DU Job Aid

Total Expense Ratio < Housing Expense Ratio Error DU Message

June 3, 2019

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For ease of reference, we will generally use the term “DU” to refer to Desktop Originator® and Desktop Underwriter® (DO®/DU®).

This document provides an example of how to resolve the Total Expense Ratio < Housing Expense Ratio error message in the DU Underwriting Findings report for second home and investment properties. The error displays when the housing expense ratio is greater than the total expense ratio.

Total Combined Housing Expense

For loan casefiles involving the purchase or refinance of a second home or investment property, it is important that the Total Combined Housing Expense (excluding rent) is accurately accounted for on the Liabilities screen of DU. DU uses current housing expense data from the Liabilities screen in calculating the total expense qualifying ratio, instead of the data entered on the Income and Housing screen (Section V) with the exception of a rent payment. If there is a rent payment, then that only needs to be entered on the Income and Housing screen. Follow these steps to resolve the Total Expense ratio < Housing Expense Ratio error message.

1. In the Combined Monthly Housing Expense section of the Income and Housing screen, verify the amounts entered in the Present/Principal section are correct.

<table>
<thead>
<tr>
<th>Combined Monthly Housing Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rent</strong></td>
</tr>
<tr>
<td>First Mortgage (P&amp;I)</td>
</tr>
<tr>
<td>Other Financing (P&amp;I)</td>
</tr>
<tr>
<td>Hazard Insurance</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
</tr>
<tr>
<td><strong>Mortgage insurance</strong></td>
</tr>
<tr>
<td><strong>Homeowner Assn Dues</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**NOTE:** In this example, as shown in the Total field in the Present/Principal column, the combined housing expense for the current residence is $1,000.

2. Click the Liabilities link in the navigation bar. The Liabilities screen appears.
The Liabilities screen lists the mortgage liabilities, including the first mortgage ($500 monthly payment) and second mortgage ($200 monthly payment) for the borrowers’ current residence. The monthly payments of First Mortgage (P&I) and Other Financing (P&I) should match what was entered in the Income and Housing screen.

3. Verify **Omit**, **Paid by Close**, **Subject Property Lien** and **Rental Property Lien** checkboxes are not checked.

**NOTE:** If a mortgage is being paid off with the transaction, then Paid by Close can be checked, but the payment should be removed from the Income and Housing screen. See the Paying Off a Primary Residence Mortgage section below for more details.

4. Enter the **Hazard Insurance**, **Real Estate Taxes**, and **Homeowner Assn Dues** amounts to calculate the total expenses.

Below are the monthly housing expenses:
- **Hazard Insurance:** $75.00
- **Real Estate Taxes:** $100.00
- **Mortgage Insurance:** $0.00
- **Homeowner Assn Dues:** $125.00
- **Total:** $300.00

5. Select Other or Taxes from the **Liability Type** drop down menu.

6. Add the Hazard Insurance, Real Estate Taxes and Homeowner Assn Dues (HOA) amounts from the Present/Principal section of the Income and Housing screen, then enter the total in **Monthly Payment**.

7. Enter the annualized amount in the **Balance** field. In this example, the balance would be $3,600 ($300 x 12 months).

8. Click the **Full 1003** link in the navigation bar.

9. Select Property from the Related Property drop down to relate the new liability to the primary residence. Do not check **Omit**, **Paid by Close**, **Subject Property Lien**, or **Rental Property** for this liability.

10. Click the **Real Estate Owned** link in the navigation bar.

**NOTE:** The link can only be seen in the Full 1003 mode.
11. Verify the current residence is listed once and has a Property Indicator of Current Residence and Property Disposition of Retained.

12. Verify Mtg Payments is the total of all mortgage payments for the Current Residence in the Property Indicator and Insur, Maint, Taxes includes the sum of the Hazard Insurance, Real Estate Taxes, Mortgage Insurance, Homeowners Associate Dues, and Other.

13. Click the Declarations link in the navigation bar.

14. Verify Line 1 - Do you intend to occupy the property as your primary residence? is correctly selected for each borrower.

15. Resubmit the loan casefile for Underwriting Only or Credit and Underwriting if the credit status is incomplete.

**Paying Off a Primary Residence Mortgage**

If the borrower will be using funds from refinancing an investment or second home to pay off their primary residence first mortgage, second mortgage or HELOC, remove the associated monthly payments from the Present/Principal section First Mortgage (P&I) and/or, Other fields. Follow the steps below to remove the associated monthly payments.

1. Click the Income & Housing link in the navigation bar.

2. Delete the applicable monthly payments from the Present/Principal section.

3. Click the Liabilities link in the navigation bar.

4. Verify Paid by Close is checked for each liability the borrower will be paying off using the funds from the current transaction.

5. Resubmit the loan casefile from the 1003 for Underwriting Only or Credit and Underwriting if the credit status is incomplete. Refer to the Submitting a Retail Loan Casefile for an Underwriting Recommendation or Submitting a Wholesale Loan Casefile for an Underwriting Recommendation job aids for additional data entry guidance.

**NOTE:** *If you are still receiving the same error after applying the remedy, please contact the Technology Support Center at 1-800-232-6643, option 1, then option 1.*