Mountain West Financial, Inc.

WHOLESALE BULLETIN

IMPORTANT INFORMATION: PLEASE READ IMMEDIATELY

19W-023

Attention: Business Development Managers & Mortgage Brokers **March 21, 2019**

Please take a moment to read the important information contained in this bulletin.

Included in this Bulletin: Fannie Mae DU Version 10.3 Release Notes, March 23, 2019

Effective the weekend of March 23, 2019, Fannie Mae will implement an update to Desktop Underwriter Version 10.3 which will include the changes described below.

Except for the DU validation service enhancements and the reserves to verify update, the changes in this release will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of March 23, 2019.

The changes in this release include the following:

- DU Validation Service Enhancements
- HomeReady AMI Determination
- Disaster Message Change
- DU Underwriting Findings Report Updates
- Updates to align with Fannie Mae's selling guide

DU Validation Service Enhancements

Message Consolidation
Eleven new DU validation service income and employment messages will replace 41 existing messages.

Report retrieval message (three): These messages will specify the receipt of third party vendor reports that were:

- Received and used
- Received but not used, with the specific reason the report was not used; and
- Expected but were not successfully received.

Employment Validation messages (two): These messages will specify when employment has been validated as:

- Been validated; and
- Not been Validated, with the specific reason the employment was not validated.

Income Validation messages (three): These messages will specify when income has been validated as:

- Validated;
- Not validated because DU calculated a lower amount of income that the income entered into DU; and
- Not validated, with the specific reason the income was not validated.

NOTE: These messages will include a “vendor match” field. This is the value found on the report that allowed DU to identify the income source (the employer name). By specifying this value, lenders will be able to review the appropriate section of the report to determine if there is conflicting or contradictory information.

Explanatory messages (three): These messages will:

- Explain the supplemental documentation that may be required for Social Security income validation;
- Explain the combined base, bonus, overtime, and or commission income calculations when a borrower has multiple current employers; and
- Clarify the DU income calculation when joint tax transcripts are used for more than one borrower’s income.

Commission Income Validation
Fannie Mae Announcement SEL-2018-09 removed the different treatment of commission income based on the percentage of employment income. The DU validation service will be updated to align with this change.

Currently, when a borrower receives commission income that is 25% or more of total employment income, the DU validation service requires the lender to obtain both a verification of income (VOI)/verification of employment (VOE) report and tax transcripts to validate the borrower’s income. Tax transcripts will no longer be required, and commission income will be treated in the same manner as other wage income and will only require a VOI/VOE report.

NOTE: This update to commission income validation will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of March 23, 2019.

Income Calculation Update
Based on lender feedback with respect to identifying conflicting and contradicting information, DU will be updated to identify inconsistencies between “Rate of Pay” and “Year to Date Income” for base pay on VOI/VOE reports.

This update includes the following:

- If the Year to Date income is less than expected when compared to the Rate of Pay (within and established tolerance), base income will not be eligible for validation. Other income types (i.e. bonus, overtime, and commission) will remain eligible for validation.
- If Total Pay is the only income value reported (there are no income values reported for bonus, overtime, or commission), and Total Pay is less than expected when compared to the Rate of Pay (within an established tolerance), base income will not be eligible for validation. Since there are no other income types reported, no other income types would be eligible for validation.

NOTE: This income calculation update will only apply to loan casefiles created on or after the weekend of March 23, 2019.

HomeReady AMI Determination
Currently, when determining the Area Median Income (AMI) limit to use for HomeReady eligibility, DU will attempt to standardize the address to determine the census tract. If DU is not able to standardize the address (no census tract is obtained), and the lender does not provide a Federal Information Processing Standard (FIPS) code that includes the census tract, DU will use the lower income limit for the state in which the property is located,

With this update, DU will use the lowest income limit for the county in which the property is located before the state limit is used. When the subject address cannot be standardized and a census tract cannot be determined, but the state and zip code are provided, DU will use the AMI for the county associated to the center location of the provided zip code to estimate HomeReady eligibility.

DU will continue to use the FIPS code when provided by the lender to determine the AMI. If only a partial FIPS code is provided, which includes the state and county codes, DU will use the AMI associated to that specific county.

NOTE: The FIPS code is a unique code assigned to all geographic areas by the U.S. Census Bureau. The 11-digit FIPS code includes the state number as the first two digits, with the next three being the county number, and the last six being census tract number. The census tract is provided on the appraisal, and can also be obtained using other geocoding technology (i.e. the Census Geocoder on the U.S. Census Bureau website).

Disaster Message Change
With DU Version 10.3 a new message was added for properties located in disaster impacted areas that were also eligible for the appraisal waiver offer. With this update, DU will issue this message on any loan casefile impacted by a recent disaster.

The message will indicate that:

- The property is located in an area that may have been impacted by a recent disaster.
- The lender must take prudent and reasonable actions to determine if the condition of the property has been materially impacted by the disaster,
- The lender must comply with the property eligibility requirements that pertain to properties affected by a disaster in the Fannie Mae guide, and if an appraisal waiver was offered, the lender may continue to use the appraisal waiver if the conditions described above are met.

DU Underwriting Findings Report Updates
Enhanced Findings Report

The "With Undisclosed DTI" will be removed from the Expense Ratios section, in the Underwriting Analysis Report of the enhanced version of the DU Underwriting Findings report.

In the Day 1 Certainty section of the enhanced report, the "Collateral Rep and Warrant" section name will change to "Appraisal Rep and Warrant".

Updates to Align with the Selling Guide

Retire Form 1004MC
Fannie Mae Announcement Sel-2018-06 removed the requirement for Form 1004MC, Market Conditions Addendum to the appraisal report. The message referencing the requirement for the 1004MC will be removed.

HomeStyle Renovation
On a HomeStyle Renovation mortgage loan, the cost of renovations cannot exceed 75% of the lesser of

the sum of the purchase price plus renovation costs, or the "as completed" appraised value for purchase transactions; or the "as completed" appraised value for refinance transactions. DU will also include the Energy Improve Amount and PACE loan payoff amount in the calculation to determine if a loan casefile meets the 75% guideline.

Employment-Related Assets as Qualifying Income
Fannie Mae Announcement SEL-2018-08 increased the maximum LTV, CLTV, or HCLTV ratios from 70% to 80% for loans where the asset owner is at least 62 years old at the time of the loan closing. DU will be updated to support this policy change.

Small Business Administration Loans
Fannie Mae Announcement SEL-2018-09 clarified that all Small Business Administration (SBA) loans secured by the subject property must be treated as subordinate financing, included in the calculation of the CLTV and HCLTV ratios, and the monthly payment must also be included in the DTI ratio calculation unless the lender can satisfy specific requirements.

The message issued by DU when subordinated financing is listed on the loan casefile but there is no corresponding payment entered in the Proposed Monthly Housing Payment section of the application will be updated. The message will specify that including no payment is acceptable if the subordinate lien is related to a business obligation and it complies with the policy in Fannie Mae's selling guide that allows the exclusion of the payment.

Removal of Form #2106 References
Fannie Mae Announcement SEL02018-09 removed the requirements for IRS Form 2106. The DU messages that reference Form 2106 will be updated to remove those references.

Reserves to be Verified
With DU Version 10.3, an eligibility guideline was added to ensure that cash out refinance transaction for borrowers with a debt to income ratio exceeding 45% have at least ***SIX*** months of reserves disclosed on the loan application. The Reserves Required to be verified on these transactions will be updated to include this amount, at a minimum.

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