FannieMae

Desktop Originator/Desktop Underwriter Release Notes
DU Version 9.3

September 29, 2015

During the **weekend of December 12, 2015**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 9.3, which will include the changes described below.

The changes included in this release will apply to new loan casefiles submitted to DU on or after the weekend of December 12, 2015. Loan casefiles created in DU Version 9.2 and resubmitted after the weekend of December 12 will continue to be underwritten through DU Version 9.2.

The changes in this release include:

- Implementation of the HomeReady™ Mortgage Loan
- Housing Finance Agency (HFA) Message Updates
- Non-Occupant Borrower Changes
- Updated High-Balance Mortgage Loan Requirements
- Self-Employed Income Documentation Requirements
- Preliminary Underwriting Findings Report Updates
- Updates to Align with the *Selling Guide*
- Retirement of DU Version 9.1

Implementation of the HomeReady Mortgage Loan

DU Version 9.3 will include Fannie Mae's enhanced affordable lending product, HomeReady mortgage. HomeReady was designed for creditworthy, low- to moderate-income borrowers, with expanded eligibility for financing homes in designated low-income, minority, and disaster-impacted communities.

Lenders will be able to submit HomeReady mortgage loans by choosing "HomeReady" as the Community Lending Product on the Additional Data screen of the online loan application. The Desktop Originator® (DO®)/DU User Interface will be updated the weekend of December 12 to include HomeReady in the Community Lending Product list.

Eligibility guidelines

HomeReady will be eligible in DU for one- to four-unit principal residence purchase, construction, or limited cash-out transactions. HomeReady will be permitted on all property types and also with HomeStyle® Renovation mortgages. Refer to the *Selling Guide* and the HomeReady page on fanniemae.com for additional information on the eligibility guidelines for HomeReady.

> *Note: The requirement that at least one borrower must be a first-time home buyer will be removed for one-unit principal residence loan casefiles with LTV ratios greater than 95% up to 97%.*

The following additional guidelines will apply to HomeReady mortgage loans.

- HomeReady mortgage loans secured by a manufactured home will be subject to standard manufactured housing guidelines, including maximum LTV, CLTV, and HCLTV ratios of 95%.
- HomeReady mortgage loans also originated as HomeStyle Renovation mortgages will be subject to standard HomeStyle Renovation guidelines, including maximum LTV, CLTV, and HCLTV ratios of 95% (CLTV may exceed 95% on fixed-rate mortgages that are not secured by a manufactured home when subject to a Community Seconds® loan).
- HomeReady high-balance mortgage loans will be subject to standard LTV, CLTV, and HCLTV guidelines (LTV not to exceed 95%, CLTV may exceed 95% on fixed-rate mortgages that are not secured by a manufactured home when subject to a Community Seconds loan).

Borrower income limits

DU will apply the following income guidelines for HomeReady loan casefile eligibility:

- No income limits for properties located in low-income census tracts
- 100% of area median income (AMI) for properties located in high-minority census tracts or designated disaster areas
- 80% of AMI for properties located in all other census tracts

Census tract used for AMI determination

DU will attempt to standardize the address for all HomeReady loan casefiles in order to determine the census tract to use when applying the income guidelines. When DU is able to standardize the address, a message will be issued specifying the census tract used to determine the income limit to be applied to the loan casefile.

When DU is not able to standardize the address in order to determine the census tract, or the address standardization returns an incorrect census tract, the lender may provide the Federal Information Processing Standard (FIPS) code on the online loan application and resubmit the loan casefile to DU.

The FIPS code is a unique code assigned to all geographic areas by the U.S. Census Bureau. The census tract can be identified by using the complete 11-digit FIPS code assigned to that census tract, where the first two digits are the state number, the next three are the county number, and the last six are the 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).

When the FIPS code on the loan application is used to derive the census tract and associated area median income to determine HomeReady eligibility, DU will issue a message requiring the lender to document the subject property is located in the specified census tract.

The FIPS code field on the DO/DU User Interface will be added to the Additional Data screen at the beginning of the Loan Information section the weekend of December 12.

When the FIPS code is provided and DU is not able to find a corresponding FIPS code in the AMI file, a message will be issued indicating that the FIPS code provided on the loan application is invalid. DU will then attempt to standardize the address and use the census tract obtained. If DU is not able to standardize the address, DU will use the lowest income limit for the state in which the property is located. DU will also issue a message stating that the submitted subject property address could not be verified in order to determine the census tract, and the state income limit was used to determine eligibility. The lender may then confirm the FIPS code provided on the loan application and resubmit the loan casefile to DU.

Non-occupant borrowers

DU will allow a non-occupant borrower(s) on HomeReady loan casefiles, and will consider the income and liabilities of all borrowers when determining the debt-to-income ratio used for qualifying. HomeReady loan casefiles with a non-occupant borrower(s) will be subject to standard LTV, CLTV, and HCLTV guidelines (LTV not to exceed 95%, CLTV ratio may exceed 95% on fixed-rate mortgages that are not secured by a manufactured home when subject to a Community Seconds loan).

While occupant borrowers may not have an ownership in any other residential property at the time of loan closing, non-occupant borrowers will be permitted to own other residential properties on HomeReady transactions.

Mortgage insurance requirements

DU will apply the following mortgage insurance requirements to HomeReady loan casefiles.

Mortgage Insurance Coverage Requirements				
Transaction Type	**80.01 - 85.00%**	**85.01 - 90.00%**	**90.01 - 95.00%**	**95.01 - 97.00%**
HomeReady Fixed-rate, term ≤ 20 years (not MH)	6%	12%	16% + MI LLPA	18% + MI LLPA
			25%	25%
HomeReady Fixed-rate, term > 20 years; ARMs; and Manufactured Homes	6% + MI LLPA	12 + MI LLPA	16% + MI LLPA	18 + MI LLPA
	12%	25%	25%	25%

Non-borrower household income

As specified in the *Selling Guide*, the existence of income from a non-borrower family member residing with the borrower(s) may be considered as a compensating factor for HomeReady loan casefiles underwritten through DU to be eligible with a higher debt-to-income (DTI) ratio. "Non-Borrower Household Income" will be added as a new income type in the Other Income section in the DO/DU User Interface the weekend of December 12.

The income from the non-borrower is not added to the borrower's income for qualifying purposes; however, the existence of this income is considered a compensating factor that may allow the borrower to have a DTI ratio up to 50% when the amount of the non-borrower income is 30% or more of the total qualifying income used to underwrite the loan casefile.

When the non-borrower income is needed as a compensating factor to allow a DTI exceeding 45% (up to 50%), DU will issue a message requiring the lender to obtain a signed statement of the family member's intent to reside with the borrower, and will also remind the lender that the non-borrower income must be supported by the documentation required in the *Selling Guide* for the specific type of income.

Because the non-borrower income is not being used for qualifying purposes, it is not considered when determining whether the mortgage loan meets the HomeReady income eligibility requirements.

> *Note: Since non-borrower household income is only permitted on HomeReady mortgage loans, when used for standard loan casefiles, DU will issue an Ineligible recommendation.*

Boarder income

The DU message issued on HomeReady loan casefiles where boarder income is used for qualifying will reflect the updated guideline stating that rental payments for at least nine of the most recent 12 months is also acceptable when the amount is averaged over 12 months.

Income from accessory units

As specified in the *Selling Guide*, rental income is an acceptable source of qualifying income for a one-unit principal residence with an accessory unit. “Accessory Unit Income” will be added as a new income type in the Other Income section in the DO/DU User Interface the weekend of December 12. This income type will be used as qualifying income and when used, DU will issue a message reminding lenders to calculate and document the accessory unit income according to the Fannie *Mae Selling Guide*.

> *Note: Since accessory unit income is only permitted on one-unit HomeReady mortgage loans, when used for standard or two- to four-unit loan casefiles, DU will issue an Ineligible recommendation.*

Sweat equity

DU will also be updated to include “Sweat Equity” as an Other Credit on the Details of Transaction. When sweat equity is used on HomeReady loan casefiles, the lender will be referred to the *Selling Guide* for documentation and minimum borrower contribution requirements. The LTV, CLTV, and HCLTV ratios will also be limited to 95% (though the CLTV ratio may exceed 95% on fixed-rate mortgages that are not secured by a manufactured home when subject to a Community Seconds loan).

> *Note: Since sweat equity is only permitted on HomeReady mortgage loans, when used for standard loan casefiles, DU will issue an Ineligible recommendation.*

Homeownership education

The DU homeownership education messages will be modified to reflect the updated requirements specified in the *Selling Guide*.

HomeReady eligibility message

When a loan casefile is not underwritten as HomeReady, DU will compare the total qualifying income on the loan against the HomeReady income guidelines for the census tract in which the property is located using the FIPS code entered on the loan application or the census tract obtained when the address is standardized. When a FIPS code is not provided and the address cannot be standardized, the lowest income limit for the state will be compared to the total qualifying income. When it appears the loan may be eligible for HomeReady, DU will issue a message indicating that the loan casefile may be eligible for HomeReady and that the lender may choose HomeReady as the Community Lending product in the online loan application and resubmit the loan casefile to DU.

MyCommunityMortgage retirement

With the release of HomeReady, MyCommunityMortgage® (MCM®) will no longer be a Community Lending product option in DU Version 9.3. If a loan casefile is underwritten as MCM in DU Version 9.3, DU will return an Out of Scope recommendation. However, lenders may continue to resubmit their existing DU Version 9.2 loan casefiles as MCM and the existing MCM rules and income limits will continue to be applied.

> *Note: For details on the implementation of the enhanced Community Lending product, FIPS code field addition, new income types, and additional Other Credit type from an integration perspective, refer to the DU Version 9.3 Integration Impact Memo.*

Housing Finance Agency (HFA) Message Updates

Updates will be made to the messages that are issued on HFA Preferred™ and HFA Preferred Risk Sharing loan casefiles submitted to DU. As a reminder, lenders must have approval to deliver HFA loans to Fannie Mae. For specific HFA guidelines, lenders should contact their participating Housing Finance Agency, and mortgage brokers should contact their DO sponsoring wholesale lender.

Non-Occupant Borrower Changes

As specified in *Selling Guide* Announcement SEL-2015-10, DU will be updated to consider the income and liabilities of all borrowers on principal residence mortgage transactions. No separate calculation of the DTI ratio for the occupying borrower will be required, as the DTI ratio calculation will be based on the income and liabilities of all borrowers on the mortgage loan. DU will apply standard underwriting guidelines to DU loan casefiles with a non-occupant borrower, including the standard maximum allowable LTV, CLTV, and HCLTV ratios; though the ratios will be limited to 95% (CLTV may exceed 95% on fixed-rate mortgages that are not secured by a manufactured home when subject to a Community Seconds loan).

Updated High-Balance Mortgage Loan Requirements

As specified in *Selling Guide* Announcement SEL-2015-10, Fannie Mae has aligned the eligibility of high-balance mortgage loans with Fannie Mae's standard eligibility requirements with regard to LTV, CLTV, and HCLTV ratios up to a maximum of 95%. Many of the policy overlays that previously applied only to high-balance loans have been removed and a new policy has been implemented requiring all high-balance loans to be underwritten through DU.

The DU eligibility and verification messages issued on high-balance mortgage loans will be updated to reflect the policy changes specified in *Selling Guide* Announcement SEL-2015-10.

Providing county code for loan limit determination

DU will attempt to standardize the address for all high-balance mortgage loan casefiles in order to determine the county to use when applying the loan limit. When DU is able to standardize the address, a message will be issued specifying the county used to determine the loan limit that was applied to the loan casefile.

When DU is not able to standardize the address, or the address standardization returns an incorrect county, the lender may provide the FIPS code on the online loan application and resubmit the loan casefile to DU. The FIPS code is a unique code assigned to all geographic areas by the U.S. Census Bureau. The county can be identified by using the complete 11-digit FIPS code for the area in which the property is located, where the first two digits are the state number, the next three are the county number, and the last six are the census tract number. The census tract is provided on the appraisal, and can also be found using other geocoding technology (i.e. the Census Geocoder on the U.S. Census Bureau website).

When the FIPS code entered on the loan application is used to derive the county and loan limit used to determine the loan's eligibility, DU will issue a message requiring the lender to document the subject property is located in the specified county.

The FIPS codes field on the DO/DU User Interface will be added to the Additional Data screen at the beginning of the Loan Information section the weekend of December 12.

When the FIPS code is provided and DU is not able to find a corresponding FIPS code in the loan limit file, a message will be issued indicating that the FIPS code provided on the loan application is invalid. DU will then attempt to standardize the address and use the county obtained. If DU is not able to standardize the address, DU will use the state loan limit and issue a message stating that DU could not verify the submitted subject property address in order to determine the county in which the property is located so the state loan limit was used.

> *Note: For details on the implementation of the FIPS code field addition from an integration perspective, refer to the DU Version 9.3 Integration Impact Memo.*

Self-Employed Income Documentation Requirements

Selling Guide Announcement SEL-2015-09 stated that with an upcoming DU release, only the most recent year of individual and business federal income tax returns will be required for certain DU loan casefiles. With DU Version 9.3, lenders will now see the option to obtain only personal and business tax returns covering the most recent one-year period for certain loan casefiles for self-employed borrowers.

> *Note: This new requirement will not apply to DU Refi Plus™ loan casefiles.*

Preliminary Underwriting Findings Report Updates

The Preliminary Underwriting Findings option in DO allows an originator to submit a loan casefile for underwriting before choosing a sponsoring lender. The weekend of December 12, the three messages in the first section of the Preliminary Underwriting Findings report stating the report was created through Preliminary Findings will be combined into one message. The section headings will also be updated to remove “Special Notice” from the first section and "Preliminary" from the other sections. “Preliminary Underwriting Findings” will remain the title of the report.

> *Note: The changes to the Preliminary Underwriting Findings report will be seen on both DU Version 9.2 and DU Version 9.3 loan casefiles.*

Updates to Align with the *Selling Guide*

Increased LTV, CLTV, and HCLTV ratios for limited project reviews

Selling Guide Announcement SEL-2015-08 increased the maximum LTV, CLTV, and HCLTV ratio requirements for attached condo units in established projects under the limited review process for principal residence transactions. The DU project review messages will be updated to reflect this change.

HomeStyle Renovation message update

Selling Guide Announcement SEL-2015-09 specified a change for HomeStyle Renovation loans to permit the use of either the *Appraisal Update and/or Completion Report* (Form 1004D) or Form 1036 as evidence of completion. The DU message regarding the certification of completion will be modified to reference the new options.

Housing Choice Voucher Program (Section 8)

"Housing Choice Voucher Program (Section 8)" will be added as a new income type to the Other Income section in the DO/DU User Interface the weekend of December 12. This income type will be considered qualifying income and when used, DU will issue a message specifying that the lender must use documentation from the public agency that issues the vouchers to determine the monthly payment amount and whether the income is nontaxable; and that if the income is nontaxable, the lender may develop an adjusted gross income for the borrower and enter that adjusted amount as the income in DU.

> *Note: For details on the implementation of the new income type from an integration perspective, refer to the DU Version 9.3 Integration Impact Memo.*

Significant derogatory credit message updates

The DU messages that reference the waiting period requirements applicable for a significant derogatory credit event due to extenuating circumstances will be updated. The messages will now clearly state that a shorter waiting period may be applied if extenuating circumstances can be confirmed with an explanation from the borrower and documents to either confirm the event, or illustrate factors that lead to the event as specified in the *Selling Guide.*

Message change for mortgage accounts not reported on credit report

The DU message issued when a mortgage on the loan application does not appear to be reported on the credit report is being updated. The message will now also be issued when a mortgage on the loan application is on the credit report and there is an outstanding balance, but the payment history has not been reported in the last six months. The message reminds lenders that they need to confirm that the mortgage is not currently 60 days or more past due, and has not been 60 days or more past due in the last 12 months.

Collateral Underwriter message display

The display of the Collateral Underwriter™ (CU™) messages will be modified so the messages appear in numerical order, sorted by group.

Miscellaneous message text changes

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

Retirement of DU Version 9.1

With the release of DU Version 9.3, DU Version 9.1, which went into production the weekend of November 16, 2013, will be retired. Therefore, effective the weekend of December 12, 2015, customers will no longer be able to resubmit loan casefiles to DU Version 9.1; however, customers will continue to be able to view online loan applications and DU Underwriting Findings reports that were created under DU Version 9.1. To obtain an updated underwriting recommendation after the weekend of December 12, customers must create a new loan casefile and submit it to DU.

> *Note: DU Version 9.1 loan casefiles would have been created prior to December 13, 2014; therefore those loan casefiles would have been originated at least 12 months prior to the retirement of the underwriting engine.*

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae customer account team; and mortgage brokers should contact their DO sponsoring wholesale lender. For technology considerations, an Integration Impact Memo will be released on the Technology Integration page on fanniemae.com.