TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: January 6, 2016

SUBJECT: Loan Estimate & Change Circumstance Request

BULLETIN: 16-01

***** IMPORTANT NOTICE *****

Towne Mortgage Company is making some changes with regards to TRID. These changes are being done in hopes to provide more accurate estimates and documents to the borrowers and ensure a smoother process.

Loan Estimate Request Form:
Moving forward, Towne Mortgage Company will create the Loan Estimates based on the fees reflected on the fee worksheet you provide. Please keep in mind, the responsibility of accurate disclosure of fees is ultimately your responsibility.

Hand written Loan Estimate Request Forms will no longer be accepted. Please utilize the most current request form located in the Resource Center in MortgageBot

Change of Circumstance:
We are currently matching fees from your Fee Worksheet, any and all changes, including items the borrower may shop for, will require a C of C and re-disclosure. Please keep in mind it is your responsibility to assure any and all changes are accurately disclosed on the C of C.

Hand written Change of Circumstance forms will no longer be accepted. Please utilize the most current C of C form located in the resource center of MortgageBot.

Please contact your Account Executive with any questions regarding these changes.

Thanks for your help!!!

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: January 13, 2016

SUBJECT: NSF/Overdraft Fees on FHA Loans

BULLETIN: 16-02

***** IMPORTANT NOTICE *****

During a recent origination audit, FHA cited Towne Mortgage for failure to address situations where borrower's bank statements show overdraft fees (NSFs). We have recently received an indemnification request with a similar finding.

FHA guidelines state a manual downgrade to Refer/Eligible becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability of the mortgage that is otherwise rated as Approve/Eligible. It is becoming clear that FHA is taking NSFs **seriously** and expects lenders to consider NSF fees on borrower's bank statement when analyzing the ability and willingness to make timely mortgage payments. This is REGARDLESS of whether the loan has Approved/Eligible findings and regardless of when the fees were incurred.

Therefore, effective immediately underwriters will condition for an explanation for any overdraft fees on borrower's bank statements AND/OR YTD overdraft fees, even if the loan is approved/eligible through the AUS system. Excessive NSF fees may result in denial of loan, especially if other risk layers exist.

Please contact your Account Executive with any questions regarding these changes.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: February 16, 2016

SUBJECT: RD Credit Validation Requirement

BULLETIN: 16-03

***** IMPORTANT NOTICE *****

RD has modified their guidelines to require only two traditional historical trade lines instead of three. Our RD guidelines posted on the website will be updated shortly.

Thank you,
Operations Group
Towne Mortgage Company

February 12, 2016

Credit Validation Requirement - Important Update

Effective immediately, an applicant's credit score may be validated with at least **two** eligible trade lines instead of three trade lines as previously required. Such trade lines consist of credit accounts (revolving, installment, etc.) with at least twelve months of repayment history reported on the credit report. Corresponding revisions to the 3555 Handbook will be posted on the USDA Rural Development's Regulation and Guidance website on March 9, 2016.

At least one applicant whose income or assets are used for qualification must have a valid credit report score or have at least **two** historical trade line references that have existed for at least 12 months to establish a credit reputation.

For applicants without an established credit history and unable to establish the required number of eligible trade lines to validate the credit score, alternative methods may be used to evidence an applicant's willingness to pay, such as a non-traditional mortgage credit report or multiple independent verifications of trade references per 7 CFR 3555, Section 3555.151 (i)(6).

Non-traditional credit may not be used to enhance poor payment records or low credit scores. GUS applications receiving an "Accept" underwriting recommendation, but which fail to meet the credit score validation test using a traditional credit report, must be downgraded to a "Refer" by the lender. In these instances the use of a non-traditional credit history will be required in order to proceed.

Thank you for your support of the Single Family Housing Guaranteed Loan Program. Questions regarding this announcement may be directed to the National Office Division at (202) 720-1452.

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: February 18, 2016

SUBJECT: Fannie Self Employed Income Documentation

BULLETIN: 16-04

***** IMPORTANT NOTICE *****

Fannie Mae has made significant changes to self-employment income policy regarding how to calculate and document self-employment income for borrowers whose income is derived from either a Partnership or a Subchapter S Corporation. Up until now, lenders had regularly used the ordinary business income (or loss) as reported on the K-1 1065 for Partnerships and K-1 1120s for S Corporations and flowed through to the Borrower's personal tax returns along with regular W/2 income from the business.

Fannie Mae does not consider this method reliable since the taxable income on a K-1 does not represent money that the borrower actually received, only what the partner/shareholder may be liable for tax on his/her share of the business income. Therefore, Fannie Mae updated their income calculation guidelines to state that generally ONLY distributions actually received by the borrower can be used in the income calculations. Exceptions can be made if the most recent balance sheet demonstrates the business has adequate liquidity to support that the borrower would have had the ability to withdraw funds in an amount **equal** to the ordinary business income.

Though not as detailed, Freddie Mac guidelines are clearly in line with Fannie Mae's. Therefore, effective with loan applications dated **<u>on or after February 19th, 2016</u>** underwriters will calculate self-employed income based on the attachment to this bulletin "How to calculate income reported on K-1 for Partnership or S Corp"

Fannie Mae Guidance for documenting access to income and business liquidity

- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to income or adequate business liquidity to support the withdrawal of earnings is required in order to include that income in the borrower's cash flow.
- If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the following to include the income in the borrower's cash flow:
    - the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and
    - the business has adequate liquidity to support the withdrawal of earnings.

Note: The lender is not required to confirm access to the income when the borrower(s) own 100% of the business.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: March 4, 2016

SUBJECT: Flood Insurance Requirements

BULLETIN: 16-05

***** IMPORTANT NOTICE *****

Due to recent agency and regulatory updates regarding Flood Insurance Policies please see the attached revised Flood Insurance Policy and Flood Insurance Checklist.

Please note the following key changes:

- We are now able to accept flood insurance policies from the following sources:
  - A standard policy issued under NFIP (National Flood Insurance Program)
  - A SFIP (Standard Flood Insurance Policy) policy written by one of the approved Write Your Own property and casualty insurance companies. Company lists can be found at: https://www.fema.gov/wyo_company
  - A private insurance policy based on the following requirements:
    - Insurance company must meet licensure requirements
    - Coverage must be at least as broad as NFIP, evidenced by a letter from the insurance company stating that the coverage is "at least as broad' as the coverage of an NFIP policy.
    - The policy must include 45-day cancellation/nonrenewal notice, information about NFIP coverage, mortgage interest clause similar to FEMA's Standard Flood Insurance Policy (SFIP), 1-year legal recourse Clause, and cancellation provisions as restrictive as SFIP.

- Outbuildings that are not in service as a residence do not require flood insurance.

- An escrow account is required for all flood insurance policy premiums, regardless of whether escrow is waivable for other escrowed items.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: March 17, 2016

SUBJECT: Agency Overlay Policies

BULLETIN: 16-06

***** IMPORTANT NOTICE *****

We are pleased to announce that we have made more changes to our Agency Overlay Policies and greatly simplified the Overlay document. Below are changes which become effective immediately.

- References to minimum credit scores have been removed from the Overlays. We have modified our policies on minimum credit scores for FHA Streamline Refinances and VA loans which are posted with our FHA Streamline and VA program guidelines.
- Thin credit: directs you to follow FHA's insufficient credit guidelines for both FHA and VA borrowers with thin credit.
- Removed manual underwriting overlay references. Loans MUST meet ALL individual program guidelines for manual underwriting. Also see VA Program guidelines.
- Ratios: Removed reference to DTI in the 45-50% bucket for FHA loans.
- Gift funds: Removed overlay. Agency guidelines apply
- Manufactured housing: Now available for all programs. Must meet ALL individual program guidelines.
- VA IRRL: Added program reference and overlays. Program guidelines and overlays are posted.
- Escrow waiver policy – removed the restrictions for investment properties.

All guidelines have been updated and posted to our website. Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: March 30, 2016

SUBJECT: VA Loans

BULLETIN: 16-07

***** IMPORTANT NOTICE *****

For all VA loans, the veteran must be listed as the borrower (not co-borrower) on the 1003 application. Veterans listed as co-borrower cause's errors when preparing the closing packages and more specifically with the pre-printed closing documents.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: April 22, 2016

SUBJECT: Student Loan Payments

BULLETIN: 16-08

***** IMPORTANT NOTICE *****

FHA has published Mortgagee letter 2016-08 containing significant changes to calculation of student loan payments when qualifying borrowers.

The below changes are **effective for FHA case number assigned on or after June 30th, 2016.** Please make sure you are taking this date into consideration on any pre-approvals in process or in the future.

CALCULATION OF STUDENT LOAN PAYMENTS

Regardless of the payment status, the Mortgagee must use either:

The greater of:

- 1 percent of the outstanding balance on the loan; or
- the monthly payment reported on the Borrower's credit report;

or

- the actual documented payment, **provided the payment will fully amortize the loan over its term.** You must provide the written documentation evidencing the payment terms.

Attached is the full Mortgagee Letter. Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: May 9, 2016

SUBJECT: 2015 Tax Transcripts

BULLETIN: 16-09

***** IMPORTANT NOTICE *****

The following is our policy with respect to 2015 tax transcripts:

2015 Tax Return Transcripts will be required for loans that will close on or after June 1, 2016.

If a borrower has filed an extension, we require:

1. Evidence in the file that the extension was filed, and
2. 2015 Tax Transcript showing "No record of return filed," and

- For salaried borrowers: 2013 and 2014 transcripts (if two years required) or 2014 only (if one year required), and 2015 W-2.
- For self-employed borrowers: 2013 and 2014 transcripts (if two year required) or 2014 only (if one year required) AND a signed Profit and Loss statement for 2015 (does not need to be audited).
- For retired borrowers: In cases where the borrower is not required to file, transcripts are still required. If "No Results" feedback is received, provide a copy of the feedback in the Loan file with supporting income documentation.
- Documentation evidencing any tax liability has been paid.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: May 11, 2016

SUBJECT: Loan Status Procedure Changes

BULLETIN: 16-10

***** IMPORTANT NOTICE *****

We are pleased to announce that we have made changes to our Loan Status Procedures.

Moving forward, Underwriting will status the loan as Final Approval/Ready For Docs and email the Clear To Close Desk once all Underwriter To Clear (UTC) conditions have been met. This will allow the closing area to begin working on Closing Disclosure documents without having to wait on the verbal and flood certifications. Final closing documents **will not** be released until these items have been cleared.

Please keep in mind, if issues, such as job loss/change or the added requirement for flood insurance arise once these items are obtained, the loan will be placed in a Suspense status with an email being sent to the underwriter, processor and loan officer with indications of the issues that need to be addressed. This may result in a delay to your closing.

We hope this change will provide a smoother transition of the loans from Underwriting to Closing and allows work to be completed in an easier order.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: May 26, 2016

SUBJECT: Change in Circumstance

BULLETIN: 16-11

***** IMPORTANT NOTICE *****

In order to help simplify the document signing process, we have eliminated the need for the borrower(s) to sign the Change in Circumstance disclosure. In the past, we required the disclosure to be signed because the GFE did not contain signature lines. The new regulations and forms, however, require borrowers to sign the Loan Estimate which will replace the need for signatures on the Change in Circumstance disclosure.

The remaining sections detailing a changed circumstance, such as the "Fees Changing" section, still require completion. Please also note, if the previous version of the Change in Circumstance form has a space for the Borrower(s) to sign, we will continue to require the Borrower's signature.

You may begin to use the new forms immediately. The form has been posted to our website.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: June 9, 2016

SUBJECT: Increased Underwriting Fee

BULLETIN: 16-12

***** IMPORTANT NOTICE *****

Effective July 1, 2016, Towne Mortgage is increasing the Underwriting Fee to $895.00 for all new loan applications.

Please ensure you are quoting the correct fees on all loan applications. We greatly appreciate your business! Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

EQUAL HOUSING LENDER
NMLS ID#3028

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: June 15, 2016

SUBJECT: Photographed Documents Policy

BULLETIN: 16-13

***** IMPORTANT NOTICE *****

We would like to clarify that Towne Mortgage does accept a photographed image of a document provided the following criteria are met:

- The image in legible
- The image is a full and complete representation of the document with no redaction or missing areas of the document

Towne Mortgage does <u>not</u> accept screenshots of any document. Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: June 28, 2016

SUBJECT: FHA Limited 203K Change

BULLETIN: 16-14

***** IMPORTANT NOTICE *****

FHA has made the following changes to the Limited 203k program effective with case numbers assigned on or after June 30th, 2016.

Written Proposal and Cost Estimates effective for case numbers assigned on or after June 30, 2016:

The written proposal must indicate Work Items that require permits and state that repairs are non-structural. This means the contractor must address **each i**ndividual work item and state whether permits are required by the local building authority and state the work item is non-structural. Bids will not be accepted unless the above is complied with. Special emphasis and scrutiny will be placed on items such as electrical, plumbing, HVAC, and roofs as most of these require permits for repair or replacement. The Cost Estimate must also state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

Any items considered structural such as removal of walls, floor joist repair, and basement wall bracing or supports will require the loan be converted to a full 203k.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: July 1, 2016

SUBJECT: FNMA Home Ready Program

BULLETIN: 16-15

***** IMPORTANT NOTICE *****

We are pleased to announce the roll out of Fannie Mae's Home Ready loan product effective July 1, 2016. Rate sheets have been updated to include pricing for this program. Program codes are designated "HR" and must be used to lock loans under this program.

Home Ready is an affordable low down payment mortgage product designed for low-to moderate income borrowers, with expanded eligibility for financing homes in low-income communities. The program features:

- Low down payment with up to 97% financing for purchases and 95% for Limited cash out refinances.
- Competitive pricing – meets or beats standard loan pricing (with credit scores equal to and above 680 and LTV ratios above 80%)
- Reduced MI – for LTVs above 90% up to 97%
- Expanded DTI ratios when using additional household income from non-borrowers

The borrower's income must be within applicable Area Median Income (AMI) limits as stated in the program guidelines. All borrowers must complete Pre Purchase homeownership counseling using Fannie Mae's Framework Homeownership online program.

Attached are the full guideline matrix for this program which is posted to the Resource Center in MortgageBot under Products and Guidelines. In addition, we have provided a direct link to the Home Ready page on Fannie Mae's website located in Links under Resource tab. Here you can find an income eligibility look up tool, additional program information and a direct link to the Framework Homeownership website.

Lastly, we have posted instructions (with the guidelines) on mandatory MortgageBot field requirements which instruct the system to run AUS findings under the Home Ready Program.

Please note our guidelines contain overlays and not all program offerings are available. Please read our guidelines carefully.

Please contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: September 2, 2016

SUBJECT: Rural Housing (RD) Decrease in Fees

BULLETIN: 16-16

***** IMPORTANT NOTICE *****

We are pleased to announce that USDA is decreasing its upfront guaranty fee to 1.00% and the annual fee to .35% for all loans obligated **on or after October 1, 2016.** A loan is obligated when USDA has approved the loan file AND issued the Conditional Commitment form (RD 3555-18).

Effective September 16th, the 1% upfront and .35% monthly should be disclosed on the LE (Loan Estimate).

Please remember, any loan with a RD commitment issued **BEFORE** October 1, 2016 must close with the current upfront fee of 2.75% and monthly of .50.

Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

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.

DU Version 10.0
Frequently Asked Questions

Updated | August 30, 2016

During the weekend of September 24, 2016 Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.0 The changes included in this release will apply to new loan casefiles submitted to DU Version 10.0 on or after the release weekend.

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

General

Q1. Will the changes made in DU Version 10.0 impact DU Version 9.3 loan casefiles that are created prior to the implementation of DU Version 10.0, and re-underwritten after the implementation of DU Version 10.0?

No. The changes made with DU Version 10.0 will not impact DU Version 9.3 loan casefiles that are re-underwritten after the implementation of DU Version 10.0.

Q2. Do any of the changes made in DU Version 10.0 apply to FHA or VA loan casefiles underwritten through DU?

No. The DU Version 10.0 updates only impact conventional loans, not FHA or VA loans underwritten through DU for Government Loans. Lenders will not see the updated guidelines or messages on their FHA or VA loan casefiles.

> NOTE: *The use of trended credit data will not impact FHA or VA loan casefiles underwritten through DU. Refer to Q6 below for additional information.*

Updated DU Risk Assessment

Trended Credit Data

Q3. What is trended credit data?

Currently credit reports only indicate the balance, the amount of available credit, and if a borrower has been making their payments on time. Trended credit data provides historical information on the balance, scheduled payment, and actual payment made each month.

> NOTE: *Trended data will only be seen on those accounts on which the creditor reported the data, so it may not be seen on all accounts, and may be missing for months for which the data was not provided. The DU risk assessment will only use the trended data on revolving credit card accounts and only for the most recent 24 months.*

Q4. Why did Fannie Mae add trended credit data to the credit risk factors analyzed by DU?

Fannie Mae used 3.7 million credit reports with trended data to conduct modeling and analytics to support a comprehensive review and redevelopment of DU's credit risk assessment. Including trended data materially improved modeling of loan performance. (For more information, see the FM Commentary *Trended Credit Data Improves DU Risk Assessment and Supports Access to Mortgage Credit*.)

Q5. When will trended credit data be required by Fannie Mae for loans underwritten through DU?

The credit report provided for all DU Version 10.0 loan casefile submissions must be the version of the credit report that supports the inclusion of trended credit data. When the expected version is not provided, DU will issue an error stating it has received a version of the credit report that is not supported by the current version of DU and to contact the credit agency technical support group to ensure the correct version of the credit report is being provided.

Q6. NEW What message will be seen when the credit report received by DU is not the correct version, is missing information, or is not properly formatted?

> NOTE: *When any of the messages below are received, the lender must contact their credit agency technical support group for assistance. Fannie Mae is not able to modify the credit report data in order for the loan casefile to be underwritten in DU. The credit agency must to correct the issue and provide new/updated credit data to DU.*

The messages shown below will be issued when the credit report received by DU is not the correct version, is missing information, or is not properly formatted.

When the credit report version received by DU is not one that supports trended data:

The following data elements are invalid:

Data Element	***Current Value***
Invalid credit version	*DU has received a version of the credit report that is not supported by the current version of DU. Contact the credit agency technical support group to ensure the correct version of the credit report is being provided.*

When one or more single-in files is missing for the borrower(s):

The following data elements are invalid:

Data Element	***Current Value***
Missing borrower single-in file	*DU has not received a single-in credit report from each repository for each borrower on the loan casefile. Contact the credit agency technical support group to ensure all single-in files for all borrowers are being provided.*

There are several credit data issues that could cause DU to issue the message below stating that the credit report is not properly formatted. Examples include a file that does not include a Social Security Number for a borrower, when data was not received from all three repositories, and when there are other formatting issues with the data received from the credit agency.

The following data elements are invalid:

Data Element	***Current Value***
Improperly Formatted Credit Report	*DU has received a credit report that is not properly formatted. Contact the credit agency technical support group to ensure the correct version of the credit report is being provided.*

Q7. Will the requirement for the new version of the credit report change how credit reports are ordered?

No. The process for ordering and reissuing credit reports for use in DU will not change with the new version of the credit report that includes trended credit data.

Q8. Should the use of trended credit data impact how lenders underwrite a loan?

For loan casefiles underwritten through DU, lenders are not expected to analyze the trended data. For manually underwritten loans or loans underwritten outside of DU, lenders do not need to analyze trended data or consider it in the underwriting and eligibility criteria.

Q9. Will loans for borrowers that make only the minimum payment on their credit card each month be able to receive an Approve recommendation from DU?

Yes. The use of the actual payment information will impact the analysis of the borrower's credit. However, the actual payment information is used in just one of the credit risk factors analyzed by DU (see Appendix A of the DU Version 10.0 Release Notes). DU will continue to perform a comprehensive evaluation of all of the credit and non-credit risk factors on the loan to determine the recommendation.

Q10. How does the amount a borrower pays on their credit card account demonstrate how they will pay their mortgage?

The trended credit data will be used by the DU risk assessment to evaluate how the borrower manages his/her 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 makes only the minimum monthly payment each month will be considered higher risk.

To put it into perspective, holding all else equal on a loan…

Research has shown that borrowers who	**are**	**than borrowers who**
Never exceed their limit	**75%** Less likely to become delinquent	Exceeded their credit card limit in the last 12 months
Pay off their credit card every month	**60%** Less likely to become delinquent	Only make their minimum payment each month

Q11. **UPDATED Does the use of trended credit data impact what payment would need to be included in the debt-to-income ratio (DTI) for the borrower's revolving account, or the amount of the borrower's assets that would need to be verified?**

No. The borrower may still be qualified with the minimum payment reflected on the credit report for their revolving accounts (even if they are paying more than that each month). The lender will not be required to verify or update the balance of the borrower's revolving accounts, even if they consistently pay them off each month. In addition, the lender does not need to verify the source of funds used to pay off any account balances reflected in prior months within the trended credit data.

Q12. **Does trended credit data impact the credit scores returned on the credit report, which are then used to apply loan-level price adjustments (LLPAs) when the loan is delivered to Fannie Mae?**

No. The classic credit score models do not use trended credit data, so they are not impacted by the addition of the trended credit data to the credit report. These classic versions of the credit scores will continue to be those accepted by Fannie Mae, and will continue to be those used to apply LLPAs at delivery. See B3-5.1-01: General Requirements for Credit Scores of the *Selling Guide* for the list of credit score models accepted by Fannie Mae.

Q13. **Do all the credit repositories report trended credit data?**

The trended credit data will be provided by Equifax and Transunion. The data is not yet available from Experian (as of the publication date of these FAQs).

Q14. **UPDATED For DU loan casefiles, do lenders need to retain a printed version of the credit report that includes trended credit data in the loan file?**

No. Lenders are not required to print the credit report and include it in the loan file for DU loan casefiles, but lenders need to ensure they maintain an electronic copy of the credit report (with or without the trended data included) as part of the mortgage loan file.

Q15. **Does the trended credit data need to be re-verified as part of the lender's quality control (QC) processes?**

No. While the lender must continue to obtain a new credit report as part of their QC process, trended credit data does not need to be re-verified.

Underwriting Borrowers without Traditional Credit

Q16. **When DU requires the verification of at least two nontraditional credit sources for each borrower who does not have traditional credit, and one must be housing-related, does "housing-related" refer only to rental payments?**

Yes. At least one source must be rental payments. Verifying rental payments must be completed in accordance with B3-5.4-03, Verification and Documentation of Alternative Credit of the *Selling Guide*. Documentation requirements may differ depending on the person or entity to which the borrower pays rent.

Q17. If the borrowers live together, can their rental verification cover the requirement for both borrowers?

Yes. When two borrowers on the loan live together, the verification of their rental payment will satisfy the housing-related nontraditional credit source for both borrowers. The lender would then need to document one additional source of non-traditional credit for each borrower. If the borrowers jointly have additional nontraditional credit, those additional joint references would satisfy the requirement for each borrower.

Q18. When the borrower without traditional credit lives rent-free and does not have a housing-related source of nontraditional credit, could the loan be eligible for delivery to Fannie Mae?

Borrowers who do not have credit scores and are relying on nontraditional credit sources to qualify must document a housing-related source of nontraditional credit. If the borrower is not able to document a rental history as a source of nontraditional credit, the loan is not eligible for delivery to Fannie Mae.

> NOTE: *For borrowers that have traditional credit, a housing-related credit reference is not required.*

Q19. How was Fannie Mae able to determine what level of risk would be acceptable on a loan casefile for a borrower with no traditional credit?

To ensure that the overall risk assessment is appropriate, DU will limit the assessment of loan casefiles for borrowers with nontraditional credit to those with specific and limited characteristics:

- Principal, owner-occupied, single-unit properties, excluding manufactured housing
- Purchase or limited cash-out refinance transactions
- Fixed-rate mortgages
- 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%

DU will then consider the borrower's equity, LTV ratio, liquid reserves, and DTI ratio. If the loan casefile receives an Approve/Eligible recommendation, the lender must also document at least two nontraditional credit sources for each borrower without traditional credit, one of which must be housing-related (rental payments).

Q20. Will the mortgage insurance (MI) companies insure loans for borrowers with no traditional credit?

Fannie Mae has discussed all of the DU Version 10.0 enhancements with the MI companies so they are able to make informed decisions regarding their policies. Lenders should contact their specific MI company (companies) to discuss the MI company's policies regarding loans for borrowers without traditional credit.

Q21. If DU issues a Refer with Caution or Out of Scope recommendation, can the lender still manually underwrite the loan using nontraditional credit?

Absolutely. Lenders should review any loan casefile that receives a Refer with Caution or Out of Scope recommendation from DU to determine if manual underwriting is an option.

Policy Changes for Borrowers with Multiple Financed Properties

Q22. What properties must be included in the number of financed properties?

Selling Guide Announcement SEL-2016-03 redefined a financed property as a residential one- to four-unit property with a mortgage for which the borrower is personally obligated. Additional information on the policy can be found in the Announcement, and B2-2-03: Multiple Financed Properties for the Same Borrower of the *Selling Guide*.

Q23. When must the Multiple Financed Properties (MFP) policy be applied?

The MFP policy must be applied when the borrower is financing a second home or investment property. The MFP policy does not apply to principal residence transactions.

Q24. The DU Version 10.0 release notes indicate that there will be a new reserve calculation for the "other" financed properties. How will DU calculate those reserves?

DU will use the total number of financed properties (which would include the borrower's principal residence and the subject property) to determine the reserves required on the "other" financed properties (those that are not the borrower's principal residence and not the subject property).

If the borrower will have up to 4 financed properties, DU will aggregate the unpaid principal balance for all mortgages and home equity lines of credit (HELOCs) (not secured by the borrower's principal residence or the subject property) and multiply by 2%. If the borrower will have 5 or 6 financed properties, the aggregated unpaid principal balance (UPB) will be multiplied by 4%. If the borrower will have 7 to 10 financed properties, the aggregated UPB will be multiplied by 6%.

DU will also calculate the reserves for the subject property as it currently does, depending on whether the property is a second home (2 months reserves) or an investment property (6 months reserves). The reserve requirements for the subject property and the other financed properties will be included in the amount of assets required to be verified by DU.

Q25. When the only lien on the property is a HELOC, and none of the funds of the HELOC have been drawn, would the property be considered financed? Also, would the reserve calculation need to be based on the full line of credit?

When there is a HELOC secured by a residential one- to four-unit property, that property would be considered financed and would need to be included in the number of financed properties, even when no funds have been drawn (there is a zero balance).

However, when the reserve requirements for the other financed properties are calculated, only the outstanding balance of the HELOC (the drawn amount) would be included in the aggregate UPB calculation.

Updated to Align with the Selling Guide

Q26. The DU Version 10.0 release notes state that various DU messages will be updated to provide clarity and consistency with the *Selling Guide*. What types of changes are being made to the messages that are not specified in the release notes?

These message updates include:

- The DU project review messages for condominiums will be updated to include a statement reminding lenders that some projects require a Fannie Mae project approval through the Project Review Eligibility Service (PERS), and that the lender must confirm there is a valid Fannie Mae PERS approval when one is required.
- The continuity of obligation policy was eliminated with *Selling Guide* Announcement SEL-2016-02. The DU messaging will be updated to remove references to that policy.
- Fannie Mae eliminated the special lender approval requirement for Texas Section 50(a)(6) mortgages with *Selling Guide* Announcement SEL-2016-03. The DU messaging will be updated to remove references to that requirement.

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: September 23, 2016

SUBJECT: Fannie Mae DU Version 10.0

BULLETIN: 16-17

***** IMPORTANT NOTICE *****

During the weekend of September 24, 2016 Fannie Mae will implement Desktop Underwriter (DU) version 10.0. This new version will include the following changes/enhancements:

- **Updated Risk Assessment**: Appendix A details a comparison of risk factors evaluated by DU in the current version 9.3 and the new version 10.0.

  Trended Credit
  DU will use Trended credit data in the credit risk assessment which provides a monthly history of the account including the balance, minimum scheduled payment and actual payment made on the account. DU will only use the trended credit data **on revolving accounts** for the most recent 24 months payment history for now.

  The new system should benefit borrowers who regularly pay off revolving debt or make more than the minimum payment on revolving accounts. A borrower's whose credit utilization is high and/or make only minimum payments on revolving accounts will be considered higher risk.

  The credit report used for DU 10.0 submissions MUST be the version that supports trended data. If not, an error will show on the DU findings. It is our belief that all credit bureaus are now providing reports in "trended credit" format.

- **Underwriting borrowers without a credit score.**

  Towne mortgage will not adopt the changes in the DU 10.0 release note regarding borrowers with no credit scores at this time. We will continue to require that all borrowers have credit scores for conventional loans.

- **Borrowers with multiple financed properties**.

  For borrowers purchasing or refinancing second home or investment properties, DU Version 10.0 has simplified the guidelines for borrowers with multiple financed properties. There are fewer eligibility overlays and updated reserve requirements. **Both are now automated within DU.**

  DU will now be able to access the number of financed properties owned by the borrower and will apply the eligibility guidelines for borrowers with more than 4 financed properties.

  - Borrower with 1-6 financed properties - standards policies apply
  - Borrowers with 7-10 financed properties will require minimum 720 credit score – all other standard eligibility policies apply

  DU will now 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).

New reserve requirements:

- Reserve requirement for other financed properties (not primary residence or subject property) will be determined by applying a specific percentage to the aggregate total of outstanding unpaid principal balance (UPB) for all mortgage and HELOCs on the application. Percentages are applied and based on number of financed properties as follows:

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

Attached is a copy of the DU 10.0 Release Notes, Appendix A mentioned above and the 10.0 FAQs.
Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: September 23, 2016

SUBJECT: W2 Tax Transcripts

BULLETIN: 16-18

***** IMPORTANT NOTICE *****

We are pleased to announce the following changes to our requirements for tax transcripts. These changes are effective immediately.

- **W-2 Transcripts** will be allowed for borrowers with **only** W-2 income used to qualify AS LONG AS TAX RETURNS ARE NOT PROVIDED IN THE FILE. W/2 transcripts must be provided for the number of years of income used to qualify the borrower.

- Full 1040 IRS Tax Return Transcripts are required for the following:

    - Borrowers with non-W-2 income used to qualify.
    - Self- employed borrowers (including business returns, if required)
    - Commission income representing 25% or more of income used to qualify
    - Borrowers with rental properties

Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: October 13, 2016

SUBJECT: Hurricanes Matthew and Hermine

BULLETIN: 16-18

***** IMPORTANT NOTICE *****

In response to FEMA disaster declarations for Hurricane Matthew in Florida and Georgia, North Carolina, South Carolina and Georgia, and Hurricane Hermine in Florida, please be aware that our disaster policy must be followed for properties located in affected areas.

Any properties with appraisals dated on or before the incident date: Matthew on October 8th, 2016 and Hermine on September 11th, 2016; will require a property inspection by the appraiser to verify the home has sustained no damage from the hurricane. Properties in the following counties may be affected:

Florida: None published as of October 13th for Hurricane Matthew

Florida: Hurricane Hermine: Citrus County, Dixie County, Hernando County, Hillsborough County, Leon County, Levy County, Pasco County and Pinellas County

North Carolina: Beaufort County, Bertie County, Bladen County, Columbus County, Cumberland County, Edgecombe County, Greene County, Harnett County, Hoke County, Johnston County, Lenoir County, Nash County, Pitt County, Robeson County, Sampson County, Wayne County and Wilson County.

South Carolina: None published as of October 13th

Georgia: None published as of October 13th.

We will advise as additional counties are published by FEMA.

Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: October 20, 2016

SUBJECT: **UPDATE: COUNTIES DESIGNATED DISASTER FROM-Hurricane Matthew**

BULLETIN: 16-20

***** IMPORTANT NOTICE *****

In response to FEMA disaster declarations for Hurricane Matthew in Florida and Georgia, North Carolina, South Carolina and Georgia, and Hurricane Hermine in Florida, please be aware that our disaster policy must be followed for properties located in affected areas.

Any properties with appraisals dated on or before the incident date: Matthew on October 8th, 2016 and Hermine on September 11th, 2016; will require a property inspection by the appraiser to verify the home has sustained no damage from the hurricane. Properties in the following counties may be affected:

Florida: Hurricane Matthew: Flagler County, Putnam County, St. Johns County and Volusia County. Properties in these Counties with appraisals dated prior to October 8, 2016 will require an inspection to verify they have not incurred damage from Hurricane Matthew.

Florida: Hurricane Hermine: Citrus County, Dixie County, Hernando County, Hillsborough County, Leon County, Levy County, Pasco County and Pinellas County

North Carolina: Beaufort County, Bertie County, Bladen County, Columbus County, Cumberland County, Edgecombe County, Greene County, Harnett County, Hoke County, Johnston County, Lenoir County, Nash County, Pitt County, Robeson County, Sampson County, Wayne County and Wilson County.

South Carolina: None published as of October 13th

Georgia: None published as of October 13th.

We will advise as additional counties are published by FEMA.

Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients DATE: November 9, 2016

SUBJECT: VA IRRL Program BULLETIN: 16-21

***** IMPORTANT NOTICE *****

Effective with mortgage applications dated on or after today, November 9, 2016, all VA Interest Rate Reduction Refinances (IRRL) will now require six month seasoning on the current VA loan. A payment history is required indicating a minimum of six months payments with no payment made outside the month due.

Our VA IRRL guidelines will be updated shortly. Contact your Account Executive with any questions.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients DATE: December 8, 2016

SUBJECT: FHA Mortgage Limits BULLETIN: 16-22

***** IMPORTANT NOTICE *****

We are pleased to announce FHA has published an increase in the nationwide mortgage limits. These limits are effective for **FHA CASE NUMBERS ISSUED ON OR AFTER JANUARY 1, 2017.** Loans MAY NOT close under the higher limit if the FHA case number was assigned before January 1st.

As always, these are the floor and ceiling limits for low cost and high cost areas. Individual counties within each state may have limits in between the floor and ceiling. Complete listings of each individual county limit are available on the FHA Connection under "FHA Approval Lists". We will also provide a link to the Mortgage Limit web page in our resource center shortly.

We anticipate both Mortgagebot will be updated shortly.

Low Cost Areas

- One unit: $275,665
- Two unit: $352,950
- Three unit: $426,625
- Four unit: $530,150

High Cost Areas

- One unit: $636,150
- Two unit: $814,500
- Three unit: $984,525
- Four unit: $1,223,475

Special Exception for Alaska, Hawaii, Guam and the U.S. Virgin Islands

- One unit: $721,050
- Two unit: $923,050
- Three unit: $1,115,800
- Four unit: $1,386,650

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: December 9, 2016

SUBJECT: Credit Inquiry Explanation Letter

BULLETIN: 16-23

***** IMPORTANT NOTICE *****

Effective immediately we have replaced our existing Credit Inquiry Explanation Letter with the attached Undisclosed Debt Acknowledgement. The Undisclosed Debt Acknowledgement form will be required prior to clear to close.

Please note that individual inquiries will no longer have to be addressed. However we will continue to utilize the Undisclosed Debt Monitoring Service and any new trade lines will have to be fully documented and verified.

Thank you,
Operations Group
Towne Mortgage Company

TOWNE MORTGAGE COMPANY

BULLETIN

TO: Our Valued Clients

DATE: December 14, 2016

SUBJECT: Fannie/Freddie Conforming Loan Limits

BULLETIN: 16-24

***** IMPORTANT NOTICE *****

We are pleased to announce that Fannie Mae/Freddie Mac have increased the conforming loan limits as shown below. You may begin taking applications immediately. DU and LP have already been updated.

DU will be updated with high cost limits on January 1st. Therefore any high cost mortgages closing before January 1st must be submitted through LP.

Please contact your Account Executive with questions.

Operations Group
Towne Mortgage Company

Maximum Loan Limits

Units	Contiguous States, District of Columbia, and Puerto Rico
1	$424,100
2	$543,000
3	$656,350
4	$815,650

Maximum Loan Limits for High-Cost Areas

Units	Contiguous States, District of Columbia+	Alaska, Guam, Hawaii, and the U.S. Virgin Islands
1	$636,150	$954,225
2	$814,500	$1,221,750
3	$984,525	$1,476,775
4	$1,223,475	$1,835,200

+A number of other states and Puerto Rico do not have any high-cost areas in 2017.