Desktop Underwriter/Desktop Originator Release Notes

DU Version 10.2 September Update

July 24, 2018

During the **weekend of Sept. 22, 2018,** Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.2. The changes in this release will apply to DU Version 10.2 loan casefiles submitted or resubmitted to DU on or after the weekend of Sept. 22, 2018.

This release includes the following:

- High Loan-to-Value Refinance Option Implementation
- DU Validation Service Modification
- Updates to Align with the *Selling Guide*

High Loan-to-Value Refinance Option Implementation

Lender Letter LL-2017-05 announced a new high loan-to-value (LTV) refinance option designed for Fannie Mae borrowers who are making their mortgage payments on time, but whose LTV ratios exceed the maximum allowed for standard limited cash-out refinance transactions in the *Selling Guide*. The high LTV refinance option will be implemented in DU Version 10.2 the weekend of Sept. 22; however, only limited cash-out refinance loan casefiles that are created **on or after Nov. 1, 2018** will be eligible for the high LTV refinance option.

> NOTE: *For more details on this option, see the High LTV Refinance Option web page.*

Address and Borrower Matching to the Existing Loan

When a limited cash-out refinance loan casefile that meets the minimum LTV requirement for a high LTV refinance loan is underwritten in DU, internal data will be used to determine if Fannie Mae owns the loan on the property, and if that loan is eligible to be refinanced using the high LTV refinance option.

When DU finds a loan for the subject property address using either the address provided on the DU loan application or the standardized address, DU will then confirm that the Social Security number(s) (SSN) for the borrower(s) on the new loan casefile match those on the existing loan. The result of the SSN matching will be specified in a DU message.

When none of the borrower SSNs match, the loan casefile will not be underwritten as a high LTV refinance loan. DU will issue a message informing the lender that the SSN(s) does not match and remind the lender to confirm the property address.

When there is an SSN match, DU will underwrite the loan casefile as a high LTV refinance loan. If the SSN for any of the borrowers on the loan casefile do not match using all nine digits, DU will advise the lender.

- When a borrower SSN is matched using 7 or 8 digits of the 9-digit SSN, the DU message will specify that the SSNs are one or two digits different and will require that the lender confirm the borrowers on the existing loan are the same borrowers that will be on the new loan.
- When there are two borrowers on the new loan and two borrowers on the existing loan, but only one borrower's SSN matches, the DU message will specify that not all of the borrower SSNs match and will require that the lender confirm the borrowers on the existing loan are the same borrowers that will be on the new loan.
- When one borrower is on the new loan casefile but more than one borrower is on the existing loan, the DU message will state that it appears that a borrower is being removed with the transaction and refer the lender to the *Selling Guide* for additional requirements on removing a borrower with a high LTV refinance transaction.

- When there is more than one borrower on the new loan casefile but there is only one on the existing loan, the DU message will state that it appears that a borrower is being added with the high LTV refinance transaction, and that if a new borrower is being added with the transaction, the high LTV refinance loan is not eligible for delivery.

Existing Loan Eligibility Determination

When an existing loan is found (using an address and full or partial SSN match), DU will then determine if the loan is eligible to be refinanced using the high LTV refinance option. When one of the following exclusion reasons is found on the existing loan, DU will issue a message specifying the reason the existing loan is ineligible to be refinanced using the high LTV refinance option:

- origination date (mortgage note date is prior to Oct. 1, 2017),
- DU Refi Plus™ or manual Refi Plus™,
- subject to investor paid mortgage insurance,
- pledged asset loan,
- subject to negotiated credit enhancement,
- under review for repurchase,
- not a conventional loan,
- not a first lien, or
- existing loan has been liquidated.

When the existing loan is not seasoned 15 months based on the DU submission date, DU will not exclude the existing loan as being eligible to be refinanced using the high LTV refinance option. DU will issue a message that includes the note date of the existing loan and will remind the lender that the high LTV refinance loan may not close until the existing loan is seasoned at least 15 months.

New Loan Eligibility Determination

When the existing loan is eligible to be refinanced using the high LTV refinance option, DU will determine if the new loan meets the eligibility requirements. If the new loan includes any of the items below that are not eligible with the high LTV refinance option, DU will specify the reason the new loan is not eligible for the high LTV refinance option:

- adjustable rate mortgage (ARM) with a fixed-period less than five years,
- loan subject to a temporary interest rate buydown,
- HomeReady® loan,
- HFA Preferred® or HFA Preferred Risk Sharing loan,
- HomeStyle® Renovation loan,
- HomeStyle Energy loan,
- the amount of cash taken out of the subject property exceeds the limit of $250, or
- the mortgage being paid off with the transaction on the loan application cannot be matched to a credit report account in order to determine if the payment history requirements have been met.

There are eligibility guidelines that DU will not be able to confirm. DU will issue messages reminding lenders of these guidelines on specific transactions:

- On ARM loan casefiles, the DU message will require the lender to confirm that the loan being refinanced is also an ARM as a new ARM can only be used to refinance an existing ARM on a high LTV refinance loan.

- When the subject property is located in Texas, the DU message will require the lender to confirm that the new loan is not being originated pursuant to Section 50(a)(6) of Article XVI of the Texas Constitution.
- When it appears the closing costs exceed $5,000, the DU message will require the lender to confirm that no more than $5,000 of these costs will be financed into the loan amount for this high LTV refinance transaction.
- When the loan application indicates new subordinate financing is being obtained, the DU message will remind the lender that the simultaneous refinance of existing subordinate financing is permitted as long as the new subordinate lien loan amount does not exceed the existing unpaid principal balance.

Issuing a DU Recommendation

When issuing the underwriting recommendation, DU will only ensure that the mortgage being paid off with the transaction meets the payment history requirements. The borrower cannot have had:

- any delinquencies in the most recent six-month period, and
- in months 7 through 12, no more than one 30-day delinquency and no delinquency greater than 30 days.

DU must be able to match the mortgage being paid off with the transaction on the loan application to a mortgage on the credit report. This will be done by comparing the account numbers on the loan application to those on the credit report, and also comparing the creditor name and current payment on the loan application to those on the credit report.

If the payment history requirements are met on the mortgage, DU will issue an Approve recommendation. Otherwise, DU will issue a Refer with Caution recommendation. DU will specify the mortgage from the credit report that was used to determine if the payment history requirements were met.

When the mortgage on the credit report that was used to determine if the payment history requirements were met has not been reported in the past 90 days, DU will require the lender to verify the payment history for the mortgage. The lender must confirm that the mortgage has not had any delinquencies in the most recent six-month period; or in months 7 through 12, more than one 30-day delinquency or any delinquency greater than 30-days.

When the mortgage on the credit report is being disputed by the borrower, and the account meets the payment history requirements, the lender will not be required to investigate the dispute. If the payment history requirements are not met when using the disputed account, DU will issue a message stating that the lender should confirm the accuracy and completeness of the information on the account, and if the payment history is not accurate, the lender may manually underwrite the loan.

> NOTE: *DU will not apply a minimum credit score requirement, a maximum debt-to-income ratio, or minimum waiting period requirements for significant derogatory credit events.*

Documentation Requirements

For income and employment documentation, DU will require the lender to obtain a verbal verification of employment for employment or self-employment income for at least one borrower, documentation of a non-employment income source, or documentation of liquid financial reserves equal to 12 months of the new monthly housing payment for the high LTV refinance loan.

DU will not require any assets to be verified on a high LTV refinance loan.

Collateral Requirements

DU will determine if an appraisal is required for the transaction, or if the loan is eligible for delivery to Fannie Mae without an appraisal. When the loan casefile is eligible for an appraisal waiver, DU will inform the lender that DU accepts the value submitted as the market value for the subject property, and that the loan is eligible for the representation and warranty relief on the value, condition, and marketability of the subject property if the waiver is exercised by the lender at the time of delivery.

The following transactions are not eligible for the high LTV refinance appraisal waiver:

- properties located in a disaster-impacted area,
- two- to four-unit properties,
- leasehold properties,
- co-op units and manufactured homes, and
- DU loan casefiles that receive an Ineligible recommendation.

Furthermore, the lender may not exercise the high LTV refinance appraisal waiver offer and must order an appraisal if one or more of the following applies:

- the lender is required by law to obtain an appraisal,
- the lender is using rental income from the subject property to qualify the borrower; or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events, such as a natural disaster.

On transactions secured by a condo, PUD, or co-op project, DU will require the lender to confirm the project is not a condo- or coop-hotel or motel, house boat project or a timeshare or segmented ownership project. The lender will not be required to perform any additional review of the project; however, confirmation of property and flood insurance coverage is required.

Miscellaneous

Borrower Benefit

When a loan casefile is underwritten according to the high LTV expanded eligibility guidelines, DU will remind the lender that by selling a high LTV loan to Fannie Mae, the lender represents and warrants that the borrower is receiving a benefit in the form of either a reduction in the monthly mortgage principal and interest payment, a reduction in the interest rate, a reduction in the amortization term, or movement to a more stable product.

Mortgage Insurance Requirements

DU will specify if mortgage insurance is required on the loan. If the loan being refinanced does not have mortgage insurance, mortgage insurance will not be required on the new loan. If the loan being refinanced has existing mortgage insurance, DU will require that the level of mortgage insurance coverage in effect be continued on the new loan, or standard mortgage insurance coverage be obtained.

Multiple Financed Properties

There are no limits on the number of financed properties the borrower may own. DU will not apply the standard multiple finance properties guidelines or reserve requirements on high LTV refinance loans.

Leasehold Properties

DU will require the lender to verify that the term of the leasehold estate runs for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower.

Special Feature Code (SFC) Requirements

DU will issue SFC 839 on all high LTV refinance loan casefiles, and will issue SFC 807 on those eligible for the high LTV refinance appraisal waiver.

Higher-priced Covered Transactions

For principal residence and second home loan casefiles, DU will require that the lender determine if the high LTV refinance loan casefile is a higher-priced covered transaction under Regulation Z. If the lender does determine that the loan casefile is a higher-priced covered transaction, the loan must be underwritten using the Alternative Qualification Path and may not be delivered as a DU loan.

DU Validation Service Modification

Income validation

DU currently reviews verification of income and employment reports received from vendors, such as The Work Number® from Equifax® to determine if there is active employment for the borrower. When there are no active employers on the report, DU issues one of two messages stating that DU is not able to validate the borrower's income or employment because there was "no active employment."

With this update, DU will continue to determine if there is active employment, but will no longer issue a separate message if DU is not able to validate the borrower's income or employment because there was no active employment. Instead, results will be reported in the existing validation results message that provides reasons that employment has not been validated. Below are examples of the reasons that could be seen in this message after the September update.

> *Employment has not been validated for the reasons provided. If income from this employment is being used to qualify the borrower, perform and document a verbal verification of employment no more than 10 business days (or 120 business day for self-employment) prior to the note date. If the borrower is in the military, obtain either a military Leave and Earnings Statement within 31 calendar days prior to the note date or a verification of employment through the Defense Manpower Data Center (https://www.dmdc.osd.mil.appj.mla/). Lenders also have the option of obtaining the verbal verification of employment after the note date (and prior to delivery of the loan to Fannie Mae), but when using this option must ensure compliance with the Selling Guide.*

Borrower Name	***Vendor***	***VOE Reference #***	***Employer Name***	***Reason(s)***
Borrower 1	*VOE Vendor*	*B1 Reference #*	*Employer 1*	*Employer name in VOE doesn't match employer name in DU*
Borrower 2	*VOE Vendor*	*B2 Reference #*	*Employer 2*	*Information effective date is too old*
Borrower 3	*VOE Vendor*	*B3 Reference #*	*Employer 3*	*Employer Disclaimer indicates borrower may no longer be employed or wages not being received*
Borrower 4	*VOE Vendor*	*B4 Reference #*	*Employer 4*	*Employment status not active*

Updates to Align with the *Selling Guide*

Miscellaneous Message Text Changes

To continue to provide clarity and consistency with the *Selling Guide*, a number of DU messages will be updated.

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae account team; and mortgage brokers should contact their DO sponsoring wholesale lender. For technology considerations, an Integration Impact Memo will be posted on the Technology Integration page.