

# Scenarios: Loans in Forbearance Due to COVID-19 and Representations and Warranties

## Lender Letter LL-2020-06, Selling Loans in Forbearance Due to COVID-19

On April 22, 2020, we published [LL-2020-06](#), which describes the temporary eligibility and delivery requirements applicable to loans that go into forbearance after closing and before sale of the loan to Fannie Mae. To support lenders in understanding and implementing these temporary flexibilities, the tables below contain the following information:

- [Scenarios of loans in forbearance](#)
- [Scenarios of representations and warranties for loans in forbearance sold to Fannie Mae](#)

### Scenarios of loans in forbearance

A forbearance plan is a workout option for borrowers with a temporary unresolved hardship that provides a period of reduced or suspended payments. As stated in our Lender Letter, for the purpose of the temporary sale flexibility, we define forbearance as beginning when the borrower:

- attested to or otherwise told the lender or servicer that, after the note date, he or she has suffered financial hardship caused directly or indirectly by COVID-19 and requested forbearance; or
- was approved for a forbearance plan based on a COVID-19 related financial hardship that occurred after the note date.

A general inquiry from a borrower about forbearance does not automatically define the loan as in forbearance. Furthermore, a loan may be in forbearance without regard to whether a borrower made their first payment (for example, a borrower requests forbearance but continues to make their payments).

The table below describes various scenarios that the lenders may leverage to determine if a closed loan is eligible for sale to us in accordance with the temporary flexibility described in [LL-2020-06](#).

Loan Status	Sale Options	Comments and Conditions
<p><b>1. Accepted forbearance offer</b> Servicer has made an offer of forbearance based on a COVID-19 related hardship that the borrower has accepted prior to the loan sale date.</p>	Temporary sale flexibility only	Borrower has been approved for a forbearance plan. The loan is eligible for sale to Fannie Mae under the temporary sale flexibility only.
<p><b>2. Borrower notification or attestation</b> Loan closed and the first monthly payment is either not due yet or has been paid timely.  Borrower attests to or has otherwise informed the lender or servicer that, after the note date, they suffered a financial hardship caused directly or indirectly by COVID-19 and the borrower requested forbearance.</p>	Temporary sale flexibility only	The loan is eligible for sale to Fannie Mae under the temporary sale flexibility only.



Loan Status	Sale Options	Comments and Conditions
<p><b>3. Borrower current; forbearance in future</b></p> <p>Borrower is current in making the monthly mortgage loan payment but before the loan is sold to Fannie Mae, servicer has agreed to forbearance starting with a monthly payment in the future.</p>	<p>Temporary sale flexibility only</p>	<p>As a result of the borrower’s outreach, the lender is aware that the borrower will not be making full and timely mortgage payments when the loan is in forbearance. The loan is eligible for sale to Fannie Mae under the temporary sale flexibility only.</p>
<p><b>4. Forbearance offered and accepted but borrower timely pays</b></p> <p>Forbearance is offered, borrower accepts but still makes timely payments on schedule and remains current.</p>	<p>Temporary sale flexibility only</p>	<p>Borrower is in forbearance and the loan is eligible for sale to Fannie Mae under the temporary sale flexibility only. Even though the borrower is making timely monthly payments, the loan is in forbearance.</p>
<p><b>5. Forbearance inquiry</b></p> <p>Borrower asks about forbearance options after loan closing and before the loan is sold to Fannie Mae <b>BUT</b> does not request forbearance and the borrower does not attest to or otherwise inform the lender or servicer that, after the note date, they suffered a financial hardship caused directly or indirectly by COVID-19. Forbearance is not offered.</p>	<p>Standard sale terms and conditions if they can be met</p>	<p>The loan may be eligible for sale under standard sale terms to Fannie Mae if:</p> <ul style="list-style-type: none"> <li>▪ the loan is current;</li> <li>▪ the lender confirms that the borrower would not be granted forbearance under Fannie Mae’s requirements;</li> <li>▪ based on their review of the updated facts and circumstances, the lender can make the “Mortgage is an Acceptable Investment” representation and warranty and the loan meets our continuity of income and income stability requirements; <b>AND</b></li> <li>▪ and the loan meets all other Fannie Mae requirements, including resubmission to DU in accordance with <i>Selling Guide</i> <a href="#">B3-2-10</a>, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.</li> </ul>
<p><b>6. Employment/income change; no borrower contact or forbearance inquiry</b></p> <p>Loan closed and the borrower was employed on the day of closing. First monthly payment is either not due yet or has been paid timely.</p> <p>Before the loan is sold to Fannie Mae, the lender becomes aware that the individual borrower’s employment or income status has been negatively impacted. There is no inquiry about or request for forbearance.</p>		
<p><b>7. Forbearance offered and declined and borrower timely pays</b></p> <p>Forbearance is offered, but the borrower declines forbearance (or otherwise fails to respond and made timely payments on schedule) and remained current.</p>	<p>Standard sale terms and conditions</p>	<p>Borrower was not placed in forbearance by the lender and continued to make timely payments on the loan.</p> <p>Yes, if based on their review of the updated facts and circumstances, lender can represent and warrant that the “Mortgage is an Acceptable Investment” and that the loan meets all of our requirements, including the continuity of income and income stability requirements. See the <i>Mortgage Selling and Servicing Contract</i> (MSSC) and <i>Selling Guide</i> <a href="#">B3-3.1-01</a>, General Income Information.</p>



## Scenarios of representations and warranties for loans in forbearance sold to Fannie Mae

The following table describes scenarios related to loans in forbearance (and one scenario before loan closing) and the impact to the lender’s representations and warranties.

Scenario	Eligible for Sale	Impact to Representations and Warranties
<p><b>1. Change in circumstance before closing</b></p> <p>There is a change in circumstance due to COVID-19 prior to loan closing. For example (but not limited to): borrower loses job, has a reduction in the income used to qualify, no longer has access to funds to complete the transaction.</p>	<p>Yes, if the loan is re-underwritten and still meets Fannie Mae’s requirements, including resubmission to DU in accordance with <i>Selling Guide B3-2-10</i>, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.</p>	<p><b>No change</b></p> <p>Lenders are responsible for all representations and warranties to Fannie Mae, including ensuring that the loan meets all of our requirements.</p> <p>Fannie Mae’s QC process, enforcement relief under the enforcement relief framework, and life-of-loan representation and warranties as described in the <i>Selling Guide</i> are applicable. (See <a href="#">Additional Selling Guide information</a> below.)</p>
<p><b>2. Loan goes into forbearance between closing and sale to Fannie Mae</b></p> <p>The loan met all of Fannie Mae’s requirements at closing, but circumstances changed due to COVID-19, and the borrower requested forbearance prior to sale of the loan to Fannie Mae.</p>	<p>Temporary sale flexibility only</p>	<p>Fannie Mae will not enforce the “Mortgage is an Acceptable Investment” representation and warranty solely due to the fact that the loan is in forbearance at the time of sale to Fannie Mae. In addition, for any such loan, we will not require a repurchase or repurchase alternative under the Remedies Framework solely due to the fact that the borrower has had a negative financial impact due to COVID 19 after the loan closing date and on or prior to the loan sale date.</p> <p>Lender is responsible for all other representations and warranties to Fannie Mae.</p> <p>Fannie Mae’s QC process, enforcement relief under the enforcement relief framework, and life-of-loan representation and warranties as described in the <i>Selling Guide</i> are applicable. (See <a href="#">Additional Selling Guide information</a> below.)</p>
<p><b>3. Loan goes into forbearance after sale to Fannie Mae</b></p> <p>The loan met all of Fannie Mae’s requirements at loan closing. Loan is sold to Fannie Mae. The borrower requested forbearance after loan sale (either current or delinquent).</p>	<p>N/A Loan is already sold</p>	<p><b>No change</b></p> <p>Fannie Mae’s QC process, enforcement relief under the enforcement relief framework, and life-of-loan representation and warranties as described in the <i>Selling Guide</i> are applicable. (See <a href="#">Additional Selling Guide information</a> below.)</p>
<p><b>4. Existing loan in Fannie Mae’s portfolio</b></p> <p>Borrower requests forbearance on an existing loan in the servicing portfolio.</p>	<p>N/A Loan is already sold</p>	<p><b>No change</b></p> <p>Fannie Mae’s QC process, enforcement relief under the enforcement relief framework, and life-of-loan representation and warranties as described in the <i>Selling Guide</i> are applicable. (See <a href="#">Additional Selling Guide information</a> below.)</p>



Scenario	Eligible for Sale	Impact to Representations and Warranties
		<b>NOTE:</b> There is no impact to any representation and warranty relief under the enforcement relief framework if granted prior to the time the loan goes into forbearance.

### Additional *Selling Guide* information

- Fannie Mae’s QC processes are described in Subpart D2, Fannie Mae QC Process
- Enforcement relief under the relief framework are described in [A2-3.2-02](#), Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility
- The Remedies Framework is described in [A2-3.2-03](#), Remedies Framework
- Life-of-loan representation and warranties are described in [A2-2-07](#), Life-of-Loan Representations and Warranties
- Loans in forbearance due to COVID-19 impacts are not considered “loans subject to a disaster-related forbearance” described in [A2-3.2-02](#). Delinquency in and of itself is not considered a defect or breach under the *Selling Guide*.

**NOTE:** For the purpose of this document and the Lender Letter, the terms “loan closing” and “note date” are used interchangeably and mean the same thing.