

Desktop Originator/Desktop Underwriter Release Notes DU Version 9.1

August 20, 2013

Updated August 22, 2013

Updated September 10, 2013

Updated October 22, 2013

Updated November 12, 2013

During the **weekend of November 16, 2013**, Fannie Mae will implement Desktop Underwriter[®] (DU[®]) Version 9.1, 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 November 16, 2013. Loan casefiles created in DU Version 9.0 and resubmitted after the weekend of November 16 will continue to be underwritten through DU Version 9.0.

November 12, 2013: The following change is being made to these Release Notes:

The *Maximum Allowable Debt-to-Income Ratio and Minimum Credit Score Requirements* section on page 4 has been updated to clarify that the lender must determine if the loan casefile is either a higher-priced mortgage loan under Regulation Z, which covers principal residences; or a higher-priced covered transaction under Regulation Z, which covers principal residences and second homes, and only applies to loan applications taken on or after January 10, 2014.

Note: The Selling Guide will be updated to reflect the clarification regarding higher-priced covered transactions in a future guide update, which will apply to both DU Refi Plus and Refi Plus mortgage loans.

October 22, 2013: The following change is being made to these Release Notes:

The *New Messages for Foreclosure, Deed-in-Lieu of Foreclosure and Preforeclosure Sale* section on page 7 of these release notes has been removed. At this time, DU will not utilize information Fannie Mae has on loans that have been liquidated due to a foreclosure, a deed-in-lieu of foreclosure, or a preforeclosure sale; and the messages based on this information will no longer be added with DU Version 9.1.

Note: The Selling Guide will be updated to reflect this change in a future guide update.

September 10, 2013: The following changes are being made to these Release Notes:

The *Maximum Allowable Debt-to-Income Ratio and Minimum Credit Score Requirements* sections below have been combined. DU will not apply additional requirements of a maximum debt-to-income ratio (DTI) of 45%, or a minimum representative credit score of 620 to DU Refi Plus loan casefiles that will have an increased principal and interest payment. However, DU will issue a new message on all DU Refi Plus loan casefiles stating that the lender must determine if the loan casefile is a higher-priced mortgage loan (HPML) under Regulation Z, and if so, must manually apply the maximum DTI and minimum representative credit score requirements. Refer to page 4 of these Release Notes for additional information.

The *LTV/CLTV/HCLTV Ratio Cap Lowered to 95%* section below has been updated to include information on the timeframes in which mortgage loans exceeding the maximum LTV/CLTV/HCLTV ratio of 95% must be delivered to Fannie Mae. Refer to page 5 of these Release Notes for additional information.

An additional Remarks Code used to identify a previous deed-in-lieu of foreclosure has been added to the *Identifying a Deed-in-Lieu of Foreclosure or Preforeclosure Sale* section. Refer to page 5 of these Release Notes for additional information.

August 22, 2013: The following change is being made to these Release Notes:

Two new sections have been added below regarding enhancements to the foreclosure, deed-in-lieu of foreclosure, and preforeclosure sale messages that are issued by DU. Refer to pages 5, 6, and 7 of these Release Notes for additional information.

Ability to Repay and Qualified Mortgages

Selling Guide Announcement SEL-2013-06 specified policy changes made to comply with the “ability to repay” provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rule generally requires lenders to make a reasonable, good faith determination of a consumer’s ability to repay before originating a mortgage loan and establishes certain protections from liability for “qualified mortgages.” The ability to repay rule will take effect for applications dated on or after January 10, 2014, and the following updates will be made with DU Version 9.1 in support of these changes.

As a reminder, DU will not evaluate a loan’s compliance with federal and state laws and regulations or whether it meets certain legal standards. DU will not consider a loan’s potential status as a qualified mortgage. Lenders bear sole responsibility for that determination and for compliance with applicable requirements.

Note: In order to help lenders prepare for compliance with the rule, these changes will apply to all DU Version 9.1 loan casefiles created on or after the weekend of November 16, 2013, ahead of the January 10, 2014 application date.

Retirement of the Interest-only Feature and 40-year Terms

With DU Version 9.1, loan casefiles with a repayment type of interest-only, loan casefiles underwritten using an interest-only ARM plan, loan casefiles with amortization terms greater than 360 months, and loan casefiles underwritten using a 40-year ARM will receive an Out of Scope recommendation from DU.

Updated Qualifying Rate Requirements

DU Version 9.1 will qualify all 7/1 and 10/1 Fannie Mae ARMs at the greater of the fully indexed rate or note rate. DU will use the following interest rates to determine the proposed PITI used when qualifying the borrower:

Mortgage Type	Qualifying Interest Rate
Fixed-Rate Mortgages	Note Rate
6-Month to 5-Year ARMs ¹	Greater of the fully indexed rate or the note rate + 2.0%
7- to 10-Year ARMs ¹	Greater of the fully indexed rate or the note rate
Lender ARM Plans	
Lender ARM Plans	Interest rate entered in the <i>ARM Qualifying Rate</i> field. If an interest rate is not entered, DU uses the note rate + 2.0%.

¹ The fully indexed rate is defined here as the index plus the margin as entered in the online loan application. The index and margin are required for all Fannie Mae ARM loans submitted to DU.

Requirement for Index and Margin

In order for the fully indexed rate to be determined, the index and margin must be entered into DU. If the index and margin are not included in the loan casefile submission to DU, the loan casefile will receive an Ineligible

recommendation, and a message will be issued letting the user know that they should enter the correct index and margin data and resubmit the loan casefile to DU.

DU Refi Plus Enhancements

The DU Refi Plus™ enhancements below will be made with DU Version 9.1.

Retirement of Estimated Value Message

The Consumer Financial Protection Bureau (CFPB) issued a rule under ECOA to require creditors to provide mortgage applicants with free copies of all appraisals and any other written valuations that were developed in connection with a loan application. The requirement takes effect in January 2014.

In preparation of the new regulation, the message issued on DU Refi Plus loan casefiles that specifies the estimated value of the property used by DU to determine eligibility for the DU Refi Plus property fieldwork waiver will no longer be issued on DU Version 9.1 loan casefiles. This change will decrease the number of property valuations that lenders are required to provide to their borrowers under the new regulation, and will help minimize borrower confusion by reducing the possibility of multiple and sometimes inconsistent values being reported to the borrower on the same property.

Note: The retirement of the message specifying the estimated value for the property will in no way impact the number of loan casefiles that are eligible for the DU Refi Plus property fieldwork waiver.

Retirement of Expanded Approval Recommendations

With DU Version 9.1, the retirement of Expanded Approval (EA) recommendations will be completed and EA recommendations will no longer be returned. DU Version 9.1 loan casefiles will only receive Approve/Eligible, Approve/Ineligible, Refer with Caution, Out of Scope, and Error recommendations.

Note: Since EA-I, EA-II, and EA-III recommendation levels will no longer be returned for DU Refi Plus loan casefiles, the number of DU Refi Plus loan casefiles that receive an Approve recommendation will be expanded.

DU will no longer issue the standard Approve/Eligible messages stating the risk profile of this loan casefile appears to meet Fannie Mae's guidelines and that the loan casefile appears to meet Fannie Mae eligibility requirements on DU Refi Plus loan casefiles. DU will issue a new message on Approve/Eligible DU Refi Plus loan casefiles stating, "This loan casefile appears to meet the expanded risk assessment and eligibility guidelines offered on DU Refi Plus loan casefiles."

Updates to the DU Underwriting Findings Report

The DU Underwriting Findings report and the Underwriting Analysis Report will be updated with DU Version 9.1 for DU Refi Plus loan casefiles. The sections that specify the Recommendation will be updated to make it clear that the recommendation received was based on the expanded eligibility offered on DU Refi Plus.

SUMMARY

DU Refi Plus Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	My Loan Number	Casefile ID	1234567890
Submission Date	12/03/2013 01:54PM	Submitted By	User ID
First Submission Date	11/19/2013 12:34PM	DU Version	9.1
Submission Number	6		

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Underwriting Analysis Report

DU Refi Plus Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	My Loan Number	Casefile ID	1234567890
Submission Date	12/03/2013 01:54PM	Submitted By	User ID

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The **DU Refi Plus** recommendation for this case is: **Approve/Eligible**

Maximum Allowable Debt-to-Income Ratio and Minimum Credit Score Requirements

Updated November 12, 2013: *The section below has been updated to address both higher-priced mortgage loans and higher-priced covered transactions.*

Updated September 10, 2013: *The two topics have been combined and the DU enhancement has been updated.*

Because DU does not have the ability to determine if a loan casefile is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z, DU will issue a message on all DU Refi Plus loan casefiles stating that the lender must determine if the DU Refi Plus loan casefile is either a higher-priced mortgage loan or a higher-priced covered transaction. If the lender does determine that the loan casefile is either a higher-priced mortgage loan or a higher-priced covered transaction, the lender must then manually confirm that the loan casefile has a representative credit score of 620 or more and a debt-to-income ratio of 45% or less in order for the loan to be eligible for delivery to Fannie Mae.

Significant Derogatory Credit

To align with manual Refi Plus guidelines, the standard waiting period and re-establishment of credit criteria following a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or preforeclosure sale is being removed for DU Refi Plus loan casefiles. DU will issue a message on loan casefiles for borrowers with a previous bankruptcy, foreclosure, deed-in-lieu of foreclosure, or preforeclosure sale letting the lender know that DU did identify the event and that the loan casefile would be eligible for delivery to Fannie Mae, regardless of when the event occurred.

DU will also not require the lender to investigate judgments, bankruptcies, foreclosures, or lawsuits declared by the borrower in the Declarations section of the loan application on DU Refi Plus loan casefiles.

Updated Non-Employment Income and Asset Messages

The non-employment income messages and asset messages will be updated to match the requirements specified in *Selling Guide* Announcement SEL-2012-09. Lenders will no longer need to use the [Job Aid for Compliance with DU Income and Assets Documentation Requirements for DU Refi Plus Loan Casefiles](#) for DU Version 9.1 loan casefiles.

Enhanced Address Matching

DU uses the "standardized" property address to establish a match with an existing loan to determine if the loan casefile is eligible to be refinanced using DU Refi Plus. With DU Version 9.1, DU will use the standardized property address to match to the DU Refi Plus database, but if a match is not found, DU will then use the property address as entered on the online loan application.

Enhanced Social Security Number Matching

Currently DU requires an eight digit Social Security Number (SSN) match in order to underwrite a loan casefile as DU Refi Plus. With DU Version 9.1, the SSN matching will be updated to require only a seven digit SSN match. When the SSN match does occur by only seven or eight digits (instead of nine), DU will issue a

message requiring the lender to ensure the borrower(s) on the loan casefile is the borrower(s) on the current loan.

Updated Leasehold Requirements

To align with manual Refi Plus guidelines, DU Refi Plus mortgage loans securitized by leasehold properties will no longer need to verify that the terms of the leasehold estate comply with the requirements of the *Selling Guide*. Lenders will need to confirm that the term of the leasehold estate runs for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date.

LTV/CLTV/HCLTV Ratio Cap Lowered to 95%

DU Version 9.1 will reflect lower maximum LTV/CLTV/HCLTV ratios for standard and MyCommunityMortgage[®] (MCM[®]) fixed-rate transactions secured by a 1-unit primary residence. Those transactions will be subject to a maximum LTV/CLTV/HCLTV ratio of 95% (instead of 97%). DU will continue to allow CLTV ratios of 105% when the subordinate financing is a Community Seconds[®] mortgage.

Note: HFA loans submitted to DU are subject to separate LTV/CLTV ratios. For specific HFA guidelines, lenders should contact their state Housing Finance Agency (HFA), and mortgage brokers should contact their DO sponsoring wholesale lender. As a reminder, lenders must have approval to deliver HFA loans to Fannie Mae.

Delivery Considerations

Added September 10, 2013: *The following information is new to these Release Notes.*

Fannie Mae is implementing a flow delivery cut-off for mortgage loans exceeding the maximum LTV/CLTV/HCLTV ratio of 95%.

- All whole loans must be committed in eCommitting[™] or eCommitONE[®] on or before June 30, 2014, and purchased by Fannie Mae on or before July 31, 2014.
- All loans in MBS must have issue dates on or before July 1, 2014.

After this time, Fannie Mae will consider deliveries of loans exceeding the maximum LTV/CLTV/HCLTV on a negotiated basis only.

Deed-in-Lieu of Foreclosure and Preforeclosure Sale Message Updates

Added August 22, 2013: *The following information is new to these Release Notes.*

The DU treatment of loan casefiles for borrowers with a previous deed-in-lieu of foreclosure or preforeclosure sale, as reflected in the credit report data, is being updated with DU Version 9.1.

Identifying a Deed-in-Lieu of Foreclosure or Preforeclosure Sale

Updated September 10, 2013: *An additional Remarks Code used to identify a previous deed-in-lieu of foreclosure has been added.*

When reviewing the credit report data, DU will consider a mortgage or home equity line of credit (HELOC) as one that was subject to a prior deed-in-lieu of foreclosure (DIL) when there is a Remarks Code associated with the credit report tradeline of T0060, T0061, T0213, or E0085; and will consider a mortgage or HELOC as one that was subject to a prior preforeclosure sale (PFS) when there is a Remarks Code associated with the credit report tradeline of E0047, T0140, or R0107.

For DIL and PFS tradelines, there is not a date on the credit report specifically related to each Remarks Code. Because of this incomplete credit data reporting structure, DU will not be able to determine when the DIL or PFS occurred.

When DU identifies a DIL or PFS using a Remarks Code, a message will be issued stating that a DIL or PFS was identified and that the lender must confirm the accuracy of the information. The message will also require that the lender document that the event was completed two or more years from the credit report date, and the loan casefile must comply with all other requirements specific to a DIL or a PFS, as specified in the *Selling Guide*.

In the event that a foreclosure is also identified on the tradeline based on one of the following:

- a current manner of payment (MOP) of “8,”
- a maximum delinquency MOP of “8,”
- a MOP in the MOP history grid of “8,” or
- a Remarks Code that indicates a foreclosure;

then that foreclosure information will be used by DU and the account will be considered a foreclosure.

Underwriting when Conflicting or Inaccurate Foreclosure Information Provided on DIL or PFS Tradeline

Fannie Mae has been made aware that there are often inconsistencies in the credit data when DIL and PFS events occur, and in an effort to assist borrowers in obtaining a new loan in an appropriate timeframe, DU will be updated to disregard the foreclosure information on the credit report when instructed to do so by the lender on the online loan application.

When DU identifies a foreclosure on a credit report tradeline that appears to be one that was subject to a DIL or PFS, the lender may instruct DU to disregard the foreclosure information on the credit report by entering “Confirmed CR DIL” or “Confirmed CR PFS” in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When DU sees this indication, the foreclosure information on the credit report tradeline that also has a DIL or PFS Remarks Code will not be used.

DU will issue a message stating that the foreclosure information included on the account was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without the reported foreclosure information. The lender must then document that the account was subject to a DIL or PFS, that the event was completed two or more years from the credit report date, and the loan casefile complies with all other requirements specific to a DIL or PFS, as specified in the *Selling Guide*.

Note: When more than one item needs to be entered in the Explanation field, the items must be separated by a comma. For example, when the borrower has conflicting foreclosure and DIL information on one tradeline and conflicting foreclosure and PFS information on another, the lender may instruct DU to disregard the foreclosure information on those tradelines by entering “Confirmed CR DIL, Confirmed CR PFS.”

The following is a screen shot of the Desktop Originator® (DO®)/DU User Interface that shows question c., the Explanation field, and examples of how the data should be entered on the online loan application:

	Borrower 1	Borrower 2
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	Yes ▾	No ▾

	Borrower 1	Borrower 2
a.		
b.		
c.	Confirmed CR DIL, Confirmed CR PFS	

For questions regarding the support of this field by a lender's loan origination system, lenders should contact their technical support team, and may also contact their Fannie Mae Account Team for additional assistance.

New Messages for Foreclosure, Deed-in-Lieu of Foreclosure and Preforeclosure Sale

Updated October 22, 2013: This section has been removed from these Release Notes. At this time, DU will not utilize information Fannie Mae has on loans that have been liquidated due to a foreclosure, a deed-in-lieu of foreclosure, or a preforeclosure sale; and the messages based on this information will no longer be added with DU Version 9.1.

2013 Area Median Income Limits

During the weekend of November 16, 2013, DU will be updated to reflect the 2013 Area Median Incomes (AMIs). The 2013 AMIs will be used to determine eligibility for MyCommunityMortgage loan casefiles submitted to DU Version 9.1 or resubmitted to DU Version 9.0 on or after the weekend of November 16, 2013.

The DO/DU user interface will also be updated during the weekend of November 16, 2013 to reflect the 2013 AMIs and changes to the MSA and non-MSA counties, as applicable.

Retirement of DU Version 8.3

With the release of DU Version 9.1, DU Version 8.3, which went into production the weekend of August 20, 2011, will be retired. Therefore, effective the weekend of November 16, 2013, customers will no longer be able to resubmit loan casefiles to DU Version 8.3; however, customers will continue to be able to view online loan applications and DU Underwriting Findings reports that were created under DU Version 8.3. To obtain an updated underwriting recommendation after the weekend of November 16, customers must create a new loan casefile and submit it to DU.

Updates to Align with the *Selling Guide*

Updates to Employment and Income Messages

DU Version 9.1 will be updated to reflect clarifications and updates specified in *Selling Guide* Announcement SEL-2013-04. DU employment and income messages will be updated to reflect borrower signature requirements on tax returns, and the specific documentation requirements for Social Security benefits.

Updated Asset Documentation Requirements

The asset documentation requirements will be updated with DU Version 9.1. Lenders will be required to obtain bank statements covering a two-month period to document depository accounts on standard loan casefiles, and will be required to obtain bank statements covering a one-month period to document depository accounts on DU Refi Plus loan casefiles.

Age of Credit Document Message Changes

Selling Guide Announcement SEL-2013-04 also changed the maximum age of income, asset, and credit documents policy such that credit documents can be no more than four months old on the date the note is signed for all mortgage loans (existing and new construction). The messages that remind lenders of this policy will be updated to reflect this change.

Miscellaneous Message Text Changes

Various DU messages will be updated with DU Version 9.1 in order to provide clarity and consistency with the *Selling Guide*.

DO/DU User Interface Updates

The DO/DU User Interface will be updated the weekend of November 16, 2013 to remove all links pointing to the retired efanniemae.com. These links will now point to the business portal on fanniemae.com.

Updates to the Selling Guide and Eligibility Matrix

The *Selling Guide* will be updated to reflect the changes in this release in a future guide update. The Desktop Underwriter Maximum Allowable LTV Ratios chart in the [Eligibility Matrix](#) will also be updated to reflect the changes to the LTV ratios, as well as the retirement of the interest-only feature.

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.