

Lender Letter LL-2011-05**July 6, 2011****To: All Fannie Mae Single-Family Servicers****Participation in HUD's Emergency Homeowners' Loan Program****Introduction**

The *Dodd-Frank Wall Street Reform and Consumer Protection Act* provided \$1 billion to the U.S. Department of Housing and Urban Development (HUD) to implement the Emergency Homeowners' Loan Program (EHLF). The EHLF is designed to provide mortgage payment relief to eligible borrowers experiencing a reduction in income resulting from involuntary unemployment or underemployment due to adverse economic conditions or a medical emergency. Under EHLF, HUD will assist borrowers in 32 states and Puerto Rico—states and jurisdictions not funded under the U.S. Treasury's Hardest Hit Fund program.

HUD has established two distinct methods for providing EHLF assistance:

- **Substantially Similar State Programs:**

In Connecticut, Delaware, Idaho, Maryland, and Pennsylvania, the respective state Housing Finance Agencies (HFAs) will provide EHLF loans through their existing programs. Servicers must work with the HFAs in these states to receive EHLF funds for mortgage loans owned or guaranteed by Fannie Mae.

- **Delegated Approach:**

In states without existing substantially similar programs, HUD has delegated key program administration functions to designated third parties.

- NeighborWorks[®] America (NWA) and a network of counseling agencies will provide intake counseling, document preparation, and outreach functions.
- Bank of New York Mellon (BNY) will act as HUD's fiscal agent to provide servicing and fiscal control functions such as collecting payments from borrowers, distributing payments to servicers, and managing EHLF loan balances.

Fannie Mae servicers must work closely with HUD, NWA, designated counseling agencies, BNY, and state HFAs as borrowers apply for and receive assistance under the EHLF. This Lender Letter provides guidance on servicer responsibilities with regard to the EHLF in connection with mortgage loans owned or guaranteed by Fannie Mae.

Effective Date

Effective immediately, servicers must comply with this Lender Letter by participating in the program's pre-application and application processes on mortgage loans owned or guaranteed by Fannie Mae.

With respect to Substantially Similar State Programs, the servicer must engage immediately with the HFA to secure signed agreements for program participation and take the steps

necessary to achieve operational readiness to receive EHLF funds. Servicers are encouraged to adapt their processes to implement this policy immediately to ensure that they are ready to receive funds within 30 days after an HFA launches its official (non-pilot) program and execution of the agreement with the HFA.

For the states using the delegated approach, HUD will prepare a Memorandum of Understanding (MOU) between HUD and each participating servicer, which will include language that the servicer, to the best of its knowledge, certifies that the borrower is 90 days or more delinquent when the servicer provides to BNY the amount required to reinstate the mortgage loan. The MOU will further state that if the confirmed amount necessary to reinstate the borrower's loan is not paid, failure to cure the borrower's default will result in either the acceleration of the unpaid mortgage balance and the initiation of foreclosure proceedings, or the continuation of foreclosure proceedings already initiated. The servicer must be able to accept EHLF funds within 30 days of execution of its MOU.

Program Information

The EHLF will offer a declining balance, deferred payment, non-recourse, subordinate loan with zero interest for up to \$50,000 to assist eligible borrowers with payments of arrearages and up to 24 months of first-lien mortgage payment assistance. The borrower's contribution to the delinquent mortgage payment will be the greater of 31% of their post-event monthly income or \$150 per month.

Under the delegated approach, pre-application eligibility screening will run until July 22, 2011, at which time HUD will administer a randomized selection process to choose a number of pre-screened applicants to exhaust available EHLF funding. The pre-screened applicants will then be contacted by the designated counseling agency to complete a full EHLF application packet during a scheduled appointment. The counseling agency will conduct an initial review and approval of an application, and BNY will conduct a second level of review and notify the servicer that the borrower is in the final review stage of the process. HUD conducts a third and final review and approval of all applications. Applicants must have received final approval from HUD by September 30, 2011, in order to receive EHLF assistance.

For details on EHLF, including information on determining borrower eligibility, servicers should refer borrowers to the [HUD EHLF Web site](#).

For the states with Substantially Similar State Programs, servicers should refer to the respective state HFA Web sites for program details and additional information.

Arrearages under the EHLF

Arrearages may include mortgage principal, interest, insurance, taxes, hazard insurance, ground rent, homeowners' association fees or condominium fees, foreclosure-related legal fees, and late payment fees in accordance with the terms and conditions prescribed by HUD. HUD will establish limits in regards to foreclosure-related legal fees and late payment fees. Information regarding fees and other program details are available at the [HUD EHLF Web site](#).

Period of EHLF Assistance

Under the delegated approach, during the period of EHLF assistance, BNY will remit the borrower's full contractual monthly payment to the servicer. EHLF allows a borrower to miss one

month's payment during the period of EHLP assistance. If a borrower does not send BNY the monthly payment, BNY will not send a partial payment to the servicer. Instead, BNY will send two months' payments to the servicer the following month, if the borrower makes his or her contributions to BNY the following month. If the borrower does not make up for the missed payment the following month, HUD will terminate EHLP assistance for that borrower.

Servicer Requirements

In addition to the requirements of the MOU in states using the delegated approach, servicers will be responsible for:

- confirming with BNY borrower arrearages and monthly payment amounts;
- accepting payments from BNY;
- reinstating the borrower's loan;
- halting the foreclosure process upon notification of approval, if applicable; and
- transmitting key data to BNY.

A Third Party Authorization, which will be signed by borrowers at the time of application, must be in place between the NWA, BNY, and the servicer to exchange non-public private information. A secure e-mail system and fax transmission must also be established between each servicer and BNY to handle escalated communications and ad hoc items.

A common data file, Secured File Transmission Process (SFTP), will electronically exchange information between BNY and the servicer. Data fields pertaining to the Hardest Hit Fund program were created with codes and record types to communicate initial requests to reinstate loans, validate, and transmit information between BNY and servicers throughout the month. The same common data file and SFTP that is being used for the Hardest Hit Fund will be used for EHLP.

After the servicer is notified that a borrower is approved by HUD to participate in the program, the servicer must provide to BNY the amount required to reinstate the mortgage loan. BNY will then calculate the loan amount the borrower is eligible for, including arrearages. BNY will establish an e-mail address for servicer inquiries.

Impact on Foreclosure Proceedings

Servicers are required to comply with the foreclosure process requirements, if applicable, as indicated in the *Servicing Guide* and announcements. Upon notification from BNY or the HFA that the borrower is approved to participate in EHLP, the servicer must halt the foreclosure process, provided that the initial EHLP application date was more than 30 days prior to the foreclosure sale date.

Reporting Requirements

The servicer must identify on its servicing system any mortgage loan for which it receives an EHLP inquiry, whether the inquiry is originated by BNY, a counseling agency, or an HFA, even if the borrower does not ultimately receive approval to participate in the program. The servicer must make this information available to Fannie Mae upon request.

Additionally, the servicer must be able to readily identify on its servicing system any borrower that is participating in the EHL. Fannie Mae reserves the right to request that the servicer provide this information.

Servicers with questions should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Solution Center at 1-888-FANNIE5 (888-326-6435).

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