Fannie Mae

DU Enhancements for Loans Where No Borrower Has a Credit Score

Frequently Asked Questions

Dec. 9, 2022

General

Q1. **What changes were made to Desktop Underwriter® (DU®) for loans where no borrower has a credit score?**

The changes made to DU include:

- Updated eligibility guidelines are applied to DU loan casefiles where no borrower has a credit score. One- to four-unit properties (including manufactured homes) are now permitted up to standard LTV, CLTV, and HCLTV ratios, and up to the standard maximum allowable debt-to-income (DTI) ratio of 50%.
- DU completes a cash flow assessment (including transaction patterns, balance trends over time, and other observations) using data from a borrower-permissioned 12-month asset verification report to potentially enhance DU's credit assessment.
- Lenders may be able to use an asset verification report to satisfy the *Selling Guide* requirement to document at least two sources of nontraditional credit. DU issues a message when this applies.

Q2. **Why is Fannie Mae implementing this change?**

Fannie Mae is committed to developing innovations that assist lenders to responsibly expand access to mortgage credit as part of our commitment to serve renters and homeowners in an equitable and sustainable way. Updating DU's automated underwriting assessment with these enhancements will increase homeownership opportunities for borrowers with no credit scores, a population that is likely to be underserved.

Eligibility

Q3. **What are the new loan eligibility guidelines for loans where no borrower has a credit score?**

Loans must meet the following eligibility criteria:

- Principal residence transaction where all borrowers will occupy the property
- One-to-four unit properties; includes manufactured housing (MH)
- Purchase or limited cash-out refinance transaction
- Fixed-rate mortgage

- Loan amount must meet the general loan limits (may not be a high-balance mortgage loan)
- LTV/CLTV/HCLTV ratio cannot exceed 95% (except for those using a Community Seconds® loan)
- DTI ratio cannot exceed 50%

Lenders

Q4. **What must lenders do for DU to conduct a cash flow assessment for loans where no borrower has a credit score?**

- The lender must request 12 months of a borrower's bank statement data from an authorized asset verification report supplier during the application process. Lenders should work with their asset report supplier(s) to select the appropriate product to ensure they have access to 12 months of asset data.
- If the borrower has multiple accounts, a more comprehensive view of the borrower's banking behavior will be seen if there are multiple verification reports that include data from all the borrower's depository and investment accounts.
- The lender must include the Reference ID for the report in the DU casefile submission.

Q5. **When DU conducts a cash flow assessment and provides an Approve/Eligible recommendation, is the lender required to document a nontraditional credit history?**

DU will issue a message informing the lender that the asset verification report may be used to satisfy the nontraditional credit history requirements for all borrowers, as outlined in the *Selling Guide*. Lenders remain responsible for ensuring compliance with other documentation requirements, which may include ATR/QM considerations.

Q6. **Can a lender use the same asset verification report for asset validation through the DU validation service and for the cash flow assessment?**

Yes, the same asset verification report may be used, provided 12 months of account activity is obtained. When a third-party asset verification report is used for a cash flow assessment and asset documentation, including asset validation through the DU validation service, only the most recent 60- or 30-days of account activity must be reviewed in accordance with the requirements in B3-4.2-02, Depository Accounts and B3-2-02, DU Validation Service, and retained in the loan origination file. Representation and warranty relief will only be given for assets that are validated by the DU validation service.

Q7. **Can a lender use the same asset verification report for a borrower's positive rent payment history and the cash flow assessment?**

While both enhancements leverage third-party asset verification data, they apply to different types of borrowers. Positive rent payment history requires the borrower to have a credit score of at least 620. A cash flow assessment applies to loans where no borrower has a credit score.

Positive Rent Payment History	**Cash Flow Assessment**
DU Only	DU Only

Purchase	Purchase or Limited Cash-out Refinance
Requires a minimum 620 credit score	No borrower on the loan can have a credit score
Rental payments of $300 or more per month	

Q8. **What is the "age of docs" requirement for third-party asset verification reports?**

An asset verification report is a credit document per the *Selling Guide*. For all mortgage loans, credit documents must be no more than four months old on the note date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age of documentation requirement. See *Selling Guide* B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns (12/15/2021) for more information.

Q9. **What is a lender's document retention obligation when a 12-month asset verification report is submitted to DU for a cash flow assessment?**

- The lender must obtain at least 12 months of transaction history from an authorized verification report supplier during the application process. Lenders should work with their asset verification report supplier(s) to select the appropriate product to obtain 12 months of asset data.
- At the time of loan origination, the lender must have access to the full asset verification report containing the data covering the period of time provided to DU for assessment.
- Lenders are responsible for reviewing and retaining the most recent 60-day or 30-day asset verification report within the loan file.

Q10. **What does Fannie Mae require the lender to review when an asset verification report containing 12-months of asset data is obtained?**

When a 12-month asset verification report is ordered for loans where no borrower has a credit score, lenders do not need to review the full 12-months of report information. Fannie Mae requires lenders to:

- Confirm the borrower is an account holder on the account(s) provided; and
- Only review and retain the 60-day or 30-day report in accordance with standard *Selling Guide* policy for asset verification, including a review for large deposits and, if asset validation is obtained through the DU validation service, contradictory and conflicting information. See B3-4.2-02, Depository Accounts for details.

Lenders are also responsible for determining whether additional review requirements are necessary to meet regulatory requirements or applicable laws.

Q11. **Is there a cost to lenders when DU conducts a cash flow assessment?**

There is no cost from Fannie Mae, but lenders will need to work with an authorized verification report supplier to identify costs associated with obtaining asset verification reports.

Q12. **Which authorized report suppliers provide asset verification reports?**

Fannie Mae's authorized verification report suppliers are Blend, Finicity, Finlocker, FormFree, Plaid, and PointServ. Learn more here.

Q13. **If a lender does not have a relationship with an authorized verification report supplier, what do they need to do to be able to implement these DU enhancements?**

Lenders can choose to receive an asset verification report from an authorized verification report supplier that offers asset verification reports with 12 months of data. To help decide which supplier is right for their organization, lenders may consider suppliers that integrate with their current LOS and/or POS and what white-labeling capabilities are available for their asset verification report borrower-facing process. It is the lender's responsibility to negotiate fees, ensure appropriate service level agreements (SLAs) are part of contracts, and complete all contracts and activation steps with the report supplier.

Q14. **How do the pricing changes announced in Lender Letter (LL-2022-05) impact DU loan casefiles where no borrower has a credit score?**

Currently DU loan casefiles where no borrower has a credit score follow the standard pricing grids based on a credit score of less than 620. See the Loan-Level Price Adjustment (LLPA) Matrix.

Effective December 1, 2022, a new pricing directive for first-time homebuyers may provide favorable pricing to these casefiles when the income is at or below applicable area median income (AMI) limits. See Lender Letter 2022-05 for additional details. Otherwise, casefiles that do not meet the transaction criteria will continue to follow the standard pricing grids based on a credit score of less than 620.

Borrower Considerations

Q15. **Will consumers need to provide consent to give access to their bank statements?**

Yes, consumer consent must be provided in the same way as with any asset verification report. The consumer will work directly with the asset vendor to retrieve their bank statement data for the lender. Lenders remain responsible for ensuring that the borrower consent satisfies all regulatory requirements and is retained appropriately.

Q16. **What best practices are recommended to ensure the best borrower cash flow assessment?**

When working with an asset verification report vendor to pull their bank statement data, borrowers should include accounts where income is deposited, payments are made, and other transactions can be observed from:

- Checking accounts
- Savings accounts
- Investment accounts