

## DU Version 9.1 August Update

### Frequently Asked Questions

August 19, 2014

During the **weekend of August 16, 2014**, Fannie Mae implemented an update to Desktop Underwriter<sup>®</sup> (DU<sup>®</sup>) Version 9.1. The changes included in this release will apply to DU Version 9.1 loan casefiles submitted or resubmitted to DU on or after the weekend of August 16, 2014.

### General

**Q1. Will the changes made in the DU Version 9.1 August Update impact DU Version 9.1 loan casefiles created prior to the weekend of August 16, 2014, and re-underwritten after the weekend of August 16?**

Yes. The changes made with the DU Version 9.1 August Update will impact DU Version 9.1 loan casefiles created prior to the weekend of August 16, 2014, that are re-underwritten after the weekend of August 16.

*NOTE: The 2014 Area Median Income limits will be implemented the weekend of August 16, 2014. MyCommunityMortgage<sup>®</sup> loan casefiles underwritten with DU Version 9.1 or DU Version 9.0 will be subject to the 2014 AMIs.*

**Q2. A few of the policy changes being made with the release are effective for loan applications taken on or after August 16, 2014. What does Fannie Mae mean by “application date?”**

Section E-3-01, Glossary of Fannie Mae Terms: A of the Fannie Mae *Selling Guide* defines application date as follows:

- **Application date:** The date on which receipt of the borrower’s financial information first triggers the federal Truth in Lending disclosure requirements to the borrower in connection with the mortgage loan.

**Q3. Do any of the changes made in the DU Version 9.1 August Update apply to FHA or VA loan casefiles underwritten through DU?**

No. The DU Version 9.1 updates 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.

## Foreclosure Message Updates

- Q4. When there is foreclosure information on a credit report tradeline and the lender instructs DU to disregard the foreclosure information by entering “Confirmed CR FC Incorrect” in the Explanation field for question c. in the Declarations section of the online loan application, can a dash be entered in the Explanation field (e.g., “Confirmed-CR-FC-Incorrect”)?**

No. If a dash or any other character is entered in the text string, DU will not recognize that the lender is instructing DU to disregard the foreclosure information. The lender must only enter the text string specified in the release notes (“Confirmed CR FC Incorrect”).

- Q5. When there are multiple credit report tradelines that are related to a foreclosure due to extenuating circumstances, does the lender need to enter the information in the Explanation field multiples times?**

The lender only needs to enter the information once for each type of event. For example, if there are two tradelines (a first mortgage and a second mortgage) that were both subject to a foreclosure due to extenuating circumstances, the lender would only need to enter “Confirmed CR FC EC” one time and DU will look for all tradelines with foreclosure information.

*NOTE: When the lender needs to enter multiple items for multiple events, a comma **must** be entered between each event. If a comma is not entered, DU will not recognize any of the items entered and will not know that the lender is instructing DU to disregard information.*

- Q6. If my loan origination system (LOS) does not support the Explanation field associated to the Declaration questions, how am I able to underwrite these loan casefiles that receive a Refer with Caution recommendation due to an account being reported with inaccurate information, or because of a foreclosure due to extenuating circumstances?**

Lenders have two options to underwrite loans that receive a Refer with Caution recommendation due to inaccurate foreclosure information or because of a foreclosure due to extenuating circumstances if their LOS does not support the Explanation fields:

- Use the Desktop Originator<sup>®</sup> (DO<sup>®</sup>)/DU User Interface to complete the information in the Explanation field for Declaration c. and resubmit the loan casefile to DU.
- Manually underwrite the loan.

- Q7. The message with instructions on the steps the lender needs to take to inform DU to disregard the foreclosure information is not being issued on all loan casefiles for borrowers with a foreclosure tradeline. Why is DU not issuing the message with the instructions on all loan casefiles for borrowers with a foreclosure?**

The message with the instructions on how to inform DU to disregard the foreclosure information will only be issued if the presence of the foreclosure information on a tradeline is the only reason the loan casefile receives a Refer with Caution recommendation. If the loan casefile receives a Refer with Caution recommendation for a reason other than the presence of the foreclosure information (e.g., a previous bankruptcy, excessive risk, etc.), DU will not issue the message with the instructions since a Refer with Caution recommendation would still be received even if the foreclosure information was not used in the eligibility assessment.

**Q8. Announcement SEL 2014-10 indicates that if a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Will mortgages discharged through a bankruptcy be underwritten in DU using the bankruptcy requirements or the foreclosure requirements?**

If the mortgage tradeline on the credit report is reported as a bankruptcy (manner of payment of 7), the bankruptcy waiting period requirements will be applied by DU. If the mortgage tradeline on the credit report is reported as a foreclosure (manner of payment of 8), the foreclosure waiting period requirements will be applied by DU.

If the loan casefile receives a Refer with Caution recommendation due to a foreclosure identified by DU as taking place in the last seven years, the account was one discharged through a bankruptcy, and the bankruptcy waiting period requirements have been met, the lender may instruct DU to disregard the foreclosure information. This would be done by entering "Confirmed CR FC Incorrect" in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. The lender must then document that the mortgage was discharged through the bankruptcy and that the applicable bankruptcy waiting period requirements have been met.

**Q9. When "Confirmed CR FC EC" is entered into the Explanation field for question c. in the Declarations section of the online loan application will DU then confirm that the three-year waiting period has been met?**

When the lender instructs DU to disregard the foreclosure information on the credit report using "Confirmed CR FC EC" the lender must document that the foreclosure was due to extenuating circumstances, that the foreclosure was completed three or more years from the disbursement date of the new loan, and that the loan complies with all other requirements specific to a foreclosure due to extenuating circumstances, as specified in the Fannie Mae *Selling Guide*. 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, and will remind the lender of these requirements.

*NOTE: Lenders are no longer required to manually underwrite loans for borrowers with a foreclosure due to extenuating circumstances. If DU issues an Approve/Eligible recommendation, the lender would just need to document that the foreclosure was due to extenuating circumstances, that the foreclosure was completed three or more years from the disbursement date of the new loan, and that the loan complies with all other requirements specific to a foreclosure due to extenuating circumstances, as specified in the Fannie Mae Selling Guide.*

**Q10. Since lenders can now underwrite loans for borrowers with a previous foreclosure due to extenuating circumstances through DU, what would be considered extenuating circumstances?**

Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. Additional information on extenuating circumstances can be found in section B3-5.3-08, Extenuating Circumstances for Derogatory Credit of the Fannie Mae *Selling Guide*.

**Q11. Can the “Confirmed CR DIL” and “Confirmed CR PFS” codes that were introduced in November 2013 still be used for accounts reported as a foreclosure? Or would “Confirmed CR FC Incorrect” now be used in those situations?**

Lenders would still use “Confirmed CR DIL” when a tradeline that was reported as both a foreclosure and a deed-in-lieu of foreclosure was not a foreclosure, but a DIL; and “Confirmed CR PFS” when a tradeline that was reported as both a foreclosure and a preforeclosure sale was not a foreclosure, but a PFS.

## Deed-in-lieu of Foreclosure and Preforeclosure Sale Message Updates

**Q12. For loan applications taken prior to August 16, 2014, where the borrower had a deed-in-lieu of foreclosure or preforeclosure sale, the messages state that the lender must document the event was completed two or more years from the disbursement date of the new loan, and that the loan complies with all other requirements specific to a deed-in-lieu of foreclosure or preforeclosure sale specified in the *Selling Guide* in order for the loan to be eligible for delivery to Fannie Mae. What are the “other requirements” DU is referring to?**

The “other requirements” that apply to loan applications taken prior to August 16, 2014, where the borrower had a deed-in-lieu of foreclosure or preforeclosure sale can be found in section B3-5.3-07, Significant Derogatory Credit Events-Waiting Periods and Reestablishing Credit in the version of the [Selling Guide](#) published prior to July 29, 2014.

Those requirements are the following waiting period and LTV/CLTV/HCLTV ratio requirements.

Waiting Period	Additional Requirements
Two years	80% maximum LTV ratios <sup>1</sup>
Four years	90% maximum LTV ratios <sup>1</sup>
Seven years	LTV ratios per the <a href="#">Eligibility Matrix</a>

<sup>1</sup> References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

NOTE: A two-year waiting period is permitted if extenuating circumstances can be documented, with maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the transaction per the [Eligibility Matrix](#).

**Q13. Will DU apply the four-year waiting period requirement for a previous deed-in-lieu of foreclosure or preforeclosure sale and issue a Refer with Caution recommendation when the waiting period requirement is not met?**

DU will continue to rely on the lender to determine when the previous deed-in-lieu of foreclosure or preforeclosure sale occurred, and to document that the event was completed four or more years from the disbursement date of the new loan in order for the loan to be eligible for delivery to Fannie Mae. DU will not issue a Refer with Caution recommendation due to the presence of a deed-in-lieu of foreclosure or preforeclosure sale.

NOTE: For loan applications taken before August 16, 2014, lenders will continue to be required to ensure the event was completed two or more years from the disbursement date of the new loan and to ensure any

*additional requirements are met for a deed-in-lieu of foreclosure or preforeclosure sale that took place within seven years of the disbursement date of the new loan. Refer to Q12 above for additional information.*

## Charge-Off Policy Message Addition

**Q14. Does the mortgage charge-off policy apply to HELOCs (home equity lines of credit)? What if the HELOC account is being reported as a revolving debt?**

DU will issue the mortgage charge-off message on first liens, second liens, home improvement loans, HELOCs, and manufactured home loans reported with a manner of payment of 9.

If any mortgage related charge-off account was not reported as such (i.e. account was reported as revolving, or a mortgage without a manner of payment of 9), DU will not issue the mortgage charge-off message. The lender is then responsible for determining when the mortgage charge-off occurred and document that the event was completed four or more years from the disbursement date of the new loan.

**Q15. Will DU apply the four-year waiting period requirements for a mortgage charge-off and issue a Refer with Caution recommendation when the waiting period is not met?**

DU will rely on the lender to determine when the mortgage charge-off occurred, and to document that the event was completed four or more years from the disbursement date of the new loan in order for the loan to be eligible for delivery to Fannie Mae. DU will not issue a Refer with Caution recommendation due to the presence of a mortgage charge-off.

## Updates to Align with the *Selling Guide*

**Q16. The release notes state that when DU identifies a bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale, or mortgage charge-off, and it is up to the lender to determine if the waiting period has been met, DU will instruct the lender that the waiting period is measured from the disbursement date of the new loan, not the credit report date. How does Fannie Mae define “disbursement date?”**

Section E-3-04, Glossary of Fannie Mae Terms: D of the Fannie Mae *Selling Guide* defines disbursement date as follows:

- **Disbursement date:** The date the loan funds are disbursed for the subject mortgage. The disbursement date may occur on or after the note date.