DO/DU Case #5: FHA Mortgage

Purpose:
Get practice using Desktop Originator®/Desktop Underwriter® (DO®/DU®) to evaluate a FHA mortgage for a borrower purchasing a primary residence.

Note: You must have a valid FHA Lender ID, or a valid Sponsored Originator EIN (if a broker or correspondent) to submit this practice case for an underwriting recommendation. In addition, you can use the borrower and Social Security number listed in this document when performing practice submissions to the FHA TOTAL Mortgage Scorecard.

By using the data provided in this practice case, you will see how you can enter minimal data in DO/DU to create a loan casefile and submit it for a quick underwriting recommendation. All credit and underwriting submissions for this practice case are free of charge, as long as the Test Credit Agency (200) is selected as the credit vendor.

For a live loan casefile, additional data elements from the 1003 may also be required. You would also need to comply with the underwriting conditions described in the DU Underwriting Findings report for the loan casefile.

Note: You are encouraged to use the Help Center, which gives you quick and easy online access to a database of help information about DO/DU. You can access this valuable resource by clicking the Help Center link in the upper-left corner of any DO/DU screen.

FHA mortgage loans are insured by FHA of the U.S. Department of Housing and Urban Development. With an FHA-insured loan, borrowers can purchase a home with a very low down payment (usually 3 percent of the FHA appraisal value or the purchase price, whichever is lower). FHA mortgages are subject to maximum loan limits that vary, depending on the cost of housing in the geographic location where the property is located.

Case Study Highlights:

- Ordering a credit report
- Entering data for an FHA loan
- Entering a gift as a down payment source and an asset

Data Entry:
You can create the 1003 loan application data in DO/DU in one of the following ways:

- Transfer the 1003 data using a loan origination system (LOS) with seamless connectivity to DO/DU.
- Enter the 1003 data directly into DO/DU by clicking **Create Loan** on the Loan List screen.
- Import the 1003 data manually from a Fannie Mae readable file by clicking **Import Loan** on the Loan List screen.

Note: The instructions provided in this practice case assume that you are entering the data directly into the Quick 1003 of the DO/DU user interface. If you are using an LOS, the steps for data entry will vary. Refer to your LOS documentation for details on data entry.

Expected Recommendation:
Approve/Eligible

Meet the Borrower:
Alice Firstimer is applying for her first mortgage using a gift from her mother as the down payment.

Note: The borrowers used for DO/DU testing and training purposes are fictitious and do not relate to real people. The names, addresses, and Social Security numbers were created at random, and any similarity with real individuals is unintentional.

Borrower information. Alice's Social Security number is 991-91-9991, and her current address is 9991 Warford Street, Dawson, IA, 50066.

Order credit report:
After completing information on the Borrower Information screen in the Quick 1003, you can order a three-in-file merged credit report using the steps below.

1. Click **Submit** at the bottom of the screen.

2. Select **Credit Only**. The Select Reissued or New Credit screen appears.

3. To request a new credit report, select **Request a new credit report**.

4. Click **Next** at the bottom of the screen.

5. For this case, select or enter the following information:
    - **Test Credit Agency (200)** as the credit vendor
    - **1234** as the account number
    - **fnma** as the PIN
    - Select **Yes** for the "Do you want to auto-populate the liabilities from the credit report to the 1003?"

    Important: On your actual loan casefiles, select a credit vendor with which you have set up a relationship for DO/DU and enter your account number and password. Please contact your credit provider to obtain this information.

6. Click **Submit** to order the credit report. A processing screen appears indicating the status of the request. Simply wait for the processing to complete. The Loan Information screen displays the credit status.

7. Review the credit report by clicking the **Complete** link. To print a hard copy of the report, click **Print Report** just above the Credit tab.

8. After reviewing the credit report, navigate back to the Loan Information screen.

9. Return to the 1003 data entry screens by clicking the **Edit Loan** link in the navigation bar of the Loan Information screen.

Property and loan information. Alice Firstimer is purchasing a single-family primary residence located 123 Elmdale Street, Dawson, IA, 50066. She applied for an FHA 30-year fixed rate mortgage in the amount of $57,900 (base loan amount) and an interest rate of 4.75%. Choose **FHA** as the mortgage type.

The property is a one-unit home and is held in fee simple. For the street address, the data should be entered as follows:
    - Number: 123
    - Street Name: Elmdale ST
    - Unit: (leave blank)

Down payment. Enter $3,000 as the down payment amount and select FHA-Gift-Source Relative as the source of down payment.

Employment. To enter data in the Employment Information screen, click the **Employment Information** link in the navigation bar. Alice has worked for the same employer for one year. You do not need to enter the name of Alice's employer, as this information is not required for an underwriting recommendation.

Income. Alice's gross monthly base income is $2,436 with additional income of $300 for overtime, and $150 for commissions. She also receives $500 per month in alimony. Enter the alimony in the Other Income section. The total monthly income is $3,386.

Housing expenses. Alice currently pays $400 for rent. The monthly payment for the proposed first mortgage (P&I) is $302.03, hazard insurance is $17, real estate taxes are $72, and mortgage insurance is $24.41. The total is $415.44.

Assets. Alice has a checking account with a $1,200 balance, a savings account balance of $2,355, and stock worth $8,000. She has also received a $3,000 gift from her mother.

Real Estate Owned. Alice does not own real estate.

Liabilities. Liabilities should already be populated in this section from the three-in-file merged credit report.

Details of transaction. The purchase price is $60,000, estimated prepaid items are $650, and estimated closing costs are $1,632. Enter an Other Credit of $500 to show that Alice has made a deposit on the sales contract. This will appear on line l. The entire up-front mortgage insurance premium (MIP) is $879 (1.5% of the base loan amount). The up-front MIP must be calculated outside of DO/DU and entered in line g. The funds required to close are $4,761.

Declarations. All declaration questions need to be answered accurately. Declaration items a. through i. are all "No". Alice is a U.S. citizen and intends to occupy the property as her primary residence.

Additional data. The appraised value of the property is $63,400, and the property type is detached.

Government data. FHA Loan Data is entered here. Select **203(b) FHA Fixed Rate Program** from the Section of the Act list. The subject property is located in Davis County. Alice's CAIVRS number is A2738567.

NOTE: The Agency Case Number is not required to obtain an underwriting recommendation, but it should be entered for final submission to the FHA TOTAL Mortgage Scorecard.

Submit the loan casefile for an underwriting recommendation:

If you are using DO:

1. Click **Submit**.

2. From the Select Credit and Underwriting Options screen, select **Underwriting Only**, then click **Next**. The Select Submission Options screen appears.

3. Under "Select a submission option," select **Preliminary Findings**.

   Note: Alternatively, you could select a sponsoring lender and follow the regular process for submitting an Interim loan casefile to the sponsoring lender.

4. Select **Single Product** in the second drop-down list.

5. Click **Submit** to submit the loan casefile for an underwriting recommendation. A processing screen appears indicating the status of the request. Simply wait for the processing to complete. The Loan Information screen displays the underwriting status.

6. For the detailed findings, view the Underwriting Findings report by clicking the **View Findings** link in the navigation bar. To print a hard copy of the report, click **Print Report** just above the Findings tab.

7. After reviewing the report, navigate back to the Loan Information screen.

Note: An **Interim** submission sends the loan casefile to the sponsoring lender for underwriting, but you retain ownership of the data as the originator. When you select **Final** as the Submission Type, you can no longer edit the loan casefile, because the ownership of the electronic 1003 and the edit rights are transferred to the selected lender. However, you can still view the activity of the loan casefile.

If you are using DU:

1. Click **Submit**.

2. From the Select Credit and Underwriting Options screen, select **Underwriting Only**, then click **Next**. The Select an Underwriting Service screen displays.

3. Select **Desktop Underwriter** as the underwriting service.

4. Click **Submit** to submit for an underwriting recommendation. A processing screen appears indicating the status of the request. Simply wait for the processing to complete. The Loan Information screen displays the underwriting status.

5. For the detailed recommendation, view the Underwriting Findings report by clicking the **View Findings** link in the navigation bar. To print a hard copy of the report, click **Print Report** just above the Findings Desktop Underwriter tab.

6. After reviewing the report, navigate back to the Loan Information screen.

Printing a 1003:

From the Loan Information screen, you can print a hard copy of the completed loan application (Form 1003). Click the **View 1003** link in the navigation bar. The completed Form 1003 appears. Click **Print Report** to print the 1003.