



DU Job Aid

Total Expense Ratio < Housing Expense Ratio Error DU Message

June 1, 2020

While every effort has been made to ensure the reliability of the information in this document, Fannie Mae’s Selling and Servicing Guides, including Guide announcements and release notes, are the official statements of Fannie Mae’s policies and procedures and should be adhered to in the event of discrepancies between the information in this document and the Guides.

For ease of reference, we will generally use the term “DU” to refer to Desktop Originator® and Desktop Underwriter® (DO®/DU®).

This document provides an example of how to resolve the Total Expense Ratio < Housing Expense Ratio error message in the DU Underwriting Findings report for second home and investment properties. The error displays when the housing expense ratio is greater than the total expense ratio. Follow these steps to resolve the *Total Expense ratio < Housing Expense Ratio* error message.

NOTE: *The Real Estate Owned (REO) data used in the debt-to-income ratio calculation was updated in the DU Version 10.3 May Update to include the Insurance, Maintenance, Taxes & Misc entered in the REO section. The update is applied to loan casefiles created on or after June 1, 2020. The first set of instructions are for loan casefiles created prior to June 1, 2020, followed by the instructions for loan casefiles created on or after June 1, 2020.*

Total Combined Housing Expense

For Loan Casefiles Created Prior to June 1, 2020

For loan casefiles involving the purchase or refinance of a second home or investment property, it is important that the Total Combined Housing Expense (excluding rent) is accurately accounted for on the Liabilities screen of DU. DU uses current housing expense data from the Liabilities screen in calculating the total expense qualifying ratio, instead of the data entered on the Income and Housing screen (Section V) with the exception of a rent payment. If there is a rent payment, then that only needs to be entered on the Income and Housing screen.

1. In the Combined Monthly Housing Expense section of the Income and Housing screen, verify the amounts entered in the Present/Principal section are correct.

Combined Monthly Housing Expense		
	Present/Principal	Proposed/Subject
	John H and Mary H	
Rent	<input type="text"/>	
First Mortgage (P&I)	\$500.00	\$1,401.22
Other Financing (P&I)	\$200.00	
Hazard Insurance	\$75.00	\$150.00
Real Estate Taxes	\$100.00	\$375.00
Mortgage Insurance	\$0.00	
Homeowner Assn Dues	\$125.00	
Other	<input type="text"/>	
Total	\$1,000.00	\$1,926.22

NOTE: *In this example, as shown in the Total field in the Present/Principal column, the combined housing expense for the current residence is \$1,000.*



2. Click the **Liabilities** link in the navigation bar. The Liabilities screen appears.

Liabilities

To indicate which mortgage and HELOC liabilities are associated with the subject property and/or a rental property, click Subject Property Lien and Rental Property Lien, as appropriate. If you need to enter REO information for your purposes or for a government loan, please use the Full 1003.

Note: If this is a second home or investment property transaction and the mortgage liability is for the borrower's current residence, include the entire PITI amount in the Monthly Payment field.

Omit	Paid By Close	Account Owner	Creditor Name	Liability Type	Monthly Payment	Balance	Subject Property Lien	Rental Property Lien
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	ACE Mortgage	Mortgage ▼	\$500.00	\$98,514.03	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	ACE Mortgage	Mortgage ▼	\$200.00	\$8,000.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	SALLIE MAE	Instalment Loan ▼	\$0.00	\$5,000.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	SALLIE MAE	Instalment Loan ▼	\$24.63	\$1,100.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	CHASE	Instalment Loan ▼	\$257.44	\$5,000.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	TOYOTA CREDIT	Instalment Loan ▼	\$500.03	\$15,838.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	UNIVERSAL VISA	Revolving ▼	\$25.00	\$950.00	<input type="checkbox"/>	<input type="checkbox"/>

[Insert More](#) [Delete All Liabilities](#)

The Liabilities screen lists the mortgage liabilities, including the first mortgage (\$500 monthly payment) and second mortgage (\$200 monthly payment) for the borrowers' current residence. The monthly payments of First Mortgage (P&I) and Other Financing (P&I) should match what was entered in the Income and Housing screen.

3. Verify **Omit**, **Paid by Close**, **Subject Property Lien** and **Rental Property Lien** checkboxes are not checked.

NOTE: If a mortgage is being paid off with the transaction, then Paid by Close can be checked, but the payment should be removed from the Income and Housing screen. See the Paying Off a Primary Residence Mortgage section below for more details.

4. Enter the **Hazard Insurance**, **Real Estate Taxes**, and **Homeowner Assn Dues** amounts to calculate the total expenses.

Below are the monthly housing expenses:

- Hazard Insurance: \$ 75.00
- Real Estate Taxes: \$100.00
- Mortgage Insurance: \$ 0.00
- Homeowner Assn Dues: \$125.00
- Total: \$300.00

5. Select Other or Taxes from the **Liability Type** drop down menu.

Omit	Paid By Close	Account Owner	Creditor Name	Liability Type	Monthly Payment	Balance	Subject Property Lien	Rental Property Lien
<input type="checkbox"/>	<input type="checkbox"/>	John H ▼	Taxes	Taxes ▼	\$300.00	\$3,600.00	<input type="checkbox"/>	<input type="checkbox"/>
		Account Number	Address	City	State/Zip	Related Property	Resubordinate ?	
						2935 Augusta #3 ▼	<input type="checkbox"/>	

6. Add the Hazard Insurance, Real Estate Taxes and Homeowner Assn Dues (HOA) amounts from the Present/Principal section of the Income and Housing screen, then enter the total in **Monthly Payment**.

7. Enter the annualized amount in the **Balance** field. In this example, the balance would be \$3,600 (\$300 x 12 months).

8. Click the **Full 1003** link in the navigation bar.

9. Select Property from the Related Property drop down to relate the new liability to the primary residence. Do not check **Omit**, **Paid by Close**, **Subject Property Lien**, or **Rental Property** for this liability.

10. Click the **Real Estate Owned** link in the navigation bar.

NOTE: The link can only be seen in the Full 1003 mode.



Property Owner	John H	Street	2935 Augusta #3	Market Value	\$250,000.00	Insur, Maint, Taxes	\$300.00
Property Indicator	Current Residence	City	san luis obispo	Amt of Mtg Liens	\$106,514.03	Gross Rental Income	
Property Disposition	Retained	State	CA	Mtg Payments	\$700.00	Net Rental Income	
Type of Property	Single Family	ZIP	93401				

- Verify the current residence is listed once and has a **Property Indicator** of Current Residence and **Property Disposition** of Retained.
- Verify **Mtg Payments** is the total of all mortgage payments for the Current Residence in the **Property Indicator** and **Insur, Maint, Taxes** includes the sum of the Hazard Insurance, Real Estate Taxes, Mortgage Insurance, Homeowners Associate Dues, and Other.
- Click the **Declarations** link in the navigation bar.
- Verify Line l - Do you intend to occupy the property as your primary residence? is correctly selected for each borrower.

	John H	Mary H
b. Have you been declared bankrupt within the past 7 years? *	No	No
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? *	No	No
j. Are you a U.S. citizen? *	Yes	Yes
k. Are you a permanent resident alien? *	No	No
l. Do you intend to occupy the property as your primary residence? *	No	No
m. Have you had an ownership interest in a property in the last 3 years? *	No	No

- Resubmit the loan casefile for Underwriting Only or Credit and Underwriting if the credit status is incomplete.

Paying Off a Primary Residence Mortgage

If the borrower will be using funds from refinancing an investment or second home to pay off their primary residence first mortgage, second mortgage or HELOC, remove the associated monthly payments from the Present/Principal section First Mortgage (P&I) and/or, Other fields. Follow the steps below to remove the associated monthly payments.

- Click the **Income & Housing** link in the navigation bar.
- Delete the applicable monthly payments from the Present/Principal section.
- Click the **Liabilities** link in the navigation bar.
- Verify **Paid by Close** is checked for each liability the borrower will be paying off using the funds from the current transaction.
- Resubmit the loan casefile from the 1003 for Underwriting Only or Credit and Underwriting if the credit status is incomplete.

Refer to the [Submitting a Retail Loan Casefile for an Underwriting Recommendation](#) or [Submitting a Wholesale Loan Casefile for an Underwriting Recommendation](#) job aids for additional data entry guidance.

NOTE: **If you are still receiving the same error after applying the remedy, please contact the Technology Support Center at 1-800-232-6643, option 1, then option 1.*

Total Combined Housing Expense

For Loan Casefiles Created On or After June 1, 2020

For loan casefiles involving the purchase or refinance of a second home or investment property, it is important that the Total Combined Housing Expense (excluding rent) matches what is on the Liabilities screen and potentially the Real Estate Owned screen. The mortgage payment on the Liabilities screen either needs to include the other expenses or the property needs to be



entered on the REO screen with a payment for the total other expenses entered in the **Insur, Maint, Taxes** field.

Data Entry Tip: If there is an REO record on the Real Estate Owned screen for the borrowers' current residence and the payment for the total other expenses is in the **Insur, Maint, Taxes** field, then you should not enter a payment for those on the Liabilities screen.

1. In the Combined Monthly Housing Expense section of the Income and Housing screen, verify the amounts entered in the Present/Principal section are correct.

Combined Monthly Housing Expense		
	Present/Principal	Proposed/Subject
	John H and Mary H	
Rent	<input type="text"/>	
First Mortgage (P&I)	\$500.00	\$1,401.22
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Homeowner Assn Dues	\$125.00	
Other	<input type="text"/>	
Total	\$1,000.00	\$1,926.22

NOTE: In this example, as shown in the Total field in the Present/Principal column, the combined housing expense for the current residence is \$1,000.

2. Click the **Liabilities** link in the navigation bar. The Liabilities screen appears.

Omit	Paid By Close	Account Owner	Creditor Name	Liability Type	Monthly Payment	Balance	Subject Property Lien	Rental Property Lien
<input type="checkbox"/>	<input type="checkbox"/>	John H	ACE Mortgage	Mortgage	\$500.00	\$98,514.03	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H	ACE Mortgage	Mortgage	\$200.00	\$8,000.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H	SALLIE MAE	Instalment Loan	\$0.00	\$5,000.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H	SALLIE MAE	Instalment Loan	\$24.63	\$1,100.00	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	John H	CHASE	Instalment Loan	\$257.44	\$5,000.00	<input type="checkbox"/>	<input type="checkbox"/>
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<input type="checkbox"/>	<input type="checkbox"/>	John H	UNIVERSAL VISA	Revolving	\$25.00	\$950.00	<input type="checkbox"/>	<input type="checkbox"/>

The Liabilities screen lists the mortgage liabilities, including the first mortgage (\$500 monthly payment) and second mortgage (\$200 monthly payment) for the borrowers' current residence. The monthly payments of First Mortgage (P&I) and Other Financing (P&I) should match what was entered in the Income and Housing screen.

3. Verify **Omit**, **Paid by Close**, **Subject Property Lien** and **Rental Property Lien** checkboxes are not checked.

NOTE: If a mortgage is being paid off with the transaction, then Paid by Close can be checked, but the payment should be removed from the Income and Housing screen. See the Paying Off a Primary Residence Mortgage section below for more details.

4. Make sure the non-mortgage current residence housing expenses are accounted for. A payment for them can either be added to one of the mortgage payments or an REO record can be created for the property and the payment should be entered in the **Insur, Maint, Taxes** field. In this case, the mortgage payments in the Liabilities screen are only the P&I payment of the first and second mortgages. Since they do not include the non-mortgage current residence housing expenses, which



in this case are for the mortgage insurance, real estate taxes, and HOA fees and total \$300, an REO record for the property needs to be created.

5. Click the **Full 1003** link in navigation bar, and then click the **Real Estate Owned** link in the navigation bar. The Real Estate Owned screen appears.
6. Enter the following information about the borrowers' current residence, and make sure the total monthly payment amount for the non-mortgage current housing expenses in the Income and Housing screen match what you enter in the **Insur, Maint, Taxes** field, which is \$300 in this case.
 - a. Select a borrower in the **Property Owner** field. **Note:** It must be the same borrower associated to the mortgage in the Liabilities section.
 - b. Select **Current Residence** for the **Property Indicator**.
 - c. Select **Retained** for the **Property Disposition**.
 - d. Select the applicable property type in the **Type of Property** field,
 - e. Enter the address in the **Street, City, State** and **Zip** fields.
 - f. Enter the appraised value in the **Market Value** field. **Note:** It can be an estimated value.
 - g. Enter the total balance of the mortgage(s) in the **Amt of Mtg Liens** field.
 - h. Enter the payment for the non-mortgage current housing expenses in the **Insur, Maint, Taxes** field.

Property Owner	John H	Street	175 13th Street	Market Value	\$250,000.00	Insur, Maint, Taxes	\$300.00
Property Indicator	Current Residence	City	Washington	Amt of Mtg Liens	\$106,514.03	Gross Rental Income	
Property Disposition	Retained	State	DC	Mtg Payments	\$700.00	Net Rental Income	
Type of Property	Single Family	ZIP	20013				

7. Resubmit the loan casefile for Underwriting Only or Credit and Underwriting if the credit status is incomplete.

Paying Off a Primary Residence Mortgage

If the borrower will be using funds from refinancing an investment or second home to pay off their primary residence first mortgage, second mortgage or HELOC, remove the associated monthly payments from the Present/Principal section First Mortgage (P&I) and/or, Other fields. Follow the steps below to remove the associated monthly payments.

1. Click the **Income & Housing** link in the navigation bar.
2. Delete the applicable monthly payments from the Present/Principal section.
3. Click the **Liabilities** link in the navigation bar.
4. Verify **Paid by Close** is checked for each liability the borrower will be paying off using the funds from the current transaction.
5. Resubmit the loan casefile from the 1003 for Underwriting Only or Credit and Underwriting if the credit status is incomplete.

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