

DO/DU Case #3: Refinance of Second Home

Purpose:

Get practice using Desktop Originator[®]/Desktop Underwriter[®] (DO[®]/DU[®]) to evaluate an 80% LTV mortgage for borrowers refinancing their second home.

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. You may also use this practice case as a basis to explore the DO/DU underwriting process with other loan products, property types, and interest rates. 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 an actual 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.

Case Study Highlights:

- Entering housing expenses for second homes
- Entering a resubordinated HELOC
- Adding liabilities that do not appear on the credit report
- Paying off an existing first mortgage while resubordinating an outstanding HELOC

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 Underwriting Recommendation from DU:

Approve/Eligible

Meet the Borrowers:

John and Mary Homeowner are refinancing the first mortgage on their vacation residence in Mesa, Arizona, to acquire a lower interest-rate loan. They previously obtained a HELOC that they will retain, and it will be resubordinated to the new first mortgage. Their primary residence is located at 175 13th Street, Washington, DC, 20013.

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/addresses is unintentional.

Borrower information. John's Social Security number is 999-40-5000. Mary's Social Security number is 500-22-2000.

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. John and Mary have applied for a conventional 30-year fixed rate loan in the amount of \$160,000 with an interest rate of 5.125%. Their home is located at 2505 S. Creek Street, Mesa, AZ, 85208. For the street address, the data should be entered as follows:

- Number: 2505
- Street Name: S Creek ST
- Unit: (leave blank)

The property has one unit, is a vacation home, and is held in fee simple. Select Limited Cash-Out as the Purpose of Refinance.

Employment. To enter data in the Employment Information screen, click the **Employment Information** link in the navigation bar. John has been self-employed for three years and six months. Mary has been employed with a local company for four years and seven months. You do not need to enter the names of their companies, as this information is not required for an underwriting recommendation.

Income. John's gross monthly base income is \$2,650 and Mary earns \$6,000.

Housing expenses. Since this is a transaction for a second home, you will need to enter the current housing expenses for the borrower's principal residence in the Present column. The current housing expenses are \$1000 principal and interest, hazard insurance is \$25, real estate taxes are \$115, and mortgage insurance is \$60.

In the Proposed column, enter the applicable housing expenses for the subject property. The first mortgage is automatically calculated for you. The borrowers are retaining a HELOC with a monthly payment of \$276 - this should be entered in "Other Financing (P&I)". The hazard insurance, taxes, mortgage insurance, and HOA dues for the proposed mortgage are \$25, \$108, \$57, and \$50 respectively. The new total monthly payment will be \$1,387.18.

Assets. John and Mary have a checking account with a balance of \$500 and a savings account with a balance of \$4,500. Mary has a retirement account with a vested value of \$583. To adjust for withdrawal penalties and taxes, 60% of the retirement account value (which equals \$350 after the calculation) should be entered as a retirement fund.

Liabilities. Liabilities should already be populated in this section from the three-in-file merged credit report. However, you will need to add the mortgage, taxes and insurance for the primary residence, as well as the mortgage and the HELOC for the second home:

- The first mortgage on the primary residence is with Higley State Bank with an unpaid balance of \$95,000 and a monthly payment of \$1,000– which includes principal and interest only.
- Because DU uses the information on the Liabilities screen to calculate the total expenses qualifying ratio, it is important that all current combined housing expenses are accounted for on the Liabilities screen. In this example, \$200 per month in taxes and insurance from the current residence must be added to the screen. Enter the \$200 as Taxes & Insurance with the Liability Type of Other. Enter \$200 under Monthly Payment. In the Balance field, enter the annualized amount. In this example, the balance would be \$2,400 (\$200 x 12 months).
- The first mortgage on the subject property is with Higley State Bank with an unpaid balance of \$154,500 and a monthly payment of \$1,425 – which includes principal and interest only. The Paid By Close and Subject Property Lien indicators should be checked.
- The HELOC is also being held by Higley State Bank with an outstanding balance of \$10,000 (total line of credit) and a monthly payment of \$276. The Subject Property Lien indicator should be checked.

Details of transaction. Enter the payoff of the first lien with Higley State Bank in the amount of \$154,500 in Line D. Estimated prepaid items are \$1,100, and estimated closing costs are \$3,250. Borrower paid fees are \$350, and should be entered in the Other Credits section. The loan amount is \$160,000. John and Mary will receive \$1,500 cash back at closing, which should appear in Line P.

Declarations. All declaration questions need to be answered accurately. Both John and Mary are U.S. citizens and do not intend to occupy the property as their primary residence. They have jointly owned

their home for nine years. Neither borrower has been declared bankrupt within the past 7 years. Neither borrower has had property foreclosed upon or given title or deed in lieu thereof in the last 7 years.

Additional data. The appraised value of the subject property is \$200,000, the repayment type is Fully Amortizing, the property type is Condominium, and the escrow requirement will be waived.

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.

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