Fannie Mae

DU Version 10.1

Frequently Asked Questions

August 29, 2017

Over the weekend of July 29, 2017, Fannie Mae implemented a Desktop Underwriter® (DU®) release that includes an update to the risk assessment and other significant enhancements. DU Version 10.1 will help lenders serve their borrowers with simpler, more certain underwriting guidelines and fewer manual processes.

The changes in this release include updates to the following:

- DU Risk Assessment
- Maximum Allowable DTI
- Disputed Tradelines
- ARM LTV Ratios
- Self-employment Income Documentation
- DU Validation Service
- Property Inspection Waiver
- Updates to Align with the *Selling Guide*
- Retirement of DU Version 9.3

View the DU Version 10.1 Release Notes for more information.

General

Q1. Do any of the changes made in the DU Version 10.1 apply to FHA or VA loan casefiles underwritten through DU?

No. The enhancements included in DU Version 10.1 only impact conventional loans, not FHA or VA loans underwritten through DU. Lenders will not see the updated guidelines or messages on their FHA or VA loan casefiles. However, lenders may send the new Home Mortgage Disclosure Act (HMDA) data elements related to the collection of borrower ethnicity, race, and gender on FHA and VA loan casefiles underwritten through DU.

Q2. Do DU Version 9.3 or Version 10.0 loans need to be delivered by a certain date?

No. There are no delivery deadlines associated with loans underwritten through DU Version 9.3 or Version 10.0.

Maximum Allowable DTI

Q3. Does the maximum allowable debt-to-income ratio (DTI) of 50% apply to HomeReady® mortgage loan casefiles?

Yes. The 50% DTI cap applies to all DU transactions, other than DU Refi Plus™ (which will continue to be subject to a higher DTI cap), including but not limited to all occupancy types, property types, loan purposes, number of units, and high-balance mortgage loans.

Q4. How does the removal of the compensating factors that were previously required for a DU loan with a DTI over 45% impact the DU risk assessment?

The DU Version 10.1 risk assessment continues to require compensating factors to address the increase in risk associated with a higher DTI. However, this assessment is based solely on the DU risk assessment, without the application of overlays. For additional details, refer to the Perspectives article on this topic.

Disputed Tradelines

Q5. If the loan casefile does not receive an Approve recommendation with the disputed tradeline included in the risk assessment, does the lender have to manually underwrite the loan?

DU will *first* assess the risk *including* the disputed accounts. If an Approve recommendation is received, then no further investigation of the account is required.

If DU is not able to issue an Approve using the disputed account in the risk assessment, DU will then re-assess the risk with the account *excluded*.

If DU issues an Approve recommendation with the account *excluded* from the risk assessment, the lender needs to determine if the account belongs to the borrower and the payment history is accurate.

- If the account does not belong to the borrower, or it does belong to the borrower and the payment history is inaccurate, then no further action is necessary regarding the disputed accounts.
- If the account does belong to the borrower and the payment history is accurate, then the account needs to be taken into consideration in the risk assessment, so the lender would need to manually underwrite the loan.

If DU issues a Refer with Caution recommendation with the accounts *excluded*, the loan is not eligible for delivery as a DU loan.

Q6. If DU was not able to issue an Approve recommendation with the account *included*, but issues an Approve recommendation with the account *excluded*, and the lender determines that the account belongs to the borrower and the payment history is accurate, can a new credit report be ordered with the account no longer reported as disputed and the loan casefile resubmitted to DU?

If a new credit report is ordered with the dispute removed from the account, DU would then include the account in the risk assessment. Since the loan casefile was initially underwritten with the account included in the risk assessment, and DU was not able to issue an Approve recommendation, it is likely that DU would not issue an Approve recommendation using the new credit report with the account no longer disputed unless other risk factors on the loan had improved.

Q7. Is the monthly payment amount for a disputed account included in the DTI when the disputed account is not included in the risk assessment?

The DU DTI calculation is based on the information provided by the lender on the loan application. If the account is included on the loan application, the payment would be included in the DTI.

NOTE: *As specified in Selling Guide section B3-5.3-09: DU Credit Report Analysis, the monthly payments for the disputed tradelines must be included in the debt-to-income ratio if the accounts belong to the borrower.*

Self-Employment Income Documentation

Q8. Is there a minimum number of years the borrower would need to be self-employed for DU to provide the one-year personal and business tax return option?

DU will determine if a loan casefile for a self-employed borrower is eligible for the one-year tax return option based on the overall risk of the loan. The length of the borrower's self-employment is not considered when making that determination.

Q9. Since the determination for the one-year tax return option is based on the overall risk of the loan, if one of the risk factors on the loan changes (i.e., reserves, LTV, etc.) could the documentation requirement change?

Yes. If the overall risk of the loan changes, the DU documentation requirements for the self-employed borrower could change. An increase in risk may cause DU to require two years of personal and business tax returns, a decrease in risk may allow DU to provide the option for only one year.

Updates to Align with the *Selling Guide*

Student Loan Cash-out Refinance

Q10. How will DU be able to determine if an installment loan being paid off with the cash-out refinance transaction is a student loan?

In order for DU to know that the installment loan marked Paid By Close in the liabilities section of the DU loan application is a student loan, it would need to be matched to an account on the credit report that is reported as a student loan. DU does this matching using the account number. To ensure that DU can match the liabilities, the account number on the DU loan application and the account number on the credit report need to match. If the matching account is not reported as a student loan on the credit report (does not reflect an account type of Student or Education Loan), DU will not issue the message.

Q11. If the reported payment on the credit report for a student loan is $0.00, does a payment need to be included in the DTI calculation?

Only in certain circumstances can a $0.00 payment be used for a student loan. Refer to *Selling Guide* section [B3-6-05, Monthly Debt Obligations] for additional information.

DU will also issue a reminder message when there is an installment loan with a $0.00 payment stating that 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.

Employment Offers

Q12. Does the updated employment offer policy that allows a loan to be delivered prior to the borrower starting new employment apply on refinance transactions?

No. This option is only permitted on one-unit, principal residence, purchase transactions.

Q13. Can hourly employees with a contract offer benefit from the updated employment offer policy?

The option that allows the loan to be delivered prior to the borrower starting employment is only available for a borrower receiving a fixed base income. The employment offer must clearly state the borrower has fixed base income (e.g., guaranteed 40 hours/week).

Refer to section B3-3.1-09: Other Sources of Income in the *Selling Guide* for additional information.

Treatment of Timeshares

Q14. The DU Version 10.1 Release Notes stated that DU will now treat all timeshare loans as installment loans. Some DU users have seen loan casefiles with a timeshare account still being considered by DU as a mortgage with a 60-day delinquency. Why is the timeshare account still considered a mortgage?

In DU Version 10.1, when an account is reported as both a mortgage and a timeshare (account type of Mortgage, credit type of Time Shared Loan), DU will not consider the account a mortgage. However, lenders are seeing an account they believe is a timeshare based on the name of the account considered as a mortgage by DU. In these cases, the account is reported as a mortgage but not being reported as a timeshare (credit type is not Time Shared Loan). DU cannot know the account should be treated as a timeshare, and is considering the account a mortgage, and applying the excessive mortgage delinquency policy.

On DU Version 10.1 loan casefiles, if the delinquency on a timeshare is the only reason a loan casefile receives an Approve/Ineligible recommendation, and the lender can document that the account is a timeshare, the lender may deliver the loan to Fannie Mae.

> NOTE: *Lenders can also apply this guidance to DU Version 10.0 loan casefiles where a delinquency on a timeshare is the only reason a loan casefile is receiving an Approve/Ineligible recommendation and the lender can document that the account is a timeshare.*

