

Desktop Underwriter® Training

Part I, The Basics
June 2019



Agenda

In Today's Session

- Fannie Mae Website
- What is Desktop Underwriter
- What is Risk
- Risk Factors Evaluated by Desktop Underwriter
- Sample Findings Report
- Data Integrity Reminders and Fannie Mae Updates
- Genworth Website

Today's Session Addresses Only Conventional Loans

Fannie Mae Website

The screenshot displays the Fannie Mae website interface. At the top, the Fannie Mae logo is on the left, and a search bar with the placeholder text "Search forms, documents, site content, etc..." is on the right. Below the header is a dark blue navigation bar with the following links: "Single-Family", "Originating & Underwriting", "Pricing & Execution", "Delivering", "Servicing", "Training", and "Technology". The main content area features a large heading "Building on our promise to bring simplicity and certainty to the mortgage market" and a sub-heading "Learn more". A dark blue overlay box highlights the "Originating & Underwriting" section, which includes the text: "We provide information, training, job aids, and more to assist in originating loans for sale to Fannie Mae." To the right of this text is an image of a man in a suit working on a laptop. Below the main content area, there are two sections: "Most Popular" and "Technology Applications & Tools". The "Most Popular" section lists "Selling Guide", "Mortgage Products and Options", and "Condo, Co-op and PUD". The "Technology Applications & Tools" section includes the text "See Technology tab for full list." and four buttons: "Collateral Underwriter", "Condo Project Manager", "Credit Variance Administration System", and "Desktop Originator".

Fannie Mae

Search forms, documents, site content, etc...

Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Servicing Training Technology

Building on our promise to bring simplicity and certainty to the mortgage market

Learn more

Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Servicing Training Technology

Originating & Underwriting

We provide information, training, job aids, and more to assist in originating loans for sale to Fannie Mae.

Most Popular

- Selling Guide
- Mortgage Products and Options
- Condo, Co-op and PUD

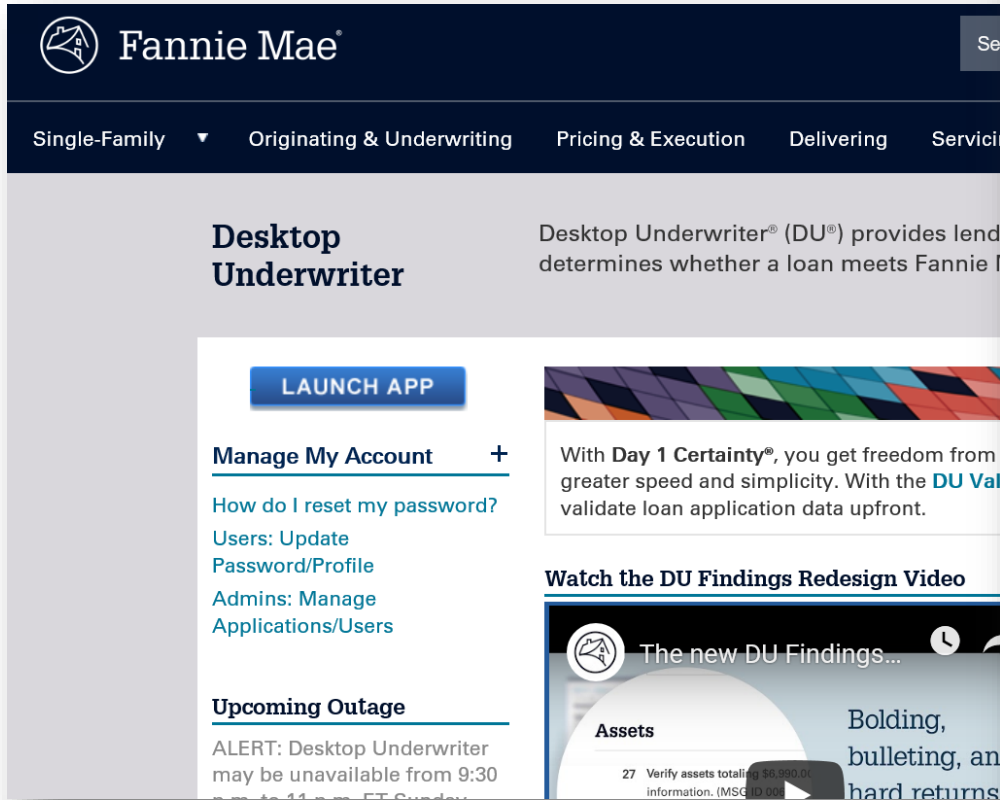
Technology Applications & Tools

See Technology tab for full list.

Collateral Underwriter Condo Project Manager Credit Variance Administration System Desktop Originator

<http://fanniemae.com/portal/index.html>

Desktop Underwriter



Fannie Mae

Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Services

Desktop Underwriter

Desktop Underwriter® (DU®) provides lenders with the ability to determine whether a loan meets Fannie Mae's requirements for sale and delivery.

LAUNCH APP

Manage My Account +

[How do I reset my password?](#)

[Users: Update Password/Profile](#)

[Admins: Manage Applications/Users](#)

Upcoming Outage

ALERT: Desktop Underwriter may be unavailable from 9:30 p.m. to 11 p.m. ET Sunday.

With **Day 1 Certainty®**, you get freedom from greater speed and simplicity. With the **DU Val** validate loan application data upfront.

Watch the DU Findings Redesign Video

The new DU Findings...

Assets

27 Verify assets totaling \$6,980,000 information. (MSC ID 000)

Bolding, bulleting, and hard returns



Fannie Mae

Desktop Underwriter

Access to Credit and Sustainable Homeownership with Certainty and Simplicity

For more than 20 years Fannie Mae's Desktop Underwriter® (DU®) has helped lenders simplify their loan origination processes, provide borrowers with sustainable homeownership opportunities, and respond quickly to changing market conditions. DU is an automated tool that assists lenders in the underwriting of conforming mortgage loans.

DU provides an assessment of a loan's eligibility for sale and delivery to Fannie Mae. Lenders can access DU through an easy-to-use interface on fanniemae.com or through an integrated third-party or proprietary loan origination system.

Benefits and features that you can count on:

- Helping you serve all markets**
 - Robust underwriting options for purchase, refinance, multi-unit properties, manufactured housing, FHA & VA, fixed-rate, ARMs
 - Low down payment for credit worthy low- to moderate-income borrowers through HomeReady® mortgage and HFA Preferred™, 97% LTV, and Community Seconds®
 - Renovation and Energy Improvements with HomeStyle® Renovation and HomeStyle Energy
 - Automated underwriting for borrowers without traditional credit
- Enhanced risk management**
 - Automated underwriting guidelines
 - Comprehensive risk assessment and eligibility determination
 - Potential Red Flag/Quality Control messaging
 - DU limited waiver of underwriting representations and warranties
 - Enhanced credit risk assessment with use of Trended Credit Data
- Delivers efficiency**
 - Action-oriented, detailed messages in the DU Underwriting Findings report
 - Timely policy updates
 - Seamless integration to lenders LOS process and systems
 - Easy to use user interface option
 - Configurable parameters – ability to inform DU about incorrect foreclosure, bankruptcy, and mortgage delinquency information

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What is Risk?

Risk analysis is the backbone of mortgage lending:

- The lender is deciding whether to give a sizeable loan to the applicant
- The lender will make an informed decision based on the risk in the loan
- By looking at how loans have performed in the past, lenders are able to identify factors that appear to increase or decrease the risk in a particular loan

An important point about the information used in the AUS evaluation:

- The systems can only work if the information entered is:
 - Accurate
 - Truthful
 - Complete
 - Supportable

An automated system gives you a risk RECOMMENDATION

- The AUS does not decision a file

DU Findings Report and Credit Report

Summary of Findings

Casefile ID
1400756521

Borrower 1 John Homeowner

Borrower 2 Mary Homeowner

Lender Loan Number JulieJ

DU Version 10.3

Recommendation
Approve/Eligible

Submission Number 1

Submission Date 03/11/2019 08:43PM

First Submission Date 03/11/2019 08:43PM

Submitted By a0837jna

Mortgage Information

LTV/CLTV/HCLTV 84.00% / 84.00% / 84.00%

Housing Expense Ratio 9.79%

Debt-to-Income Ratio 14.27%

Total Loan Amount \$250,000.00

Sales Price \$300,000.00

Actual/Estimated Appraised Value \$302,000.00

Months Reserves 81

Note Rate 4.125%

Loan Type Conventional

Loan Term 360

Amortization Type Fixed Rate

Loan Purpose Purchase

Refi Purpose

Property Information

Property Address 2505 S Creek Street, Mesa, AZ, 85208

Property Type Detached

Number of Units 1

Occupancy Status Primary Residence

Day 1 Certainty

Property Information



Potential Score Improvement

File#: 47527785

Date: 3/25/2019

Company: CREDIT PLUS of SALISBURY



Applicant: MARISOL TESTCASE

	Experian	TransUnion	Equifax
Bureau Scores	745	741	743
Potential Score Improvement	0 <small>(more)</small>	0 <small>(more)</small>	0 <small>(more)</small>

Co-Applicant: EDWARD TESTCASE

	Experian	TransUnion	Equifax
Bureau Scores	622	627	614
Potential Score Improvement	+25 <small>(more)</small>	+31 <small>(more)</small>	+12 <small>(more)</small>

Credit Assure™

Credit Assure™ looks for opportunities to help a borrower improve their credit score, typically by paying down balances.



Current scores (called bureau scores) are provided by the credit bureaus. Predicted scores (called potential scores) and score changes (called potential improvements or score improvements) are provided by CreditXpert Inc. ("CXI") and are not bureau or FICO scores or changes. Predicted scores and score changes simulated by CreditXpert® products are only estimates. CXI does not guarantee that scores from any other company will change by the same amount, in the same way, or at all, or that correcting credit report information will result in a score improvement. CreditXpert products are based on credit reports from the bureaus. CXI is not responsible for inaccurate results, including any due to incorrect, incomplete, or outdated credit report information or incorrect assumptions about the future. CXI is not a credit counseling or credit repair organization. CXI is not endorsed by Equifax, Experian, TransUnion or FICO. THE FOREGOING IS NOT INTENDED TO PROVIDE OR IMPLY WARRANTIES OF ANY KIND. CREDITXPRT PRODUCTS ARE PROVIDED ON AN "AS IS" BASIS, AND CREDITXPRT INC. AND ITS DISTRIBUTORS DISCLAIM ANY AND ALL WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, SYSTEM INTEGRATION, NON-INTERFERENCE AND/OR ACCURACY OF INFORMATIONAL CONTENT.

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Risk Factors Evaluated by DU

Risk Factors Evaluated by DU 10.3:

– Credit Factors

- Credit History
- Installment Accounts
- Delinquent Accounts
- Trended Credit Data
- Public Records, Foreclosures and Collection Accounts
- Inquiries

– Non Credit Risk Factors

- Equity in the Property/LTV
- Liquid Financial Reserves
- Loan Purpose
- Loan Term
- Loan Type
- Occupancy Type
- Debt to Income Ratio
- Property Type
- Number of borrowers
- Self-employment

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Fannie Mae's Selling Guide, §B3-2-03, Risk Factors Evaluated by DU

Risk Factors Evaluated by DU



The screenshot shows the Fannie Mae website interface. At the top, there is a dark blue header with the Fannie Mae logo on the left and a search bar on the right. Below the header is a navigation menu with links: Single-Family, Originating & Underwriting, Pricing & Execution, Delivering, Servicing, Training, and Technology. The main content area is divided into two columns. The left column is titled 'Selling Guide' and includes the text 'Published June 5, 2019' and a link to 'Guide Table of Contents'. The right column is titled 'B3-2-03: Risk Factors Evaluated by DU (12/04/2018)' and includes the text 'This topic contains information on the risk factors evaluated by DU, including:' followed by a link to 'Risk Factors Evaluated by DU'.

DU performs a comprehensive evaluation of these factors, weighing each factor based on the amount of risk it represents and its importance to the recommendation. DU analyzes the results of this evaluation along with the evaluation of the borrower's credit profile to arrive at the underwriting recommendation for the loan casefile.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU

Credit History

A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Successfully managing newly established accounts, including making payments as agreed, signifies lower risk.

TRADE SUMMARY				
TOTAL	27	52037	77033	2808
				486
SECURED DEBT		45549	OLDEST TRADELINE	09/13
UNSECURED DEBT		6488	REVOLVING CREDIT UTILIZATION	18%
			TOTAL DEBT/HIGH CREDIT	68%

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU

Delinquent Accounts

Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, and the number and type of accounts that were not paid as agreed.

A payment history that includes bills that are 30 days or more past-due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower's credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history.

DEROGATORY SUMMARY					
CHARGE OFFS:	0	30 DAYS:	0	INQUIRIES:	4
COLLECTIONS:	4	60 DAYS:	0	MOST RECENT LATE:	undetermined
BANKRUPTCY:	0	90 DAYS:	0	DISPUTES:	0
PUBLIC RECORDS:	0	OTHER:	0		

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU

Installment Loans

DU evaluates how well a borrower manages debt for all types of installment loans such as mortgage, auto, unsecured, and student loans. Research has shown that borrowers with no active installment accounts represent a higher risk than borrowers who have active installment accounts.

TRADE SUMMARY					
	#	BALANCE	HIGH CREDIT	PAYMENTS	PAST DUE
MORTGAGE	0	0	0	0	0
AUTO	4	45549	50274	898	0
EDUCATION	0	0	0	0	0
OTHER INSTALLMENT	1	0	0	0	0
OPEN	1	1814	2673	1814	0
REVOLVING	17	4188	23600	96	0
OTHER	4	486	486	0	486

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU


Revolving Credit Utilization

The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower's ability to manage revolving accounts. A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or who has low available revolving credit is considered higher risk.

TRADE SUMMARY					
TOTAL	27	52037	77033	2808	486
SECURED DEBT		45549	OLDEST TRADELINE		09/13
UNSECURED DEBT		6488	REVOLVING CREDIT UTILIZATION		<u>18%</u>
			TOTAL DEBT/HIGH CREDIT		<u>68%</u>

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- How FICO Scores Are Calculated



HOW CAN WE HELP

Credit Scores ^


- FICO Score versions
- How scores are calculated
- Payment history
- Amount of debt
- Length of credit history
- Credit mix
- New credit
- Improving my score

Credit Reports ^

- What's in your report
- Bureaus
- Inquiries

What's in my FICO

Credit score videos



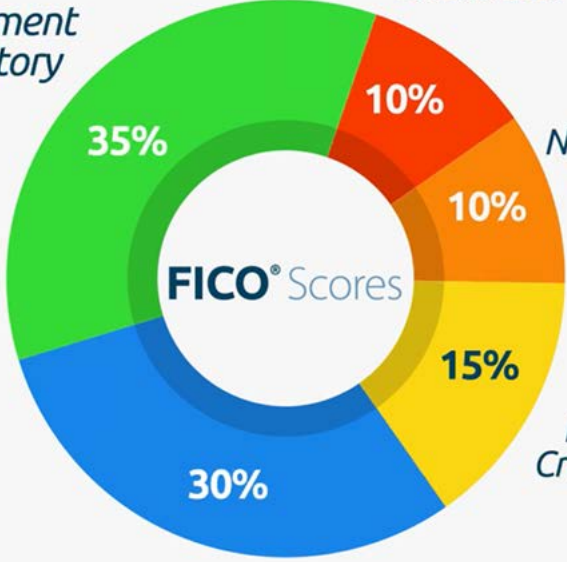
[What is a FICO® Score](#)

[What is a FICO® Score](#)

How are my FICO® Scores

FICO® Scores are calculated using information from your credit report. This data is grouped into five categories:

What goes into FICO® Scores



Category	Percentage
Payment History	35%
Total Debt	30%
Length of Credit History	15%
New Credit History	10%
Types of Credit Used	10%

<https://www.myfico.com/credit-education/whats-in-your-credit-score>

Credit Freeze

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

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

*DU Version 10.2 included the use of trended credit for all three of the repositories

Trended Credit

B B	CHASE		03/19	08/18	\$4000	\$228	\$0	7	0	0	0	AS AGREED
	ACCT00****			03/19	REV	MIN \$10						XP/TU/EF
Trended	02/19	01/19	12/18	11/18	10/18	09/18	08/18	07/18	06/18	05/18	04/18	03/18
Scheduled (\$)	10	10	10	10	10	10	-	-	-	-	-	-
Actual (\$)	10	10	10	10	10	10	-	-	-	-	-	-
Balance (\$)	219	226	219	226	219	226	-	-	-	-	-	-

TREND SUMMARY						
PREV BALANCE	3724	3576	3430	2751	2137	0
BALANCE	3873	3724	3576	3133	2128	0
SCHEDULED PAYMENT	96	96	96	96	86	0
ACTUAL PAYMENT	93	87	78	90	86	0
NON-REVOLVING ACCOUNTS						
	1 MO. AGO	2 MO. AGO	3 MO. AGO	6 MO. AGO	12 MO. AGO	24 MO. AGO
BALANCE	175	48386	49295	51968	22807	2487
PAYMENT	0	898	898	898	365	200

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Trended Credit

Trended Credit*

Q9. How does the amount a borrower pays on their credit card account demonstrate how they will pay their mortgage?

The trended credit data will be used by the DU risk assessment to evaluate how the borrower manages his/her revolving credit card accounts. A borrower who uses revolving accounts conservatively (low revolving credit utilization and/or regular payoff of revolving balance) will be considered a lower risk. A borrower whose revolving credit utilization is high and/or who makes only the minimum monthly payment each month will be considered higher risk.

To put it into perspective, holding all else equal on a loan...

Research has shown that borrowers who	are	than borrowers who
Never exceed their limit	75% less likely to become delinquent	Exceeded their credit card limit in the last 12 months
Pay off their credit card every month	60% less likely to become delinquent	Only make their minimum payment each month

*DU Version 10.2 will include the use of trended credit for all three of the repositories

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU

Public Records, Foreclosures and Collection Accounts

A credit history that includes any significant derogatory credit event is considered high risk. Significant derogatory credit events include bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, or accounts that have been turned over to a collection agency.

The more recent such events occurred, the more adverse the impact is on the credit profile. Although most public record information is retained in the credit history for seven years (ten years for bankruptcies), as time passes, it does become less significant to DU's credit evaluation.

Note: Collection accounts reported as medical collections are not used in the DU risk assessment.

C	C	NCO- MEDCLR	03/19	11/18	\$175	\$175	\$175	-	-	-	COLLECTION
		ACCT00****		--/--	COLL	001 -					XP/TU/EF
PLACED FOR COLLECTION; ORIGINAL CREDITOR: MEDICAL; MEDICAL											

<https://www.fanniemaef.com/content/guide/selling/b3/2/03.html>

Credit- Risk Factors Evaluated by DU

Inquires

DU evaluates inquiries made within the most recent 12 months of the credit report date. Research has shown that a high number of inquiries can indicate a higher degree of risk.

INQUIRIES (LAST 120 DAYS)				
XP/EF	B	03/20/19	FISERV CREDSTAR	FINANCE
TU	B	03/20/19	CHASE CREDIT	REAL ESTATE
XP	B	03/14/19	MBNA	BANKING
TU	B	02/12/19	CITI	BANKING

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Credit Score- Which FICO Models Do We Use In The Mortgage Industry?

Currently there are many FICO Score versions. www.MyFICO.com
The chart below illustrates the many versions available.

Experian	Equifax	TransUnion
Most widely used version		
FICO® Score 8	FICO® Score 8	FICO® Score 8
Versions used in auto lending		
FICO® Auto Score 8 FICO® Auto Score 2	FICO® Auto Score 8 FICO® Auto Score 5	FICO® Auto Score 8 FICO® Auto Score 4
Versions used in credit card decisioning		
FICO® Bankcard Score 8 FICO® Score 3 FICO® Bankcard Score 2	FICO® Bankcard Score 8 FICO® Bankcard Score 5	FICO® Bankcard Score 8 FICO® Bankcard Score 4
Versions used in mortgage lending		
FICO® Score 2	FICO® Score 5	FICO® Score 4
Newly released version		
FICO® Score 9 FICO® Auto Score 9 FICO® Bankcard Score 9	FICO® Score 9 FICO® Auto Score 9 FICO® Bankcard Score 9	FICO® Score 9 FICO® Auto Score 9 FICO® Bankcard Score 9

Credit Score

Fannie Mae's Desktop Underwriter[®] (DU)

A tri-merge Credit Report is required

FICO scores must be requested for each borrower

- If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit the credit report is still acceptable as long as:
 - Credit data is available from one repository
 - A credit score is obtained from that one repository, and
 - The lender requested a three in-file merged report

Credit Score

A Representative Score must be determined for Underwriting and Delivery of the mortgage file. Follow these steps.

- Fannie Mae recommends obtaining at least two credit scores for each borrower
- Select a single applicable score for underwriting each borrower
 - When two scores are obtained, choose the lower
 - When three scores are obtained, choose the middle score
- If there is only one borrower, the single applicable score used to underwrite that borrower is the representative score for the mortgage. If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative score

Credit Report and Credit Score

- 7 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.

28 The following **Credit Report** is associated with this submission:
(MSG ID 2113)

BORROWER NAME	CREDIT AGENCY	CREDIT REPORT ID	CREDIT REPORT DATE
Mary Homeowner	200-TEST CREDIT AGENCY	5004489	03/01/2019
John Homeowner	200-TEST CREDIT AGENCY	5004489	03/01/2019

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

BORROWER	CREDIT SCORES
John Homeowner	760 779 785
Mary Homeowner	768 771 783

Risk Factors Evaluated by DU

Borrower's Equity and LTV

The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable equity in his or her property is less likely to become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in a property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan.

DU may use a low LTV ratio to offset other risks that it may identify in the loan application.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Borrower's Equity and LTV

Loan to Value (LTV)

– The relationship between:

- The amount of money borrowed= Loan Amount
- The lesser of the Sales Price or Appraised Value of the property
- Refinance the LTV is calculated off the Appraised Value

– Example:

- Mortgage: **\$100,000**
- Appraised value: **\$80,000**
- LTV: **80%**



Mortgage Loan \$100,000

–



=



Negative Equity (\$20,000)

Risk Factors Evaluated by DU

Liquid Reserves

Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount.

DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

DU Risk Assessment Information

Liquid Reserves = The liquid assets remaining after the loan closes

- To calculate reserves you typically divide the remaining liquid assets by the proposed PITIA of the subject property
 - Based on the use of the subject property, additional reserves may be required on other properties already owned
- The monthly PITIA includes
 - Principal and Interest
 - Hazard, flood and/or mortgage insurance premiums (as applicable)
 - Real Estate Taxes
 - Ground rent and/or special assessments
 - Owner's association dues or monthly coop corporation fees
 - Any subordinate financing payments
- The lack of any reserves will be considered a risk factor

*See DU 10.0 changes on reserves

How to Calculate Reserves - 1003 Fields

Subtotal Liquid Assets	\$ 132,615.00
------------------------	---------------

p.	Cash from/to Borrower (subtract j, k, l & o from i)	19,093.00
----	--	-----------

Proposed
\$ 1,899.00
100.00
750.00
\$ 2,749.00

***\$132,615 Liquid Assets - \$19,093 Cash to Close
= \$113,522 Remaining Assets***

\$113,522 Assets / \$2,749 Proposed PITI = 41 months in Reserves

Risk Factors Evaluated by DU

Loan Purpose

There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction. For construction-to-permanent transactions, DU determines the purpose of refinance based on the amount of cash the borrower is receiving at closing.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Loan Purpose

Why the money is being borrowed can influence the risk

- Purchase
- Refinance
 - No cash-out/limited cash-out/rate and term
 - Cash-out
- Purchase transactions continue to represent less risk than refinances
- Limited cash-out refinance transactions represent less risk than cash-out
- Cash-out refinance transactions represent higher risk



Purchase



**No/Limited Cash-Out
Rate and Term**



Cash-out

Risk Factors Evaluated by DU

Loan Term

Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Loan Term

Loan Term

- The number of months until the loan is repaid in full
 - 30 year loan is 360 months
 - 15 year loan is 180 months
- Shorter term - Equity builds faster
- *See Amortization Schedules, Next Slides*

Loan Term- 30 Year Amortization Schedule

Mortgage amount	\$	165,000
Mortgage term in years		30
or		
Term in months		360
Interest rate per year	%	4.50
		TODAY'S RATES
Mortgage start date		26 Aug 2016

$$\mathbf{\$165,000 - \$159,316 = \$5,684}$$

$$\mathbf{\$836.03 \times 24 \text{ monthly payments} = \$20,064}$$

DATE	PAYMENT	PRINCIPAL	INTEREST	TOTAL INTEREST	BALANCE
Sept. 2016	\$836.03	\$217.28	\$618.75	\$618.75	\$164,782.72
Oct. 2016	\$836.03	\$218.10	\$617.94	\$1,236.69	\$164,564.62
Nov. 2016	\$836.03	\$218.91	\$617.12	\$1,853.80	\$164,345.71
Dec. 2016	\$836.03	\$219.73	\$616.30	\$2,470.10	\$164,125.98
Jan. 2017	\$836.03	\$220.56	\$615.47	\$3,085.57	\$163,905.42
Feb. 2017	\$836.03	\$221.39	\$614.65	\$3,700.22	\$163,684.03
Mar. 2017	\$836.03	\$222.22	\$613.82	\$4,314.03	\$163,461.82

Sept. 2018	\$836.03	\$237.70	\$598.33	\$15,217.13	\$159,316.37
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Loan Term- 15 Year Amortization Schedule

Mortgage amount	\$	165,000
Mortgage term in years		15.000
or		
Term in months		180
Interest rate per year	%	4.250
		TODAY'S RATES
Mortgage start date		26 Aug 2016
CALCULATE		

$$\mathbf{\$165,000 - \$147,860 = \$17,140}$$

$$\mathbf{\$1,241.26 \times 24 \text{ monthly payments} = \$29,790}$$

\$11,456 lower balance - \$9,726 more payments = more Equity!

DATE	PAYMENT	PRINCIPAL	INTEREST	TOTAL INTEREST	BALANCE
Sept. 2016	\$1,241.26	\$656.88	\$584.38	\$584.38	\$164,343.12
Oct. 2016	\$1,241.26	\$659.21	\$582.05	\$1,166.42	\$163,683.90
Nov. 2016	\$1,241.26	\$661.55	\$579.71	\$1,746.14	\$163,022.36
Dec. 2016	\$1,241.26	\$663.89	\$577.37	\$2,323.51	\$162,358.47
Jan. 2017	\$1,241.26	\$666.24	\$575.02	\$2,898.53	\$161,692.23
Feb. 2017	\$1,241.26	\$668.60	\$572.66	\$3,471.19	\$161,023.63
Mar. 2017	\$1,241.26	\$670.97	\$570.29	\$4,041.48	\$160,352.66

Sept. 2018	\$1,241.26	\$715.05	\$526.21	\$13,892.11	\$147,860.63
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Risk Factors Evaluated by DU

Loan Amortization Term

Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.

The process by which monthly payments are calculated:

- Fixed Rate: the principle and interest payments stay the same for the life of the loan
 - Fixed Rate = No changing P&I Payments
- ARM: The interest rate and payments can change during the life of the loan
 - Adjustable Rate = Possible Changing P&I Payments
 - Adjustable Rate Mortgages (ARM's) typically have payment caps limiting the amount the interest rate may change per adjustment and for the life of the loan, but can mean higher mortgage payments to the borrower

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Occupancy Type

Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans. Owner-occupied transactions represent the least risk, followed by second home transactions, and investment property transactions having the highest risk level.



Primary



Second



Investment

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Debt to Income

In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Housing Expense Ratio

Borrowers with lower housing expense ratios are considered lower risk, while those with higher housing expense ratios are considered higher risk. Research has shown that borrowers whose total monthly expenses are composed primarily of their housing expense may find it more difficult to pay this expense when experiencing an event that would cause financial distress, such as the loss of a job.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Housing Expense Ratio

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

Qualification Ratios

Housing Expense 16.32%

Debt-to-Income 26.05%

Expense Ratios

Including ≤ 10 Mos. 26.05%

With Undisclosed Debt 26.05%

Note Rate	4.250%
Loan Type	Conventional
Loan Term	360
Amortization Type	Fixed Rate
Loan Purpose	Purchase
Refi Purpose	

Maximum Allowable DTI

The maximum allowable debt-to-income ratio (DTI) in DU will be adjusted in DU Version 10.1. Under the adjustment, DU will consider applications with a maximum DTI of 50%. For DTIs above 45% and up to 50%, DU will no longer require certain additional compensating factors. If the DTI on a loan casefile exceeds the maximum allowable DTI of 50%, the loan casefile will receive an Ineligible recommendation.

DU Refi Plus™ loan casefiles submitted to DU Version 10.1 will continue to be subject to the maximum allowable DTI applied to DU Refi Plus loan casefiles in DU Version 10.0.

Last year's update (DU Version 10.1) enabled loans with debt-to-income ratios above 45% (up to 50%) to rely on DU's comprehensive risk assessment, and removed specific rules that had previously set maximum loan-to-value ratio and minimum reserves requirements for those loans. After assessing the profile of loans delivered to us since the DU 10.1 changes went into effect, we are fine-tuning DU's risk assessment to limit risk layering.

This update supports our commitment to prudent risk management, helping lenders to better manage default risk while continuing to provide sustainable homeownership options to borrowers. There will be no change to the [risk factors](#) evaluated by DU.

Risk Factors Evaluated by DU

Property Type

Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type (e.g., manufactured home).

The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk:

one-unit properties;

two-, three-, and four-unit properties;

manufactured homes.

Occupancy	<input type="radio"/> Primary Residence	<input type="radio"/> Second Home	<input type="radio"/> Investment Property	<input type="radio"/> FHA Secondary Residence
1. Mixed-Use Property. If you will occupy the property, will you set aside space within the property to operate your own business? (e.g., daycare facility, medical office, beauty/barber shop)				<input type="radio"/> NO <input type="radio"/> YES
2. Manufactured Home. Is the property a manufactured home? (e.g., a factory built dwelling built on a permanent chassis)				<input type="radio"/> NO <input type="radio"/> YES

Project Type	<input type="checkbox"/> Condominium	<input type="checkbox"/> Cooperative	<input type="checkbox"/> Planned Unit Development (PUD)	<input type="checkbox"/> Property is not located in a project
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<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Co-Borrowers

DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because, generally, the presence of more than one borrower helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower delinquency rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories.

To be completed by the Lender:
Lender Loan No./Universal Loan Identifier _____ Agency Case No. _____

Uniform Residential Loan Application — Additional Borrower
Verify and complete the information on this application as directed by your Lender.

Section 1: Borrower Information. This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

1a. Personal Information

Name (First, Middle, Last, Suffix) _____ Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) _____	Social Security Number _____ (or Individual Taxpayer Identification Number) Date of Birth (mm/dd/yyyy) ____/____/____ Citizenship <input type="radio"/> U.S. Citizen <input type="radio"/> Permanent Resident Alien <input type="radio"/> Non-Permanent Resident Alien
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<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Self Employment

Self-employment income can vary from year-to-year and because of the increased chance of uneven cash flows, self-employment adds a layer of risk that is not present with salaried borrowers. Research has shown that self-employed borrowers tend to become delinquent on their mortgages more often than salaried borrowers, when all other risk factors are held constant.

DU considers self-employment in the risk assessment when the only borrower on the loan is self-employed as his or her primary source of income, or when two of the borrowers on the loan are self-employed as their primary source of income.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

Risk Factors Evaluated by DU

Risk Factors For Loans Where No Borrower Has a Score

DU will consider the following factors when evaluating the overall credit risk of the loan when no borrower on the loan casefile has traditional credit and a credit score:

borrower's equity and LTV ratio,
liquid reserves, and
DTI ratio.

<https://www.fanniemae.com/content/guide/selling/b3/2/03.html>

No Borrower Has A Score

For loan files where no borrowers have established traditional credit, DU will apply the following additional guidelines:

- Principal residence where all the borrowers will occupy the property
- One-unit property (not a manufactured home)
- Purchase or limited cash-out transaction
- Fixed-rate
- Conforming loan amount (may not be a high-balance loan)
- LTV, CLTV and HCLTV may not exceed 90%
- DTI must be less than 40%
 - DU will require the lender verify at least two non-traditional credit sources for each borrower, one must be housing-related
 - A 12 month history is required for each source
 - See Fannie Mae's *Selling Guide* for guidance

Loan Casefiles That Do Not Meet These Guidelines Will Receive An “Out Of Scope” Recommendation

These loans may still be eligible for manual underwriting to existing guidelines for non-traditional credit

General Lender Requirements

When underwriting loans with DU, the lender must:

- Employ prudent underwriting judgment
- Confirm the accuracy of the data it submits
- Ensure that the loan complies with all of the verification messages and approval conditions
- Apply due diligence when reviewing the documentation in the loan file
- Review the credit report to confirm the borrower's credit history was accurate and complete
- Determine if there is any potentially derogatory or contradictory information
- Take action when erroneous data, contradictory or derogatory information are in the loan file

Sample Messages

New Enhanced Coloring of Messages Added, Changed or Removed

Examples of the Show Changes (Track Changes) Function

Show Changes 

24 ADDED

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 2807)

25 CHANGED

DU returned the following **standardized address and census tract** for the subject property: 10.2, DO/DU Development Lender 1, 1397482845 2, %a.

- This is the address that DU used in its property valuation and fieldwork recommendation.
- Regardless of the property fieldwork required by DU, **if this address is not valid** for the subject property, an appraisal based on an interior and exterior property inspection reported on Form 1004 is required for this transaction.
- If the subject property is located in a condominium project, the appraisal must be reported on Form 1073. (MSG ID 1873)

32 REMOVED

Verify that this second home property is suitable for year-round occupancy.

The borrower must:

- Occupy the property for some portion of the year,
- Have exclusive control over the property; and
- Not enter into any agreements that require the property to be rented or give a management firm control over the property.

Rental income from a second home may not be used as qualifying income. (MSG ID 1870)

Examples of the Day 1 Certainty Flag and Table Formatting

DAY 1

13

DU **accepts the value submitted** as the market value for this subject property. This loan is eligible for delivery to Fannie Mae without an appraisal and is eligible for representation and warranty relief on the value, condition, and marketability of the subject property if the **Property Inspection Waiver (PIW)** is exercised by the lender at the time of loan delivery by including Special Feature Code 801 and the Casefile ID in the loan delivery file.

If the waiver is not exercised, an appraisal based on an interior and exterior property inspection is required for this transaction.

Sample Messages

Filtering Options of Messages New Enhanced Coloring of Messages Added, Changed or Removed

Examples of the Filtering Function

Without Filtering

Without Filtering

Show Changes ☐ OFF View All Messages

Verification Messages / Approval Conditions

16 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. (MSG ID 2477)

17 This loan casefile may have gone through the DU validation service. Any vendor reports need to be retained in the loan file. The lender remains responsible for investigating any contradictory information in the loan file. (MSG ID 3003)

18 The number of financed properties used in determining the loan's eligibility and minimum reserve requirements was 1.

This information was derived based on the properties listed in the **Real Estate Owned** section of the loan application.

If this information is incorrect:

- The correct number must be provided in the Number of Financed Properties field, or
- The Real Estate Owned section must be updated and the loan casefile resubmitted to DU. (MSG ID 3011)

Credit and Liabilities

19 Include evidence of payoff of the following debts (other than 30 day accounts) in the loan file: (MSG ID 0225)

BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
Homer Loanseeker	WESTAR LOAN SERV	970058	\$92,000.00

With Filtering

With Filtering

Show Changes ☐ OFF View Day 1 Certainty

Verification Messages / Approval Conditions

17 This loan casefile may have gone through the DU validation service. Any vendor reports need to be retained in the loan file. The lender remains responsible for investigating any contradictory information in the loan file. (MSG ID 3003)

Employment and Income

23 Verification of Employment and/or Income (VOE/VOI) information on Alios Firststar was not received from The Work Number. Either information was not ordered from The Work Number by the lender, The Work Number did not have information on the borrower when the lender placed the order, or the Lender Loan Number and borrower Social Security Number entered on the online loan application do not match those provided to The Work Number. (MSG ID 2799)

24 Tax return information on Penny Public's income was not received from Equifax. Either information was not ordered from Equifax by the lender, Equifax did not have information on the borrower when the lender placed the order, or the Lender Loan Number and borrower Social Security Number entered on the online loan application do not match those provided to Equifax. (MSG ID 2999)

Analyzing Reports

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

Summary Section

–Contains “Recommendation

3/11/2019 

Desktop Underwriter Findings

Summary of Findings

Casefile ID 1400756521	Recommendation → Approve/Eligible
Borrower 1 John Homeowner	Submission Number 1
Borrower 2 Mary Homeowner	Submission Date 03/11/2019 06:43PM
Lender Loan Number JulieJ	First Submission Date 03/11/2019 06:43PM
DU Version 10.3	Submitted By a0837jna

Recommendations

- **Approve/Eligible**
- **Approve/Ineligible**
- **Refer with Caution**
- **Out of Scope**
- **Error**

Sample DU Findings Report

Summary of Findings

–Review for Accuracy

3/11/2019 Desktop Underwriter Findings

Summary of Findings

Casefile ID	1400756521	Recommendation	Approve/Eligible
Borrower 1	John Homeowner	Submission Number	1
Borrower 2	Mary Homeowner	Submission Date	03/11/2019 06:43PM
Lender Loan Number	JulieJ	First Submission Date	03/11/2019 06:43PM
DU Version	10.3	Submitted By	a0837jna

Mortgage Information

LTV/CLTV/HCLTV	84.00% / 84.00% / 84.00%	Note Rate	4.125%
Housing Expense Ratio	9.79%	Loan Type	Conventional
Debt-to-Income Ratio	14.27%	Loan Term	360
Total Loan Amount	\$250,000.00	Amortization Type	Fixed Rate
Sales Price	\$300,000.00	Loan Purpose	Purchase
Actual/Estimated Appraised Value	\$302,000.00	Refi Purpose	
Months Reserves	81		

Property Information

Property Address	2505 S Creek Street, Mesa, AZ, 85208	Number of Units	1
Property Type	Detached	Occupancy Status	Primary Residence

Sample DU Findings Report

Risk/Eligibility

- Why NOT eligible
- How underwritten (specific product/program)
- Potential inaccuracies

Risk / Eligibility

- 1 The **risk profile** of this loan casefile appears to meet Fannie Mae's guidelines. (MSG ID 0008)
- 2 This loan casefile **appears to meet Fannie Mae's eligibility requirements**. (MSG ID 0009)
- 3 The risk assessment of the loan casefile may not be accurate because the following accounts on the loan application did not have a minimum monthly payment and DU was unable to calculate an accurate debt-to-income ratio. The lender must ensure the DTI used in the risk assessment is accurate. If a payment must be included in the DTI, the payment amount must be entered on the loan application and the loan casefile resubmitted to DU. If the minimum monthly payment is \$0.00, the lender must include documentation in the loan file confirming the \$0.00 payment amount. Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For student loans, the lender may qualify the borrower with the \$0.00 payment if there is documentation to support that the \$0.00 payment is associated with an income-driven repayment plan; alternatively, the lender must either use 1% of the outstanding balance as the estimated payment or derive a fully amortizing payment using the student loan documentation. (MSG ID 0034)

BORROWER	CREDITOR	ACCOUNT NUMBER	BALANCE
John Homeowner	SALLIE MAE	950254520	\$5,000.00

Sample DU Findings Report

Findings

- Strengths in the loan application

Findings

- 4 The following **risk factors** represent strengths in the borrower's loan application: (MSG ID 1437)

LOAN PURPOSE
Debt-to-Income Ratio
Credit Profile

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

Sample DU Findings Report

Verification Message/Approval Conditions

- “Heart “of the Findings Report
- Provides minimum documentation
- Refer to the *Selling Guide* for more information
- Follow specific investor overlays, if applicable
- Genworth MI Simply Underwrite for your DU Approve/Eligible loans



Verification Messages / Approval Conditions

- 5 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)
- 6 This loan is subject to all lender specified conditions and must comply with all applicable federal, state, and local laws and regulations. (MSG ID 0278)

Sample DU Findings Report

Summary Section

–Fixed or ARM?

Mortgage Information

LTV/CLTV/HCLTV 84.00% / 84.00% / 84.00%

Housing Expense Ratio 9.79%

Debt-to-Income Ratio 14.27%

Total Loan Amount \$250,000.00

Sales Price \$300,000.00

Actual/Estimated Appraised Value \$302,000.00

Months Reserves 81

Note Rate 4.125%

Loan Type Conventional

Loan Term 360

Amortization Type Fixed Rate

Loan Purpose Purchase

Refi Purpose



ARM Qualifying Rate

Qualifying Interest Rate Requirements	
Transaction Type	DU and Manual Underwriting
Fixed-rate mortgages	Note rate
ARMs with an initial fixed-rate period of five years or less	Greater of the note rate plus 2% or the fully indexed rate
ARMs with an initial fixed-rate period of greater than five years	Greater of the note rate or the fully indexed rate

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

Sample DU Findings Report

Verification Messages Broken out by Topic:

- Sample Potential Red Flag message
 - Social Security Alerts

Verification Messages / Approval Conditions

- 5 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)
- 6 This loan is subject to all lender specified conditions and must comply with all applicable federal, state, and local laws and regulations. (MSG ID 0278)

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample general messages

- 7 Based on the credit report obtained through DU, this loan casefile **must close on or before** 02/01/2019.
- 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.

(MSG ID 0420)



- 8 A **Lender Credit** has been entered in the Details of Transaction.
- The lender must review the transaction as lender credits may not be used to fund any portion of the down payment.
 - If the lender credit is the result of premium pricing, or a lender funded contribution, the amount of the Lender Credit should not exceed the amount of borrower paid closing costs, discount points, and prepaids.
 - If the lender is affiliated with an interested party to the transaction, verify that the lender credits plus the seller contributions do not exceed the **interested-party contribution limits** specified in the Selling Guide.
 - If the lender credit plus the seller credits exceed the IPC limits, the property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum IPC; recalculate the LTV/CLTV ratios using the lower of the reduced sales price or the appraised value, and ensure LTV/CLTV complies with Selling Guide limits.


(MSG ID 0824)

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Sample general messages


- Maximum LTV/CLTV/HCLTV
- When MI is needed coverage requirements are provided and a reminder to verify proper premium is included on the loan application

- 
- 9 If there is a home equity line of credit secured against the subject property:
- The maximum allowable HCLTV is 97 percent.
 - Verify the terms of the home equity line of credit for compliance with the Selling Guide, and
 - Calculate the HCLTV using the maximum credit limit of the equity line.
- (MSG ID 1802)
- 10 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.

3/11

Desktop Underwriter Findings

(MSG ID 2343)

- 
- 11 Mortgage insurance is required.
- The lender may either obtain mortgage insurance coverage of at least 16% with an MI loan-level price adjustment or obtain mortgage insurance coverage of 30%. Refer to the Loan-level Price Adjustment Matrix on fanniemae.com.
 - Verify the mortgage insurance premium is accurately reflected in the loan application.
- (MSG ID 2477)

Sample DU Findings Report

General Levels of Documentation: Base Earnings

- Recent pay stub dated within 30 days of application and previous one or two years W-2s
- Verbal verification of employment within 10 business days of closing or after closing but prior to loan delivery
- 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 information

16 john homeowner's income, including bonus and/or overtime income, must be supported by a paystub and W-2s covering the most recent two-year period, or by a standard Verification of Employment (1005). 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 (1005) 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.

Sample DU Findings Report

General Levels of Documentation: Self-Employment

- Most recent one year personal and federal business tax returns (Only one year required for certain cases but borrowers still must be self-employed for two years) **OR**
- Most recent two years personal and two years federal business tax returns
- Profit and loss statement may be required by your investors or on a case by case basis
- Verbal VOE required to verify existence of a business within 120 calendar days of note date, or after closing but prior to loan delivery for all self employed borrowers

17 If Mary 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 the Selling Guide for additional information. (MSG ID 2913)

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

Sample DU Findings Report

Observation Section Lists Total Assets Entered By Type; Underwriting Analysis Report Lists Total Funds Required *Including Any Reserves*

Assets Entered By Type

31 The following assets were counted towards available funds. With the exception of cash on hand, all available funds greater than the amount required to close have been added to cash reserves. (MSG ID 0059)

BORROWER	ASSET TYPE	INSTITUTION NAME	AMOUNT
Mary Homeowner	Retirement		\$40,000.00
John Homeowner	Mutual fund		\$10,000.00
John Homeowner	Checking Account		\$10,000.00

Total Funds Required

Funds

Total Available Assets	\$60,000.00	Net Cash Back	\$0.00
Funds Required to Close	\$16,613.00	Excess Available Assets, not required to be verified by DU	\$43,387.00
Reserves Required to be Verified	\$0.00	Months Reserves	32
Total Funds to be Verified	\$16,613.00		
Cash Back	\$0.00		

18 Verify assets totaling \$16,613.00 from the liquid assets listed on the 1003. Refer to the Selling Guide for additional information. (MSG ID 0063)

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

Sample DU Findings Report

Verification Messages Broken out by Topic:

–Assets and Reserves

- Amount to verify, liquidation, discounting of value, documentation requirements
- Access requirements

Funds	
Total Available Assets	\$60,000.00
Funds Required to Close	\$16,613.00
Reserves Required to be Verified	\$0.00
Total Funds to be Verified	\$16,613.00
Cash Back	\$0.00

Assets

- 18 Verify assets totaling \$16,613.00 from the liquid assets listed on the 1003. Refer to the Selling Guide for additional information. (MSG ID 0063)
- 19 The value entered for the retirement account must be determined in accordance with the Selling Guide if the funds will be used for reserves. If these assets are needed to support the amount of funds required for closing and reserves, the available account balance must be documented with a recent depository or brokerage account statement. For loan casefiles that are not underwritten as DU Refi Plus, if the funds will be used for down payment or closing costs, receipt of the funds realized from the sale or liquidation of the assets is not required if the value (as determined in accordance with the Selling Guide) is at least 20% more than the amount of funds needed for the down payment and closing costs. Otherwise, receipt of funds realized from the sale or liquidation must be verified. Also for loan casefiles that are not underwritten as DU Refi Plus, if the account allows 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, the retirement asset should not be entered. (MSG ID 0084)

Sample DU Findings Report

Observations

Observations

- 25 This case was submitted to DU version 10.2 by TEST/TRAINING - Genworth Branch. The following information is associated with this loan: Casefile ID is 1386638226 and Submission number is 1. If the loan is delivered to Fannie Mae, the Casefile ID must be provided at delivery. (MSG ID 0943)
- 26 The following list of **special feature codes** is provided to assist you in determining which codes may be associated with this loan. Other codes may be required. Refer to the Special Feature Codes list on fanniemae.com for a comprehensive list. (MSG ID 1387)

SPECIAL FEATURE CODE	DESCRIPTION
127	DU Loan

- 27 Based on the data entered, this loan casefile has been identified as a **First Time Homebuyer case**.
- Correctly identify the borrower as a First Time Homebuyer at delivery.
 - Refer to the Selling Guide Glossary for additional information on the identification of a first time homebuyer.
- (MSG ID 2096)

Sample DU Findings Report

Underwriting Analysis

Underwriting Analysis Report

Recommendation	Approve/Eligible	Casefile ID	1386638226
Borrower 1	John Homeowner	Submitted By	a0837jna
Borrower 2	Mary Homeowner		
Lender Loan Number	JJ1		
Submission Date	10/09/2018 10:03AM		

Property Information

Property Address	2505 S Creek Street, Mesa, AZ, 85208	Number of Units	1
Property Type	Detached	Occupancy Status	Primary Residence

Mortgage Information

8		Desktop Underwriter Findings	
Loan Type	Conventional	Loan Amount	\$156,350.00
Amortization Type	Fixed Rate	Financed MI Amount	\$0.00
Balloon	No	Total Loan Amount	\$156,350.00
Community Lending	No	Sales Price	\$165,000.00
Payment Frequency	Monthly	Actual/Estimated Appraised Value	\$175,000.00
Lien Type	First Mortgage	P&I	\$768.15
Amt. Subordinate Fin.	\$0.00	Note Rate	4.250%
Loan Purpose	Purchase	Qualifying rate	4.250%
Refi Purpose		Bought Down rate	0.000%
Owner Existing Mtg		Term (Months)	360
Buy Down	No		
LTV/CLTV/HCLTV	85.00% / 85.00% / 85.00%		
Income			
Base	\$6,900.00	Commission	\$1,000.00
Bonus	\$0.00	Over Time	\$0.00
Other	\$400.00	Positive Net Rental	\$0.00
Subj. Pos. Cash Flow	\$0.00	Total	\$8,300.00

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 & 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 & Updates From Fannie Mae

Lenders are responsible for integrity of the data submitted to DU

- Loans in process where an appraisal has 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 & 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 & 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

Fannie Mae Communications

 Fannie Mae[®]


Search forms, documents, site content, etc...

Single-Family ▾ Originating & Underwriting Pricing & Execution Delivering Servicing Training Technology

Originating & Underwriting Training

The Originating & Underwriting Training page provides Fannie Mae training on originating & underwriting loans, our underwriting applications, and best practices. Training solutions include live webinars, virtual classrooms, on-demand eLearning courses, job aids, and FAQs

Find the Training Resources You Need



- Originating & Underwriting
- Pricing & Execution
- Delivering
- Servicing
- Live Web Seminars

Related Training

- Technology Manager

General Underwriting	Mortgage Products	Loan Quality	Technology Solutions
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Training focusing on underwriting the borrower and the property.

Job Aids / FAQs	Online Courses / Microlearning
FAQs Appraisal and Property Related Frequently Asked Questions	Appraising Rural Properties
FAQs Appraiser Independence Requirements	Assessing Income from Self-Employment
FAQs Automated Property Service	How to Underwrite Loans to Non-U.S. Citizen Borrowers
FAQs Project Insurance Requirements	Market Conditions Addendum Form
FAQs Project Standards Requirements	Qualifying the Borrower Video Series
FAQs Property Inspection Waiver (General Questions)	UAD Interactive Reference Manual
	Underwriting Manufactured Home Loans

Selling Guide

Single-Family ▾

Originating & Underwriting

Pricing & Execution

Delivering


Servicing

Training

Technology

Originating & Underwriting

We provide information, training, job aids, and more to assist in originating loans for sale to Fannie Mae.



Most Popular

[Selling Guide](#)

[Mortgage Products and Options](#)

[Condo, Co-op and PUD](#)

Technology Applications & Tools

See Technology tab for full list.

[Collateral Underwriter](#)

[Co](#)

Part B: Origination Through Closing

This part provides the requirements for originating conventional and government loans for sale to Fannie Mae. It includes the following subparts: Loan Application Package, Eligibility, Underwriting Borrowers, Underwriting Property, Unique Eligibility and Underwriting Considerations, Government Programs Eligibility and Underwriting Requirements, Insurance, Closing: Legal Documents.

<https://www.fanniemae.com/content/guide/selling/index.html>

DU Credit-related Error Codes Job Aid



Desktop Underwriter Credit-related Error Codes Job Aid

Feb. 26, 2019

This Job Aid provides the description of the error codes that appear in Desktop Originator* (DO*)/Desktop Underwriter* (DU*) related to credit agencies and remedies to help resolve them.

Helpful Tips:

- The maximum number of borrowers permitted on a loan application in DO/DU is four, but the maximum number of borrowers per a credit report pull is two. If there are three borrowers, then the third borrower would need to be on a separate report from the other two borrowers.
- The borrower's present address must be within the U.S., U.S. territories, or certain military addresses located within the U.S. in order to obtain a credit report that is compatible with DU loan casefile requirements. Otherwise, the loan must be manually underwritten.
- For DO/DU to accept a credit report, information from all three credit repositories (Equifax, Experian, and TransUnion) must be included. A score is not required; however, information pertaining to the borrower's credit history is needed to underwrite the loan casefile through DU. A loan casefile can be underwritten using DU when a borrower has placed a freeze on their credit report – as long as the freeze is only placed at one of the three credit repositories.
- One of the most frequent credit errors is the **general failure** error. Although this error does not provide detailed information, it typically indicates there is no credit report associated with the loan. In these instances, the loan should be submitted for credit and underwriting, reissuing or pulling credit. DU should then give either an underwriting response or receive a more descriptive error.
- Credit agency described below refers to credit provider that you requested your credit report from and Repositories refers to Equifax®, Experian® and TransUnion® credit reporting bureaus.

For additional information on Credit Report Requirements please visit [B3-5.2-01: Requirements for Credit Reports](#)

Credit Error Code	Error Description	Remedy
Merged Credit report not found Size of Merged Credit report is 0 (Zero)	The Social Security Number (SSN) provided in the loan application (1003 form) received by DU does not match the social security number returned in the credit report data provided by at least one of the three repositories.	<ul style="list-style-type: none">• Please validate the Social Security Number (SSN) on the 1003 is accurate.• If the SSN is inaccurate, update the loan application (1003 form) and resubmit the loan casefile in DU for Credit Only or Credit and Underwriting.• If the SSN is accurate, contact your credit reporting agency's Technical Support Department to determine why the SSN(s) provided to DU in the credit data do not match.
111308/140412 111309	Credit report has been updated by the credit agency or repositories	<ul style="list-style-type: none">• If the credit report has been changed, then a new credit report will need to be pulled after information is updated on the repository level.

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2.26.19
1 of 12

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

Day 1 Certainty®

With Day 1 Certainty®, you get freedom from reps and warrants and greater speed and simplicity. With the **DU Validation Service**, you can validate loan application data upfront.

The screenshot shows the Fannie Mae website interface. At the top is the Fannie Mae logo and a search bar. Below the navigation menu, the 'DU Validation Service' is highlighted. The section includes a description of the service and a six-step process diagram.

DU Validation Service

The Desktop Underwriter (DU) validation service validates loan application data upfront, gives you faster and easier validation, and freedom from representations and warranties on validated income, assets, and employment.

Streamline Your Process

The DU® valid...
no more
their completion.

Access Via DU

Step One **Step Two** **Step Three** **Step Four** **Step Five** **DAY1 CERTAINTY** **Step Six**

- Step One:** Borrower consents to pull electronic data and credit report
- Step Two:** Lender orders report from vendor(s)
- Step Three:** Lender submits casefile to DU
- Step Four:** DU validates income, assets, and employment
- Step Five:** Lender closes loan and delivers to Fannie Mae
- DAY1 CERTAINTY:** Lender gets Day 1 Certainty™ for income, assets, and/or employment
- Step Six:** Lender gets a more efficient post-closing QC process

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.

DAY1
CERTAINTY™



What's New

Day 1 Certainty Policy Clarifications Mar 28, 2017

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.



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

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



<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

The Work Number Report

Year	Base Pay	Overtime	Commission	Bonuses	Other Income	Total Pay
2016YTD	\$9,880.00	\$0.00	\$0.00	\$5,000.00	\$0.00	\$14,880.00
2015	\$46,000.00	\$0.00	\$0.00	\$4,500.00	\$0.00	\$50,500.00
2014	\$45,000.00	\$0.00	\$0.00	\$5,000.00	\$0.00	\$50,000.00

2

DU validation service calculation:

Base = \$4,000

Bonus = [\$5,000 (2016 bonus) + \$4,500 (2015 bonus)] / 24 months = **\$395.83**

3

DU 1003

John H.

Base Income

\$4,000.00

Overtime

Bonuses

\$450.00

VALIDATED

Base income

**NOT
VALIDATED**

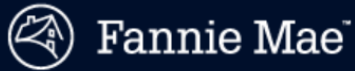
Bonus income

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 (1005). 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 (1005) 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.

Job Aids for Functionality



Desktop Underwriter Job Aids

-Search- Hide

Contents

Welcome

Basic Underwriting

- Entering the Data for a Purchase Loan
- Entering the Data for a Refinance Loan
- Ordering a New Credit Report
- Reissuing a Credit Report
- Viewing and Printing a Credit Report
- Importing a Loan
- Submitting a Retail Loan Casefile for an Underwriting Recommendation
- Viewing the Underwriting Findings and Underwriting Analysis Reports

Desktop Underwriter Job Aids

Desktop Underwriter[®] (DU[®]) Job Aids are a fully-searchable set of task-based instructions that take you step-by-step through the most commonly used functions of the DU application.

For ease of reference, we will generally use the term “DU” to refer to Desktop Originator[®] and Desktop Underwriter (DO[®]/DU).

Here are some tips for using the job aids:

- Sets of job aids are grouped under book icons (). Click a book icon to reveal its topics.
- Individual job aid topics are designated with a page icon () in the navigation panel.
- Enter a topic into the **search field** to search for a particular word or phrase throughout the entire set of job aids. Job aids in which your search term is found are displayed. When you click on a topic resulting from a search, your search term is

https://www.fanniemae.com/content/job-aid/desktop-underwriter/topic/du_welcome.htm

DU Job Aid



DU Job Aid

Debt-to-Income (DTI) Ratio

June 3, 2019

While every effort has been made to ensure the reliability of the information in this document, Fannie Mae's *Selling and Servicing Guides*, including Guide announcements and release notes, are the official statements of Fannie Mae's policies and procedures and should be adhered to in the event of discrepancies between the information in this document and the Guides.

For ease of reference, we will generally use the term "DU" to refer to Desktop Originator® (DO®) and Desktop Underwriter® (DU®).

This document provides information on how to resolve an "All Other Payments amount and/or Debt-to-Income (DTI) Ratio" on the DU Underwriting Findings report that is incorrect.

Liabilities

1. Is this a second home or investment property transaction?
 - If yes, the mortgage liability for the borrower's current residence, should either include the entire payment amount in the **Monthly Payment** field or a payment for the taxes, insurance, etc., should be added. See the *Entering Housing Expenses for Second Homes and Investment Properties* job aid for additional data entry guidance.
2. Is this a primary residence transaction with a non-occupant borrower?
 - If yes, and the non-occupant borrower has a mortgage, verify the payment matches what is in the **Income & Housing** section.
3. Do you have any duplicated liabilities?
 - If yes, verify the **Omit** checkbox to the left of the **Creditor Name** field is checked.
4. Is there a rental property?
 - If yes, verify the **Rental Property Lien** checkbox to the right of the **Creditor Name** field is checked.
5. Is this a refinance? If yes:
 - a. Verify the **Paid By Close** checkbox to the left of the **Creditor Name** field for the subject property mortgage liability is checked.
 - b. Verify the **Subject Property Lien** checkbox to the right of the **Creditor Name** field is checked.
 - c. Click **Full 1003**, at the bottom left of the navigation bar, to see additional 1003 fields on the page.
 - d. Verify the correct property selected in the **Related Property** drop down for each Mortgage or HELOC.

Real Estate Owned

1. Is this a refinance of a primary residence?
 - a. If yes, verify the **Property Indicator** for the primary residence is **Refi of Current Residence**.
 - b. If no, verify the **Property Indicator** for the primary residence is **Current Residence**.
 - c. For other non-subject properties, verify the **Property Indicator** is **Not Applicable**.
2. Is this a refinance of a second home or investment property? If yes:
 - a. Verify the **Property Indicator** is **Subject of Loan**.
 - b. Verify the **Property Disposition** is **Retained** if it is a second home or **Rental** if it is in an investment property.
3. Is this a rental property?
 - If yes, verify the **Property Disposition** is **Rental**. The **Property Disposition** should be **Rental** for all rental properties.

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06.03.19 1 of 3

https://www.fanniemae.com/content/job_aid/desktop-underwriter-dti-ratio-job-aid.pdf

Desktop Underwriter Potential Red Flag Messages - Updated

Messages Must Be Cleared

- Provides message text
- Why message appeared
- Possible ways to clear or resolve

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.



Fannie Mae®

Desktop Underwriter Potential Red Flag Messages

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, but are designed to help lenders detect inconsistencies and potentially fraudulent transactions. 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. Lenders continue to be responsible for the accuracy of the data entered.

Potential Red Flag	Message Text	What Causes DU to Return This Message?	We Recommend Review of the Following
Frozen credit report	Based on the credit data received, a borrower has frozen their account with one of the credit repositories. No data from that repository was used in underwriting the loan casefile. The lender remains responsible for preventing fraud, which includes, but is not limited to, ensuring the borrower's identity has been verified. In addition, the lender must continue to investigate any liabilities or derogatory credit that is disclosed by the borrower but not reflected on the credit report. NOTE: For borrowers without a credit score, a similar message will be issued that will also state there is no data available from the other two repositories.	When credit for one of the borrower is frozen at one of the three credit repositories (Equifax, Experian, or TransUnion).	Borrower's identity to help prevent fraud. Online loan application and file documentation to review and investigate any liabilities or derogatory credit disclosed by the borrower.
Potential Casefile ID	Based on information provided on a prior submission, it appears that the subject property address and/or Doc File ID have been changed. As a reminder, the DU loan casefile ID is tied to an individual mortgage loan. The same casefile ID may not be used to underwrite more than one mortgage loan in DU. If a new loan is originated, a new loan casefile must be created and the data in the existing loan casefile must be updated to reflect the final terms of the loan that was originally used to underwrite.	When the subject property address or the Doc File ID is changed from the previous submission. Once the message is issued, it will continue to be issued on all resubmissions, even if the information is changed back to the original values.	Current submission data to ensure only data for the specific loan is included in the loan casefile, and previous submission data to ensure no other loans were delivered with that casefile ID.

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June 2018

1 of 2

<https://www.fanniemae.com/content/tool/du-potential-red-flag-message-matrix.pdf>

FAQs

Appraisal Waivers Appraisal and Property-Related

 Fannie Mae®

Appraisal and Property-Related Frequently Asked Questions (FAQs)

Updated August 7, 2018

This FAQ document provides responses to common questions related to Fannie Mae's property eligibility and appraisal policies.

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Appraiser Selection and Management	2
Appraisal Submission and Forms	3
Appraisal Policy	4
Market Conditions Addendum to the Appraisal Report (Form 1004MC)	9

Resources

For additional information about Fannie Mae's appraisal policies, refer to the [Selling Guide](#). Other resources are available on the [Appraisers page](#) on Fannie Mae's website, including tutorials, forms, FAQs on the Uniform Appraisal Dataset (UAD), the Appraiser Independence Requirements (AIR), and more.

FAQs

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.



Fannie Mae®

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.

Powered by
Collateral Underwriter

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Delivery Information	7
For More Information	8

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 correspondent is obtaining the appropriate fieldwork 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/CLTV
 - Investment properties up to 75% LTV/CLTV
- Cash-out refinance transactions:

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Updated September 4, 2018 1 of 8

Appraisal Updates

2018-09 Modular Home Updates

- On-frame modular homes that comply with local building codes, attached to a permanent foundation, and are built using the same materials as comparable stick-built homes are now an eligible property type.
- These homes will follow the same eligibility and underwriting criteria as stick-built homes.
- Clarifying that multi-unit buildings such as attached condos and townhomes may be built using modular construction techniques that comply with local building codes.

DU 10.3 Updates Appraisal Waivers

Effective December 8, Rural High-Needs Appraisal Waiver Available

Appraisal Waiver Changes

The following updates will be made to the appraisal waiver-related messaging issued by DU.

Disaster Impacted Areas

A new message will be issued on loan casefiles for properties located in disaster impacted areas. If the loan casefile received an appraisal waiver offer prior to the disaster, and upon resubmission to DU continues to meet all other appraisal waiver eligibility requirements, DU will continue to offer the appraisal waiver and issue a new message.

This message will indicate that the lender may accept the appraisal waiver offer but must:

- take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster, and
- comply with the property eligibility requirements that pertain to properties affected by a disaster in the *Selling Guide*.

DU will issue the new message, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

NOTE: This change will be reflected in the December *Selling Guide* update.

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.

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

Appraisal Waivers-Ineligible Transactions

The following are ***not eligible*** for an appraisal waiver offer:

- Properties located in a disaster-impacted area, unless Fannie Mae has received an acceptable appraisal of the property that was completed after the disaster occurred. See Q15.
- When the lender has any reason to believe an appraisal is warranted
- Construction and construction-to-permanent loans
- Two- to four-unit properties
- Loan casefiles in which the value of the subject property provided to DU is \$1,000,000 or greater
- HomeStyle® mortgage products (Renovation and Energy)
- Texas 50(a)6 loans
- Leasehold properties, community land trust homes, or other properties with resale restrictions
- Cooperative units and manufactured homes
- DU loan casefiles that receive an ineligible recommendation
- Loans for which the mortgage insurance provider requires an appraisal
- Loans for which rental income from the subject property is used to qualify

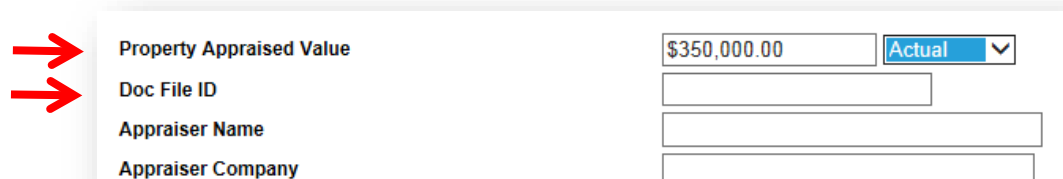
Property Value Enforcement Relief

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”



Property Appraised Value	\$350,000.00	Actual
Doc File ID		
Appraiser Name		
Appraiser Company		

Day 1 Certainty

Property Information

Appraisal Waiver  Not Eligible

Collateral Rep & Warrant  Not Eligible

Property and Appraisal-Condos

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.

Condo Project Manager 8.2 Release Notes

On Aug. 18th Condo Project Manager™ (CPM™) was updated to align with the changes related to condo policies communicated in Selling Guide Announcement SEL-2018-05.



Fannie Mae®

Condo Project Manager 8.2 Release Notes

July 16, 2018

New look for Release Notes

We've simplified the layout of the Condo Project Manager (CPM) Release Notes. Lenders can now access all 2018 CPM enhancements in this easy-to-read format; all past updates can be found on the CPM web page.

August 2018 CPM enhancements

On August 18, 2018, CPM will be updated to align with the June 5, 2018 [changes](#) to our condo policies and to make it easier to refer to *Selling Guide* language located throughout CPM. Specifically, improvements to CPM include:

- Removal of three eligibility questions
- Modifications to two eligibility questions
- Extension of established project certification
- Links to *Selling Guide* references



Recent updates

Effective Date	Functionality Improvement	Description
August 18 NEW	Removal of three eligibility questions	<p>The following questions will be removed from CPM:</p> <ul style="list-style-type: none">▪ Question (radio button format): The project has 2-4 units.<ul style="list-style-type: none">• Applies to: 2-4 unit projects• Note: Any current active certifications for 2-4 unit projects will remain as-is and the completed question can be viewed and/or printed.▪ Question: Is the project an investment security?<ul style="list-style-type: none">• Applies to: new or established projects• Note: Any current active certification will remain as-is and the completed question can be viewed and/or printed.▪ Question: Does the condominium represent a legal, but nonconforming use of the land (if zoning regulations prohibit rebuilding to current density in the event of destruction)?<ul style="list-style-type: none">• Applies to: new or established projects• Note: Any current active certification will remain as-is and the completed question can be viewed and/or printed.
August 18 NEW	Modifications to two eligibility questions	<p>Removed the note from the "Does the project operate as a hotel or motel?" and "Does a single entity own more unites in the project that what is allowed by the <i>Selling Guide</i>?" questions.</p>

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