

Desktop Originator/Desktop Underwriter Release Notes

Version 7.1

October 16, 2008

During the **weekend of December 13, 2008**, Fannie Mae will implement Desktop Underwriter® (DU®) Version 7.1. This release will support specific policy changes described in the following *Selling Guide* Announcements, as well as other changes described below:

- Announcement 08-08, *Mortgage Eligibility and Pricing Updates for Desktop Underwriter and Manually Underwritten Loans*
- Announcement 08-16, *Bankruptcy, Foreclosure, and Conversion of Principal Residence Policy Changes; and Revised Property Value Representation and Warranty Requirements*
- Announcement 08-18, *Updated Adverse Market Delivery Charge and Flow Business Pricing Requirements*
- Announcement 08-22, *Miscellaneous Eligibility, Policy, and Pricing Updates*
- Announcement 08-27, *Permanent High-Cost Area Loan Limits*

DU Version 7.1 will apply to new conventional loan casefiles submitted to DU on or after **the weekend of December 13, 2008**. Loan casefiles created in DU Version 7.0 and resubmitted after the weekend of December 13 will continue to be underwritten through DU Version 7.0.

Note: With this release we will retire DU Version 5.7. For more information, see Retiring DU Version 5.7 under the Miscellaneous section of these Release Notes.

High-Cost Area Loan Limits

Announcement 08-27 outlined Fannie Mae's eligibility, pricing, and delivery requirements for "high-balance" mortgage loans. High-balance mortgage loans are loans with original principal balances that exceed the general loan limits, but meet the high-cost area loan limits that were authorized by the Housing and Economic Recovery Act of 2008.

DU Version 7.1 will apply the following eligibility guidelines, as specified in Announcement 08-27, to any loan casefile with a loan amount greater than the Fannie Mae general loan limit, as entered on the loan application:

- Purchase, construction, and limited cash-out refinance transactions secured by one-unit, principal residences are limited to a maximum LTV/CLTV/HCLTV ratio of 90 percent. This also applies to HomeStyle® Renovation, Flexible mortgages, and manufactured housing transactions.
- MyCommunityMortgage® loans secured by one- to four-unit properties are limited to a maximum LTV/CLTV/HCLTV ratio of 90 percent.
- Purchase, construction, and limited cash-out refinance transactions secured by two-unit principal residences are limited to a maximum LTV/CLTV/HCLTV ratio of 75 percent. This also applies to HomeStyle Renovation mortgage loans.
- Cash-out refinance transactions secured by one- or two-unit principal residences are limited to a maximum LTV/CLTV/HCLTV ratio of 75 percent (one-unit manufactured housing transactions remain at 65 percent).
- Purchase and construction transactions secured by two-unit investment properties are limited to a maximum LTV/CLTV/HCLTV ratio of 75 percent.

Note: DU will allow a CLTV ratio up to 105 percent on purchase, construction, or limited cash-out refinance transactions secured by principal residence if the mortgage loan is part of a Community Seconds transaction.

As specified in Announcement 08-27, the following transactions are not eligible on high-balance mortgage loans and will receive an Ineligible recommendation in DU Version 7.1:

- Cash-out refinance transactions on second homes or investment properties
- Balloon mortgages
- Adjustable rate mortgage loan casefiles with a “representative” credit score below 680

High-balance mortgage loan transactions that are not specified above will be subject to standard eligibility requirements. For example, a purchase transaction for a high-balance mortgage loan secured by a second home will be subject to the standard LTV/CLTV/HCLTV guideline of 90 percent.

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.

Note: The jumbo-conforming mortgage guidelines implemented in the DU Version 7.0 August Update will not be included in DU Version 7.1.

Loan Limits Used by DU

The 2009 loan limits for high-cost areas will be implemented with DU Version 7.1. This update will apply to DU Version 7.1 loan casefiles submitted or resubmitted after the weekend of December 13.

Jumbo-conforming mortgage loan casefiles underwritten with DU Version 7.0 that are resubmitted after the weekend of December 13, will continue to use the 2008 loan limits for high-cost areas.

Bankruptcy Policy Change

With this release, the requirement for borrowers with prior bankruptcy actions in their credit history will be modified to extend the minimum allowable time period between the file date of the bankruptcy and the date of the credit report from 24 months to 48 months. DU Version 7.1 loan casefiles that include a borrower with a bankruptcy filed within 48 months prior to the credit report date will receive a Refer with Caution/IV recommendation and will be ineligible for delivery to Fannie Mae.

If DU is not able to determine when the bankruptcy was filed, the lender must confirm that the bankruptcy was not filed within 48 months prior to the credit report date and that the loan casefile complies with the DU bankruptcy guidelines.

Note: All bankruptcies must be satisfied prior to the date of the application in order for the mortgage loan to be eligible for delivery to Fannie Mae.

Delivery Requirements

All DU Version 7.0 loan casefiles underwritten according to the previous DU bankruptcy guidelines must be delivered to Fannie Mae on or before March 31, 2009. All whole mortgage loans must be purchased by Fannie Mae on or before March 31, 2009, and mortgage loans delivered into MBS must have issue dates on or before March 1, 2009.

LTV/CLTV/HCLTV Eligibility Requirements

DU Version 7.1 will include the following modifications made to the maximum allowable LTV, CLTV, and HCLTV ratios specified in Announcement 08-08 and Announcement 08-22:

Transaction Type	No. of Units	DU 7.0 Max LTV/CLTV/HCLTV	DU 7.1 Max LTV/CLTV/HCLTV
Principal Residences			
Purchase and limited cash-out refinance	3 - 4	80/80/80%	75/75/75%
Cash-out refinance	1 - 2	90/90/90%	85/85/85%
HomeStyle Renovation purchase and limited cash-out refinance	3 - 4	80/80/80%	75/75/75%
Second Homes			
Purchase and limited cash-out refinance	1	95/95/95%	90/90/90%
	1-unit Coop	Purchase = 90%/(N/A)/(N/A) LCOR = 80%/(N/A)/(N/A)	Purchase, no change LCOR = 75%/(N/A)/(N/A)
Construction	1	95/95/95%	90/90/90%
Cash-out refinance, non interest-only	1	90/90/90%	75/75/75%
Cash-out refinance, interest-only	1	90/90/90%	70/70/70%
HomeStyle Renovation purchase and limited cash-out refinance	1	95/95/95%	90/90/90%
	1-unit Coop	Purchase = 90%/(N/A)/(N/A) LCOR = 80%/(N/A)/(N/A)	Purchase, no change LCOR = 75%/(N/A)/(N/A)
Investment Properties			
Purchase	1-2	90/90/90%	85/85/85%
Construction	1-2	90/90/90%	85/85/85%
Limited cash-out refinance	1-2	90/90/90%	75/75/75%
Cash-out refinance, non interest-only	1-2	85/85/85%	75/75/75%
HomeStyle Renovation purchase	1	80/80/80%	75/85/85%
HomeStyle Renovation limited cash-out refinance	1	80/80/80%	75/75/75%

Note: 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.

Delivery Requirements

All DU Version 7.0 loan casefiles underwritten according to the previous LTV/CLTV/HCLTV guidelines must be delivered to Fannie Mae on or before March 31, 2009. All whole mortgage loans must be purchased by Fannie Mae on or before March 31, 2009, and mortgage loans delivered into MBS must have issue dates on or before March 1, 2009.

Mortgage Loans with an Interest-Only Feature

Announcement 08-22 updated the requirements for loans with an interest-only feature, and required that all mortgage loans with an interest-only feature receive an Approve/Eligible recommendation from DU in order to be eligible for delivery to Fannie Mae. DU will be updated to implement this policy change. Any DU Version 7.1 interest-only loan casefile, including MyCommunityMortgage[®] loan casefiles, that receives a Refer or Expanded Approval[®] (EA) recommendation will receive an Ineligible recommendation and is ineligible for delivery to Fannie Mae.

Also with DU Version 7.1, loan casefiles with an interest-only feature must have an interest-only period of 10 or more years in order to be eligible for delivery to Fannie Mae

Since DU is not able to determine the interest-only period for fixed-rate mortgages, or adjustable-rate mortgages underwritten with a generic ARM plan, DU will issue the following message to remind lenders that the interest-only period on interest-only loan casefiles must be 10 years or more:

Mortgage loans with an interest-only feature must have an interest-only period of 10 or more years. If the interest-only period for this loan casefile is less than ten years, the mortgage loan is not eligible for delivery to Fannie Mae.

Delivery Requirements

All DU Version 7.0 loan casefiles underwritten with interest-only periods less than 10 years must be delivered to Fannie Mae on or before March 31, 2009. All whole mortgage loans must be purchased by Fannie Mae on or before March 31, 2009, and mortgage loans delivered into MBS must have issue dates on or before March 1, 2009.

Consideration of Authorized User Accounts

DU Version 7.1 will take credit report tradelines designated as “authorized user” tradelines into consideration as part of the DU credit risk assessment.

Lenders will no longer be required to review mortgage loans that include “authorized user” tradelines that belong to a borrower’s spouse when the spouse is not on the mortgage transaction. However, lenders should continue to review credit report tradelines in which the applicant has been designated as an “authorized user” in order to ensure the tradelines are an accurate reflection of the borrower’s credit history. If the lender believes the authorized user tradelines are not an accurate reflection of the borrower's credit history, the lender should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision.

More information on the consideration of authorized user tradelines can be found in Announcement 08-01, *Miscellaneous Changes* and in Announcement 08-08.

In order to assist lenders in their review of “authorized user” tradelines DU will issue the following message:

DU has identified the following credit report tradelines as accounts belonging to an authorized user:

<i>Creditor</i>	<i>Account Number</i>
<i>Creditor Name</i>	<i>123456789</i>

Loan-Level Price Adjustments

The DU message reminding lenders that a loan-level price adjustment applies to a specific loan casefile will be updated to align with Announcements 08-18 and 08-27.

New and Modified Messages

The net rental income verification message will be modified to be consistent with the policies specified in Announcement 08-16 regarding primary residence conversions:

*Verify the net rental income or loss with the borrower's most recent signed federal income tax return (Pages 1, 2 and Schedule E). A copy of the current lease agreement may be used only if the property is not on the Schedule E because it was acquired subsequent to filing the tax returns. **If the property was formerly a primary residence, a fully executed lease agreement, receipt of a security deposit, and documented equity in the property of at least 30 percent must be provided.** If the total expense ratio already includes the entire rental property payment (i.e., income from the property not considered), no documentation is required. Net rental income is not allowed on second homes and should not be used for income on the subject property. Refer to the [Selling Guide](#) for additional information.*

Two new messages will be added for refinance transactions to remind lenders of the refinance guidelines specified in Announcement 08-22 regarding property ownership seasoning requirements, listing history requirements, and clarification of the short-term refinance policy.

The following message will be issued on all cash-out refinance transactions:

This loan casefile has been underwritten as a cash-out refinance. Confirm that the subject property has been owned by the borrower(s) for at least six months prior to the date of the loan application, and that the property is not currently listed for sale. If the subject property has not been owned for at least six months or the property is listed for sale, the loan is ineligible for delivery to Fannie Mae. If the property has been listed for sale in the six months prior to the date of the loan application, the LTV/CLTV/HCLTV for this cash-out refinance would be limited to 70 percent (65 percent for manufactured housing), otherwise the loan casefile may be updated and resubmitted as a limited cash-out refinance.

The following message will be issued on all limited cash-out refinance transactions:

This loan casefile has been underwritten as a limited cash-out refinance. If the first mortgage being paid off with this transaction was used to payoff any subordinate financing that was not used to acquire the property, and that mortgage has not been seasoned for at least six months prior to the date of the loan application, the loan is ineligible for delivery to Fannie Mae as a limited cash-out refinance. In addition, the property must not be currently listed for sale.

The following message will be added to Flexible mortgage transactions that include biweekly payments.

This loan casefile is ineligible because Flexible mortgages with biweekly payment schedules are not eligible for delivery to Fannie Mae.

An update will be made to the verbal verification of employment (VOE) message to require the lender to obtain an authorization to request copies of federal income tax returns for all borrowers in which a verbal VOE is used to verify employment.

*Perform and document a verbal verification of employment for each borrower within 30 days of closing. Independently obtain a telephone number and address for the business. If the borrower is not self-employed, confirm the borrower's current employment status. For self-employed borrowers, independently obtain and document a phone number and address for the business. **For all borrowers, obtain authorization from the borrowers to request copies of federal income tax returns.***

The verification message for Social Security and disability income will be updated in order to include a reference to the SSA-1099.

Social Security income for <borrower> must be verified with a copy of the award letter, a copy of the most recent SSA-1099, copies of signed and filed federal income tax returns, or a copy of the most recent bank statement to confirm receipt of the Social Security income. For disability income, provide written documentation of the monthly income and verify continuance for at least three years. When the lender believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, the lender may conclude that the income is considered stable, predictable, and likely to continue and therefore the lender is not expected to request additional documentation from the borrower. Refer to the Fannie Mae Selling Guide for additional information.

The message that is issued on cooperative share loans will be revised in order to clarify how the pro rata share of the blanket mortgage should be reflected in the loan application.

The pro rata share of the blanket mortgage(s) on the real estate must not be included in the Appraised Value amount entered in the online loan application. Refer to the Selling Guide for details on determining the sales price, loan amount, and appraised value.

The following income verification message will be updated to include more detail on what is needed if a verification of employment (1005) is used to verify the borrower's income.

<Borrower's> income must be supported by a paystub, a telephone confirmation of employment, and a W-2 from the prior year, or by a standard Verification of Employment (1005). The paystub must be dated no earlier than 30 days from the application date and it must include at least 30 days of year-to-date earnings. In lieu of obtaining the telephone confirmation, an additional paystub dated within 30 days of closing may be obtained. If a standard Verification of Employment (1005) will be obtained it must include at least 30 days of year-to-date earnings, as well as prior year earnings if a W-2 is not being provided.

The retirement asset verification message is being updated to provide more detail around the documentation of the withdrawal conditions.

The value entered for the retirement account should be 70 percent of the vested amount of the account. If these assets are needed to support the amount of funds required for closing and reserves, the available account balance must be documented with a recent depository or brokerage account statement, as well as the conditions under which the funds may be withdrawn. If the account allows for withdrawals only in connection with the borrower's employment termination, retirement, or death, the retirement asset should not be entered.

The project review message for manufactured housing located in a PUD, condominium, or cooperative project will be updated to provide further clarification.

This manufactured home is located in a PUD, condominium, or cooperative project. All manufactured home projects must be submitted to Fannie Mae for review, with the exception of PUD projects consisting of double-width manufactured homes. The lender must follow the appropriate instructions (PUD, condominium, or cooperative) as defined in the Fannie Mae Selling Guide.

Miscellaneous

Disputed Credit Report Tradelines

With DU Version 7.1 loan casefiles, lenders will be required to confirm the accuracy of disputed tradelines reported on the borrower's credit report. If it is determined that the disputed tradeline information is accurate, lenders will need to ensure that the disputed tradelines are considered in the credit risk assessment.

The following Verification message will be issued on DU Version 7.1 loan casefiles to remind lenders of this requirement:

DU identified the following tradeline(s) as disputed by the borrower and did not include the tradeline(s) in the credit risk assessment. The lender must verify the accuracy of the tradeline(s) by determining if it belongs to the borrower and by confirming the accuracy of the payment history. If the tradeline does not belong to the borrower, or the reported payment history is inaccurate, no further action is necessary. If the tradeline does belong to the borrower and the reported payment history is accurate, it must be taken into consideration in the credit risk assessment. To ensure it is considered, the lender may obtain a new credit report with the tradeline no longer reported as disputed and resubmit the loan casefile to DU, or the lender may manually underwrite the loan. If the tradeline is a mortgage that was past due by two or more payments in the last 12 months, or a foreclosure that has been filed within the last 5 years, the loan casefile is ineligible for delivery to Fannie Mae.

<i>Creditor</i>	<i>Account Number</i>	<i>Account Type</i>
<i>Creditor Name</i>	<i>987654321</i>	<i>Installment</i>

Multiple Mortgages to the Same Borrower

Announcement 08-22 updated Fannie Mae’s requirements regarding the number of financed properties a borrower may have when the mortgage being delivered to Fannie Mae is secured by a second home or investment property. The DU message that is issued when the borrower appears to have more than ten financed properties will be updated to reflect this policy change. This message will be issued on DU Version 7.1 loan casefiles when the borrower appears to have more than four financed properties.

Borrowers without Traditional Credit

The DU guidelines for loan casefiles that include borrowers without traditional credit will be updated to exclude loan casefiles with interest-only payments. If a loan casefile is submitted with interest-only payments and one of the borrowers does not have a traditional credit history, DU will return on Out of Scope recommendation.

Retiring DU Version 5.7

With the release of DU Version 7.1, DU Version 5.7 will be retired. Therefore, effective December 13, 2008, customers will no longer be able to resubmit loan casefiles to Version 5.7; however, users will be able to view the online loan applications and the DU Underwriting Findings reports created for loan casefiles underwritten through DU Version 5.7. To obtain an updated underwriting recommendation, the user must create a new loan casefile and submit it to DU.

For More Information

For more information about the Announcements referenced in these Release Notes, lenders may contact their Fannie Mae customer account team; mortgage brokers should contact their Desktop Originator® (DO®) sponsoring wholesale lenders.