

DU Job Aid

Debt-to-Income (DTI) Ratio

June 3, 2019

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® (DO®) and Desktop Underwriter® (DU®).

This document provides information on how to resolve an "All Other Payments amount and/or Debt-to-Income (DTI) Ratio" on the DU Underwriting Findings report that is incorrect.

Liabilities

1. Is this a second home or investment property transaction?

- If yes, the mortgage liability for the borrower's current residence, should either include the entire payment amount in the **Monthly Payment** field or a payment for the taxes, insurance, etc., should be added. See the [Entering Housing Expenses for Second Homes and Investment Properties](#) job aid for additional data entry guidance.

2. Is this a primary residence transaction with a non-occupant borrower?

- If yes, and the non-occupant borrower has a mortgage, verify the payment matches what is in the Income & Housing section.

3. Do you have any duplicated liabilities?

- If yes, verify the **Omit** checkbox to the left of the **Creditor Name** field is checked.

4. Is there a rental property?

- If yes, verify the **Rental Property Lien** checkbox to the right of the **Creditor Name** field is checked.

5. Is this a refinance? If yes:

- Verify the **Paid By Close** checkbox to the left of the **Creditor Name** field for the subject property mortgage liability is checked.
- Verify the **Subject Property Lien** checkbox to the right of the **Creditor Name** field is checked.
- Click **Full 1003**, at the bottom left of the navigation bar, to see additional 1003 fields on the page.
- Verify the correct property selected in the **Related Property** drop down for each Mortgage or HELOC.

Real Estate Owned

1. Is this a refinance of a primary residence?

- If yes, verify the **Property Indicator** for the primary residence is Refi of Current Residence.
- If no, verify the **Property Indicator** for the primary residence is Current Residence.
- For other non-subject properties, verify the **Property Indicator** is Not Applicable.

2. Is this a refinance of a second home or investment property? If yes:

- Verify the **Property Indicator** is Subject of Loan.
- Verify the **Property Disposition** is Retained if it is a second home or **Rental** if is in an investment property.

3. Is this a rental property?

- If yes, verify the **Property Disposition** is Rental. The Property Disposition should be Rental for all rental properties.



4. Is there rental income?

- If yes, enter the net rental income for all rental properties other than the subject property in the REO section.

NOTE: If the net rental income is also entered in the Income & Housing section, that amount will override what is in the REO section. See the [Data Entry Instructions for Real Estate Owned and Liability Indicators](#) job aid for additional data entry guidance.

5. Is this a primary residence transaction with a non-occupant borrower?

- If yes, and the non-occupant borrower has an REO record, verify the payment for the total taxes, insurance, etc. expenses match the total payments in the Income & Housing section.

Income and Housing

1. Is this an investment transaction or a primary residence with more than one unit? If yes:

- Verify the Subject Net Cash field in the Income and Housing section reflects the correct positive or negative rental income for the subject property and only the subject property. More guidance can be found in the Selling Guide section B3-3.5-02: Income From Rental Property in DU.
- Verify the rest of the income is correct in the Income and Housing section.

NOTE: Entering an amount in the Net Rental income field will override the net rental income amount(s) in the REO section (at the borrower level). If the total net rental income amount is positive, it will be added to the total income. If the total net income is negative, it will be added to the total expenses.

Calculating DTI

Total monthly obligation includes all monthly debts per the *Selling Guide* section B3-6-02: Debt to Income Ratios. Debts include, but are not limited to, mortgage payments, car payments, credit card payments, child support payments, alimony, negative rental income, personal loan payments, etc.

NOTE: Positive net rental income will be added to the total monthly income. Negative net rental income will be added to the Total monthly obligations.

Example:

Car Payment	\$ 485.00
Student Loan	\$ 125.00
Personal Loan	\$ 225.00
Credit Cards	\$ 285.00
<u>Housing payment</u>	<u>\$ 1,281.00</u>
Total Monthly Obligations	\$2,401.00

Total monthly income: \$8,912.00

Calculation:

\$2,401 (total monthly obligations)
 \$8,912 (total monthly income)

DTI ratio is 26.94%



Maximum Allowable DTI

For Conventional loan casefiles, the maximum DTI for loans underwritten through DU is 50% unless an exception outlined in the Selling Guide applies. If the DTI on DU loan casefile exceeds the maximum allowable DTI, the loan casefile will receive an Ineligible recommendation.

For FHA/VA loan casefiles, the maximum DTI could be higher depending on their guidelines.

Housing Expense Ratio

On a primary residence transaction, the housing expense ratio is calculated by adding the proposed monthly payments, which will include the principal, interest, real estate taxes, insurance (PITI) and can also include mortgage insurance, home owner's association (HOA) dues and miscellaneous fees (PITIA), together and dividing that by the total income. On a conventional loan, if there is a non-occupant borrower, DU will also include their housing expenses in the housing expense ratio.

NOTE: *The principle and interest payment on an ARM transaction will be based on the ARM qualifying rate rules found in the Selling Guide. See the [Qualifying Interest Rate used by Desktop Underwriter for Proposed Monthly Housing Expenses](#) job aid for additional information.*

The fully indexed rate is defined as the ARM index plus the ARM margin as entered in the online loan application. The ARM index and ARM margin are required for all ARM loans submitted to DU.

If Lender ARM Plan is selected, DU uses the interest rate entered in the ARM Qualifying Rate field. If no interest rate is entered in that field, DU uses the note rate plus 2% to qualify the borrower.

Housing Expense Ratio Example:

PITIA \$1,000/Total Income \$5,500 = 18.18%

On a second home or investment transaction, the housing expense ratio is the borrower(s') primary residence PITIA instead of the subject property proposed monthly PITIA divided by the total income. See the Selling Guide section B3-6-03: Monthly Housing Expense.