



Desktop Underwriter/Desktop Originator Release Notes DU Version 10.3

Oct. 23, 2018

Updated Oct. 31, 2018

During the **weekend of Dec. 8, 2018**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.3, which will include the changes described below.

The changes in this release will apply to new loan casefiles submitted to DU on or after the weekend of Dec. 8, 2018. Loan casefiles created in DU Version 10.2 and resubmitted after the weekend of Dec. 8 will continue to be underwritten through DU Version 10.2.

The changes in this release include the following:

- DU Risk Assessment Update
- Appraisal Waiver Changes
- Retirement of DU Version 10.1
- Updates to Align with the *Selling Guide*

Oct. 31, 2018: These release notes have been updated to include a reserve requirement for cash-out refinance loan casefiles with debt-to-income ratios exceeding 45%. Refer to the “Debt-to-Income Ratio” section below for details.

DU Risk Assessment Update

Fannie Mae is focused on continuously delivering access and affordability while maintaining sustainable homeownership. As part of normal operations and prudent risk management, DU Version 10.3 will include adjustments to the DU credit risk assessment to account for 2018 market conditions (rising interest rates, waning refinances, and higher loan-to-value lending).

DU 10.3 will:

- continue to analyze each loan casefile using variables that have been shown to be predictive of mortgage delinquency, and
- address market expansion into loans with multiple high risk factors with more effective management of risk layering.

DU 10.3 is intended to help Fannie Mae customers effectively serve their borrowers in a manner that is reflective of current market realities. We anticipate DU 10.3 to yield a slight reduction in loan casefiles receiving an Approve/Eligible recommendation, with the most noticeable reduction for loans with multiple high-risk factors.

NOTE: *The changes made to the DU Risk Factors are specified in Appendix A.*

Debt-to-Income Ratio

Cash-out refinance transactions underwritten with DU Version 10.3 for borrowers with a debt-to-income ratio exceeding 45% must have at least six months of reserves. If there are not at least six months of reserves, the loan casefile will receive an Ineligible recommendation.

NOTE: *Loan casefiles with a debt-to-income ratio exceeding 50% will continue to receive an Ineligible recommendation.*



Loans for a Borrower without Traditional Credit

DU will continue to look for the presence of a credit score to determine if a borrower has traditional credit, and will also ensure the borrower has at least one credit report account that is not a medical tradeline (note that medical tradelines are not used in the DU risk assessment).

When a loan casefile is submitted to DU for a borrower with a credit score, but only medical tradelines are reported on the credit report, the loan casefile will receive an Out of Scope recommendation. The lender must manually underwrite the loan casefile in accordance with the *Selling Guide*.

NOTE: *There will be no change to the factors evaluated on loans where no borrower has a credit score.*

Appraisal Waiver Changes

The following updates will be made to the appraisal waiver-related messaging issued by DU.

Disaster Impacted Areas

A new message will be issued on loan casefiles for properties located in disaster impacted areas. If the loan casefile received an appraisal waiver offer prior to the disaster, and upon resubmission to DU continues to meet all other appraisal waiver eligibility requirements, DU will continue to offer the appraisal waiver and issue a new message.

This message will indicate that the lender may accept the appraisal waiver offer but must:

- take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster, and
- comply with the property eligibility requirements that pertain to properties affected by a disaster in the *Selling Guide*.

DU will issue the new message, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

NOTE: *This change will be reflected in the December Selling Guide update.*

Rural High-Needs Appraisal Waiver

As specified in [Announcement SEL-2018-07](#), we are offering appraisal waivers for certain home purchase transactions in designated rural high-needs areas. DU will issue the rural appraisal waiver, when applicable, on DU Version 10.2 and 10.3 loan casefiles submitted or resubmitted on or after the weekend of Dec. 8.

Properties Valued at \$1,000,000 or more

Appraisal waivers will not be offered on refinance transactions when the estimated value of the property (as provided to DU) is \$1,000,000 or more.

NOTE: *DU will apply this change only to loan casefiles created on or after the weekend of Dec. 8. Resubmissions of existing refinance loan casefiles that received the appraisal waiver will not be impacted by the change and lenders can continue to exercise the appraisal waiver.*

Retirement of DU Version 10.1

With the release of DU Version 10.3, DU Version 10.1 will be retired. Therefore, effective the weekend of Dec. 8, 2018, customers will no longer be able to resubmit loan casefiles to DU Version 10.1. Customers will be able to view online loan applications and DU Underwriting Findings reports that were created under DU Version 10.1. To obtain an updated underwriting recommendation after the weekend of Dec. 8, customers must create a new loan casefile and submit it to DU.



NOTE: *DU Version 10.1 loan casefiles would have been created prior to Mar. 17, 2018; therefore those loan casefiles would have been created nine months prior to the retirement of DU Version 10.1.*

Updates to Align with the *Selling Guide*

Miscellaneous Message Text Changes

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

For More Information

For more information about these Release Notes, lenders may contact their Fannie Mae customer delivery 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.



Appendix A: Comparison of Risk Factors Evaluated by DU Versions 10.2 and 10.3

Risk Factor	How Factor is Viewed in DU Version 10.2	Change with DU Version 10.3
Credit History	<p>A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts.</p> <p>A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Successfully managing newly established accounts, including making payments as agreed, signifies lower risk.</p>	No change.
Delinquent Accounts	<p>Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, and the number of accounts that were not paid as agreed.</p> <p>A payment history that includes bills that are 30 days or more past-due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower's credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history. For example, a 30-day late payment that is less than three months old indicates a higher risk than a 30-day late payment that occurred several years ago.</p>	No change.
Installment Loans	DU evaluates how well a borrower manages debt for all types of installment loans such as mortgage, auto, unsecured, and student loans. Research has shown that borrowers with no active installment accounts represent a higher risk than borrowers who have active installment accounts.	No change.
Revolving Credit Utilization	The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower's ability to manage revolving accounts. A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or	No change.



	who only makes the minimum payment each month is considered higher risk.	
Public Records, Foreclosures, and Collection Accounts	<p>A credit history that includes any significant derogatory credit event is considered high risk. Significant derogatory credit events include bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, judgments, tax liens, or accounts that have been turned over to a collection agency.</p> <p>The more recent such events occurred, the more adverse the impact is on the credit profile. Although most public record information is retained in the credit history for seven years (ten years for bankruptcies), as time passes, it does become less significant to DU's credit evaluation.</p>	<p>Judgement and tax lien information are no longer reported on the credit report due to the National Consumer Assistance Plan.</p> <p>DU will continue to consider a credit history that includes bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, or accounts that have been turned over to a collection agency as higher risk.</p> <p>Note: As a reminder, collection accounts reported as medical collections are not used in the DU risk assessment.</p>
Inquiries	<p>DU evaluates inquiries made within the most recent 12 months of the credit report date. Research has shown that a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by different mortgage lenders or different auto loan creditors within the same time frame is not viewed by DU as multiple inquiries (these types of inquiries generally reflect borrowers shopping for favorable rates or terms). A borrower who has frequently applied for, or obtained, new or additional credit represents a higher risk.</p>	No change.
Borrower's Equity and LTV	<p>The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable equity in his or her property is less likely to become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in a property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan.</p> <p>DU may use a low LTV ratio to offset other risks that it may identify in the loan application.</p>	No change.
Liquid Reserves	<p>Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount.</p>	No change.



	DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.	
Loan Purpose	There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction. For construction-to-permanent transactions, DU determines the purpose of refinance based on the amount of cash the borrower is receiving at closing.	No change.
Loan Term	Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.	No change.
Loan Amortization Type	Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.	No change.
Occupancy Type	Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans. Owner-occupied transactions represent the least risk, followed by second home transactions, and investment property transactions having the highest risk level.	No change.
Debt-to-Income Ratio	In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.	As mentioned on page one, an additional eligibility guideline will be added for cash-out refinance transactions with a DTI ratio exceeding 45% (at least six months of reserves will be required).
Housing expense ratio		New Loans for a borrower with a lower housing expense ratio will be considered a lower risk, while those where the housing expense ratio is higher will be considered higher risk. Research has shown that borrowers whose total monthly expense is composed primarily of their housing expense may find it more difficult to pay their



		housing expense when experiencing an event that would cause financial distress, such as the loss of a job.
Property Type	<p>Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type (e.g., manufactured home).</p> <p>The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk:</p> <ul style="list-style-type: none"> ▪ one-unit properties; ▪ two-, three-, and four-unit properties; ▪ manufactured homes. 	No change.
Co-borrowers	<p>DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because, generally, the presence of more than one borrower helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower delinquency rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories. .</p>	No change.
Self-Employment	<p>Self-employment income can vary from year-to-year and because of the increased chance of uneven cash flows, self-employment adds a layer of risk that is not present with salaried borrowers. Research has shown that self-employed borrowers tend to become delinquent on their mortgages more often than salaried borrowers, when all other risk factors are held constant.</p> <p>DU considers self-employment in the risk assessment when the only borrower on the loan is self-employed as his or her primary source of income, or when two of the borrowers on the loan are self-employed as their primary source of income.</p>	No change.