

**Announcement SVC-2011-06****May 26, 2011****Updates to Imminent Default Definition and Determining Market Value for Preforeclosures****Introduction**

This Announcement describes updates to several servicing policies, including:

- Updates to the imminent default definition for mortgage loan modifications
- Determining property market value for preforeclosure sales and deeds-in-lieu of foreclosure

**Update to Imminent Default Definition for Mortgage Loan Modifications**

***Servicing Guide, Part VII, Section 602: Mortgage Modifications, Part VII, Section 610.03.03: Reasonably Foreseeable (Imminent) Default; and Announcement SVC-2011-03, Updates to Fannie Mae's Mortgage Modification Requirements***

Currently, servicers are required to seek Fannie Mae's prior written approval for the modification of a mortgage loan owned or securitized by Fannie Mae when default is reasonably foreseeable (imminent). With this Announcement, Fannie Mae is changing its requirements for evaluating a borrower's financial condition for consideration of a modification under the imminent default standard.

Effective immediately, Fannie Mae is expanding the application of the imminent default evaluation requirements currently only used under the Home Affordable Modification Program (HAMP), including use of Freddie Mac's Imminent Default Indicator™ (IDI) accessed through Fannie Mae's HomeSaver Solutions® Network (HSSN), to include non-HAMP modification evaluations for borrowers who are either current or in default but less than 60 days delinquent.

**Eligibility**

All borrowers who do not qualify for a HAMP modification and are either current or less than 60 days delinquent and request a modification must be evaluated for imminent default if the property securing the mortgage loan is owner-occupied.

Servicers must obtain financial documentation from the borrower in accordance with the requirements of the *Servicing Guide* to evaluate the borrower's financial condition in determining whether the borrower is facing imminent default. The documentation must include a signed copy of the most recent federal income tax return, including all schedules and forms, if available, or a

Transcript of Tax Return resulting from an executed Internal Revenue Service *Request for Transcript of Tax Return* (Form 4506-T).

For borrower(s) who must be evaluated for imminent default the servicer must evaluate the borrower's financial condition considering the borrower's hardship, as well as the condition of and circumstances affecting the property securing the mortgage loan.

The imminent default evaluation must follow the three-step process described below:

**1. Evaluate Cash Reserves:**

A borrower is not considered in imminent default if he or she has cash reserves equal to or exceeding \$25,000. If the borrower's cash reserves are less than \$25,000, the loan must be submitted for an IDI evaluation.

**2. Submit the Case to IDI:**

After determining that the borrower has cash reserves less than \$25,000, the servicer must submit the mortgage loan data to IDI for additional evaluation.

- If the IDI result is a "1," the mortgage loan is categorized as "at risk of imminent default," and the borrower is eligible to be considered further for a modification. In such an event, the servicer does not need to confirm that the borrower has an acceptable hardship, as described in step three below.
- If the IDI result is a "2," the servicer must continue the imminent default evaluation following step three below to confirm that the borrower has an acceptable hardship.

**3. Evaluate Imminent Default Hardships:**

When the borrower's cash reserves are less than \$25,000 and the IDI result is a "2," the servicer must confirm that the borrower can demonstrate that he or she is experiencing an acceptable hardship. The only acceptable hardships are:

- death of a borrower or co-borrower,
- long-term or permanent illness or disability of a borrower or co-borrower or dependent family member, or
- divorce or legal separation of a borrower or co-borrower.

## Documentation Requirements

For both HAMP and non-HAMP modifications when the IDI result is a "2," the servicer must obtain copies of documentation of an acceptable hardship as outlined below.

Death of a borrower or co-borrower:

- death certificate, or
- obituary or newspaper article reporting the death.

Long-term or permanent illness or disability of a borrower/co-borrower or persons other than the borrower or co-borrower who is claimed as a dependent for federal income tax purposes:

- medical bills,
- doctor's certificate of illness or disability, or
- proof of monthly insurance benefits or government assistance (if applicable).

Divorce or legally-documented separation of borrower/co-borrower:

- divorce decree signed by the court,
- separation agreement signed by the court,
- current credit report evidencing divorce or separation, or that the non-occupying borrower has a different address, or
- recorded quitclaim deed evidencing that the non-occupying borrower or co-borrower has relinquished all rights to the property.

Pursuant to Announcement SVC-2010-15, *Updates to Fannie Mae's Forbearance, Income Eligibility, and Home Affordable Modification Program Requirements*, the servicer may not consider unemployment insurance benefits or any other temporary sources of income related to unemployment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a modification.

## Use of Freddie Mac's IDI

The servicer makes the following representations and warranties in connection with its use of IDI pursuant to this Announcement:

- The servicer shall use IDI solely in connection with its evaluation of a borrower for imminent default for a HAMP or non-HAMP modification in accordance with this Announcement.
- All mortgage loan information related to the evaluation will be submitted through the File Transfer Portal link in HSSN to IDI (see Access to Imminent Default Indicator below).
- The servicer shall not base any decision to modify the terms of a mortgage loan solely upon the IDI evaluation.
- The servicer shall not use IDI in violation of applicable law.

## Access to Imminent Default Indicator

### Input File Information

The servicer will launch the File Transfer Portal link in HSSN and log in using its HSSN user ID and password. The servicer must create a Microsoft® Excel® spreadsheet that includes all of the data elements required for an imminent default determination and upload the input file in a Comma Separated Variable (CSV or .csv) format. Only mortgage loans owned or securitized by Fannie Mae are permitted in the input file. A sample Excel spreadsheet – the IDI Data Submission File – is available on [eFannieMae.com](http://eFannieMae.com). It outlines the required data elements, specifies the order in which the data elements must be presented, and provides instructions for creating and submitting the CSV input file.

The following information is required with respect to three of the data elements in the input file:

**Credit Score:** If the servicer obtains multiple credit scores for a single borrower, the servicer must select a representative credit score using the lower of two or the middle of three credit scores. If there are multiple borrowers, the servicer must determine the representative score for each borrower and enter the lowest representative score as the credit score for the mortgage loan.

**Monthly Debt-to-Income Ratio:** For purposes of the imminent default evaluation, the servicer may not include unemployment income in the calculation of the borrower's monthly gross income when calculating the total monthly debt-to-income ratio.

**Property Valuation:** The servicer must provide a property value relating to the mortgage loan in accordance with the requirements of Announcement SVC-2011-03, *Updates to Fannie Mae's Mortgage Modification Requirements*, which must be less than 90 days old on the date the servicer performs the IDI test.

The CSV input file will be evaluated by the IDI model and an e-mail notification will be sent to the servicer when the IDI results are available. The size of the file determines how quickly results are available; typically, however, results will be returned within a few hours. Once available, the servicer will log into the File Transfer Portal to retrieve the output file. The output file provided to the servicer will be returned in the CSV format. Only results obtained from the IDI in HSSN will be acceptable to make an imminent default determination for Fannie Mae-owned or securitized mortgage loans.

## **Determining Property Market Value for Preforeclosure Sales and Deeds-in-Lieu of Foreclosure**

Fannie Mae is introducing the network of providers (the Network Providers) from which servicers are now required to place orders for valuations of preforeclosure sales and deeds-in-lieu of foreclosure. This change applies to mortgage loans owned or securitized by Fannie Mae serviced under the special servicing option or securitized into a shared risk MBS pool in which Fannie Mae markets the acquired property.

### ***Servicing Guide, Part VII, Section 604.03: Determining Market Value of Property***

Effective as soon as possible, but no later than July 15, 2011, all servicers are required to use a Fannie Mae Network Provider to obtain a broker price opinion (BPO) or an appraisal (as determined by the Network Provider), in compliance with applicable state law, to complete the evaluation of a preforeclosure sale or deed-in-lieu of foreclosure. The Network Providers are on the *Preforeclosure Valuation Provider Information* document, which is available on [eFannieMae.com](http://eFannieMae.com). The list of providers may be updated from time to time, including an effective date on which each Network Provider is authorized to receive referrals for mortgage loans owned or securitized by Fannie Mae.

In order to limit risks arising from the concentration of orders with a single Network Provider, Fannie Mae requires servicers to request no more than 75% of their orders from a single Network Provider. Servicers are also required to wait a minimum of 120 calendar days after the original BPO or appraisal before ordering an updated value. If a servicer needs to request an additional BPO or appraisal prior to the expiration of an original order, the Network Provider is required to obtain Fannie Mae's approval. Instructions to submit a request for approval from Fannie Mae are included in the *Preforeclosure Valuation Provider Information*.

The Network Provider will provide the results of the BPO or appraisal (if required) to the servicer and Fannie Mae. The result will be reviewed by Fannie Mae to determine if it is acceptable. Servicers are required to access the results of Fannie Mae's review through HomeSaver Solutions<sup>®</sup> Network (HSSN), which is typically available in 7-10 calendar days.

The process for submitting requests for reimbursement remains unchanged and is described in the *Servicing Guide*, Part VIII, Section 108.04: Requests for Reimbursement. Servicers must provide the date, amount, and name of the Network Provider in the comments section of the *Cash Disbursement Request* (Form 571). Effective for orders on or after July 15, 2011, Fannie Mae will not reimburse servicers for the cost of obtaining a BPO or an appraisal if a provider outside of the network is utilized or for duplicate orders. The reimbursement amount is outlined in the *Preforeclosure Valuation Provider Information*, and may be updated from time to time – Fannie Mae plans to publish new rates by July 1, 2011. Servicers are encouraged to review this document on a regular basis for updates.

\*\*\*\*\*

Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (888-326-6435) with any questions regarding this Announcement.

Gwen Muse-Evans  
Vice President  
Chief Risk Officer for Credit Portfolio Management