

Servicing Guide Announcement SVC-2013-07

April 3, 2013

Miscellaneous Servicing Policy Changes

This Announcement describes servicing policy changes and updates for the following:

- Lender-Placed Property Insurance Requirements
- Updates to Military Indulgence Reporting and Reimbursement Processes
- Scheduled/Scheduled Remittance Payoffs

Lender-Placed Property Insurance Requirements

Servicing Guide, Part II, Chapter 6: Lender-Placed Property Insurance and Announcement SVC-2012-04: Updates to Lender-Placed Property Insurance and Hazard Insurance Claims Processing

In Announcement SVC-2012-04, Fannie Mae amended its requirements for lender-placed property insurance. Effective immediately, Fannie Mae is retracting the lender-placed insurance requirements introduced in that Announcement. The lender-placed insurance requirements in the *Servicing Guide* will remain unchanged.

As a reminder, servicers are still required to follow the hazard insurance claims processing requirements introduced in Announcement SVC-2012-04. In addition, the servicer must follow all requirements in the *Servicing Guide* (Part II, Chapter 6) for lender-placed insurance.

Updates to Military Indulgence Reporting and Reimbursement Processes

This Announcement provides new policy requirements for reporting military indulgence to Fannie Mae and requesting reimbursement for advances. Fannie Mae is replacing in its entirety the sections of Part III, Chapter 1, Exhibit 1: Military Indulgence, that relate to Reporting to Fannie Mae and Requesting Reimbursement for Advances.

The following updates and clarifications are provided in the Attachment to this Announcement:

- Retiring the *Special Information Worksheet (for Military Indulgence)*, and replacing it with the *SCRA Disbursement Request Form* ([Form 1022](#)) located on Fannie Mae's website;
- Providing a new timeline for submitting Form 1022 and an updated submission process; and
- Updating the reimbursement process for whole mortgage loans, Pooled from Portfolio mortgage loans, and MBS mortgage loans.

The new policies are identified in bold on the Attachment. Other minor editorial changes are included in this document but not identified in bold.

Initiating Relief

Fannie Mae is also updating the *Servicing Guide* (Part III, Chapter 1, Exhibit 1: Military Indulgence) to require that the servicer retain the servicemember's orders and the completed *Request for Military Indulgence* (Form 180) in the individual mortgage loan file as long as the military indulgence remains in effect.

Servicers should contact the Exceptions Transaction Management Unit by emailing [sailors and soldiers@fanniemae.com](mailto:sailors_and_soldiers@fanniemae.com) with any questions regarding these updates.

Scheduled/Scheduled Remittance Payoffs

Servicing Guide, Part VI, Section 106.03: Scheduled/Scheduled Remittance Types

Subservicer Payoff Election

For the scheduled/scheduled remittance type, Fannie Mae currently requires each servicer to elect whether it will consider any full payoff received on the first business day of a month as though it were received in the prior calendar month or as being received in the calendar month in which receipt actually occurs.

Fannie Mae also requires subservicers to handle first business day of the month payoffs in accordance with the subservicer's election, rather than that of the servicer.

Effectively immediately, Fannie Mae will allow the subservicer to either select one option for all loans serviced on behalf of Fannie Mae or elect the option based on its individual agreement with the servicer for which is it subservicing Fannie Mae mortgage loans. If a subservicer elects to handle first business day of the month payoffs based on its individual agreement with a servicer, it must follow that election for all mortgage loans serviced on behalf of that servicer. The subservicer must have written policies and procedures in place for managing the appropriate option(s) elected.

Retirement of Requirement to Notify Election

Fannie Mae currently requires all servicers to notify Fannie Mae of its first day of the month payoff election. Effective immediately, Fannie Mae is **retiring** the notification requirement as well as the related mailbox (firstbusinessday_payoff@fanniemae.com).

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

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

Attachment

Servicing Guide, Part III, Chapter 1, Exhibit 1: Military Indulgence

Reporting to Fannie Mae

The servicer must notify Fannie Mae when it places a mortgage loan under military indulgence by sending **an email to the Exceptions Transaction Management Unit** at sailors_and_soldiers@fanniemae.com along with an **SCRA Disbursement Request Form (Form 1022)**. **Servicers must submit the completed Form 1022 no later than the ninth business day** of the month. Requests received after the **ninth business day** will be processed the following month. **The servicer must ensure that the Form 1022 includes all required fields before submitting.**

The servicer also must prepare **Form 1022** when it:

- reduces the servicemember's interest rate to 6%;
- puts other forms of military indulgence into effect for the servicemember;
- changes the servicemember's payment, if the interest subsidy amortization method is used; **or**
- changes the interest rate back to its pre-military interest rate (or the applicable adjusted rate, for an ARM).

Fannie Mae will use **Form 1022** to:

- track the number of mortgage loans the servicer is servicing subject to the interest rate reduction,
- adjust Fannie Mae's investor reporting system records to reflect the 6% interest rate (if applicable), and
- verify the servicer's request for reimbursements of advances (if applicable).

If military indulgence (in addition to reduction of the interest rate to 6%) is granted in connection with a delinquency, the servicer also will need to report the granting of military indulgence in the first delinquency status information report it transmits to Fannie Mae after the date the additional military indulgence was granted.

In addition, if the mortgage loan is an ARM, the servicer **must** report through Fannie Mae's investor reporting system a Transaction Code 83: Monthly Rate/Payment Change, as each scheduled interest rate adjustment is due. This reporting will advise Fannie Mae what the new rate would be if the 6% interest rate reduction were not in force (even though interest will not be accruing at the adjusted rate).

Requesting Reimbursement for Advances

The process for requesting reimbursement for advances varies according to whether the mortgage loan is a **whole mortgage loan** or an MBS mortgage loan.

- For **whole mortgage loans** serviced under actual/actual, scheduled/actual, or scheduled/scheduled cash remittance types, Fannie Mae will adjust its investor reporting system records to reflect the 6% interest rate and new principal and interest (P&I) payments (calculated in accordance with either the standard method or the interest subsidy method) upon receipt of the **Form 1022**. Since Fannie Mae's loan-level records will be in agreement with the servicer's records, the servicer will not have to advance any interest due to the interest rate reduction, and no request for reimbursement is necessary. If the interest subsidy amortization method is used, the servicer will have to notify Fannie Mae **by submitting Form 1022 to sailors_and_soldiers@fanniemae.com**

(including any change in the monthly installment while the mortgage loan is under military indulgence).

- **For Pooled from Portfolio mortgage loans (PFP)**, regardless of remittance type, Fannie Mae will not adjust its investor reporting system records. The servicer must submit **Form 1022** to sailors_and_soldiers@fanniemae.com by the **ninth business day** in order to request an adjustment be made to the servicer's shortage surplus account for the current month. Requests received **after the ninth business day** will be processed the following month.
- **For MBS mortgage loans**, regardless of the remittance type, Fannie Mae will not adjust its investor reporting system records to reflect the 6% interest rate and new P&I payments. The servicer is required to **submit the mortgage information through Fannie Mae's Servicer's Reconciliation Facility™ (SURF™)** under the Loan Reporting screen through the SCRAMS file transmit link. Once the mortgage loan has been submitted through SURF, the servicer will only need to resubmit if:
 - corrections are needed,
 - there is an early release, or
 - service has been extended.

Fannie Mae will continue to make disbursements for the amount of the interest rate reduction through the military indulgence end date plus one year. The disbursements will be funded two days prior to the end of the month in the custodial account that the servicer has assigned for SCRA funds. Once a mortgage loan is reclassified from the MBS pool, the servicer must submit **Form 1022** to have the rates updated effective the month after the reclassification.

The interest reimbursement is calculated by first deducting the servicer's compensation rate from the interest at 6% and then deducting this result from the pass-through rate that would be applicable if the borrower had not entered military service. If the servicer uses the standard amortization method, there will be a discrepancy between Fannie Mae's records and the servicer's records, not only with respect to the interest rate, but also between principal scheduled to be collected from the borrower versus the principal scheduled to be paid to MBS investors. To correct this principal discrepancy, each month the servicer must:

- remit a reconciling principal curtailment in the amount of the difference between the principal scheduled to be applied to the mortgage note (which is based on reamortization with 6% interest over the remaining term), compared to the scheduled principal that is due to security holders (which is based on the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian);
 - Since this principal is collected from the mortgagor, it is not necessary to submit a reimbursement request for principal to Fannie Mae. (The sum of the interest reduction advanced by the servicer and reimbursed by Fannie Mae, plus the reduced borrower payment, is more than the amount that would have been advanced to Fannie Mae had the borrower remained a civilian by an excess amount that Fannie Mae applies on its records as the principal curtailment.)
- identify the principal curtailment on all pool reconciliations; and
- report the principal curtailment as unscheduled principal during security balance reporting period. (A reconciling principal curtailment is not needed with the interest subsidy method because the principal portion of each monthly borrower payment is the amount specified by the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian.)
 - If the servicer fails to report the reconciling principal curtailment at the MBS pool level, it will have a pool-to-security balance reconciliation problem.



If the servicer uses the interest subsidy method (which uses the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian), reconciling principal curtailment is not required to be reported. The servicer must, however, adhere to the following:

- Apply payments to principal before interest (so that amortization stays on the applicable schedule). The amount necessary to cover, in full, both the monthly principal installments called for by the applicable amortization schedule and the interest accruing at 6% will increase each month, although usually by an immaterial amount; and
- Recalculate the payment at least annually, to avoid a material underpayment of interest.

NOTE: *Request for reimbursement is not required. Fannie Mae is not required to reimburse for interest insofar as the payment the borrower owes is insufficient to pay interest at the rate of 6% in full.*