



Desktop Underwriter Potential Red Flag Messages

August 19, 2016

This document is intended to provide greater clarity around what causes Desktop Underwriter® (DU®) to return each potential red flag message and our recommended approach for reviewing information when each of these messages is received. The appearance of these messages does not affect the underwriting recommendation from DU. Rather they are designed to help lenders detect inconsistencies and potentially fraudulent transactions. Furthermore, the absence of any of the following messages does not indicate or imply Fannie Mae’s acceptance of the accuracy of the data submitted to DU, including the appraised value (either the estimated or actual value). Lenders continue to be responsible for the accuracy of the data entered and, when DU requires an appraisal, for the property appraisal representations and warranties.

Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following:
Excessive resubmissions	This loan has experienced an unusually high number of submissions. Excessive submissions can indicate improper manipulation of loan application data. We recommend that you review the loan application to ensure accuracy.	An unusually high number of submissions on the loan transaction in combination with changes to certain data elements.	Appraisal to ensure that an accurate value has been provided. Credit documents to check the accuracy and integrity of the borrower’s asset and income data.
Liabilities comparison	According to the credit report, the total payments and balances declared on the 1003 differ by more than expected tolerances. Verify that all liabilities belonging to the borrowers are disclosed on the 1003 and that the balances and payments are accurate.	Total liabilities and payments reported on the credit report differ from those declared on the online loan application by more than expected tolerances.	Online loan application: <ul style="list-style-type: none"> to ensure that all liabilities and payments are being accurately reflected from the credit report; to determine if one or more liabilities has been removed from the online loan application verses omitted from the total expense calculation.
Manufactured home caution	Desktop Underwriter has identified this property as a manufactured home in Fannie Mae’s property database. However, the property type was not identified as a manufactured home in the loan application. The lender should research the subject property type. If the property is a manufactured home, the property type on the loan application must be corrected to accurately reflect manufactured home as the property type and the loan must be resubmitted for underwriting.	The subject property address appears to be a manufactured home, yet Manufactured Home was not selected as the property type on the online loan application.	Appraisal to see if the property type is identified as a manufactured home. If there is uncertainty, confirmation from the appraiser may be required Online loan application to see whether the subject property address and the property type were entered correctly.



Property Valuation			
Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following:
A. Excessive value (Cash-out and limited cash- out refinance)	Desktop Underwriter indicates that the submitted value estimate for this refinance transaction may be excessive. When the appraisal is submitted to the Uniform Collateral Data Portal (UCDP), Collateral Underwriter may or may not provide an overvaluation risk message based on an analysis of the data provided in the actual appraisal submitted. However, in either situation, the lender should carefully review the appraisal for this transaction.	The estimated or appraised value entered on the online loan application for the subject property in a refinance transaction appears to be excessive based on data in the DU collateral assessment model.	Appraisal to ensure that an accurate value has been provided.
B. Excessive value with valuation risk (Cash-out and limited cash- out refinance)	Desktop Underwriter indicates that the submitted property value estimate for this refinance transaction may be excessive. In addition, the risk characteristics for this transaction are consistent with those Fannie Mae has historically found to correlate with inflated property valuations. When the appraisal is submitted to the Uniform Collateral Data Portal (UCDP), Collateral Underwriter may or may not provide an overvaluation risk message based on an analysis of the data provided in the actual appraisal submitted. However, in either situation, the lender should carefully review the appraisal for this transaction.	There is a combination of risk: the estimated or appraised value entered on the online loan application for the subject property in this refinance transaction appears to be excessive, AND other risk characteristics in the loan, such as LTV, correlate historically with inflated property valuations.	Appraisal to ensure that an accurate value has been provided.
C. Rapid appreciation	Desktop Underwriter indicates that the submitted property value estimate for this refinance transaction (or sales price for a purchase money transaction) appears to have an excessive rate of appreciation based on an analysis of a recent prior sale of the subject property. The lender should carefully review the appraisal for this transaction.	The estimated or appraised value entered on the online loan application for the subject property in a refinance transaction, or the sales price for a purchase transaction, appears to have an excessive rate of appreciation based on a recent prior sale of the property.	Appraisal to ensure that an accurate value has been provided.



Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following:
D. Rapid appreciation with valuation risk	Desktop Underwriter indicates that the submitted property value estimate for this refinance transaction appears to have an excessive rate of appreciation based on an analysis of a recent prior sale of the subject property. In addition, the risk characteristics for this transaction are consistent with those Fannie Mae has historically found to correlate with inflated property valuations. The lender should carefully review the appraisal for this transaction.	The estimated or appraised value entered on the online loan application for the subject property in a refinance transaction appears to have an excessive rate of appreciation based on a recent prior sale of the property. In addition, other risk characteristics in the loan, such as LTV, correlate historically with inflated property valuations.	Appraisal to ensure that an accurate value has been provided.