

DU for Government Loans September 2015 Release

Integration Impact Memo

July 23, 2015

During the **weekend of September 12, 2015**, Desktop Underwriter® (DU®) for government loans will be updated to support the following items on VA and FHA loan casefile submissions.

- Implementation of the October 2014 changes
 - Update to data entry guidance for FHA Gift Funds
 - Changes to Mortgage Insurance Premium information sent to FHA
 - Updates based on HUD Mortgagee Letters 13-24 and 13-25
- New changes to comply with FHA's new Single Family Housing Policy Handbook
- Miscellaneous FHA and VA calculations and message updates

No new data fields will be introduced in this release.

The changes included in this release will apply to all loan casefiles submitted or resubmitted to DU for government loans on or after the weekend of September 12, 2015.

NOTE: *For ease of reference, this document generally uses the term "DU" to refer to "DU for government loans."*

1. Implementation of the October 2014 Changes

A. Update to data entry guidance for FHA Gift Funds

As previously communicated in the July 29, 2014, Selling News update:

Effective October 18, 2014, the full gift funds amount should be entered in DU following the guidance below:

- In Section II Source of Down Payment, a valid FHA Down Payment Type Code will continue to be required and the full gift amount must be entered, even if the amount is not being used for down payment or if the gift amount exceeds the down payment amount.
- In Section VI Assets, all assets should be entered as verified. If the borrower has received a gift and that gift has been deposited into a depository account, the gift should not be entered separately as a gift asset. If the gift has not been deposited into a depository account, it must be shown separately as a gift asset.

NOTE: *For example, if the borrower's verified checking account reflects a balance of \$15,000, and \$5,000 of that amount was from a gift, the checking account balance should remain as \$15,000, with the \$5,000 shown as a gift in the Source of Downpayment in Section II. Multiple gifts should be listed individually in both sections, when applicable.*

B. Additionally, two new messages will be added to further address gift funds:

1. Inaccurate Entry of Gifts

This ineligibility message will be issued on FHA loan casefiles when a gift is entered in the Assets section but not in the Source of Downpayment section:

This loan is ineligible because a gift amount is shown in the Assets section but not in the Source of Downpayment section. The information is required in both sections to ensure calculations are performed correctly by DU, and the correct information is sent to the FHA TOTAL Mortgage Scorecard. Enter the full gift amount in the Source of Downpayment Section with a valid FHA Down Payment Type Code and resubmit.

2. Generic Gift Funds Message

This message will be issued on FHA loan casefiles when the previous message does not apply, and includes information on how to properly enter gift funds:

If a gift is being used, the full amount of the gift must be entered in the Source of Downpayment Section with a valid FHA Down Payment Type Code, to ensure that the correct information is sent to the FHA TOTAL Mortgage Scorecard. Additionally, the gift must be entered in the Assets section as verified. If the gift has been deposited into a depository account, it should not be entered separately as a gift asset to avoid double counting of the gift funds. If the gift has not been deposited into a depository account, it must be shown separately as a gift asset.

How will this affect my integrated systems?

Integrated systems that parse the DU Underwriting Findings report data file (*.res file) may require updates to support the new messages. Integrated systems that receive and only display the DU Underwriting Findings report TXT file or HTML file will not be affected.

Below are the fields associated with the two messages. No changes to the fields are required.

1003 v3.2 Data Mapping

Field #	Field Name	Field Value	Field Description
02E-020	Down Payment Type Code	The following are valid values/EDI codes for FHA submissions where gift funds are applicable: H1 (FHA - Gift - Source Relative) H3 (FHA - Gift - Source Government Assistance) H6 (FHA - Gift - Source Employer) H5 (FHA - Gift - Source Nonprofit Religious Community Non-Seller Funded)	Code identifying the source of a down payment.
02E-030	Down Payment Amount	Format = 12(Z).2(Z)	The amount of funds for a down payment from a single source.

MISMO AUS v2.3.1 Data Mapping

Parent Element	Attribute Name	Attribute Value	Field Description
DOWN_P AYMENT	_Type	The following are valid values/EDI codes for FHA submissions where gift funds are applicable: FHAGiftSourceRelative FHAGiftSourceGovernmentAssistance FHAGiftSourceEmployer FHAGiftSourceNonprofitReligiousCommunityNonSeller Funded	A code identifying the source of a down payment.
DOWN_P AYMENT	_Amount	Format = 12(Z).2(Z)	The amount of funds for a down payment from a single source.

C. Updates based on HUD Mortgagee Letters 13-24 and 13-25

1. Disputed Credit

This message will be modified to address changes made in Mortgagee letters 13-24 and 13-25:

For cases assigned on or after 10/15/13, if the credit report reveals that the borrower is disputing any credit accounts or public records and the total of all outstanding balances for all disputed derogatory credit accounts for all borrowers is greater than or equal to \$1,000, downgrade to refer and manually underwrite the loan. If it is less than \$1,000, a downgrade to manual underwriting is not required. Disputed charge-offs, collections, and late payments in the last 24 months are considered derogatory. For excluded derogatory account types, please consult Mortgagee Letters 13-24 and 13-25.

How will this affect my integrated systems?

Integrated systems that parse the DU Underwriting Findings report data file (*.res file) may require updates to support the message changes. Integrated systems that receive and only display the DU Underwriting Findings report TXT file or HTML file will not be affected.

D. FHA & VA – Miscellaneous Calculation and Message Changes

Non-Occupant Borrowers

The following message will be issued on FHA loan casefiles when a non-occupant borrower is present:

The non-occupant borrower's income and liabilities have been included in the total expense ratio.

Mortgage Credit Certificate (MCC)

The following verification message will be issued on loan casefiles when an MCC is present:

The Mortgage Credit Certificate (MCC) is included in the total expense ratio.

Excessive Submission Message

The logic that results in the issuance of the Excessive Submission message, which identifies an unusually high number of submissions in combination with changes to certain data elements, will be updated.

How will this affect my integrated systems?

Integrated systems that parse the DU Underwriting Findings report data file (*.res file) may require updates to support the message changes. Integrated systems that receive and only display the DU Underwriting Findings report TXT file or HTML file will not be affected.

2. New changes to comply with FHA's new Single Family Housing Policy Handbook

Several logic changes will be made to DU, as well as changes to how information should be entered based on the new Handbook 4000.1. These changes include:

- **Excluded Liabilities***: DU will omit FHA installment liabilities that are less than 10 months and in aggregate are less than 5% of all income on the loan (Today DU only omits liabilities that are less than 10 months and less than or equal to \$100).
- **Seller Contributions**: The calculation on whether seller contributions apply will be updated to be based solely off of the purchase price.
- **Simple Refinance Program**: As part of their guide updates, FHA added the Simple Refinance type. Simple Refinances should be entered as Rate and Term (No-Cash-Out) refinances in DU. The MIP amounts shown on the findings will not be correct, so lenders should verify the correct MIP amounts with FHA.
- **Secondary Financing and the Maximum Loan Amount Calculation**: For Cash Out Refinances with any form of secondary financing, or for Rate and Term Refinances (No Cash Out) and Purchases where privately held secondary financing exists, the maximum loan amount calculation must now be applied outside of DU.
- **Reserves on 1-2 Unit Properties**: For all loans receiving a Refer recommendation, a new message will be shown reminding lenders that 1 months reserves are now required.
- **Military Borrowers**: For submissions where active duty military income is indicated, a new message will be shown reminding lenders that a copy of the borrower's Military Leave and Earnings Statement is now required.

How will this affect my integrated systems?

* Integrated systems that calculate debt-to-income ratio (DTI) should be updated to exclude liabilities based on the months left to pay and the balance as described above.

3. Other Miscellaneous Changes

Cash Back on FHA Purchases

Currently, if a submission shows cash back on an FHA purchase due to the refund of cash on the contract, that submission will receive an ineligible message, even though FHA guidelines allow that money to be refunded. With this release, DU will modify the information it sends to the TOTAL scorecard so that it is not showing as cash back in these cases. This change only applies to what DU sends to TOTAL, the findings may still show the cash back amount. No data entry changes are required and all previous guidance still applies.

4. New and Modified DU Underwriting Findings Messages

This release will introduce new messages, modify existing messages, and retire other messages that are displayed in the DU Underwriting Findings report.

How will this affect my integrated system?

Integrated systems that parse the DU Underwriting Findings report data file (*.res file) may require updates to support the message changes. If you have requested the DU Underwriting Findings message spreadsheet detailing new, retired, and modified messages, you will receive a draft message file shortly, followed by the final message file approximately three to four weeks prior to the production release, from Integration News (integration_news@fanniemae.com). To assist you in assessing the potential impact to your integrated systems, we have provided a preliminary assessment of the expected message changes below:

New Messages	Modified Existing Messages	Retired Messages
~16	~52	~9

Integrated systems that receive and display the DU Underwriting Findings report TXT file or HTML file will not be affected.

Any DU Underwriting Findings messages that you receive are Fannie Mae proprietary and confidential and are subject to nondisclosure and other obligations in your agreements with Fannie Mae.

Additional Information

Testing DU for government loans September 2015 Release

You will receive an e-mail notification from Integration News (integration_news@fanniemae.com) when the release is available for testing in our integration environment approximately **four to five weeks** before the production release. Test scenarios will be distributed and available on FannieMae.com to support your efforts.

Release Support

If you have questions, or require support specific to this release, please e-mail Integration Support (integration_support@fanniemae.com).

Additional Resources

Please refer to the table below for a list of documents and URLs to access the documentation referenced in this *Integration Impact Memo*.

Document Name & Description	URL
DU for Government Loans September 2015 Release Notes	https://www.fanniemae.com/singlefamily/desktop-underwriter
Residential Loan Data Format 1003, V. 3.2 Integration Guide	https://www.fanniemae.com/content/technology_requirements/residential-loan-data-1003-integration-guide.xlsx
MISMO AUS V. 2.3.1 Underwriting Requirements Specification	https://www.fanniemae.com/content/technology_requirements/mismo-aus-underwriting-requirements-specification.xlsx
Online HUD Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance	http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4155.1
Online HUD Handbook 4000.1	http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1
HUD Mortgagee Letters	http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/

Document Name & Description	URL
FHA Mortgage Limits	https://entp.hud.gov/idapp/html/hicostlook.cfm
CHUMS Data Files	http://www.hud.gov/pub/chums/file_layouts.html
FHA Resource Center: Contact Information and FAQs	http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/fh_aresourcectr
VA Lenders Handbook	http://www.benefits.va.gov/warms/pam26_7.asp
VA Lenders Handbook – Credit Underwriting	http://www.benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26_7/ch04.doc
VA Lenders Handbook Chapter 4: VA rental income guidelines located in Ch 4, 2-o	http://www.benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26_7/ch04.doc
VA Circulars	http://www.benefits.va.gov/homeloans/new.asp
VA Loan Limits	http://www.benefits.va.gov/homeloans/loan_limits.asp
VA Regional Loan Centers: Contact Information	http://www.benefits.va.gov/homeloans/rlcweb.asp