



# Bankers Advisory

## COMPLIANCE MONITOR

July 23, 2015

### *Fannie Mae Announces DU Changes for Government Loans*

By Anna DeSimone

July 23, 2015 Fannie Mae published DU Release Notes: DU for Government Loans Release Notes September 2015. The announcement is reproduced below:

During the **weekend of September 12, 2015**, Desktop Underwriter for government loans will be updated to include the changes below:

- Implementation of the October 2014 changes
- Changes to comply with FHA's new Single Family Housing Policy Handbook
- Other Miscellaneous Changes
- The changes included in this release will apply to all loan casefiles submitted or resubmitted to DU for government loans on or after the weekend of September 12, 2015.

NOTE: For ease of reference, this document generally uses the term "DU" to refer to "DU for government loans."

#### **Implementation of the October 2014 Changes**

After the October 2014 DU for Government Loans release, a decision was made to revert to the previous code, based on issues FHA was experiencing with their TOTAL scorecard. As part of the September 2015 release, those changes will now be re-implemented, including the updates to how Gift Funds should be entered. Refer to Appendix A below for details on the changes from the October release that will be implemented.

#### **FHA Guide update**

Effective September 14, 2015, FHA will implement the new Single Family Housing Policy Handbook (Handbook 4000.1). DU messages will be updated to align with the new handbook, and messages that no longer apply will be retired. The changes being made for HUD Handbook 4000.1 are extensive. Refer to the Handbook 4000.1 for information on the changes in FHA policy.

Additionally, several logic changes will be made to DU, as well as changes to how information should be entered based on the new Handbook 4000.1. These changes include but are not limited to:

- Excluded Liabilities: DU will omit FHA installment liabilities that are less than 10 months and in aggregate are less than 5% of all income on the loan (today DU only omits liabilities that are less than 10 months and less than or equal to \$100).
- Seller Contributions: The calculation on whether seller contributions apply will be updated to be based solely off of the purchase price.
- Simple Refinance Program: As part of their guide updates, FHA added the Simple Refinance type. Simple Refinances should be entered as Rate and Term (No-Cash-Out) refinances in DU. The MIP amounts shown on the findings will not be correct, so lenders should verify the correct MIP amounts with FHA.
- Secondary Financing and the Maximum Loan Amount Calculation: For Cash Out Refinances with any form of secondary financing, or for Rate and Term Refinances (No Cash Out) and Purchases where privately held secondary financing exists, the maximum loan amount calculation must now be applied outside of DU.

--Reserves on 1-2 Unit Properties: For all loans receiving a Refer recommendation, a new message will be shown reminding lenders that 1 months reserves are now required.

--Military Borrowers: For submissions where active duty military income is indicated, a new message will be shown reminding lenders that a copy of the borrower's Military Leave and Earnings Statement is now required.

## **Other Miscellaneous Changes**

### **Cash Back on FHA Purchases**

Currently, if a submission shows cash back on an FHA purchase due to the refund of cash on the contract, that submission will receive an ineligible message, even though FHA guidelines allow that money to be refunded. With this release, DU will modify the information it sends to the TOTAL scorecard so that it is not showing as cash back in these cases. This change only applies to what DU sends to TOTAL, the findings may still show the cash back amount. No data entry changes are required and all previous guidance still applies.

### **Miscellaneous Message Text Changes**

Various messages will be updated for both usability and format.

### **Important Additional Information**

- The DU release will occur the weekend prior to the Monday effective date for FHA's new guide. Lenders should verify that any submissions after September 12, but prior to September 14 comply with current FHA guidelines.
- As noted above, these DU changes will apply to all submissions and re-submissions made on or after the weekend of September 12, 2015. For re-submissions of any casefiles originally created prior to this release, lenders should verify which FHA rules apply and that all applicable FHA guidelines are met by that submission.

Please refer to the [Fannie Mae DU Update](#) for a complete list of resources

Anna DeSimone is President and Founder of Bankers Advisory and Principal of CliftonLarsonAllen LLP. She can be reached at [anna@bankersadvisory.com](mailto:anna@bankersadvisory.com)