Understanding Desktop Underwriter®
- Advanced Guidelines and Updates
June 2019
Agenda

In Today’s Session
- Fannie Mae Website
- Understanding Recommendations
- Understanding DU® Risk Analysis
- Credit, Income and Asset and Appraisal Messages
- Data Integrity Reminders and Fannie Mae Updates
- Genworth Website

Today’s Session Addresses Only Conventional Loans
# Fannie Mae Website - Single Family

## Featured News

<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>URLA optional use period postponed new</td>
<td>6/12/2019</td>
</tr>
<tr>
<td>Servicing Guide Updates new</td>
<td>6/12/2019</td>
</tr>
<tr>
<td>Ask Poli Now Available in LSDU new</td>
<td>6/12/2019</td>
</tr>
<tr>
<td>Lender Letter LL-2019-06, Upcoming HomeReady and Desktop Underwriter Updates new</td>
<td>6/5/2019</td>
</tr>
<tr>
<td>Selling Guide Updates new</td>
<td>6/5/2019</td>
</tr>
</tbody>
</table>

- Go to the News Center for More
- Sign Up for Email Updates

## Access the Single-Family Guides

- Selling Guide
- Servicing Guide updated

## Doing Business with Fannie Mae

- Become a Fannie Mae Seller/Servicer
- Lender Eligibility Reporting Requirements
- Mortgage Products, Features, and Options
- Day 1 Certainty

## Focus Areas

- Assistance in Disasters
- Loan Quality
- Mortgage Fraud Prevention
- Partnerships Designed to Increase Homeownership
- Uniform Mortgage Data Program (UMDP)

## More Resources

- **Home Buyers & Real Estate Professionals**
  Locate a property for sale and more at HomePath

- **Homeowners & Renters**
  Get help & access info at Know Your Options

https://www.fanniemae.com/singlefamily
<table>
<thead>
<tr>
<th>Recent News</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>URLA optional use period postponed</strong></td>
<td><strong>Jun 12, 2019</strong></td>
</tr>
<tr>
<td>At the direction of the Federal Housing Finance Agency, Fannie Mae and Freddie Mac are communicating that the optional use period for the redesigned Uniform Residential Loan Application (URLA) form and corresponding datasets will not begin on July 1, 2019, as previously scheduled.</td>
<td></td>
</tr>
<tr>
<td><strong>Servicing Guide Updates</strong></td>
<td><strong>Jun 12, 2019</strong></td>
</tr>
<tr>
<td>June updates simplify our requirements for release of property requests, clarify investor reporting requirements, and more.</td>
<td></td>
</tr>
<tr>
<td><strong>Malloy Evans: Key Updates in Latest Servicing Announcement (June 12, 2019)</strong></td>
<td><strong>Jun 12, 2019</strong></td>
</tr>
<tr>
<td>Single-Family Chief Credit Officer, Malloy Evans, offers an executive overview of the latest Servicing Guide Announcement.</td>
<td></td>
</tr>
<tr>
<td><strong>Ask Poli Now Available in LSDU</strong></td>
<td><strong>Jun 12, 2019</strong></td>
</tr>
<tr>
<td>LSDU users now have immediate access to Ask Poli, our self-service online resource for Selling and Servicing Guide inquiries and now, LSDU insights, right within the workflow.</td>
<td></td>
</tr>
<tr>
<td><strong>Fannie Mae Modification Interest Rate Adjustment Update</strong></td>
<td><strong>Jun 07, 2019</strong></td>
</tr>
<tr>
<td>This Exhibit provides the new Fannie Mae Modification Interest Rate required for all Fannie Mae conventional mortgage loan modifications.</td>
<td></td>
</tr>
<tr>
<td><strong>Lender Letter LL-2019-06, Upcoming HomeReady and Desktop Underwriter Updates</strong></td>
<td><strong>Jun 05, 2019</strong></td>
</tr>
<tr>
<td>We announced upcoming changes to HomeReady income limit policies and Desktop Underwriter that will be effective July 20, 2019.</td>
<td></td>
</tr>
<tr>
<td><strong>Selling Guide Updates</strong></td>
<td><strong>Jun 05, 2019</strong></td>
</tr>
<tr>
<td>June updates implement changes related to tax reform legislation, update requirements for acceptable</td>
<td></td>
</tr>
</tbody>
</table>
Fannie Mae Communications
Announcements, Lender Letters, Release Notes…
The New URLA

Optional Use Period for the Uniform Residential Loan Application Will Not Begin July 1, 2019

June 12, 2019

At the direction of the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac (the government-sponsored enterprises, or GSEs) are communicating that the optional use period for the redesigned Uniform Residential Loan Application (URLA) form and corresponding datasets will not begin on July 1, 2019 as previously scheduled.

The effective date of the form will be revised and an updated version will be provided at a later date.

Over the coming weeks, FHFA will engage with appropriate stakeholders and agencies to finalize issuance of an updated URLA form, corresponding datasets and a new implementation timeline.

The GSEs appreciate the industry’s work and feedback on the URLA project. We will continue to support our customer test environment and work with the lenders and technology software partners as a new timeline is determined.
Lender Letter-2019-06

• During the weekend of July 20th Fannie Mae will update DU implementing changes.
• HomeReady® income eligibility will be limited to 80% AMI in ALL areas including low income.
• DU Eligibility Assessment will also be updated the weekend of July 20th
DU 10.3 May 2019

DU Updates weekend of July 20

- HomeReady AMI & 2019 Income updates
  - Boarder income – boarder may not have ownership in the property
  - Multiple financed properties - max of two including subject
- DU Validation Service Enhancements
  - All retirement income now eligible for validation
- Support of the Resigned URLA
- Accounts Impacted by disaster
  - DU will not consider delinquencies reported on a credit report when account is reported with codes “Affected by Natural Disaster”
- Rural Housing Message - New “Observation Section” Message
- Updates to Align with the Selling Guide
Announcement 2019-05

Selling Guide Update

- Updated Cash Flow Form 1084 due to Tax Reform Policy
- Title Insurer Rating Requirements
  - Must be licensed and lender approved NOT rated
- Signature Requirement for Initial *Uniform Residential Loan Application* (URLA) (Form 1003) has been removed unless closing with a POA
- Purchase of Certain LIBOR Adjustable-Rate Mortgage (ARM) Loans are restricted (see next slide)
- Miscellaneous *Selling Guide* Update

https://www.fanniemae.com/content/announcement/sel1905.pdf
Lender Letter LL-2019-05

May 17, 2019

To: All Fannie Mae Single-Family Sellers
Purchase of Certain LIBOR Adjustable-Rate Mortgage Loans

We currently offer several adjustable-rate mortgage (ARM) plans that are tied to the London Interbank Offered Rate (LIBOR) index. It has been widely communicated in the industry that the LIBOR index may no longer be available after 2021. Industry efforts are underway to identify and transition from LIBOR to a set of alternative reference rates.

In light of the eventual discontinuance of the LIBOR index and in consultation with the Federal Housing Finance Agency, we are announcing a new policy related to the acquisition of certain LIBOR ARM loans. Effective immediately, all LIBOR ARM loans must be purchased or securitized by Fannie Mae no later than six months from the first payment date of the loan. For example, if the first payment date is January 1, whole loans must be purchased before July 1, or securitized in MBS with issue dates no later than June 1.

In the June Selling Guide update, we will modify the policy that allows for the acquisition of seasoned ARM loans (older than 12 months) on a negotiated basis. Going forward, we will not purchase or securitize any LIBOR ARM loans older than six months on a “flow” or negotiated basis.

**NOTE:** This new policy does not impact our acquisition of newly originated LIBOR ARM loans that are seasoned six months or less, which we continue to purchase and securitize as part of normal course of business. This new policy also does not impact our ability to purchase fully-guaranteed securities traded in the secondary market that are backed by LIBOR ARM loans, regardless of seasoning or issuance date.

**Effective Date**
This policy change is effective immediately.

Lenders who have questions about this Lender Letter should contact their Fannie Mae Account Team.

https://www.fanniemae.com/content/announcement/ll1905.pdf
Selling Guide Updates

• Occupancy Types: updated to align with the recent changes announced in Lender Letter LL-2019-04, Loan Level Price Adjustments for Second Homes.

• Properties Affected by a Disaster: Minor edits were made to align with the DU 10.3

• Debt-to-Income Ratios: Added a reference to high LTV refinance transactions to align with existing DTI policy.

• Loans with Resale Restrictions: Loan and Borrower Eligibility: Reverted an erroneous edit to occupancy requirements.
Announcement 2019-03

Selling Guide Updates

- **HomeReady® Mortgage Loans** (Lenders can implement now but must by 6/15/19)
  - Updates to multiple financed properties, boarder income, and MI coverage for HomeReady combined with Homestyle Renovation
- **Self-Report Process** (moving from email to loan quality management system, Loan Quality Connect)
- **Multiple Servicers for Fannie Majors program**
- **Miscellaneous Selling Guide Updates**

SEL 2019-03

Understanding Desktop Underwriter Advanced

Genworth
During the weekend of March 23, 2019, Fannie Mae will implement an update to Desktop Underwriter® (DU) Version 10.3, which will include the changes described below.

**Updated March 27, 2019**
```
The following updates to the DU validation service will be implemented on March 29, 2019:  
- Message Consolidation  
- Commission Income Validation  
- Income Calculation Update
```

Except for the DU validation service enhancements and the reserves to be verified update, the changes in this release will apply to DU Version 10.3 loan cases submitted or resubmitted on or after the weekend of March 23, 2019.

The changes in this release include the following:
- DU Validation Service Enhancements -- Delayed until March 29, 2019
- HomeReady® AMI Determination  
- Disaster Message Change  
- DU Underwriting Findings Report Updates  
- Updates to Align with the Selling Guide

**DU Validation Service Enhancements**

*Updated March 27, 2019: The DU validation service enhancements will be implemented on March 29, 2019.*

The following changes will be made to the DU validation service.

**Message Consolidation -- Delayed to March 29, 2019**

The DU validation service messages for income and employment will be simplified and consolidated. Eleven new messages will replace 41 existing messages.

**Report retrieval messages (three):** These messages will specify the receipt of third-party vendor reports. These messages will list the reports that were 
- received and used;  
- received but not used, with the specific reason the report was not used; and  
- expected but were not successfully received.

**Employment Validation messages (two):** These messages specify when employment has been validated. These messages will list the employment that has 
- been validated; and  
- not been validated, with the specific reason the employment was not validated.

**Income Validation messages (three):** These messages will specify when income has been validated. These messages will list income types that were
Announcement 2019-02

Selling Guide Updates

- Eligibility Requirements for Manually Underwritten Loans – changes to align with the credit risk assessment in DU 10.3 focused on multiple risk facts such as lower credit scores with higher DTIs (Lenders may implement immediately but required for apps dated 6/1/19 and after)
- Leasehold Estates – Clarifying Lender’s responsibilities is to ensure Fannie Mae’s first-lien enforceability as part of the terms of the lease
- Occupancy Types – Modified language to remove “physical” or “developmentally” to clarify as inclusive of all disabilities.
- Mortgage Electronic Registration System - consolidated shared requirements for sellers and servicers related to the use of (MERS)
Announcement 2019-01

Selling Guide Updates

- Loan Quality Connect™ (Fannie’s new platform to manage post-purchase review process – replacing the QAS system)
- Cost of Funds Index (COFI) Retirement
  - Removing references from Selling Guide
- Requirements for Postponed Improvements
  - Must be a custodial account that complies with Selling Guide
- Removal of second lien references in the Guide since Fannie no longer accepts delivery of second liens
Day 1 Certainty™
Day 1 Certainty™

Day 1 Certainty™ gives lenders freedom from representations and warranties plus greater speed and simplicity, and enables an improved borrower experience.

What’s New
- Day 1 Certainty Policy Clarifications
- The Selling Guide has been updated to reflect policy clarifications for the Desktop Underwriter (DU) validation service and certainty on appraised value components of Day 1 Certainty.

Learn More
- Overview
- Resource Guide
- DU Validation Service
- Verification Report Vendors updated
- Data Vendor Process
- Press Release

Transform Your Business
Find out how we can help you transform your business.

With Day 1 Certainty, Get Freedom...
- Freedom from paper-based processes with validation of income, assets, and employment
- See DU Validation Service
- Freedom from appraisal requirements on eligible refi transactions
- See Property Inspection Waiver
- Freedom from reps and warrants on appraised value
- See Collateral Underwriter

OnDemand eLearning Courses
DU/DO/Fannie Mae Connect user credentials are needed to access overview eLearning course.
- Introduction to Day 1 Certainty
- Implementing Day 1 Certainty: DU Validation Service, Property Inspection Waiver, and Certainty on Appraised Value
- DU Validation Service Overview: Income, Employment, and Assets
- DU Validation Service: Quality Control Overview

https://www.fanniemae.com/singlefamily/desktop-underwriter-validation-service
DU Validation Service

Optional Service via DU – Lenders Must Activate to use

- Execute contract with vendor(s), then execute contract/agreements with Fannie Mae
- Validation Options for Income, Assets and Employment verified by Third Party Data Vendor (i.e. The Work Number® from Equifax®)
- Tax transcripts used from a tax transcript Service used for Social Security Income, pension/retirement income, and self-employment income for sole proprietors (schedule c income)
- Lenders can use one or all of the services
- DU validation service will be applied for ALL DU casefiles underwritten by participating lenders that have activated the service
DU Validation Service

– Lenders obtain borrower consent then orders the “verification report(s)”
– Lender reviews report for any discrepancies with borrower
– Lender enters details into DU and submits
– DU obtains a “duplicate” report from the vendor using loan number or reference number. (Lender loan #, social security number must match in DU to the report)
– DU performs its own income and asset calculation to arrive at a value that is compared to DU.
– Employment status can also be verified
– DU returns messages related to the components submitted for validation:
  • Income is validated on a per-borrower and per-income basis
  • Assets are validated on a loan-level basis
  • Employed is validated on a per-borrower and per-employer basis
– When a component of the file (income, assets, or employment) is validated in DU, Fannie Mae will not enforce representations and warranties with regard to:
  • Accuracy of income calculation, asset calculation, and borrower employment status at the time of closing
  • Integrity of the data from the designated vendor
How It Works - Income Example

Income Calculation Example: Base + Bonus Income

1. Information Current As Of:
   Rate of Pay: 3/13/2016 $4,000 Monthly

<table>
<thead>
<tr>
<th>Year</th>
<th>Base Pay</th>
<th>Overtime</th>
<th>Commission</th>
<th>Bonuses</th>
<th>Other Income</th>
<th>Total Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016YTD</td>
<td>$9,880.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$5,000.00</td>
<td>$0.00</td>
<td>$14,880.00</td>
</tr>
<tr>
<td>2015</td>
<td>$46,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$4,500.00</td>
<td>$0.00</td>
<td>$50,500.00</td>
</tr>
<tr>
<td>2014</td>
<td>$45,000.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$5,000.00</td>
<td>$0.00</td>
<td>$50,000.00</td>
</tr>
</tbody>
</table>

2. DU validation service calculation:
   Base = $4,000
   Bonus = \([5,000 \text{ (2016 bonus)} + 4,500 \text{ (2015 bonus)}] / 24 \text{ months} = $395.83\)

3. DU 1003
   - John H
   - Base income: $4,000.00
   - Overtime: blank
   - Bonuses: $450.00
   - NOT VALIDATED

4. DU messages:
   1) Base income for John H of $4,000 entered on the online loan application has been validated using Verification of Income (VOI) data. The report from The Work Number is acceptable documentation to support this income.
   2) Bonus income for John H of $395.83 has been calculated using Verification of Income (VOI) data, which is lower than the bonus income entered on the online loan application for the borrower. The borrower’s bonus income must be supported by a paystub and W-2s covering the most recent two-year period, or by a standard Verification of Employment (VOE) (2005). The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. If a standard Verification of Employment (VOE) will be obtained it must include all year-to-date earnings, as well as prior year earnings if a W-2 is not being provided. For guidance on borrowers with less than a two-year history of receiving bonus income, or for any additional information on the verification of bonus income, refer to the Selling Guide. Direct verifications provided by a third party employment verification vendor are acceptable if completed in accordance with the Selling Guide.
The DU Findings Report

Always Read Through All Messages
Analyzing Desktop Underwriter Findings Report

SUMMARY: Contains “DU” Recommendation and Purchase Eligibility

- DAY 1 CERTAINTY MESSAGES: Day 1 certainty or Enforcement relief on property value

- RISK AND ELIGIBILITY: Provides details on risk recommendation and why loan is NOT eligible for delivery and possible data entry errors

- FINDINGS SECTION: Indicates strengths in the file/loan application

- VERIFICATION MESSAGE/APPROVAL CONDITIONS SECTION: Contains minimum DU requirements for documentation and potential red flag messages

- OBSERVATIONS SECTION: Contains “FYI” for you and your lender

- UNDERWRITING ANALYSIS REPORT: Modern 1008/Summary of the transaction

- LENDER GUIDANCE FOR USE WITH APPLICANTS: Will appear only on Refer/w Caution Recommendation
Sample DU Findings Report

Verification Messages Broken out by Topic:

– General messages
  • Potential Red Flag Messages
  • Document Expiration date
  • MI requirements

– Credit and Liabilities
  • Bankruptcy, foreclosures, charge offs
  • Late pays, payoff of accounts, omitted liabilities

– Employment and Income
  • Documentation requirements

– Assets and Reserves
  • Amount to verify
  • Liquidation

– Property and Appraisal Information
  • Appraisal Type
  • Project Review Type

When Viewing In HTML You Can Sort Messages In Any Order
Desktop Underwriter Potential Red Flag Messages - Updated

**Messages Must Be Cleared**
- Provides message text
- Why message appeared
- Possible ways to clear or resolve

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Desktop Underwriter Potential Red Flag Messages - Updated

Messages Must Be Cleared
– Provides message text
– Why message appeared
– Possible ways to clear or resolve

<table>
<thead>
<tr>
<th>Potential Red Flag</th>
<th>Message Text</th>
<th>What Causes DU to Return This Message?</th>
<th>We Recommend Review of the Following</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excessive resubmissions</td>
<td>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.</td>
<td>An unusually high number of submissions on the loan transaction in combination with changes to certain data elements.</td>
<td>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.</td>
</tr>
</tbody>
</table>
| 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:  
- 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 versus 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. |

General Messages

Best Practices
General Messages

Clear Potential Erroneous Information
– Confirm SS#

According to the Social Security Administration (SSA), the Social Security number (SSN) for John Homeowner either has not been issued, or was recently issued. The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae. (MSG ID 0011)

According to the Social Security Administration (SSA), the Social Security Number (SSN) entered for Mary Homeowner may not be associated with him/her. The SSN accuracy must be confirmed, and if incorrect, it must be updated and the loan casefile resubmitted to DU. If the SSN is determined to be correct, it must be validated directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae. (MSG ID 2741)
General Messages

Watch the expiration date of your documents!

Based on the credit report obtained through DU, this loan casefile must close on or before 07/01/2019.

- All credit documents must be no more than four months old on the note date, and
- For guidelines on the age of the appraisal or property inspection report, refer to the Selling Guide.

It’s 4 months - not 120 days!
General Messages

Check Pricing

9 **Loan Level Price Adjustments** may be applied when this loan is delivered to Fannie Mae. Refer to the Selling Guide and Loan-level Price Adjustment (LLPA) Matrix on fanniemae.com for specific details.

<table>
<thead>
<tr>
<th>Table 5: HomeReady Mortgage Loans –</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative LLPA Caps</strong></td>
</tr>
<tr>
<td>If the sum of all applicable LLPAs exceeds the caps listed below, the excess will be waived at delivery, except as follows: LLPAs for Minimum Mortgage Insurance Coverage Option (Table 4) are in addition to the LLPA caps.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT FEATURE</th>
<th>LLPA Caps</th>
<th>SFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV &gt; 80% and credit score ≥ 680</td>
<td>0.000%</td>
<td>900</td>
</tr>
<tr>
<td>All other LTV ratios and credit score combinations</td>
<td>1.500%</td>
<td>900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRODUCT FEATURE</th>
<th>LLPA</th>
<th>SFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-purchase housing counseling</td>
<td>-$500</td>
<td>184</td>
</tr>
</tbody>
</table>

**Reminder-**
*If the loan can be submitted as a HomeReady loan - All LLPA waived for transactions with credit score of 680 or greater and LTV of 80% or greater.*
General Messages

- Check for MI coverage
- Check MI guidelines

10 Mortgage insurance is required.

- The lender may either obtain mortgage insurance coverage of at least 6% with an MI loan-level price adjustment or obtain mortgage insurance coverage of 12%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com.
- Verify the mortgage insurance premium is accurately reflected in the loan application.

Reminder - If the loan can be submitted as a HomeReady loan or is an HFA loan, the MI coverage requirement is lower when the LTV is greater than 90%!
Credit and Liabilities

Best Practices
Credit and Liabilities

- Check for overlay of minimum credit score
- Check for overlay of minimum number of credit scores
- Check for overlay of minimum number of tradelines used in credit score

The following **credit scores** are included in the credit report: (MSG ID 1132)

<table>
<thead>
<tr>
<th>BORROWER</th>
<th>CREDIT SCORES</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Homeowner</td>
<td>760 779 785</td>
</tr>
<tr>
<td>Mary Homeowner</td>
<td>768 771 783</td>
</tr>
</tbody>
</table>
Credit and Liabilities

DU Credit-related Error Codes
Job Aid

https://www.fanniemae.com/content/job_aid/desktop-underwriter-credit-related-error-codes-job-aids.pdf
Credit and Liabilities

Borrowers with Credit Freeze

– DU will underwrite if only one repository is frozen
  • A warning message will be issued by DU reminding lenders of their responsibility
– If two repositories are frozen DU will issue an error message
– If no credit score is generated by the two repositories available, DU will underwrite under the guidelines specific for borrowers without traditional credit
Credit and Liabilities

If consumers ask for a freeze online or by phone, the credit reporting agency must have the freeze in place within one business day. And when consumers want to lift the freeze, the credit reporting agencies have to make that happen within one hour. (If consumers make the request by mail, the agency must place or lift the freeze within three business days.)

https://www.consumer.ftc.gov/articles/0497-credit-freeze-faqs
Verification Messages Broken out by Topic:

-Credit and Liabilities

- Bankruptcy, foreclosures, charge offs, late pays, omitted accounts
- What accounts were indicated as “to be paid off”
- Mortgage payment that need additional attention

Credit and Liabilities

This message is NOT on your sample findings

12 The following mortgages are either not listed on the credit report, or are on the credit report but not matched to their respective mortgage account on the 1003, or the credit report account has an outstanding balance and the payment history has not been reported in the last 6 months. Verify the payment history for the mortgage. If the mortgage is currently 60 days or more past due, or has been 60 days or more past due in the last 12 months, the loan casefile is ineligible for delivery to Fannie Mae. (MSG ID 1813)

<table>
<thead>
<tr>
<th>BORROWER</th>
<th>CREDITOR</th>
<th>PAYMENT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>mary homeowner</td>
<td>Current Mortgage</td>
<td>$1,650.00</td>
<td>$100,000.00</td>
</tr>
</tbody>
</table>
Credit and Liabilities

B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit (07/29/2014)

<table>
<thead>
<tr>
<th>Derogatory Event</th>
<th>Waiting Period Requirements</th>
<th>Waiting Period with Extenuating Circumstances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy — Chapter 7 or 11</td>
<td>4 years</td>
<td>2 years</td>
</tr>
<tr>
<td>Bankruptcy — Chapter 13</td>
<td>• 2 years from discharge date</td>
<td>• 2 years from discharge date</td>
</tr>
<tr>
<td></td>
<td>• 4 years from dismissal date</td>
<td>• 2 years from dismissal date</td>
</tr>
<tr>
<td>Multiple Bankruptcy Filings</td>
<td>5 years if more than one filing within the past 7 years</td>
<td>3 years from the most recent discharge or dismissal date</td>
</tr>
<tr>
<td>Foreclosure¹</td>
<td>7 years</td>
<td>3 years Additional requirements after 3 years up to 7 years:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 90% maximum LTV ratios²</td>
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<tr>
<td></td>
<td></td>
<td>• Purchase, principal residence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limited cash-out refinance, all occupancy types</td>
</tr>
<tr>
<td>Dood-in-Liou of Foreclosure, Preforeclosure Sale, or</td>
<td>4 years</td>
<td>2 years</td>
</tr>
<tr>
<td>Charge-Off of Mortgage Account</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Not ALL Lenders Allow For Extenuating Circumstances

Understanding Desktop Underwriter Advanced
Credit and Liabilities

Bankruptcy And Mortgage Delinquency

– With 10.2 lenders will have the ability to instruct DU to disregard bankruptcy information in the eligibility assessment that is incorrect or due to extenuating circumstances, or disregard excessive mortgage delinquency information that is incorrect
– DU will then issue an message stating the bankruptcy information was not used in the eligibility assessment because DU was instructed to underwrite without it.
– Lenders must document the borrower did not declare bankruptcy, or that the loan meets the applicable waiting period requirements
– For mortgages reported in error, DU will issue a message stating the mortgage delinquency information was not used in the eligibility assessment because DU was instructed to underwrite without it
– Lenders must document the mortgage is not currently past due by two or more payments and that it has not been 60 days or more past due in the last 12 months
– NOTE: Prior updates allow lenders of disregard foreclosures due to extenuating circumstances or incorrect information
Credit and Liabilities

DU Sample Data Entry
– Check your specific policy if you are able to override DU with these options
Credit and Liabilities

– When DU issues “Approve/Eligible” using the disputed trade lines:
  • Include the payment, if any, in the DTI but no further documentation is required.

– When loan casefile does not receive Approve recommendation including the disputed trade line, risk will be assessed EXCLUDING the trade line:

  **Note:** Tradelines reported as medical debt (Account Type Code of MD or Remarks Code of E0166) will not be shown in the disputed tradeline message if also reported as disputed, and lenders will not be required to investigate the disputed medical tradeline.
Authorized User Accounts

DU considers authorized user accounts in its credit risk assessment. FICO scores may be impacted but DU’s risk engine looks at the trade lines and makes a credit recommendation.

- Lenders should underwrite without the benefit of these trade lines unless your borrower is the authorized user and you have confirmed they have been making the payments on the account.
Credit and Liabilities

Accounts Paid off at Closing

- Funds must be verified to pay off the account (if indicated in DU loan to be paid, DU will add amount to be verified); Underwriters will use discretion and MAY include a payment even if the account is being paid off. The account may remain open after closing

<table>
<thead>
<tr>
<th>BORROWER</th>
<th>CREDITOR</th>
<th>ACCOUNT NUMBER</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Homeowner</td>
<td>SALLIE MAE</td>
<td>950254520</td>
<td>$5,000.00</td>
</tr>
</tbody>
</table>
Credit and Liabilities

For loan casefiles underwritten through DU

– DU determines the maximum allowable debt-to income ratio based on the overall risk assessment of the loan casefile

– DU will apply a maximum allowable total expense ratio of 50% for non-HARP loans
Credit and Liabilities

The total monthly obligation is the sum of the following:

– Monthly housing expense (PITI)
– Monthly payments on installment debts and other mortgage debts that extend beyond ten months (including deferred installment loans);
– Monthly payments on revolving debts (unless evidence paid off)
  • If debt (all types) verified paid by someone else for at least 12 months the payment may be excluded; Policy includes all types of debts including mortgages
  • Payment history must have no history of delinquencies in the most recent 12-month period

– Continued on next slide…….
Credit and Liabilities...cont

The total monthly obligation....cont

- 30 Day charge accounts - monthly balance will not be calculated in the DTI but included as reserves in the “required funds to be verified”
- Do not Omit or mark paid by close
  - Verify MOP is “O” on credit report and mapped correctly into DU

- Monthly payments on lease agreements, regardless of expiration date of lease
- Any net rental loss from a rental property
- Properties owned free and clear still have tax and insurance that must be documented and included
Credit and Liabilities...cont

Student Loans – Is it Deferred or in Repayment?

– Student Loans in repayment:
  • Use the actual payment documented from credit report; If no payment listed
    – Use verified loan terms from student loan lender
    – Documentation supplied by the borrower or
    – 1% of the outstanding student loan balance
    – Or verify loan is an income based repayment and there is a zero payment due

SEL 2017-04

Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

• If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
• For deferred loans or loans in forbearance, the lender may calculate
  - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
  - a fully amortizing payment using the documented loan repayment terms.
Credit and Liabilities…cont

The total monthly obligation is the sum of the following:

– Monthly alimony, child support, or maintenance payments that extend beyond ten months

SEL 2017-06 allows option to reduce income by the monthly Alimony obligation in lieu of a liability

---

### Alimony Treatment

We are updating the Guide to allow more flexibility on the treatment of alimony paid by the borrower. Lenders will now have the option of reducing the borrower’s monthly qualifying income by the amount of the monthly alimony payment in lieu of including it as a monthly payment in the calculation of the debt-to-income (DTI) ratio. Going forward, lenders may choose to use either option – reducing income or treating it as a debt – when qualifying borrowers.

When using the option of reducing the borrower’s monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. In this case, the lender can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. The lender must still obtain documentation confirming the amount of the alimony obligation.

---

– Business debt in the borrower’s name unless:
  • the account in question does not have a history of delinquency,
  • the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
  • the lender’s cash flow analysis of the business took the obligation into consideration
Credit and Liabilities...cont

The total monthly obligation is the sum of the following:

SEL 2018-01 allows option to include a payment in the DTI if certain requirements are met

**Federal Income Tax Repayment Plans**

In the January Selling Guide update we also outlined conditions when an IRS tax repayment plan for delinquent federal income tax payments may be included in the DTI ratio instead of requiring the lien to be paid in full prior to or at closing. DU Version 10.2 will include the following to support this policy update:

- The message issued when a tax lien is found on the borrower’s credit report will be updated to refer the lender to the Selling Guide to determine eligibility to include the payment due under a federal income tax installment agreement in the DTI ratio instead of requiring payment in full.

- A new DU message will be issued when a borrower answers Yes to Declaration f. on the loan application (Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee?). This message will inform the lender that the borrower declared a delinquency or default on a Federal debt or financial obligation, and will refer the lender to the Selling Guide to determine eligibility to include the payment due under a federal income tax installment agreement in the DTI ratio instead of requiring payment in full.

- Selling Guide requirements are:

  - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.

  - The lender must obtain the following documentation:
    - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
    - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.
The total monthly obligation is the sum of the following:

**Small Business Administration Loans**

We are clarifying that all Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing and included in the calculation of the CLTV and HCLTV ratios. The monthly payment of the subordinate lien must also be included in the borrower’s DTI ratio calculation unless the lender can satisfy the requirements in *Business Debt in Borrower’s Name* in B3-6-05, Monthly Debt Obligations.

**Effective Date**

Lenders are encouraged to implement these clarifications immediately, and must implement them by March 2019. The related messaging in DU for loan casefiles with subordinate financing without a corresponding payment will be updated in a future release to reference the exception permitted for SBA loans.
Employment and Income

Best Practices
Documenting Employment and Income

1b. Current Employment/Self Employment and Income

Employer or Business Name ___________________________ Phone (___) ___ – ________
Address ___________________________ State ________ Zip __________
City ___________________________ Check if this statement applies:
Position or Title ___________________________ Do not apply
Start Date _______/_________ (mm/yyyy) □ I am employed by a family member, property seller, real estate agent, or other party to the transaction.
How long in this line of work? _______ Years _______ Months
□ Check if you are the Business Owner or Self-Employed
☐ I have an ownership share of less than 25%.
☐ I have an ownership share of 25% or more.

Gross Monthly Income
Base $________/month
Overtime $________/month
Bonus $________/month
Commission $________/month
Military Entitlements $________/month
Other $________/month
TOTAL $________/month

1e. Income from Other Sources

Include income from other sources below. Under Income Source, choose from the sources listed here:
- Alimony
- Automobile Allowance
- Boarder Income
- Capital Gains
- Child Support
- Disability
- Foster Care
- Housing or Parsonage
- Interest and Dividends
- Notes Receivable
- Public Assistance
- Mortgage Credit Certificate (e.g., Pension, IRA)
- Mortgage Differential Payments
- Retirement
- Social Security
- Trust
- Other

RT: Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.

Income Source – use list above

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Employment and Income

Paystub

When a paystub is obtained it must:
- Be dated no earlier than 30 days prior to the initial loan application date,
- Include all year-to-date earnings, and
- Include sufficient information to appropriately calculate income.

Otherwise, additional documentation must be obtained.

Reminders:
- The borrower’s name and SSN# must be consistent with the application (spelling, middle initial or a JR or III)
- Computer generated?
- If paid hourly, the number of hours must be noted on the paystub
- Dated within 30 days of application; if stale dated, ask applicant for more recent stub
- YTD income must be provided and should be consistent with monthly income
- Note any commission, overtime, or bonus income - don’t use if you don’t need
- Review for possible liabilities that may need to be included in your debt ratio (child support or alimony or IRS garnishment or a new loan take out)
- If automatically deposited, cross reference the income to the bank statement
- We are calculating income but also validating the document. Does employer match back to application? To the W-2?
Employment and Income

Verbal Verifications

- Verbal verifications of employment for employed borrowers are required to be completed within 10 business days of closing or, if lenders choose, a VVOE can be completed prior to loan delivery.
- Verbal verifications of employment for self-employed borrowers can now be completed within 120 days of note date or prior to loan delivery (Check for investor overlays).

14 Perform and document a verbal verification of employment for each borrower. For all borrowers who are:
   - Not Self-Employed: no more than 10 business days prior to the note date, or
   - Self-Employed: within 120 calendar days prior to the note date.
The IRS Form 4506-T
- IRS document used to retrieve past federal tax return transcripts, 1065, 1120S, 1120, or W-2 and 1099 transcripts that are on file with the IRS.
- Gives permission for a third party to retrieve the tax payer’s data.
- Each applicant must sign a separate form regardless of the income source.
- The form is valid for 120 days once signed
- If the form is executed prior to closing it must be used to validate the income documentation provided by the borrower and used in the underwriting process.

When Completing A Blank 4506-t Form Lenders Must
- Fill in the recipient of the tax documents – either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form
- Indicate that the request is for documentation concerning the year or years for which the borrower’s income was or will be used in underwriting the loan
- Date the form with the date on which the borrower signs the form (or ascertain that date the borrower signed)
Employment and Income

Commission income effective immediately with 2018-09

– All commission income will be treated the same, individual tax returns or tax transcripts will no longer be required
– Or a written verification of employment (Written VOE 1005) can be used in place of either of the above documentation as long as it contains applicable info

Commission Income Validation

Selling Guide Announcement SEL-2018-09 removed the different treatment of commission income based on the percentage of employment income. The DU validation service will be updated to align with this change.

Currently, when a borrower receives commission income that is 25% or more of total employment income, the DU validation service requires the lender to obtain both a verification of income (VOI)/verification of employment (VOE) report and tax transcripts to validate the borrower’s income. Tax transcripts will no longer be required, and commission income will be treated in the same manner as other wage income and will only require a VOI/VOE report.
Employment and Income

Automobile allowance Policy

- The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio. NOTE: A history of receipt of this income continues to be required.

- Loan files that include qualifying income from an automobile allowance that is calculated following the “actual cash flow approach” must continue to included IRS Form 2106. This includes the practice of directly offsetting an automobile lease payment with an automobile allowance if the lease payment is captured as an expense on Form 2106

- Until the DU validation service is updated, lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation

DU Messaging Was Updated The Weekend Of March 23rd
Employment and Income

Self Employment

If John Homeowner's self-employed income is being used for qualifying purposes, the income may be supported by personal and business tax returns covering the most recent one-year period (including all tax schedules), provided the tax returns reflect at least 12 months of self-employment income and the Cash Flow Analysis (Form 1084) or equivalent has been completed. Otherwise, lenders must obtain personal and business tax returns covering the most recent two-year period (including all tax schedules), though the requirement for business tax returns can be waived if personal returns covering the most recent two-year period are obtained, and (1) the borrower has been self-employed in the same business for at least five years, (2) the borrower's individual tax returns show an increase in self-employment income over the last two years, and (3) the borrower is paying the down payment and closing costs with his or her own funds, and is not using any funds from the business account to fund the transaction or satisfy applicable reserve requirements. Refer to
Employment and Income

Use of LoanBeam for income 1084 workbook

– Fannie Mae has approved the use of this tool and if lender uses it to calculate income and enter the monthly income amount in DU, Fannie Mae will provide representation and warranty enforcement relief* on the accuracy of the calculation of the amount of self-employment income.

– Lenders must
  • **Determine eligibility of the self-employment income
  • Enter complete and accurate data in the vendor tool
  • Cannot perform any manual overrides of the output results
  • Accurately enter the calculated self-employment income amount in DU and
  • Deliver the loan using Special Feature code 777

– Lenders may receive enforcement relief when using a Fannie Mae-approved tool immediately.

– The list of Approved Vendor Tools is available on Fannie Mae’s website

*Rep & Warrant relief is offered when the lender does not make manual overrides to the income amount originally calculated by FNMA SEI 1084 and the non-modified income amount is accurately entered into DU.

**To confirm self-employment income eligibility the lender must confirm minimum history is met; the business is stable (unless the borrower meets the conditions to waive business tax returns); and in the case of business income, the income is distributed to the borrower or the business has adequate liquidity to support withdrawal of business earnings.
Income and Employment

General Underwriting Requirements

– Lenders must review the “type” of income earned and entered in DU; income used for qualifying must be reasonably stable and likely to continue at the current levels. **RED FLAG**: Declining income

– Bonus and Overtime must be annualized or not used at all.

– Employment by a relative or an interested party to the transaction requires applicant to provide tax returns regardless of the DU income documentation message

– Second Job must have a minimum typically of a two year history

– Enter self employed income in “base” income field & sure to mark the self employment box

– Non taxable sources of income can typically be grossed up 25% if evidence provided to verify the income is non-taxable

– Handwritten pay stubs, pay stubs that do not contain ytd income or “stale dated” pay stubs are typically not acceptable

– For loans where the borrower will begin employment after the note date, enter time on job as zero years and zero months
Assets

Best Practices
**Assets**

*Section 2: Financial Information — Assets and Liabilities.* This section asks about things you own that are worth money and that you want considered to qualify for this loan. It then asks about your liabilities (or debts) that you pay each month, such as credit cards, alimony, or other expenses.

2a. **Assets – Bank Accounts, Retirement, and Other Accounts You Have**

Include all accounts below. Under Account Type, choose from the account types listed here:
- Checking
- Savings
- Money Market
- Certificate of Deposit
- Mutual Fund
- Stocks
- Stock Options
- Bonds
- Retirement (e.g., 401k, IRA)
- Bridge Loan Proceeds
- Individual Development Account
- Trust Account
- Cash Value of Life Insurance (used for the transaction)

<table>
<thead>
<tr>
<th>Account Type — use list above</th>
<th>Financial Institution</th>
<th>Account Number</th>
<th>Cash or Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

Provide TOTAL Amount Here $
Other Assets - These asset types are the less common
- Verify acceptability of the assets type and check to see if any program restrictions apply
Observation Section Lists Total Assets Entered By Type; Underwriting Analysis Report Lists Total Funds Required, Including Any Reserves

Additional Reserves May Need To Be Verified If Paying Down Accounts, Paying Off Collections Or Judgments Or Tax Liens
Minimum Borrower Contribution

The following table describes the minimum borrower contribution requirements for transactions that contain gifts.

<table>
<thead>
<tr>
<th>LTV, CLTV, or HCLTV Ratio</th>
<th>Minimum Borrower Contribution Requirement from Borrower’s Own Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>80% or less</td>
<td>One- to four-unit principal residence Second home</td>
</tr>
<tr>
<td></td>
<td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.</td>
</tr>
<tr>
<td>Greater than 80%</td>
<td>One-unit principal residence</td>
</tr>
<tr>
<td></td>
<td>A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a gift.</td>
</tr>
<tr>
<td>Two- to four-unit principal residence Second home</td>
<td>The borrower must make a 5% minimum borrower contribution from his or her own funds. ¹ After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.</td>
</tr>
</tbody>
</table>

¹ See B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements, for HomeReady mortgage minimum borrower contribution and down payment requirements.

1. If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower’s own funds and may be used to satisfy the minimum borrower contribution requirement, as long as both individuals will use the home being purchased as their principal residence.
Standard Depository Messages:
- Number of months documentation
- Refers lenders to *Selling Guide* for large deposits (we will discuss on a future slide)
Assets

Indications of Borrowed Funds...

– Fannie Mae and Freddie Mac have the same definition of a “large deposit”
– A large deposit and any deposit that is 50% or more of the total qualifying income being used to qualify
– If using the funds, lenders must obtain borrower’s written explanation and documentation of the source of large deposits that are reflected on bank statements
– If the source of a large deposit is readily identifiable on the account statement, such as direct deposits where the source of the deposit is printed on the statement, lenders do not need to obtain further explanation; documentation deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation
– Lenders must investigate accounts opened within 90 days of the application date and account balances that are considerably greater than the average balance reflected on the Verification of Deposit Form 1006
– For asset statements that are older than 45 days from application, lenders should request an updated statement
– Use of business assets is acceptable, but lenders must perform a cash flow analysis to determine if any withdrawal will have a negative impact on the business
Assets - The Use of Gift Funds

21 Verify the gift by:
   - Obtaining a signed gift letter,
   - Documenting the transfer of the funds, and
   - Ensuring the gift comes from an eligible source (as defined in the Selling Guide) and does not come from an interested party to the transaction.

If the gift is a grant that the borrower is obligated to repay enter a corresponding liability in Section VI to be included in the debt-to-income ratio and document the terms of the loan. (MSG ID 2573)

– A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor.
– Gift funds may fund all or part of the down payment, closing costs, or financial reserves, subject to the minimum borrower contribution requirements.

Gifts are not allowed on an investment property.

https://www.fanniemae.com/content/guide/selling/b3/4.3/04.html
Assets - Gift Funds - Documentation

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

– specify the dollar amount of the gift;
– specify the date the funds were transferred;
– include the donor’s statement that no repayment is expected; and
– indicate the donor’s name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower’s funds to make up the required minimum cash down payment, the following items must also be included:

– A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
– Documents that demonstrate a history of borrower and donor shared residency. The donor’s address must be the same as the borrower’s address. Examples include but are not limited to a copy of a driver’s license, a bill, or a bank statement.
Assets - Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor’s account or have been transferred to the borrower’s account. Acceptable documentation includes the following:

– a copy of the donor’s check and the borrower’s deposit slip,
– a copy of the donor’s withdrawal slip and the borrower’s deposit slip,
– a copy of the donor’s check to the closing agent, or
– a settlement statement showing receipt of the donor’s check (Fannie Mae Only)

Fannie Mae Only: When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier’s check, or other official check with remitter as the donor.

In What Loan Situation Can A Gift NEVER Be Used?

INVESTMENT PROPERTY
Assets

Mutual Funds and Other Non-liquid Account Types:

– Proof of liquidation

Proof Of Liquidation

– When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required

Applicable for loans submitted to DU and manually underwritten loans; Applies to:

– Stocks, Bonds, Mutual funds and retirement accounts in the form of stocks, bonds and mutual funds
Assets

Stocks or Bond Account Messages:
– Non-vested stock options and non-vested restricted stock are not acceptable sources of funds for the transaction

21 When fully vested stock or bond account(s) are needed to support the amount of funds required for reserves, the value entered may be 100 percent of the value of the account. Document the value with a current brokerage account statement, copy of the stock certificate accommodated by a newspaper stock list.
Assets

Retirement accounts (401k or IRA)
– Accounts that allow for withdrawals only in connection with the borrower’s employment termination, retirement, or death, or the account does not allow for any type of withdrawal should not be entered

Look For Indications That the Account is an IRA or Retirement Account - Borrowers Do Not Always Tell You
– Many investment accounts can be retirement accounts, so carefully review for evidence of the account type
– If less than 100% vested, you can use only the vested portion
– Look for any loans taken out against the account, as you must subtract those when determining available assets
– Borrowers must have access to the account and it must allow for withdrawals, regardless of current employment status
Updates

- Sales Concessions Field or IPC is being removed from DU and lenders must make the adjustment to the purchase price manually or the purchase contract must be amended to restrict maximum IPC paid

<table>
<thead>
<tr>
<th>Purchase price: $300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV = 94% (IPC limit is 3%)</td>
</tr>
<tr>
<td>Seller paid closing costs: $15,000</td>
</tr>
<tr>
<td>Sales concessions: $6,000 ($15,000-$9,000 IPC limit)</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Purchase price</td>
<td>$294,000*</td>
</tr>
<tr>
<td>b. Alterations, improvements, repairs</td>
<td></td>
</tr>
<tr>
<td>c. Land (if acquired separately)</td>
<td></td>
</tr>
<tr>
<td>d. Refinance (incl. debts to be paid off)</td>
<td></td>
</tr>
<tr>
<td>e. Estimated prepaid items</td>
<td>$1,500</td>
</tr>
<tr>
<td>f. Estimated closing costs</td>
<td>$3,000</td>
</tr>
<tr>
<td>g. PMI, MIP, Funding Fee</td>
<td></td>
</tr>
<tr>
<td>h. Discount (if Borrower will pay)</td>
<td></td>
</tr>
<tr>
<td>i. Total costs</td>
<td>$298,500</td>
</tr>
<tr>
<td>j. Subordinate financing</td>
<td></td>
</tr>
<tr>
<td>k. Borrower's closing costs paid by Seller</td>
<td>$9,000*</td>
</tr>
<tr>
<td>l. Other Credits (explain)</td>
<td></td>
</tr>
<tr>
<td>m. Loan amount (exclude PMI, MIP, Funding Fee financed)</td>
<td>$279,300</td>
</tr>
<tr>
<td>n. PMI, MIP, Funding Fee financed</td>
<td></td>
</tr>
<tr>
<td>o. Loan amount</td>
<td>$279,300</td>
</tr>
<tr>
<td>p. Cash from/to Borrower</td>
<td>$10,200</td>
</tr>
</tbody>
</table>

* Line a would be adjusted downward by the amount of the sales concession, and Line k would be adjusted downward by the same amount in order for line p to calculate correctly.
Assets

DU uses the number of financed properties to apply the following eligibility guidelines for casefiles when the borrower has multi financed properties and the subject property is an investment or second home.:

– A minimum credit score of 720 is required for borrowers with 7-10 financed properties
– Borrowers are limited to a maximum of 10 financed properties
Assets

For borrowers with multiple financed properties. The policy requires fewer eligibility overlays and updated reserve requirements, which are automated by DU.

- A new field “Number of Financed Properties” added to additional data screen. It captures the number of 1-4 unit financed properties the borrower is personally obligated on.
- If that field is not completed, DU uses the number of properties in the REO Section that include a mortgage payment or are tagged to a mortgage in the liabilities section.
- If neither of the Number of Financed Properties field or the REO section has been completed, DU uses the liabilities section to determine the number of financed properties.

DU Issues A Message Informing The Lender What Number Was Used As The Number Of Financed Properties And Where That Information Was Obtained.
DU determines the reserves required for the other residential financed properties (excluding the borrower’s principal residence and the subject property). The reserve amount is determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for all *mortgages & HELOC’s disclosed on the application. The percentage is based on the number of financed properties.

*If marked paid by close, omit or if associated with subject property, not included.

### RESERVES CALCULATION TABLE

<table>
<thead>
<tr>
<th>Number of Financed Properties</th>
<th>Reserve Calculation</th>
</tr>
</thead>
</table>
| 2 to 6 (Manually Underwritten and DU Casefiles Underwritten) | The % of UPB is based on the number of **financed properties**:  
  - If 2-4 financed properties, reserves = 2% of aggregated mortgage UPBs for all other* financed properties.  
  - If 5-6 financed properties, reserves = 4% of aggregated mortgage UPBs for all other* financed properties.  
  *Other includes all financed properties which are not the subject property or the borrower’s principal residence. |
| 7 to 10 (DU Casefiles Only) | The % of UPB is based on the number of **financed properties**:  
  - If 7-10 financed properties, reserves = 6% of aggregated mortgage UPBs for all other* financed properties.  
  *Other includes all financed properties which are not the subject property or the borrower’s principal residence. |
Property and Appraisal Information
Property and Appraisal Information

22 DU could not verify the submitted subject property address for this transaction.

- An appraisal based on an interior and exterior property inspection reported on Form 1004 is required for one-unit properties;
- Form 1004C is required for manufactured homes.
- Form 1073 is required for units in condominium projects;
- Form 2090 is required for units in cooperative projects.

Alternatively, modify the subject address and resubmit to determine whether DU is able to verify the updated subject property address. (MSG ID 1824)
Appraisal Waivers

Frequently Asked Questions

September 4, 2018

An appraisal waiver is an offer to waive the appraisal for eligible transactions. Appraisal waiver offers are issued through Desktop Underwriter® (DU) using Fannie Mae’s database of more than 31 million appraisal reports in combination with proprietary analytics from Collateral Underwriter® (CU) to determine the minimum level of property valuation required for loans delivered to Fannie Mae.

This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae Selling Guide. In the event of any conflict with this document, the Selling Guide will govern.

Contents
Appraisal Waivers

Frequently Asked Questions

General

Q1. How do lenders get access to appraisal waivers?

Appraisal waivers are available to all lenders who use DU, including through the Desktop Originator® (DO) interface. No registration is needed.

Q2. Are appraisal waivers available to correspondent lenders?

Yes. A correspondent lender may receive an appraisal waiver offer when submitting a loan casefile to DU. Correspondent lenders should contact their aggregators to discuss aggregator interest in delivering loans with an appraisal waiver to Fannie Mae and to ensure the corresponding is obtaining the appropriate paperwork to meet aggregator guidelines.

Q3. What are the eligibility requirements for appraisal waiver consideration?

The appraisal waiver offer will be considered on the transactions below:

- One-unit properties, including condominiums
- Limited cash-out refinance transactions:
  - Principal residences and second homes up to 90% LTV/CCLTV
  - Investment properties up to 75% LTV/CCLTV
- Cash-out refinance transactions:

Updated August 7, 2018

Appraisal and Property-Related

Frequently Asked Questions (FAQs)

Contents

Resources

Property Eligibility

Q1. In the list of ineligible properties, boarding houses are identified as an ineligible property type. Is a group home considered to be a boarding house and therefore an ineligible property type?

No. Group homes are residential structures utilized for occupancy by persons with disabilities and are not considered to be boarding houses. Group homes are an eligible property type according to the requirements of the Selling Guide.

Q2. Why are boarding houses and bed and breakfast properties considered to be an ineligible property type?

Fannie Mae purchases and securitizes mortgage loans secured only by properties that are primarily residential in nature. Boarding houses and bed and breakfast properties are not primarily residential in nature and therefore are not eligible.
Property and Appraisal Information

DU 10.3 Updates Appraisal Waivers
Effective December 8, Rural High-Needs Appraisal Waiver Available

Rural High-Needs Appraisal Waiver

As specified in Announcement SEL-2018-07, we are offering appraisal waivers for certain home purchase transactions in designated rural high-needs areas. DU will issue the rural appraisal waiver, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

Properties Valued at $1,000,000 or more

Appraisal waivers will not be offered on refinance transactions when the estimated value of the property (as provided to DU) is $1,000,000 or more.

NOTE: DU will apply this change only to loan casefiles created on or after the weekend of Dec. 8. Resubmissions of existing refinance loan casefiles that received the appraisal waiver will not be impacted by the change and lenders can continue to exercise the appraisal waiver.
Property and Appraisal Information

Appraisal Waiver Updates
Available for Certain Purchase and Refinance DU Casefiles

– When a casefile is eligible for an appraisal waiver, Fannie Mae accepts the “submitted” value estimate as the market value.

– Fannie Mae provides relief of reps and warranties on the value, condition and marketability of the property if the lender exercises the appraisal waiver option.

– To even receive an appraisal waiver message on the DU findings:
  • A prior appraisal must be found for the subject property in Fannie Mae’s Collateral Underwriter® (CU™) data
  • That appraisal must be associated with one of the borrowers on the loan casefile for refinances.
  • Property and transaction must meet criteria found in the Selling Guide...see next slide

– Fannie Mae no longer is charging the $75 fee to exercise the option; SFC 801 is used upon delivery

– While Fannie Mae offers an appraisal waiver option, always check your own policies and procedures to ensure no overlay for an appraisal exist
Property and Appraisal Information

Fannie offers Enforcement Relief on reps/warranties related to property value on certain loan casefiles when:

– Appraisal received a CU Risk Score of 2.5 or below, and
– Property type is a one-unit detached, attached or condominium property

The following fields must be provided in DU:

– The Actual Vs Estimated Appraised Value indicator…it must be submitted as “Actual” (Additional Data Screen)
  • The value entered and zip code in UCDP® must match what was entered in DU.
– Doc file ID assigned from UCDP must be provided (Additional Data Screen)
– Message will appear either way “Eligible for Relief” or “NOT Eligible for Relief”
If Property Type Condominium, Project Review Type Message Will Appear:

2018-01 detached condos no longer require project approval (excluded manufactured homes)

Property and Appraisal Information
This property is located in a condominium project. The lender must conduct a review of the project, utilizing the Condo Project Manager (CPM) Expedited or Lender Full Review processes, to determine that it meets the underwriting requirements of the applicable project classification as defined in the Selling Guide. Unless the property is a detached condo, and then a limited review is acceptable under the Selling Guide regardless of the occupancy. If the property is located in a state in which specific project review type guidelines apply, the lender must confirm the loan casefile complies with those guidelines. Refer to the Selling Guide for additional information.

Property and Appraisal Information
This property is located in a condominium project. A limited review can be performed if the property is in an established project and is not ineligible as defined in the Fannie Mae Selling Guide. Otherwise, the lender must review the project to determine that it meets the underwriting requirements of the applicable project classification as defined in the Fannie Mae Selling Guide. If the property is a detached condo, a limited review is acceptable under the Selling Guide regardless of the occupancy. If the property is located in a state in which specific project review type guidelines apply, the lender must confirm the loan casefile complies with those guidelines. Refer to the Selling Guide for additional information.
Underwriting Analysis Report

Take Note Of…
### Underwriting Analysis Report

#### Page #2 Validate the Details

<table>
<thead>
<tr>
<th>Qualification Ratios</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Expense</td>
<td>16.32%</td>
</tr>
<tr>
<td>Debt-to-Income</td>
<td>26.05%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense Ratios</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Including ≤ 10 Mos.</td>
<td>26.05%</td>
</tr>
<tr>
<td>With Undisclosed Debt</td>
<td>26.05%</td>
</tr>
</tbody>
</table>

#### Proposed Monthly Payment

| First P&I (Qualifying) | $769.15 |
| Second P&I             | $0.00 |
| Hazard Insurance       | $150.00 |
| Taxes                  | $300.00 |
| Mortgage Insurance     | $720.53 |
| HOA Fees               | $0.00 |
| Other                  | $0.00 |

<table>
<thead>
<tr>
<th>Desktop Underwriter Findings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Housing Payment</td>
<td>$1,254.68</td>
</tr>
<tr>
<td>Negative Net Rental</td>
<td>$0.00</td>
</tr>
<tr>
<td>Subj. Neg. Cash Flow</td>
<td>$0.00</td>
</tr>
<tr>
<td>All other Payments</td>
<td>$807.10</td>
</tr>
<tr>
<td>Total Expense Payments</td>
<td>$2,101.76</td>
</tr>
<tr>
<td>Present/Principal Housing Payment</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

#### Funds

| Total Available Assets     | $500,000.00 |
| Funds Required to Close    | $18,512.00 |
| Reserves Required to be Verified | $0.00 |
| Total Funds to be Verified | $16,613.00 |
| Cash Back                  | $0.00 |

**The Recommendation for this case is: Approved/Eligible**

**LEGAL DISCLAIMER:** The DU Findings Report does not constitute an approval or denial of the loan application. It may only be used by the lender making the credit decision, and may not be provided to a realtor, borrower or other third party. Lenders must comply with all laws and regulations, including those relating to privacy and nonpublic personal information, when handling the DU Findings Report.
Underwriting Analysis Report

Amortization Type
– Fixed or ARM?
– ARM
  • Note Rate vs. Qualifying Rate

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Conventional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization Type</td>
<td>Fixed Rate</td>
</tr>
<tr>
<td>Balloon</td>
<td>No</td>
</tr>
<tr>
<td>Community Lending</td>
<td>No</td>
</tr>
<tr>
<td>Payment Frequency</td>
<td>Monthly</td>
</tr>
<tr>
<td>Lien Type</td>
<td>First Mortgage</td>
</tr>
<tr>
<td>Amt. Subordinate Fin.</td>
<td>$0.00</td>
</tr>
<tr>
<td>Loan Purpose</td>
<td>Purchase</td>
</tr>
<tr>
<td>Refi Purpose</td>
<td></td>
</tr>
<tr>
<td>Owner Existing Mtg</td>
<td></td>
</tr>
<tr>
<td>Buy Down</td>
<td>No</td>
</tr>
<tr>
<td>LTV/CLTV/HCLTV</td>
<td>84.00% / 84.00% / 84.00%</td>
</tr>
</tbody>
</table>

| Loan Amount      | $250,000.00 |
| Financed MI Amount | $0.00     |
| Total Loan Amount     | $250,000.00 |
| Sales Price        | $300,000.00 |
| Actual/Estimated Appraised Value | $302,000.00 |
| P&I               | $1,211.62   |
| Note Rate         | 4.125%      |
| Qualifying rate   | 4.125%      |
| Bought Down rate  | 0.000%      |
| Term (Months)     | 360         |
# Underwriting Analysis Report

## ARM Qualifying Rate

<table>
<thead>
<tr>
<th>Qualifying Interest Rate Requirements</th>
<th>DU and Manual Underwriting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-rate mortgages</td>
<td>Note rate</td>
</tr>
<tr>
<td>ARMs with an initial fixed-rate period of five years or less</td>
<td>Greater of the note rate plus 2% or the fully indexed rate</td>
</tr>
<tr>
<td>ARMs with an initial fixed-rate period of greater than five years</td>
<td>Greater of the note rate or the fully indexed rate</td>
</tr>
</tbody>
</table>

### Additional Information About ARM Qualifying for DU Loan Casefiles

For DU loan casefiles, the fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to DU.

If “Lender ARM Plan” is used in DU, DU uses the interest rate entered in the ARM Qualifying Rate field. If no interest rate is entered in that field, DU uses the note rate plus 2% to qualify the borrower.

### Always Enter The Index And Margin On ARM Loans
Reminders

Lenders are responsible for integrity of the data submitted to DU

- Do you have all pages to the bank statement and are all large deposits addressed and sourced?
- Retirement accounts? Access verified if required? Fully vested? Did you subtract any outstanding loans and is applicant fully vested?
- Truncated account numbers allowed as long as the last four digits are displayed
- Paying off a second mortgage? Verify it was used to purchase the property or treat the loan as a cash out. Also verify seasoning requirements for ownership and taking cash out.
- Refinance: Is the property currently offered for sale or has it been offered for sale in the past six months? **For refinance transactions, properties must have been taken off the market as of loan disbursement date.**
- Is Property type entered correctly (condo, PUD, manufactured home)
- Are the HOA dues, flood insurance or MI payments included in the housing payment, if applicable? Do you have written support?
- Does the occupancy make sense? Are the “Potential Red Flags” cleared as per the DU findings report?
- Are all the assets per DU verified plus any additional that are needed to payoff a judgment or collection? Evidence of liquidation if needed? Additional reserves?
Reminders and Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- Deferred loans must always be included in the debt ratio; Use amount on credit report, 1% of unpaid balance or actual verified payment
- Student loans in repayment use actual payment per credit report or student loan documentation; Payment may be zero if verified and IBR plan and the payment is zero.
- Lease Payments must always be included in the debit ratio regardless of number of payments remaining
- Installment/lease debt without a payment on the credit report, you must obtain documentation to verify the actual monthly payment amount (Exception: Deferred Student loans see Selling Guide)
- Include revolving debt unless being paid off prior to or at closing; A payment may still be used based on underwriter judgment
- Income: Break it out by type, check trends, history of receipt
- Do names, addresses and social security numbers match from document to document?
- Discontinuance of the Form 1004MC effective August 7, 2018
- Introduction of the High Loan-to Value Refinance Option which replaces the current DU Refi Plus™ and Refi Plus™ (Applications may be taken November 1, 2018)
Reminders and Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- Loans in process where an appraisal as been ordered and submitted and the property is in a designated disaster area, property will become eligible for a PIW on a future transaction if it meets requirements of *Chapter B4-1,4-10, Appraisal Waivers*
- Tax Liens may be included as a debt instead of having to payoff, see guidelines to be able to include as a payment
- Field reviews are no longer required for properties with values over $1,000,000 with LTV/CLTV over 75%
- Lenders required to choose the most reliable appraisal when two appraisals are obtained
- Waiver of project reviews for all detached condo units (excluding manufactured homes) and allow use of C-T-P financing for detached condo units
- HomeStyle Renovation eligibility allows LTV up to 97% for 1-unit primary homes
- Anything entered in these new fields, the casefile will be underwritten as a HomeStyle Energy Mortgage)
  - Energy Improvement Amount PACE Loan Payoff Amount
- Allow lenders to underwrite loans (either with DU or through manual underwriting) for borrowers who have frozen credit at only one of the three national credit repositories.
- Native American tribes and their instrumentalities as eligible providers for Community Second Mortgages
Reminders and Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- DU casefile or the Doc File ID may not be used more than once and a new error message will appear if a lender attempts to do so
- DU loan casefile archival policy is extended from 270 days (9 months) to 28 months and DU will now use the date the casefile file was last submitted to determine archival date
- Fannie Mae does allow loans to be closed in the name of a trust but exceptions are allowed for Inter Vivos Revocable Trusts
- To exclude a liability that someone else pays requires documentation for 12 months showing timely payment and to exclude a mortgage, they must be a co-signer
- When excluding a mortgage payment that someone else has been verified making the payments, it is the PITIA that can be excluded as long as no rental income is being used from that property; Note that the property MUST be included in the borrower’s multiple financed property count & the UPB for the mortgage must be included in the calculation of reserves for multiple financed properties
- Premium pricing (which is a when a borrower selects a higher interest rate in exchange for a lender credit) cannot be used for any portion of the down payment or reserves and should not exceed the closing costs.
- Lender credits derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction
Reminders and Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

– An appraisal waiver is not eligible for investment properties if you are using rental income from the subject property
– Appraisal waiver is not eligible if an appraisal has been uploaded through the UCDP
– Most civil judgements will NOT appear on the credit report due to implementation of the National Consumer Assistance Plan in 2017; Fannie Mae policy did not change. The Selling guide defines lender responsibilities and requirements for payoff of liens, judgments and undisclosed liabilities
LOS Connections
Training Tools and Information
Training Tools and Information

Course Catalog

Genworth offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line and ultimately best serve your borrowers. With more than 70 courses in our catalog, our team is here to help you stay up-to-date on the mortgage industry and regulatory environment. Classes are all offered at no cost to you.

Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

- Fannie Mae Form 1084 Calculator (2017-2018)
- Freddie Mac Form 91 Calculator (2017-2018)
- Freddie Mac Form 92 Calculator (2017-2018)
- Rental Income Calculator (2017-2018)
- Current Ratio – Liquidity Calculator (2017-2018)
- Quick Ratio – Liquidity Calculator (2017-2018)
- Fannie Mae Rental Guide (Calculator 1037)
- Fannie Mae Rental Guide (Calculator 1039)
- Fannie Mae Comparative Analysis Form 1088 Cheat Sheet (2017-2018)
Additional MI Site Information

What’s New
- Our New Look
- New eBook for LOs
- Training

Download our new loan officer eBook.

Self-Employed Borrower Tools
Valuable income calculation tools and reference guides for calculating self-employed borrower income.

- FHA Mac Form 1064 Calculator (2017-2018)
- Freddie Mac Form 64 Calculator (2017-2018)
- Rental Income Calculator (2017-2018)

More Tools

Homebuyer Education
Help first-time homebuyers prepare for the homebuying process. Your no-fee resource!

Master Policy Agreement
Partner with us. A master policy agreement is the first step to submitting MI loans to Genworth.

Contract Services Agreement
Offset fixed underwriting costs as you adjust to the latest industry demands! Request a contract services underwriting agreement.

Genworth MI Community

Find My Sales Representative

ZIP Code
View Your Team

Understanding Desktop Underwriter Advanced
Your Genworth Resources

- ActionCenter®: 800 444.5664
- Your Local Genworth Regional Underwriter
- Your Genworth Sales Representative
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