



Lender Letter (LL-2020-13)

Updated: Oct. 28, 2020
Sep. 30, 2020

To: All Fannie Mae Single-Family Servicers Automatic Reclassification of Delinquent MBS Mortgage Loans

This Lender Letter published Sep. 30, 2020 provided advance notice of upcoming changes related to

- the criteria for automatic reclassification for MBS mortgage loans serviced under the special servicing option, including those which Fannie Mae bears the entire foreclosure loss risk and those which we share that risk with servicers; and
- guaranty fee advances and reimbursement of principal and interest (P&I) advances.

Additions and update to Lender Letter on Oct. 28, 2020 include

- providing procedural details for servicers related to the reclassification of delinquent MBS mortgage loans and
- clarifying effective dates.

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Currently, we will generally select for reclassification special servicing option MBS mortgage loans when the mortgage loan is four consecutive months delinquent as measured by the LPI date. These mortgage loans include those for which we have the entire foreclosure loss risk and those for which we share the foreclosure loss risk with the servicer, with Fannie Mae having the responsibility for marketing the acquired property. We will reclassify an MBS mortgage loan that satisfies our selection criteria as an actual/actual remittance type portfolio mortgage loan. However, PFP mortgage loans with an original scheduled/scheduled remittance type will remain a scheduled/scheduled remittance type even after being removed from the pool.

Fannie Mae, in alignment with Freddie Mac, will change the trigger for automatic reclassification from four consecutive months delinquent to 24 consecutive months delinquent (measured by LPI date). This practice will be subject to the following exceptions where the timing of the removal of a mortgage loan may be earlier than when the mortgage loan is 24 months delinquent. A mortgage loan

- that is paid in full, or where the related lien is released or charged-off;
- repurchased by a seller/servicer under applicable selling and servicing requirements;
- entering a permanent modification, which generally requires it to be removed from the MBS pool. During any modification trial period, the loan will remain in the MBS until the trial period ends;
- subject to a short sale or Mortgage Release; or
- referred to foreclosure.

All MBS mortgage loans removed from MBS pools that are subsequently held in our portfolio will remain subject to repurchase requirements and recourse obligations.

These changes will become effective in Jan. 2021 for mortgage loans that become greater than four consecutive months delinquent (based on Dec. 2020 and Jan. 2021 reporting activity).

NOTE: Servicers will remain responsible for only advancing four consecutive scheduled P&I payments in the event of borrower delinquency.



As a part of the change to the automatic reclassification of MBS loans, and at a future effective date to be determined, we will also update our policies on guaranty fee advances and reimbursement of P&I advances to provide that immediately after the mortgage loan is four consecutive months delinquent servicers will no longer be required to advance guaranty fees and will be reimbursed for any P&I advances. The details for these changes will be communicated at a future date. We will also communicate any additional procedural requirements for reclassification of mortgage loans at a later date.

The following content was published Oct. 28, 2020.

New calendar day 22 interim reporting end date scheduled event

We are introducing a new interim reporting end date (twenty-second calendar) or CD22 scheduled event for the reclassification of eligible mortgage loans. The calendar day following the interim reporting end date of the month, we will reclassify mortgage loans that meet our automatic selection criteria. This new interim reporting end date scheduled reclassification event will also include mortgage loans that servicers have reported as subject to Mortgage Release in Review and/or Foreclosure Referral prior to reaching the 24-month delinquency threshold. The day following reclassification, servicers will be notified of reclassified mortgage loans via MBS Reclaspurchase Advice.

NOTE: *The change in automatic selection criteria applies to the end of cycle BD2 scheduled reclassification event and the new interim reporting end date CD22 scheduled reclassification event.*

Calendar day 15 scheduled reclassification event

Our process for the existing CD15 scheduled reclassification event will not change. Servicers must continue to follow the process outlined in Chapter D2-3, *Fannie Mae's Home Retention and Liquidation Workout Options*, Chapter E-2, *Managing Bankruptcy Proceedings*, and Chapter F-1, *Servicing Guide Procedures of the Servicing Guide*.

Unscheduled reclassification events

Our process for unscheduled reclassification events will not change. At our discretion, upon servicer request, we may execute unscheduled reclassification events from the fourth business day up until the 21st calendar day to reclassify certain MBS mortgage loans.

Changes to Fannie Mae reports

SURF MBS3+ Purchase Advice will be renamed to "SURF MBS Reclaspurchase Advice". The report will now include two new enumerations for additional Reclaspurchase Reason Codes Mortgage Release (110) and Foreclosure Referral (111).

Transition month from four to 24 months of delinquency for MBS reclassification (Jan. 2021) details

The transition month (TM) is Jan. 2021, when the threshold for automatic reclassification of delinquent MBS mortgage loans changes from four months to 24 months of delinquency. The table below outlines key milestones in the transition month.



Step	Key Milestone	24 Month Delinquent Loan Buyout For January 2021 TM - (February Remittance Activity)
1	<p>Tuesday 1/5/2021 (Jan BD2)</p> <ul style="list-style-type: none"> ▪ Loan Activity Reporting Cycle closed for December 2020 activity for all loans ▪ End of Cycle (BD2) Scheduled Reclassification Event 	<p>For the first time, Fannie Mae will use 24 months as the delinquency threshold to identify eligible MBS mortgage loans that meet its automatic reclassification selection criteria. The January BD2 scheduled reclassification event will not include loans that servicers have reported as subject to a Mortgage Release (i.e., deed in-lieu of foreclosure) prior to reaching the 24-month delinquency threshold or eligible loans that servicers have reported as referred to foreclosure prior to reaching the 24-month delinquency threshold.</p> <p>Fannie Mae will execute the BD2 reclassification event after the reporting cycle closes and notify servicers of reclassified loans via MBS Reclassification Purchase Advice.</p>
2	<p>Tuesday 1/5/2021 - Monday 1/11/2021</p> <p>Jan BD2 – Jan CD11</p> <p>Monthly Delinquency reporting through Asset Management Network</p>	<p>Servicers will submit and correct monthly delinquency reporting.</p>
3	<p>Thursday 1/7/2021 (Jan BD4)</p> <p>MBS Reclassification Purchase Advice for Jan BD2 Reclassification Event</p>	<p>Servicers will have access to the MBS Reclassification Purchase Advice with details for eligible mortgage loans that were reclassified using the 24-month delinquency threshold.</p> <p>The January BD4 occurrence of the MBS Reclassification will not include eligible mortgage loans that servicers have reported as subject to a Mortgage Release (i.e., deed in-lieu of foreclosure) prior to reaching the 24-month delinquency threshold or eligible loans that servicers have reported as referred to foreclosure prior to reaching the 24-month delinquency threshold.</p>
4	<p>Tuesday 1/12/2021 – Friday 1/15/2021</p> <p>(Jan CD12 – Jan CD15)</p> <p>HSSN™ Deselection Window</p>	<p>Fannie Mae will post the Eligible for Deselection Report on HSSN.</p> <p>Servicers will deselection loans in HSSN to exclude from the CD15 reclassification event.</p>
5	<p>Friday 1/15/2021 (Jan CD15)</p> <ul style="list-style-type: none"> ▪ HSSN Deselection Window Closes ▪ HSSN (CD15) Scheduled Reclassification Event 	<p>After the HSSN deselection window closes, Fannie Mae executes the HSSN reclassification event to remove loans that have not been deselected from pools and notify servicers of reclassified loans via MBS Reclassification Purchase Advice.</p>



Step	Key Milestone	24 Month Delinquent Loan Buyout For January 2021 TM - (February Remittance Activity)
6	Saturday 1/16/2021 (Jan CD16) MBS Reclassification Purchase Advice for HSSN (CD15) Scheduled Reclassification Event	Servicers will have access to the MBS Reclassification Purchase Advice with details for eligible mortgage loans that were reclassified.
7	Friday 1/22/2021 (Jan CD22) <ul style="list-style-type: none">▪ Interim Reporting End Date for January 2021 activity▪ Interim Reporting End Date (CD22) Scheduled Reclassification Event	<p>For the first and only time, as part of the January 2021 transition, Fannie Mae will evaluate all eligible loans for January CD22 reclassification that are active and have been reported by servicers as under Mortgage Release in Review or Referred to Foreclosure from January 2020 through January 2021*.</p> <p>For the first time, Fannie Mae will execute the Interim Reporting End Date (CD22) scheduled reclassification event after Interim reporting cycle closes and notify servicers of reclassified loans via MBS Reclassification Purchase Advice. Fannie Mae will use 24 months as the delinquency threshold to identify eligible mortgage loans that meet its automatic reclassification selection criteria.</p> <p>For the first time, the January CD22 scheduled reclassification event will include loans that servicers have reported as subject to a Mortgage Release (i.e., deed in-lieu of foreclosure) prior to reaching the 24-month delinquency threshold and eligible loans that servicers have reported as referred to foreclosure prior to reaching the 24-month delinquency threshold.</p> <p><i>*Note: Post transition, from February 2021 onwards, Fannie Mae will evaluate eligible loans for the CD22 reclassification event that are active and have been reported by servicers as under Mortgage Release in Review or Referred to Foreclosure from CD23 of the prior month to CD22 of the current month.</i></p>
8	Monday 1/25/2021 (Jan CD25) MBS Reclassification Purchase Advice for Interim Reporting End Date (CD22) Reclassification Event	<p>For the first time, servicers will have access to the MBS Reclassification Purchase Advice with details for eligible mortgage loans that were reclassified during the Interim Reporting End Date (CD22) Reclassification Event.</p> <p>For the first time, the January CD25 occurrence of the MBS Reclassification will include eligible mortgage loans that servicers have reported as subject to a Mortgage Release (i.e., deed in-lieu of foreclosure) prior to reaching the 24-month delinquency threshold and eligible mortgage loans that servicers have reported as referred to foreclosure prior to reaching the 24-month delinquency threshold.</p> <p>For the first time, post reclassification of S/S SWAP MBS loans on CD22, servicers are expected to adjust the remittance type in their systems to actual/actual and report a Loan Activity Record reflecting the loan as actual/actual before BD1.</p>

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](#).