Fannie Mae

# Lender Letter (LL-2020-08)

Jun. 10, 2020

## To: All Fannie Mae Single-Family Servicers

## Changes to Servicer Principal and Interest Advance Requirements

In response to the national emergency associated with COVID-19 and at the direction of Federal Housing Finance Agency (FHFA), we are aligning policies with Freddie Mac to limit servicer obligations to advance scheduled monthly payments to four months for scheduled/scheduled (S/S) remittance type mortgage loans.

Currently, per *Servicing Guide*, A2-1-01, General Servicer Duties and Responsibilities servicers must advance their own funds to cover principal and interest (P&I) due for each delinquent S/S remittance type mortgage loan and must continue to do so until the mortgage loan is removed from our accounting records or the MBS pool. This policy change limits these delinquency advances to four months of missed payments and provides a degree of certainty to servicers.

These policy changes will become effective for Aug. 2020 remittance activity based on Jul. 2020 reporting activity, and will provide servicers with

- financial relief, thus reducing liquidity risk associated with uncertain delinquent loan volumes;
- minimal disruption to existing investor reporting requirements; and
- new data and reports that offer data transparency and enhance cash position reconciliation.

We are developing a streamlined operational process that maintains our existing investor reporting requirements. The following aspects of our investor reporting processes will not be impacted by these policy changes:

- investor reporting and delinquency reporting requirements, including those pertaining to scheduled/actual (S/A) remittance type mortgage loans;
- delinquency advance requirements pertaining to S/S MBS and portfolio mortgage loans for which the servicer holds foreclosure loss risk;
- the timing of monthly P&I remittances, including the remittance of delinquency advances associated with mortgage loans not eligible for the stop advance process;
- drafting of guaranty fees and excess servicing fees;
- the timing of our reimbursement of delinquency advances; and
- requirements pertaining to curtailments, reinstatements, curtailment reversals, bankruptcy cramdowns, modifications, military indulgences, and post-delivery servicing transfers.

## Eligibility criteria for S/S remittance type mortgage loans

The "Stop Delinquency Advance Process" is our new investor reporting process that discontinues servicer delinquency advances on eligible S/S remittance type mortgage loans after four consecutive missed monthly mortgage payments. The table below outlines the eligibility criteria for S/S remittance type mortgage loans under the Stop Delinquency Advance process.

| Eligibility Criteria for Stop Delinquency Advance Process | | | | |
|---|---|---|---|---|
| **Loan Remittance Type** | **S/S MBS Mortgage Loans** | | **S/S Portfolio Mortgage Loans** | |
| **Foreclosure Loss Risk Type** | **Fannie Mae Foreclosure Loss Risk**<br><br>Loans with FCL Risk Codes 1, 4 | **Servicer Foreclosure Loss Risk**<br><br>Loans with FCL Risk Codes 2, 3 | **Fannie Mae Foreclosure Loss Risk**<br><br>Loans with FCL Risk Codes 1, 4 | **Servicer Foreclosure Loss Risk**<br><br>Loans with FCL Risk Codes 2, 3 |
| **Stop Delinquency Advance Eligibility** | Eligible | Not Eligible* | Eligible | Not Eligible* |
| *Follow existing guidance in *Servicing Guide* F-1-21, Remitting and Accounting to Fannie Mae and *Investor Reporting Manual* 2-04, Reporting Specific Payment Transactions to Fannie Mae. | | | | |

Servicers may view Foreclosure Loss Risk data in LSDU's Credit Enhancement tab and in the Trial Balance Report (Part C).

## Entering the Stop Delinquency Advance Process

In the Loan Reporting Cycle that an eligible S/S remittance type mortgage loan becomes 120 days delinquent, we will place the mortgage loan in a Stop Delinquency Advance status and place a Loan Stop Advance Status Type and a Loan Stop Advance Start Date on the mortgage loan, reflecting the start date of the Stop Delinquency Advance Process. The Loan Stop Advance Start Date is the date from which we will suspend drafting delinquency advances from servicers. It is recorded as the first day of the month following the mortgage loan activity reporting period where a mortgage loan is placed in a Loan Stop Advance status. Fannie Mae will also assign a Loan Stop Advance Period Delinquent Count that reflects the number of P&I delinquency advances made by the servicer on an eligible S/S remittance type mortgage loan prior to entering the Stop Delinquency Advance Process.

## One-time transition to the Stop Delinquency Advance Process in Aug. 2020

When the Stop Delinquency Advance Process becomes effective for the first time in Aug. 2020 (based on Jul. 2020 mortgage loan activity), there may be eligible S/S remittance type mortgage loans that are greater than 120 days delinquent for which servicers have already made more than four delinquency advances. On the last day of the Jul. 2020 Loan Reporting Cycle, we will place all eligible S/S remittance type mortgage loans that are 120 or more days delinquent in a Loan Stop Advance Status Type and reflect Aug. 1, 2020 as the Loan Stop Advance Start Date. The Loan Advance Period Delinquent Count will reflect the number of delinquency advances made by the servicer up until transition and may be greater than "4."

Servicers must make all reasonable efforts to ensure that Loan Activity Reports (LARs) for Jul. activity on eligible S/S remittance type mortgage loans are reported and accepted by our investor reporting system before the end of the Jul. 2020 Loan Reporting Cycle. At transition, after 9 p.m. EST on the last day of the Jul. 2020 Loan Reporting Cycle, our investor reporting system will use the Last Paid Installment (LPI) date reported on the latest accepted Jul. 2020 LAR to determine the months of delinquency for an eligible S/S remittance type mortgage loan. The reported and accepted Jul. 2020 LAR may either reflect that a contractual payment was received from the borrower ("Contractual Payment LAR") or that no contractual payment was received from the borrower ("No Contractual Payment LAR").

We will not settle-up on mortgage loans greater than four months delinquent as of the implementation date. For these mortgage loans, the Stop Advance Effective Date will be Aug. 1, 2020. We will reimburse previous advances either when the mortgage loan goes through a reclass (S/S Swap only) or in accordance with existing reimbursement policies for workout options (including Payment Deferral), whichever is earlier.

## Reporting and remitting for eligible S/S remittance type mortgage loans under the Stop Delinquency Advance Process

Even though an eligible S/S remittance type mortgage loan is in a Loan Stop Advance status, servicers must continue to report mortgage loan activity to us in accordance with *Servicing Guide* C-4.3-01, Servicer Responsibilities Related to Investor Reporting, F-1-22, Reporting a Delinquent Mortgage Loan via Fannie Mae's Servicing Solutions System, and the *Investor Reporting Manual*.

Servicers must continue to calculate and report the scheduled P&I, the LPI date, and the actual unpaid principal balance (UPB) to us each month. The scheduled P&I reflects the delinquency advance. Every Loan Reporting Cycle that an eligible S/S remittance type mortgage loan is in a Loan Stop Advance status, we will record in our investor reporting system compensating adjustments (Loan Stop Advance Principal Credit and Loan Stop Advance Lender Pass Through Interest Credit) that adjust the delinquency advance to zero. As a result, no monthly delinquency advances will be drafted from servicers under the Stop Delinquency Advance Process.

Servicers will continue to be drafted guaranty fee and excess servicing fee, as applicable, during the Stop Advance Delinquency Process.

## Contractual payments received from borrowers under the Stop Delinquency Advance Process

Servicers must continue to calculate scheduled P&I on an eligible S/S remittance type mortgage loan and report loan activity to us each month. When a servicer collects one or more full contractual payments on an eligible S/S remittance type mortgage loan under the Stop Delinquency Advance Process, the servicer must follow the guidance in the *Investor Reporting Manual* and report a “Contractual Payment LAR” with an updated LPI date that reflects the receipt of the contractual payment(s). If the contractual payment(s) do not bring the eligible S/S remittance type mortgage loan current, we will continue to record compensating adjustments (Loan Stop Advance Principal Credit and Loan Stop Advance Lender Pass Through Interest Credit) in the investor reporting system.

## Exiting the Stop Delinquency Advance Process

In a Loan Reporting Cycle that an eligible S/S remittance type mortgage loan in Stop Advance status becomes current, is paid off, is removed from the MBS trust, transitions to an eligible delinquency workout option, or is foreclosed/acquired in REO, we will remove the Loan Stop Advance Status Type from the mortgage loan and return a Loan Stop Advance Expiration Date to the servicer, signaling the end of the Stop Delinquency Advance Process. The Loan Stop Advance Expiration Date is the last day of the mortgage loan activity period through which we suspend drafting of delinquency advances from servicers. We will resume drafting the contractual P&I advances in the draft that corresponds to the loan activity period that the mortgage loan exited stop advance.

The following table summarizes our actions when a mortgage loan exits the stop delinquency advance process, based on mortgage loan activity.

| **If…** | **Fannie Mae will…** |
|---|---|
| The mortgage loan becomes current | remove the Loan Stop Advance Status Type and update the Loan Stop Advance Expiration Date. |
| The mortgage loan is paid off | |
| The mortgage loan is repurchased | |

<table>
<tr><th>If…</th><th>Fannie Mae will…</th></tr>
<tr><td>The mortgage loan is removed from the MBS Trust (Reclassification)</td><td>reimburse the servicer for outstanding delinquency advances and the remittance type of the reclassified loan changes from S/S Swap to Actual/Actual (A/A). Servicers are not obligated to advance P&I on A/A mortgage loans.</td></tr>
<tr><td>Payment deferrals or other workout options are executed</td><td rowspan="2">reimburse servicers for any outstanding delinquency advances.</td></tr>
<tr><td>The mortgage loan is liquidated (for example, sold at foreclosure and transferred to REO)</td></tr>
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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

The following *Servicing Guide* policies are expected to be updated upon implementation of these changes:

- A1-3-06, Automatic Reclassification of MBS Mortgage Loans
- A2-1-01, General Servicer Duties and Responsibilities
- C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae
- F-1-26, Reclassifying or Voluntary Repurchasing an MBS Mortgage Loan
- Fannie Mae's *Investor Reporting Manual*