



Desktop Underwriter and Desktop Originator Solutions for Guaranteed Rural Housing Loans

August 2001

Fannie Mae's commitment to rural housing is underscored through our *American Dream Commitment*, a ten-year, \$2 trillion pledge to increase homeownership rates and serve 18 million targeted American families by 2010. This commitment includes the Opportunity for All Strategy, designed to address the unique housing needs of targeted groups, including rural dwellers.

Fannie Mae is partnering with the USDA's Rural Housing Service (RHS) on its Section 502 Guaranteed Rural Housing loan product, which provides low- and moderate-income rural residents with better access to credit and decent, affordable housing. Guaranteed Rural Housing loans that are guaranteed by RHS can be submitted for analysis through Fannie Mae's Desktop Underwriter® and Desktop Originator®.

Guaranteed Rural Housing loans should be entered in Desktop Underwriter or Desktop Originator as 30-year, fixed-rate mortgages. After each loan is submitted for underwriting analysis, Desktop Underwriter displays the underwriting recommendation in the Case Browser window in Desktop Underwriter and on each of the underwriting reports. Because of the criteria specified by RHS for Guaranteed Rural Housing loans, it is unlikely that these loans will receive an "approve" recommendation from Desktop Underwriter. For many lenders, however, the analysis performed through Desktop Underwriter will assist them in making their own underwriting analysis. Loans that receive the RHS guarantee will be acceptable for deliver to Fannie Mae regardless of the Desktop Underwriter rating. All parameters of the Guaranteed Rural Housing Loan program apply.

Guaranteed Rural Housing loans can be delivered to Fannie Mae (irrespective of the Desktop Underwriter recommendation) if the lender ensures that the following conditions have been satisfied:

1. Lenders must be approved by RHS and have the Guaranteed product added to their Fannie Mae master agreement (and the lender must otherwise comply with the product terms).
2. The lender must have the RHS Guarantee in their possession prior to delivering the loan to Fannie Mae.
3. Dwelling must be primary residence.
4. Residence must be located in a RHS defined "Rural" area.
5. Family income can not exceed the RHS income limit.

6. There is no loan limit except for the Fannie Mae conforming loan limit (currently \$275,000).
7. Ratios can be 29/41 unless RHS approves higher limits based on “compensating factors.”
8. 30-year, fixed-rate loan
9. Traditional credit reports, not “streamlined,” are required.
10. A standard URAR appraisal is required.
11. LTV of 100 percent of appraised market value and CLTV of 105 percent allowed (Desktop Underwriter is set up to use the lesser of sales price or appraised value.)
12. No cash reserves required, although the presence of reserves may improve the recommendation.
13. 6 percent cap on seller contributions.
14. No mortgage insurance required. You may disregard the mortgage insurance message that prints on the Desktop Underwriter Findings Report.

Special Feature Codes

The Desktop Underwriter processing code and Guaranteed Rural Housing codes must be entered upon delivery. Use Desktop Underwriter **code 127** if the lender delivering the loan is the lender that underwrote the loan in Desktop Underwriter; use **code 214** if the lender delivering the loan is not the lender that underwrote the loan in Desktop Underwriter. The Guaranteed Rural Housing code is **084** for regular servicing or **087** for special servicing.

Refer to the Fannie Mae promotional bulletin, Guaranteed Rural Housing and Rural Direct Leveraging Loan Products, for additional details. You may order this bulletin by calling 1-800-471-5554 and requesting bulletin **HI064**.

To obtain a list of RHS state offices, call the Fannie Mae Consumer Resource Center toll-free at 1-800-7 FANNIE (1-800-732-6643), Monday through Friday, 9 a.m. to 5 p.m. ET.

3900 Wisconsin Avenue, NW
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Desktop Underwriter®/Desktop Originator® Solutions For Guaranteed Rural Housing Loans

Guaranteed Rural Housing loans that are guaranteed by the Rural Housing Service (RHS) (USDA) can be underwritten using Fannie Mae's Desktop Underwriter (DU) and Desktop Originator (DO). The loans should be entered in DU or DO as 30-year, fixed-rate mortgages. Desktop Underwriter will analyze the credit risk of the loans without regard to the special provisions allowed in the Guaranteed Rural Housing loan product. All parameters of the Guaranteed Rural Housing Loan program apply.

After each loan is submitted for underwriting analysis, Desktop Underwriter displays the underwriting recommendation in the Case Browser window in Desktop Underwriter and on each of the underwriting reports. Generally, the recommendation is defined in terms of the credit risk profile of the case and in terms of meeting the requirements of Fannie Mae eligibility. The recommendation will be one of the following: Approve/Eligible, Approve/Ineligible, Refer/Eligible, Refer/Ineligible, Refer with Caution, or Out of Scope. A brief explanation of each recommendation is provided below.

- **Approve/Eligible** —Based on the data submitted to Desktop Underwriter, the loan meets Fannie Mae's credit risk and eligibility requirements.
- **Approve/Ineligible** —The loan does not meet Fannie Mae's eligibility requirements. The loan meets Fannie Mae's credit risk requirements based on the eligibility parameters (such as borrower, product, and maximum loan-to-value ratio (LTV)) implemented in Desktop Underwriter. However, the risk analysis does not take into consideration any additional credit risk that might be associated with the ineligibility condition. The lender must determine if the condition that caused the ineligibility creates an additional layering of credit risk that should be considered in the underwriting decision.
- **Refer/Eligible** —The loan meets Fannie Mae's eligibility requirements. Desktop Underwriter evaluated a combination of risk factors, including the LTV, housing and expense ratios, available assets, each borrower's credit history, employment status, product type, property type, and purpose of the loan. Based on the data submitted, Desktop Underwriter is not able to recommend approval of the loan. The Underwriting Findings report will identify the overriding factor or factors that resulted in the loan being referred to an underwriter. The lender must review the conditions that resulted in the referral and determine if the loan meets Fannie Mae's credit risk requirements as described in the *Selling Guide*, Lender Announcements, and Lender Letters.
- **Refer/Ineligible** —The loan does not meet Fannie Mae's eligibility requirements. Desktop Underwriter evaluated a combination of risk factors, including the LTV, housing and expense ratios, available assets, each borrower's credit history, employment status, product type, property type, and purpose of the loan. Based on the data submitted, Desktop Underwriter is not able to recommend approval of the loan. The Underwriting Findings report will identify the overriding factor or factors that resulted in the loan being referred to an underwriter. In addition, the risk analysis did not take into consideration any additional credit risk that might be associated with the ineligibility condition. The lender must review the conditions that resulted in the referral and consider any additional risk associated with the ineligibility condition and determine if the loan meets Fannie Mae's credit risk requirements as described in the *Selling Guide*, Lender Announcements, and Lender Letters.

- **Refer with Caution** —Desktop Underwriter has evaluated a combination of risk factors, including the LTV, housing and expense ratios, available assets, each borrower’s credit history, employment status, product type, property type, and purpose of the loan. Based on the data submitted, the loan does not appear to meet the credit risk requirements in Desktop Underwriter. The credit risk represented by a Refer with Caution loan is statistically greater than the credit risk of loans that receive an Approve or Refer recommendation.

Loans that receive a Refer with Caution recommendation may or may not meet Fannie Mae’s eligibility requirements. The Underwriting Findings report will identify when the loan is ineligible and the reasons for the ineligibility. Generally, ineligibility is related to the loan parameters (such as maximum LTV, number of units, and loan purpose); however, loans receiving a Refer with Caution recommendation may also be ineligible due to the excessive credit risk of the transaction.

- **Out of Scope** — Desktop Underwriter does not contain the rules or models that are necessary in order to underwrite the product, borrower, or type of loan submitted. Therefore, underwriting results and findings may not be valid.

Loans that receive an Approve/Eligible or Refer/Eligible recommendation can be delivered to Fannie Mae with the following variances:

1. Lenders must be approved by RHS and have the Guaranteed product added to their Fannie Mae master agreement.
2. The lender must have the RHS Guarantee in their possession prior to delivering the loan to Fannie Mae.
3. Dwelling must be primary residence.
4. Residence must be located in a RHS defined “Rural” area.
5. Family income can not exceed the RHS income limit.
6. There is no loan limit except for the Fannie Mae conforming loan limit (currently \$275,000).
7. Ratios can be 29/41 unless RHS approves higher limits based on “compensating factors”.
8. 30-year fixed-rate loans.
9. Traditional credit reports, not “streamlined,” are required.
10. A standard URAR appraisal is required.
11. LTV of 100% of appraised market value and CLTV of 105% allowed.
12. No cash reserves required, but the presence of reserves may improve the recommendation.
13. 6% cap on seller contributions.
14. No mortgage insurance required. You may ignore the mortgage insurance message that prints on the DU Findings Report.

If the loan receives an ineligible recommendation (which could be due to LTV, seller contributions, etc.) and the reason for the ineligibility is allowed under the Direct Leveraging program, then the loan can be delivered to Fannie Mae.

Special Feature Codes: The Desktop Underwriter processing code and Guaranteed Rural Housing codes must be entered upon delivery. The GRH code is 084 for regular servicing, 086 for modified special servicing, or 087 for special servicing.

Refer to the Fannie Mae promotional flyer “Guaranteed Rural Housing and Rural Direct Leveraging Loan Products,” for additional details.

To obtain a list of RHS State Offices call the Fannie Mae Consumer Resource Center toll-free at 1-800-7 FANNIE (1-800-732-6643), Monday through Friday, 9 a.m. to 5 p.m. ET.