



# Lender Letter (LL-2020-03)

Updated: Nov. 13, 2020  
Oct. 19, 2020  
Sep. 24, 2020  
Aug. 27, 2020  
Jul. 9, 2020  
Jun. 11, 2020  
May 28, 2020  
May 19, 2020  
May 5, 2020  
Mar. 31, 2020  
Mar. 23, 2020

## To: All Fannie Mae Single-Family Sellers Impact of COVID-19 on Originations

We are actively monitoring the spread of COVID-19 (coronavirus) in the United States and understand there are concerns about its potential impact on borrowers, businesses, and loan originations. Our ability to continue to serve our customers is a top priority.

The purpose of this Lender Letter is to address a number of questions and concerns that industry partners have raised to us. We are working closely with Freddie Mac under the guidance of FHFA to offer temporary measures to help ensure lenders have the clarity and flexibility to continue to lend in a prudent and responsible manner.

**We are releasing information to our customers as quickly as possible and will update and republish this Lender Letter as new guidance becomes available.**

Updates to Lender Letter on Nov. 13

- [Extension of effective date](#): extending the application dates for verbal verifications of employment and power of attorney flexibilities to Dec. 31
- [Requirements for borrowers using self-employment income to qualify](#): updating the requirement for depository account statements from two to three months statements with an unaudited profit and loss statement

Updates to Lender Letter on Jun. 11, Jul. 9, Aug. 27, Sep. 24, Oct. 19

- We extended the application dates for verbal verifications of employment and power of attorney flexibilities and changed other effectives until further notice

Note that we also updated our [COVID-19 FAQs](#) (selling) on Jul. 9 to include guidance related to self-employed borrowers, and assessment of fluctuating employment income (hourly, commission, overtime, and tip income) during the pandemic.

Additions to Lender Letter on May 28, updated Nov. 13

- [Requirements for borrowers using self-employment income to qualify](#): temporarily requiring additional documentation to support the lender's decision that self-employment income meets our requirements

Additions to Lender Letter on May 19

- [Temporary eligibility requirements for purchase and refinance transactions](#): describing our requirements for a borrower to obtain a new mortgage loan to purchase or refinance a property
- [Additional resources](#): providing links to COVID-19 resources, such as prior selling and servicing lender letters and FAQs

Updates to Lender Letter on May 5, Jun. 11, Jul. 9, Aug. 27

- [Unemployment benefits as qualifying income](#): reminding lenders that unemployment benefits can only be used as qualifying income if it is associated with seasonal employment
- [Furloughed borrowers](#): clarifying that the income of a furloughed borrower is not eligible under our temporary leave income policy



- [Employment validation through DU validation service](#): temporarily suspending representation and warranty relief for employment validation through the DU validation service **UPDATED Jun. 11 and Jul. 9** with new effective date **UPDATED Aug. 27** to extend the effective date until further notice
- [Sale of loans aged six months or less](#): all loans must be purchased or securitized no more than six months from the first payment date (exception is made for certain HomeStyle® Renovation loans)

Additions to Lender Letter on Mar. 31, updated May 5, Jun. 11, Jul. 9, Oct. 19

- [Age of documentation](#): modifying our age of document requirements from four months to two months for most income and asset documentation **UPDATED May 5, Jun. 11, and Jul. 9** with new effective date **UPDATED Aug. 27** to extend the effective date until further notice
- [Verification of self-employment](#): requiring lenders to confirm the borrower's business is open and operating within 10 business days of the note date **UPDATED May 5, Jun. 11, and Jul. 9** with new effective date **UPDATED Jul. 9** to change the requirement from 10 to 20 days of the note date **UPDATED Aug. 27** to extend the effective date until further notice
- [Market-based assets](#): updating policies for use of stocks, stock options, and mutual funds for down payment, closing cost costs, and reserves **UPDATED May 5, Jun. 11, and Jul. 9** with new effective date **UPDATED Aug. 27** to extend the effective date until further notice
- [Powers of attorney](#): providing flexibilities for use of a power of attorney **UPDATED May 5, Jun. 11, Jul. 9, Aug. 27, Sep. 24, Oct. 19, and Nov. 13** with new effective date
- [Remote online notarization](#): providing expansion of the use of remote online notarization **UPDATED May 5** added three additional states **UPDATED Aug. 27** to update the lender's notarial ceremony retention requirements **UPDATED Oct. 19** to replace the content with a reference to these policies that are now in the *Selling Guide*
- [Lender quality control requirements](#): allowing post-closing reverifications to occur verbally or electronically, and other flexibility related to the field review of appraisals

Lender Letter content published Mar. 23, updated May 5, Jun. 11, Jul. 9

- [Verbal verification of employment](#): offering flexibilities related to the lender's process for obtaining the verbal verification of employment. **UPDATED May 5** with new effective date and removed the reference to the DU validation service **UPDATED Jun. 11, Jul. 9, Aug. 27, Sep. 24, Oct. 19, and Nov. 13** with new effective date
- [Continuity of income](#): reminding lenders of the importance of ensuring sustainable homeownership for borrowers in light of recent events
- [Submission of financial statements and reports](#): extending the deadline for submission of financial statements and Form 582 to Apr. 30, 2020
- [Notes, electronic records, and signatures](#): reminding lenders of our existing policies regarding possession of the original promissory note before loan purchase, and electronic signature requirements
- [Title insurance](#): reminding lenders we accept lender's policies of title insurance written on the 2006 ALTA loan title insurance form or a local equivalent, which includes "gap coverage"
- [Business continuity plans](#): reminding sellers and servicers to have and to follow their own business continuity and resiliency plans

**Effective:** See each section below for the applicable effective date. Note that the *Selling Guide* and Desktop Underwriter® (DU®) messages will not be updated to reflect these temporary policies.



## Extension of temporary policies **UPDATED Jul. 9, Aug. 27, Sep. 24, Oct. 19, Nov. 13**

We are extending the temporary flexibilities related to verbal verifications of employment and power of attorney to loans with application dates on or before Dec. 31, 2020 from Nov. 30, 2020. (The dates have been updated in the applicable sections below.) All other policies remain effective until further notice.

## Requirements for borrowers using self-employment income to qualify **UPDATED Nov. 13**

**Effective:** The updated requirement to obtain and review three business depository account statements (increased from two statements) with an unaudited profit and loss statement is effective for loan applications dated on and after Dec. 14, 2020. Lenders are encouraged to apply this requirement to existing loans in process, but are not required to. All policies are effective until further notice.

### Income Analysis

Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, the lender is required to determine if the borrower’s income is stable and has a reasonable expectation of continuance.

Due to the pandemic’s continuing impact on businesses throughout the country, lenders are now required to obtain the following additional documentation to support the decision that the self-employment income meets our requirements:

- an audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; or
- an unaudited year-to-date profit and loss statement signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and three business depository account(s) statements no older than the latest three months represented on the year-to-date profit and loss statement.
  - For example, the business depository account statements can be no older than Aug, Sep, Oct. for a year-to-date profit and loss statement dated through Oct. 31.
  - The lender must review the three most recent depository account statements to support the level of business revenue reported in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the on-going nature of business revenue reported in the current year-to-date profit and loss statement.

**NOTE:** *The year-to-date profit and loss statement must be no older than 60 days old as of the note date consistent with current [Age of Documentation](#) requirements below.*

Lenders must review the profit and loss statement, and business depository accounts if required, and other relevant factors to determine the extent to which a business has been impacted by COVID-19. The lender can use the following guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the lender may find it necessary to obtain supplemental documentation listed in the examples below.

Assessing the Impact of COVID-19	
<b>Business operations</b>	<ul style="list-style-type: none"> <li>▪ Have business operations been maintained or modified to support continued business income? <i>For example, review an updated business plan.</i></li> </ul>



<b>Assessing the Impact of COVID-19</b>	
	<ul style="list-style-type: none"> <li>▪ Is the business continuing to operate in the current location or an alternate location suitable for business operations? <i>For example, perform an Internet search or verify through a third-party source.</i></li> <li>▪ Is there a demand for the product or service currently offered by the business? <i>For example, obtain current business receipts or purchase contracts.</i></li> <li>▪ Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders?</li> <li>▪ Is the impact to the business operations negligible due to the nature of the business? <i>For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.</i></li> </ul>
<b>Business Income</b>	<p>The lender must complete a business income assessment by comparing the year-to-date net business income from the year-to-date profit and loss statement to historical business income calculated using the <i>Cash Flow Analysis</i> (Form 1084)* for a similar timeframe (such as monthly).</p> <ul style="list-style-type: none"> <li>▪ Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement) in accordance with <a href="#">B3-3.4-04</a>, Analyzing Profit and Loss Statements when making this determination.</li> <li>▪ When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes. See <a href="#">B3-3.1-01</a>, General Income Information for details.</li> </ul> <p><b>Example</b> Historical monthly self-employment income calculated using Form 1084 = \$2,000</p> <p>Current level of stable monthly self-employment income as determined by the lender using details from the year-to-date profit and loss statement and other supplemental documentation = \$1,000</p> <p>The impact of the COVID 19 pandemic on current business income results in a 50% decline from historical levels. See <a href="#">Business Income Calculation Adjustment</a> below for next steps.</p> <p>*Form 1084 or any other type of cash flow analysis form that applies the same principles.</p>
<b>Business Stability</b>	<ul style="list-style-type: none"> <li>▪ Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance? (Consider documenting with an updated business plan)</li> <li>▪ Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings?</li> <li>▪ Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions?</li> </ul> <p>A current balance sheet may be used to support the lender’s determination of business stability, in conjunction with the profit loss statement.</p>



## Business Income Calculation Adjustment

When the lender determines current year net business income has been impacted by the COVID-19 pandemic and is

- less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above).
- more than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

In all cases, qualifying income must be supported by documentation, including any supplemental documentation obtained by the lender.

## Business Assets

We are clarifying that proceeds from the Small Business Administration PPP or any other similar COVID-19 related loans or grants are not considered business assets. Refer to [B3-4-2-02](#), Depository Accounts for details.

## Temporary eligibility requirements for purchase and refinance transactions

**Effective:** Lenders may immediately apply these policies to loans in process and must apply them to loans with application dates on or after Jun. 2, 2020. These policies will be effective until further notice.

In response to lender feedback, we are addressing eligibility requirements for borrowers impacted by the COVID-19 pandemic. With this update we are providing eligibility guidelines for purchase and refinance transactions.

Lenders must continue to review the borrower’s credit report to determine the status of all mortgage loans. In addition to reviewing the credit report, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, including co-signed mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the note date of the new transaction. For the purposes of these requirements, “current” means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Examples of acceptable additional due diligence methods to document the loan file include:

- a loan payment history from the servicer or third-party verification service,
- a payoff statement (for mortgages being refinanced),
- the latest mortgage account statement from the borrower, and
- a verification of mortgage.

A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements in the table below.

Resolution Method	Eligibility
<b>Reinstatement</b>	If the borrower resolved missed payments through a reinstatement, they are eligible for a new mortgage loan. The lender must document the source of funds in accordance with eligible sources of funds in the <i>Selling Guide</i> , if the reinstatement was completed after the application date of the new transaction. Proceeds from a refinance may not be used to reinstate any mortgage loan.
<b>Loss Mitigation Solution</b>	If outstanding payments will be or have been resolved through a loss mitigation solution, the borrower is eligible for a new mortgage loan if they have made at least three timely payments as of the note date of the new transaction as follows:



	<ul style="list-style-type: none"> <li>▪ For a repayment plan, the borrower must have made either three payments under the repayment plan or completed the repayment plan, whichever occurs first. Note that there is no requirement that the repayment plan be completed.</li> <li>▪ For a payment deferral, the borrower must have made three consecutive payments following the effective date of the payment deferral agreement.</li> <li>▪ For a modification, the borrower must have completed the three-month trial payment period.</li> <li>▪ For any other loss mitigation solution not listed above, the borrower must have successfully completed the program, or made three consecutive full payments in accordance with the program.</li> </ul> <p>Verification that the borrower has made the required three timely payments may include:</p> <ul style="list-style-type: none"> <li>▪ a loan payment history from the servicer or third-party verification service,</li> <li>▪ the latest mortgage account statement from the borrower, and</li> <li>▪ a verification of mortgage.</li> </ul> <p>If these requirements are met on an existing mortgage loan being refinanced, the new loan amount can include the full amount required to satisfy the existing mortgage.</p>
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We are not considering payments missed during the time of a COVID-19-related forbearance that have been resolved to be historical delinquencies for purposes of our excessive mortgage delinquency policy as outlined in [B3-5.3-03](#), Previous Mortgage Payment History. This flexibility does not apply to high LTV refinance loans, which must continue to meet the payment history requirements in [B5-7-02](#), High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.

## Unemployment benefits as qualifying income

We are reminding lenders of our current policy in the *Selling Guide* pertaining to the use of unemployment benefits. Per [B3-3.1-09](#), Other Sources of Income, unemployment benefits cannot be used to qualify a borrower unless they are clearly associated with seasonal employment that is reported on the borrower’s signed federal income tax returns. We recognize that many unemployed and furloughed individuals are eligible for unemployment benefits under the CARES Act; however, unemployment compensation is short-term in nature and is therefore not a reliable and predictable source of income for borrowers who are not established seasonal workers.

## Furloughed borrowers

The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee’s position when the furlough period ends. Until furloughed employees actually return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income and are therefore ineligible under our Temporary Leave Income policy in [B3-3.1-09](#), Other Sources of Income.

## Employment validation by the DU validation service

**Effective:** For new Desktop Underwriter® (DU®) loan casefiles created on or after May 4, 2020 and until further notice.

To support sustainable homeownership while ensuring prudent risk management during these times of unprecedented unemployment, we are temporarily suspending representation and warranty relief for employment validation within the Desktop Underwriter® (DU®) validation service. Lenders must perform a verbal verification of employment in accordance with [B3-3.1-07](#), Verbal Verification of Employment or follow the temporary policies outlined below.



While representation and warranty relief for employment validation is temporarily suspended, lenders will still be able to take advantage of the income and asset validation services with representation and warranty relief. Income validation for a borrower remains dependent on the borrower being employed. Lenders should continue to verify the employment of the borrower as close to closing as possible. When income or assets are validated, lenders should continue to follow the close-by dates and instructions issued in DU messages. If the lender discovers that the borrower is no longer employed, the associated income can no longer be considered in the qualification of the borrower, and the employment and associated income information should be removed from the Form 1003 and the casefile should be resubmitted to DU.

Refer to the DU Validation Service Release Notes published on [May 1, 2020](#) and [Apr. 9, 2020](#) for additional information.

## Sale of loans aged six months or less

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**Effective:** Immediately and until further notice

The national response to COVID-19 and the related economic impacts have resulted in uncertainty about risks associated with loans that have not been sold to us yet. Therefore, we are temporarily suspending bulk transactions and requiring that loans sold on a flow basis be no more than six months old to be eligible for sale to us. The loan's age will be calculated based on the following:

- Whole loans: from the first payment date to the date the loan data is submitted to Loan Delivery
  - Example: If loan data is submitted May 2020, the first payment date can be no earlier than Nov. 1, 2019
- MBS loans: from the first payment date to the pool issue date
  - Example: If the pool issue date is May 1, 2020 the first payment date can be no earlier than Nov. 1, 2019

**NOTE:** As previously communicated in Lender Letter [LL-2020-04](#), *Impact of COVID-19 on Appraisals, HomeStyle Renovation loans can be delivered up to 12 months after the note date provided the renovation is completed before loan delivery and the loan is delivered with Special Feature Code 279.*

## Age of documentation **UPDATED Jul. 9**

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**Effective:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.
- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the *Selling Guide*.

The following requirement may be applied to loans with application dates through July 31, 2020 (even though the tax filing extension expires July 15). This temporary flexibility no longer applies to loans with application dates on or after August 1, 2020.

- Due to the federal income tax filing extension granted through Jul. 15, 2020, we are eliminating the following documentation requirements. These normally apply for income types that require copies of federal income tax returns when the borrower files an extension with the IRS:



- a copy of the IRS Form 4868 (*Application for Automatic Extension of Time to File U.S. Individual Tax Return*), and
- IRS Form 4506-T (*Request for Transcript of Tax Return*) transcript confirming “No Transcript Available” for the 2019 tax year.

All other requirements contained in [B1-1-03](#), Allowable Age of Credit Documents and Federal Income Tax Returns, continue to apply.

## Conversion of construction-to-permanent financing – single-closing transactions

The *Selling Guide* currently allows certain single-closing construction-to-permanent transactions with credit documents dated more than 4 months but no more than 18 months at the time of conversion to permanent financing when certain conditions are met. (See [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing: Single-Closing Transactions). Among those conditions is a requirement that the credit documents are dated within 120 days of the original closing.

Consistent with the age of credit documentation requirements in this Lender Letter, this requirement is being updated to reflect that the income and asset documentation must be dated within 60 days of the original closing. All other conditions related to the age of credit documents contained in [B5-3.1-02](#) continue to apply.

## Verification of self-employment **UPDATED Jul. 9**

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**Effective:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower’s business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower’s business is open and operating. The lender must confirm this within 20 business days of the note date (or after closing but prior to delivery).

Below are examples of methods the lender may use to confirm the borrower’s business is currently operating:

- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- evidence of current business receipts within 20 days of the note date (payment for services performed);
- lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

See [B3-3.1-07](#), Verbal Verification of Employment for our existing requirements.

## Market-based assets

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**Effective:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 and until further notice.

## Stocks, stock options, and mutual funds

In light of current market volatility, we are making the following updates when the borrower is using stocks, stock options, or mutual funds for assets:

- When used for down payment or closing costs, evidence of the borrower’s actual receipt of funds realized from the sale or liquidation must be documented in all cases.





- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

See [B3-4.3-01](#), Stocks, Stock Options, Bonds and Mutual Funds for our existing requirements.

## Powers of attorney

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**Effective:** Unless otherwise noted in this section below, these flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before Dec. 31, 2020.

*Selling Guide*, [B8-5-05](#), Requirements for Use of a Power of Attorney, contains our requirements for powers of attorney. For loans with application dates on or before Dec. 31, 2020, the following additional requirements for using a power of attorney apply:

- All powers of attorney must include the address of the mortgaged property.
- The existing *Selling Guide* conditions allowing persons “connected to the transaction” to serve as an attorney-in-fact or agent in refinance transactions will also now apply to purchase transactions as well as limited cash-out refinances. This includes all the related current requirements applicable to limited cash-out refinance transactions involving these persons in the *Selling Guide* (that is, excluding lender employees, limiting by loan amount and property location, requiring a recorded Internet session after the borrower has received proposed loan documents, and mandating retention of the recording).
- Unless a recorded Internet session described in the paragraph above is required, a power of attorney may only be used in a purchase transaction with a note date on or after Apr. 7, 2020, if, after the Closing Disclosure or other closing statement, as applicable, has been delivered to the borrower before closing, an employee of the lender or settlement agent explains the terms of the loan to the borrower(s) to confirm that each borrower understands them. This discussion must take place in person, telephonically, or using a video conference system, and must be memorialized by an acknowledgment by the borrowers of his or her understanding of the terms of the loan. The acknowledgment may be in writing or in a recording of the telephonic or video discussion.
- Notwithstanding anything to the contrary in the *Selling Guide* or this Lender Letter, for purchase transactions the attorney-in-fact or agent may not be the property seller, any relative of the property seller, or any direct or indirect employee or agent of the property seller, unless in any such instance such person is also a relative of the borrower.
- Whenever an attorney-in-fact or agent is an employee of the insuring title insurer or is an employee of the policy-issuing agent of the insuring title insurer, such title insurer must have issued a closing protection letter (or similar contractual protection) for the transaction for such policy issuing agent.
- Whenever a power of attorney is used at closing, whether authorized under the *Selling Guide* or under the standards in this Lender Letter, the provisions of [B1-1-01](#), Application Package Documentation requiring the borrower’s personal signature of the initial Form 1003 continue to apply if the initial Form 1003 can be signed personally (including through the United States Postal Service or commercial delivery service), or signed electronically as permitted by the *Selling Guide*. If the initial Form 1003 cannot be timely signed by the borrower in these ways, then it must be signed by the holder of such power of attorney.
- Provided the power of attorney is not required to be notarized under applicable law (for example, the law governing the creation of the power of attorney, or the law of the location of the mortgaged property), the power of attorney is not required to be notarized if the transaction is a limited cash-out refinance unless
  - the attorney-in-fact or agent named in the power of attorney is employed by, or otherwise represents or is affiliated with, the title insurance company that will issue the lender’s title insurance policy, and
  - such title insurance company is affiliated with the lender.
- If a power of attorney is required to be notarized, it may be remotely notarized in accordance with [A2-4.1-03](#), Electronic Records, Signatures, and Transactions (as revised by this Lender Letter) with the additional flexibility that it may be remotely notarized in all jurisdictions, even if not expressly permitted by the Guide, as long as the power of attorney is not required to be recorded. If the power of attorney is required to be recorded, it may be remotely notarized only in the jurisdictions permitted by [A2-4.1-03](#) (as revised by the table below).



- The limitations in [B8-5-05](#) requiring at least one borrower signature of the note and security instrument are suspended.
- Under the [Guide to Delivering eMortgages to Fannie Mae](#), powers of attorney are not permitted to be used in connection with loans with electronic notes (“eNotes”). Fannie Mae revised the eMortgage Guide effective Apr. 20, 2020 to permit eNotes to be delivered in transactions in which a printed or electronic power of attorney is used on the same conditions as those applying to paper notes, except that the power of attorney must accompany the eNote through MERS® eDelivery. In anticipation of the change in the eMortgage Guide, lenders that are authorized to deliver eNotes may begin permitting the use of powers of attorney consistent with [B8-5-05](#) and this Lender Letter immediately, provided that the eNote and related power of attorney may not be delivered to Fannie Mae through MERS eDelivery or submitted to Loan Delivery until after Apr. 20, 2020.

The following existing policies remain in effect for loans using powers of attorney authorized by the *Selling Guide* as revised by this Lender Letter:

- Lenders may not deliver loans to us that have unacceptable title impediments. Accordingly, the lender must confirm that the title insurance policy does not take exception to the power of attorney, its manner of creation, the effectiveness of its notarization (if any) or to its use in relation to the transaction in accordance with [B7-2-05](#), Title Exceptions and Impediments.
- Lenders must comply with all federal, state and local laws in accordance with [A3-2-01](#), Compliance with Laws. In addition, for Texas Section 50(a)(6) loans, lenders may only use a power of attorney to execute the note or security instrument if the power of attorney is signed at a location at which a Texas Section 50(a)(6) loan may be closed and in conformity with applicable requirements.
- The current and revised provisions of [B8-5-05](#) are always subject to the lender’s determination that applicable law requires the acceptance of a power of attorney in particular circumstances. This remains in place, as does the requirement that the lender document its determination in the loan file.

## Remote online notarization **UPDATED May 5, Aug. 27, Oct. 19**

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The remote online notarization policies previously published in this Lender Letter have been moved into the *Selling Guide*. See [A2-4.1-03](#), Electronic Records, Signatures, and Transactions and [SEL-2020-06](#) for additional information.

## Lender quality control requirements

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**Effective:** These temporary flexibilities are effective immediately for all loans in the process of a post-closing quality control (QC) review and all loans selected for a post-closing QC review until Jun. 2020 QC selections.

QC processes are designed to inform organizations of the level of quality risk they are incurring, and are extremely important, especially during times of significant stress. We recognize the unique challenges in the market today related to COVID-19 and will allow temporary post-closing flexibilities related to reverifications and appraisal field reviews.

**NOTE:** *Recognizing the unprecedented amount of stress in the market from COVID-19 disruptions and significant volume pressure, we encourage lenders to only adopt the QC flexibilities they feel are necessary.*

## Reverifications

Any income, employment, and asset reverifications (required by [D1-3-02](#), Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation) that are typically mailed can be completed verbally or electronically. If a verbal or electronic reverification cannot be completed, the lender can complete the file review without the reverification. However, to take advantage of this flexibility, the lender must:

- internally track all loans that did not have a successful reverification attempt during this time, and



- conduct a special discretionary sample of such mortgages and perform the required reverifications on the sample population upon the expiration of these flexibilities.

As reminders:

- The reporting requirements of [D1-3-06](#), Lender Post-Closing Quality Control Reporting, Record Retention, and Audit, continue to apply with respect to this special discretionary sample(s).
- Lenders are not required to perform post-closing QC reverifications if the loan has employment, income, and/or assets that have been fully validated through the DU validation service and the lender has complied with all DU messages.

## Field review of appraisals

In lieu of obtaining field reviews on 10% of its random sample (as required by [D1-3-04](#), Lender Post-Closing Quality Control Review of Appraisers and Appraisals) a lender may leverage Collateral Underwriter® and other third-party tools for this 10% sample.

- If the reviewer reaches a different opinion regarding the value of the property through this process, then if possible, the lender may obtain a field review to determine whether the property value can be supported. If a field review of the property is not possible then follow self-report procedures in [D1-3-06](#), Lender Post-Closing Quality Control Reporting, Record Retention, and Audit.
- As a reminder, a desk review by the lender's QC staff is still required on the remaining 90% sample.

## Prefunding QC reviews

Our prefunding review requirements in [D1-2-01](#), Lender Prefunding Quality Control Review Process, already provide a great deal of flexibility to lenders regarding both sample size and scope of review (full file or component review). We do not dictate a certain review percentage but leave that to each lender based on its unique quality situation. In addition, reverifications are not required in the prefunding space. Accordingly, we are not changing any prefunding QC requirements at this time.

## Verbal verification of employment **UPDATED May 5**

**Effective:** These temporary flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before Dec. 31, 2020.

Many lenders are reporting difficulty in obtaining the verbal verification of employment (VOE) due to disruption to operations of the borrower's employer. We expect lenders to attempt to obtain the verbal VOE in accordance with our existing requirements guidance. However, we will allow the following flexibilities:

- **Written VOE:** The *Selling Guide* permits the lender to obtain a written VOE confirming the borrower's current employment status within the same timeframe as the verbal VOE requirements. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE. In addition, the lender may obtain the VOE after loan closing, up to the time of loan delivery (though we strongly encourage getting the verbal VOE before the note date).
- **Paystub:** The lender may obtain a year-to-date paystub from the pay period that immediately precedes the note date.
- **Bank statements:** The lender can provide bank statements (or other alternative documentation as permitted by [B3-4.2-01](#), Verification of Deposits and Assets) evidencing the payroll deposit from the pay period that immediately precedes the note date.

## Continuity of income

Given the current economic climate associated with COVID-19 and its impact on employment and income, we recommend that lenders practice additional due diligence to ensure the most recent information is obtained. Lenders are strongly encouraged to



help ensure any disruption to borrowers' employment (or self-employment) and/or income due to COVID-19 is not expected to negatively impact their ability to repay the loan. During these uncertain times, it is our goal to partner with you to help ensure sustainable homeownership for the borrower.

As an example of additional due diligence for a self-employed borrower, lenders are encouraged to attempt to verify that the borrower's business is operational closer to the note date rather than rely on our current Guide requirements (e.g., within 15 days instead of 120 days).

## Submission of financial statements and reports

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Per [A4-2-01](#), Financial Statements and Reports, sellers/servicers must submit financial statements and the *Lender Record Information* (Form 582) within 90 days after the end of their fiscal year. While we encourage submission of this information in a timely manner and by the Mar. 31, 2020 deadline (for those with a Dec. 31 fiscal-year end), we are extending the due date to Apr. 30, 2020.

## Notes, electronic records, and signatures

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As a reminder, unless originated as an electronic note in accordance with [A2-4.1-03](#), Electronic Records, Signatures, and Transactions, we require that the original promissory note be in the possession of the document custodian when it certifies the loan for our purchase. See [A3-3-05](#), Custody of Mortgage Documents and [E-2-01](#), Required Custodial Documents; and the [Requirements for Document Custodians](#), Sections 2.2 and 8.1 for additional detail. We require the original note to be in the possession of the document custodian before purchase of the loan to minimize transit risk and to protect our legal rights in the loan under applicable law.

In addition, [A2-4.1-03](#) describes all of our other policies related to electronic records, signatures, and notarizations. Note that electronic signatures are permitted under the terms of the *Selling Guide* but promissory notes may not be signed electronically unless the promissory note is an electronic note sold in accordance with [A2-5.1-03](#). Lenders that are approved to deliver eMortgages may refer to the [Guide to Delivering eMortgages to Fannie Mae](#) for additional information.

## Title insurance

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We understand that recording offices are closed in certain areas due to public health directives associated with COVID-19 and that such closures present challenges for lenders in complying with title requirements in *Selling Guide* Chapter B7-2. We are working to address these challenges, but in the meantime, we want to remind lenders that we accept lender's policies of title insurance written on the 2006 ALTA loan title insurance form or a local equivalent. Covered Risk 14 in the 2006 ALTA form includes "gap coverage" for matters arising between the loan closing date and the mortgage recording date. We will accept this as long as there is no exception for this coverage under Schedule B of the policy.

## Business continuity plans

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Consistent with the requirements in Business Continuity and Disaster Recovery in [A4-1-01](#), Maintaining Seller/Servicer Eligibility, we expect sellers and servicers to follow their own business continuity and resiliency plans. The plans must ensure the ability to regain critical business operations in the event of a disruption or disaster.

In addition, we have been in communication with the document custodians and have verified their business continuity plans are in place. Fannie Mae and impacted customers will be notified if changes to business operations at a document custodian become necessary.

As the situation evolves, we want to reassure you that, as we undertake our own corporate precautionary measures, we are open for business and continue to fulfill our mission. We have business continuity plans in place to make sure you continue to receive the service and support you need during these extraordinary times. For additional information, refer to our [website](#).



## Additional resources

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As a reminder, we have published other Lender Letters and helpful information regarding policies related to COVID-19.

- [LL-2020-04](#), Impact of COVID-19 on Appraisals
- [LL-2020-06](#), Selling Loans in Forbearance Due to COVID-19
- [COVID-19 Frequently Asked Questions](#) (Selling)
- [Ask Poli Selling](#)
- [LL-2020-02](#), Impact of COVID-19 on Servicing
- [LL-2020-07](#), COVID-19 Payment Deferral
- [COVID-19 Frequently Asked Questions](#) (Servicing)
- [Ask Poli Servicing](#)

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter. Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).