Desktop Underwriter/Desktop Originator Release Notes
DU Version 10.2 June Update

April 24, 2018

During the **weekend of June 23, 2018,** Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.2. The changes in this release will apply to DU Version 10.2 loan casefiles submitted or resubmitted to DU on or after the weekend of June 23, 2018.

This release includes updates to the following:

- Bankruptcy and Mortgage Delinquency Assessment
- HomeStyle® Energy
- DU Validation Service
- Potential Casefile Reuse
- IPC Data Field Retirement
- HFA Preferred™ and Preferred Risk Sharing
- Updates to Align with the *Selling Guide*

Bankruptcy and Mortgage Delinquency Assessment

DU obtains information from the credit report and determines if a borrower had declared bankruptcy, or if the borrower has a mortgage that has been delinquent. This information is then used in the eligibility assessment of the loan casefile to determine

- if bankruptcy waiting period requirements have been met, and
- whether the loan casefile meets our mortgage delinquency policy.

With this update, lenders will have the ability to instruct DU to disregard bankruptcy information in the eligibility assessment that is incorrect or due to extenuating circumstances, or disregard excessive mortgage delinquency information that is incorrect.

Inaccurate Bankruptcy

When DU identifies a bankruptcy on the credit report and that information is inaccurate, the lender may instruct DU to disregard that bankruptcy information in the eligibility assessment. This can be done by entering “Confirmed CR BK Incorrect" in the Explanation field for question b. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the bankruptcy information on the credit report will not be used in the eligibility assessment.

DU will then issue a message stating that the bankruptcy information was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without it. The lender must then document that the borrower did not declare bankruptcy, or that loan meets the applicable waiting period requirements:

- a Chapter 13 bankruptcy must be discharged two or more years or dismissed four or more years from the disbursement date of the new loan, or
- all other bankruptcy types must be discharged or dismissed four years or more years from the disbursement date of the new loan.

Bankruptcy due to Extenuating Circumstances

When DU identifies a bankruptcy on the credit report and it was due to extenuating circumstances, the lender may instruct DU to disregard the information. The lender must confirm that the bankruptcy meets the applicable timeframes and eligibility requirements for a bankruptcy due to extenuating circumstances. This can be done by entering “Confirmed CR BK EC" in the Explanation field for question b. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the bankruptcy information will not be used in the eligibility assessment.

DU will issue a message stating that the bankruptcy information was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without it. The lender must document that the bankruptcy was due to extenuating circumstances and the loan meets the applicable waiting period requirements:

- a Chapter 13 bankruptcy must be dismissed two or more years from the disbursement date of the new loan, or
- all other bankruptcy types must be discharged or dismissed two or more years from the disbursement date of the new loan.

Inaccurate Mortgage Delinquency

When DU identifies that a mortgage is currently past due by two or more payments, or has been delinquent 60-days or more in the last 12 months, and that information is inaccurate, the lender may instruct DU to disregard that information in the eligibility assessment. This can be done by entering “Confirmed Mtg Del Incorrect" in the Explanation field for question f. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the mortgage delinquency on the credit report will not be used in the eligibility assessment.

DU will then issue a message stating that the mortgage delinquency information was not used in the eligibility assessment because DU was instructed to underwrite the loan casefile without the information. The lender must then document that the mortgage is not currently past due by two or more payments, and that it has not been 60 days or more past due in the last 12 months.

New Bankruptcy, Foreclosure, and Mortgage Delinquency Messages

When a Refer with Caution is issued due to the overall risk of the loan, and not solely due to a 60-day or more mortgage delinquency, or a previous bankruptcy or foreclosure, entering the “'Confirmed Incorrect” or “Confirmed EC” codes will not change the recommendation. To make it clear to lenders when the use of one of the codes did not impact the recommendation, DU will issue a new message. This message will specify that DU was instructed to underwrite the loan casefile without the bankruptcy, foreclosure, or mortgage delinquency information on the credit report; however, this instruction was not used as the Refer with Caution recommendation was not issued solely due to the bankruptcy, foreclosure, or mortgage delinquency, but due to the overall risk of the loan.

HomeStyle Energy

DU will be updated to underwrite HomeStyle Energy mortgage loans. In order to identify a HomeStyle Energy submission, two new fields will be added to DU.

- **Energy Improvement Amount:** The amount of new energy improvements included in the purchase or limited cash-out transaction, and any non-Property Assessed Clean Energy (PACE) energy debt being paid off with the limited cash-out transaction must be provided in this field. Non-PACE energy debt included in this field should not be included in Line d. of the Details of Transaction.
- **PACE Loan Payoff Amount:** The payoff amount of any existing PACE loans must be provided in this field. PACE energy debt should not be included in line d. of the Details of Transaction.

If a value is entered in either of these two fields, the loan casefile will be underwritten as a HomeStyle Energy mortgage, and the amounts will be used in determining the funds required to close the transaction.

> **NOTE:** *The Desktop Originator (DO)/DU User Interface will be updated the weekend of June 23 to include these two new fields on the Details of Transaction screen. For integration considerations, refer to the DU Version 10.2 June Update Integration Memo posted on the [Technology Integration] page.*

When a loan casefile is underwritten as a HomeStyle Energy mortgage, DU will apply the eligibility guidelines specified in the *Selling Guide*, and will remind lenders to ensure specific HomeStyle Energy requirements are met and that the loan is delivered with Special Feature Code 375. DU will not issue a Property Inspection Waiver on a HomeStyle Energy loan casefile because an appraisal is always required.

DU Validation Service

Income validation

To ensure income is eligible for validation, DU will now confirm the borrower has been on his or her current employer for at least 12 months, based on the "Years/Months on Job" provided on the DU loan application. If the "Years/Months on Job" do not reflect a minimum of 12 months, income will not be validated and a message will be issued informing the lender that income was not validated due to the 12 month requirement.

> **NOTE:** *DU will also continue to confirm that the minimum history requirement applicable to the income type has been met based on the vendor report.*

Asset validation

DU only uses reports from a single vendor to validate assets. DU will issue a new message when reports from multiple vendors are received that will specify which reports were not used for asset validation.

Potential Casefile Reuse

A DU loan casefile ID is unique to an individual mortgage loan – the same casefile ID may not be used to underwrite more than one mortgage loan. A new Potential Red Flag message will be added to DU to remind lenders of this requirement. When the subject property address or the Doc File ID is changed from the previous submission, DU will issue a message informing the lender that one of these items has changed from a previous submission and remind the lender that the same loan casefile may not be used to underwrite more than one mortgage loan.

Once the message is issued, it will continue to be issued on all resubmissions, even if the information is changed back to the original values. This is because there have been instances where loan casefile information is changed back and forth between two (or more) different loans. Issuing the message on subsequent resubmissions will help ensure the lender has all of the information needed to confirm that only one loan is delivered with the specific loan casefile ID, and also help the lender confirm that the last submission of that loan casefile reflects the final terms of the specific closed loan.

> **NOTE:** *The address comparison and the Doc File ID comparison will only be done if both the previous and the current information are complete and accurate. For example, an address of "TBD" would not be compared so the message would not be issued when a valid address was provided.*

IPC Data Field Retirement

The IPCs: Excess Financing Concessions or Sales Concessions Amount field will no longer be used in DU Version 10.2. Any value provided in the field on DU Version 10.2 loan casefiles will not be used in any calculations or messages.

As a reminder, when interested party contributions (IPCs) exceed the limits specified in the *Selling Guide*, they are considered sales concessions. The property's sales price must then be adjusted downward to reflect the amount of contribution that exceeds the limit. The following is an example of how this must be reflected in DU:

Purchase price: $300,000
LTV = 94% (IPC limit is 3%)
Seller paid closing costs: $15,000
Sales concessions: $6,000 ($15,000-$9,000 IPC limit)

a. Purchase price	$294,000*
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	$2,500
f. Estimated closing costs	$6,500
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs	$303,000
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	$9,000*
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	$279,300
n. PMI, MIP, Funding Fee financed	
o. Loan amount	$279,300
p. Cash from/to Borrower	$14,700

* **Line a** would be adjusted downward by the amount of the sales concession, and **Line k** would be adjusted downward by the same amount in order for **line p** to calculate correctly.

HFA Preferred and HFA Preferred Risk Sharing

Updates will be made to the messages that are issued on Housing Finance Agency (HFA) loans submitted to DU. As a reminder, lenders must have approval to deliver HFA loans to Fannie Mae. Lenders should contact their state or local HFA to determine if they are offering these HFA product options, and mortgage brokers should contact their DO sponsoring wholesale lender.

Updates to Align with the *Selling Guide*

Detached Condo Updates

Selling Guide Announcement SEL-2018-01 specified policy updates on detached condo units. In support of those policy changes, the following updates will be made to DU:

- The detached condo project review message will be modified to state that a project review is not required. The message will also require the lender to confirm that the project and the unit are in compliance with all other Fannie Mae requirements for property eligibility and appraisal standards, and that the project and unit have the required insurance.
- All references to site condos, including Special Feature Code (SFC) 917, will be removed.
- DU will no longer issue an Ineligible recommendation on Construction and Construction-Permanent submissions for detached condos.

Miscellaneous Message Text Changes

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

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.

