

## Desktop Originator/Desktop Underwriter Release Notes DU Version 9.2

October 14, 2014

*Last updated December 8, 2014*

During the **weekend of December 13, 2014**, Fannie Mae will implement Desktop Underwriter<sup>®</sup> (DU<sup>®</sup>) Version 9.2, 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 13, 2014. Loan casefiles created in DU Version 9.1 and resubmitted after the weekend of December 13 will continue to be underwritten through DU Version 9.1.

*December 8, 2014: These release notes have been updated to include a new enhancement. This enhancement is described in the [LTV, CLTV, and HCLTV Ratio Updates for Purchase, and Limited Cash-out Refinance Transactions](#) section below.*

The changes in this release include:

- LTV, CLTV, and HCLTV Ratio Updates for Purchase, and Limited Cash-out Refinance Transactions
- LTV, CLTV, and HCLTV Ratio Updates for Cash-out Refinance Transactions
- New Multiple Financed Properties Message
- New Pending Sale Property Message
- Change to DU Treatment of Life Insurance Assets
- Removal of Retired ARM plans
- HFA Message Updates
- Changes to the DU Underwriting Findings Report
- Excessive Value Message Modifications
- Updates to Align with the *Selling Guide*
- Retirement of DU Version 9.0

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### LTV, CLTV, and HCLTV Ratio Updates for Purchase and Limited Cash-out Refinance Transactions

*Addition – December 8, 2014: The following information was added to the Release Notes.*

As specified in *Selling Guide* Announcement [SEL-2014-15](#) the LTV, CLTV, and HCLTV ratios for certain fixed-rate purchase and limited cash-out refinance transactions secured by one-unit principal residences are being increased from 95% to 97%. The requirements below will apply to loan casefiles with an LTV, CLTV, or HCLTV over 95%.

*Note: The LTV, CLTV, and HCLTV ratios for adjustable-rate mortgage loans, high-balance mortgage loans, manufactured homes, and HomeStyle® Renovation mortgage loans will not be changed for purchase and refinance transactions. The ratios for MyCommunityMortgage® limited-cash out refinance transactions will also not be changed.*

### **MyCommunityMortgage purchase transactions**

The following will apply to a MyCommunityMortgage (MCM®), fixed-rate, purchase transaction secured by a one-unit principal residence when the LTV exceeds 95%:

- at least one borrower must be a first-time home buyer, and
- at least one borrower signing the note must complete an acceptable home-buyer education program that complies with the requirements outlined in the *Selling Guide*.

DU will determine a borrower is a first-time home buyer when the borrower responds “No” to Declaration M on the online loan application.

These requirements also apply when the CLTV exceeds 95% and the subordinate financing is not a Community Seconds® loan, or when the HCLTV exceeds 95%.

### **Purchase transactions**

At least one borrower must be a first-time home buyer when the LTV on a fixed-rate, purchase transaction secured by a one-unit principal residence exceeds 95%. DU will determine a borrower is a first-time home buyer when the borrower responds “No” to Declaration M on the online loan application.

This requirement also applies when the CLTV exceeds 95% and the subordinate financing is not a Community Seconds loan, or when the HCLTV exceeds 95%.

### **Limited cash-out refinance transactions**

When the LTV on a fixed-rate, limited cash-out refinance transaction secured by a one-unit principal residence exceeds 95%, the mortgage being refinanced must be owned by Fannie Mae. This requirement also applies when the CLTV exceeds 95% and the subordinate financing is not a Community Seconds loan, or when the HCLTV exceeds 95%.

Lenders must inform DU that Fannie Mae owns the existing mortgage by indicating “Fannie Mae” in the Owner of Existing Mortgage field on the online loan application. In the Desktop Originator® (DO®)/DU User Interface, this field is located on the Additional Data screen in the Full 1003. Because this indication will be used by DU to determine eligibility of the loan for delivery to Fannie Mae when the LTV, CLTV, or HCLTV exceed 95%; the lender will be required to document the loan being refinanced is currently owned by Fannie Mae.

*Note: The Owner of Existing Mortgage field will not impact the underwriting of DU Refi Plus™ loan casefiles. DU will continue to determine eligibility for DU Refi Plus.*

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## **LTV, CLTV, and HCLTV Ratio Updates for Cash-out Refinance Transactions**

DU Version 9.2 will reflect lower maximum LTV, CLTV, and HCLTV ratios for fixed-rate cash-out refinance transactions secured by a 1-unit primary residence. Those transactions will be subject to a maximum LTV/CLTV/HCLTV ratio of 80%, instead of 85%. The LTV, CLTV, and HCLTV ratios for adjustable-rate mortgage transactions will not be changed (will remain at 75% for adjustable-rate cash-out refinance transactions secured by a 1-unit primary residence).

*Note: Additional details on the change to the LTV, CLTV, and HCLTV ratios will be specified in an upcoming Selling Guide Announcement.*

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## New Multiple Financed Properties Message

A new message will be issued to remind lenders of the requirements associated with the Multiple Financed Properties for the Same Borrower policy specified in the *Selling Guide*. DU will issue the new message on second home and investment property transactions where:

- it appears the borrower may currently have four or more financed properties based on information found in the Real Estate Owned section of the online loan application, the Liabilities section of the online loan application, or the credit report; and
- it also appears that the loan casefile does not meet the minimum credit score requirement, maximum LTV/CLTV/HCLTV guidelines, or allowable refinance purpose requirement that apply to loans for borrowers that have more than four financed properties.

DU will not issue an Ineligible recommendation based on the presence of the message. Fannie Mae will continue to rely on lenders to confirm the number of financed properties the borrower will own and manually apply all of the eligibility and underwriting requirements specified in the *Selling Guide*.

The new message will appear as follows:

*Based on information in the loan application and/or on the credit report, it appears that the borrower may own more than four properties, including the borrower's primary residence. If the borrower will own more than four financed properties, the loan casefile does not appear to meet the minimum credit score requirement, maximum LTV/CLTV/HCLTV guidelines, or allowable refinance purpose requirement. In order for this loan to be eligible for delivery to Fannie Mae, the lender must confirm the number of financed properties the borrower will own, and manually apply all of the eligibility and underwriting requirements specified in the Selling Guide, including the minimum reserve requirements. Additionally, Special Feature Code 150 must be provided when the loan is delivered to Fannie Mae. Cash-out refinance transactions are only permitted if the loan meets the cash-out exception for delayed financing. If the borrower will own more than ten financed properties, the loan is ineligible for delivery to Fannie Mae.*

**Note:** DU will not issue the message on DU Refi Plus or HomeStyle Renovation loan casefiles.

The message currently issued in DU Version 9.1 on second home and investment property transactions reminding lenders of the requirements associated with the Multiple Financed Properties for the Same Borrower policy will continue to be seen in DU Version 9.2 when the message above is not issued. The existing message will be updated with DU Version 9.2 to include specific references to the requirements that must be manually applied (e.g., minimum credit score requirements, reserve requirements, etc.).

**Note:** As specified in the message, lenders are still responsible for confirming the number of financed properties the borrower will own and manually applying all of the eligibility and underwriting requirements specified in the *Selling Guide*.

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## New Pending Sale Property Message

A new message will be issued on primary residence transactions when a pending sale property is shown in the Real Estate Owned section of the online loan application. This message will remind the lender that if the property will not be sold prior to closing, the lender must verify that the borrower meets the reserve requirements for pending sale properties as specified in the *Selling Guide*.

**Note:** This new message will not be issued on DU Refi Plus loan casefiles.

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## Change to DU Treatment of Life Insurance Assets

*Selling Guide* Announcement SEL-2014-06 specified that if an insurance company payout is used for the down payment or closing costs, lenders must document the borrower's receipt of the funds from the insurance company. However, if the cash-value of the life insurance is being used for reserves, the cash-value must be documented, but does not need to be liquidated and received by the borrower.

With DU Version 9.2, the amount entered in the Cash Value field in the Life Insurance section of the online loan application will be included in Total Available Assets. DU will then issue a verification message stating the following:

- If the cash value entered is the cash value that will be liquidated to be used for down payment or closing costs, the cash value of the policy and receipt of the funds must be verified; and
  - if the cash value entered is the cash value to be used only for reserves, only the cash value must be verified.
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## Removal of Retired ARM Plans

A number of ARM plans will be retired with DU Version 9.2 and will no longer be seen as a valid Fannie Mae ARM plan. If a loan casefile is submitted to DU Version 9.2 using an ARM plan that was previously used for interest-only loans or for loans with a 40-year amortization, the loan casefile will receive an Out of Scope recommendation. If any of the other retired ARM plans are underwritten through DU Version 9.2, the loan casefile will receive an Ineligible recommendation because a valid Fannie Mae ARM plan was not specified.

Appendix A specifies the ARM plans that will be removed with DU Version 9.2.

*Note:* The ARM plans also will be removed from the Desktop Originator<sup>®</sup> (DO<sup>®</sup>)/DU User Interface the weekend of December 13, 2014.

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## 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 state Housing Finance Agency, and mortgage brokers should contact their DO sponsoring wholesale lender.

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## Changes to the DU Underwriting Findings Report

The DU Underwriting Findings Report will be updated with DU Version 9.2.

### Summary section

The Summary section will be updated to include the borrower generation, when applicable (will also be shown where the borrower name is displayed in the Underwriting Analysis Report); replace "Total Expense Ratio" with "Debt-to-Income Ratio;" and to add "Actual/Estimated" to the Appraised Value to make it clear that the value displayed is the value entered by the lender on the online loan application. The changes are highlighted in red below.

### SUMMARY

<b>Recommendation</b>	<b>Approve/Eligible</b>	<b>Co-Borrower</b>	Mary Homeowner
<b>Primary Borrower</b>	John Homeowner <b>Sr</b>	<b>Casefile ID</b>	1234567890
<b>Lender Loan Number</b>	My Loan Number	<b>Submitted By</b>	User ID
<b>Submission Date</b>	12/16/2014 08:50AM	<b>DU Version</b>	9.2
<b>First Submission Date</b>	12/15/2014 04:07PM		

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Submission Number 2

### Mortgage Information

LTV/CLTV/HCLTV	90.00% / 90.00% / 90.00%	Note Rate	3.875%
Housing Expense Ratio	7.42%	Loan Type	Conventional
Debt-to-Income Ratio	14.69%	Loan Term	360
Total Loan Amount	\$90000.00	Amortization Type	Adjustable Rate
Sales Price	\$100000.00	Loan Purpose	Purchase
Actual/Estimated Appraised Value	\$100000.00	Refi Purpose	

### Mortgage Information and Qualifying Ratios sections

The Mortgage Information section in the Underwriting Analysis Report will be updated to add "Actual/Estimated" to the Appraised Value. The Qualifying Ratios section will be updated to replace "Total Expense" with "Debt-to-Income." The changes are highlighted in red below.

### MORTGAGE INFORMATION

Loan Type	Conventional	LTV/CLTV/HCLTV	90.00% / 90.00% / 90.00%
Amortization Type	Adjustable Rate	Loan Amount	\$90000.00
Balloon	No	Financed MI Amount	\$0.00
Community Lending	Yes	Total Loan Amount	\$90000.00
Payment Frequency	Monthly	Sales Price	\$100000.00
Lien Type	First Mortgage	Actual/Estimated Appraised Value	\$100000.00
Amt. Subordinate Fin.	\$0.00	P&I	\$476.29
Loan Purpose	Construction	Note Rate	4.875%
Refi Purpose		Qualifying Rate	4.875%
Owner Existing Mtg.		Bought Down Rate	6.000%
Buydown	Yes	Term (Months)	360

### INCOME

Base	\$10300.00
Commission	\$0.00
Bonus	\$0.00
Overtime	\$0.00
Other	\$350.00
Positive Net Rental	\$450.00
Subj. Pos. Cash Flow	\$0.00
Total	\$11100.00

### QUALIFYING RATIOS

Housing Expense	7.42%
Debt-to-Income	14.69%

### EXPENSE RATIOS

Including ≤ 10 Mos.	14.69%
With Undisclosed Debt	14.69%

*Note:* These changes will be seen on DU Version 9.1 and DU Version 9.2 loan casefiles.

## Excessive Value Message Modifications

The Potential Red Flag messages issued by DU that inform lenders the submitted property value estimate may be excessive are being updated. The messages issued by DU Version 9.2 will remind lenders that when an appraisal is submitted to the Uniform Collateral Data Portal® (UCDP®), the messages may differ from those received from DU as those issued by UCDP are based on an analysis of the data provided in the actual appraisal submitted.

*Note:* The logic that issues the excessive value messages is not changing, only the message text.

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## Updates to Align with the *Selling Guide*

### ***DU Refi Plus message update***

The message issued on DU Refi Plus loan casefiles indicating that the lender must determine if a loan casefile is either a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z will be updated so it no longer references higher-priced mortgage loans, since those would only apply to applications dated prior to January 10, 2014.

### ***Deed-in-lieu of foreclosure, preforeclosure sale, and charge-off message modifications***

The deed-in-lieu of foreclosure, preforeclosure sale, and charge-off messages will be updated to remove references to guidelines that apply to loan applications taken prior to August 16, 2014.

### ***No payment included message change***

The message issued when no minimum payment is included on the online loan application for a mortgage, HELOC, installment loan, or an unknown liability type is being updated. This message will now be issued in the first section of the DU Underwriting Findings report, and will be updated to indicate that the risk assessment of the loan casefile may not be accurate because the accounts did not have a minimum monthly payment and DU was unable to calculate an accurate debt-to-income ratio (DTI). The lender must ensure the DTI used in the risk assessment is accurate, and if a payment must be included in the DTI, the payment amount must be entered on the online loan application and the loan casefile resubmitted to DU.

*Note: If the minimum monthly payment is \$0, the lender must include documentation in the loan file confirming the \$0 payment amount. Deferred installment debts, such as deferred student loans, must be included as part of the borrower's recurring monthly debt obligations.*

### ***Individual Taxpayer Identification Number message update***

The message that is issued informing lenders that the Social Security Number entered for a borrower appears to be an Individual Taxpayer Identification Number (ITIN) is being updated to include ITINs included in the expansion done by the Internal Revenue Service (IRS). The IRS expanded the range of ITINs to include 900-70-0000 through 999-88-9999, 900-90-0000 through 999-92-9999 and 900-94-0000 through 999-99-9999.

*Note: This update will also apply to loan casefiles underwritten with DU Version 9.1. DU Version 9.1 loan casefiles underwritten for a borrower with an ITIN issued with one of the expanded ranges may see the ITIN message appear if the loan casefile is resubmitted. As the message states, the lender must verify the borrower is legally present in the United States.*

### ***Scheduled amortization modification***

With the DU Version 9.0 May Update a new message was issued when Scheduled Amortization was selected as the Repayment Type instructing the lender to update the repayment type to indicate the specific repayment type of the transaction. With DU Version 9.2 a Repayment Type of Scheduled Amortization will be considered invalid and loan casefiles submitted using this Repayment Type will receive an Out of Scope recommendation.

### ***Community Lending field removal***

With DU Version 9.0 the FannieNeighbors<sup>®</sup> option was retired. The weekend of December 13, 2014, the FannieNeighbors Eligible field will be removed from the Desktop Originator<sup>®</sup> (DO<sup>®</sup>)/DU User Interface.

### ***Miscellaneous message text changes***

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



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## Retirement of DU Version 9.0

With the release of DU Version 9.2, DU Version 9.0, which went into production the weekend of October 20, 2012, will be retired. Therefore, effective the weekend of December 13, 2014, customers will no longer be able to resubmit loan casefiles to DU Version 9.0; however, customers will continue to be able to view online loan applications and DU Underwriting Findings reports that were created under DU Version 9.0. To obtain an updated underwriting recommendation after the weekend of December 13, customers must create a new loan casefile and submit it to DU.

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## 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.

## Appendix A: ARM plans being removed with DU Version 9.2

The following ARM plans will be removed from the DO/DU User Interface the weekend of December 13, 2014, and will no longer be seen as a Fannie Mae ARM plan in DU.

ARM Plan	Reason for Removal
346- 6 MO TREASURY 1&5 Caps	No longer a standard Fannie Mae ARM plan
383- 1 YR TREASURY 1&4 Caps	
421- 1 YR TREASURY 2&4 Caps	
510- 1 YR TREASURY 1&5 Caps	
511- 1 YR TREASURY, CONVERTIBLE 1&5 Caps	
520- 1 YR TREASURY 2&5 Caps	
521- 1 YR TREASURY, CONVERTIBLE 2&5 Caps	
711- 1 YR TREASURY, CONVERTIBLE 1&6 Caps	
714- 1 YR COST OF FUNDS 1.5&5 Caps	
722- 1 YR COST OF FUNDS 1&5 Caps	
746- 6 MO TREASURY 1&6 Caps	
776- 1 YR TREASURY, CONVERTIBLE 1&4 Caps	
791- 1 YR TREASURY, CONVERTIBLE 2&4 Caps	
841- 1 YR TREASURY, CONVERTIBLE 1&4 Caps	
851- 1 YR TREASURY, CONVERTIBLE 1&5 Caps	
975- 7 YR TWO-STEP	Retired with <i>Selling Guide</i> Announcement SEL-2014-03
1029- 5 YR TWO-STEP	
1030- 6 MO CERT. OF DEPOSIT, CONVERTIBLE 1&6 Caps	
1031- 6 MO CERTIFICATE OF DEPOSIT 1&6 Caps	No longer a standard Fannie Mae ARM plan
1443- 6 MO WSJ LIBOR 1&5 Caps	
1444- 6 MO WSJ LIBOR, CONVERTIBLE 1&5 Caps	Retired with <i>Selling Guide</i> Announcement SEL-2014-11
1445- 6 MO WSJ LIBOR 1&6 Caps	
1446- 6 MO WSJ LIBOR, CONVERTIBLE 1&6 Caps	40-year ARM plans retired with <i>Selling Guide</i> Announcement SEL-2013-06
2236 – 3/1 TREASURY, 2/2/6 caps, 40 year term	
3130 – 3/1 LIBOR, 2/2/6 caps, 40 year term	
2238 – 5/1 TREASURY, 2/2/6 caps, 40 year term	
3557 – 5/1 LIBOR, 2/2/6 caps, 40 year term	
2699 – 5/1 TREASURY, 5/2/5 caps, 40 year term	
3128 – 5/1 LIBOR, 5/2/5 caps, 40 year term	
2704 – 7/1 TREASURY, 5/2/5 caps, 40 year term	
3558 – 7/1 LIBOR, 5/2/5 caps, 40 year term	
2703 – 10/1 TREASURY, 5/2/5 caps, 40 year term	
3559 – 10/1 LIBOR, 5/2/5 caps, 40 year term	
3513 – 3/1 TREASURY, 2/2/6 caps, 10 year Interest Only	
3514 – 3/1 LIBOR, 2/2/6 caps, 10 year Interest Only	
3515 – 5/1 TREASURY, 2/2/5 caps, 10 year Interest Only	
3516 – 5/1 LIBOR, 2/2/5 caps, 10 year Interest Only	
3504 – 5/1 TREASURY, 5/2/5 caps, 10 year Interest Only	
3505 – 5/1 LIBOR, 5/2/5 caps, 10 year Interest Only	
3517 – 7/1 TREASURY, 5/2/5 caps, 10 year Interest Only	
3518 – 7/1 LIBOR, 5/2/5 caps, 10 year Interest Only	



ARM Plan	Reason for Removal
3225 – 10/1 LIBOR, 5/2/5 caps, 10 year Interest Only	Interest-only ARM plans retired with <i>Selling Guide</i> Announcement SEL-2013-06
3228 – 10/1 TREASURY, 5/2/5 caps, 10 year Interest Only	
3270 – 3/1 LIBOR, 2/2/6 caps, 3 year Interest Only	
3271 – 3/1 TREASURY, 2/2/6 caps, 3 year Interest Only	
3223 – 5/1 LIBOR, 2/2/5 caps, 5 year Interest Only	
3226 – 5/1 TREASURY, 2/2/5 caps, 5 year Interest Only	
3502 – 5/1 LIBOR, 5/2/5 caps, 5 year Interest Only	
3503 – 5/1 TREASURY, 5/2/5 caps, 5 year Interest Only	
3224 – 7/1, LIBOR 5/2/5 caps, 7 year Interest Only	
3227 – 7/1, TREASURY 5/2/5 caps, 7 year Interest Only	