



Desktop Underwriter/Desktop Originator Release Notes DU Version 10.3 March Update

Jan. 28, 2019

Updated March 12, 2019

During the **weekend of March 23, 2019**, Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.3, which will include the changes described below.

Except for the DU validation service enhancements and the reserves to verified update, the changes in this release will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of March 23, 2019.

The changes in this release include the following:

- DU Validation Service Enhancements
- HomeReady® AMI Determination
- Disaster Message Change
- DU Underwriting Findings Report Updates
- Updates to Align with the *Selling Guide*

March 12, 2019: *The Commission Income Validation section on page 2 has been updated to reflect that the change will impact DU Version 10.3 loan casefiles resubmitted on or after the weekend of Mar. 23, 2019.*

DU Validation Service Enhancements

The following changes will be made to the DU validation service.

Message Consolidation

NOTE: *These message consolidation changes will only impact loan casefiles created on or after the weekend of Mar. 23, 2019.*

The DU validation service messages for income and employment will be simplified and consolidated. Eleven new messages will replace 41 existing messages.

Report retrieval messages (three): These messages will specify the receipt of third-party vendor reports. These messages will list the reports that were

- received and used;
- received but not used, with the specific reason the report was not used; and
- expected but were not successfully received.

Employment Validation messages (two): These messages specify when employment has been validated. These messages will list the employment that has

- been validated; and
- not been validated, with the specific reason the employment was not validated.

Income Validation messages (three): These messages will specify when income has been validated. These messages will list income types that were

- validated;
- not validated because DU calculated a lower amount of income than the income entered into DU; and
- not validated, with the specific reason the income was not validated.



NOTE: These messages will include a “vendor match” field. This is the value found on the report that allowed DU to identify the income source (the employer name). By specifying this value, lenders will be able to review the appropriate section of the report to determine if there is conflicting or contradictory information.

- Explanatory messages (three):** These messages will provide explanatory information. These messages will
- explain the supplemental documentation that may be required for Social Security income validation;
 - explain the combined base, bonus, overtime, and/or commission income calculations when a borrower has multiple current employers; and
 - clarify the DU income calculation when joint tax transcripts are used for more than one borrower's income.

For a list of the existing 41 messages and the 11 new messages that will replace them, refer to this [page](#) [a Desktop Originator® (DO®)/DU user ID and password required to access].

Commission Income Validation

Updated March 12, 2019: The “Note” below has been updated to reflect that this change will apply to existing DU Version 10.3 loan casefiles that are resubmitted on or after the weekend of Mar. 23, 2019.

Selling Guide Announcement SEL-2018-09 removed the different treatment of commission income based on the percentage of employment income. The DU validation service will be updated to align with this change.

Currently, when a borrower receives commission income that is 25% or more of total employment income, the DU validation service requires the lender to obtain both a verification of income (VOI)/ verification of employment (VOE) report and tax transcripts to validate the borrower's income. Tax transcripts will no longer be required, and commission income will be treated in the same manner as other wage income and will only require a VOI/VOE report.

NOTE: This update to commission income validation will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of Mar. 23, 2019.

Income Calculation Update

Based on lender feedback with respect to identifying conflicting and contradicting information, DU will be updated to identify inconsistencies between “Rate of Pay” and “Year-to-Date Income” for base pay on VOI/VOE reports.

This update includes the following:

- If the Year-to-Date income is less than expected when compared to the Rate of Pay (within an established tolerance), base income will not be eligible for validation. Other income types (i.e. bonus, overtime, and commission) will remain eligible for validation.
- If Total Pay is the only income value reported (there are no income values reported for bonus, overtime, or commission), and Total Pay is less than expected when compared to the Rate of Pay (within an established tolerance), base income will not be eligible for validation. Since there are no other income types reported, no other income types would be eligible for validation.

In both instances, the lender will receive a message indicating that DU could not validate the borrower income, and the reason provided will be that the amount of year-to-date earnings is inconsistent with rate of pay. Refer to the [DU Validation Service Reference Guide](#) for additional information.

NOTE: This income calculation update will only apply to loan casefiles created on or after the weekend of Mar. 23, 2019.

HomeReady AMI Determination

Currently, when determining the Area Median Income (AMI) limit to use for HomeReady eligibility, DU will attempt to standardize the address to determine the census tract. If DU is not able to standardize the address (no census tract is



obtained), and the lender does not provide a Federal Information Processing Standard (FIPS) code that includes the census tract, DU will use the lowest income limit for the state in which the property is located.

With this update, DU will use the lowest income limit for the county in which the property is located before the state limit is used. When the subject address cannot be standardized and a census tract cannot be determined, but the state and zip code are provided, DU will use the AMI for the county associated to the center location of the provided zip code to estimate HomeReady eligibility.

DU will continue to use the FIPS code when provided by the lender to determine the AMI to be used. If only a partial FIPS code is provided, which includes the state and county codes, DU will use the AMI associated to that specific county.

NOTE: The FIPS code is a unique code assigned to all geographic areas by the U.S. Census Bureau. The 11-digit FIPS code includes the state number as the first two digits, with the next three being the county number, and the last six being census tract number. The census tract is provided on the appraisal, and can also be obtained using other geocoding technology (i.e. the Census Geocoder on the [U.S. Census Bureau website](#)).

For additional information on HomeReady, refer to the [HomeReady](#) page.

Disaster Message Change

With DU Version 10.3 a new message was added for properties located in disaster impacted areas that were also eligible for the appraisal waiver offer. With this update, DU will issue this message on any loan casefile that was impacted by a recent disaster.

The message will indicate that:

- the property is located in an area that may have been impacted by a recent disaster,
- the lender must take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster,
- the lender must comply with the property eligibility requirements that pertain to properties affected by a disaster in the *Selling Guide*, and
- if an appraisal waiver was offered, the lender may continue to use the appraisal waiver if the conditions described above are met.

DU Underwriting Findings Report Updates

Enhanced Findings Report

The "With Undisclosed DTI" will be removed from the Expense Ratios section in the Underwriting Analysis Report of the enhanced version of the DU Underwriting Findings report. This value will remain on the classic HTML, TXT, and XML (codified findings) versions of the report.

In the Day 1 Certainty® section of the enhanced report, the "Collateral Rep and Warrant" section name will change to "Appraisal Rep and Warrant."

Updates to Align with the *Selling Guide*

Retire Form 1004MC

Selling Guide Announcement SEL-2018-06 removed the requirement for Form 1004MC, Market Conditions Addendum to the appraisal report. The message referencing the requirement for the 1004MC will be removed.



HomeStyle Renovation

On a HomeStyle® Renovation mortgage loan, the cost of renovations cannot exceed 75% of the lesser of the sum of the purchase price plus renovation costs, or the “as completed” appraised value for purchase transactions; or the “as completed” appraised value for refinance transactions. DU will also include the Energy Improvement Amount and PACE Loan Payoff amount in the calculation to determine if a loan casefile meets the 75% guideline.

Employment-Related Assets as Qualifying Income

Selling Guide Announcement SEL-2018-08 increased the maximum LTV, CLTV, and HCLTV ratio from 70% to 80% for loans where the asset owner is at least 62 years old at the time of the loan closing. DU will be updated to support this policy change.

A new message will be issued when an income type of “Employment-related Assets” is provided, the LTV, CLTV, or HCLTV exceed 70%, and there is not at least one borrower on the loan application that is 62 years old (based on the date of birth or borrower age provided to DU). This message will specify that the lender must ensure that at least one borrower on the loan will be 62 at time of loan closing.

Small Business Administration Loans

Selling Guide Announcement SEL-2018-09 clarified that all Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing, included in the calculation of the CLTV and HCLTV ratios, and the monthly payment must also be included in the DTI ratio calculation unless the lender can satisfy specific requirements.

The message issued by DU when subordinate financing is listed on the loan casefile but there is no corresponding payment entered in the Proposed Monthly Housing Payment section of the application will be updated. The message will specify that including no payment is acceptable if the subordinate lien is related to a business obligation and it complies with the policy in the *Selling Guide* that allows the exclusion of the payment.

Removal of Form 2106 References

Selling Guide Announcement SEL-2018-09 removed the requirements for IRS Form 2106. The DU messages that reference Form 2106 will be updated to remove those references.

Mortgage Insurance for New York Properties

As specified in *Selling Guide* section *B7-1-01: Provision of Mortgage Insurance*, under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the “fair market value” of the property. As a result, the determination of value for properties in New York is different from Fannie Mae’s standard definition of value that is used to calculate the LTV ratio.

A new message will be issued for purchase loan casefiles for properties located in New York when the LTV calculated by DU is over 80% but the requirement for mortgage insurance under the New York statute may be different. This message will remind lenders to determine if mortgage insurance is required based on New York laws and regulations and refer the lender to the *Selling Guide* for additional details on MI requirements for properties in the state of New York.

Reserves to be Verified

With DU Version 10.3 an eligibility guideline was added to ensure that cash-out refinance transactions for borrowers with a debt-to-income ratio exceeding 45% have at least six months of reserves disclosed on the loan application. The Reserves Required to be Verified on these transactions will be updated to include this amount, at a minimum.

NOTE: This change will only impact loan casefiles created on or after the weekend of Mar. 23, 2019.



User Interface Updates

The DO/DU user interface will be updated the weekend of March 23, 2019 with the following:

- MyCommunityMortgage® (MCM®) will be removed as an option in the Community Lending Product list on the Additional Data page. MCM was replaced by HomeReady® in 2015.
- The IPCs: Excess Financing Concession or Sales Concession Amount field is being removed from the Details of Transaction page. This field was no longer used by DU in June of 2018.

Miscellaneous Message Text Changes

To continue to provide clarity and consistency with the *Selling Guide*, various DU messages will be updated.

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae customer delivery team; and mortgage brokers should contact their DO sponsoring wholesale lender. For technology considerations, an Integration Impact Memo will be posted on the [Technology Integration](#) page.