

## **Servicing Guide Announcement SVC-2013-28**

December 19, 2013

### **Fannie Mae Standard Modification and Streamlined Modification Updates**

The Fannie Mae Standard Modification and Streamlined Modification programs (including Fannie Mae Streamlined Modifications after disaster forbearance) are being expanded to include mortgage loans with a pre-modified mark-to-market loan-to-value (MTMLTV) ratio less than 80%. MTMLTV is defined as the gross unpaid principal balance of the mortgage loan divided by the current value of the property that secures the mortgage loan.

Except as stated in this Announcement, servicers must comply with the applicable requirements for a Fannie Mae Standard Modification or Streamlined Modification as described in the *Servicing Guide*, including Announcement SVC-2013-05: *Streamlined Modifications, Conventional Mortgage Loan Modifications, and Outbound Communications*, and Announcement SVC-2013-16: *Updates to Assistance in Disasters*.

### **Effective Date**

Servicers are encouraged to implement these policies immediately; however, servicers are required to implement these policies for borrowers who are eligible for a Fannie Mae Standard Modification or Streamlined Modification by April 1, 2014.

### **Modification Terms for Mortgage Loans with Pre-Modified MTMLTV Less Than 80%**

***Servicing Guide, Part VII, Section 602.02.05: Conventional Mortgage Loan Modification Terms; Announcement SVC-2013-05: Streamlined Modifications, Conventional Mortgage Loan Modifications, and Outbound Communications, and Announcement SVC-2013-16: Updates to Assistance in Disasters***

The servicer must take the following steps in the order provided to determine the terms of the modified mortgage loan and ensure the borrower satisfies all other eligibility requirements for the mortgage loan modification.

<b>Step</b>	<b>Servicer Action</b>
1	Capitalize arrearages (as described in the <i>Servicing Guide, Part VII, Section 602.02.05: Conventional Mortgage Loan Modification Terms</i> ).

Step	Servicer Action						
2	<p data-bbox="250 226 1455 260">Set the modification interest rate to a fixed rate based on the requirements in the table below.</p> <table border="1" data-bbox="233 264 1513 865"> <thead> <tr> <th data-bbox="233 264 618 359">If the mortgage loan at time of evaluation is...</th> <th data-bbox="618 264 1513 359">Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="233 359 618 438">a fixed-rate mortgage loan,</td> <td data-bbox="618 359 1513 438">set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.</td> </tr> <tr> <td data-bbox="233 438 618 865">an ARM or a step-rate mortgage loan,</td> <td data-bbox="618 438 1513 865"> <p data-bbox="651 447 1045 480">set the interest rate as follows:</p> <ul data-bbox="651 495 1398 852" style="list-style-type: none"> <li data-bbox="651 495 1398 705">▪ If the current interest rate <b>is less than</b> the current Fannie Mae Standard Modification Interest Rate, set the modified loan interest rate to the current Fannie Mae Standard Modification Interest Rate. (The current Fannie Mae Standard Modification Interest Rate can be found on <a href="#">Fannie Mae's website</a>.)</li> <li data-bbox="651 720 1398 852">▪ If the current interest rate is <b>greater than or equal to</b> the current Fannie Mae Standard Modification Interest Rate, set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.</li> </ul> </td> </tr> </tbody> </table>	If the mortgage loan at time of evaluation is...	Then the servicer must...	a fixed-rate mortgage loan,	set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.	an ARM or a step-rate mortgage loan,	<p data-bbox="651 447 1045 480">set the interest rate as follows:</p> <ul data-bbox="651 495 1398 852" style="list-style-type: none"> <li data-bbox="651 495 1398 705">▪ If the current interest rate <b>is less than</b> the current Fannie Mae Standard Modification Interest Rate, set the modified loan interest rate to the current Fannie Mae Standard Modification Interest Rate. (The current Fannie Mae Standard Modification Interest Rate can be found on <a href="#">Fannie Mae's website</a>.)</li> <li data-bbox="651 720 1398 852">▪ If the current interest rate is <b>greater than or equal to</b> the current Fannie Mae Standard Modification Interest Rate, set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.</li> </ul>
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3	<p data-bbox="250 882 1455 949">Calculate the monthly principal and interest (P&amp;I) payment using both a 480-month and 360-month term.</p> <ul data-bbox="250 968 1406 1243" style="list-style-type: none"> <li data-bbox="250 968 1406 1035">▪ The borrower is eligible for a 480-month term if the monthly P&amp;I payment calculated using the 480-month term is less than or equal to the current monthly P&amp;I.</li> <li data-bbox="250 1104 1406 1243">▪ The borrower is also eligible for a 360-month term if the monthly P&amp;I payment calculated using the 360-month term provides a payment reduction of at least 20%. (See Evaluation Notice, Solicitation Letter and Trial Period Plan below for requirements on when to offer a 360-month term.)</li> </ul>						

As required by the *Servicing Guide*, all mortgage loan modifications must comply with all applicable laws.

For mortgage loans that meet the pre-modified MTMLTV ratio less than 80% requirements indicated in this Announcement, the servicer is no longer required to submit the case to Fannie Mae for review and approval through HomeSaver Solutions™ Network (HSSN). Only mortgage loans not meeting the Fannie Mae Standard Modification eligibility and term requirements described in the *Servicing Guide* (including this Announcement) must be submitted to Fannie Mae using HSSN for review and approval. If a mortgage loan modification meets the requirements in this Announcement, the servicer must still enter the mortgage loan modification in HSSN through the "Create/Submit Closed Loan Modification Case" link.

## Evaluation Notice, Solicitation Letter, and Trial Period Plan

***Servicing Guide*, Part VII, Section 205.08: Evaluation Notices and Section 602.02.06: Trial Period Plan, Announcement SVC-2013-05: Streamlined Modifications, Conventional Mortgage Loan Modifications, and Outbound Communications, and Announcement SVC-2013-16: Updates to Assistance in Disasters**

If the mortgage loan satisfies the eligibility requirements for a mortgage loan modification with only a 480-month amortization term or with both 480- and 360-month amortization terms as described in Step 3 above, the servicer must send to the borrower an *Evaluation Notice (Trial Period Plan)* and solicitation letter, as

applicable, that includes proposed modification term(s) and Trial Period Plan payments based on the eligible amortization term(s).

In addition, for borrowers eligible for the 480- and 360-month amortization terms, the *Evaluation Notice* and solicitation letter, as applicable, must inform the borrower that they can request evaluation for a modification with an amortization term less than 360 months provided that they request such evaluation prior to making the first Trial Period Plan payment. The *Evaluation Notice* also must include a disclosure explaining that if the borrower chooses the shorter amortization term but is unable to maintain the higher payment during the Trial Period Plan, he or she can change to the 480-month term and make the associated 480-month payment during the Trial Period Plan without restarting the Trial Period Plan. However, this option is available only if the borrower contacts the servicer prior to the servicer sending the *Loan Modification Agreement* to the borrower for execution, and continues to make timely payments as required by the Trial Period Plan.

**Request for Another Amortization Term Before Making First Trial Period Payment**

If the borrower contacts the servicer to change the selected amortization term before the borrower has accepted the Trial Period Plan by making the first Trial Period Plan payment, the servicer must follow the guidance provided in the following table.

If the borrower receives an offer with ...	Then the borrower ...	And the servicer must ...
a term of 360 and 480 months,	may request to change to a term less than 360 months.	<ul style="list-style-type: none"> <li>▪ evaluate the borrower for a shorter amortization term by reducing the 360-month term in increments of 60 months to the shortest amortization term that achieves a monthly P&amp;I payment reduction of at least 20% of the current monthly P&amp;I payment; and, if eligible,</li> <li>▪ then send the borrower a new <i>Evaluation Notice (Trial Period Plan)</i>, and solicitation letter, if applicable, based on the shorter amortization term.</li> </ul>
a term of 480 months only,	will not have an option of changing the amortization term to a shorter amortization term.	inform the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties associated with paying more than the amount due.

**Request for Another Amortization Term After Making First Trial Period Payment**

If the borrower contacts the servicer to change the selected amortization term after the borrower has accepted the Trial Period Plan by making the first Trial Period Plan payment, the servicer must follow the guidance provided in the following table.

If the borrower accepted ...	Then the borrower ...	And the servicer must ...
a term of 360 months or less,	may request to change to the 480-month term during the Trial Period Plan, provided the borrower contacts the servicer prior to the servicer sending the Loan Modification Agreement to the borrower and continues to make timely payments as required by the Trial Period Plan.	inform the borrower to complete their Trial Plan Period based on the 480-month P&I payment indicated in the <i>Evaluation Notice (Trial Period Plan)</i> previously sent to the borrower.  NOTE: <i>The servicer must not provide the option to change back to a shorter amortization term.</i>
a 480-month term,	will not have an option of changing the amortization term to a shorter amortization term.	inform the borrower that upon successful completion of the Trial Period Plan and conversion to a permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties associated with paying more than the amount due.

Upon successful completion of the Trial Period Plan, the servicer must obtain or provide an executed Loan Modification Agreement that reflects the agreed modification terms described in this Announcement, and the servicer must otherwise process the mortgage loan modification in accordance with the terms of the *Servicing Guide*.

As a reminder, the borrower must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification. A borrower who fails to make the Trial Period Plan payments in accordance with the *Servicing Guide* is considered to have failed the Trial Period Plan and is not eligible for a permanent mortgage loan modification.

Once the loan modification is completed, if the mortgage loan becomes 60 or more days delinquent within 12 months of the modification effective date, the servicer must deem the mortgage loan as ineligible for a Fannie Mae Streamlined Modification or Fannie Mae Standard Modification as required by the *Servicing Guide*.

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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.

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