

Desktop Originator/Desktop Underwriter Release Notes DU Version 9.0

July 24, 2012

During the **weekend of October 20, 2012**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 9.0, which will include the changes described below.

The changes included in this release will apply to new loan casefiles submitted to DU on or after the weekend of October 20, 2012. Loan casefiles created in DU Version 8.3 and resubmitted after the weekend of October 20 will continue to be underwritten through DU Version 8.3.

Updated Credit Risk Assessment

Fannie Mae's mission is to help eligible borrowers have access to mortgage credit to purchase homes they can afford over the long term. As part of normal business operations, DU is regularly reviewed to determine whether its risk analysis is appropriate based on new data and loan performance information. As a result of this work, DU Version 9.0 will include an update to the DU credit risk assessment and eligibility requirements.

The DU Version 9.0 credit risk assessment will consider the probability of future serious delinquency, rather than default. Based on an analysis of recent loan casefiles submitted to DU, the new credit risk assessment is expected to have a minimal impact on the percentage of Eligible recommendations that lenders receive today.

DU Version 9.0 will evaluate loan casefiles using the same risk factors currently evaluated in DU Version 8.3.

Retirement of Expanded Approval Recommendations

With DU Version 8.3, EA-II and EA-III recommendations were no longer returned for loan casefiles submitted to DU, except those underwritten as DU Refi Plus. With DU Version 9.0, the retirement of the Expanded Approval (EA) recommendations will be completed and the EA-I recommendation will no longer be returned. As the Refer with Caution/IV recommendation is also considered an EA recommendation, it will be replaced with a recommendation of Refer with Caution.

EA-I, EA-II, and EA-III recommendation levels will continue to be returned for DU Refi Plus loan casefiles; however, the number of DU Refi Plus loan casefiles that receive an Approve recommendation will be expanded due to an update to the credit risk assessment.

The following are the recommendations that will be returned with DU Version 9.0:

DU Recommendations	DU Refi Plus Recommendations
Approve/Eligible	Approve/Eligible
Approve/Ineligible	Approve/Ineligible
Refer with Caution	EA-I/Eligible
	EA-I/Ineligible
	EA-II/Eligible
	EA-II/Ineligible
	EA-III/Eligible
	EA-III/Ineligible
	Refer with Caution
Out of Scope	Out of Scope
Error	Error

Updated Maximum LTV/CLTV/HCLTV Ratios for ARMs

The maximum LTV/CLTV/HCLTV ratios for adjustable-rate mortgages (ARMs) are being modified. The ratios for ARMs will be reduced from 97% to 90% for 1-unit, principal residence, purchase and limited cash-out refinance (LCOR) transactions. For all other ARM transactions, the ratios will be reduced 10 percentage points, though the reductions will not go below 60% (e.g., the ratios for a 1-unit, principal residence, cash-out refinance transaction will be reduced from 85% to 75% for ARMs).

For adjustable-rate mortgage loans that are subject to a Community Seconds[®] loans, the maximum CLTV will no longer be 105%. ARM loans with a Community Second will be limited to the maximum stated CLTV for the transactions (e.g., the CLTV for a 1-unit, principal residence, purchase transaction will be limited to a 90%, even when subject to a Community Second).

Note: For those loan casefiles that are ineligible because the ratios exceed the maximum allowed for an ARM, lenders are encouraged to offer the borrower(s) a fixed-rate mortgage loan because the borrower(s) would likely be eligible for a fixed-rate mortgage loan at higher LTV/CLTV/HCLTV ratios.

Appendix A highlights the changes that will be made to the ratios. The Desktop Underwriter Maximum Allowable LTV Ratios chart in the [Eligibility Matrix](#) will be updated with DU Version 9.0.

Other Updates to Maximum LTV/CLTV/HCLTV Ratios

DU Version 9.0 will reflect changes to the maximum LTV/CLTV/HCLTV ratios for the following fixed-rate transactions:

- Two-unit principal residence, purchase and LCOR transactions being increased from 80% to 85%;
- Cooperative principal residence, purchase transactions being increased from 95% to 97%;
- Cooperative principal residence, LCOR transactions being increased from 90% to 97%;
- Cooperative second home, LCOR transactions being increased from 75% to 90%;
- HomeStyle Renovation LTV ratios being aligned with standard underwriting requirements up to a maximum ratio of 95%;
- High-balance mortgage, LCOR transactions with a loan amount greater than \$625,500 being increased from 80% to 90% (this change only impacts four counties in Hawaii; there is no increase in the high-balance loan limits); and
- Construction, principal residence, purchase and LCOR transactions being increased from 90% to 97% (as specified in Announcement SEL-2012-01).

The maximum ARM LTV ratios for the transactions above will also be changed. Appendix A highlights the changes that will be made to the ratios. The Desktop Underwriter Maximum Allowable LTV Ratios chart in the [Eligibility Matrix](#) will be updated with DU Version 9.0.

Updated Appraisal Documentation Recommendations

The following exterior-only property inspection appraisals and the DU property inspection reports will no longer be offered by DU with DU Version 9.0:

- Exterior-Only Inspection Residential Appraisal Report (Form 2055)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)
- Exterior-Only Inspection Individual Cooperative Interest Appraisal Report (Form 2095)
- Desktop Underwriter Property Inspection Report (Form 2075)

DU Version 9.0 will recommend one of the following (based on the type of property):

- 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.

Updated Project Review Requirements

A limited project review will no longer be permitted on principal residences in condominium projects when the LTV/CLTV/HCLTV is greater than 80%. DU will require a full project review on principal residences in condominium projects when the LTV/CLTV/HCLTV is greater than 80%.

DU Refi Plus Enhancements

With Announcement SEL-2012-04, Fannie Mae further enhanced and clarified many DU Refi Plus™ and Refi Plus requirements, including allowing the simultaneous refinance of an existing subordinate lien. DU will be updated to align with those policy changes. The enhancements below will be made to DU Refi Plus.

Simultaneous refinance of subordinate liens

DU Version 9.0 will be updated to allow for the simultaneous refinancing of a subordinate lien on DU Refi Plus loan casefiles, provided that the new loan amount does not exceed the existing unpaid principal balance of the subordinate lien.

Updated documentation requirements when removing borrowers

With Announcement 2012-04 the payment history documentation requirements that were needed with the DU Refi Plus transaction when an original borrower was being removed from the loan were removed. The DU message issued when it appears a borrower is being removed with the transaction will be updated to remove those documentation requirements.

SSN matching

Currently in order for a loan casefile to be underwritten as DU Refi Plus, at least one of the Social Security numbers (SSN) on the existing loan must exactly match one SSN on the loan casefile. With DU Version 9.0,

the SSN matching will be updated to require only an eight digit SSN match. When the SSN match does occur by only eight digits (instead of nine), the following message will be issued in order for the lender to ensure the borrower(s) on the loan casefile is the borrower(s) on the currently loan.

The Social Security numbers on the existing Fannie Mae loan associated with the subject property are one digit different when compared to those entered on the loan application. The accuracy of the SSN on the loan application must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN on the loan application is determined to be correct, the lender must represent and warrant that the borrowers on the existing Fannie Mae loan are the same borrowers that will be on the new loan. Acceptable documentation from the existing loan to confirm that the borrowers are the same on the new loan include a recent mortgage statement, the existing mortgage note or security instrument, or the most recent Form 1098.

Updated Income Documentation Requirements

Announcement SEL-2012-04 specified changes to income and employment policies. DU Version 9.0 will include updates to reflect those policy changes, as well as the changes specified below.

Employment Income Documentation Requirements

To ensure that adequate information is obtained to calculate and assess income, DU will align with manual underwriting employment and income policies. Exceptions to this alignment will be made for salary or hourly borrowers, who will only be required to provide a paystub and a W-2 covering the most recent year; and for those borrowers eligible for DU Refi Plus.

The following employment and income documentation requirements will be issued with DU Version 9.0:

Income Type	DU Documentation	DU Refi Plus Documentation
Base Pay (salary or hourly)	Paystub + W-2 covering most recent year	Paystub only
Bonus, Overtime, and Commission < 25%	Paystub + W-2s covering most recent two-year period	Paystub only
Commission ≥ 25%	Paystub, W-2s, and personal tax returns covering most recent two-year period	Personal tax return covering most recent year
Self-Employment	Personal and business tax returns covering most recent two-year period	Personal tax return covering most recent year
Second Job, not self-employed	Paystub + W-2s covering most recent two-year period	Paystub + W-2s covering most recent two-year period
Second Job, self-employed	Personal and business tax returns covering most recent two-year period	Personal and business tax returns covering most recent two-year period

Alimony and Child Support Documentation Requirements

DU will align with the change made to alimony and child support requirements for manually underwritten loans specified in Announcement SEL-2012-04. A minimum of six months of documented receipt of income will be required for alimony and child support income for all DU Version 9.0 loan casefiles.

Other Sources of Income Added to Online Loan Application

With DU Version 9.0 the following income types will be added to the online loan application:

- Capital Gains
- Employment-Related Assets
- Foreign Income
- Royalty Payment
- Seasonal Income
- Temporary Leave
- Tip Income

Support of these values will ensure that DU will issue a message specific to how each income type will need to be documented, as specified in the Fannie Mae *Selling Guide*.

These new income types will be added to the Other Income section of the online loan application in the Desktop Originator[®] (DO[®])/DU User Interface the weekend of October 20, 2012.

Note: DU Version 8.3 will not be updated to accept these income types. If these income types are passed to DU on a DU Version 8.3 loan casefile, the income will not be included in the income or debt-to-income ratio calculations.

Users may continue to send the income types as “Other Types of Income” to DU Version 9.0, but will not receive the specific messages being added with DU Version 9.0.

Updated Requirements for High-Balance Mortgage Loans

High-balance mortgage loan casefiles that are underwritten through DU will no longer be subject to the specific minimum credit score requirements for high-balance mortgage loans. High-balance mortgage loan casefiles will only be subject to the standard minimum credit score requirements applied to DU loan casefiles (620 for fully-amortizing loan casefiles, 720 for interest-only loan casefiles).

Updates to the DU Underwriting Findings Report

The DU Underwriting Findings Report will be updated with DU Version 9.0.

Summary Section

The Summary section will be updated to include the date of the first submission of the loan casefile, as noted in red below.

SUMMARY

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	My Loan Number	Casefile ID	1234567890
Submission Date	12/01/2012 03:18PM	Submitted By	User ID
First Submission Date	10/22/2012 01:07 PM	DU Version	9.0
Submission Number	5		

Funds Section

The Funds section in the Underwriting Analysis Report will be updated to include modified field names and new fields, as noted in red below.

FUNDS

Total Available Assets	\$0.00	Cash Back	\$0.00
Funds Required to Close	\$0.00	Net Cash Back/Shortage	\$0.00
Reserves Required to be Verified	\$0.00	Excess Available Assets, not required to be verified by DU	\$0.00
Total Funds to be Verified	\$0.00	***Filling out the lower right portion of the 1008 might be a good idea going forward - Charles Dailey***	

The new and modified fields in the Funds section will assist lenders in determining when a loan casefile must be resubmitted to DU when the amount of funds required to close changed at or prior to closing. The DU Resubmission Policy will be updated in an upcoming *Selling Guide* update to include a tolerance for asset changes.

Miscellaneous

Construction-to-Permanent Updates

Announcement SEL-2012-01 updated the requirements for conversion of construction-to-permanent mortgage loan financing to eliminate the complexity associated with the current policies and to better align these transactions with the standard requirements. DU will be updated to implement the policy changes specified in the announcement, and also to use the “single-closing” and “two-closing” terminology, instead of “one-time close” and “two-time close”.

Verification of Funds for 30-Day Charge Accounts

Lenders will be required to document that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts. DU will be updated to include the balance of all 30-day charge accounts in the Total Funds to be Verified, as shown on the DU Underwriting Findings Report.

Note: Accounts that are marked as “Omit” will not be included in the funds needed to be verified.

This will mean you'll need a statement on all balance monthly cards in your file

Reserve Requirements for 2-4 Unit Principal Residence Transactions

To align with the requirements for manually underwritten loans, a minimum of six months of reserves will be required for 2-4 unit principal residence transactions. This will be reflected in the Total Funds to be Verified, as shown on the DU Underwriting Findings report. This reserve requirement will not apply to DU Refi Plus transactions.

Manual Reserve Calculations for Specific Transactions

In certain cases, DU is unable to determine the reserve requirements for the transaction. With DU Version 9.0 loan casefiles, on those transactions where DU is unable to determine the reserve requirements, lenders must perform a manual calculation of the required minimum reserves for the transaction. To determine the total amount of assets to be verified for the transaction, lenders will be required to add the amount of Total Funds to be Verified (as specified on the DU Underwriting Findings report) to the minimum reserve requirements specified in the Fannie Mae *Selling Guide* for the following scenarios:

- Principal residence transactions where the current principal residence is pending sale, converting to a second home, or converting to an investment property; and
- borrowers who will have 5-10 financed properties.

The total amount of assets to be verified, per the guidance above, must be reflected in the Asset section of the loan application. A future update of the *Selling Guide* will reflect this guidance.

Disputed Tradeline Message Update

The logic that issues the disputed tradeline message will be updated, and as a result, the message will be issued on a smaller number of loan casefiles in DU Version 9.0. As a reminder, if DU does not issue the disputed tradeline message, the lender is not required to further investigate the disputed tradeline on the credit report, obtain an updated credit report (with the tradeline no longer disputed), or manually underwrite the loan. However, the lender is required to ensure that the payment for the tradeline, if any, is included in the total expense ratio if the account does belong to the borrower.

Additional Out of Scope Transactions

With DU Version 9.0, the following transactions will receive an Out of Scope recommendation:

- Purchase, construction, and cash-out refinance transactions with a CLTV over 105%; and
- balloon transactions with a loan amortization term exceeding 30 years.

Updated Project Classification Codes

The following Project Classification Codes will be removed:

- T-PUD
- T-CO-OP

These project classification codes are not currently used by DU. Removal of these project classification codes within your system(s) prior to the release of DU Version 9.0 will not impact loan casefile submissions to DU.

These Project Classification Codes will be removed from the DO/DU User Interface the weekend of October 20, 2012.

New Estimated Value Appraisal Message

A new message will be issued to remind users to enter the appraised value when an appraisal is obtained. This message will be issued when the user indicates in the Additional Data section of the online loan application that the appraised value entered is Estimated.

Based on the Actual vs. Estimated Appraised Value Indicator on the online loan application, the loan casefile was underwritten using an estimated value. When an appraisal for the transaction is obtained (if applicable), the appraised value on the online loan application must be updated with the value from the appraisal, and the loan casefile resubmitted to DU.

Retired Subordinate Financing SFCs

As specified in Announcement 2011-13, the following Special Feature Codes (SFCs) are no longer required upon delivery (effective March 1, 2012). These SFCs will be removed from DU:

- 187: Mortgage Subject to 80-10-10 Subordinate Financing
- 338: Mortgage Subject to 80-15-5 or 90-5-5 Subordinate Financing
- 339: Mortgage Subject to 75-20-5 Subordinate Financing

Refinance Messages

The messages that are issued on cash-out and limited cash-out refinance transactions will be updated to state that continuity of obligation, if applicable, must be met, and to refer to the Fannie Mae *Selling Guide* for additional information.

Document Expiration Messages

The document expiration messages will be updated in order to reference the note date, instead of the closing date.



Miscellaneous Message Text Changes

Various other DU messages will be updated with DU Version 9.0 in order to provide clarity and consistency with the Fannie Mae *Selling Guide*.

Retirement of DU Version 8.2

With the release of DU Version 9.0, DU Version 8.2, which went into production the weekend of December 11, 2010, will be retired. Therefore, effective the weekend of October 20, 2012, customers will no longer be able to resubmit loan casefiles to DU Version 8.2; however, customers will continue to be able to view online loan applications and DU Underwriting Findings Reports that were created under DU Version 8.2. To obtain an updated underwriting recommendation after the weekend of October 20, customers must create a new loan casefile and submit it to DU.

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae customer account team; and mortgage brokers should contact their DO sponsoring wholesale lender.

Appendix A: Updated Maximum LTV/CLTV/HCLTV Ratios

The following only highlights changes to the LTV/CLTV/HCLTV ratios. The Desktop Underwriter Maximum Allowable LTV Ratios chart in the [Eligibility Matrix](#) will be updated with DU Version 9.0. **Changes below are shown in bold.**

Maximum Allowable LTV Ratios Effective with DU Version 9.0 (Excludes High-Balance)					
Transaction Type	Occupancy	#Units	Amortization and Property Restrictions	Maximum LTV/CLTV/ HCLTV	
Standard Eligibility Requirements					
Purchase Construction Limited Cash-Out Refinance (LCOR)	Principal	1	Co-op Fully amortizing	FRM: 97%/NA/NA ARM: 90%/NA/NA	
		1	Fully amortizing	FRM: 97/97/97% ARM: 90/90/90%	
		1	Interest-only	70/70/70%	
		2	Fully amortizing	FRM: 85/85/85% ARM: 75/75/75%	
		3 - 4	Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%	
	Second Home	1	Co-op Fully amortizing	FRM: 90%/NA/NA ARM: 80%/NA/NA	
		1	Fully amortizing	FRM: 90/90/90% ARM: 80/80/80%	
			Interest-only	70/70/70%	
	Investment	1	Purchase Fully amortizing	FRM: 85/85/85% ARM: 75/75/75%	
			LCOR Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%	
			2 - 4	Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%
	Cash-Out Refinance	Principal	1	Co-op Fully amortizing	FRM: 85%/NA/NA ARM: 75/NA/NA
1			Fully amortizing	FRM: 85/85/85% ARM: 75/75/75%	
2 - 4			Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%	
Second Home		1	Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%	
Investment		1	Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%	
		2 - 4	Fully amortizing	FRM: 70/70/70% ARM: 60/60/60%	

Maximum Allowable LTV Ratios Effective with DU Version 9.0

(Excludes High-Balance)

Transaction Type	Occupancy	#Units	Amortization and Property Restrictions	Maximum LTV/CLTV/ HCLTV
MyCommunityMortgage® (MCM®)				
Purchase Limited Cash-Out Refinance	Principal	1	Fully amortizing	FRM: 97/97/97% ARM: 90/90/90%
		2	Fully amortizing	FRM: 95/95/95% ARM: 90/90/90%
		3 – 4	FRM Fully amortizing	95/95/95%
Manufactured Housing				
Purchase Limited Cash-Out Refinance	Principal	1	Fully amortizing Term ≤ 30 years	FRM: 95/95/95% ARM: 90/90/90%
	Second	1	Fully amortizing Term ≤ 30 years	FRM: 90/90/90% ARM: 80/80/80%
Cash-Out Refinance	Principal	1	Fully amortizing Term ≤ 20 years	FRM: 65/65/65% ARM: 60/60/60%
HomeStyle® Renovation Mortgages				
Purchase Limited Cash-Out Refinance	Principal	1	Co-op Fully amortizing	FRM: 95%/NA/NA ARM: 90%/NA/NA
		1	Fully amortizing	FRM: 95/95/95% ARM: 90/90/90%
		2	Fully amortizing	FRM: 85/85/85% ARM: 75/75/75%
		3 - 4	Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%
	Second Home	1	Co-op Fully amortizing	FRM: 90%/NA/NA ARM: 80%/NA/NA
		1	Fully amortizing	FRM: 90/90/90% ARM: 80/80/80%
	Investment	1	Purchase Fully amortizing	FRM: 85/85/85% ARM: 75/75/75%
			LCOR Fully amortizing	FRM: 75/75/75% ARM: 65/65/65%
DU Refi Plus™				
Limited Cash-Out Refinance	Principal	1-4	DU Refi Plus Requirements	No LTV/CLTV/HCLTV cap
	Second Home	1		
	Investment	1 - 4		

High-Balance Mortgage Loans Maximum Allowable LTV Ratios Effective with DU Version 9.0		
Transaction Type	Number of Units	Maximum LTV/CLTV/HCLTV
Principal Residence		
Purchase	1 Unit No Co-ops MH	FRM: 90/90/90% ARM: 75/75/75% IO: 70/70/70%
	1 Unit Co-op	FRM: 90%/NA/NA ARM: 75%/NA/NA
	2 – 4 Units	FRM: 75/75/75% ARM: 65/65/65%
Limited Cash-Out Refinance	1 Unit MH	FRM: 90/90/90% ARM: 75/75/75% IO: 70/70/70%
	1 Unit Co-op	FRM: 90/NA/NA ARM: 75/NA/NA
	2 – 4 Units	FRM: 75/75/75% ARM: 65/65/65%
Cash-Out Refinance	1 Unit No Co-ops MH	FRM/ARM: 60/60/60%
	1 Unit Co-op	FRM/ARM: 60%/NA/NA
	2 – 4 Units	N/A
Second Home		
Purchase Limited Cash-Out Refinance	1 Unit No Co-ops MH	FRM/ARM/IO: 65/65/65%
	1 Unit Co-op	FRM/ARM: 65%/NA/NA
Investment Property		
Purchase Limited Cash-Out Refinance	1 – 4 Units	FRM/ARM: 65/65/65%