

WHOLESALE BULLETIN

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[Bolt Training](#)

[Wholesale Website](#)

[Previous Bulletins](#)

20W-065

Attention: AEs, Business Development Managers & Mortgage Brokers

May 8, 2020

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

Included in this Bulletin: REVISED Fannie Mae DU Release Notes for May 2020

During the weekend of May 16, 2020, Fannie Mae will implement an update to Desktop Underwriter (DU) Version 10.3. Unless specified below, the changes in this release will apply to DU Version 10.3 loan casefiles submitted or resubmitted on or after the weekend of May 16, 2020.

Housing Goals Messages

The housing goals messages in DU are currently only issued when the address can be standardized and a 16-digit Federal Information Processing Standard (FIPS) code is obtained, or when the lender provides the 16-digit FIPS code on the loan application. The 16-digit FIPS code includes the state number as the first two digits, with the next three being the county number, the next six being census tract number, and the last five being the MSA number. DU will no longer require a 16-digit FIPS code to issue these messages.

The messages used to indicate the property is in a high needs rural region, a low income area census tract, a minority census tract, or a designated disaster area census tract will be updated to use an 11-digit FIPS code. That 11-digit FIPS code can be provided by the lender on the loan application, or DU will use what is received when the address can be standardized.

The messages used to indicate if the loan casefile may be eligible towards Fannie Mae's low income purchase goal, very low income purchase goal, and low income refinance goal will be updated to include the following waterfall approach:

- If an 11-digit FIPS code is received by DU when the address is standardized, or is provided on the loan application, that FIPS code will be used to issue the applicable message.
- If an 11-digit FIPS code is not received, but a 5-digit FIPS code representing the state and county is received when the address is standardized, or is provided on the loan application, that FIPS will be used to issue the applicable message.
- If a 5-digit FIPS code is not received (on the loan application or through address standardization), DU will not issue any housing goals messages.

Note: The FIPS code is a unique code assigned to all geographic areas by the U.S. Census Bureau. The census tract is provided on the appraisal, and can also be obtained using other geocoding technology (e.g., the Census Geocoder on the U.S. Census Bureau website).

DU Underwriting Findings Report

The changes below will be made to the enhanced and classic versions of the DU Underwriting Findings report.

- **Casefile Create Date:** When a policy change is made without a new version of DU, that policy change is implemented using the date the loan casefile was created. For lenders to be certain if the policy should apply to a specific loan casefile, the “Casefile Create Date” will be added to the summary section of the DU Underwriting Findings report.
- **Sales Price:** The Sales Price field name displayed in the Summary section of the report will be updated to include the phrase “purchase transactions.” This will remind lenders that even if a value is included in the Purchase Price field on the loan application for refinance transactions, it will only be displayed in the Summary Section of the report on purchase transactions.
- **Expense Ratio with Undisclosed Debt (classic only):** The “With Undisclosed DTI” will be removed from the Expense Ratios section in the Underwriting Analysis Report.

Real Estate Owned Data in Debt to Income Ratio

Insurance, Maintenance, and Taxes

Currently DU requires a separate “Taxes” or “Other” liability be created that reflects the monthly amount of the taxes, insurance, and association dues for the borrower’s current residence on second home and investment property transactions. DU will now use the Insurance, Maintenance, Taxes & Misc. entered for the borrower’s current residence in the Schedule of Real Estate Owned (REO) section of the loan application in the debt to income (DTI) ratio calculation.

This update will apply to loan casefiles **created on or after June 1, 2020.**

Note: The Fannie Mae “Job Aid” providing instructions for entering housing expenses for the borrower’s current residence on second home and investment property transactions will continue to apply to DU Version 10.3 loan casefiles **created before June 1, 2020.**

Rental Income

Currently DU requires the Net Rental Income associated with a borrower’s 2–4 unit current residence to be entered in the income section of the loan application on second home and investment property transactions. DU will now use either the Gross Rental Income or Net Rental Income entered for a borrower’s 2–4 unit current residence in the REO section of the loan application in the DTI ratio calculation. When Net Rental Income is entered, that amount will be used in the DTI ratio calculation. If only Gross Rental Income is entered, DU will use 75% of the Gross Rental Income in the DTI ratio calculation.

Note: DU will continue to use the Net Rental Income entered in the income section of the loan application, when provided, even if Net Rental Income is entered in the REO section.

Rental Housing Expense

Fannie Mae Selling Guide announcement SEL 2020-01 clarified the documentation required to

verify the borrower's rental housing payment when the subject transaction is a second home, investment property, or includes a non-occupant co borrower.

A new DU message will be issued when a borrower discloses rent as their current housing payment on a second home or investment property transaction, or a non-occupant co borrower discloses rent as their current housing payment. This message will remind lenders that the rental housing payment must be verified and documented.

Note: This new message will only be issued on loan casefiles **created on or after June 1, 2020.**

Retirement Income Validation in the DU Validation Service (ADDED TO RELEASE NOTES MAY 7, 2020)

Currently, the DU validation service can validate retirement income in the form of pension, annuities and IRA distributions because these income types are grouped together in one line on the 2018 tax return and tax transcript data used by the DU validation service. If retirement income entered into DU includes IRA distributions, then the DU validation service issues a message requiring lenders to document evidence of enough assets to support a three year continuance.

The IRS changed the 2019 tax returns to separate IRA distributions from pension and annuity income; therefore, these fields are now separated on the tax transcripts data used by the DU validation service. As a result, retirement income from IRA distributions will no longer be eligible for income validation. The DU validation service will no longer include a requirement to document evidence of enough assets to support a three year continuance since only retirement income from pension and annuity will continue to be eligible for validation.

Note: The change will be effective for loan casefiles submitted or resubmitted on or after May 16, 2020.

If you have any questions, contact your local Account Executive, or Production Coordinator.

Author: Underwriting