

# Desktop Underwriter/Desktop Originator Release Notes

## DU Version 10.3 July Update

May 21, 2019

**Updated June 13, 2019**

During the **weekend of July 20, 2019**, Fannie Mae will implement an update to Desktop Underwriter® (DU®) Version 10.3, which will include the changes described below.

The changes in this release will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of July 20, 2019.

The changes in this release include the following:

- DU Validation Service Enhancements
- HomeReady® Updates
- DU Eligibility Assessment
- Support of the Redesigned Uniform Residential Loan Application (Form 1003)
- Accounts impacted by a Natural Disaster
- Rural Housing Loan Message
- Updates to Align with the *Selling Guide*

**June 13, 2019: These release notes have been updated to reflect the following:**

- **The “Asset Message Update” change referenced in the DU Validation Service Enhancements section has been deferred from the July 20, 2019 update.**
- **The “Support of the Redesigned Uniform Residential Loan Application” has been deferred until a later date.**

**June 5, 2019: These release notes have been updated to include changes announced in [Lender Letter LL-2019-06](#), which specified an update related to HomeReady income limits, and a DU eligibility assessment update. Refer to the “HomeReady Updates” section and “DU Eligibility Assessment” sections below, as well as the Lender Letter for additional details.**

## DU Validation Service Enhancements

The following changes will be made to the DU validation service.

### IRS Tax Code Changes

Currently, when a lender enters Pension/Retirement income in DU, the DU validation service will validate retirement income in the form of pension and annuity income because it is separately identified on its own line item on the tax transcript. Other types of retirement income that would require documentation of a three-year continuance are not currently eligible for validation.

With the changes contained in the Tax Cuts and Jobs Act, effective with 2018 tax returns, all retirement income will be included on one line within the tax returns. As a result, all retirement income will now be eligible for validation.

When a lender enters Pension/Retirement income in DU and a tax transcript is obtained, DU will issue a new message requiring lenders to determine the source of the retirement income, and if the income was derived from pension or annuity, then no action is required. However, if the income was derived from an IRA distribution or any other eligible retirement income type that relies on the depletion of an asset, the lender must obtain documentation to evidence enough assets to support a three-year continuance.



**Note:** This new message will be issued on loan casefiles submitted or resubmitted after the weekend of July 20, 2019 where a 2018 tax transcript is received for a borrower that disclosed Pension/Retirement income on the loan application.

## Message Update

In those situations where a lender has not executed a required contract with Equifax to receive reports for use by the DU validation service, DU currently issues a message stating, “Third party services are not available.” A new reason code is being added to state “Submitting lender not recognized by Equifax” to clarify that the lender must contact Equifax to resolve the issue.

**Note:** This new reason code will be issued on loan casefiles submitted or resubmitted after the weekend of July 20, 2019.

## Asset Message Update (June 13, 2019: this item has been deferred)

A new informational message will be issued to provide details about the accounts appearing on the asset vendor report.

**Note:** This update will only apply to loan casefiles created on or after July 20, 2019.

## HomeReady Updates

*Selling Guide* Announcement SEL-2019-03 updated HomeReady policies regarding multiple financed properties, boarder income, and clarified requirements for mortgage insurance. DU Version 10.3 will be updated to support these changes (no DU change needed for the mortgage insurance clarification).

**Multiple financed properties:** DU will apply the maximum limit of two financed properties, including the subject property, for all HomeReady mortgage loans. DU will determine the number of financed properties for the loan casefile using the same process outlined in *Selling Guide* Section B2-2-03, *Multiple Financed Properties for the Same Borrower*. However, for HomeReady loan casefiles, only those properties for which the occupying borrower(s) are personally obligated will be included.

**Boarder income:** The boarder income verification message will be updated to state that the boarder may not have an ownership interest in the subject property.

**HomeReady income limits (added to release notes June 5, 2019):** *Lender Letter 2019-06* specified that all HomeReady loans will now be limited to 80% of the Area Median Income (AMI) for the property’s location. DU will apply this change, along with the 2019 AMI limits to new loan casefiles submitted on or after July 20, 2019.

## DU Eligibility Assessment Update (added to release notes June 5, 2019)

As also specified in *Lender Letter 2019-06*, the DU eligibility assessment will be updated. Certain new loan casefiles submitted to DU on or after July 20, 2019 will receive an Ineligible recommendation when multiple high-risk factors are present.

## Support of the Redesigned Uniform Residential Loan Application (Form 1003)

**June 13, 2019:** At the direction of the Federal Housing Finance Agency (FHFA), the optional use period for the redesigned Uniform Residential Loan Application (URLA) form and corresponding datasets will not begin on July 1, 2019. As a result, these items are being deferred until a later date.

The following table describes the updates that will be made to DU at a later date based on new data in the Form 1003.

Redesigned Form 1003 Field Name	Update to DU
<b>Borrower Information</b>	
<b>Section 1b. Current Employment/Self Employment and Income</b>	
Start Date	Using the current loan application, messages regarding a borrower’s employment that has not yet begun are issued when the years and months are 0 or blank. Using the redesigned Form 1003, these messages will be



Redesigned Form 1003 Field Name	Update to DU
	issued when the Start Date is blank or after the date the loan casefile was created.
“I am employed by a family member, property seller, real estate agent, or other party to the transaction” indicator	<p>When this box is checked, DU will issue a message specifying that the lender must obtain copies of the borrower’s signed federal income tax returns for the past two years.</p> <p><b>Note:</b> <i>If the borrower’s income is validated by the DU validation service, lenders are not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase, so tax returns will not be required.</i></p>
“I have an ownership share of 25% or more” indicator	<p>When determining if a borrower is self-employed, DU will use the indicator specifying that the borrower has an ownership share in the business of 25% or more.</p> <p>If the borrower indicates the ownership share is less than 25%, DU will not consider the borrower self-employed. However, if no ownership share box is checked, but the “Check if you are the Business Owner or Self-Employed” box is checked, DU will consider the borrower self-employed.</p> <p><b>Note:</b> <i>This determination will impact both the risk assessment (self-employment is a factor in the DU risk assessment) and the documentation needed to verify the borrower’s income.</i></p>
<p>Gross Monthly Income</p> <p><i>Contract Basis is an income type used in the calculation of Gross Monthly Income that is only provided in the data. The amount of Contract Basis income will appear on the printed Form 1003 in either “Base” or “Other” (depending on how the data is mapped to the form by the vendor). “Contract Basis” will not be shown on the printed form.</i></p>	<p>When Contract Basis is provided in the data, and the borrower has already started his/her job (based on the Start Date), DU will issue a message requiring the lender to document the borrower's contract income using a paystub and a W-2 from the prior year or a standard Verification of Employment (1005).</p> <p>When the borrower has not already started his/her job, DU will issue a message stating that based on the Start Date employment has not yet begun and will specify the documentation requirements.</p>
<b>Section 1e. Income from Other Sources</b>	
<p>Housing or Parsonage</p> <p>Separate Maintenance</p>	DU will be updated to include the amounts associated with the two new income sources in the total income amount used in qualifying the borrower. New messages will be issued specifying how the lender must document the income (per the <i>Selling Guide</i> ).
<b>Section 2a. Assets – Bank Accounts, Retirement, and Other Accounts You Have</b>	
<p>Individual Development Account</p> <p>Stock Options</p>	DU will be updated to include the amounts associated with the new asset types in the total available assets and will issue messages specifying how the lender will need to document the assets (per the <i>Selling Guide</i> ).
<b>Section 2b. Other Assets You have</b>	
<p>Proceeds from Sale of Non-Real Estate Asset</p> <p>Unsecured Borrowed Funds</p>	<p>DU will be updated to include the amounts associated with Proceeds from Sale of Non-Real Estate Asset in the total available assets and will issue a message specifying how the lender must document the assets (per the <i>Selling Guide</i>).</p> <p>DU will not include any amounts provided for Unsecured Borrowed Funds in the total available assets as those funds are not an acceptable source for the down payment, closing costs, or financial reserves.</p>
<b>Section 4a. Loan and Property Information</b>	



Redesigned Form 1003 Field Name	Update to DU
FHA Secondary Residence indicator	FHA Secondary Residence transactions may not be underwritten through DU and will receive an Out of Scope recommendation.
Mixed-Use Property indicator	<p>DU will issue two new messages when the borrower indicates the property is a mixed-use property.</p> <ul style="list-style-type: none"> <li>▪ One message will require the lender to verify that the borrower is the owner and operator of the business, the property is primarily residential in nature, and the dwelling has not been modified in a manner that has an adverse impact on marketability as a residential property.</li> <li>▪ The second message will be issued on a second home, investment property, or a two- to four-unit property and will make the loan casefile Ineligible as mixed-used properties are not permitted on those transactions.</li> </ul>
<b>Section 4d. Gifts or Grants You Have Been Given or Will Receive for this Loan</b>	
Grants	DU will be updated to include the Grant amount in the total available assets and will issue messages specifying how the lender must document the grant (per the <i>Selling Guide</i> ). DU will also issue an Ineligible recommendation if a grant is provided on a second home or investment property transaction as grant funds are only permitted on principal residence transactions.
Cash Gift or Grant, Deposited indicator	The amount provided for a Cash Gift or Grant will not be included in the total available assets if the borrower indicates the gift or grant has already been deposited. The amount of the gift or grant, when deposited, should be reflected in the balance of the account to which it was deposited.
<b>Section 5a. About this Property and Your Money for this Loan</b>	
Declaration E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy Program)?	<p>Two new messages will be issued when the borrower declares that the property will be subject to a lien that could take priority over the first mortgage.</p> <ul style="list-style-type: none"> <li>▪ One message will be issued on limited cash-out refinance transactions reminding the lender that the loan is only eligible for delivery if the subject mortgage being refinanced is owned or securitized by Fannie Mae and the borrower obtained the PACE loan prior to July 6, 2010.</li> <li>▪ The second message will be issued on purchase or cash-out refinance transactions and will make the loan casefile Ineligible.</li> </ul>
<b>Section 5b. About your Finances</b>	
Declaration J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?	When the borrower declares a previous deed-in-lieu of foreclosure and the event was not reported on the credit report, a message will be issued requiring the lender to confirm the waiting period requirements have been met.
Declaration K. Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?	When the borrower declares a previous pre-foreclosure sale and the event was not reported on the credit report, a message will be issued requiring the lender to confirm the waiting period requirements have been met.



Redesigned Form 1003 Field Name	Update to DU
Declaration L. Have you had property foreclosed upon in the last 7 years?	When the borrower declares a previous foreclosure and the event was not reported on the credit report, a message will be issued requiring the lender to confirm the waiting period requirements have been met.
<b>Lender Loan Information</b>	
<b>L1. Property and Loan Information</b>	
Single-Closing indicator Two-Closing indicator	<p>In the current loan application, DU issues specific messages on loan casefiles with a Purpose of Loan of Construction and Construction-Permanent. Since the Loan Purpose on the redesigned Form 1003 does not include these options, the existing Construction and Construction-Permanent messages will be issued using the Single-Closing and Two-Closing indicators.</p> <p>Two new eligibility messages will also be created that will use the indicators.</p> <ul style="list-style-type: none"> <li>▪ Cash-out refinance transactions indicated as single-closing will receive an Ineligible recommendation because a cash-out refinance transaction is not permitted with a single-closing construction-to-permanent mortgage.</li> <li>▪ Purchase transaction indicated as two-closing will receive an Ineligible recommendation because a purchase transaction is not permitted with a two-closing construction-to-permanent mortgage.</li> </ul> <p>The redesigned Form 1003 must reflect the applicable Loan Purpose and Refinance Type based on current polices in the <i>Selling Guide</i> for processing construction-to-permanent transactions.</p>
“Property is currently subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid for through property taxes (e.g., the Property Assessed Clean Energy program)” indicator	<p>Two new messages will be issued when the lender indicates that the property will be subject to a lien that could take priority over the first mortgage.</p> <ul style="list-style-type: none"> <li>▪ One message will be issued on limited cash-out refinance transactions reminding the lender that the loan is only eligible for delivery if the subject mortgage being refinanced is owned or securitized by Fannie Mae and the borrower obtained the PACE loan prior to July 6, 2010.</li> <li>▪ The second message will be issued on purchase or cash-out refinance transactions and will make the loan casefile Ineligible.</li> </ul>
<b>L3. Mortgage Loan Information</b>	
Proposed Monthly Payment for Property, Supplemental Property Insurance	The Total Proposed Housing Expense will be updated to include the amount provided for Supplemental Property Insurance.

The new fields specified above are those that include information not supported in the current DU loan application data. There are fields on the redesigned Form 1003 that are slightly different from the current form, but the data represents the same information. For example, Citizenship on the current Form 1003 is collected in two Declarations questions, but on the redesigned Form 1003, Citizenship is collected in the Borrower Information section of the form (with three options). DU will be updated to accommodate the differences in the data and ensure the existing DU messages are issued as they are today.



There are other new fields on the redesigned Form 1003 that DU will not use (e.g., contact information, language preference, and title information), and those that may be used by DU in a future release (e.g., gift or grant source, and energy improvement information). When existing messages are updated or new messages are added using other new fields, the details will be included in future DU release notes.

## **Accounts Impacted by a Natural Disaster**

The DU risk assessment will no longer consider delinquencies reported on a credit report account when that account is reported with a Remarks Codes indicating “Affected by natural disaster.” When this occurs, DU will issue a message listing the accounts and specifying that delinquencies were not used in the credit risk assessment as the tradelines were reported as being impacted by a natural disaster.

## **Rural Housing Loan Message**

A new Observation message will be added to DU informing lenders if a loan may be eligible for delivery as a Duty to Serve rural housing loan. The message will be issued using information associated to the borrower’s income, the transaction, and the subject property after the address is processed through geocoding logic.

## **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.