as part of the risk assessment, the overall impact to the DU recommendation will be small and lenders can continue to have full confidence in DU's risk assessment and Approve/Eligible recommendations.

Loan Quality Center Post Acquisition Review Process

We are updating our Loan Quality Center's (LQC) post acquisition file review process appropriately to take into consideration the changes made by the credit bureaus. If during our review, we find a loan that has a lien or judgment that was not observable from the lender's origination file, we will cite a finding only. When our LQC cites a finding – and not a significant defect – it is to make the lender aware of this information. Noting a finding is consistent with one of our primary file review objectives of providing feedback to lenders to continuously improve the loan manufacturing process. The finding will also allow us to track the effects of the credit report changes and inform us of the potential need for any possible adjustments to this policy in the future.

As is the case today, we will rely on life of loan representations and warranties as the resolution if there is a clear title and first-lien enforceability issue identified subsequent to the post acquisitions review process even if a finding was initially cited. See *Selling Guide* A2-2.1-07, Life-of-Loan Representations and Warranties for additional information.

 06.13.2017 1 of 2

Disputed Tradelines and DU 10.1

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.

Creditor	Account Number	Account Type
ABC Creditor	123456789	Installment

– 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 it's 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.*

– *Accounts may remain open after closing*

With the exception of 30-day accounts, evidence of payoff of the following debts must be included in the loan file.

Borrower	Creditor	Account Number	Balance
john homeowner	SALLIE MAE	950254520	5000.00

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

DU 10.1 & 10.2

MORTGAGE INFORMATION

Loan Type	Conventional
Amortization Type	Fixed Rate
Balloon	No
Community Lending	No
Payment Frequency	Monthly
Lien Type	First Mortgage
Amt. Subordinate Fin.	$0.00
Loan Purpose	Purchase
Refi Purpose	
Owner Existing Mtg.	
Buydown	No

QUALIFYING RATIOS

Housing Expense	7.73%
Debt-to-Income	8.90%

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

SEL 2017-06

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.

– *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

26 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.

Borrower	Creditor	Account Number	Balance
John Homeowner	Thirty Day Account		200.00

– 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

Genworth

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.

Read The Verification Messages

Income Verification Messages

Borrower	Income Type	Amount
John Homeowner	Social Security income	1000.00
John Homeowner	Pension retirement income	1000.00
John Homeowner	Bonuses	2500.00
John Homeowner	Base employment income	4000.00
Mary Homeowner	Alimony child support income	500.00
Mary Homeowner	Commissions	6000.00

Employment and Income

13 Alimony or child support must be verified with one of the following documents: decree, separation agreement, court decree, any other legal agreement that descri payment terms, or any applicable state law that requires such payments and spec conditions under which the payments must be made. For loan casefiles that are n underwritten as DU Refi Plus, the borrower must have a minimum 6-month docu history of the borrower's most recent regular and timely receipt of the full payme lender must verify the income will continue for at least three years. Refer to the I Selling Guide for additional information.

14 If the Social Security income for John Homeowner is retirement or disability from the borrower's own Social Security Account, either proof of current receipt or the Social Security Administration's (SSA) award letter must be obtained. Supplemental Security Income must be verified with a copy of the SSA award letter and proof of current receipt. If the Social Security income is for Survivor Benefits, retirement, or disability for the benefit of another; the income must be verified with a copy of the SSA award letter, proof of current receipt, and any additional documentation required to confirm a three-year continuance. Refer to the Fannie Mae Selling Guide for additional information.

15 Document 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 a bank statement. Documentation of three year continuance is not required. For loan casefiles that are not underwritten as DU Refi Plus, if the retirement income is paid in the form of a monthly distribution from a 401(k), IRA, SEP, or Keogh retirement account (documentation of asset ownership must be in compliance with the Allowable Age of Documents policy), determine that the income will continue for at least three years after the date of the mortgage application.

16 Income from a second job is listed on the application for John Homeowner. The income must be supported by the most recent paystub and W-2s covering the most recent two-year period, or a fully completed standard Verification of Employment (1005). For DU Refi Plus loan casefiles, the income must be supported by one paystub. For guidance on borrowers with less than a two-year history of receiving income from a second job, or for any additional information on the verification of second job 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 *Selling Guide*

Continuance of Income

Expiration Date Not Defined	Defined Expiration Date*
Lender does not need to document 3–year continuance • 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	Lender must document 3–year continuance • 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 (07/25/2017)

Income and Employment

Most recent two years tax returns required when the borrower:

- Earns 25% or more of his or her income from commissions;
- 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

Employment Documentation Provided by the Borrower's Employer

The lender may use the *Request for Verification of Employment* (Form 1005 or Form 1005(S)) to document income for a salaried or commissioned borrower. The date of the completed form must comply with B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.

The information on the Form 1005 or Form 1005(S) must be legible. The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant's next pay increase
17	Projected amount of next pay increase
18	Date of applicant's last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III — Verification of Previous Employment)

The remaining fields on the form must be completed as applicable to the borrower. For example, overtime may not be completed if the borrower is in a position that does not pay overtime.

Income and Employment

General Levels of Documentation: Bonus and Overtime

- Recent pay stub dated within 30 days of application and W-2's for past two years and a verbal verification of employment
- 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
- See additional requirements for "Variable" income in the Fannie Mae 2017 *Seller Guide* Section B3-3.1-01, General Income Information

20 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.

Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

Income and Employment

Commission income less than 25% of borrower's total annual employment income

– One recent pay stub, or

– recent pay stub and the previous two years W-2

– 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 ≥ 25% of borrower's total annual employment income

– Pay stub, W-2's and most recent signed federal tax returns for two years (per Fannie Mae *Seller Guide* policies); Lenders must review for unreimbursed (2106) business expenses

– If more than 60 days from the last filed tax return has passed, current income must be confirmed

Do Not Use Income If Borrower Qualifies Without

Income and Employment

DU 10.1

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 <u>may be </u>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

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Self-Employed Messages & Documentaton

General Levels of Documentation: Self-Employment

- Business returns can be waived if certain requirements are met
  - Borrower has been self employed in the same business for at least five years
  - Borrower's individual tax returns show an increase in self-employment income over the last two years; and
  - 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

17	Mary Homeowner's self-employed income must be supported by business and personal tax returns covering the most recent two-year period, including all tax schedules, if it will be used for qualifying purposes. The requirement for business tax returns can be waived if (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. For guidance on borrowers that have been self-employed less than two years, or for any additional information on the verification of self-employment income, refer to the Selling Guide.

Lenders May Still Need To Obtain Business Returns Even When The Above Criteria Has Been Met

Income and Employment

General Levels of Documentation: Retirement Income

- If a monthly distribution is received from 401(k), IRA, SEP or Keogh account the borrower must have unrestricted access too the accounts without penalty
- When funds are drawn from assets, stocks, bonds or mutual funds, you must factor potential volatility of the income stream

15 Document 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 a bank statement. Documentation of three year continuance is not required. For loan casefiles that are not underwritten as DU Refi Plus, if the retirement income is paid in the form of a monthly distribution from a 401(k), IRA, SEP, or Keogh retirement account (documentation of asset ownership must be in compliance with the Allowable Age of Documents policy), determine that the income will continue for at least three years after the date of the mortgage application.

Review Fannie Mae *Selling Guide* Section B3-3.1-09 For Complete Details On "Other" Sources Of Income

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Employment Offer Message

DU 10.1

DU 10.1 Effective July 29, 2017

Fannie Mae

Desktop Underwriter/Desktop Originator Release Notes
DU Version 10.1

May 30, 2017

During the **weekend of July 29, 2017**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.1, which will include the changes described below.

The changes in this release will apply to new loan casefiles submitted to DU on or after the weekend of July 29, 2017. Loan casefiles created in DU Version 10.0 and resubmitted after the weekend of July 29 will continue to be underwritten through DU Version 10.0.

The changes in this release include updates to the following:

- DU Risk Assessment

Employment Offer Message

A new message will be issued to specify the requirements that apply to borrowers who have a contract to start a job, but will not begin employment before loan closing. Existing policy is also being updated to provide the option for delivery of the loan prior to the borrower starting employment when additional eligibility requirements are met.

On primary residence, one-unit, purchase transactions when the years and months on job in DU are 0 or blank, DU will issue a message specifying the requirements specific to these transactions. The message will indicate that if the lender does not obtain a paystub and confirm the borrower has started employment prior to delivery of the mortgage loan, the lender must confirm the loan meets the additional eligibility requirements of the updated policy, and that the loan must be delivered with SFC 707.

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.

Disputed Tradelines

DU Version 10.1 will include an updated risk assessment and messaging for loan casefiles for borrowers with disputed tradelines. DU will first assess the risk of the loan casefile using all tradelines reported as disputed by the borrower. When

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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.

– Commission Income must be entered as “commission” and any unreimbursed expenses from the IRS form 2106 should be subtracted when commission income is >25% of borrower’s employment income (SEL 2015-07)

– 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

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Assets and Reserves

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

FUNDS

Total Available Assets	$350000.00
Funds Required to Close	$72950.00
Reserves Required to be Verified	$200.00
Total Funds to be Verified	$73150.00

Assets

22 Assets totaling $73150 must be verified. From the liquid assets listed on the 1003, at a minimum verify those accounts that are needed to satisfy this amount. Based on the transaction, there may be additional reserve requirements that must be manually applied by the lender. Refer to the Fannie Mae Selling Guide for additional information.

23 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.

24 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. Direct verifications provided by a third party asset verification vendor are acceptable if completed in accordance with the Selling Guide.

Asset And Funds Sections

Summary Section Lists Total Assets Entered

35 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.

Borrower	Asset Type	Institution Name	Amount
John Homeowner	Gift funds		20000.00
John Homeowner	Checking Account		50000.00
Mary Homeowner	Checking Account		30000.00
Mary Homeowner	Retirement		250000.00

FUNDS

Total Available Assets	$350000.00	Cash Back	$0.00
Funds Required to Close	$72950.00	Net Cash Back	$0.00
Reserves Required to be Verified	$200.00	Excess Available Assets, not required to be verified by DU	$276850.00
Total Funds to be Verified	$73150.00		

Additional Reserves May Need To Be Verified If Paying Off Accounts, Collections Or Owns Multiple Properties

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

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

Stocks, bonds and mutual funds for reserves

Stocks, Stock Options, Bonds, and Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The lender must verify the borrower's ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Stocks and mutual funds	The lender must determine the value of the asset (net of any margin accounts) by obtaining either • the most recent monthly or quarterly statement from the depository or investment firm; or • a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Stock options	The value of vested stock options can be documented by • a statement that lists the number of options and the option price, and • using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. **Note**: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.
Government bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.

When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Assets and Reserves

Retirement accounts (401k or IRA)

- The vested amount may 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 as well as the conditions under which the funds may be withdrawn
- If funds needed for closing, proof of liquidation and deposit/receipt is required unless the liquidation value is at least 20% more than the amount of funds needed.
- Retirement accounts that allow for withdrawals only in connection with the borrower's employment termination, retirement, or death, the retirement account asset should not be entered

23 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.

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.

Asset and Reserves

Updates

– Truncated Accounts Numbers

Fannie Mae

Selling Guide Announcement SEL-2017-04

April 25, 2017

Selling Guide Updates

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

- Student Loan Solutions
- Project Eligibility Review Waiver for Fannie Mae to Fannie Mae Limited Cash-Out Refinances
- Properties Listed for Sale in the Previous Six Months
- PERS Expiration Dates
- Truncated Asset Account Numbers
- Flash Settlement for Mortgage-Backed Securities
- Servicing Execution Tool Bifurcation Option Terms and Conditions
- Miscellaneous *Selling Guide* Update

Truncated Asset Account Numbers

We are updating our policy to permit truncated account numbers that display at least the last four digits of the borrower's asset account. This change will help provide a greater degree of protection of borrowers' non-public information.

Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits are displayed are permissible on the loan application, in DU, and on asset documentation, including verification reports obtained through the DU validation service.

Effective Date

This policy change is effective immediately.

We are simplifying our requirements for excluding non-mortgage debts from the debt-to-income ratio. Non-mortgage debts include debt such as installment loans, student loans, and other monthly debts as defined in the Guide.

If the lender obtains documentation that a non-mortgage debt has been satisfactorily paid by another party for the past 12 months, then the debt can be excluded from the debt-to-income ratio. This policy applies regardless of whether the other party is obligated on the debt.

> NOTE: *This policy does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor).*

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

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

* 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.

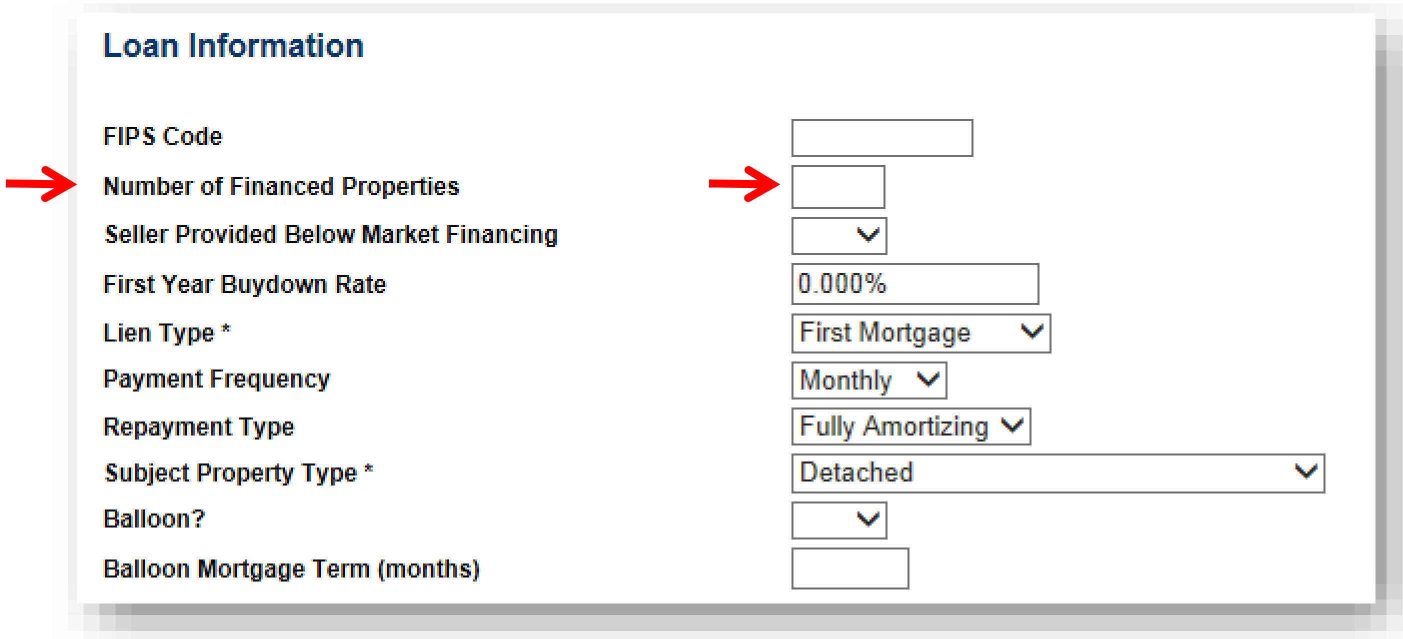
Genworth

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



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

> The number of financed properties used in determining the loan's eligibility for sale to Fannie Mae and minimum reserve requirements was 4. This information was derived based on the properties listed in the Real Estate Owned section of the loan application. If this information is incorrect, the correct number must be provided in the Number of Financed Properties field, or the Real Estate Owned section must be updated and the loan casefile resubmitted to DU.

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)	The % of UPB is based on the number of **financed properties:** • 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. *Other includes all financed properties which are not the subject property or the borrower's principal residence.
7 to 10 financed properties (DU Casefiles Only)	The % of UPB is based on the number of **financed properties:** • If 7-10 financed properties, reserves = 6% of aggregated mortgage UPBs for all other* financed properties. *Other includes all financed properties which are not the subject property or the borrower's principal residence.

**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	$345,030 x 4% =	$13,801
Investor	$142,500	$905		
Investor	$84,950	$722		
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

	Property and Appraisal Information
23	A certification of completion is required to verify the home improvements have been completed. The certification must be documented using the Appraisal Update and/or Completion Report (Form 1004D), or a HomeStyle Completion Certificate (Form 1036).
24	Desktop Underwriter returned the following standardized address and census tract for the subject property: 110 DEER MEADOWS CT, BALLWIN, MO 63011-3815, 217807. This is the address that Desktop Underwriter used in its property valuation and fieldwork recommendation. Regardless of the property fieldwork required by Desktop Underwriter, 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.
25	An appraisal based on an interior and exterior property inspection reported on Form 1004 is required for this transaction.
26	Form 1004MC must be completed for any transaction on which an appraisal is obtained. Refer to the Fannie Mae Selling Guide for additional information.

- Uniform Residential Appraisal Report (Form 1004)
- Individual Condominium Unit Appraisal Report (Form 1073)
- Individual Cooperative Interest Appraisal Report (Form 2090)
- Manufactured Home Appraisal Report (Form 1004C)
- Small Residential Income Property Appraisal Report (Form 1025)

> *Note: In addition to the above full appraisal options, there will be loan casefiles that receive the property fieldwork waiver option.*

An Interior/Exterior Appraisal Is Always Required, Regardless Of The DU Appraisal Option, When The Last Sale Was An REO Or Foreclosure Sale

Genworth

DU Version 10.2 March 2018

Updated DU Property Messages

Fannie Mae

Desktop Underwriter/Desktop Originator Release Notes
DU Version 10.2

January 30, 2018

During the weekend of March 17, 2018, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.2, which will include the changes described below.

Properties with a Recent Appraisal

DU will not offer a PIW when a recent appraisal has been uploaded to the Uniform Collateral Data Portal (UCDP) from any lender. DU Version 10.2 will issue a message to inform the lender when the loan casefile is not eligible for a PIW offer because a recent appraisal with a matching property address was submitted to UCDP.

PIW on Investment Properties

A PIW offer will no longer be issued on investment property loan casefiles when the borrower is using subject rental income to qualify. In order for a PIW offer to be issued on an investment property loan casefile, the *negative* subject net cash flow entered on the DU loan application must be at least the amount of the PITIA for the subject property.

Condo Project Review Messaging

As specified in *Selling Guide* B4-2.1-01, General Information on Project Standards, the project eligibility review is waived for all limited cash-out refinance transactions on Fannie Mae-owned loans with an LTV ratio of 80% or less. DU will suppress the existing project review messages and issue a new project eligibility message on these loans. The new message will indicate that, based on the Owner of Existing Mortgage field on the online loan application, the existing loan is Fannie Mae-owned and that the project eligibility review is waived if the lender can confirm that the project has the required project-related property and flood insurance coverage, and the project is not a condo hotel or motel, houseboat project, or timeshare or segmented ownership project.

Genworth

DU Version 10.0 Dec 2016

Appraisal Waivers

- Updates to appraisal waivers, f/k/a Property Inspection Waiver (PIW)
- Enforcement Relief for Reps/Warrants for Property Value for certain transactions
- Disclosure of Information to Appraisers (2016-09)

Fannie Mae

Selling Guide Announcement SEL-2016-09

December 6, 2016

Fannie Mae

Desktop Underwriter/Desktop Originator Release Notes

DU Version 10.0 December Update

October 24, 2016

Updated November 28, 2016

During the weekend of December 10, 2016, Fannie Mae will update Desktop Underwriter® (DU®) Version 10.0 with the following changes:

- DU Validation Service
- Updates to the Property Inspection Waiver
- Property Value Representations and Warranties

Disclosure of Information to Appraisers

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.

Effective Date

This policy update is effective immediately.

FAQs

Appraisal Waivers

F/K/A Property Inspection Waivers (PIW)

Fannie Mae

Property Inspection Waiver
Frequently Asked Questions

August 18, 2017

Property inspection waiver (PIW) is an offer to waive the appraisal for eligible transactions. PIW offers are issued through Desktop Underwriter® (DU®) using Fannie Mae's database of more than 26 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.

Powered by Collateral Underwriter

Contents

General

Q1. How do lenders get access to PIWs?

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

Q2. Is the PIW available to correspondent lenders?

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

Q3. UPDATED What are the eligibility requirements for PIW consideration?

The PIW 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:

Genworth

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 a PIW offer:

- Properties located in a disaster-impacted area
- 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)
- DU Refi Plus™ loan casefiles
- 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

NOTE: *DU Refi Plus loan casefiles continue to be eligible for the DU Refi Plus property fieldwork waiver (PFW).*

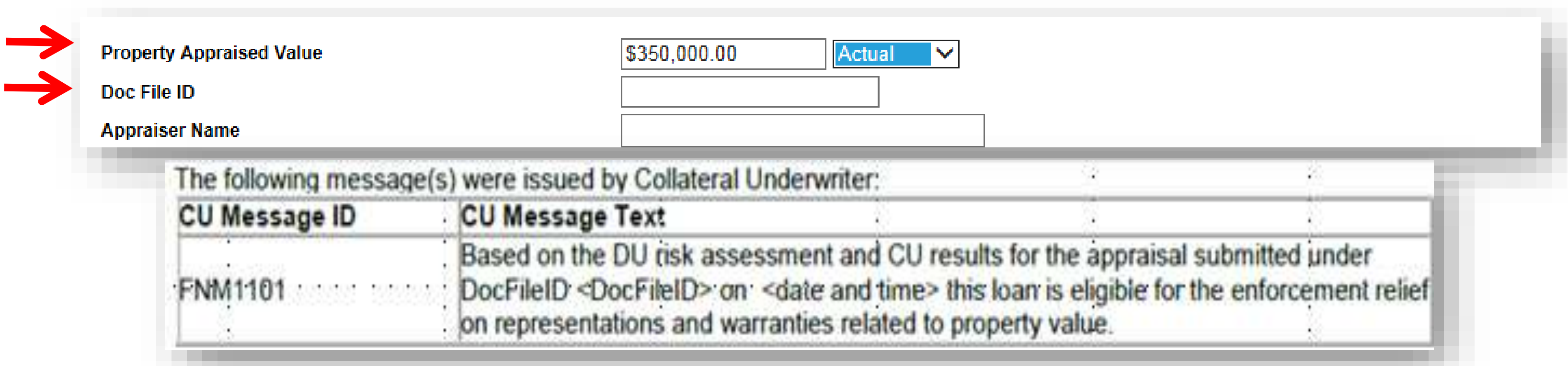
Property Value Enforcement Relief

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"



Genworth

CU Findings

1 The messages below were issued by Collateral Underwriter and the Uniform Collateral Data Portal for the appraisal submitted under DocFileID <DocFileID> on <date and time>. These messages are the result of automated analysis and for informational purposes only. Lenders remain responsible for the appraisal report in accordance with the Fannie Mae Selling Guide. CU Findings may not be used as the lenders' basis to accept or reject the appraisal nor may they be used as basis for a credit decision. The CU Findings do not need to be cleared and do not impact the Desktop Underwriter risk assessment nor the lenders' ability to deliver the associated loan to Fannie Mae. Lenders must analyze CU Findings in context of the appraisal report to determine an appropriate course of action and may not use CU Findings to interfere with the independent judgment of the appraiser. Under no circumstance should lenders encourage appraisers to provide inaccurate or otherwise misleading conclusions to conform with automated output from CU.

COLLATERAL UNDERWRITER MESSAGES

2 The following Risk Score and submission status message(s) were issued by Collateral Underwriter:

Message ID	Message Text
FNM1000	The Collateral Underwriter Risk Score is 3 on a scale of 1 to 5 where 5 indicates highest potential collateral risk. A score of 999 indicates no Collateral Underwriter Risk Score available.
FNM1007	The Fannie Mae UCDP Submission Status is successful.

3 The following Risk Flag message(s) were issued by Collateral Underwriter:

Message ID	Message Text
FNM1002	There is heightened risk of Appraisal Quality issues.

4 The following UCDP Basic Edit Check message(s) were issued by UCDP:

Message ID	Message Text
402	UAD compliance check failure (warnings only)

5 The following UAD Compliance message(s) were issued by UCDP:

Message ID	Message Text
5156	For the subject property, PropertySalesAmount: A prior sale was indicated within the past 3 years; therefore, the Price of Prior Sale/Transfer must be provided in whole dollars.

Sample CU Message That May Appear On DU Findings If A CU Doc File ID Is Entered; Score And Different Risk Messages

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™) will be 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	The following questions will be removed from CPM: ▪ **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 unites in the project that what is allowed by the *Selling Guide*?" questions.

Observations

FYI information

OBSERVATIONS

29 This case was submitted to Desktop Underwriter version 10.1 by TEST/TRAINING - Genworth Branch. The following information is associated with this loan: Casefile ID is 1347546994 and Submission number is 3. If the loan is delivered to Fannie Mae, the Casefile ID must be provided at delivery.

30 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 fanniemae.com for a comprehensive list.

Special Feature Code	Description
127	DU Loan

31 Based on the data entered, this loan casefile has been identified as a First Time Homebuyer case. The First Time Homebuyer indicator must be completed at delivery. Refer to the Selling Guide for additional information on the identification of a first time homebuyer.

32 The following Credit Report information is associated with this submission:

Borrower Name	Credit Agency	Credit Report ID	Credit Report Date
John Homeowner	200-TEST CREDIT AGENCY	5004489	09/01/2017
Mary Homeowner	200-TEST CREDIT AGENCY	5004489	09/01/2017

33 The following credit scores were obtained by the credit agency selected by the user and are included in the credit report:

Borrower	Credit Scores
Mary Homeowner	768 771 783
John Homeowner	760 779 785

34 The following sources of income were used in the underwriting analysis:

Borrower	Income Type	Amount
John Homeowner	Social Security income	1000.00
John Homeowner	Pension retirement income	1000.00
John Homeowner	Bonuses	2500.00
John Homeowner	Base employment income	4000.00
Mary Homeowner	Alimony child support income	500.00
Mary Homeowner	Commissions	6000.00

Underwriting Analysis

Validate the details

Underwriting Analysis Report

Recommendation	**Approve/Eligible**		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	JJ	Casefile ID	1347546994
Submission Date	09/22/2017 11:29AM	Submitted By	a0837jna

PROPERTY INFORMATION

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

MORTGAGE INFORMATION

Loan Type	Conventional	LTV/CLTV/HCLTV	80.00% / 80.00% / 80.00%
Amortization Type	Fixed Rate	Loan Amount	$250000.00
Balloon	No	Financed MI Amount	$0.00
Community Lending	No	Total Loan Amount	$250000.00
Payment Frequency	Monthly	Sales Price	$312500.00
Lien Type	First Mortgage	Actual/Estimated Appraised Value	$312500.00
Amt. Subordinate Fin.	$0.00	P&I	$1229.85
Loan Purpose	Purchase	Note Rate	4.250%
Refi Purpose		Qualifying Rate	4.250%
Owner Existing Mtg.		Bought Down Rate	0.00%
Buydown	No	Term (Months)	360

INCOME

Base	$9000.00
Commission	$6000.00
Bonus	$2500.00
Overtime	$4000.00
Other	$2500.00
Positive Net Rental	$0.00
Subj. Pos. Cash Flow	$0.00
Total	$24000.00

QUALIFYING RATIOS

Housing Expense	7.73%
Debt-to-Income	8.90%

EXPENSE RATIOS

Including ≤ 10 Mos.	9.74%
With Undisclosed Debt	8.90%

PROPOSED MONTHLY PAYMENT

First P&I (Qualifying)	$1229.85	Negative Net Rental	$0.00
Second P&I	$0.00	Subj. Neg. Cash Flow	$0.00
Hazard Insurance	$125.00	All Other Payments	$282.07
Taxes	$500.00	Total Expense Payment	$2136.92
Mortgage Insurance	$0.00		
HOA Fees	$0.00	Present/Principal Housing Payment	$2500.00
Other	$0.00		
Total Housing Payment	$1854.85		

FUNDS

Total Available Assets	$350000.00	Cash Back	$0.00
Funds Required to Close	$72950.00	Net Cash Back	$0.00
Reserves Required to be Verified	$200.00	Excess Available Assets, not required to be verified by DU	$276850.00
Total Funds to be Verified	$73150.00		

Data Integrity 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?
- 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?

Data Integrity Reminders

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
- To exclude a liability that someone else pays requires documentation for 12 months
- Income: Break it out by type, check trends, history of receipt
- Do names, addresses and social security numbers match from document to document?

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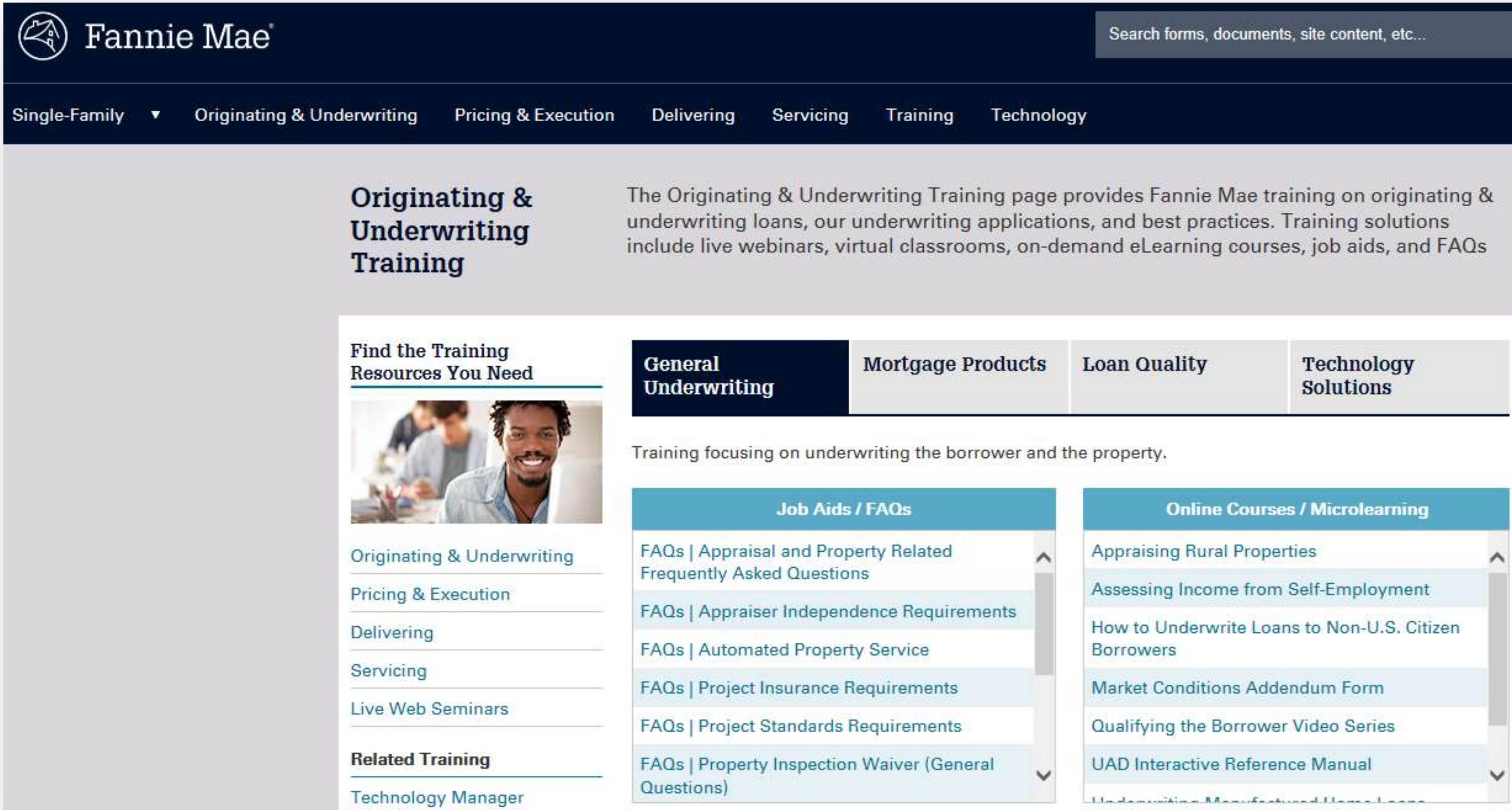
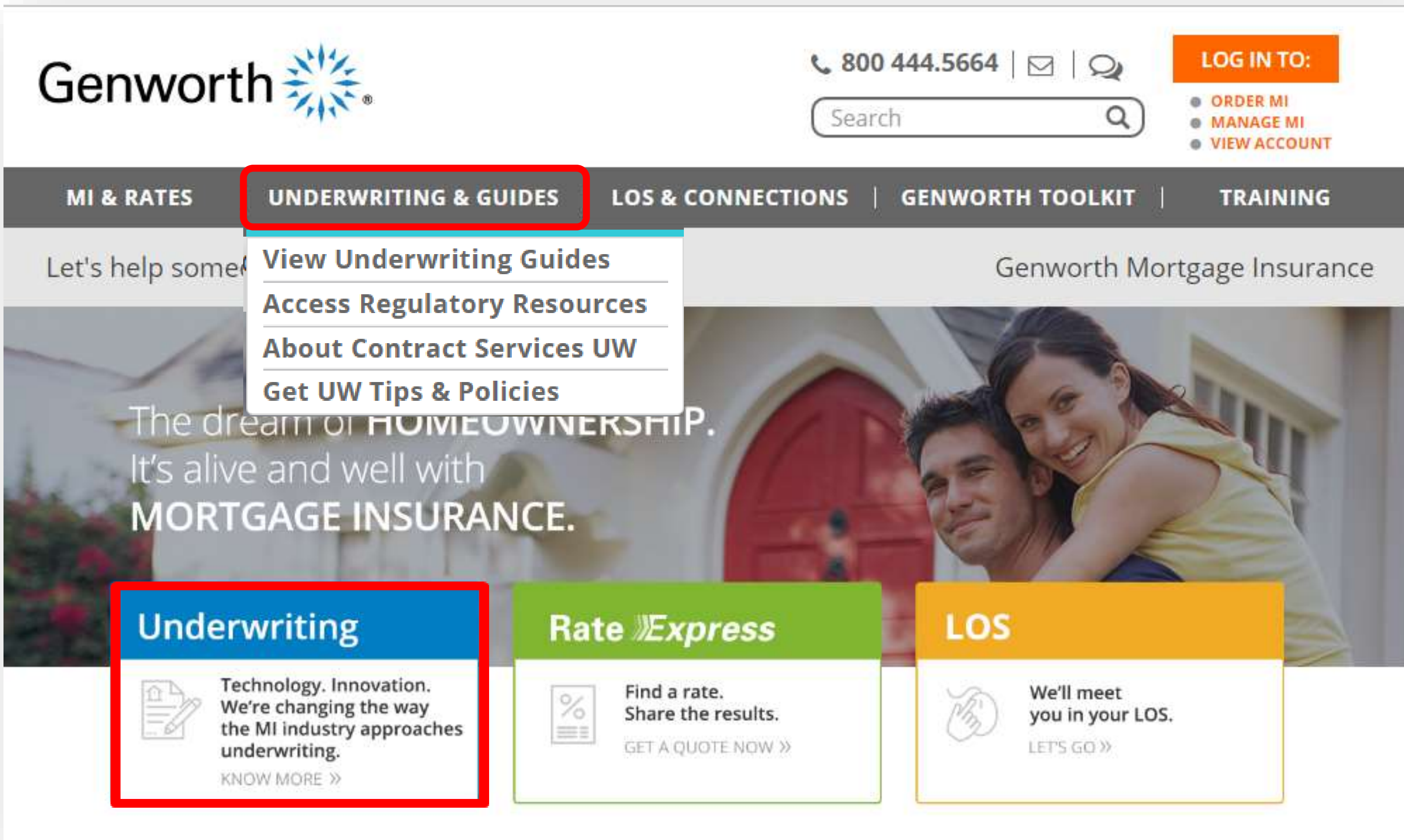
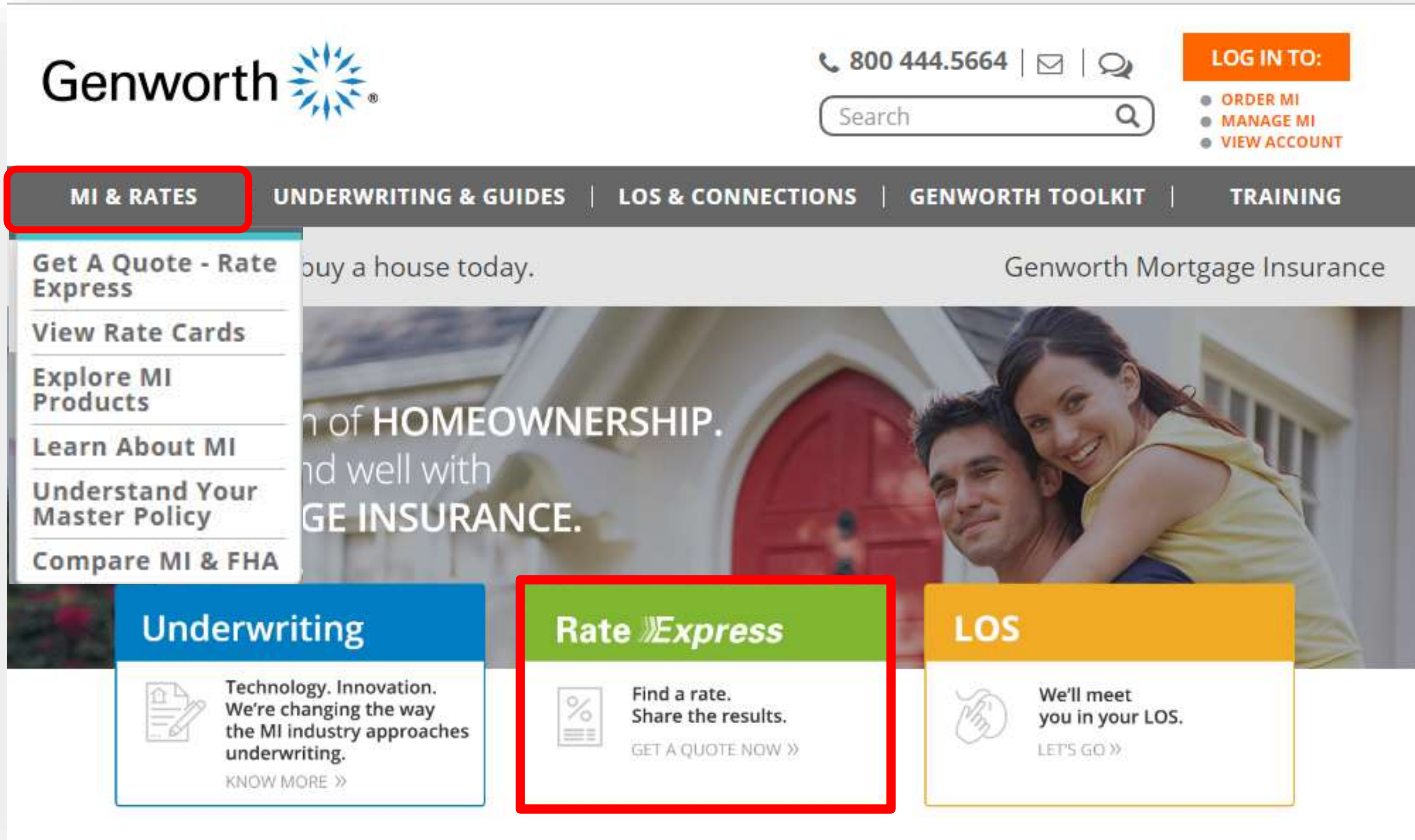


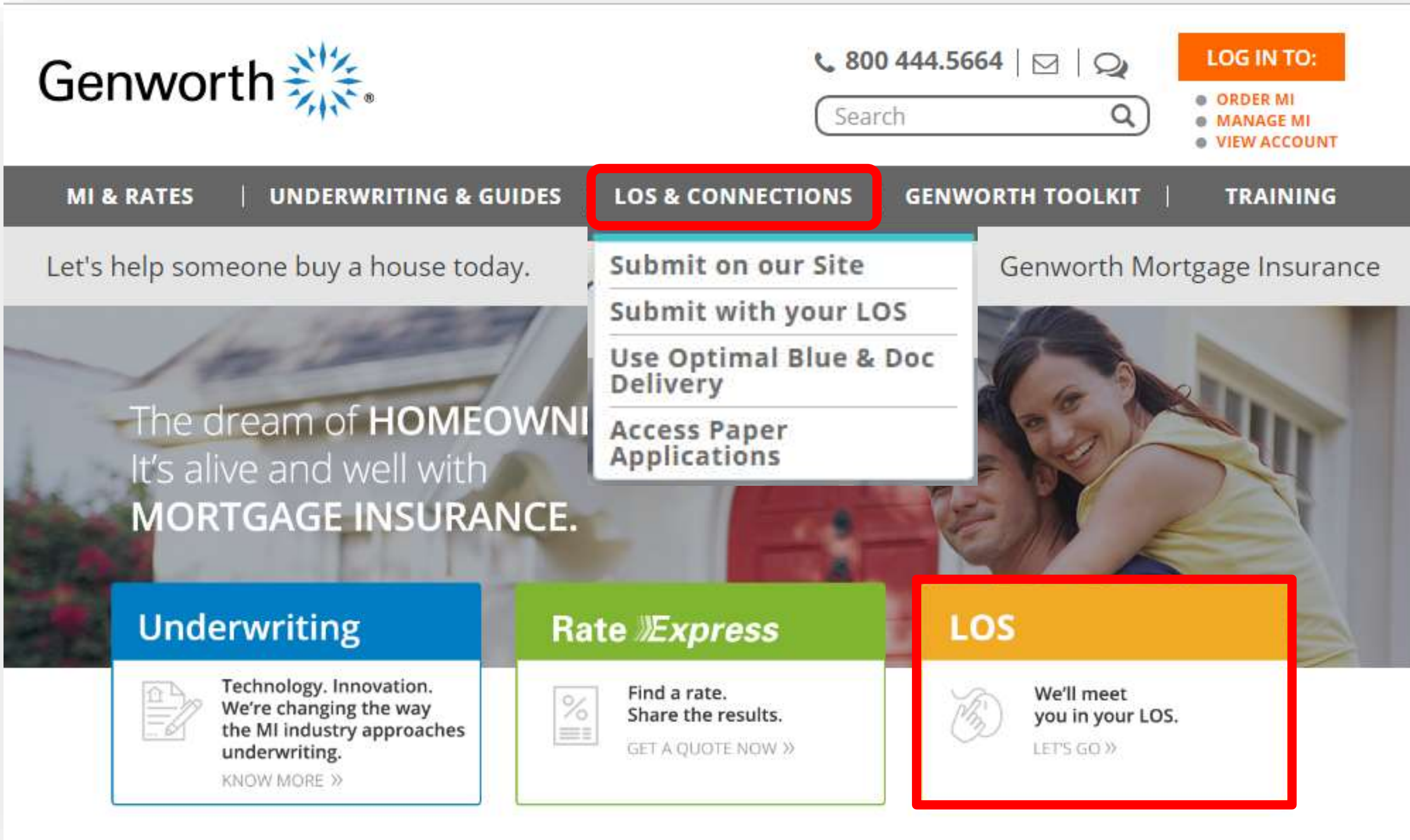
Genworth Underwriting Guidelines



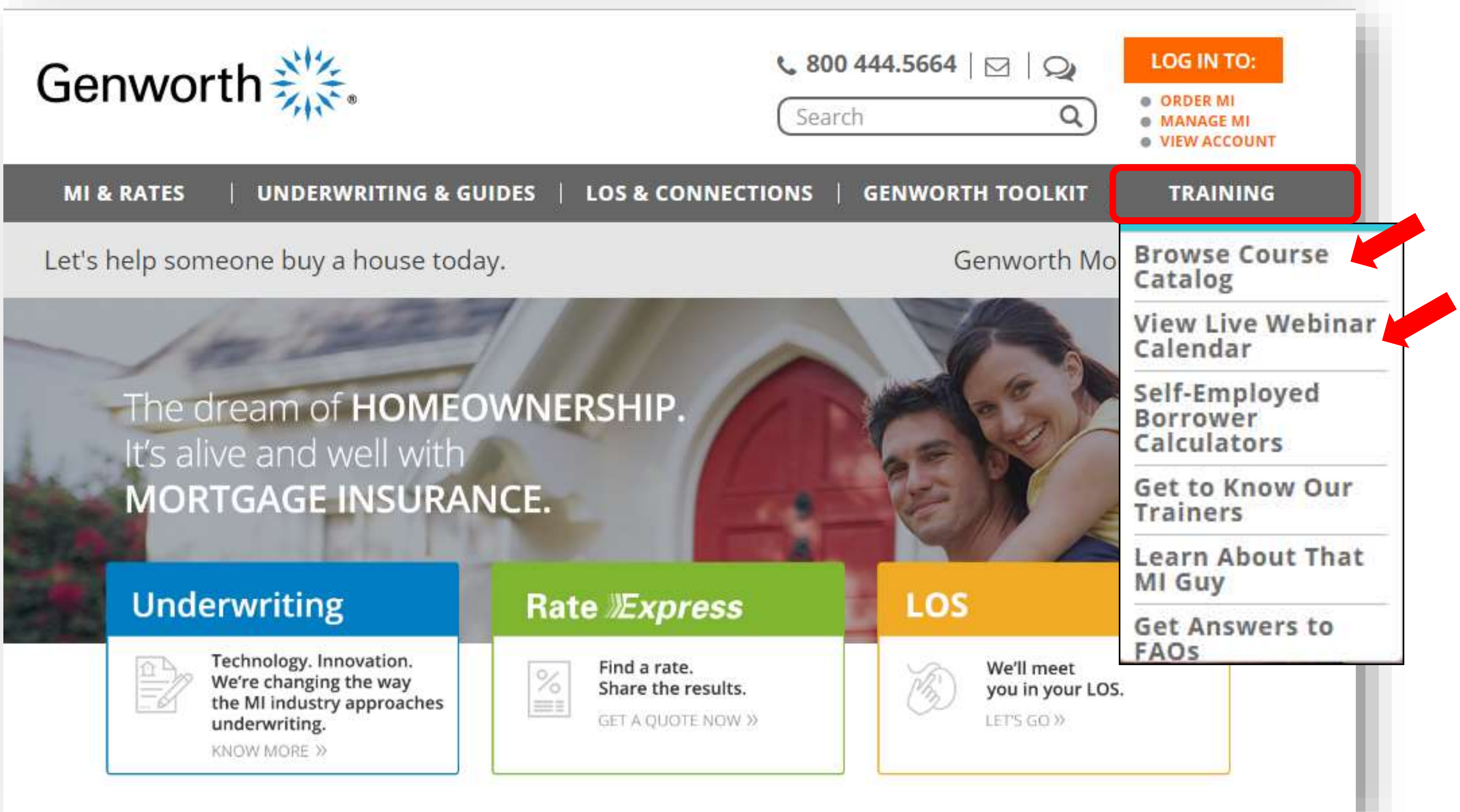
Genworth Rate *Express*®



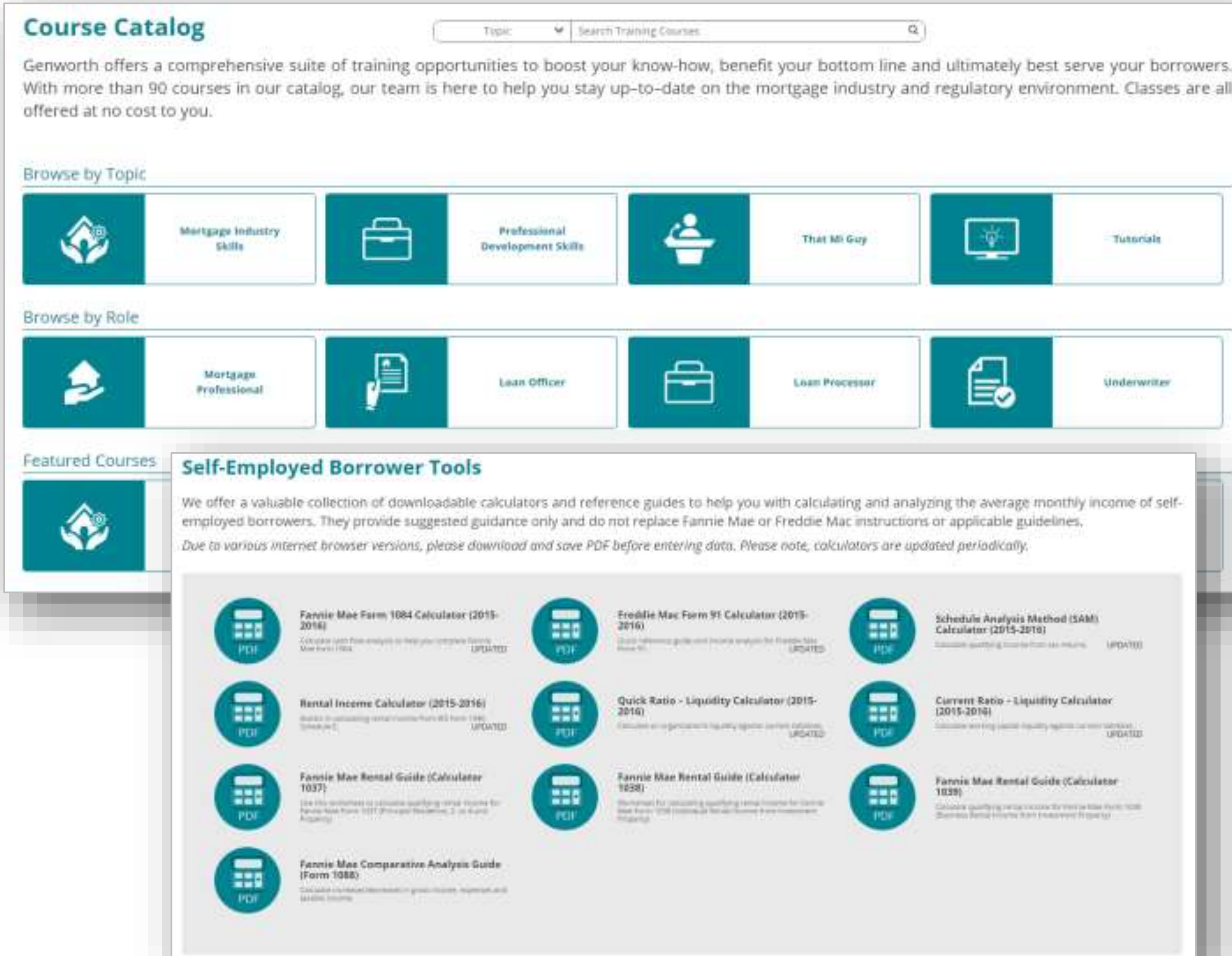
LOS Connections



Training Tools and Information



Training Tools and Information



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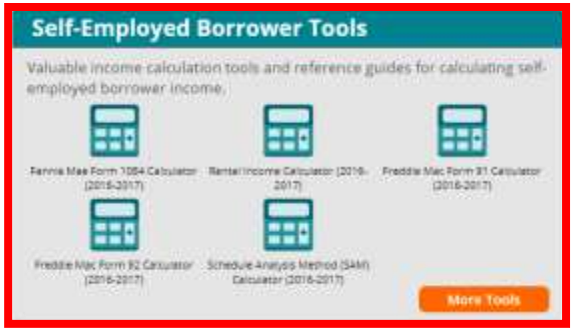
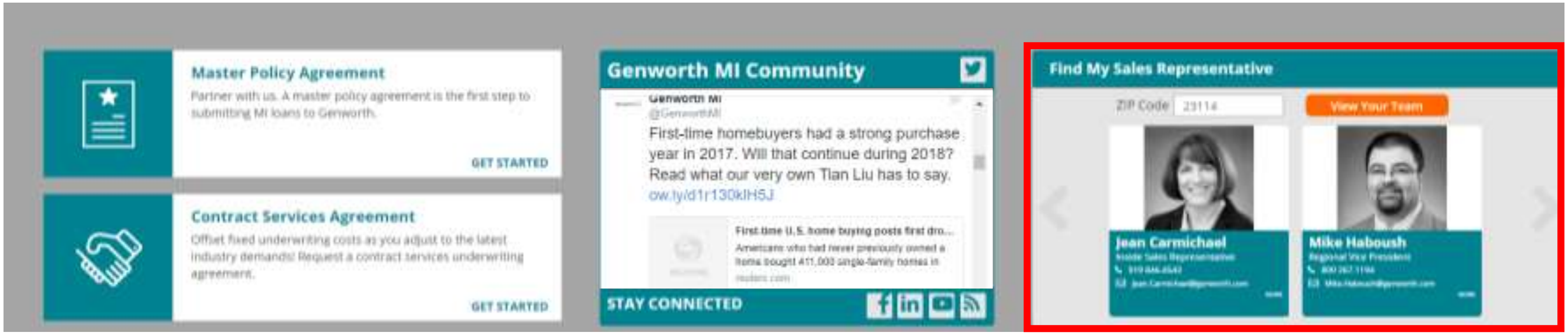
Additional MI Site Information





Your Genworth Resources

- **ActionCenter®: 800 444.5664**
- **Your Local Genworth Regional Underwriter**
- **Your Genworth Sales Representative**

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