

24 Month Delinquent MBS Loan Reclassification

Fannie Mae Process Requirements

October 28, 2020



Table of Contents

Introduction	4
Eligibility & Exemptions	4
Changes to Process	5
Interim Reporting End Date Scheduled Reclassification Event	5
End of Cycle BD2 Scheduled Reclassification Event	7
Calendar Day 15 Scheduled Reclassification Event	7
Unscheduled Reclassification Events	7
Timing of P&I Reimbursement Post Reclassification	7
Timeline	8
Transition Month (January 2021)	9
Changes to Fannie Mae Reports	13
SURF MBS Reclass Purchase Advice	13



Document Change History

Published Date	Modified Section	Description



Introduction

Currently, Fannie Mae 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 Fannie Mae have the entire foreclosure loss risk and those for which Fannie Mae shares the foreclosure loss risk with the servicer, with Fannie Mae having the responsibility for marketing the acquired property. Fannie Mae will reclassify an MBS mortgage loan that satisfies its 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.

FHFA has directed Fannie Mae and Freddie Mac to implement loan buy-out policies establishing 24 months of borrower delinquency as the trigger for requiring that the delinquent loan is bought out of any MBS pool into which it has been securitized.

As announced in the Lender Letter LL-2020-13 (published September 30, 2020), Fannie Mae, in alignment with Freddie Mac, will change the trigger for automatic reclassification of MBS loans from 4 consecutive months delinquent to 24 consecutive months delinquent (measured by LPI date). The new timeframe will apply to outstanding single-family pools and newly issued single-family pools and will first be reflected when January 2021 factors are released on the fourth business day in February 2021.

Note: *Servicers will remain responsible for only advancing four consecutive scheduled P&I payments in the event of borrower delinquency for scheduled/Scheduled loans for which Fannie Mae bears the Foreclosure Loss Risk.*

Eligibility & Exemptions

Generally, Fannie Mae will select special servicing option delinquent MBS mortgage loans for reclassification when the mortgage loan is twenty-four months delinquent, as measured by the LPI date. Special servicing option loans are those for which Fannie Mae has the entire foreclosure loss risk and those for which Fannie Mae and the servicer share the foreclosure loss risk, with Fannie Mae having the responsibility for marketing the acquired property—Fannie Mae will reclassify a mortgage loan that satisfies its selection criteria as an actual/actual remittance type portfolio mortgage loan (however, PFP mortgage loans with an original scheduled/scheduled remittance type and actual/actual will remain a scheduled/ scheduled and actual/actual remittance type respectively even after being removed from the pool).

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



Changes to Process

Fannie Mae’s selection criteria for reclassifying mortgage loans changes from 4 consecutive months delinquent to 24 consecutive months delinquent (measured by LPI date). However, the timing for reclassification will differ for mortgage loans which the servicer reports as having an active forbearance plan, repayment plan or mortgage loan modification Trial Period Plan, as set forth in F-1-26, Reclassifying or Voluntary Repurchasing an MBS Mortgage Loan (04/20/ 2020).

Interim Reporting End Date Scheduled Reclassification Event

Fannie Mae will introduce a new **interim reporting end date (twenty-second calendar)** scheduled event for the reclassification of eligible mortgage loans. The calendar day following the **interim reporting end date** of the month, Fannie Mae will reclassify mortgage loans that meet its automatic selection criteria. This new interim reporting end date scheduled reclassification event will also include loans that servicers have reported as subject to Mortgage Release in Review or Foreclosure Referral prior to reaching the 24-month delinquency threshold. The day following reclassification, servicers will be notified of reclassified loans via Purchase Advice. Servicers will not be able to deselect loans from or add loans to the new interim reporting end date scheduled reclassification event.

The table below outlines the key actions associated with the Interim Reporting End Date Scheduled reclassification event:

Step	Action
1	<p><i>By the twenty-second calendar* day of the month</i></p> <ul style="list-style-type: none"> ▪ Servicers submit monthly LARs by 8 p.m. eastern on CD22 ▪ After LARs are processed and CD22 interim reporting cycle closes, Fannie Mae determines eligible mortgage loans that meet its automatic selection criteria for reclassification <ul style="list-style-type: none"> ○ Loans that are 24 consecutive months delinquent ○ Loans that servicers have reported as subject to Mortgage Release in Review or Foreclosure Referral ▪ Fannie Mae executes the CD22 Interim Reporting End date scheduled reclassification event and removes eligible loans that meet its automatic selection criteria from pools <p>Note: *When CD22 falls on a holiday or weekend, LARs are due on the preceding business day</p>
2	<p><i>Second business day following Reclassification</i></p> <ul style="list-style-type: none"> ▪ Fannie Mae notifies servicers of reclassified loans via Purchase Advice. For this reclassification event, the Purchase Advice may include new enumerations of the reclass reason code for Mortgage Release and Foreclosure Referral.



Step	Action
3	<p data-bbox="205 298 548 326"><i>By BD1 of the following month</i></p> <ul data-bbox="254 363 1902 691" style="list-style-type: none"><li data-bbox="254 363 1902 423">▪ The servicer must follow the steps as outlined in the Servicing Guide A1-3-06, Automatic Reclassification of MBS Mortgage Loans (09/09/2020) and Investor Reporting Manual 4-03, Reporting a Mortgage Loan After Modification including but not limited to:<ul data-bbox="348 431 1871 691" style="list-style-type: none"><li data-bbox="348 431 1871 459">○ adjust the remittance type in their systems to actual/actual and report a LAR reflecting the loan as actual/actual before the BD1<li data-bbox="348 464 1871 492">○ reflect the remittance type as actual/actual as of the first day of the month in which the reclassification event takes place;<li data-bbox="348 496 1871 524">○ adjust the PTR to include any guaranty fee;<li data-bbox="348 529 1871 557">○ adjust Fannie Mae's required margin to equal the mortgage loan margin less the servicing fee, if applicable; and<li data-bbox="348 561 1871 589">○ adjust the PTR floor and ceiling to equal the lifetime interest rate floor and ceiling less the servicing fee, if applicable.<li data-bbox="348 594 1871 654">○ Report the mortgage loan as an actual/actual remittance type, including any activity that occurred for a reclassified mortgage loan, in compliance with the reporting time frames outlined in the Investor Reporting Manual<li data-bbox="348 659 1871 691">○ Use the same Fannie Mae loan number that applied to the mortgage loan when it was in the MBS pool



End of Cycle BD2 Scheduled Reclassification Event

Fannie Mae's automatic selection criteria for existing BD2 End of Cycle scheduled reclassification event for reclassifying mortgage loans changes from 4 consecutive months delinquent to 24 consecutive months delinquent (measured by LPI date). However, Fannie Mae's guidance for reporting a reclassified MBS mortgage loan is unchanged. Servicers should continue to follow the guidelines outlined in section [A1-3-06, Automatic Reclassification of MBS Mortgage Loans \(09/09/2020\)](#) of the Servicing Guide.

Calendar Day 15 Scheduled Reclassification Event

Fannie Mae's process for existing HSSN (CD15) scheduled reclassification event is unchanged. Servicer should continue to follow the process outlined in section [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

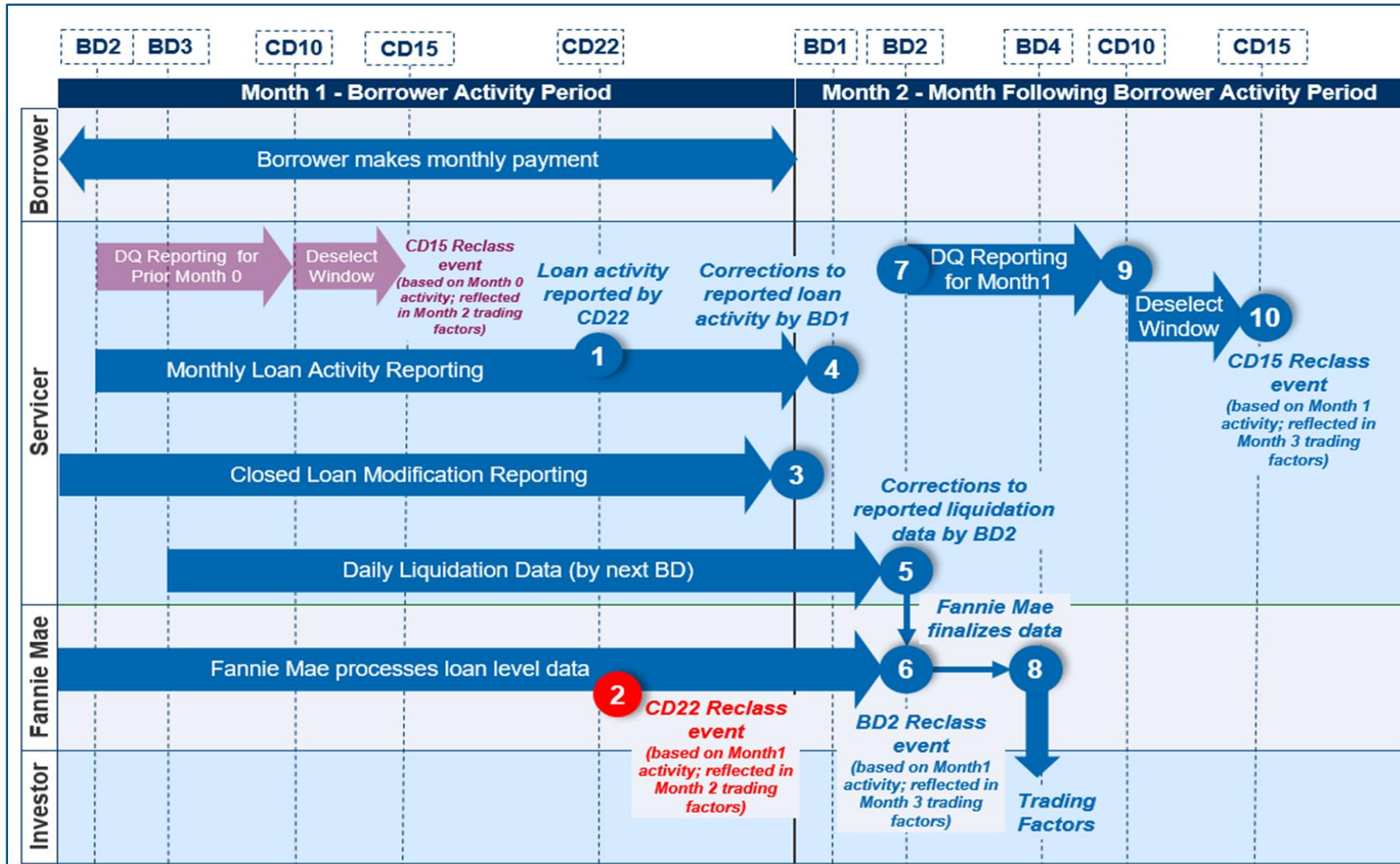
Fannie Mae's process for Unscheduled reclassification event remains unchanged. At its discretion, upon servicer request, Fannie Mae may execute unscheduled reclassification events from the fourth business day up until the twenty-first calendar day to reclassify certain MBS mortgage loans; servicers will be notified of the reclassified mortgage loans via MBS Reclassification Purchase Advice.

Timing of P&I Reimbursement Post Reclassification

Fannie Mae's timing and process for P&I advance reimbursement remains unchanged. Generally, Fannie Mae would reimburse P&I advances within two business days post reclassification.



Timeline





1. Servicers submit monthly LARs by the 22nd calendar day.
2. After LARs are processed and CD22 closes, Fannie Mae identifies eligible mortgage loans that meet its automatic selection criteria, executes the CD22 reclassification event, and notifies servicers of reclassified loans.
3. Servicers submit closed loan modification data between the 1st and last calendar day (non-pooled loans only).
4. Servicers correct monthly LARs and report additional loan activity by the 1st business day.
5. Servicers submit removal transactions daily as they occur, by the following business day.
6. Fannie Mae finalizes data for the reporting period on the 2nd business day. Fannie Mae identifies eligible mortgage loans that meet its automatic selection criteria, executes the BD2 reclassification event after the reporting cycle closes, and notifies servicers of reclassified loans.
7. Servicers submit and correct monthly delinquency reports for Month 1 between the 2nd business day and 10th calendar day of Month 2.
8. Fannie Mae publishes trading factors for investors on the 4th business day.
9. Servicers may submit loans to be excluded from the HSSN CD15 reclassification process between the 11th and 15th calendar days.
10. After the HSSN window closes on CD15, Fannie Mae executes the reclassification event for MBS mortgage loans that have not been deselected and notifies servicers of reclassified loans.

Transition Month (January 2021)

The transition month (TM) is January 2021 when the threshold for requiring that the delinquent loan is bought out of any MBS pool changes from 4 months of borrower delinquency to 24 months of borrower delinquency. The table on the following pages outlines key milestones in the Transition Month.

Step	Key Milestone	24 Month Delinquent Loan Buyout For January 2021 TM - (February Remittance Activity)
1	Tuesday 1/5/2021 (Jan BD2) <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>



Step	Key Milestone	24 Month Delinquent Loan Buyout For January 2021 TM - (February Remittance Activity)
2	Tuesday 1/5/2021 - Monday 1/11/2021 (Jan BD2 – Jan CD11) <ul style="list-style-type: none">• Monthly Delinquency reporting through AMN	Servicers will submit and correct monthly delinquency reporting
3	Thursday 1/7/2021 (Jan BD4) <ul style="list-style-type: none">• MBS Reclassification Purchase Advice for Jan BD2 Reclassification Event	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. 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.
4	Tuesday 1/12/2021 – Friday 1/15/2021 (Jan CD12 – Jan CD15) <ul style="list-style-type: none">• HSSN Deselection Window	Fannie Mae will post the Eligible for Deselection Report on HSSN Servicers will deselect loans in HSSN to exclude from the CD15 reclassification event



Step	Key Milestone	24 Month Delinquent Loan Buyout For January 2021 TM - (February Remittance Activity)
5	Friday 1/15/2021 (Jan CD15) <ul style="list-style-type: none">• HSSN Deselection Window Closes• HSSN (CD15) Scheduled Reclassification Event	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.
6	Saturday 1/16/2021 (Jan CD16) <ul style="list-style-type: none">• 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.



Step	Key Milestone	<p>24 Month Delinquent Loan Buyout</p> <p>For January 2021 TM – (February Remittance Activity)</p>
7	<p>Friday 1/22/2021</p> <p>(Jan CD22)</p> <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	<p>Monday 1/25/2021</p> <p>(Jan CD25)</p> <ul style="list-style-type: none"> • 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 LAR reflecting the loan as actual/actual before BD1</p>



Changes to Fannie Mae Reports

SURF MBS Reclass Purchase Advice

SURF MBS3+ Purchase Advice will be renamed to SURF MBS Reclass Purchase Advice. The report will now include two new enumerations for additional Reclass Reason Codes (Mortgage Release (110) and Foreclosure Referral (111). Please note that there are no changes to the report format.

SURF MBS Reclass Purchase Advice		
Pool Number	123456	345678
LOAN NUMBER	1234567890	1234567891
Lender Loan ID	1200078984	1200078954
Reimbursement Day	25	25
Reported LPI	01/2021	01/2021
New PTR	5.5000	5.7500
Prin Reimbursed	1,306.54	1,383.79
Int Reimbursed	1,454.76	1,730.09
Actual UPB	159,027.10	94,885.10
Scheduled UPB	157,720.56	93,151.03
Acquired UPB	157,720.56	93,151.03
P & I Constant	1,413.71	817.79
Reason Code	110	111