



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.