



# Lender Letter (LL-2020-05)

Updated Jun. 10, 2020

May 27, 2020

Mar. 25, 2020

## To: All Fannie Mae Single-Family Servicers Payment Deferral

We're introducing payment deferral, a new home retention workout option jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency. This workout option enables servicers to assist eligible borrowers who have resolved a temporary hardship and resumed their monthly contractual payments but cannot afford either a full reinstatement or repayment plan to bring the loan current.

Update to Lender Letter on Jun. 10, 2020

- A reference to the updates to the workout option incentive fee structure introduced in Lender Letter [LL-2020-09](#), Incentive Fees for Retention Workout Options

Updates to Lender Letter on May 27, 2020

- Operational requirements related to reporting and completing a payment deferral
- The process for obtaining reimbursement for expenses related to a payment deferral
- Removal of Triad from the list of mortgage insurers that have granted delegation of authority for payment deferral

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- [Determining eligibility for a payment deferral](#)
- [Determining eligibility for a payment deferral for a Texas Section 50\(a\)\(6\) loan](#)
- [Determining the payment deferral terms](#)
- [Completing a payment deferral](#)
- [Processing a payment deferral for an MBS mortgage loan](#)
- [Reporting a delinquency status code for a payment deferral](#) **NEW May 27, 2020**
- [Reporting a payment deferral to Fannie Mae](#) **NEW May 27, 2020**
- [Processing a payment deferral for a mortgage loan with mortgage insurance](#) **UPDATED Jun. 10, 2020**
- [Handling fees and late charges in connection with a payment deferral](#)
- [Incentive fees](#) **UPDATED Jun. 10, 2020**
- [Servicing fees for a payment deferral](#)
- [Requesting reimbursement for payment deferral expenses](#)
- [Fannie Mae's workout hierarchy](#)
- [Updates to Fannie Mae Flex Modification](#)
- [Borrower Solicitation Letter \(Form 745\)](#)
- [Updates to the Investor Reporting Manual](#) **NEW May 27, 2020**
- [Appendix](#)



**Effective:** Servicers are encouraged to begin evaluating borrowers for payment deferral in accordance with this Lender Letter on or after Jul. 1, 2020; however, servicers must begin evaluating borrowers for payment deferral no later than Jan. 1, 2021. Also, these policy changes will be reflected in the Dec. 2020 update of the *Servicing Guide*, at which time we will also update the Investor Reporting Manual.

## Determining eligibility for a payment deferral

The servicer is authorized to evaluate the borrower for a payment deferral without receiving a complete Borrower Response Package (BRP). When the servicer offers a payment deferral without receiving a complete BRP, the servicer is not required to send an [Evaluation Notice](#), or equivalent.

If the borrower submitted a complete BRP, then the servicer must evaluate the borrower in accordance with [D2-2-05, Receiving a Borrower Response Package](#). The servicer is authorized to use an [Evaluation Notice](#) but must make the appropriate changes as necessary, including to the applicable Frequently Asked Questions, to reflect the terms of the payment deferral. In order to be eligible for a payment deferral, the following criteria must be met.

✓	Eligibility Criteria for a Payment Deferral
	<p>The mortgage loan must be a conventional first lien mortgage loan, and may be a fixed-rate, a step-rate, or an ARM.</p> <p><b>NOTE:</b> <i>The property securing the mortgage loan may be vacant or condemned.</i></p>
	<p>The mortgage loan must meet the following delinquency parameters:</p> <ul style="list-style-type: none"> <li>▪ As of the date of evaluation, the mortgage loan must be 30 or 60 days delinquent (i.e., the borrower is not past due for more than two full monthly contractual payments); and</li> <li>▪ such delinquency status must have remained unchanged for at least three consecutive months, including the month of the evaluation.</li> </ul> <p><b>NOTE:</b> <i>The servicer must receive the borrower’s full monthly contractual payment due for the month of evaluation. If the servicer has not received this full monthly contractual payment as of the date of evaluation, the borrower may still be eligible for a payment deferral if he or she makes the full monthly contractual payment by the end of the evaluation month. Refer to the Appendix for examples on determining delinquency status.</i></p>
	<p>The servicer must achieve Quality Right Party Contact (QRPC) with the borrower (see <a href="#">D2-2-01, Achieving Quality Right Party Contact with the Borrower</a> for additional information).</p> <p>Additionally, the servicer must confirm that the borrower:</p> <ul style="list-style-type: none"> <li>▪ has resolved the hardship,</li> <li>▪ is able to continue making the full monthly contractual payment, and</li> <li>▪ is unable to reinstate the mortgage loan or afford a repayment plan to cure the delinquency.</li> </ul> <p><b>NOTE:</b> <i>If the borrower’s mortgage loan previously received a Fannie Mae Home Affordable Modification Program (HAMP) Modification and the borrower remains in “good standing,” the servicer must inform the borrower that a payment deferral will result in the mortgage loan’s loss of good standing, and the borrower will lose any “pay for performance” incentive he or she might otherwise have received.</i></p>



✓	Eligibility Criteria for a Payment Deferral
	The mortgage loan must have been originated at least 12 months prior to the evaluation date for a payment deferral.
	The mortgage loan must not have received a previous payment deferral.
	The mortgage loan must not be subject to <ul style="list-style-type: none"> <li>▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized,</li> <li>▪ an approved liquidation workout option,</li> <li>▪ an active and performing forbearance plan or repayment plan,</li> <li>▪ a current offer for another retention workout option, or</li> </ul> an active and performing mortgage loan modification Trial Period Plan.
	The borrower must not have failed a non-disaster related mortgage loan modification Trial Period Plan within 12 months of being evaluated for eligibility for a payment deferral. <p><b>NOTE:</b> <i>Converting from a Trial Period Plan to a forbearance plan is not considered a failed Trial Period Plan.</i></p>
	The mortgage loan must not have been modified with a non-disaster related mortgage loan modification within the previous 12 months of being evaluated for eligibility for a payment deferral.

## Determining eligibility for a payment deferral for a Texas Section 50(a)(6) loan

A Texas Section 50(a)(6) loan is eligible for a payment deferral if

- the requirements described in [Determining eligibility for a payment deferral](#) are satisfied, and
- the application of a payment deferral to the mortgage loan complies with applicable law.

If the servicer receives notice from the borrower that a payment deferral fails to comply with Texas Section 50(a)(6) requirements, the servicer must immediately, but no later than seven business days after receipt, take the actions listed in the following table.

✓	The servicer must...
	Inform our Legal department by submitting a <i>Non-Routine Litigation Form</i> ( <a href="#">Form 20</a> ) and include the borrower notice in its submission.
	Collaborate with us on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by the requirements of Texas Section 50(a)(6).

## Determining the payment deferral terms

The servicer must defer the past-due principal and interest (P&I) payments as a non-interest bearing balance, due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. All other terms of the mortgage loan must remain unchanged.

Any existing non-interest bearing balance on the mortgage loan remains due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.



**NOTE:** *If the servicer chooses to perform an escrow analysis, any escrow account shortage that is identified at the time of the payment deferral must not be included in the non-interest bearing balance and the servicer is not required to fund any existing escrow account shortage. In addition, the servicer is not required to revoke any escrow deposit account waiver.*

## Completing a payment deferral

The servicer must complete (i.e., submit the case via Fannie Mae’s servicing solutions system) a payment deferral in the same month in which it determines the borrower is eligible.

The servicer is authorized to use an additional month to allow for sufficient processing time (“processing month”) to complete a payment deferral. In this circumstance

- the borrower must make his or her full monthly contractual payment during the processing month, and
- The servicer must complete the payment deferral within the processing month after receipt of the borrower’s full monthly contractual payment due during that month.

**NOTE:** *The servicer must treat all borrowers equally in applying the processing month, as evidenced by a written policy.*

The servicer must send the [payment deferral agreement](#), or equivalent, to the borrower no later than five days after the completion of the payment deferral.

While use of the payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*. Also, the servicer must ensure the payment deferral agreement complies with applicable law.

**NOTE:** *If the servicer determines the borrower’s signature is required on the payment deferral agreement, it must receive the executed agreement prior to completing the payment deferral.*

The servicer’s application of a payment deferral to the mortgage loan must not impair our first lien position or enforceability against the borrower(s) in accordance with its terms.

The servicer must record the payment deferral agreement if the servicer determines that recordation is required to comply with law and ensure that the mortgage loan retains its first lien position. The servicer must obtain a title endorsement or similar title insurance product issued by a title insurance company if the payment deferral agreement will be recorded.

The servicer must also provide documents to the document custodian in accordance with the following table.

If the payment deferral agreement is...	Then the servicer must send...
not required to be signed by the borrower	a copy of the payment deferral agreement signed by the servicer to the document custodian within 25 days of the effective date of the payment deferral.
required to be signed by the borrower but not recorded	the fully executed original payment deferral agreement to the document custodian within 25 days of the effective date of the payment deferral.



required to be recorded	<ul style="list-style-type: none"> <li>▪ a certified copy of the fully executed payment deferral agreement to the document custodian within 25 days of the effective date of the payment deferral, and</li> <li>▪ the original payment deferral agreement that is returned from the recorder’s office to the document custodian within 5 business days of receipt.</li> </ul>
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## Processing a payment deferral for an MBS mortgage loan

The servicer must not make a manual reclassification request for mortgage loans subject to a payment deferral. In addition, MBS mortgage loans subject to a payment deferral will not be scheduled for automatic reclassification as described in [A1-3-06, Automatic Reclassification of MBS Mortgage Loans](#).

## Reporting a delinquency status code for a payment deferral NEW May 27, 2020

The servicer must report delinquency status information to us through our servicing solutions system in accordance with [D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae](#).

Unlike Fannie Mae’s other workout options, payment deferral does not have a unique workout option delinquency status code. If no other delinquency status code is applicable to a mortgage loan subject to a payment deferral, the servicer must continue to report delinquency status code 42 – Delinquent, No Action until the payment deferral has been completed and the mortgage loan is brought current.

## Reporting a payment deferral to Fannie Mae NEW May 27, 2020

The servicer must submit an eligible payment deferral case to our servicing solutions system by entering loan-level information, including the applicable campaign ID to identify a payment deferral. The case must be entered in the month of evaluation, after the borrower has made any required full monthly contractual payment.

If the servicer chooses to use a processing month, the servicer must submit the payment deferral case during the processing month after receipt of the full monthly contractual payment that is due for such month.

The servicer must remit and report to us via a Loan Activity Record (LAR) the borrower’s full monthly contractual payment due in the month of evaluation (or due in the processing month, if applicable) prior to completing a payment deferral in Fannie Mae’s servicing solutions system.

**NOTE:** *If the servicer does not remit and report via a LAR the full monthly contractual payment at least one business day prior to the last day of the month, the servicer will not be able to complete the payment deferral case. If the UPB or LPI reported in Fannie Mae’s servicing solutions system prior to application of a payment deferral does not agree with the last reported UPB or LPI in Fannie Mae’s investor reporting system, the payment deferral will not be processed in Fannie Mae’s investor reporting system until the discrepancy is resolved.*

See [Updates to the Investor Reporting Manual](#) in this Lender Letter for additional information.



## Processing a payment deferral for a mortgage loan with mortgage insurance **UPDATED** May 27, 2020

We have obtained delegation of authority on behalf of all servicers from the following mortgage insurers for payment deferral: Arch MI, Essent Guaranty, Genworth, MassHousing, MGIC, National Mortgage Insurance, Radian Guaranty, RMIC, and United Guaranty.

If we have not obtained delegation of authority from the mortgage insurer for any particular workout option, the servicer must obtain this delegation or seek mortgage insurer approval.

### Handling fees and late charges in connection with a payment deferral

The servicer must not charge the borrower administrative fees. It must waive all late charges, penalties, stop payment fees, or similar charges upon completing a payment deferral.

### Incentive fees **UPDATED Jun. 10, 2020**

The servicer is eligible for a \$500 incentive fee upon completion of a payment deferral. See Lender Letter [LL-2020-09](#), Incentive Fees for Retention Workout Options for the new temporary structure for incentive fees for completed repayment plans, payment deferrals/COVID-19 payment deferrals, and Fannie Mae Flex Modification.

### Servicing fees for a payment deferral

The servicer will continue to receive the servicing fee it was receiving prior to completing a payment deferral after a payment deferral becomes effective.

### Requesting reimbursement for payment deferral expenses

The servicer must pay any actual out-of-pocket expenses in accordance with the *Servicing Guide* associated with the execution of a payment deferral, including, but not limited to:

- required notary fees,
- recording costs,
- title costs, or
- any other allowable and documented expense.

We will reimburse the servicer for allowable out-of-pocket expenses in accordance with [F-1-05, Expense Reimbursement](#).

### Fannie Mae’s workout hierarchy

The servicer must consider a reinstatement when the mortgage loan is delinquent and it has determined that the borrower has the ability to bring the mortgage loan current.

The servicer must see Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options for the applicable workout option requirements. The following table provides guidance and the order of evaluation for available workout options for a conventional first lien mortgage loan. A complete BRP may not be required for each workout option.

<b>Temporary Hardship</b>	
The following table describes the servicer’s requirements if the borrower is experiencing or has experienced a temporary hardship resulting from a short-term decrease in income or increase in expenses.	
If the hardship has...	Then the servicer must consider a...



been resolved and the borrower does not have the ability to reinstate the mortgage loan	<ul style="list-style-type: none"> <li>▪ <a href="#">D2-3.2-02, Repayment Plan</a></li> </ul>
been resolved and the borrower does not have the ability to afford a repayment plan	<ul style="list-style-type: none"> <li>▪ payment deferral</li> </ul>
not been resolved	<ul style="list-style-type: none"> <li>▪ <a href="#">D2-3.2-01, Forbearance Plan</a></li> </ul>

**Permanent Hardship**

If the borrower is experiencing a hardship that has resulted in a permanent or long-term decrease in income or increase in expenses, the servicer must evaluate the borrower for a workout option in the following order:

- [D2-3.2-06, Fannie Mae Flex Modification](#)
- [D2-3.3-01, Fannie Mae Short Sale](#)
- [D2-3.3-02, Fannie Mae Mortgage Release \(Deed-in-Lieu of Foreclosure\)](#)

**NOTE:** *If a borrower requests to be evaluated for a liquidation workout option, the servicer must first evaluate the borrower for a liquidation workout option. See [D2-3.1-01, Determining the Appropriate Workout Option](#).*

**NOTE:** *If the property securing the mortgage loan or the borrower’s place of employment is located in a FEMA-declared Disaster Area eligible for Individual Assistance, the servicer must first consider the borrower for a payment deferral, as described in Determining eligibility for a payment deferral, and in accordance with the table above, prior to evaluating the borrower for a post-forbearance mortgage loan modification in accordance with [LL-2017-09R, Fannie Mae Extend Modification for Disaster Relief \(Extend Mod\)](#).*

## Updates to Fannie Mae Flex Modification

A payment deferral does not count as a mortgage loan modification when determining the number of times the mortgage loan has previously been modified for purposes of determining eligibility for a Fannie Mae Flex Modification in accordance with Determining Eligibility for a Fannie Mae Flex Modification in [D2-3.2-06, Fannie Mae Flex Modification](#).

## Borrower Solicitation Letter (Form 745)

We have posted a Borrower Solicitation Letter ([Form 745](#)) with the payment deferral option incorporated for use upon your implementation of this workout option.

## Updates to the Investor Reporting Manual NEW May 27, 2020

### Reporting a Mortgage Loan Eligible for a Payment Deferral

Loan activity reporting must continue on a delinquent mortgage loan that is subject to a payment deferral. If the mortgage loan is in an MBS pool, then the servicer must not request a reclassification.

The final “pre-payment deferral” UPB and LPI values in Fannie Mae’s servicing solutions system must match the last reported UPB and LPI in Fannie Mae’s investor reporting system. If the values do not match, this will cause an exception in Fannie Mae’s servicing solutions system and the payment deferral case cannot close until this discrepancy is resolved.

In our investor reporting system, the servicer must report a payment LAR with the UPB and a delinquent LPI Date equal to or less than two months. This payment LAR must be reported in the evaluation month, or the processing month if applicable, at least one business day prior to the last day of the calendar month. Failure to do so will result in the payment deferral not being processed in Fannie Mae’s servicing solutions system.

The following table provides additional instructions based on what is processed in the current reporting month prior to acceptance of the payment deferral in Fannie Mae’s investor reporting system.



If...	Then...
no LAR or a LAR without LPI and UPB movement is processed by CD22 in the current reporting month prior to the payment deferral's acceptance	the servicer must report a subsequent LAR with LPI and UPB movement reflecting the "pre-payment deferral" activity. The payment LAR must be reported at least one business day prior to the last day of the calendar month.
a LAR with LPI and UPD movement was successfully processed and the payment deferral is accepted in the current reporting month	any subsequent LAR received in the same reporting month will be deemed "Invalid" and will be reflected as such in the Loan Activity Summary Report. A detailed list can be obtained from your Investor Reporting analyst.  <b>NOTE:</b> <i>The first LAR that Fannie Mae will accept after the payment deferral terms are reflected in the Investor Reporting system will be in the next reporting month.</i>

### Reporting a Mortgage Loan After a Payment Deferral

A payment deferral creates a non-interest bearing balance (referred to in the Investor Reporting Manual as "principal forbearance") amount due and payable at the maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. The servicer must not calculate interest on the principal forbearance amount.

In the reporting month following the acceptance of a payment deferral, the servicer must report the mortgage loan's

- net UPB (gross UPB minus the principal portion of the payment deferral amount) in the "Actual UPB" field on the LAR if there is no LPI movement; or
- amortized UPB based on the net UPB (gross UPB minus the principal portion of the payment deferral amount) in the "Actual UPB" field on the LAR if there is LPI movement.

**NOTE:** *The initial reduction in UPB caused by the principal forbearance must not be reported to Fannie Mae as a principal curtailment.*

The following table provides additional instructions related to reporting requirements for mortgage loans that were subject to a payment deferral and have an outstanding principal forbearance at the time of a principal curtailment, a payoff, or a repurchase.

If...	Then...
a principal curtailment is received	<ul style="list-style-type: none"> <li>▪ if the curtailment being applied is less than the interest-bearing UPB, the servicer must apply such curtailment to the interest-bearing UPB.</li> <li>▪ if the principal curtailment is greater than or equal to the interest-bearing UPB, then the servicer must apply such curtailment in the following order:               <ul style="list-style-type: none"> <li>• to the non-interest bearing balance, if any; and</li> <li>• to the interest-bearing UPB.</li> </ul> </li> </ul>
a payoff or a repurchase is received	the servicer must include the principal forbearance amount when reporting the principal remittance amount.





	<p><b>NOTE:</b> <i>Principal forbearance reported on the liquidation LAR consists of the deferred principal amount, the gross interest amount, and any prior principal forbearance on the mortgage loan.</i></p> <p><b>NOTE:</b> <i>Attempting to report a payoff or a repurchase without including the principal forbearance amount will generate an exception (hard reject) upon submission of the LAR.</i></p>
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**NOTE:** *Generally, servicer P&I advances will be reimbursed within the first two business days after the payment deferral has been accepted in Fannie Mae’s investor reporting system.*

### **Delinquency Modification Reports**

Investor Reporting Manual 6-14, Delinquency Modification Reports, details the existing reports in Fannie Mae’s investor reporting system. These reports will be updated to include payment deferrals.

Servicers who have questions about this Lender Letter should contact their Fannie Mae Account Team, Portfolio Manager, or Fannie Mae’s Single-Family Servicer Support Center at 1-800-2FANNIE (1-800-232-6643).  
Have Guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli.](#)



## Appendix

Refer to the examples below related to determining delinquency eligibility for payment deferral.

### Borrower Has Made Contractual Payment at Time of QRPC/Evaluation

	January	February	March	April	May
Date of QRPC/ Evaluation	—	—	—	—	May 13
Date Payment Received	January 11	February 11	No payment	April 11	May 11
Days Delinquent at Month End	0	0	30	30	30
Last Paid Installment	January	February	February	March	April
Borrower Eligible?	Yes, because the delinquency status has remained unchanged for at least 3 consecutive months, including the month of evaluation, and the borrower has made the full monthly contractual payment prior to the date of QRPC/evaluation.				

### Borrower Has Not Made Contractual Payment at Time of QRPC/Evaluation

	January	February	March	April	May
Date of QRPC/ Evaluation	—	—	—	—	May 13
Date Payment Received	January 11	No payment	March 11	April 11	No payment
Days Delinquent at Month End	0	30	30	30	TBD
Last Paid Installment	January	January	February	March	TBD
Borrower Eligible?	Although the delinquency status has remained unchanged for at least 3 consecutive months, the borrower has not made the full monthly contractual payment due in the evaluation month as of the date of QRPC/evaluation. The borrower may be eligible for a payment deferral if he or she makes the full monthly contractual payment by the end of the evaluation month.				