

Desktop Originator/Desktop Underwriter Release Notes

DU Version 8.0

September 22, 2009

Updated November 13, 2009

During the **weekend of December 12, 2009**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 8.0. This release will include changes to the DU credit risk assessment and a number of eligibility guidelines. In addition, this release will support the policy changes described in the following *Selling Guide* Announcements, as well as other changes described below:

- Announcement 08-16, *Bankruptcy, Foreclosure, and Conversion of Principal Residence Policy Changes; and Revised Property Value Representation and Warranty Requirements*
- Announcement 09-02, *Updates to Multiple Mortgages to the Same Borrower Policy, Reserve Requirements, Reserves Definition, and Form 3170*
- Announcement 09-08R, *Temporary High-Cost Area Loan Limits and Revised Eligibility Requirements for High-Balance Mortgage Loans*
- Announcement 09-19, *Miscellaneous Underwriting, Eligibility, and Property-Related Updates*
- Announcement 09-28, *Retirement of HomeStyle® Construction-to-Permanent*
- Announcement 09-29, *Updates to Minimum Credit Scores, Mortgage Insurance, Pricing for Certain Desktop Underwriter® Loans, Biweekly Loans, and Special Feature Codes*

The changes included in this release will apply to new loan casefiles submitted to DU on or after the weekend of December 12, 2009. Loan casefiles created in DU Version 7.1 and resubmitted after the weekend of December 12 will continue to be underwritten through DU Version 7.1.

[These release notes have been updated to indicate that the 2010 high-cost area loan limits, as specified in Announcement 09-34, will be implemented with DU Version 8.0. Refer to the High-Balance Mortgage Loans section on page 5 of these release notes.](#)

Changes to DU's Credit Risk Assessment

As part of normal business operations, Fannie Mae regularly reviews DU to fine-tune its credit risk assessment based on new data and loan performance information to ensure the credit risk assessment supports sustainable homeownership options for borrowers. As a result, the DU Version 8.0 release will include an update to the DU credit risk assessment.

These changes are intended to help Fannie Mae and its customers better manage default risk in this market and to provide reasonable, prudent, and sustainable homeownership options to borrowers. Customers may see some loan casefiles receive a more conservative recommendation, while others may receive improved recommendations when compared to similar loan casefiles submitted to DU Version 7.1.

DU Version 8.0 will evaluate loan casefiles using the same risk factors currently evaluated in DU Version 7.1. For more information regarding the risk factors evaluated by DU, please refer to the Fannie Mae *Selling Guide*, B3-2-02, Risk Factors Evaluated by DU.

Delivery Eligibility Updates

Total Expense Ratio

With this release, the maximum allowable total expense ratio in DU will be revised to 45 percent, with flexibilities offered up to 50 percent for certain loan casefiles with strong compensating factors. If current debts exceed the maximum allowable total expense ratio, the loan casefile will receive an Ineligible recommendation. DU will no longer return a Refer recommendation on loan casefiles that would have otherwise received an Approve recommendation but had exceeded the maximum allowable total expense ratio.

DU Refi Plus™ loan casefiles submitted to DU Version 8.0 will continue to be subject to the maximum allowable total expense ratio currently applied to DU Version 7.1 DU Refi Plus loan casefiles.

Minimum Credit Score Requirement

As stated in Announcement 09-29, Fannie Mae is modifying the minimum “representative” credit score requirement for all loans delivered to Fannie Mae to 620. With the exception of DU Refi Plus, loan casefiles that are underwritten through DU Version 8.0 with a minimum representative credit score below 620 will receive an Ineligible recommendation.

Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans underwritten according to the previous minimum representative credit score requirement.

Foreclosures

In support of Announcement 08-16, DU will be updated to include the following requirements for borrowers with foreclosure completion dates of more than 5 years, but within 7 years from the credit report date:

- The purchase of a principal residence will be permitted with a minimum down payment of 10 percent and minimum representative credit score of 680.
- The purchase of a second home or investment property will not be permitted.
- Cash-out refinances will not be permitted for any occupancy type.

Loan casefiles that do not comply with the guidelines above will receive an Ineligible recommendation.

Note: Limited cash-out refinance transactions will continue to be allowed for all occupancy types pursuant to eligibility requirements in effect at the time the loan casefile is underwritten through DU.

Deed-in-Lieu of Foreclosure

DU will be updated to incorporate the policy specified in Announcement 08-16 regarding prior deed-in-lieu of foreclosure actions. If a deed-in-lieu of foreclosure is reported within 4 years of the credit report date, the loan casefile will receive a Refer with Caution/IV recommendation.

DU will determine if a mortgage tradeline is a deed-in-lieu of foreclosure by using specific Remarks Codes that would be present in the credit report data and associated to the tradeline.

DU Version 8.0 will also include the following requirement that applies to borrowers with prior deed-in-lieu of foreclosure actions more than 4 years, but within 7 years from the credit report date.

- Principal residence, purchase transactions submitted to DU with an LTV or CTLV greater than 90 percent where a borrower on the loan casefile has a deed-in-lieu of foreclosure action that was completed more than 4 years, but within 7 years from the credit report date will receive an Ineligible recommendation.

Note: Limited cash-out and cash-out refinance transactions will continue to be allowed for all occupancy types pursuant to eligibility requirements in effect at the time the loan casefile is underwritten through DU.

Bankruptcies

DU will be updated to include the following bankruptcy guidelines specified in Announcement 08-16:

- Loan casefiles where DU identifies a Chapter 13 bankruptcy that was discharged within the last 24 months; dismissed within the last 48 months; or filed but neither discharged nor dismissed within the last 48 months will receive a Refer with Caution/IV recommendation.
- Loan casefiles where DU identifies a non-Chapter 13 bankruptcy that was filed, discharged, or dismissed within the last 48 months will receive a Refer with Caution/IV recommendation.

DU is not able to determine if multiple bankruptcy filings have occurred, due to the manner in which bankruptcies are reported in the credit report. As a result, DU will issue a message when it appears that there may have been multiple bankruptcy filings. This message will list each of the bankruptcies seen on the credit report, and will instruct customers to ensure the loan casefile meets the criteria for underwriting loan casefiles with multiple bankruptcies specified in the *Selling Guide*.

Expanded Approval® (EA) Enhancements

DU Version 8.0 will no longer issue EA-II and EA-III recommendations, except on those loan casefiles that were underwritten as DU Refi Plus. EA-I recommendations will continue to be available through DU Version 8.0.

With this release, the following transactions that receive an EA recommendation will be eligible for delivery to Fannie Mae:

- Loans subject to financed mortgage insurance
- 6-month ARMs, 1-year ARMs, 3-year ARMs , and 5/1 ARMs with 5/2/5 caps
- Interest-only mortgage loans
- Balloon mortgages

High-balance mortgage loans will be ineligible with any EA recommendation.

New Special Feature Code

As stated in Announcement 09-29, the special feature code (SFC) that is currently used when delivering a mortgage loan that received an EA recommendation (SFC 716) will be replaced with a new special feature code, SFC 062. Except for MyCommunityMortgage® loans, the lender must deliver all DU Version 8.0 mortgage loans that receive an EA-I recommendation with a SFC 062. DU Version 8.0 DU Refi Plus mortgages that receive an EA-II or EA-III recommendation must also be delivered with Special Feature Code 062.

DU Version 7.0 and 7.1 loans that received an EA recommendation must continue to be delivered with SFC 716. Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans that received an EA recommendation.

Revised Mortgage Insurance (MI) Coverage Level Requirements

As stated in Announcement 09-29, loans with a loan-to-value (LTV) ratio greater than 80 percent will now be subject to the following simplified MI coverage requirements.

Simplified Mortgage Insurance Options

Reduced MI and Lower-Cost MI will no longer be offered with DU Version 8.0; in addition, the separate, higher coverage requirements for mortgage loans secured by manufactured homes will no longer be issued.

Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans where Reduced MI or Lower-Cost MI has been obtained.

New Minimum Mortgage Insurance Coverage Levels

Fannie Mae is expanding the availability of minimum mortgage insurance coverage levels, and when the minimum coverage level option is chosen, a loan-level price adjustment (LLPA) will be assessed. DU Version 8.0 will issue the following MI coverage level requirements, indicating when the MI loan-level price adjustment will apply.

Mortgage Insurance Coverage				
Mortgage Type	LTV Range			
	80.01 - 85.00%	85.01 - 90.00%	90.01 - 95.00%	95.01-97.00%
Fully-amortizing fixed-rate, term <= 20 years	6%	12%	16% + MI LLPA	18% + MI LLPA
			25%	35%
<ul style="list-style-type: none"> • Fully-amortizing fixed-rate, term > 20 years • ARMs • Interest-only • Balloons • Manufactured Homes 	6% + MI LLPA	12% + MI LLPA	16% + MI LLPA	18% + MI LLPA
	12%	25%	30%	35%
MyCommunityMortgage	6%	12%	16%	18%

Note: As stated in Announcement 09-29, the new minimum coverage level option can be manually applied to DU Version 7.0 and Version 7.1 loan casefiles. In addition under DU Refi Plus, lenders will continue to have the option of obtaining the level of mortgage insurance in effect on the existing loan being refinanced, or the level of mortgage insurance coverage that does not require the minimum MI LLPA.

Changes to Financed Mortgage Insurance Requirements

With the exception of the transactions noted below, loan casefiles at all LTV ratios will now be permitted to have the MI financed using either a single premium plan that is paid at one time upfront, or a split premium plan that has both an upfront and monthly component.

Two- to four-unit properties, investment properties, and cash-out refinance transactions will continue to receive an Ineligible recommendation if financed MI is entered on the loan application.

DU Version 8.0 will also reflect the modifications made to the names of special features codes 281, 283, and 574 to remove references to “single premium” or “split premium.”

MyCommunityMortgage Special Feature Code Changes

As stated in Announcement 09-29, SFC 460 will be the only SFC required on MyCommunityMortgage (MCM[®]) loans, and the SFCs that identified specific MCM mortgage loan options or features will be retired. As a result, SFCs 480, 519 and 612 will not be issued on MCM loan casefiles underwritten with DU Version 8.0.

Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans using the previous MCM SFCs.

High-Balance Mortgage Loans

DU Version 8.0 will be updated to implement the eligibility guidelines and Field Review requirements specified in Announcement 09-08R.

Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans underwritten according to the previous high-balance mortgage loan requirements.

DU will also be updated to reflect the [2010 high-cost area loan limits](#).

The Desktop Underwriter Maximum Allowable LTV Ratios chart and the Desktop Underwriter Expanded Approval (EA) Eligibility chart have been updated to include these changes. These can be found in the [Eligibility Matrix](#) on eFannieMae.com on the Single-Family Reference Materials page.

New and Updated Underwriting and Eligibility Policies

DU Version 8.0 will include the following underwriting and eligibility policies specified in Announcement 09-19.

Age of Credit Documents

The DU documentation expiration will be updated to reflect a credit report expiration of 90 days from the date of the credit report for purchase and refinance transactions, and 120 days from the date of the credit report for construction and construction-to-permanent transactions.

Construction-to-Permanent Financing – Single-Closing Transaction

The following message will be issued on construction transactions to remind customers of the requirements that must be applied to single-closing transactions when the credit and appraisal documents are dated more than four months from the time of the conversion to permanent financing:

If the credit and appraisal documents are dated more than four months, but not exceeding 18 months old at the time of the conversion to permanent financing, the loan casefile is only eligible for delivery if the LTV, CLTV, and HCLTV do not exceed 70 percent and the loan casefile received an Approve/Eligible recommendation. Special feature code 151 must also be provided at delivery.

Home Equity Lines of Credit

DU will be updated to allow home equity lines of credit on Flexible mortgages and MCM loan casefiles.

IRS Form 4506-T

DU will issue a Verification message on all DU loan casefiles requiring that a completed and signed Form 4506-T is obtained for all borrowers at both application and closing.

Trailing Secondary Wage Earner Income

Since the *Selling Guide* no longer permits consideration of a trailing secondary wage earner's anticipated income, loan casefiles using this type of income will receive an Ineligible recommendation and customers will be instructed to remove the income and resubmit the loan casefile to DU.

Verbal Verification of Employment

DU will issue a Verification message on all DU loan casefiles requiring that a verbal verification of employment is performed and documented for each borrower within 10 days prior to the note date for all borrowers not using self-employment income for qualifying, and within 30 days prior to the note date for all borrowers using self-employment income for qualifying.

The existing Verification messages issued by DU that require a verbal verification of employment along with other documentation will be updated to remove the reference to the verbal verification of employment.

Verification of Stocks, Bonds, Mutual Funds, and Retirement Accounts

The Verification messages issued when stocks, bonds, or mutual funds are entered on the application will be modified to remind customers that only 70 percent of the value of the account should be entered if such funds will be used as reserves. The message will also state that if the funds will be used for the down payment or closing costs, receipt of the funds realized from the sale or liquidation of the assets must be verified, and that stock options or non-vested restricted stock may not be used for reserves.

The Verification message issued when retirement funds are entered on the application will be modified to remind customers that only 60 percent of the value of the account should be entered if such funds will be used for reserves. The message will also state that if the funds will be used for the down payment or for closing costs, receipt of the funds realized from the sale or liquidation of the assets must be verified.

Two-Unit Eligibility

DU will be updated to implement the eligibility guidelines and maximum LTV, CLTV, and HCLTV ratios permitted for mortgages secured by two-unit properties specified in Announcement 09-19. Those updated guidelines are as follows, and do not apply to DU Refi Plus loan casefiles.

Transaction Type		DU Version 7.1 Maximum LTV/CTLV/HCLTV	DU Version 8.0 Maximum LTV/CTLV/HCLTV
Two-Unit Principal Residence			
Purchase Limited Cash- Out Refinance	Fully Amortizing	95%	80%
	Interest-Only	90%	75%
	High-balance mortgage loans	75%	75%
	HomeStyle Renovation	95%	75%
	MCM	97%	95%
	MCM, high-balance mortgage loans	90%	75%
Construction	Fully Amortizing	95%	Ineligible
	Interest-Only	90%	Ineligible
Cash-Out Refinance	All	85%	75%

Transaction Type		DU Version 7.1 Maximum LTV/CTLV/HCLTV	DU Version 8.0 Maximum LTV/CTLV/HCLTV
Two-Unit Investment Property			
Purchase	Fully Amortizing	85%	75%
	Interest-Only	85%	Ineligible
	High-balance mortgage loans	75%	65%
Construction	All	85%	Ineligible
Limited Cash-Out Refinance	Fully Amortizing	75%	75%
	Interest-Only	75%	Ineligible
	High-balance mortgage loans	75%	65%
Cash-Out Refinance	Fully Amortizing	75%	70%
	Interest-Only	70%	Ineligible
	High-balance mortgage loans	Ineligible	Ineligible

Refer to Announcement 09-29 for information regarding the delivery deadlines for DU Version 7.1 and Version 7.0 loans underwritten according to the previous maximum allowable LTV, CLTV, and HCLTV ratios and eligibility guidelines.

The Desktop Underwriter Maximum Allowable LTV Ratios chart and the Desktop Underwriter Expanded Approval (EA) Eligibility chart have been updated to include these changes. These can be found in the [Eligibility Matrix](#) on eFannieMae.com on the Single-Family Reference Materials page.

Miscellaneous

Reserves Requirements for Investment Properties and Second Homes

DU Version 8.0 will be updated to require a minimum of two months' reserves for all second home transactions and six months' reserves for all investment property transactions, as specified in Announcement 09-02.

Retiring HomeStyle Construction-to-Permanent

The HomeStyle Construction-to-Permanent mortgage product was retired with Announcement 09-28. DU will no longer issue a message on construction transactions stating that if the loan will be delivered as a HomeStyle Construction-to-Permanent loan, the lender must ensure that all HomeStyle Construction-to-Permanent guidelines are followed.

Retiring Biweekly Mortgages

As stated in Announcement 09-29, the biweekly mortgage product is being retired. DU Version 8.0 loan casefiles with biweekly payments, based on the payment frequency entered on the loan application, will receive an Ineligible recommendation.

Refer to Announcement 09-29 for information regarding the delivery deadlines for biweekly loans underwritten through DU Version 7.1 and Version 7.0.

Employer-Related Mortgages

Announcement 09-29 referenced the retirement of SFC 072, Employer-Related Mortgage. DU Version 8.0 will no longer issue SFC 072 on loan casefiles with Employer Assisted Housing funds entered as an Other Credit on the loan application.

Retirement of DU Version 7.0

When DU Version 8.0 is implemented, DU Version 7.0, which went into production in June 2008, will be retired. Therefore, effective the weekend of December 12, 2009, customers will no longer be able to resubmit loan casefiles to Version 7.0; however, users will continue to be able to view the online loan applications and the DU Underwriting Findings reports that were created under Version 7.0. To obtain an updated underwriting recommendation after the weekend of December 12, the user must create a new loan casefile and submit it to DU.

Modified Messages

The message issued on investment property and second home transactions reminding customers that the borrower's entire current residence payment must be reflected in the Liabilities section of the application will be updated.

*This loan has been underwritten as a second home or investment property transaction. DU captures data from Section VI L to calculate the total expense ratio. **The total expense ratio will not be accurate unless** the borrowers' total monthly primary residence housing expense, which includes principal, interest, hazard insurance, real estate taxes, mortgage insurance, and homeowners' association dues, is accounted for in the Liabilities section.*

For More Information

For more information about these Release Notes or the Announcements referenced in these Release Notes, lenders may contact their Fannie Mae customer account team; and mortgage brokers should contact their DO[®] sponsoring wholesale lender.