Leveraging Data to Drive a Fully Digital Mortgage Process

March 2017
Objective:

- Describe how Fannie Mae is leveraging Data in the industry
- Discuss Day1 Certainty
- Discuss how Data drives Reps and Warrants
- Discuss how Data is used to relieve QC efforts
- Discuss how Data can lower cycle time
Background on Fannie Mae’s Data

What we had pre crisis:

- No Industry Standards
- Appraisal Data
- Limited Data Collected
- QC After Closing
What We Are Hearing From Customers

Universal goals of our customer:

- Improve their borrowers’ experience
- Increased certainty
- Lower costs and increased operational efficiency across all channels
Current view of Fannie Mae’s Data

What we have:

- Industry Standards – Universal Mortgage Data Program (UMDP)
  - Uniform Collateral Data Portal (UCDP)
  - Uniform Closing Dataset (UCD)
  - Uniform Application Dataset (UAD)
Current view of Fannie Mae’s Data

What we have:

- Uniform Loan Delivery Dataset
- EarlyCheck
- Appraisal Data from UCDP
- Collateral Underwriter
DU Validation Service
Property Inspection Waiver
Certainty on Appraised Value
**Enhanced Property Inspection Waiver**

DU offers to waive the appraisal for certain refi transactions.

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**Step One:** Lender submits casefile to DU

**Step Two:** DU issues offer to waive appraisal

**Step Three:** Lender accepts the appraisal waiver offer

**Step Four:** Lender delivers loan to Fannie Mae with the DU casefile ID and SFC 801

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Fannie Mae will waive the $75 PIW fee on loans delivered after January 1, 2017. Loan deliveries prior to January 1 will be subject to the $75 fee.
New Certainty on Appraised Value

Harnessing the power of Collateral Underwriter® (CU™), Fannie Mae will offer freedom from representations and warranties related to the property value for eligible loan casefiles.

Day 1 Certainty™

Step One: Submit an appraisal through the Uniform Collateral Data Portal®

Step Two: Get real-time feedback from CU

Step Three: With a CU risk score of 2.5 or lower, the appraisal is eligible for freedom from reps and warrants on property value
New DU Validation Service

Desktop Underwriter® (DU®) now gives lenders even more power by providing optional validation of borrower data for income, assets, and employment.
DU Validation Service – Efficiency at Every Touch Point

**Easier Documentation Process**
- Borrower consent enables gathering of data electronically
- Borrowers save time by not having to collect paystubs, bank statements, etc.
- Enables quicker loan decision

**Streamlined Loan Processing**
- Keeps lenders focused on exceptions
- No need to recalculate income or cash to close

**Dynamic Underwriting**
- Validates key loan factors up front
- Provides more certainty on income and asset calculations
- Confirms that the validated component meets Fannie Mae’s requirements
- Higher loan quality because of source data

**Process Efficiencies**
- Reverification not required for assets, income, and/or employment validated in DU
- Execution of the IRS Form 4506-T for an individual borrower is not required in QC when all of the borrower’s income is validated by DU
- Lower risk of borrower committing fraud using altered bank statements

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## Income Validation Providers and Eligible Accounts

<table>
<thead>
<tr>
<th>Income Source</th>
<th>The Work Number® from Equifax®</th>
<th>Equifax® 4506-T Tax Transcript Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Overtime</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Commission &lt; 25%</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Commission 25%+</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Social Security</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Retirement (Pension, Annuity)</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Self-employed income (Sole Proprietor, Sched C)</td>
<td></td>
<td>√</td>
</tr>
</tbody>
</table>
Income is validated by DU on a per-borrower and per-income type basis.

DU obtains audit copy of designated vendor report.

DU calculates income based on information from designated vendor report.

DU calculated amount ≥ amount provided by lender on the online loan application.

YES! Income is validated. Designated vendor report is acceptable documentation.

NO! Income is not validated. Additional document necessary to support income.
The Work Number Report

<table>
<thead>
<tr>
<th>Year</th>
<th>Base Pay</th>
<th>Overtime</th>
<th>Commission</th>
<th>Bonuses</th>
<th>Other Income</th>
<th>Total Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018YTD</td>
<td>$28,800.00</td>
<td>$725.00</td>
<td>$0.00</td>
<td>$500.00</td>
<td>$0.00</td>
<td>$30,925.00</td>
</tr>
<tr>
<td>2015</td>
<td>$130,700.00</td>
<td>$652.50</td>
<td>$0.00</td>
<td>$450.00</td>
<td>$0.00</td>
<td>$130,802.50</td>
</tr>
<tr>
<td>2014</td>
<td>$131,765.00</td>
<td>$567.25</td>
<td>$0.00</td>
<td>$465.00</td>
<td>$0.00</td>
<td>$132,757.25</td>
</tr>
</tbody>
</table>
4506-T Tax Transcript Service
Income Calculation Example: Self-Employment Income

1. Schedule C—Profit or Loss From Business

   **2015**
   - **Business Name:**
   - **Expense:**
     - Depreciation: $2,000.00
     - Meals and Entertainment: $1,000.00
     - Other Expenses: $0.00
   - **Total Expenses:** $3,165.00
   - **Annual Schedule C income (loss):** $51,000

2. DU validation service calculation:

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Income or Loss</td>
<td>$50,000</td>
</tr>
<tr>
<td>- Meals and Entertainment</td>
<td>$1,000</td>
</tr>
<tr>
<td>+ Depreciation</td>
<td>$2,000</td>
</tr>
<tr>
<td>+ Exp. For Business Use of Home</td>
<td>0</td>
</tr>
<tr>
<td>= Annual Schedule C income (loss)</td>
<td>$51,000</td>
</tr>
</tbody>
</table>

   (2015 + 2014) / 24 months = $4,229.16

3. **DU 1003**

   - **Base Income:** $4,200
   - **Self Emp:** Yes

4. **DU message:** Self-employment income for John H of $4,200 entered on the online loan application has been validated using tax return data. The tax return data is acceptable documentation to support this income.
Representations and Warranties
Enforcement Relief
**Day 1 Certainty: Income**

<table>
<thead>
<tr>
<th>When:</th>
<th>Fannie Mae will not enforce representations and warranties related to:</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>The income amount input into DU by the lender is validated...</td>
<td>The accuracy of the lender’s income calculations related to the validated income.</td>
<td>DU message must indicate that the income entered into DU was validated and that the designated vendor report is acceptable documentation.</td>
</tr>
<tr>
<td></td>
<td>The integrity of the data provided on the report obtained from the designated vendor.</td>
<td>Applies on a per-borrower, per-income-type basis.</td>
</tr>
</tbody>
</table>

- Representations and warranties enforcement relief applies only to the specific type of income validated by DU validation service, and solely for the borrower for which it was validated. It is **not** a loan-level income representations and warranties enforcement relief.

- The lender must review the file and the designated vendor report for contradictory information. If the lender has information that is conflicting with the data received from the designated vendor, including information on the report itself, the lender is responsible for entering the appropriate information into DU.
Component-Level Representations and Warranties

When a component of the file (income, assets, or employment) is validated in DU, Fannie Mae will not enforce representations and warranties with regard to:

- Accuracy of income calculation, asset calculation, and borrower employment status at time of closing
- Integrity of the data from the designated vendor

The lender must comply with the following additional requirements for the representation and warranties enforcement relief to apply:

- Meet all requirements that pertain to the DU validation service
- Resolve and document DU verification messages and approved conditions
- Review vendor report to ensure it matches the borrower and loan application
- Review all documentation in the file to identify any potentially inconsistent or contradictory information – and perform due diligence to investigate and ensure that the appropriate data is entered into DU
- Maintain copy of the vendor report in the file
# Lender QC Requirements for Income Validation (Salary and Tax Transcript)

<table>
<thead>
<tr>
<th>Existing Lender QC Responsibility</th>
<th>DU Validation Service Process Relief</th>
<th>Lender remains accountable for...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-Funding QC</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Lender must review income calculations and supporting documentation | Lender is not required to recalculate income that has been validated. | • Complying with all other pre-funding QC requirements.  
• Ensuring The Work Number VOI/IRS Form 4506-T is in compliance with age of document requirements.  
• Confirming information on The Work Number VOI or IRS Form 4506-T matches the loan application.  
• Ensuring income amount entered into DU is accurate based on all documentation in the file (designated vendor report and any borrower-supplied data). |
| **Post-Closing QC**              |                                    |                                 |
| Lender must re-verify income directly with the source of the original documentation. | Lender is not required to re-verify a specific type of income for a specific borrower that has been validated by DU. | • Ensuring compliance with the DU message.  
• Ensuring The Work Number VOI/IRS Form 4506-T report matches the borrower and employer information provided. |
| Lender must maintain re-verification document in the file. | Lender is not required to re-verify a specific type of income for a specific borrower that has been validated by DU. | • Maintaining appropriate required DU validation service documentation in the file (e.g. tax transcript or The Work Number VOI report, supplemental docs, etc.). |
| Lender must execute a 4506-T for all loans selected for post-closing QC. | Lender is not required to execute a 4506-T in post-closing QC when income has been validated for a borrower. | • Executing the 4506-T only when income is unable to be validated or not validated. |

*In all cases, the lender remains fully responsible for reviewing the file as a whole (including for any contradictory information) and for re-verifying in accordance with the Selling Guide any components of the loan that were unable to be validated or not validated by DU.*
Asset Validation
# Asset Validation Providers and Eligible Accounts

<table>
<thead>
<tr>
<th>Account Type</th>
<th>AccountChek™ by FormFree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking, Savings</td>
<td>✓</td>
</tr>
<tr>
<td>CD</td>
<td>✓</td>
</tr>
<tr>
<td>Money Market</td>
<td>✓</td>
</tr>
<tr>
<td>Stock</td>
<td>✓</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>✓</td>
</tr>
<tr>
<td>Retirement Accounts</td>
<td>✓</td>
</tr>
</tbody>
</table>
How does DU evaluate assets?

**Assets are validated by DU on loan-level basis.**

**DU Findings**

<table>
<thead>
<tr>
<th>Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Available Assets</td>
<td>$11739.27</td>
</tr>
<tr>
<td>Funds Required to Close</td>
<td>$10034.90</td>
</tr>
<tr>
<td>Reserves Required to be Verified</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Funds to be Verified</td>
<td>$10034.90</td>
</tr>
</tbody>
</table>
Asset Validation Example: Checking Account

DU validation service calculation: $11,673.83 Current Balance

<table>
<thead>
<tr>
<th>Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Available Assets</td>
</tr>
<tr>
<td>Funds Required to Close</td>
</tr>
<tr>
<td>Reserves Required to be Verified</td>
</tr>
<tr>
<td>Total Funds to be Verified</td>
</tr>
</tbody>
</table>

DU message: Assets of $10034.90 have been validated using asset account information. The asset report is acceptable documentation to support these assets. If the actual amount of funds required to close is greater than the Funds Required to Close specified in DU, document sufficient liquid asset to cover the additional amount.
Asset Validation Example: Large Deposit

DU validation service calculation:
$11,673.83 Current Balance
$9,000.00 Large deposit

Funds

<table>
<thead>
<tr>
<th>Total Available Assets</th>
<th>$11,673.83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds Required to Close</td>
<td>$10,034.90</td>
</tr>
<tr>
<td>Reserves Required to be Verified</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Funds to be Verified</td>
<td>$10,034.90</td>
</tr>
</tbody>
</table>

DU messages:

1) Assets of $10,034.90 have been validated using asset account information. The asset report is acceptable documentation to support these assets. If the actual amount of funds required to close is greater than the Funds Required to Close specified in DU, document sufficient liquid asset to cover the additional amount.

2) A large deposit of $9,000.00 has been identified on the Dag Bank account of John Homeowner using asset account information. This amount has been included in the total amount of assets validated. Document that these funds are from an acceptable source. Refer to the Fannie Mae Selling Guide for additional information.
Representations and Warranties
Enforcement Relief
### Day 1 Certainty: Employment

<table>
<thead>
<tr>
<th>When:</th>
<th>Fannie Mae will not enforce representations and warranties related to:</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>When the employment information input into DU by the lender is validated</td>
<td>The borrower’s employment, through the time of closing, with the employer attested to on the loan application The integrity of the data provided on the report obtained from the designated vendor</td>
<td>DU message must indicate that the employment entered into DU was validated and that the designated vendor report is acceptable documentation Applies on a per-borrower, per-employer basis</td>
</tr>
</tbody>
</table>

- Representations and warranties enforcement relief only applies to the specific employment validated DU validation service, and solely for the borrower for which it was validated. It is not a loan-level employment representations and warranties relief.
- The lender must review the file and the designated vendor report for contradictory information. If the lender has information that is conflicting with the data received from the designated vendor, including information on the report itself, the lender is responsible for entering the appropriate information into DU.
Day 1 Certainty: Assets

<table>
<thead>
<tr>
<th>When:</th>
<th>Fannie Mae will not enforce representations and warranties related to:</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>When assets are validated</td>
<td>The accuracy of the amount of assets relied upon to satisfy the total amount of assets required to be verified</td>
<td>DU message must indicate that assets have been validated</td>
</tr>
<tr>
<td>by DU</td>
<td>The integrity of the data provided on the report obtained from the designated vendor</td>
<td>Applies on a loan-level basis</td>
</tr>
</tbody>
</table>

- Representations and warranties enforcement relief applies to the specific assets validated by DU validation service.
- If the lender has information that is conflicting with the data received from designated vendor, the lender is responsible for entering the appropriate information into DU.
- If the final Closing Disclosure evidences the borrower needs additional assets to close (above and beyond what DU required), the lender must provide additional documentation if the validated asset amount is not sufficient.
# Lender QC Requirements for Employment Validation (The Work Number)

<table>
<thead>
<tr>
<th>Existing Lender QC Responsibility</th>
<th>DU Validation Service Process Relief</th>
<th>Lender remains accountable for...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-Funding QC</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Lender must review employment documentation. | No change to existing pre-funding QC requirements. | • Complying with all existing pre-funding QC requirements.  
• Ensuring The Work Number VOE is in compliance with age of document requirements.  
• Confirming information on The Work Number VOE matches the loan application.  
• Ensuring information entered into DU is accurate based on all documentation in the file (designated vendor report and any borrower-supplied data). |

| **Post-Closing QC**                |                                      |                                  |
| Lender must re-verify employment directly with the source of the original documentation. | Lender is not required to re-verify employment for a borrower that has been validated by DU. | • Ensuring compliance with the DU message.  
• Ensuring The Work Number VOE report matches the borrower and employer information  
• Ensuring The Work Number VOE was executed within age of document requirements. |

Lender must maintain re-verification document in the file.

Lender is not required to re-verify employment for a borrower that has been validated by DU.

• Maintaining appropriate required DU validation service documentation in the file (e.g. The Work Number VOE and/or VOI report, supplemental docs, etc.).

*In all cases, the lender remains fully responsible for reviewing the file as a whole (including for any contradictory information) and for re-verifying in accordance with the Selling Guide any components of the loan that were unable to be validated or not validated by DU.*
## Lender QC Requirements for Asset Validation (AccountChek)

<table>
<thead>
<tr>
<th>Existing Lender QC Responsibility</th>
<th>DU Validation Service Process Relief</th>
<th>Lender remains accountable for...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-Funding QC</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Lender must review assets needed to close or meet reserve requirements | Lender is not required to recalculate assets that have been validated. | • Complying with all other pre-funding QC requirements.  
• Ensuring the AccountChek by FormFree report is in compliance with age of document standards.  
• Confirming information on the AccountChek by FormFree report matches the loan application.  
• Ensuring asset amount entered into DU is accurate based on all documentation in the file (designated vendor report and any borrower-supplied data). |
| **Post-Closing QC**               |                                      |                                  |
| Lender must attempt to re-verify assets with the financial institution (or document unsuccessful verification attempt) | Lender is not required to re-verify assets that have been validated by DU and for which any additional required documentation has been obtained (e.g. documentation for large deposits). | • Ensuring compliance with the DU message.  
• Reviewing the information on the AccountChek by FormFree report for inconsistencies in asset documentation. |
| Lender must maintain re-verification document in the file. | Lender is not required to re-verify assets that have been validated by DU and for which any additional required documentation has been obtained (e.g. documentation for large deposits). | • Maintaining appropriate required documentation in the file (e.g. AccountChek by FormFree report, supplemental documentation as required by DU). |

*In all cases, the lender remains fully responsible for reviewing the file as a whole (including for any contradictory information) and for re-verifying in accordance with the Selling Guide any components of the loan that were unable to be validated or not validated by DU.*
DU Validation Service – Implementation

Steps to Opt In for the DU Validation Service

✔️ Learn more about the DU validation service.
  - Review learning materials posted on the DU validation service web page at [www.fanniemae.com/duvalidationservice](http://www.fanniemae.com/duvalidationservice):
    - DU Release Notes
    - Policy requirements in the DU Validation Service Reference Guide
    - FAQs
    - Attend a Day 1 Certainty webinar.

✔️ Engage with designated vendors, execute vendor business contracts, and complete vendor activation processes.

✔️ Submit Fannie Mae DU Validation Service Setup form.

  *Allow 3-6 business days for activation. A confirmation email will be sent when the request is processed.*
Day 1 Certainty Resources
www.fanniemae.com/day1certainty

Day 1 Certainty™ gives lenders freedom from representations and warranties plus greater speed and simplicity, and enables an improved borrower experience.

What’s New
- PW Fee Discontinued
- Fannie Mae discontinues the $75 fee for PW on loans delivered after Jan. 1, 2017.

Learn More
- See the Overview
- Read the Press Release
- View the Introduction to Day 1 Certainty Presentation
- Attend a Lender Webinar
- New Data Vendor Process
- Current Data Vendor List updated

Transform Your Business
- Find out how we can help you transform your business.

With Day 1 Certainty, Get Freedom...
- Freedom from case-based processing with validation of income, assets, and employment
- See DU Validation Service
- Freedom from appraisal requirements on eligible refi transactions
- See Property Inspection Waiver
- Freedom from reps and warrants on appraised value
- See Collateral Underwriter
The vision is to deliver a fully digital mortgage process in the future.