

National MI Announcement: UW: 2016-7

Date of Announcement: September 6, 2016

Effective Date of Changes: No National MI Guideline Changes – GSE effective dates included below

Fannie Mae Desktop Underwriter® 10.0

On the weekend of September 24, 2016, Fannie Mae will implement Desktop Underwriter Version 10.0® (DU® 10.0). **National MI will accept DU 10.0 responses in lieu of DU® 9.3 in the mortgage insurance eligibility assessment in accordance with existing National MI Guidelines.**

- **Non Traditional Credit**
 - **Casefiles including borrowers with scores and borrowers without traditional credit**
Loans originated to Fannie Mae’s revised guidelines remain eligible for mortgage insurance.
As before, National MI requires a borrower to have a credit score, which will determine eligibility and pricing (National MI does not default to the 620 price).
 - **Casefiles where no borrowers have a credit score**
National MI’s guidelines include an overlay that requires that at least one borrower have at least one FICO® score (**casefiles where all borrowers have non-traditional credit are not eligible**).
- **Multiple Financed Properties**
 - Loans originated according to Fannie Mae’s new guidelines fall within National MI requirements.

Refer to the attached “News You Can Use” for details regarding DU 10.0.

News You Can Use

Fannie Mae Desktop Underwriter[®] 10.0 Highlightsⁱ

Eligibility

On the weekend of September 24, 2016, Fannie Mae will implement Desktop Underwriter Version 10.0[®] (DU[®] 10.0). These highlights cover 3 components of DU 10.0:

- 1) Updated DU Credit Risk Assessment (Including Trended Credit Data)
- 2) Non-Traditional Credit
- 3) Multiple Financed Properties

1. Updated DU Credit Risk Assessment (Including Trended Credit Data)

Fannie Mae's credit risk assessment occurs within the DU model and measures the likelihood of a loan becoming seriously delinquent. Several components of the assessment have been revised including but not limited to self-employment income, multiple inquiries of the same type, and trended credit data (for details refer to *Appendix A: Comparison of Risk Factors Evaluated by DU Versions 9.3 and 10.0* to the *Release Notes*). DU 10.0 will only assess trended credit data for revolving credit card accounts for the most recent 24 months' payment history. Keep the following in mind regarding DU 10.0 revisions:

- 1) Factors (included trended credit data) incorporated into the DU credit risk assessment have no direct impact on National MI's underwriting guidelines.
- 2) Lenders and insurers are not expected to analyze trended credit data or any of the other factors within the DU credit risk assessment.
- 3) DU 10.0 will have little to no impact on the percentage of Approve/Eligible recommendations.
- 4) DU 10.0 improves the overall risk assessment from a portfolio perspective because a very small number of formerly eligible loans will become ineligible and be replaced by a similar number of better performing formerly ineligible ones.
- 5) In order to complete its analysis, Fannie Mae must obtain a data set from the credit repositories containing trended credit data. There will be regional & bureau differences as to how these will be reflected on the credit report. Refer to Fannie Mae publications for a description of the logistics Fannie has worked out with the credit repositories.

ⁱ Highlights are presented for general informational purposes only and should not be relied upon. For definitive information, users should directly consult the applicable Fannie Mae documentation, including, but not limited to, Desktop Originator/Desktop Underwriter Release Notes DU Version 10.0 dated February 23, 2016.

2. Non-Traditional Credit

Fannie Mae is making changes to 1) casefiles with a mix of borrowers with credit score(s) and without traditional credit and 2) casefiles in which no borrowers have a credit score.

1) Casefiles with a mix of borrowers with credit scores and without traditional credit

- a. The requirement that income used in qualifying for the loan cannot come from self-employment is being removed
- b. The requirement that the borrower(s) with a score contribute 50% or more of the income is being removed. However, a new requirement has been added: If the borrower(s) with a score do not contribute more than 50% of qualifying income, then the lender must document a minimum of two sources of nontraditional credit that has been active for 12 months for each borrower without traditional credit, one of the sources being housing-related.
- c. Other Fannie Mae guideline limitations remain in place
- d. As before, these casefiles remain eligible for insurance, and pricing is based on the borrower with a score

2) Casefiles in which no borrowers have a credit score

- a. Fannie Mae will now allow casefiles where all of the borrowers have non-traditional credit to be processed via DU 10.0 rather than manual underwriting.
- b. This update will automate what is currently a manual process for lenders.
- c. Lenders must continue manual verification on non-traditional credit sources (number & type of sources is determined by DU 10.0).
- d. National MI's AUS guidelines include an overlay that requires that at least one borrower have at least one FICO score (casefiles where all borrowers have non-traditional credit are not eligible).

3. Multiple Financed Properties

This DU 10.0 change simplifies Fannie Mae policy regarding multiple financed properties, reduces the number of Fannie Mae overlays, and updates the DU reserve requirements. National MI does not have any guideline overlays regarding multiple finance properties, so these DU changes fall within National MI guidelines. Keep the following in mind regarding multiple financed properties:

- 1) The *Number of Financed Properties* field has been added to DU 10.0 dataset.
- 2) Based on the data entered into the new field or an assessment of the bureau data if the new field is not populated, DU 10.0 will determine the number of financed properties and then assess eligibility (minimum 720 if 7-10 financed and maximum 10 financed properties) and set the required reserves (as a percentage of the unpaid principal balance).

4. Reference Materials available from Fannie Mae include but are not limited to:

- 1) Desktop Originator/Desktop Underwriter Release Notes DU Version 10.0 dated February 23, 2016
 - 2) Desktop Underwriter (DU) Version 10.0 Integration Impact Memo dated February 29, 2016
 - 3) Trended Credit Data Improves DU Risk Assessment and Supports Access to Mortgage Credit
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