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## DU Version 11.1 Updates, Qualifying Rates for 7/6- and 10/6-Month SOFR ARMs, Limited Cash-Out Refinance, and Other Agency Revisions

Truist Bank (Truist) announces that Fannie Mae will implement updates to Desktop Underwriter® (DU®) Version 11.1 this weekend, August 19, 2023. Changes in the DU release will include the following:

- qualifying rate change for 7/6- and 10/6-Month SOFR ARM loan transactions that are **not** considered Higher-Priced Mortgage Loans (HPMLs) or Higher-Priced Covered Transactions (HPCTs); DU will now calculate the qualifying payment using the note rate, instead of the greater of the note rate *or* fully indexed rate
- DU validation service updates
- new Duty to Serve message for certain HomeStyle® Energy and HomeStyle® Renovation loans
- updates to traditional appraisal and condominium messages

We revise Agency non-AUS and DU requirements to align with recently announced Fannie Mae updates. With these updates, we:

- require certain 7/6- and 10/6-Month SOFR ARM loan transactions to be manually underwritten when the fully indexed rate is greater than the note rate
- revise requirements related to calculating the fully indexed rate for all ARM loans
- incorporate guidance regarding determining ARM loan acceptability
- provide additional details regarding acceptable uses for funds obtained from a limited cash-out refinance
- clarify credit report requirements related to inquiries

To comply with state-specific ability to repay requirements, we also revise qualifying rate requirements for Loan Product Advisor® (LPA<sup>SM</sup>) 7/6- and 10/6-Month SOFR ARM loans in the following states: Maryland, Massachusetts, and New Mexico.

### Effective Dates

- The DU validation service and DU message updates will apply to DU Version 11.1 loan casefiles submitted or resubmitted to DU on or after the weekend of August 19, 2023.
- The revised 7/6- and 10/6-Month SOFR ARM qualifying rate requirements are effective for new locks on or after August 21, 2023.
- All other updates are effective immediately for existing and new loan applications on or after August 18, 2023.

## Background Information

Fannie Mae SEL-2022-05 announced updates regarding calculating the fully indexed rate for ARM loans. Fannie Mae SEL-2023-05 announced updates related to the qualifying rate for 7/6- and 10/6-Month SOFR ARMs, acceptable uses for limited cash-out refinance transactions, and requirements for credit reports. In Desktop Underwriter/Desktop Originator Release Notes DU Version 11.1 August Update, Fannie Mae announced DU Version 11.1 related updates. In response to these publications, we reviewed impacted standard documents and identified the opportunity to align with Fannie Mae requirements.

## Bulletin Details

### Qualifying Rate Requirements

- For non-AUS and DU loans, we aligned with Fannie Mae as follows:
  - we revised qualifying rate requirements for 7/6-Month and 10/6 Month SOFR ARM transactions:
    - Unless otherwise stated below, the borrower is qualified based on the note rate.
    - For the following transactions, the borrower is qualified based on the **greater of** the note rate *or* the fully indexed rate:
      - HPCTs
      - HPMLs
      - Loans in the following states: Maryland, Massachusetts, and New Mexico

#### Notes:

- The “greater of” qualifying rate requirement remains for loans in the states of Maryland, Massachusetts, and New Mexico to comply with these states’ ability to repay requirements.
- For HPCTs, HPMLs, and loans in the states of Maryland, Massachusetts, and New Mexico, when the fully indexed rate is **greater than** the note rate, the loan **must be manually underwritten** (i.e., underwritten in accordance with **all** non-AUS requirements).
- we made the following updates to requirements for determining the index value used to calculate the fully indexed rate for all ARM loans:
  - specified note date as the end of the 90-day period to establish the index value, and
  - changed the applicable index value from “lowest value” to “any index value”
- we added reference to Fannie Mae’s existing guidance regarding determining ARM acceptability:
  - Lenders must determine whether an ARM loan is acceptable for purchase by subtracting the initial note rate of the loan from the fully indexed rate in effect when the loan was originated. The difference must not exceed 3%.
- To comply with state-specific ability to repay requirements, we also revised qualifying rate requirements for LPA 7/6- and 10/6-Month SOFR ARM transactions for loans in the states of Maryland, Massachusetts, and New Mexico as follows:
  - The borrower must be qualified based on the **greater of** the note rate *or* the fully indexed rate.

## Bulletin Details, continued

### Acceptable Uses for Limited Cash-Out Refinance Transactions

For non-AUS and DU loans, we aligned with Fannie Mae and provided additional details regarding acceptable uses for funds obtained from a limited cash-out refinance. With these updates, we:

- clarified that the proceeds may be used to satisfy additional amounts required to pay off the existing first mortgage, including a deferred balance resulting from previous loss mitigation, and late fees
- now allow the proceeds to be used to satisfy any share of appreciation due to a provider under the terms of a shared appreciation agreement when the subordinate lien being paid off is a Community Seconds<sup>®</sup> loan

### Requirements for Credit Reports

For non-AUS and DU loans, we aligned with Fannie Mae and clarified requirements to reflect that credit reports used for underwriting must generate an inquiry that will appear on future credit reports and must list all inquiries that were made in the previous 90 days.

### DU Validation Service Updates

- **Desktop Originator<sup>®</sup> (DO<sup>®</sup>) Submissions:** Asset verification reports will now be obtained for DO loan casefiles submitted using Preliminary Findings. This will allow Preliminary Findings loan casefiles to receive asset validation messages and use the positive rent payment history feature available for DU loan casefiles.

**Reminder:** Loan files with preliminary findings are not eligible for purchase by Truist. The loan must be submitted to DU in the “final” status before sending the loan to Truist for purchase.

- **Large Deposits:** Account numbers displayed in the DU validation service message about large deposits will now be truncated to the last four characters.

### DU Message Updates

- **Traditional Appraisal Message:** The traditional (Form 1004) appraisal message will be updated to specify that the loan casefile may also be eligible for other property assessment and valuation options and that all eligible options will be displayed in the “Property and Appraisal Information” section of the DU Underwriting Findings report.

**Reminder:** The DU Value Acceptance + Property Data offer is currently not permitted on loans purchased by Truist.

- **Condominium Message:** The message issued by DU when a Full Review of the condominium project is required will be updated to reflect the required use of Condo Project Manager<sup>™</sup> (CPM<sup>™</sup>).

**Bulletin Details, continued**

**DU Message Updates, continued**

- **New Duty to Serve Message:** A new Observation message will be issued on primary residence, HomeStyle® Energy and HomeStyle® Renovation loan casefiles where the total qualifying income is equal to or less than 100% of area median income (AMI). This message will remind lenders that if the improvements being made on the HomeStyle Energy or HomeStyle Renovation loan include at least one EnergyStar®-certified improvement, then the loan may be eligible for the Duty to Serve LLPA Waiver.

**Before and After Matrix**

[Click here](#) to see the before and after matrix that provides a detailed overview of all standard revisions.

**Revised Material**

Click [Agency Loan Standard](#) to review the revised product material.

**Former Standards**

See the before and after matrix provided in the Bulletin Details section of this bulletin to access the former standards.

**Other Resources**

Support Group	Description and Contact Information:
Correspondent Relations Coordinator	Specific questions on applying this procedure to specific loan files. Contact Correspondent Relations Coordinators at 800.382.2111, Option 1.
Product Support	Provides phone and email support on products, policies, and procedures as well as new product rollout and existing product enhancement. Contact Product Support at 800.382.2111, option 3.

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