



Fannie Mae

Fannie Mae Single-Family Balloon Mortgage Loan Servicing Manual

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Preface

This *Balloon Mortgage Loan Servicing Manual* (Manual) incorporates all Fannie Mae servicing-related policies and procedures for single-family balloon mortgage loans. This Manual is incorporated into the *Servicing Guide* by reference. In the event that the Manual and the *Servicing Guide* are conflicting, the servicer must follow the requirements set forth in the *Servicing Guide*.

Content Organization

This Manual is organized into chapters:

- Chapter 1: Notifying the Borrower of Balloon Mortgage Loan Maturity
- Chapter 2: Processing the Refinancing of a Matured Balloon Mortgage Loan
- Chapter 3: Performing Final Accounting and Reporting for a Balloon Mortgage Loan

To learn more about the details on the content included in a chapter, see the Table of Contents.

Effective Dates for the Manual

Each topic within the Manual is followed by a date shown in parentheses. With the publication of the new Manual, this date will represent the date of the most recent Servicing Announcement that amended content within an individual topic. The servicer must refer to the individual Announcement to locate the policy effective date.

Access Options

The Manual is available on AllRegs and in Adobe® PDF format on Fannie Mae's website. Related Announcements, Lender Letters, and Notices may be obtained through a variety of mediums, including:

- using a free electronic version on the AllRegs website through a link from Fannie Mae's website;
- a subscription paid directly to AllRegs for an enhanced electronic version with additional features and a higher degree of functionality (than the free version); and
- in PDF format on Fannie Mae's website.

Amendments to the Manual

Fannie Mae may at any time alter or waive any of the requirements of this Manual, impose other additional requirements, or rescind or amend any and all material set forth in this Manual. The servicer must ensure that its staff is thoroughly familiar with the content and requirements of the Manual as it now exists and as it may be changed.

Notification of Changes and Manual Updates

Fannie Mae notifies servicers of changes and updates to its Manual policies and procedures, as communicated in Announcements, Lender Letters, and Notices, in two ways:

- posting the documents on Fannie Mae’s website and the AllRegs website, and
- emailing notification of those postings to servicers that subscribe to Fannie Mae’s email subscription service and select the option “Servicing News.”

Forms, Exhibits, and Content Incorporated by Reference

The Manual provides information about the specific forms servicers must use to fulfill Fannie Mae’s requirements. Servicers can access the actual forms on Fannie Mae’s website.

Some materials are only referenced in the Manual and are posted in their entirety on Fannie Mae’s website. All forms and exhibits – whether it currently exists or is subsequently created – referenced in the Manual now or later are legally a part of this Manual, the *Servicing Guide* and Fannie Mae’s contract with its servicers.

Technical Issues

In the event of technical difficulties or system failures with Fannie Mae’s website, the delivery of the “Servicing News” option of Fannie Mae’s email subscription service, or the AllRegs website, users may contact the following resources:

- For Fannie Mae’s website and Fannie Mae’s email subscription service, use the “Contact Us” link on the website to ask questions or obtain more information or contact Fannie Mae’s Single-Family Technology Support at 1-800-2FANNIE (1-800-232-6643).
- For the AllRegs website, submit an e-mail support request from the website or contact AllRegs Customer Service at 1-800-848-4904

When Questions Arise

The Manual provides information about normal and routine balloon mortgage loan servicing matters. Servicers must address questions relevant to a particular situation not covered in the Manual to its Fannie Mae Servicing Representative, or its Fannie Mae Investor Reporting Representative, as applicable.

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Chapter 1, Notifying the Borrower of Balloon Mortgage Loan Maturity

In this Chapter

This Chapter contains the following Topics:

- 1-01, Servicer Responsibilities
- 1-02, Content of the Balloon Mortgage Loan Maturity Notice
- 1-03, Timing of the Balloon Maturity Notice

1-01 , Servicer Responsibilities (11/12/2014)

The following table outlines the servicer's responsibilities related to servicing mature balloon mortgage loans.

✓	The servicer must...
	<p>Notify the borrower of the upcoming balloon payment as follows:</p> <ul style="list-style-type: none"> • 180 days prior to the balloon maturity date, send notification detailing the pending balloon payment due, and • 60 days prior to the balloon maturity date, make at least one telephone call and/or mail a reminder letter to the borrower who does not submit a written request to exercise the conditional refinance option.
	<p>Comply with the balloon mortgage loan instruments, all applicable laws and conventional mortgage insurer requirements.</p>
	<p>Retain all documentation related to the resolution of the matured balloon mortgage loan in the mortgage loan file.</p>

1-02 , Content of the Balloon Mortgage Loan Maturity Notice (11/12/2014)

In addition to the requirements in the balloon mortgage loan instruments, the balloon maturity notice must also provide the information shown in the following table, tailored to meet the borrower's individual circumstances.

✓	Information that Must Be Provided in the Balloon Maturity Notice
	<p>A requirement for the borrower to submit evidence of the occupancy status of the property no later than 30 days after the written request for the refinancing is submitted.</p> <p>See also 2.1-03, Verifying Ownership, Property Lien Status, and the Status of Any Other Liens for further details on required documentation.</p>
	<p>An explanation of the process for completing the refinancing, including, but not limited to the following:</p> <ul style="list-style-type: none"> • the borrower's responsibilities (including the requirement that all payments that become due before the effective date of any refinance be made without occurrence of a 30-day delinquency), • the dates by which specific actions must be taken and the consequences of not meeting those dates, and • the documents that need to be executed, and how the execution is to be accomplished.
	<p>Information about the balloon payment amount, including, but not limited to the following:</p> <ul style="list-style-type: none"> • the UPB, • accrued interest, and

- | | |
|--|--|
| | <ul style="list-style-type: none">• any unpaid late charges that will be due on the balloon maturity date. |
|--|--|

The servicer must also explain the consequences of the borrower's not paying the final payment on the balloon maturity date if he or she chooses not to exercise the conditional refinancing option.

1-03, Timing of the Balloon Maturity Notice (11/12/2014)

If the mortgage loan debt has not been accelerated, then the servicer must:

- send the required balloon maturity notice that is appropriately tailored to fit the individual borrower and mortgage loan circumstances – the notice should not interfere or conflict with any other collection-related or foreclosure-related activity; and
- subsequently send an acceleration letter if the servicer finds it necessary to accelerate the debt before the balloon maturity date.

Chapter 2, Processing the Refinancing of a Matured Balloon Mortgage Loan

In this Chapter

This Chapter contains the following Sections:

- 2.1, Determining Eligibility for Refinancing Upon Receipt of the Declaration of Intent
- 2.2, Allowable Exceptions for Refinancing a Balloon Mortgage Loan When It Is Technically Ineligible
- 2.3, Processing an Approved Refinance Transaction
- 2.4, Delivery and Documentation Requirements for Balloon Mortgage Loans Refinanced at Maturity

2.1, Determining Eligibility for Refinancing Upon Receipt of the Declaration of Intent

This Section contains the following Topics:

- 2.1-01, Receipt of the Declaration of Intent
- 2.1-02, Evaluating Conditions for Refinance
- 2.1-03, Verifying Ownership, Property Lien Status and the Status of Any Other Liens
- 2.1-04, Verifying Occupancy
- 2.1-05, Determining the Impact of Bankruptcy
- 2.1-06, Verifying the Borrower's Payment History After the Balloon Maturity Notice
- 2.1-07, Quoting the New Interest Rate to the Borrower

2.1-01, Receipt of the Declaration of Intent (11/12/2014)

The servicer must evaluate the borrower for all eligibility conditions upon receipt of the borrower's "declaration of intent." The requirement that the borrower submit a written request can be satisfied by the borrower's completing and returning the Declaration of Intent that appears in the *Exhibit* to this chapter, or some other form of written request within the specified time frame. (See [Exhibit 1, Declaration of Intent](#)).

If the borrower fails to submit their declaration of intent at least 45 days before the balloon maturity date, the borrower is technically ineligible for the conditional refinancing. However, if the servicer chooses to approve the refinance, they must calculate the new interest rate for the refinanced mortgage loan using the method described for Fannie Mae's allowable eligibility exceptions.

The servicer is authorized to grant temporary forbearance to the borrower to allow additional time for paying off the balloon mortgage loan or for refinancing the mortgage loan, if the effective date of the refinancing will not occur until after the end of the balloon maturity month. See also [3.2-02, Determining Why the Balloon Payment Was Not Made](#) for more information.

2.1-02, Evaluating Conditions for Refinance (11/12/2014)

In addition to the conditions described in the balloon mortgage loan instruments, the servicer must also verify the following criteria before a balloon mortgage loan can be conditionally refinanced at maturity.

✓	Additional Fannie Mae Conditions for Refinance
	The borrower must still own the property and occupy it as his or her principal residence.
	The property must not have any liens against it other than the lien of the balloon mortgage loan, except for liens for taxes and special assessments that are not yet due and payable.
	Any other conditions outlined under a negotiated transaction contract, if applicable.

Should requirements or conditions discussed in this manual conflict with

those of a conventional mortgage insurer, the servicer must comply with the insurer's requirements when their restrictions are required to preserve insurance coverage for the balloon mortgage loan. However, the mortgage insurer cannot instruct the servicer to make the refinance offer subject to conditions that are not set forth in the balloon mortgage loan instruments.

2.1-03, Verifying Ownership, Property Lien Status and the Status of Any Other Liens (11/12/2014)

If the borrower is exercising a conditional refinance option, the servicer must obtain a title report to verify:

- ownership of the property,
- property lien status, and
- the status of any other liens on the property.

NOTE: *If an attorney's opinion of title was obtained when the balloon mortgage loan originated, the servicer is authorized to obtain an updated attorney's opinion instead of a title policy. The servicer is permitted to charge the borrower for the cost of obtaining the title report, even if refinancing does not take place.*

The title report or the attorney's opinion must show that the property is free from any of the following that may have arisen after the mortgage lien was recorded and that could affect the title to the property:

- liens (except for the lien of the balloon mortgage loan and a lien for taxes and special assessments that are not yet due and payable);
- defects;
- encumbrances; or
- other adverse matters.

If the title report confirms there are no other liens, defects, encumbrances, or other adverse matters – or the borrower pays off or otherwise removes them – the servicer is authorized to approve the refinancing provided all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

2.1-04, Verifying Occupancy (11/12/2014)

The borrower must occupy the property as a principal residence or second home, and must provide proof of occupancy within 30 days of their declaration of intent in order to qualify for the conditional refinancing of a balloon mortgage loan. Proof of occupancy is evidenced by documentation, such as:

- a copy of a recent utility bill or a driver's license showing the borrower as residing at the property address, or
- other evidence the servicer deems acceptable.

NOTE: *If the borrower submits evidence of occupancy, but the servicer does not believe the documents provide adequate proof, the servicer must request additional information from the borrower.*

Once the borrower has provided acceptable evidence of occupancy, the servicer is authorized to approve the refinancing as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

2.1-05, Determining the Impact of Bankruptcy (11/12/2014)

If the balloon maturity date occurs while a bankruptcy action is pending, the servicer must:

- inform the bankruptcy attorney of that fact, and
- contact the mortgage insurer to confirm whether the bankruptcy proceedings will have an effect on the mortgage insurance coverage.

When the borrower satisfies Fannie Mae's payment history eligibility condition, or the allowable payment history exception, he or she may still be approved for the refinancing despite the bankruptcy filing, provided the terms of the bankruptcy reorganization plan and Fannie Mae's other eligibility conditions (or authorized variances) are satisfied. If applicable, the mortgage insurer must also agree to the continuation of mortgage insurance beyond the balloon maturity date. See also [2.2, Allowable Exceptions for Refinancing a Balloon Mortgage Loan When It Is Technically Ineligible](#), for additional information.

2.1-06, Verifying the Borrower's Payment History After the Balloon Maturity Notice (11/12/2014)

In addition to confirming the borrower's payment history meets the guidelines established in the balloon mortgage loan instrument, the servicer must also check recent account activity to ensure that any payments that came due after the balloon maturity notice were made on time. If the borrower's payment record is still acceptable, the servicer is authorized to approve the refinancing as long as all of the other eligibility conditions or allowable exceptions to them are satisfied.

2.1-07, Quoting the New Interest Rate to the Borrower (11/12/2014)

The servicer is not required to quote the new interest rate to the borrower before it has determined that the borrower satisfies all eligibility criteria or Fannie Mae's authorized variances to these criteria.

Once the servicer decides that a refinance will be permitted, the new interest rate must be calculated by using Fannie Mae's applicable required net yield that was in effect for 60-day mandatory delivery actual/actual commitments for 30-year conventional fixed-rate first lien mortgage loans on the receipt date and time of the borrower's request. Fannie Mae's required net yield can be obtained from the following sources:

- Fannie Mae's website,
- Telerate Systems,
- The Reuters Mortgage Service,
- The Bloomberg, and
- Knight-Ridder MoneyCenter Index.

The interest rate for the new refinance mortgage loan will be the sum of Fannie Mae's applicable required net yield in effect for the date and time that the servicer received the borrower's declaration of intent plus 0.5%, rounded to the nearest 0.125%.

Exhibit 1: Declaration of Intent (11/12/2014)

Declaration of Intent

A. Check one of the following boxes:

1. I will pay my mortgage in full on or before the balloon maturity date.
2. I intend to exercise the conditional refinancing option provided for in my Balloon Note Addendum and Balloon Rider and I certify that I meet the ownership, occupancy, and lien status conditions contained in my Balloon Note Addendum and Balloon Rider, or will meet those conditions within 30 days.
3. I cannot pay off my mortgage in full and I do not meet all of the eligibility conditions for the conditional refinancing option provided for in my Balloon Note Addendum and Balloon Rider. However, I want to be considered for the conditional refinancing option even though I do not qualify under the terms of my mortgage loan documents.

B. If you checked Box #2 or #3 above, check each of the following boxes that apply to your circumstances:

1. I currently own the property securing the balloon mortgage loan.
2. I currently use the property securing the balloon mortgage loan as my
 - a. Primary residence b. Second home c. Investment property
3. I do not have any lien, defect, encumbrances or adverse matter affecting the title to the property except any that predate the lien of the balloon mortgage loan.
4. I do have another lien, defect, encumbrance or adverse matter affecting the title to the property that postdates the lien for the balloon mortgage loan and
 - a. I will pay off or resolve the lien, defect, encumbrance, or adverse matter and provide you with proof of such resolution within the next 30 days.
 - b. I cannot pay off or resolve the lien, defect, encumbrance, or adverse matter within the next 30 days.
5. If I directly pay my real estate taxes (i.e., no escrow deposit account is maintained for real estate taxes), as of the date of this declaration my real estate tax payments are current.

C. By signing this Declaration of Intent, I certify and acknowledge the following:

1. I certify that all information provided in this declaration is true and correct as of the date set forth opposite my signature and I acknowledge my understanding that any intentional or negligent misrepresentation of the information contained in this statement may result in civil liability and/or criminal penalties. Additionally, false and incorrect information will make any conditional offer to refinance the balloon mortgage null and void and I will be required to pay off my mortgage loan in full not later than the balloon maturity date.
2. I understand and agree that, if I meet all of the eligibility conditions for the conditional refinance option, you will obtain the Fannie Mae required net yield to calculate my new interest rate and monthly payment for the refinancing as follows:

[Insert your policy for determining when the borrower's declaration of Intent will be considered to have been received.]

3. I understand and agree that, if I do not meet all of the eligibility conditions for the conditional refinance option, I am not eligible for the refinancing under the original terms provided for in the Balloon Note Addendum and Balloon Rider. I acknowledge that should you offer me refinancing, the costs of the transaction will be higher than those permitted in the Balloon Note Addendum and Balloon Rider and that my new interest rate does not have to be based on the Fannie Mae required net yield in effect on the date and time of the day you receive this declaration.

Date _____

Borrower's Signature _____

Date _____

Borrower's Signature _____

2.2 , Allowable Exceptions for Refinancing a Balloon Mortgage Loan When It Is Technically Ineligible

2.2-01, Approving the Refinance Based on Transfers of Ownership in Properties Securing Balloon Mortgage Loans (11/12/2014)

2.2-02, Approving a Request for Refinancing When the Borrower No Longer Occupies the Property (11/12/2014)

This Section contains the following Topics:

- 2.2-01, Approving the Refinance Based on Transfers of Ownership in Properties Securing Balloon Mortgage Loans
- 2.2-02, Approving a Request for Refinancing When the Borrower No Longer Occupies the Property
- 2.2-03, Approving a Request for Refinancing When the Borrower's Payment History is Unsatisfactory
- 2.2-04, Approving a Request for Refinancing When the Property Is Ineligible Due to Lien Status Issues, Including Delinquent Taxes

If the title report or attorney's opinion indicates that the borrower is no longer the owner of the property, the servicer must:

- look into the circumstances behind the transfer of ownership and obtain copies of all documents that show the terms of the transfer, and
- determine whether the transfer of ownership transaction is exempt from the due-on-sale (or due-on-transfer) provision. See [Servicing Guide D1-4.2-02, Conventional Mortgage Loans That Include a Due-on-Sale \(or Due-on-Transfer\) Provision](#) for further information on Transfers of Ownership.

If the transfer of ownership is exempt from the due-on-sale (or due-on-transfer) provision, the servicer may approve the request provided all of the conditions described in the following table are met.

✓	Conditions for Refinance
	The new property owner must have at least a 12-month payment history for the balloon mortgage loan by the effective date of the refinancing.
	The payments are current when the servicer reviews the eligibility criteria.
	No payments have been 30 days or more late in the 12-month period ending with the effective date of the refinancing.
	All of the other eligibility conditions or Fannie Mae's authorized variances to them are satisfied.

When the borrower still owns the property, but uses it as an investment property, the servicer may still authorize the refinancing. However, there will be an additional LLPA assessed at the time of delivery. See *Selling Guide B2.1.3-04 Refinanced Balloon Mortgages* for additional information.

When the servicer waives some or all of the LLPA in connection with the refinancing of either a portfolio mortgage loan or MBS mortgage loan that is being used as an investment property, the servicer must contact its Fannie Mae Servicing Representative (see [Servicing Guide F-4-03, List of Contacts](#))

before delivering the new refinance mortgage loan to Fannie Mae.

2.2-03, Approving a Request for Refinancing When the Borrower's Payment History Is Unsatisfactory (11/12/2014)

The servicer is authorized to approve a refinance even though the borrower does not satisfy Fannie Mae's payment history eligibility conditions. If the borrower is unable to reinstate the mortgage loan or the loan has been referred to an attorney to initiate foreclosure proceedings, the servicer's loss mitigation staff must determine whether an appropriate workout plan can be arranged for the balloon mortgage loan.

2.2-04, Approving a Request for Refinancing When the Property Is Ineligible Due to Lien Status Issues, Including Delinquent Taxes (11/12/2014)

If the title report indicates there are defects, encumbrances, or adverse matters (other than a junior lien) that affect the title to the property, the servicer generally should not approve the refinancing unless the borrower cures the identified defects. However, the servicer is authorized to approve the refinancing without the defects being cured if it determines:

- the defects will not negatively affect the value or marketability of the property,
- the title insurer is willing to insure the new refinance mortgage loan as a first-lien despite any uncured title defects, and
- all other eligibility conditions (or Fannie Mae's allowable exceptions to them) are satisfied.

If a junior lienholder refuses to subordinate its lien, the servicer must determine whether:

- the title insurer is willing to issue an endorsement to the current title policy,
- the title insurer is willing to issue a new title policy that shows the new refinance mortgage loan as a first lien, or
- the borrower is able to pay off the junior lien.

The following table provides the servicer with additional instructions depending on whether the mortgage insurer will agree to continue coverage.

If the title insurer...	Then the servicer...
will insure the new mortgage as a first lien without an executed subordination agreement from the junior lienholder	is authorized to approve the refinancing, as long as all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.
will not insure the new mortgage as a first lien without an executed subordination agreement from the junior lienholder	must contact the junior lienholder and explain that foreclosure proceedings for the balloon mortgage loan will be initiated unless they agree to subordinate the debt of the junior lien or the borrower pays off the junior lien.

If the junior lienholder refuses to subordinate its debt, the servicer can only approve the refinance only if the borrower

- pays off the junior lien, and
- satisfies all other eligibility conditions (or Fannie Mae's authorized variances to them).

If the borrower is unable to pay off the junior lien and does not make the balloon payment by the balloon maturity date, (or by the date specified in a forbearance agreement that allows the payment to be made after the balloon maturity date), the servicer must initiate foreclosure. However, the servicer's loss mitigation staff must consider a loss mitigation alternative in lieu of a foreclosure of the balloon mortgage loan.

When the title report indicates that the real estate taxes for the current tax period are delinquent (although they do not yet appear in the land records as a lien against the property), the servicer must determine if the taxes have been paid.

If the servicer does not maintain an escrow deposit account for the mortgage loan, it must check with the borrower to verify whether the taxes have been paid and, if not, advise him or her to pay them immediately.

The following table provides Fannie Mae's requirements for approval of a refinance for a mortgage loan with delinquent property taxes.

✓	Conditions for Refinance When Property Taxes Are Delinquent
	<p>The delinquent taxes must immediately be brought current.</p> <ul style="list-style-type: none"> • When a borrower is unable to pay the delinquent property taxes, the servicer must decide whether to pay the delinquent taxes on the borrower's behalf in order to proceed with the refinance. • When a borrower is able to pay the delinquent property taxes, the servicer must obtain proof of payment. <p>NOTE: <i>A plan that obligates the borrower to pay the delinquent taxes by making periodic payments to the taxing authority is not acceptable evidence that the delinquent taxes have been paid.</i></p>
	An escrow deposit account must be established from which

	all future real estate taxes must be paid.
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The following table provides additional instructions depending on whether the servicer is willing to advance funds to pay the delinquent taxes on the borrower's behalf.

If the servicer chooses...	Then the servicer...
to advance the funds to pay the delinquent taxes	establish a repayment plan through which the borrower can repay the advance before approving the refinance provided that all other eligibility conditions (or Fannie Mae's authorized variances to them are satisfied).
not to advance the funds to pay the delinquent taxes	<ul style="list-style-type: none"> • determine whether an appropriate workout plan can be considered in lieu of a foreclosure of the balloon mortgage loan, and • initiate foreclosure proceedings if the balloon payment is not received by the balloon maturity date (or by the date specified in a forbearance agreement that allows the payment to be made after the balloon maturity date).

2.3 , Processing an Approved Refinance Transaction

2.3-01, Preparing the Refinance Package for Delivery to the Borrower (11/12/2014)

This Section contains the following Topics:

- 2.3-01, Preparing the Refinance Package for Delivery to the Borrower
- 2.3-02, Establishing the Terms of the New Refinance Mortgage Loan
- 2.3-03, Obtaining Title Insurance Coverage

The instruction letter the servicer sends with the refinance package must include all of the information described in the following table.

✓	Instruction Letter Contents
	All terms of the new refinance mortgage loan.
	A disclosure that all scheduled monthly payment(s) that come due before the effective date of the refinancing must be paid, without becoming 30 days late, in order for the refinancing to be finalized.
	Specific instructions about the completion and execution of the legal documents required to complete the refinancing. NOTE: <i>If the borrower must appear in person to sign the documents, the servicer must indicate the date, time, and address at which the borrower must appear.</i>
	The date by which the borrower must return the executed legal documents and funds for the transaction costs, along with the address to which the documents and funds must be sent, if the transaction is being completed through the mail.
	An itemized breakdown of the transaction costs. The servicer also should indicate the forms of payment that will be accepted (personal check, cashier's check, certified check, etc.).
	An explanation of the actions that must take place after the servicer receives the executed documents and the payment for the transaction costs from the borrower.
	An explanation of the consequences of the borrower's failure to return the executed documents and funds for the transaction costs on time, or for failing to appear at the closing if the servicer requires the borrower's personal appearance. The servicer should also advise the borrower of the process for notifying the servicer if he or she decides not to go through with the refinancing.
	The telephone number of the department in the servicer's organization that the borrower can call with questions about the refinancing package.

	Any additional instructions for approval under an authorized variance/allowable exception.
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2.3-02, Establishing the Terms of the New Refinance Mortgage Loan (11/12/2014)

When the borrower qualifies for refinancing, the servicer must not make changes to the mortgage loan terms or the language in the mortgage loan instruments without the borrower's consent. The only exception to this is if the changes are required by law or are needed to make a legal duty to the borrower effective.

The servicer must also inform the borrower that he or she has the right to agree to or reject any proposed changes for which borrower consent is required.

The new refinance mortgage loan must satisfy the terms and conditions listed in the following table.

✓	New Refinance Mortgage Loan Terms and Conditions
	<p>If the servicer grants the borrower a temporary forbearance period in which to pay off the original balloon mortgage loan or to finalize a refinancing, the effective date for the refinancing must be:</p> <ul style="list-style-type: none"> • the balloon maturity date, • the first day of any of the six months preceding the balloon maturity date, or • the first day of the month following the balloon maturity date.
	<p>The principal amount of the new mortgage loan must not exceed the UPB of the outstanding balloon loan (on the effective date of the refinance), plus accrued interest (calculated at the interest rate of the balloon). The accrued interest should cover the period from the LPI date for the balloon mortgage loan up to, but not including, the effective date of the refinancing.</p>
	<p>The interest rate of the new refinance mortgage loan must not be more than 500 basis points (5%) higher than the interest rate of the original balloon mortgage loan. Should the interest rate the servicer calculates for the new refinance mortgage loan be more than 5% higher than the interest rate of the original balloon mortgage loan, the servicer must re-underwrite the borrower to determine that he or she satisfies Fannie Mae's current underwriting guidelines.</p>
	<p>The monthly payments must be due on the first day of each month, with the first payment due on the first day of the month following the effective date of the refinancing.</p>
	<p>A single original of the applicable legal documents for the refinancing must be executed by all living borrowers, endorsers, guarantors, sureties, grantors, and other parties who signed the original balloon note and/or security instrument. See <i>Selling Guide B8-2-01 Special Purpose Security Instruments</i> and <i>B8-3-01 Notes for Conventional</i></p>

	<i>Mortgages</i> for additional details.
	The new mortgage loan must continue to be covered by conventional mortgage insurance if the original balloon mortgage loan was insured, unless the coverage: <ul style="list-style-type: none"> • has been terminated or cancelled, or • can be cancelled in connection with the refinancing, under Fannie Mae's applicable mortgage insurance termination or cancellation provisions.
	The security property must continue to be covered by property insurance, and, if applicable, flood insurance that satisfies Fannie Mae's requirements.
	A "co-grantor," or any party who did not sign the original balloon documents, but who currently has an interest in the property, must sign documentation that subjects his or her interest in the property to the lien that secures the new refinance mortgage loan, even if he or she will not be assuming liability for the debt as a "borrower."

When the servicer receives the executed documents from the borrower, the servicer must first verify that

- all borrowers signed their names exactly as they were typed on the documents,
- all borrowers indicated the date of their signatures, and
- a notary public notarized and properly completed the acknowledgment section of the document that will be recorded.

2.3-03, Obtaining Title Insurance Coverage (11/12/2014)

As part of the conditional refinance, the servicer must obtain a new title insurance policy or an endorsement to the existing policy that verifies the mortgage lien is a first priority lien.

The title policy or endorsement must comply with Fannie Mae's standard coverage requirements and be issued by a title insurance company that meets Fannie Mae's requirements for acceptable title insurers, which are discussed in the *Selling Guide B7-2-02, Title Insurer Requirements*, and *B7-2-04, Special Title Insurance Coverage Requirements*. When multiple methods for providing the required coverage are available, the servicer must always use the least expensive method.

2.4 , Delivery and Documentation Requirements for Balloon Mortgage Loans Refinanced at Maturity

2.4-01, Documenting the Refinanced Balloon Mortgage Loan (11/12/2014)

This Section contains the following Topics:

- 2.4-01, Documenting the Refinanced Balloon Mortgage Loan
- 2.4-02, Loan Delivery Documents
- 2.4-03, Delivery Options for Balloon Mortgage Loans Refinanced at Maturity

The following table describes the servicer's options for documenting the refinanced balloon mortgage loan.

	Methods for Documenting the Refinancing of a Balloon Mortgage Loan
Option 1	Execute a new fixed-rate note, and execute and record a new mortgage or deed of trust.
Option 2	<p>Execute and record a <i>Balloon Mortgage Refinancing Instrument</i> (Form 3269). This form combines a new fixed-rate note and a refinance of the existing balloon mortgage loan (or deed of trust) into a single document.</p> <p>If the servicer uses this form to document the refinancing of a balloon mortgage loan, it must</p> <ul style="list-style-type: none"> ▪ acknowledge its acceptance on the last page of the document, in the area marked "Accepted by Lender," ▪ forward the original executed document and the applicable recordation fees to the appropriate land records office, and ▪ establish follow-up procedures to ensure that the land records office returns the original recorded document. <p>If the servicer encounters difficulties in recording the document because it is a novel form of documentation for a refinancing transaction, it must notify its Fannie Mae Servicing (see Servicing Guide F-4-03, List of Contacts).</p> <p>When the servicer receives a recorded Form 3269 back from the land records office, it must endorse the document "in blank" if it delivered the new refinance mortgage note to Fannie Mae for purchase or securitization. The servicer must prepare the endorsement in accordance with the requirements for endorsing mortgage notes that appear in the <i>Selling Guide, B8-3-04, Note Endorsement</i>. The servicer must then submit the original recorded document to Fannie Mae or the applicable document custodian, and retain a</p>

	copy of the recorded document in the individual loan file.
Option 3	<p>If the secured property is located in New York, execute and record Fannie Mae's <i>Consolidation, Extension, and Modification Agreement</i> (Form 3172).</p> <p>NOTE: <i>The servicer must ensure that the use of this document for the refinancing of a balloon mortgage is enforceable and consistent with customary practice in that state.</i></p>

NOTE: *The servicer must not under any circumstances use Fannie Mae's Loan Modification Agreement ([Form 3179](#)) to document the conditional refinancing of a balloon mortgage loan.*

2.4-02, Loan Delivery Documents (11/12/2014)

Fannie Mae's standard delivery documentation requirements apply to new refinance mortgage loans. See *Selling Guide E-2-02, Required Custodial Documents*, for additional information.

The servicer must include all of the documents identified in the following table in the individual mortgage loan file for a matured balloon mortgage loan.

✓	Documentation to Be Kept in the Balloon Mortgage Loan File
	Copies of all notifications sent to the borrower about the balloon maturity and the conditional refinance option.
	Correspondence received from the borrower.
	Documents used to process or execute a refinancing of the balloon mortgage loan, including disclosures, letters, or other notices sent to the borrower.
	The title report and evidence of title insurance.
	Documentation used to verify a borrower's eligibility.
	Evidence of the applicable net yield that is used to calculate the borrower's new interest rate.
	Evidence of the continuation of mortgage insurance coverage, if applicable.

2.4-03, Delivery Options for Balloon Mortgage Loans Refinanced at Maturity (11/12/2014)

If the servicer decides to deliver the new refinance mortgage loan to Fannie Mae, it must do so within 60 days of the effective date of the refinancing, but must not refinance the mortgage loan until six or fewer months before the balloon maturity date. For additional information related to the delivery and pricing of refinanced balloon mortgage loans, see *Selling Guide B2-1.3-04, Refinanced Balloon Mortgages*.

Chapter 3, Performing Final Accounting and Reporting for a Balloon Mortgage Loan

In this Chapter

This Chapter contains the following Sections:

- 3.1, Remitting and Reporting Payoff Proceeds
- 3.2, Processing Alternatives to Mature Balloon Mortgage Loan Refinance Transactions

3.1, Remitting and Reporting Payoff Proceeds

This Section contains the following Topics:

- 3.1-01, Collecting the Balloon Payment, Accrued Interest, and Unpaid Late Charges When the Borrower Exercises the Refinance Option
- 3.1-02, Determining and Collecting Allowable Transaction Costs
- 3.1-03, Removing the Balloon Mortgage Loan from Fannie Mae's Accounting Records

3.1-01, Collecting the Balloon Payment, Accrued Interest, and Unpaid Late Charges (11/12/2014)

The final accounting for a matured balloon mortgage loan entails

- remitting the proceeds received to satisfy the balloon mortgage loan (when they are received from the borrower or from the proceeds of a refinancing),
- advancing funds for the balloon payment (as required by the applicable remittance type), if the mortgage loan is not paid off or refinanced on or before the balloon maturity date, and
- reporting a removal transaction through the Fannie Mae investor reporting system when the mortgage loan is either paid off or refinanced or otherwise removed from an MBS pool.

The specific procedures for the servicer's final accounting differ based on

- whether the borrower elects to exercise the refinance option or to otherwise pay off the balloon mortgage loan,
- the type of option exercised,
- whether a refinancing or payoff of the mortgage loan occurs before, on, or after the balloon maturity date; and
- the remittance type for the mortgage loan.

For specific remitting instructions, the servicer must follow the procedures for Remitting Payoff Proceeds that can be found in Fannie Mae's [Investor Reporting Manual](#).

The balloon payment (including accrued interest and any unpaid late charges) must be made on or before the balloon maturity date, unless the servicer agrees to a forbearance period. If the mortgage loan is in an MBS pool issued on or after June 1, 2007, the forbearance period cannot be extended beyond the balloon maturity date. See also [3.2-03 Granting the Borrower Temporary Forbearance to Allow Them to Make the Balloon Payment Post-Maturity](#) for additional information.

Funds for the balloon payment generally must be remitted to Fannie Mae under its standard procedures for remitting payoffs for mortgage loans that have the same remittance type as the balloon mortgage loan.

3.1-02, Determining and Collecting Allowable Transaction Costs (11/12/2014)

Transaction costs for borrowers who are approved for refinancing using one or more authorized variances to the eligibility conditions depend on whether the borrower is considered an “eligible” borrower or an “ineligible” borrower. The following table provides additional information for transaction costs.

Transaction Cost	Notes
Accrued but unpaid interest	<p>On the effective date of the refinancing, the borrower will owe accrued interest on the mortgage loan.</p> <ul style="list-style-type: none"> • The interest covers the period from the LPI date up to, but not including, the effective date of refinancing. • If the balloon mortgage loan has a conditional refinance option, the borrower can choose to <ul style="list-style-type: none"> ○ pay some or all of the accrued interest directly, or ○ have some or all of the accrued interest added to the UPB of the new refinance mortgage loan.
Late charges	<p>On the effective date of the refinancing, the borrower will owe any unpaid late charges for the balloon mortgage loan.</p> <ul style="list-style-type: none"> • If the borrower cannot afford to pay late charges directly, the servicer must still finalize the refinance transaction. • The servicer is authorized to continue to reflect these charges in its records as a due and payable item for the new refinance mortgage loan. • If the borrower subsequently fails to pay the past-due late charges, but the past-due late charges are the only delinquency, the servicer cannot initiate foreclosure proceedings on the new refinance mortgage loan.
Escrow accruals	<p>On the effective date of the refinancing, the borrower will owe escrow accruals for the mortgage loan.</p> <ul style="list-style-type: none"> • The accruals cover the period from the LPI date to the effective date of refinancing. • The funds must be deposited into an

	<p>escrow deposit account.</p> <ul style="list-style-type: none"> The servicer is authorized to keep the borrower's existing escrow deposit account in place for the new refinance mortgage loan (if permitted by applicable law).
Processing fees and title policy charges	<p>If the balloon mortgage was closed on Fannie Mae's standard balloon mortgage loan documents, the servicer</p> <ul style="list-style-type: none"> may charge an eligible borrower a \$250 processing fee for an approved transaction, or may charge an ineligible borrower a \$350 processing fee to compensate for the additional work involved with approving the borrower under Fannie Mae's authorized variances process. <p>Both eligible and ineligible borrowers may be charged for the costs of updating the title insurance coverage, including:</p> <ul style="list-style-type: none"> a title report, and either; an endorsement to existing title insurance policy, or a new title insurance policy. <p>NOTE: <i>When multiple methods for providing required title insurance coverage are available, the servicer must use the least expensive method.</i></p>

If the balloon mortgage documents were revised at origination to allow for "reasonable fees and costs associated with exercising the refinance option," the servicer is authorized to charge an eligible borrower those fees and charges specifically covered in the documents. If the fees and charges are not itemized, the servicer can charge only those "reasonable" fees and charges that are customarily charged in the jurisdiction for the particular type of transaction. The following table describes such costs.

Cost	Notes
Recordation costs	The servicer may charge an eligible borrower for recordation costs only if the language in the balloon mortgage loan documents was changed at origination to allow the servicer to charge "reasonable fees and costs" or "specific itemized costs, including recordation costs" in connection with the refinancing of a

	<p>balloon mortgage.</p> <p>If the borrower is ineligible, the servicer is authorized to charge the borrower for any necessary recordation costs, including those for the recordation of a subordination agreement.</p>
Flood insurance	<p>When the servicer must obtain a flood zone certification to determine if flood insurance is required for the new refinance mortgage loan, the servicer may be able to charge the borrower for</p> <ul style="list-style-type: none"> • the certification, and • the flood insurance premium, if required. <p>To determine if such costs can be charged to the borrower, the servicer must consult Section 526 or the National Flood Insurance Reform Act of 1984. See 42 USC, Sections 4012(a) and (h).</p>
Investment property LLPA	<p>The borrower who uses a property as an investment property must be approved using one of Fannie Mae's authorized variances. To offset the increased risk of an investment property, the servicer is authorized to charge this ineligible borrower a 1.5% LLPA. This LLPA is calculated against the original unpaid balance of a new refinance mortgage loan.</p>

3.1-03, Removing the Balloon Mortgage Loan from Fannie Mae's Accounting Records (11/12/2014)

To remove a refinanced balloon mortgage loan from Fannie Mae's accounting records, the servicer must report an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month following the effective date of the refinancing and using the effective date of refinancing as the related Action Date.

Also see the [Investor Reporting Manual](#) for more information.

3.2, Processing Alternatives to Mature Balloon Mortgage Loan Refinance Transactions

3.2-01, When the Balloon Payment Is Not Received by the Balloon Maturity Date (11/12/2014)

This Section contains the following Topics:

- 3.2-01, When the Balloon Payment Is Not Received by the Balloon Maturity Date
- 3.2-02, Determining Why the Balloon Payment Was Not Made
- 3.2-03, Granting the Borrower Temporary Forbearance to Allow Them to Make the Balloon Payment Post-Maturity

The following table describes the actions the servicer must take when the balloon payment is not received by the balloon maturity date, and varies based on mortgage loan type.

If the mortgage loan is...	Then the servicer must...
in an MBS pool	<ul style="list-style-type: none"> • advance the balloon payment (P&I), • remit it to Fannie Mae as a scheduled payment on the applicable remittance date for the month in which the balloon maturity date occurs, • submit a Loan Activity Report (LAR) with Action Code 60 in the format applicable for scheduled/scheduled mortgage loans, and • reflect the application of the balloon payment in the security balance reported for the balloon maturity month.
a portfolio mortgage loan	<ul style="list-style-type: none"> • advance scheduled interest until the mortgage loan is paid off, refinanced, or modified, (only if the loan is a scheduled/actual remittance type); and • submit a LAR with an Action Code 60 in the format applicable for the remittance type of the balloon mortgage loan.

NOTE: *The servicer must always determine whether a workout plan can be developed to cure the default before initiating foreclosure proceedings.*

3.2-02, Determining Why the Balloon Payment Was Not Made (11/12/2014)

If a borrower does not elect to exercise the conditional refinance option for a balloon mortgage loan for any reason, he or she must pay off the mortgage loan by sending the servicer the amount of the required balloon payment on or before the balloon maturity date. The servicer must make every effort to contact the borrower during the first five business days after the balloon maturity date to determine why the balloon payment was not made.

The following table describes the additional actions the servicer must complete by the tenth business day following the balloon maturity date.

If the servicer...	Then the servicer must...
continues to receive regular monthly mortgage payments from the borrower	hold the funds as unapplied and notify the borrower that the full balloon payment is due.
is not able to contact the borrower, or finds that the borrower is unwilling to make the balloon payment	determine whether a workout plan can be developed to cure the default, or initiate foreclosure proceedings.
determines that the borrower intends to make the balloon payments	grant temporary forbearance, agree to accept the balloon payment and treat it as a mortgage loan payoff.
finds that the borrower is unable to make the balloon payment, but is eligible for a refinance, or can be approved using Fannie Mae's allowable exceptions	<p>grant temporary forbearance to enable the borrower to complete the refinance transaction.</p> <p>NOTE: <i>The refinancing can be made effective as of the balloon maturity date as long as the transaction can be completed by the end of the balloon maturity month.</i></p>

3.2-03, Granting the Borrower Temporary Forbearance to Allow Them to Make the Balloon Payment Post-Maturity (11/12/2014)

The servicer must not agree to extend a forbearance period offer to the borrower to pay off or to refinance the mortgage loan beyond the balloon maturity date if the mortgage loan is in an MBS pool issued on or after June 1, 2007.

Otherwise, the servicer is authorized to grant the borrower a forbearance (not to exceed 90 days), without obtaining Fannie Mae's prior approval, in the following circumstances:

- the borrower provides proof of an executed sales contract to show the property has been sold and is scheduled for settlement,
- the borrower provides proof of an unconditional loan commitment to show other financing has been secured, or
- the servicer's other follow-up efforts have confirmed the need for forbearance.

For a mortgage loan in an MBS pool issued before June 1, 2007, the forbearance period must end no later than 90 days after the original balloon maturity date. The servicer and the borrower must execute a written forbearance agreement that includes all of the provisions cited in the following table.

✓	The forbearance agreement provisions must include...
	<p>The granting of a forbearance that will enable the borrower to either</p> <ul style="list-style-type: none"> ▪ pay the full amount required to satisfy the balloon mortgage loan, or ▪ complete the refinancing, even though the maturity date has passed.
	<p>The accrual of interest on the balloon payment at the interest rate of the balloon mortgage loan for the period from the date of the borrower's LPI up to, but not including:</p> <ul style="list-style-type: none"> ▪ the date the balloon mortgage loan is paid off, or ▪ the effective date of the refinancing; if the conditional refinance option is exercised.
	<p>An acknowledgment that the servicer is authorized to initiate foreclosure proceedings immediately upon expiration of the forbearance period if the refinancing has not been completed or the full amount required to satisfy the balloon mortgage loan has not been received.</p>