Fannie Mae

Desktop Originator/Desktop Underwriter Release Notes DU Version 10.0

February 23, 2016
Last Updated June 20, 2016

During the weekend of September 24, 2016, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.0, which will include the changes described below.

To support our lending partners, Fannie Mae continues to make ongoing investments in our risk management tools, enabling greater confidence and efficiency in the origination process. These tools help to provide the highest probability of loan performance over time, resulting in reduced costs to service those loans. We regularly review the DU risk assessment to provide certainty and clarity that the loan meets Fannie Mae's requirements.

The changes included in this release will apply to new loan casefiles submitted to DU on or after the implementation of DU Version 10.0. Loan casefiles created in DU Version 9.3 and resubmitted after the implementation of DU Version 10.0 will continue to be underwritten through DU Version 9.3.

The changes in this release include:

- Updated DU Risk Assessment
- Underwriting Borrowers without Traditional Credit
- Policy Changes for Borrowers with Multiple Financed Properties
- HomeReady™ Mortgage Message Updates
- Updates to Align with the *Selling Guide*
- Retirement of DU Version 9.2

Updated DU Risk Assessment

DU Version 10.0 will include an update to the DU credit risk assessment. The updated credit risk assessment will continue to measure the likelihood of a loan becoming seriously delinquent; and is expected to have minimal to no impact on the percentage of Approve/Eligible recommendations that lenders receive today.

Refer to *Appendix A: Comparison of Risk Factors Evaluated by DU Versions 9.3 and 10.0* for the changes made to the risk factors with DU Version 10.0.

Trended Credit Data

Credit reports currently used in mortgage lending indicate only the outstanding balance, utilization and availability of credit, and if a borrower has been on time or delinquent on existing credit accounts such as credit cards, mortgages, or student loans. DU Version 10.0 will use trended credit data in the credit risk assessment, which provides access to historical monthly data (when available) on several factors, including: balance, scheduled payment, and actual payment amount that a borrower has made on the account.

Leveraging trended data in the DU risk assessment allows a smarter, more thorough analysis of the borrower's credit history. The use of trended data is a powerful predictor of risk, and its use enhances the DU risk assessment to better support access to credit for creditworthy borrowers.

The DU Version 10.0 risk assessment will only use the trended credit data on revolving credit card accounts for the most recent 24 months' payment history (even if more than 24 months' worth of data is provided on the credit report). The trended credit data may be used on other types of accounts in a later version of DU.

> **NOTE:** *The use of trended credit data by DU will not impact FHA or VA loan casefiles underwritten through DU.*

Underwriting Borrowers without Traditional Credit

DU Version 10.0 will include the ability to underwrite loan casefiles in which no borrowers have a credit score. This update will automate what is currently a manual process for lenders. As with all loan casefiles underwritten through DU, a three-in-file merged credit report must still be requested for all borrowers on the loan application. However, when the credit report indicates a FICO® score could not be provided for any of the borrowers due to insufficient credit, the loan casefile may be eligible to be underwritten using DU Version 10.0.

> **NOTE:** *Lenders must ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence address of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.*

Eligibility Guidelines

To ensure the overall risk assessment is appropriate for loans involving borrowers without established traditional credit, DU will apply the following additional underwriting guidelines:

- Principal residence transaction where all borrowers will occupy the property
- One-unit property (may not be a manufactured home)
- Purchase or limited cash-out refinance transaction
- Fixed-rate mortgage
- Loan amount must meet the general loan limits (may not be a high-balance mortgage loan)
- LTV, CLTV, and HCLTV ratios may be no more than 90%
- Debt-to-income ratio must be less than 40%

Loan casefiles that do not meet these guidelines will receive an "Out of Scope" recommendation.

Risk Factors Evaluated by DU

DU will consider the following factors when evaluating the overall credit risk of borrowers who lack established traditional credit histories:

- Borrower's equity and LTV ratio
- Liquid reserves
- Debt-to-income ratio

If a loan casefile does not receive an Approve recommendation, the lender may manually underwrite and document the loan according to Fannie Mae's nontraditional credit guidelines as specified in the *Selling Guide*.

Additional Documentation Requirements

DU will require the verification of at least two non-traditional credit sources for each borrower that does not have traditional credit, one of which must be housing-related. A 12 month payment history is required for each source of nontraditional credit, which must be documented in accordance with the *Selling Guide*.

Loan Casefiles for Borrowers with Credit Scores

With DU Version 10.0 lenders may continue to use DU to underwrite loan casefiles that include a borrower(s) with traditional credit (a credit score) and a borrower(s) without traditional credit. However, the requirement that income used in qualifying for the loan cannot come from self-employment is being removed.

There will also be a change to the requirement that the borrower(s) with the credit score must contribute more than 50% of the qualifying income. When the borrower(s) with the credit score is contributing 50% or less of the qualifying income on the loan casefile, DU will issue a message requiring the lender to document a minimum of two sources of nontraditional credit that has been active for at least 12 months for the borrower that does not have traditional credit, one of the sources being housing-related.

Policy Changes for Borrowers with Multiple Financed Properties

DU Version 10.0 will reflect a simplified policy that will apply to loans for borrowers with multiple financed properties. The updated policy will require fewer eligibility overlays and updated reserve requirements, which will be automated by DU.

> **NOTE:** *Additional detail on the changes to the multiple financed properties policy will be provided in a future Selling Guide update.*

In order for DU to accurately automate the updated guidelines, a Number of Financed Properties field will be added to the Additional Data section of the Desktop Originator® (DO®)/DU User Interface with the release of DU Version 10.0. This field will be used to capture the number of financed one- to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated.

DU will use the following approach in determining the number of financed properties that will be used in assessing the eligibility and reserve requirements for the loan casefile:

- When the Number of Financed Properties field is provided, DU will use that amount as the number of financed properties.
- When the Number of Financed Properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or are associated to a mortgage or HELOC in the liabilities section of the loan application, as the number of financed properties.
- When neither the Number of Financed Properties field nor the REO information has been provided, DU will use the number of mortgages and/or HELOCs disclosed in the liabilities section of the loan application as the number of financed properties.
- When none of the information above is provided on the loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties.

> **NOTE:** *In order to account for the subject property, DU will add "1" to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on application, or number of mortgages on credit report is used as the number of financed properties.*

DU will issue a message informing the lender what amount was used as the number of financed properties and where that information was obtained (new field, REO section, number of mortgages on application, or number of mortgages on credit report). If DU used the information provided in the new field or in the REO section as the number of financed properties, and that information is inaccurate, the lender must update the data and resubmit the loan casefile to DU. If DU used the number of mortgages and HELOCs on the loan application or credit report as the number of financed properties, and that number is inaccurate, the lender should provide the correct number in the Number of Financed Properties field, or complete the Real Estate Owned section of the loan application and resubmit the loan casefile to DU.

> *For details on the implementation of the new Number of Financed Properties field, refer to the [DU Version 10.0 Integration Impact Memo]()*

Eligibility Guidelines

DU will use the number of financed properties amount (as determined above) to apply the following eligibility guidelines:

- A minimum credit score of 720 is required for borrowers with 7 to 10 financed properties.

- Borrowers are limited to a maximum of 10 financed properties.

> **NOTE:** *The LTV, CLTV, and HCLTV ratio guidelines, and the limitations on cash-out refinance transactions previously included in the multiple financed properties policy, are being removed.*

Reserve Requirements

DU will also determine the reserves required for the other residential financed properties (those that are not the borrower's principal residence and not the subject property). The other financed properties reserves amount will be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for all mortgages and HELOCs disclosed on the online loan application. Those percentages are based on the number of financed properties (as determined above):

- 2% of the aggregate UPB if the borrower has 1 to 4 financed properties
- 4% of the aggregate UPB if the borrower has 5 to 6 financed properties
- 6% of the aggregate UPB if the borrower has 7 or more financed properties

Mortgages and HELOCs on the loan application will not be included in the aggregate UPB calculation if the liability is marked paid by close or omitted; or is associated to the subject property, the borrower's principal residence, or a pending sale or sold property. DU will also include the UPB for any open/active mortgage or HELOC on the credit report that is not disclosed on the loan application.

If the loan casefile does not meet the reserve requirements, DU will issue an Ineligible recommendation and a message will be issued letting the lender know the reserve requirement was not met.

> **NOTE:** *Lenders will no longer be required to manually determine the reserve requirements for the borrower's other financed properties. These reserve requirements will now be determined by DU.*

HomeReady Mortgage Message Updates

Borrower Authorization for Counseling Message Removal

Selling Guide Announcement SEL-2015-13 eliminated the servicer requirement to provide the *Borrower's Authorization for Counseling* form. The message reminding lenders of the *Borrower's Authorization for Counseling* form requirement will be removed.

HomeReady Eligibility Messages

A new message will be issued when a loan casefile is submitted as HomeReady and receives an Approve/Eligible recommendation that will simply state that the loan casefile is eligible as a HomeReady mortgage loan.

The message issued when a loan casefile is not submitted as HomeReady and it appears it may be eligible for HomeReady will be modified. The message will now only be issued on Approve/Eligible recommendations, and will be moved to the Rating section of the DU Underwriting Findings report.

Non-borrower Household Income Message Update

The non-borrower household income verification message will be updated to include the amount of non-borrower household income disclosed on the online loan application.

Updates to Align with the *Selling Guide*

High-balance Mortgage Loan Field Review Requirement

Selling Guide Announcement SEL-2015-10 specified the requirement for a field review on certain high-balance mortgage loans. DU will remind lenders of this requirement on two- to four-unit high-balance mortgage loan casefiles where the purchase price or appraised value is $1,000,000 or more and the LTV, CLTV, or HCLTV exceeds 75%.

Miscellaneous Message Text Changes

Various DU messages will be updated to provide clarity and consistency with the *Selling Guide*.

Retirement of DU Version 9.2

With the release of DU Version 10.0, DU Version 9.2 will be retired. Therefore, effective the weekend of the DU Version 10.0 release, customers will no longer be able to resubmit loan casefiles to DU Version 9.2. Customers will continue to be able to view online loan applications and DU Underwriting Findings reports that were created under DU Version 9.2. To obtain an updated underwriting recommendation after the weekend of the DU Version 10.0 release, customers must create a new loan casefile and submit it to DU.

> ***NOTE:*** *DU Version 9.2 loan casefiles would have been created prior to December 12, 2015; therefore those loan casefiles would have been underwritten at least six months prior to the retirement of DU Version 9.2.*

For More Information

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

Appendix A: Comparison of Risk Factors Evaluated by DU Versions 9.3 and 10.0

Risk Factor	How Factor is Viewed in DU Version 9.3	Change with DU Version 10.0
Credit History	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. A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than not making payments as agreed.	No change.
Delinquent Accounts	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, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies. 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. A history of paying a mortgage loan late will have an even more negative impact on the 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.	Mortgage delinquencies will no longer be viewed as higher risk than non-mortgage delinquencies.
Mortgage Accounts	Research has shown that borrowers who have no history of mortgage obligations represent a higher risk than borrowers who have had mortgage obligations. In addition, the	DU will no longer view borrowers with no mortgage history as a higher risk than those who have had mortgage obligations. DU will instead look at how the

	relationship between the original mortgage balance and the current unpaid balance has proven to be an indicator of risk. The lower the percentage of principal that has been paid down on the mortgage, the higher the risk. The length of time since a delinquency (if any) has occurred, the severity of delinquency, and the age of the mortgage accounts are also factored into the credit analysis.	borrower manages debt for all types of installment loans (mortgages, auto loans, student loans, etc.).
Revolving Credit Utilization	The establishment, use, and amount of revolving credit a borrower has available are important. Generally, the lower the balances are on revolving credit as a percentage of the credit limit, the lower the risk. A borrower whose revolving credit utilization is high is considered a greater risk than someone who has a history of managing his or her credit card accounts more conservatively.	The trended credit data will be used to evaluate the borrower's ability to manage revolving credit card accounts. A borrower who uses revolving accounts conservatively (low revolving credit utilization and/or regular payoff of revolving balance) will be considered a lower risk. A borrower whose revolving credit utilization is high and/or who only makes the minimum monthly payment each month will be considered higher risk as it indicates the borrower may have trouble making payments in the future.
Public Records, Foreclosures, and Collection Accounts	A credit history that includes any significant derogatory credit event that was reported as a public record, such as bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, judgments, tax liens, or accounts that have been turned over to a collection agency, is considered a high risk. The more recently 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.	DU will also consider preforeclosure sales and mortgage charge-offs as significant derogatory credit events.
Inquiries	DU evaluates inquiries made within the most recent six months of the credit report date. Historically, a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by several creditors within a short time frame because a borrower was attempting to obtain the most favorable loan rate or terms generally do not indicate higher risk and are not considered as such in the credit evaluation. Borrowers who have frequently applied for, or obtained, new or additional credit represent a higher risk.	DU will evaluate inquiries made within the most recent 12 months. However, multiple inquiries made by different mortgage lenders or different auto loan creditors in the same timeframe will not be viewed by DU as multiple inquiries.

Borrower's Equity and LTV	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. DU may use a low LTV ratio to offset other risks that it may identify in the loan application.	No change.
Liquid Reserves	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. 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.	No change.
Loan Purpose	There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions continue to 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, and lower LTV/CLTV refinance transactions will be viewed as representing less risk than higher LTV/CLTV refinance transactions. On construction-to-permanent transactions, DU will continue to determine the purpose of refinance based on the amount of cash the borrower is receiving at closing.	DU will no longer consider the LTV/CLTV when evaluating the risk of refinance transactions. Purchase transactions will continue to represent less risk, followed by limited cash-out refinance transactions, and cash-out refinance transactions as the highest risk level.

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, especially at higher LTV ratios. Therefore, DU will assign a higher level of risk to all investment property transactions.	DU will no longer consider the LTV/CLTV when evaluating the risk of investment property transactions. Owner-occupied transactions will continue to represent least risk, followed by second home transactions, and investment property transactions as the highest risk level.
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.	No change.
Property Type	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). The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk: • one-unit properties; • two-, three-, and four-unit properties; • manufactured homes.	No change.
Co-borrowers	DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because,	No change.

	generally, the presence of more than one borrower with traditional credit 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.	
Self-Employment	Not a risk factor in DU Version 9.3.	Self-employment income can vary from year to year, and because of the increased chance of uneven cash flows, self-employment introduces an additional layer of risk to a mortgage loan application that is not present with salaried borrowers. Research has shown that self-employed borrowers tend to default on their mortgages more often than salaried borrowers, when all other risk factors are held constant. DU will take this additional risk into consideration when the only borrower on the loan is self-employed as his/her primary source of income, or when two of the borrowers on the loan are self-employed as their primary source of income.