

# Desktop Originator<sup>®</sup>/Desktop Underwriter<sup>®</sup>

## Version 5.6 Update

### Release Notes

April 19, 2007

On **May 19, 2007**, we are updating Desktop Originator (DO<sup>®</sup>)/Desktop Underwriter (DU<sup>®</sup>) to modify certain assessments and policies as described below. A critical part of Fannie Mae's mission is to provide stability for the primary mortgage market. We fulfill our mission by maintaining liquidity through, among other things, the development of loan products and technologies that advance sustainable homeownership.

Fannie Mae and its lender-partners are working to advance prudent risk management and sustainable homeownership opportunities. We believe that targeted and appropriate adjustments to DU will support our lender-partners and other industry participants in better serving borrowers with sustainable mortgage options. To that end, we are modifying DU's assessment of loans that have considerable layering of risk – in particular those loans with a high combined loan-to-value ratio (CLTV) where the borrowers have had significant credit problems in the past. With this release of DU, we are adjusting the way in which DU assesses (1) product delivery eligibility and (2) credit standards, in each instance to better support prudent risk management and sustainable homeownership in today's market. These changes will apply only to new loan casefiles submitted to DU on or after May 19, 2007.

With this DU Version 5.6 Update, we are modifying our loan delivery eligibility criteria for MyCommunityMortgage<sup>™</sup> (MCM<sup>™</sup>) loans that have layering of risk; modifying the credit standards for high-risk loans; retiring the DU Underwriting Recommendation Improvement Enhancement; and implementing a new policy for the payoff of collections. These changes are described below.

#### **Loan Delivery Eligibility Modified for MCM Due to Risk Layering**

Certain loans that contain considerable layering of risk will no longer be eligible for delivery to Fannie Mae as MCM loans. Effective May 19, 2007, new loan casefiles submitted to DU as MCM that do not meet certain minimum credit standards will receive an Ineligible for delivery recommendation from DU. However, because these casefiles may be eligible for delivery under non-MCM product parameters, we encourage lenders to resubmit these casefiles to DU as non-MCM loans.

For MCM loans that are Ineligible for delivery due to considerable layering of risk, DU will return the following message:

*This case is ineligible for delivery as a MyCommunityMortgage loan because it does not meet the specific minimum credit standards for MyCommunityMortgage. The lender may remove the MyCommunityMortgage product selection and resubmit the loan to determine if the loan is eligible outside of MyCommunityMortgage.*

It is important to note that the DU risk assessment is not being changed for these MCM loans; what is changing is the minimum credit eligibility for MCM loans delivered to Fannie Mae. In other words, all factors being the same, an MCM loan that would have received an Approve/Eligible recommendation prior to the DU release date, will now receive an

Approve/Ineligible recommendation if the loan fails to meet the new MCM credit eligibility criteria.

When these loans are then resubmitted as non-MCM loans, DU will automatically apply the Flexible mortgage underwriting guidelines according to the LTV/CLTV. If DU determines the loan is Eligible as a Flexible mortgage, or if DU returns an Expanded Approval<sup>®</sup> (EA) EA-I/, -II/, or -III/Eligible recommendation for an EA lender, the loan can be delivered subject to the applicable loan-level price adjustment, mortgage insurance coverage, and special feature codes.

**Note:** This modification will apply only to new loan casefiles submitted to DU on or after May 19, 2007. It will not apply to existing loan casefiles that were submitted to DU prior to May 19, 2007 (even if the loans are resubmitted after the release date).

#### **Credit Standards Modified for High-Risk Loans**

The credit standards for loans underwritten with the assistance of DU will be modified for all loans that have considerable layering of risk (i.e., high CLTV where the borrowers have had significant credit problems in the past). As a result of this modification, certain high-risk loans that previously would have received an Approve, Refer, or EA-I, -II, or -III recommendation may now receive a more conservative recommendation.

**Note:** These modifications will apply only to new loan casefiles submitted to DU on or after May 19, 2007.

#### **DU Underwriting Recommendation Enhancement Retired**

As part of our regular review of the underwriting guidelines and policies in DU to ensure effectiveness in the marketplace, Fannie Mae has decided to retire the DU Underwriting Recommendation Enhancement for new loan casefiles effective with the May 19, 2007 release of DU.

**Note:** This change will apply only to new loan casefiles submitted to DU on or after May 19, 2007. It will not apply to existing loan casefiles that were submitted to DU prior to May 19, 2007 (even if the loans are resubmitted after the release date).

#### **Collection Payoff Policy Modified for Certain DU Loans**

Paying off collection accounts can be a challenge for borrowers with less-than-perfect credit. Therefore, we are changing our policy for one-unit, owner-occupied loans underwritten with the assistance of DU so that borrowers will not be required to pay off outstanding collections – regardless of the amount – provided the collection will not threaten Fannie Mae’s first-lien position.

**Note:** Although borrowers will not be required to pay off outstanding collections, DU will continue to consider the presence of collections in its risk assessment.

DU will return the following new message:

*The following collection and chargeoff accounts are shown on the credit report. These accounts do not need to be paid off prior to or at closing if the lender is able to confirm that the accounts pose no threat to Fannie Mae’s first mortgage lien. If payoff is required, funds sufficient to settle the account(s) must be verified and documented.*

*Borrower/Creditor/Account Number/Amount*

**Note:** This new policy will apply to both new and existing loan casefiles submitted to DU Version 5.6 regardless of the submission date.

**For More Information**

If you have questions about the DU Version 5.6 Update, please call our Customer Contact Center at 1-877-722-6757, or contact your Fannie Mae customer account team or business technology consultant. Brokers, please contact your sponsoring wholesale lender.