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.