Fannie Mae®

Lender Letter (LL-2023-03)

Updated: Aug. 9, 2023

To: All Fannie Mae Single-Family Servicers
Impact of COVID-19 on Servicing

This Lender Letter contains the policies previously published in LL-2021-02 on May 4, 2022, with the changes noted in the Change Control Log. As the national emergency related to the COVID-19 pandemic was terminated with the enactment of H.J. Res. 7 (Public Law 118-3), Fannie Mae, in alignment with Freddie Mac and under the direction of the Federal Housing Finance Agency (FHFA), will begin retiring our COVID-19 related flexibilities as noted below and reverting to applicable *Servicing Guide* policy designed to assist borrowers in resolving their delinquencies regardless of hardship type.

Aug. 9, 2023

We are retiring certain servicing policies related to COVID-19, including

- use of reason for delinquency code 022, Energy-Environment Costs, as an available reason for delinquency code for new hardships identified on and after Nov. 1, 2023.
- the COVID-19 related forbearance plan flexibilities and reverting to the policy as specified in the *Servicing Guide* when evaluating the borrower for and offering a new forbearance plan or forbearance plan extension.
- the flexibility with regard to achieving QRPC when evaluating the borrower for a workout option prior to expiration of a COVID-19 related forbearance plan.

In addition, we are reorganizing the content and removing policies that have expired or reminders of *Servicing Guide* policies from this Lender Letter.

The effective dates for the policy changes in this Lender Letter are communicated in the respective topics below.

Reporting a reason for delinquency code

Reporting a reason for delinquency code prior to Nov. 1, 2023:

The servicer must report delinquency status information to Fannie Mae through Fannie Mae's servicing solutions system in accordance with *Servicing Guide* D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae and F-1-21, Reporting a Delinquent Mortgage Loan via Fannie Mae's Servicing Solutions System.

In an effort to enable us to identify mortgage loans where the borrower has experienced a hardship associated with COVID-19 while not resulting in a systems impact for us or you, the servicer must report reason for delinquency code 022, Energy-Environment Costs, when reporting the delinquency status of such mortgage loans to us. If the borrower's COVID-19 related hardship remains unresolved and the borrower experiences another hardship concurrently (for example, a disaster event), the servicer must continue to report reason for delinquency code 022, Energy- Environment Costs, regardless of the reason for delinquency associated with the concurrent hardship.

For mortgage loans where the servicer would have otherwise reported reason for delinquency code 022 due to Energy-Environment Costs, the servicer must now use reason for delinquency code 007, Excessive Obligations.

Reporting a reason for delinquency code on and after Nov. 1, 2023:

The servicer must report delinquency status information to Fannie Mae through Fannie Mae's servicing solutions system in accordance with *Servicing Guide* D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae and F-1-21, Reporting a Delinquent Mortgage Loan via Fannie Mae's Servicing Solutions System.

For a new hardship identified on and after Nov. 1, 2023, the servicer must not use reason for delinquency code 022, Energy-Environment Costs, which was repurposed during the pandemic to identify mortgage loans where the borrower has experienced a hardship resulting from COVID-19. Instead, the servicer must use the applicable reason for delinquency code for the underlying hardship (e.g., unemployment or illness) in accordance with *Reason for Delinquency Codes* in F-1-21, Reporting a Delinquent Mortgage Loan via Fannie Mae's Servicing Solutions System. The servicer must not report a new reason for delinquency code 022 when reporting delinquency status information to Fannie Mae beginning with the Dec. 2023 delinquency status reporting period (which is for Nov. 2023 activity).

When continuing to report delinquency status information for a mortgage loan already being reported with reason for delinquency code 022 in the Nov. 2023 delinquency status reporting period (which is for Oct. 2023 activity), the servicer must report 022 for as long as the COVID-19 related hardship continues, even if the borrower experiences another hardship concurrently (for example, a disaster event).

For mortgage loans where the servicer would have otherwise reported reason for delinquency code 022 due to Energy-Environment Costs, the servicer must use reason for delinquency code 007, Excessive Obligations.

The *Servicing Guide* will be updated at a future date to remove reason for delinquency code 022, Energy-Environment Costs and to clarify that, going forward, the servicer must use reason for delinquency code 007, Excessive Obligations when the delinquency is attributable to the borrower having incurred excessive energy-related costs or costs associated with the removal of environmental hazards in, on, or near the property.

Forbearance plan terms

For evaluations prior to Nov. 1, 2023 where the borrower has a financial hardship resulting from COVID-19:

The servicer must follow the requirements in *Servicing Guide* D2-3.2-01, Forbearance Plan, when evaluating the borrower for and offering a forbearance plan, including achieving QRPC with the borrower.

The following flexibilities apply to a forbearance plan for a borrower with a financial hardship resulting from COVID-19:

- The property securing the mortgage loan may be either a principal residence, a second home, or an investment property.
- The servicer is authorized to permit a cumulative forbearance plan term of up to 12 months as measured from the start date of the initial forbearance plan regardless of the delinquency status of the mortgage loan.

As stated in D2-3.2-01, the forbearance plan terms must be provided to the borrower using the appropriate Evaluation Notice, which must be revised in accordance with applicable law. In addition, the servicer must document in the individual mortgage loan file the borrower's request for a forbearance plan and the terms of the initial and any extended forbearance plan, including the duration of the forbearance period.

For evaluations on and after Nov. 1, 2023 regardless of the borrower's hardship type:

The servicer must follow the requirements in *Servicing Guide* D2-3.2-01, Forbearance Plan when evaluating the borrower for a new forbearance plan or a forbearance plan extension and when offering a forbearance plan, including achieving QRPC with the borrower. While a complete Borrower Response Package (BRP) is not required, the borrower must have an eligible hardship as provided in the Mortgage Assistance Application (Form 710). As a reminder, the forbearance plan must not exceed a cumulative term of 12 months as measured from the start date of the initial forbearance plan or result in the mortgage loan becoming greater than 12 months delinquent.

> **NOTE:** *If the servicer determines the borrower is not eligible for a forbearance plan but there are acceptable mitigating circumstances, it must request Fannie Mae's prior written approval by submitting a completed Forbearance Exception Request Template. Generally, the servicer's determination of acceptable mitigating circumstances is based on a review of the borrower's complete BRP.*

Evaluating the borrower for a workout option after a COVID-19 related forbearance plan

For evaluations prior to Nov. 1, 2023:

For borrowers who have received a forbearance plan in response to COVID-19, the servicer must begin attempts to contact the borrower no later than 30 days prior to the expiration of the forbearance plan term, and must continue outreach attempts until either QRPC is achieved or the forbearance plan term has expired. When evaluating the borrower for a workout option prior to expiration of the forbearance plan, we are providing flexibility with regard to achieving QRPC. We are eliminating the requirement that the servicer determine the occupancy status of the property and will consider the servicer obtaining the following as achieving QRPC for purposes of evaluating a borrower who has experienced a hardship resulting from COVID-19:

- determining the reason for the delinquency and whether it is temporary or permanent in nature,
- determining whether or not the borrower has the ability to repay the mortgage loan debt,
- educating the borrower on the availability of workout options, as appropriate, and
- obtaining a commitment from the borrower to resolve the delinquency.

In Lender Letter LL-2020-07, *COVID-19 Payment Deferral* (now LL-2023-07, *COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers*) we introduced COVID-19 payment deferral, a new home retention workout option jointly developed with Freddie Mac at the direction of FHFA, to assist borrowers who have resolved their COVID-19 related hardship. The servicer must evaluate borrowers for a COVID-19 payment deferral or a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria requirements for COVID-19 impacted borrowers per the evaluation hierarchy described in the Lender Letter.

For evaluations on and after Nov. 1, 2023:

For borrowers who have received a forbearance plan in response to a financial hardship resulting from COVID-19, the servicer must begin attempts to contact the borrower no later than 30 days prior to the expiration of the forbearance plan term, and must continue outreach attempts until either QRPC is achieved (in accordance with D2-3.2-01, Forbearance Plan and D2-2-01, Achieving Quality Right Party Contact with a Borrower, respectively) or the forbearance plan term has expired.

The servicer must evaluate such borrowers for a COVID-19 payment deferral or a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria for COVID-19 impacted borrowers per the evaluation hierarchy described in Lender Letter LL-2023-07, *COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers*.

Impact of the Homeowner Assistance Fund on Foreclosure-Related Activities

To allow a borrower that has experienced a COVID-19 related hardship time to obtain assistance offered through the Homeowner Assistance Fund (HAF) program, the servicer must delay initiating any judicial or non-judicial foreclosure process, moving for a foreclosure judgment or order of sale, or executing a foreclosure sale up to 60 days if

- the servicer receives notification from a mortgage assistance fund program provider participating in the HAF program, such as a housing finance agency or other designee, that the borrower has applied for mortgage assistance;
- the servicer
  - has sufficient time to delay initiation of the foreclosure process or moving for a foreclosure judgment or order of sale; or
  - in the case of a foreclosure sale, is notified at least 7 days before the sale; and
- any foreclosure trial or execution of a foreclosure sale can be delayed without dismissal of the action.

If the servicer determines that it did not have sufficient time to delay initiation of the foreclosure process or moving for a foreclosure judgment or order of sale, the servicer must document in the loan file why it was unable to delay the action and make any supporting documentation available to Fannie Mae upon request.

If the approved funds do not fully reinstate the mortgage loan, the servicer must attempt to contact the borrower to achieve quality right party contact (QRPC) in accordance with *Servicing Guide Chapter D2-2, Requirements for Contacting a Borrower* to resolve the remaining delinquency.

The servicer must obtain Fannie Mae's prior approval to suspend foreclosure-related activities beyond 60 days by submitting a request to the Loss Mitigation Mailbox at Loss_Mitigation@fanniemae.com.

Also see *Servicing Guide* D2-3.1-05, Interacting with Mortgage Assistance Fund Program Providers for additional information.

Effective: This policy remains in effect until the HAF program is terminated or we provide further guidance.

Mortgage Insurance Termination

When verifying an acceptable payment record for a borrower that has had a financial hardship related to COVID-19 in which the servicer provided

- a COVID-19 related forbearance plan, repayment plan, or Trial Period Plan and the borrower complied with the terms of such plan;
- a payment deferral; or
- a COVID-19 payment deferral and the borrower made three consecutive monthly payments following completion of the payment deferral;

the servicer must not consider any payment that is 30 or more days past due in the last 12 months, or 60 or more days past due in the last 24 months that is attributable to the COVID-19 financial hardship. The mortgage loan must be current when the termination is requested, which means the mortgage loan payment for the month preceding the date of the termination request was paid.

> **NOTE:** *These requirements apply when reviewing the borrower's request for termination of conventional MI based on either original or current value of the property.*

Effective: This policy remains in effect until such time that the acceptable payment record for MI termination is no longer impacted by a mortgage loan delinquency related to a financial hardship resulting from COVID-19.

Disbursing insurance loss proceeds

In response to servicer inquiries and in an effort to repair properties that experience an insured loss event as expeditiously as possible, we are updating our requirements for determining the mortgage loan status for disbursing insurance loss proceeds for a borrower impacted by COVID-19. The servicer must consider the loan to be current or less than 31 days delinquent for purposes of disbursing insurance loss proceeds if

- the borrower experienced a COVID-19 related hardship;
- the mortgage loan was current or less than two months delinquent as of Mar. 1, 2020, the effective date of the National Emergency declaration related to COVID-19; and
- at the time of the loss event, the borrower is performing on a COVID-19 related forbearance plan, repayment plan, or Trial Period Plan.

The servicer must otherwise disburse the proceeds in accordance with *Servicing Guide* B-5-01, Insured Loss Events.

The servicer must document in the mortgage loan servicing file the date that the COVID related hardship began and the date of the insured loss event.

Effective: This policy remains in effect until such time that there are no longer any mortgage loans that meet the above criteria.

Modifying seller/servicer financial liquidity requirements for mortgage loans in forbearance

In response to the national emergency, we are announcing a temporary modification of the non-depository seller/servicer minimum liquidity requirement for seriously delinquent (SDQ) mortgage loans. The changes indicated below were implemented beginning with the financial quarter ending Jun. 30, 2020.

As stated in *Selling Guide* A4-1-01, Maintaining Seller/Servicer Eligibility, the minimum liquidity requirement is equal to 0.035% of the unpaid principal balance (UPB) of mortgage loans serviced by a non-depository seller/servicer for Fannie Mae, Freddie Mac, and Ginnie Mae if the Agency SDQ rate is 6% or less. If the Agency SDQ rate is above 6%, the seller/servicer must also maintain at least an SDQ add-on of 2% of the UPB of Agency SDQ rate over 6%.

Under the existing seller/servicer eligibility requirements, the Agency SDQ Rate is defined as 100 multiplied by (the UPB of mortgage loans 90 days or more delinquent or in foreclosure for Fannie Mae, Freddie Mac, and Ginnie Mae/Total UPB of mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae). Beginning with the financial quarter ending Jun. 30, 2020, the Agency SDQ Rate will include an adjustment for mortgage loans in a COVID-19 related forbearance plan that are 90 days or more delinquent and were current at the inception of the COVID-19 related forbearance plan. The UPB of such mortgage loans shall be multiplied by .30 and added to the UPB for SDQ mortgage loans for the purposes of determining the numerator in the calculation of the Agency SDQ Rate. Refer to the Appendix link for examples.

When the COVID-19 related forbearance period ends for a mortgage loan, the mortgage loan's status will become subject to, by the end of the quarter following the end of the COVID-19 related forbearance period, the minimum financial seller/servicer eligibility requirements in place at that time.

To accommodate these changes, the Mortgage Bankers Financial Reporting Form (MBFRF Form 1002) was modified to capture forbearance activity.

Effective: This policy remains effective until we provide further notice.

Impact of COVID-19 on Fannie Mae Home Affordable Modification Program "Pay for Performance" incentives

This topic has been deleted.

Reclassification of MBS mortgage loans

This topic has been deleted.

Complying with law

This topic has been deleted.

Attempting to establish quality right party contact

This topic has been deleted.

Credit bureau reporting

This topic has been deleted.

Use of Fannie Mae's Disaster Response Network

This topic has been deleted.

Additional resources

We offer a wealth of information and resources for servicers to help borrowers deal with the challenges associated with COVID-19:

- Single-family Here to Help COVID-19 website
- Ask Poli Servicing

We will continue to monitor the situation and alert you of any additional policy updates. 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 calculating the non-depository seller/servicer minimum liquidity requirement.

Example #1

Agency Servicing UPB: $50,000,000
Agency Servicing SDQ UPB: $3,500,000 (7% SDQ rate)
COVID-19 Portion of Agency Servicing SDQ UPB[1]: $1,000,000
The base liquidity requirement is .035% of the Agency Servicing UPB calculated as follows:

0.035%* $50,000,000 = $17,500

In the example above, the Agency Servicing SDQ rate is above the 6% threshold for the Liquidity Add-On. Under the temporary guidance, the portion of Agency SDQ loans shown above that is related to COVID-19 forbearance loans is multiplied by .30 to derive the numerator used for calculating the adjusted Agency SDQ Rate of 5.6% as follows:

$2,500,000 + ($1,000,000 *.30) = $2,800,000/$50,000,000 * 100

As shown above, the $2.5 million represents the difference between Total Agency SDQs and COVID-19 related SDQs. The $1 million * .30 is the calculation adjustment to COVID-19 SDQ loans. The combined $2.8 million is the numerator used to calculate the Agency Servicing SDQ rate. In this example, the Agency Servicing SDQ rate decreases from 7% to 5.6%-- less than 6% SDQ threshold to trigger the Liquidity Add-on. The Liquidity Add-on is ***not*** applicable in this example.

Base Liquidity Requirement:	**$17,500**
Liquidity Add-on:	**Not Applicable**
Minimum Liquidity Requirement	**$17,500**

Example #2

Agency Servicing UPB: $50,000,000
Agency Servicing SDQ UPB: $7,000,000 (14% SDQ rate)
COVID-19 Portion of Agency Servicing SDQ UPB[1]: $3,000,000
The base liquidity requirement is .035% of the Agency Servicing UPB calculated as follows:

0.035%* $50,000,000 = $17,500

In the example above, the Agency Servicing SDQ rate is above the 6% threshold for the Liquidity Add-on. Under the temporary guidance, the portion of Agency SDQ loans show above that is related to COVID-19 related forbearance loans is multiplied by .30 to derive the numerator for calculating the adjusted Agency SDQ Rate of 9.8% as:

$4,000,000 + ($3,000,000 *.30) = $4,900,000/$50,000,000 * 100

As shown above, the $4 million represents the difference between Total Agency SDQs and COVID-19 related SDQs. The $3 million * .30 is the calculation adjustment to COVID-19 SDQ loans. The combined $4.9 million is the numerator used to calculate the Agency Servicing SDQ rate. In this example, the Agency Servicing SDQ rate decreases from 14% to 9.8%-- which is above the 6% threshold to trigger the Liquidity Add-on. The Liquidity Add-on is applicable only on the UPB portion above 6% SDQ rate calculated as follows:

2%*$50,000,000*(9.8%-6.0%)= $38,000

Base Liquidity Requirement:	**$17,500**
Liquidity Add-on:	**$38,000**
Minimum Liquidity Requirement	**$55,500**

[1]COVID-19 SDQ refers to mortgage loans in a COVID-19 related forbearance plan that are 90 days or more delinquent and were current at the inception of the COVID-19 related forbearance plan.

Change Control Log

The following table provides a description of the updates that have been made to this Lender Letter.

Date of Update	Description of Update
Mar. 8, 2023	Removed property inspections and preservation as these policies were superseded by updates in the *Servicing Guide* and Property Preservation Matrix and Reference Guide.