

DU for Government Loans Release Notes September 2015 Release

July 23, 2015

During the **weekend of September 12, 2015**, Desktop Underwriter® (DU®) for government loans will be updated to include the changes below:

- Implementation of the October 2014 changes
- Changes to comply with FHA's new Single Family Housing Policy Handbook
- Other Miscellaneous Changes

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."

Implementation of the October 2014 Changes

After the October 2014 DU for Government Loans release, a decision was made to revert to the previous code, based on issues FHA was experiencing with their TOTAL scorecard. As part of the September 2015 release, those changes will now be re-implemented, including the updates to how Gift Funds should be entered. Refer to [Appendix A](#) below for details on the changes from the October release that will be implemented.

FHA Guide update

Effective September 14, 2015, FHA will implement the new Single Family Housing Policy Handbook (Handbook 4000.1). DU messages will be updated to align with the new handbook, and messages that no longer apply will be retired. The changes being made for HUD Handbook 4000.1 are extensive. Refer to the Handbook 4000.1 for information on the changes in FHA policy.

Additionally, 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 but are not limited to:

- **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.

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.

Miscellaneous Message Text Changes

Various messages will be updated for both usability and format.

Important Additional Information

- The DU release will occur the weekend prior to the Monday effective date for FHA’s new guide. Lenders should verify that any submissions after September 12, but prior to September 14 comply with current FHA guidelines.
- As noted above, these DU changes will apply to all submissions and re-submissions made on or after the weekend of September 12, 2015. For re-submissions of any casefiles originally created prior to this release, lenders should verify which FHA rules apply and that all applicable FHA guidelines are met by that submission.

Additional Resources

For additional information, please reference the documents or Web sites listed in the chart below.

Document Name & Description	URL
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/
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/fhare_sourcectr
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

Document Name & Description	URL
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

For More Information

More information can be found in the Help Center, which is accessed through the DO/DU User Interface. Additionally, lenders may contact their Fannie Mae Account Team; and mortgage brokers should contact their DO sponsoring wholesale lender. For questions regarding HUD policies and guidelines, lenders and mortgage brokers should contact HUD at 1-800-CALL-FHA (1-800-225-5342). For questions regarding VA policies and guidelines, lenders and mortgage brokers should contact their VA Regional Loan Center.

Appendix A – Updates from the October 2014 DU for Government Loans Release

The following changes, as originally announced in the [October 2014 Release Notes](#), will be implemented as part of the September 2015 release:

FHA –Transactions With Gift Funds

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

Effective October 18, 2014 (*now September 12, 2015*), 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.

Additionally, 2 new messages will be added further addressing 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.

FHA Mortgage Insurance Premium (MIP)

To better assist FHA with their calculations, the amount of the Financed Upfront MIP (*line n. PMI, MIP, Funding Fee financed* from the Details of Transaction section) will now be sent to the FHA TOTAL Mortgage Scorecard instead of the Upfront MIP amount (*line g. PMI, MIP, Funding Fee* from the Details of Transaction section).

FHA update based on Mortgagee Letters 13-24 and 13-25

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 \$1000, downgrade to refer and manually underwrite the loan. If it is less than \$1000, 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. (This language will be updated again as part of September 2015 release.)

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.

Miscellaneous Message Text Changes

Various messages will be updated for both usability and format.