



## Desktop Underwriter/Desktop Originator Release Notes DU Version 10.0 December Update

October 24, 2016  
*Updated November 28, 2016*

During the **weekend of December 10, 2016**, Fannie Mae will update Desktop Underwriter® (DU®) Version 10.0 with the following changes:

- DU Validation Service
- Updates to the Property Inspection Waiver
- Property Value Representations and Warranties
- HomeReady Enhancements
- Updates to Align with the *Selling Guide*

The enhancements will be effective as follows:

- Details regarding loan casefiles that will receive the benefits of the DU validation service are provided below.
- The Property Inspection Waiver enhancement will apply to DU Version 10.0 loan casefiles **created** on or after the weekend of December 10, 2016.
- All other enhancements will apply to DU Version 10.0 loan casefiles **submitted or resubmitted** after the weekend of December 10, 2016.

### *November 28, 2016: The following changes are being made to these release notes:*

- *The DU Validation Service, Receipt of Validation Information section on page 2 has been updated to add a reference to the Re-issue Key, which can be used instead of the Report ID for FormFree reports.*
- *The Updates to the Property Inspection Waiver section on page 4 has been updated to reference the removal of the PIW fee effective January 1, 2017.*

## DU Validation Service

With the announcement of this update release, we are also announcing the implementation of the DU validation service for income, assets, and employment. Through this service DU will have the ability to receive a copy of the vendor report ordered by participating lenders that have activated this service for at least one supported vendor. DU will use the data from the report to validate specific borrower information provided in the loan casefile. The vendors that will be providing the data, as well as the information that will be validated, are described below.

### Income

- The Work Number® from Equifax® will be used to validate income information for base, bonus, overtime, and commission income that is less than 25% of total income.
- Tax transcripts obtained from the Equifax 4506-T Tax Transcript Service and information obtained from The Work Number will be used to validate commission income that is 25% or more of total income.
- Tax transcripts obtained from the Equifax 4506-T Tax Transcript Service will be used to validate income information for Social Security income, pension/retirement income, and self-employment income for sole proprietors (as documented on IRS Form 1040, Schedule C or C-EZ).

### Assets

- AccountChek™ by FormFree will be used to validate asset information from the borrower's checking accounts, savings accounts, CDs, money market accounts, stocks, mutual funds, and retirement accounts.



## Employment

- The Work Number will be used to validate employment information associated with base, bonus, overtime, and commission income.

The DU validation service will be applied for all DU loan casefiles underwritten by participating lenders that have activated this service. Refer to the Activating the DU Validation Service section below for information on how to get activated to use this service.

## Receipt of Validation Information

In order for DU to receive the information from the vendors above, the following information must be provided.

### Income

*The Work Number income information and tax transcripts from the Equifax 4506T Tax Transcript Service:* The lender loan number and the borrower Social Security number provided on the online loan application must be an exact match with the lender loan number and the borrower Social Security number the lender provided to The Work Number or Equifax.

### Assets

*AccountChek by FormFree:* The lender must choose FormFree as the 3<sup>rd</sup> Party Data Provider Name and enter the corresponding Reference Number in DU. This Reference Number includes the borrower Social Security number, a colon, and then the FormFree Report ID or Re-issue Key. Below is an example of the data in the Reference Number field that will be shown in the Additional Data section of the Desktop Originator® (DO®)/DU User Interface:

### Income & Asset Validation

3<sup>rd</sup> Party Data Provider Name

Formfree ▼

Reference Number

999603000:4928576d-ae61-4d25-b94d-c1833842

## Employment

*The Work Number employment information:* The lender loan number and borrower Social Security number provided on the online loan application must be an exact match with the lender loan number and the borrower Social Security number the lender provided to The Work Number.

## Vendor Messages

When information is requested from any of the vendors available through the service, DU will return messages specifying what information was received from which vendor, and will include the corresponding reference number and report date. DU will also specify the date by which the loan must close in order to comply with Fannie Mae's age of documentation requirements.

DU will also inform the lender when data was not received, or when data was received but the information could not be validated.

## DU Validation Messages

When DU is able to validate the income, asset, or employment information entered into DU using data from the vendor, DU will specify what information was validated. DU will also specify if the report from the vendor is acceptable documentation to support the information provided to DU, or if additional documentation is needed.

## Activating the DU Validation Service

In order for the DU validation service to be used, lenders must inform Fannie Mae of the DU institutions they want activated for each vendor that is supported through this service. This notification is done by the lender completing and submitting the [DU Validation Service Set-Up Form](#) or contacting their Fannie Mae customer account team.



NOTE: *The lender must also have a relationship with an available vendor(s). The lender's agreement with the vendor must allow for the information contained within the vendor report obtained by the lender to be shared with Fannie Mae electronically for use by the DU validation service.*

## Effective Date of Enhancements

### Income

For DU institutions activated to receive income information from The Work Number or tax transcript information from the Equifax 4506-T Tax Transcript Service, the DU validation service will use income information for DU Version 9.3 and Version 10.0 loan casefiles submitted or resubmitted after the lender DU institution is activated. Lenders may immediately request activation for The Work Number and Equifax.

### Assets

For DU institutions activated to receive information from AccountChek by FormFree, the DU validation service will use the asset information for DU Version 9.3 and DU Version 10.0 loan casefiles submitted or resubmitted after the institution is activated. Activation for AccountChek by FormFree is available after the weekend of December 10, 2016.

### Employment

For DU institutions activated to receive information from The Work Number, the DU validation service will use the employment information for DU Version 10.0 loan casefiles submitted or resubmitted after the institution is activated, and after the DU Version 10.0 December Update the weekend of December 10, 2016.

## Additional Details and Information

Additional information, including lender requirements for participation, steps for using the validation service, details on validation results, details on calculations that will be used by DU for validation purposes, representation and warranty enforcement relief, and lender quality control requirements will be provided in an upcoming *Selling Guide* update and [DU Validation Service Reference Guide](#).

- Details on income validation will be released with the October *Selling Guide* update the week of October 24, 2016.
- Details on employment and asset validations will be released with the December *Selling Guide* update the week of December 6, 2016.

## Updates to the Property Inspection Waiver

Lenders will now receive a Property Inspection Waiver (PIW) option on certain refinance loan casefiles. A PIW is a fieldwork recommendation that results in an offer to waive Fannie Mae's appraisal requirement. The PIW option has been available to only specific lenders in the past, but with the DU Version 10.0 December Update will now be available to all DU lenders. When a loan casefile is eligible for the PIW and the waiver is exercised by the lender, Fannie Mae accepts the submitted value estimate as the market value for the subject property. As such, Fannie Mae provides relief of representations and warranties on the value, condition, and marketability of the property.

In order for a PIW to be considered, a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter® (CU™) data, and that appraisal must be associated with one of the borrowers on the loan casefile.

## Prior Appraisal Requirements

DU will compare the address for the subject property to the property addresses found in CU. When a property address match is found, DU will then compare both the first and last names of the borrowers on the loan casefile to the borrowers associated with the prior appraisal. When a borrower name match is found, DU will then use the information from the prior appraisal to determine if the loan casefile is eligible for the PIW. In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and a PIW will not be offered on the new loan casefile.



## Eligible Transactions

The PIW offer will be considered on the transactions below.

- One-unit properties, including condominiums
- Principal residence, second home, and investment property transactions
- Limited cash-out refinance transactions up to a 90% LTV/CLTV for principal residences and second homes; up to 75% LTV/CLTV for investment properties
- Cash-out refinance transactions up to a 70% LTV/CLTV for principal residences; up to a 60% LTV/CLTV for second homes and investment properties
- Loan casefiles that receive an Approve/Eligible recommendation

The transactions below are not eligible for a PIW.

- Properties located in a disaster impacted area
- Purchase, construction, and construction-to-permanent loans
- Two- to four-unit properties
- Loan casefiles where the value of the subject property provided to DU is \$1,000,000 or greater
- HomeStyle® Renovation mortgage loans
- DU Refi Plus™ loan casefiles (will continue to be eligible for the DU Refi Plus Property Fieldwork Waiver)
- Leasehold properties
- Loan casefiles using the Affordable LTV feature
- Cooperative units and manufactured homes
- DU loan casefiles that receive an ineligible recommendation

## PIW Messaging

When a loan casefile is eligible for the PIW, the following message will be displayed in the DU Underwriting Findings report:

*Desktop Underwriter accepts the value submitted as the market value for this subject property. This loan is eligible for delivery to Fannie Mae without an appraisal if the Property Inspection Waiver is exercised by the lender at the time of loan delivery to Fannie Mae. To exercise this Property Inspection Waiver and be eligible for representation and warranty relief on the value, condition and marketability of the subject property, Special Feature Code 801 and the Casefile ID must be included in the loan delivery file. ~~A fee will be charged for this waiver.~~ If the waiver is not exercised, 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. If an appraisal is obtained for this transaction, the Property Inspection Waiver may not be exercised and the loan cannot be delivered with Special Feature Code 801.*

## Exercising the PIW

To exercise the PIW on an eligible loan casefile, the lender must, at time of delivery, include the Fannie Mae casefile ID and SFC 801 in the loan delivery file to receive representation and warranty relief. There is a \$75.00 fee associated with exercising the waiver **for whole loans purchased, or mortgages loans delivered into MBS with pool issue dates, on and before December 31, 2016.** If a lender chooses not to exercise the waiver, the lender is required to deliver the loan with the fieldwork recommended by DU, which would be an appraisal based on an interior and exterior property inspection.

**NOTE:** *The PIW fee will no longer be assessed beginning with whole loans purchased, or mortgages loans delivered into MBS with pool issue dates, on and after January 1, 2017, regardless of when the PIW was offered by DU.*



## Property Value Representations and Warranties

With this update, Fannie Mae will offer enforcement relief on representations and warranties related to the property value for certain loan casefiles that are secured by a one-unit detached, attached, or condominium property. The enforcement relief will be offered on loan casefiles that receive an Approve/Eligible recommendation and the appraisal received a CU Risk Score of 2.5 or below.

**NOTE:** *Two-to-four unit properties, manufactured homes, and units in cooperative project will not be eligible for the enforcement relief.*

### Fields required to determine eligibility in CU

The following fields will need to be provided in DU in order for eligibility for the enforcement relief to be determined in CU.

- The Actual vs. Estimated Appraised Value Indicator

The Actual vs. Estimated Indicator must be sent as Actual. In the DO/DU User Interface, this field is located on the Additional Data screen in the Appraisal Information Section.

- Document File Identifier (Doc File ID)

The Doc File ID assigned to the loan from Uniform Collateral Data Portal® (UCDP®) will also need to be provided. The Doc File ID field is also located on the Additional Data screen in the Appraisal Information section of the DO/DU User Interface.

- Property Appraised Value and Property Zip Code

Though the Property Appraised Value is a field that has always been required to be sent to DU, the value in the field and the Property Zip Code must match the information that was submitted through UCDP when the Doc File ID was obtained. If the appraised value and zip code in DU do not match the appraised value in UCDP associated with the applicable Doc File ID, CU will not be able to determine eligibility for the enforcement relief.

### Representation and Warranties section of the DU Underwriting Findings report

When a loan casefile is eligible for the enforcement relief, DU will issue a message in a new section of the DU Underwriting Findings report called Representations and Warranties. This new section (shown below) will be displayed after the Risk/Eligibility section and will contain a message letting the lender know whether the loan casefile is eligible for the enforcement relief on representations and warranties related to property value.

#### Representations and Warranties

- 6 The following message(s) were issued by Collateral Underwriter:

CU Message ID	CU Message Text
FNM1101	Based on the DU risk assessment and CU results for the appraisal submitted under DocFileID <DocFileID> on <date and time> this loan is eligible for the enforcement relief on representations and warranties related to property value.

When the loan casefile is not eligible for the enforcement relief, DU will issue a message similar to the message above letting the lender know it is not eligible for the enforcement relief on representations and warranties related to property value.

**NOTE:** *The message above will not be issued on DU Refi Plus loan casefiles. As a reminder, when a lender obtains an appraisal for a DU Refi Plus loan, the lender is not responsible for the standard representations and warranties related to the value, marketability, and condition of the property as reflected in the property valuation. Refer to the Selling Guide for additional information.*



## **Additional Details and Information**

Additional information on the enforcement relief on representations and warranties related to the property value will be provided in an upcoming *Selling Guide* update the week of December 6, 2016.

## **HomeReady Enhancements**

*Selling Guide* [Announcement SEL-2016-06](#) announced enhancements for the HomeReady product. The following updates will be made to DU to support those enhancements.

### **Increased LTV Ratios**

The maximum allowable LTV, CLTV, and HCLTV ratios will be increased from 95% to 97% for one-unit limited cash-out refinance transactions when the mortgage being refinanced is owned by Fannie Mae (in alignment with standard DU eligibility). The requirement that the existing mortgage being refinanced be owned by Fannie Mae does not apply when the LTV is 95% or less, or when the CLTV only exceeds 95% due to a Community Seconds<sup>®</sup> loan.

Lenders must inform DU that Fannie Mae owns the existing mortgage by indicating "Fannie Mae" in the Owner of Existing Mortgage field on the online loan application. In the DO/DU User Interface, this field is located on the Additional Data screen in the Full 1003. Because this indication will be used by DU to determine eligibility of the loan for delivery to Fannie Mae when the LTV, CLTV, or HCLTV exceed 95%, the lender will be required to document that the loan being refinanced is currently owned by Fannie Mae (documentation requirements are specified in the *Selling Guide*).

### **Ownership of Other Residential Property**

Because HomeReady borrowers are now permitted to own other residential properties, the DU message issued when it appears the borrower owns other real estate will be removed.

### **Changes to Eligibility for Three- to Four-unit Properties**

DU will be updated to allow adjustable-rate mortgages on HomeReady purchase and limited cash-out refinance transactions secured by three- to four-unit properties. Temporary buydowns will also be permitted on HomeReady purchase transactions secured by three- to four-unit properties.

### **Homeownership Education Message Updates**

The following education messages will be updated or removed:

- The homeownership education message will be updated to reflect the three homeownership education options (through Framework, pre-purchase counseling and education from a HUD-approved agency, or meeting the requirements of the Community Seconds provider or Down Payment Assistance Program). Homeownership education will also no longer be required on refinance transactions.
- The message requiring landlord education on two- to four-unit properties will no longer be issued on HomeReady mortgage loan casefiles.

### **One-on-One Housing Counseling as a Compensating Factor**

DU will also be updated to provide a benefit for borrowers that have received customized one-on-one counseling from a HUD-approved nonprofit counseling agency, as documented with Fannie Mae Form 1017, Certificate of Completion of Pre-purchase Housing Counseling. This benefit will be seen as a compensating factor for those loan casefiles with debt-to-income ratios (DTI) greater than 45% up to 50%.

In order for the lender to indicate in DU that the HUD-approved one-on-one counseling was completed, an update will be made to the Homebuyer Education Completion Indicator. This field will include two options: 1) HomeBuyer Education complete and 2) One-on-one counseling complete. For option 2, the counseling recipient must have received both pre-purchase housing counseling and homeownership education, as detailed on Form 1017.



When the lender indicates that the borrower met the HomeReady homeownership education requirement using one-on-one counseling (option 2), DU will issue Special Feature Code (SFC) 184 in the SFC list message. DU will also issue a message reminding the lender to obtain a completed and signed Form 1017 to document that the borrower has completed one-on-one assistance from a HUD-approved nonprofit counseling agency.

*NOTE: The DO/DU User Interface will also be updated the weekend of December 10, 2016 to include the Homebuyer Education Completion Indicator in the Community Lending section of the Additional Data screen. The two options referenced above will be seen as the options in the indicator list.*

### Community Lending Information

Community Lending Product	HomeReady
Community Seconds	
Community Seconds Repayment Structure	
County	
HomeBuyer Education Completion	One-on-one counseling complete

## Updates to Align with the *Selling Guide*

### Retirement of Excessive Value Message

With the further integration of DU and CU, the excessive value Potential Red Flag messages will be retired.

### New and Updated Lender and Seller Contribution Messages

The messages issued by DU regarding lender and seller contributions will be updated. DU will now issue three separate messages regarding lender and seller contributions.

- A new message will be issued when seller credits and seller paid closing costs exceed the total of estimated closing costs, discount points, and prepaids. This message will remind lenders that in order for the loan to be eligible for delivery, the lender must ensure that all interested party contribution requirements outlined in the *Selling Guide* have been met, which may include adjustments to the LTV/CLTV.
- A new message will also be issued when lender credits exceed the total of estimated closing costs, discount points, and prepaids. This message will require the lender to review the transaction, as lender credits may not be used for down payment.
- The current message issued when lender and seller credits together exceed the total of estimated closing costs, discount points, and prepaids will not be issued if either of the two messages described above is issued. The message will require the lender to review the transaction as seller and lender credits may not be used for down payment.

*NOTE: None of the messages above will make the loan casefile Ineligible. The lender will be responsible for determining if the loan is eligible for sale to Fannie Mae.*

### Homeownership Education Message Update

Because homeownership education is also required on loans where no borrower has a credit score, the message reminding lender of homeownership education requirements will be updated so it is also issued on loan casefiles where no borrower has a credit score.



## **Special Feature Code Update for HomeStyle Renovation Mortgages**

As specified in *Selling Guide Announcement SEL-2016-02*, the SFC requirements for HomeStyle® Renovation loans have been updated. DU will be updated to reflect the SFC requirement and will issue SFC 215 (with recourse) and SFC 279 (without recourse) on all HomeStyle Renovation loan casefiles. The lender would then use the appropriate SFC when the loan is delivered to Fannie Mae.

## **DO/DU User Interface Update**

In addition to the changes noted above, the DO/DU User Interface will also be updated the weekend of December 10, 2016 to comply with the new Fannie Mae brand standards. These changes will include the new Fannie Mae logo, font, and color scheme.

## **Miscellaneous Message Text Changes**

Various DU messages will be updated to provide clarity and consistency with the *Selling Guide*.

## **For More Information**

For more information about these Release Notes, lenders may contact their Fannie Mae customer account team; and mortgage brokers should contact their DO sponsoring wholesale lender. For technology considerations, an Integration Impact Memo will be released on the [Technology Integration](#) page on [fanniemae.com](http://fanniemae.com).