Lender Letter (LL-2023-07)

Updated: Dec. 13, 2023

To: All Fannie Mae Single-Family Servicers

COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers

This Lender Letter contains the policies previously published in LL 2021-07 on May 4, 2022 with the most recent changes noted below. For a consolidated description of previous updates to this Lender Letter, refer to the Change Control Log.

Dec. 13, 2023

We are clarifying that when the servicer is evaluating a borrower who defaulted after completing a COVID-19 payment deferral for a Fannie Mae Flex Modification as required in this Lender Letter, the servicer is not required to have reported the mortgage loan with reason for delinquency code 022, Energy-Environment Costs, prior to the date of the Flex Modification evaluation.

This clarification is effective immediately.

This Lender Letter contains the following topics:

COVID-19 payment deferral

Determining eligibility for a COVID-19 payment deferral Updated Aug. 9, 2023

In order for the servicer to evaluate a borrower with a financial hardship resulting from COVID-19 for a COVID-19 payment deferral in accordance with this Lender Letter,

- the mortgage loan must be reported with reason for delinquency code 022 in the November 2023 delinquency reporting period (which is for October 2023 activity) for a hardship identified prior to Nov. 1, 2023 and continue to be reported with code 022 until the date of evaluation; and
- the evaluation must occur before Nov. 1, 2024.

The servicer must not require a complete Borrower Response Package (BRP) to evaluate the borrower for a COVID-19 payment deferral if the eligibility criteria are satisfied.

In order to be eligible for a COVID-19 payment deferral, the criteria in the following table must be met.

<table>
<tr><th>✓</th><th>Eligibility Criteria for a COVID-19 Payment Deferral</th></tr>
<tr><td></td><td>The borrower must

be on a COVID-19 related forbearance plan, or
have experienced a financial hardship resulting from COVID-19 (for example, unemployment, reduction in regular work hours, or illness of a borrower/co-borrower or dependent family member) that has impacted their ability to make their full monthly contractual payment.

NOTE: The servicer is not required to obtain documentation of the borrower’s hardship.</td></tr>
<tr><td></td><td>The servicer must achieve Quality Right Party Contact (QRPC) to

determine the reason for the delinquency and whether it is temporary or permanent in nature;
determine whether or not the borrower has the ability to repay the mortgage debt;
educate the borrower on the availability of workout options, as appropriate; and
obtain a commitment from the borrower to resolve the delinquency.

NOTE: For evaluations on and after Nov. 1, 2023, the servicer must achieve QRPC as defined in D2-2-01, Achieving Quality Right Party Contact with a Borrower.

Additionally, the servicer must confirm that the borrower

has resolved the hardship;
is able to continue making the full monthly contractual payment including the amount required to repay any escrow shortage amount over a term of 60 months; and
is unable to reinstate the mortgage loan or afford a repayment plan to cure the delinquency.
</td></tr>
<tr><td></td><td>The mortgage loan must be a conventional first lien mortgage loan, and may be a fixed-rate, a step-rate, or an ARM.

NOTE: The property securing the mortgage loan may be vacant or condemned.</td></tr>
<tr><td></td><td>The mortgage loan must

have been 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
be equal to or greater than one month delinquent but less than or equal to 18 months delinquent as of the date of evaluation.

NOTE: If a borrower's hardship is related to COVID-19 but he or she was two or more months delinquentas of the effective date of the National Emergency declaration, and the servicer determines the borrowercan maintain his or her full monthly contractual payment, then the servicer must submit a request for a COVID-19 payment deferral through Fannie Mae’s servicing solutions system for review and obtain prior approval from Fannie Mae.

NOTE: If a mortgage loan was originated after Mar. 1, 2020, the effective date of the National Emergency Declaration related to COVID-19, and otherwise meets all criteria to receive a COVID-19</td></tr>
</table>

✓	Eligibility Criteria for a COVID-19 Payment Deferral
	payment deferral, then the servicer must evaluate the borrower for a COVID-19 payment deferral and, if eligible, offer the COVID-19 payment deferral.
	The mortgage loan may receive more than one COVID-19 payment deferral, however, no more than 18 months of cumulative past-due P&I payments may be deferred. **NOTE:** *This does not include past-due P&I payments deferred with a non-COVID-19 payment deferral.*
	The mortgage loan must not be subject to ▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized, ▪ an approved liquidation workout option, ▪ an active and performing repayment plan or other non-COVID-19 related forbearance plan, ▪ a current offer for another retention workout option, or ▪ an active and performing mortgage loan modification Trial Period Plan.

Determining eligibility for a COVID-19 payment deferral for a Texas Section 50(a)(6) loan

A Texas Section 50(a)(6) loan is eligible for a COVID-19 payment deferral if

- the requirements described in Determining eligibility for a COVID-19 payment deferral are satisfied, and
- the application of a COVID-19 payment deferral to the mortgage loan complies with applicable law.

If the servicer receives notice from the borrower that a COVID-19 payment deferral fails to comply with Texas Section 50(a)(6) requirements, the servicer must immediately, but no later than seven business days after receipt, take the actions listed in the following table.

✓	The servicer must…
	Inform our Legal department by submitting a *Non-Routine Litigation Form* (Form 20) and include the borrower notice in its submission.
	Collaborate with us on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by the requirements of Texas Section 50(a)(6).

Performing an escrow analysis for a COVID-19 payment deferral Updated May 4, 2022

When a borrower is eligible for a COVID-19 payment deferral and the servicer was not collecting escrows on the existing mortgage loan, the servicer is not required to revoke any escrow deposit account waiver and establish an escrow deposit account as a condition of the COVID-19 payment deferral if the servicer confirms the borrower is current on the payments for taxes, special assessments, property and flood insurance payments, payments for borrower-purchased MI, ground rents, and similar items.

Prior to offering a COVID-19 payment deferral, the servicer must analyze an existing escrow account to estimate the periodic escrow deposit required to ensure adequate funds are available to pay future charges, taking into consideration T&I payments that may come due during the processing month, if applicable.

If the servicer identifies an escrow shortage as the result of an escrow analysis in connection with a COVID-19 payment deferral, the servicer must spread repayment of the escrow shortage amount in equal monthly payments over a term of 60 months, unless the borrower decides to pay the shortage amount up-front or over a shorter period, notless than 12 months. Any subsequent escrow shortage that may be identified in the next annual analysis cycle must be spread out over either the remaining term of the initial escrow shortage repayment period or another period of up to 60 months.

Any escrow account shortage that is identified at the time of the COVID-19 payment deferral must not be included in the non-interest bearing balance and the servicer is not required to fund any existing escrow account shortage.

If applicable law prohibits the establishment of the escrow account, the servicer must ensure that the T&I payments are paid to date.

Determining the COVID-19 payment deferral terms

The servicer must defer the following amounts as a non-interest bearing balance, due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB:

- up to 18 months of past-due P&I payments, provided that it does not result in more than 18 months of past-due P&I payments cumulatively deferred as a result of a COVID-19 payment deferral;
- out-of-pocket escrow advances resulting from a delinquency and paid to third parties, provided they are paid prior to the effective date of the COVID-19 payment deferral; and
- servicing advances resulting from a delinquency, paid to third parties in the ordinary course of business, and not retained by the servicer, provided they are paid prior to the effective date of the COVID-19 payment deferral, if allowed by state law.

All other terms of the mortgage loan must remain unchanged.

Any existing non-interest bearing balance amount on the mortgage loan remains due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.

Completing a COVID-19 payment deferral

The servicer must complete (i.e., submit the case via Fannie Mae's servicing solutions system) a COVID-19 payment deferral in the same month in which it determines the borrower is eligible.

The servicer is authorized to use an additional month to allow for sufficient processing time (a "processing month") to complete a COVID-19 payment deferral. The servicer must treat all borrowers equally in applying the processing month, as evidenced by a written policy.

> **NOTE:** *The borrower must make his or her full monthly contractual payment during the processing month if, as of the date of evaluation*
> - *the mortgage loan is 18 months delinquent, or*
> - *the COVID-19 payment deferral would cause the mortgage loan to exceed 18 months of cumulative deferred past-due P&I payments.*
>
> *In this circumstance, the servicer must complete the COVID-19 payment deferral within the processing month after receipt of the borrower's full monthly contractual payment due during that month.*

The servicer must send the COVID-19 payment deferral agreement, or equivalent, to the borrower no later than five days after the completion of the COVID-19 payment deferral.

While use of the COVID-19 payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*. Also, the servicer must ensure the COVID-19 payment deferral agreement complies with applicable law.

> **NOTE:** *If the servicer determines the borrower's signature is required on the COVID-19 payment deferral agreement, itmust receive the executed agreement prior to completing the COVID-19 payment deferral.*

The servicer's application of a COVID-19 payment deferral to the mortgage loan must not impair our first lien position or enforceability against the borrower(s) in accordance with its terms.

The servicer must record the COVID-19 payment deferral agreement if the servicer determines that recordation is required to comply with law and ensure that the mortgage loan retains its first lien position. The servicer must obtain a title endorsement or similar title insurance product issued by a title insurance company if the COVID-19 payment deferral agreement will be recorded.

The servicer must also provide documents to the document custodian in accordance with the following table.

If the COVID-19 payment deferral agreement is…	Then the servicer must send…
not required to be signed by the borrower	a copy of the COVID-19 payment deferral agreement signed by the servicer to the document custodian within 25 days of the effective date of the COVID-19 payment deferral.
required to be signed by the borrower but not recorded	the fully executed original COVID-19 payment deferral agreement to the document custodian within 25 days of the effective date of the COVID-19 payment deferral.
required to be recorded	▪ a certified copy of the fully executed COVID-19 payment deferral agreement to the document custodian within 25 days of the effective date of the COVID-19 payment deferral, and ▪ the original COVID-19 payment deferral agreement that is returned from the recorder's office to the document custodian within 5 business days of receipt.

Soliciting the borrower for a post-forbearance COVID-19 payment deferral

If the servicer is unable to establish QRPC as described in Determining eligibility for a COVID-19 payment deferral with a borrower on a COVID-19 related forbearance plan and the borrower is otherwise eligible for a COVID-19 payment deferral, the servicer must send a solicitation for a COVID-19 payment deferral within 15 days after expiration of the forbearance plan.

The servicer must solicit the borrower using the Payment Deferral Post COVID-19 Forbearance Solicitation Cover Letter with the COVID-19 payment deferral agreement or the equivalent, making any appropriate changes to comply with applicable law.

While use of the Payment Deferral Post COVID-19 Forbearance Solicitation Cover Letter and COVID-19 payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*.

The Payment Deferral Post COVID-19 Forbearance Solicitation Cover Letter must include language that additional forbearance may be available if the borrower's hardship is not resolved, and that a mortgage loan modification may be available if the borrower needs payment relief.

The servicer must include instruction on how to accept the offer in the COVID-19 payment deferral agreement. The servicer is authorized to consider the following as acceptance by the borrower, subject to applicable law:

- the borrower contacting the servicer directly in accordance with any acceptable outreach and communication method,
- the borrower returning an executed COVID-19 payment deferral agreement, or
- any other method evidencing the borrower's acceptance as determined by the servicer.

The borrower must make his or her full monthly contractual payment during the month of the solicitation if, as of the date of evaluation

- the mortgage loan is 18 months delinquent, or
- the COVID-19 payment deferral would cause the mortgage loan to exceed 18 months of cumulative deferred past-due P&I payments.

In this circumstance, the servicer must complete the COVID-19 payment deferral within the month of the solicitation after receipt of the borrower's full monthly contractual payment due during that month.

> **NOTE:** *If the servicer uses a processing month to complete the COVID-19 payment deferral, the borrower must also make his or her full monthly contractual payment during the processing month. The servicer must complete the COVID-19 payment deferral within the processing month after receipt of the borrower's full monthly contractual payment due during that month.*

Processing a COVID-19 payment deferral for an MBS mortgage loan

MBS mortgage loans subject to a COVID-19 payment deferral will not be subject to automatic reclassification as described in A1-3-06, Automatic Reclassification of MBS Mortgage Loans. In addition, the servicer must not make a manual reclassification request for mortgage loans subject to a COVID-19 payment deferral.

Reporting a delinquency status code for a COVID-19 payment deferral

The servicer must report delinquency status information to Fannie Mae through Fannie Mae's servicing solutions system in accordance with D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae.

Unlike Fannie Mae's other workout options, COVID-19 payment deferral does not have a unique workout option delinquency status code. As a result, in the month the payment deferral is completed and the mortgage loan is reflected as current in Fannie Mae's investor reporting system, if no other delinquency status code is applicable to a mortgage loan subject to a COVID-19 payment deferral, the servicer is not required to report delinquency status information to Fannie Mae.

As a reminder, in accordance with LL-2023-03, *Impact of COVID-19 on Servicing*, the servicer must report reason for delinquency code 022, Energy-Environment Costs, when reporting the delinquency status of such mortgage loans to Fannie Mae.

Reporting a COVID-19 payment deferral to Fannie Mae

The servicer must submit an eligible COVID-19 payment deferral case to Fannie Mae's servicing solutions system by entering loan-level information, including the applicable campaign ID to identify a COVID-19 payment deferral. The case must be entered by the last day of the month in which the evaluation took place.

If the borrower is required to make his or her full monthly contractual payment during the month of the solicitation, the servicer must remit and report via a Loan Activity Record (LAR) to Fannie Mae the borrower's full monthly contractual payment prior to completing the COVID-19 payment deferral in Fannie Mae's servicing solutions system.

If the servicer chooses to use a processing month, the servicer must enter the COVID-19 payment deferral case within the processing month, but no later than the last day of such month. If a full monthly contractual payment is required in the processing month, then the servicer must remit and report via a Loan Activity Record (LAR) to Fannie Mae the borrower's full monthly contractual payment due in the processing month prior to completing the COVID-19 payment deferral in Fannie Mae's servicing solutions system.

> **NOTE:** *If the servicer does not remit and report via a LAR the full monthly contractual payment at least one business day prior to the last day of the month, the servicer will not be able to complete the COVID-19 payment deferral case. If the UPB or LPI reported in Fannie Mae's servicing solutions system prior to application of a COVID-19 payment deferraldoes not agree with the last reported UPB or LPI in Fannie Mae's investor reporting system, the COVID-19 payment deferral will not be processed in Fannie Mae's investor reporting system until the discrepancy is resolved.*

See [Updates to the *Investor Reporting Manual*]() within this Lender Letter for additional information.

Processing a COVID-19 payment deferral for a mortgage loan with mortgage insurance

We have obtained delegation of authority on behalf of all servicers from the following mortgage insurers for the COVID-19 payment deferral: Arch MI, Essent Guaranty, Enact, MassHousing, MGIC, National Mortgage Insurance, Radian Guaranty, RMIC, and United Guaranty.

If we have not obtained delegation of authority from the mortgage insurer for any particular workout option, the servicer must obtain this delegation or seek individual mortgage insurer approval.

Credit bureau reporting for a COVID-19 payment deferral

The servicer must report the status of the mortgage loan to the credit bureaus in accordance with the Fair Credit Reporting Act, including as amended by the Coronavirus Aid, Relief, and Economic Security Act, for borrowers affected by the COVID-19 emergency.

Handling fees and late charges in connection with a COVID-19 payment deferral

The servicer must not charge the borrower administrative fees. It must waive all late charges, penalties, stop payment fees, or similar charges upon completing a COVID-19 payment deferral.

Incentive fees for a COVID-19 payment deferral

The servicer is eligible for a $500 incentive fee upon completion of a COVID-19 payment deferral. Also, see *Servicing Guide* F-2-02, Incentive Fees for Workout Options for additional information.

Servicing fees for a COVID-19 payment deferral

The servicer will continue to receive the servicing fee it was receiving prior to completing the COVID-19 payment deferral after the COVID-19 payment deferral becomes effective.

With regard to mortgage loans for which the payment deferral remains in effect, servicing fees, guaranty fees, and excess servicing fees (if applicable) will be reimbursed at the time the mortgage loan matures or is paid-in-full through a credit to the servicer's custodial account.

Paying expenses and requesting reimbursement related to a COVID-19 payment deferral

The servicer must pay any necessary and actual out-of-pocket expenses in accordance with the *Servicing Guide* associated with the execution of a COVID-19 payment deferral, including, but not limited to:

- required notary fees,
- recording costs,
- title costs, or
- any other allowable and documented expense.

> **NOTE:** *The above expenses must not be included in the non-interest bearing balance created by the COVID-19 payment deferral.*

We will reimburse the servicer for allowable out-of-pocket expenses in accordance with F-1-05, Expense Reimbursement.

With regard to expenses that are advanced to third parties in accordance with our *Servicing Guide* and included in the non-interest bearing balance, the servicer will not automatically be reimbursed for expenses related to a COVID-19 payment deferral upon completion of the COVID-19 payment deferral, but instead must request reimbursement from Fannie Mae. The servicer must submit its *request for expense reimbursement* for expenses advanced and included in the non-interest bearing balance within 60 days of the completion of the COVID-19 payment deferral. See E-5-01, Requesting Reimbursement for Expenses for additional information.

Fannie Mae Flex Modification for COVID-19 Impacted Borrowers

Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification Updated Aug. 9, 2023

In order for the servicer to evaluate a borrower with a financial hardship resulting from COVID-19 for a Fannie Mae Flex Modification in accordance with this Lender Letter,

- the mortgage loan must be reported with reason for delinquency code 022 in the Nov. 2023 delinquency reporting period (which is for Oct. 2023 activity) for a hardship identified prior to Nov. 1, 2023 and continue to be reported with code 022 until the date of evaluation; and
- the evaluation must occur before Nov. 1, 2024.

Additionally, the modification effective date for a Fannie Mae Flex Modification for COVID-19 impacted borrowers must be on or before May 1, 2025.

The following table provides the reduced eligibility criteria for evaluating a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification.

✓	**Reduced eligibility criteria when evaluating a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification**
	The mortgage loan must be a first-lien conventional mortgage loan.
	The mortgage loan must ▪ have been 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 ▪ be at least 90 days delinquent. **NOTE:** *If a mortgage loan was originated after Mar. 1, 2020, the effective date of the National Emergency Declaration related to COVID-19, and otherwise meets the reduced eligibility criteria to receive a Fannie Mae Flex Modification, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in this table and, if eligible, offer the Fannie Mae Flex Modification.*
	The mortgage loan must not be subject to ▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized; ▪ a current offer for another mortgage loan modification or other workout option; ▪ an approved liquidation workout option; or ▪ an active and performing repayment plan, other non COVID-19 related forbearance plan, or Trial Period Plan.

> **NOTE:** *With the exception of the reduced eligibility criteria, determining the new modified mortgage loan terms, escrow administration, and solicitation requirements when evaluating a borrower for a Fannie Mae Flex Modification in this Lender Letter, the servicer must otherwise refer to the requirements in the Servicing Guide for processing and completing a Fannie Mae Flex Modification.*

If the servicer is unable to establish QRPC as described in Determining eligibility for a COVID-19 payment deferral with a borrower on a COVID-19 related forbearance plan and the borrower is ineligible for a COVID-19 payment deferral, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table above and, if eligible, the servicer must send an offer for a Fannie Mae Flex Modification within 15 days after expiration of the forbearanceplan.

In addition, if a borrower is eligible for a COVID-19 payment deferral but does not respond to the COVID-19 payment deferral offer as described in Soliciting the borrower for a post-forbearance COVID-19 payment deferral by the acceptance date provided in the COVID-19 payment deferral agreement, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table above and, if eligible, solicit the borrower for a Fannie Mae Flex Modification within 15 days after the expiration of the COVID-19 payment deferral offer.

> **NOTE:** *In either case, the servicer is authorized to continue proactive solicitation for a Fannie Mae Flex Modification at its discretion.*

The servicer must not solicit a borrower for a Fannie Mae Flex Modification if the property has a scheduled foreclosure sale date within

- 60 days of the evaluation date if the property is in a judicial state, or
- 30 days of the evaluation date if the property is in a non-judicial state.

The servicer must send the borrower the applicable Flex Modification Solicitation Cover Letter with the Flex Modification Trial Period Plan Solicitation Offer — Not Based on an Evaluation of a BRP Evaluation Notice, or the equivalent, and make appropriate changes to these documents, including the applicable Frequently Asked Questions and as needed to comply with applicable law.

See also Determining the new modified mortgage loan terms for a Fannie Mae Flex Modification for COVID-19 impacted borrowers within this Lender Letter.

Evaluating a borrower who defaulted after completing a COVID-19 payment deferral for a Fannie Mae Flex Modification Updated Dec. 13, 2023

If the borrower becomes 60 days delinquent within 6 months of the COVID-19 related payment deferral's effective date and the servicer is unable to achieve QRPC, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table below and if eligible, offer the Flex Modification to the borrower no later than the 75th day of delinquency. The servicer is not required to

- receive a complete BRP from the borrower, or
- have previously solicited the borrower for a workout option.

> **NOTE:** *The servicer is authorized to continue proactive solicitation for Fannie Mae Flex Modification based on reduced eligibility criteria at its discretion. The servicer must not solicit a borrower for a Fannie Mae Flex Modification based on reduced eligibility criteria if the property has a scheduled foreclosure sale date within 60 days of the evaluation date if the property is in a judicial state, or within 30 days of the evaluation date if the property is in a non-judicial state.*

✓	**Reduced eligibility criteria when soliciting a borrower who defaulted after completing a COVID-19 payment deferral**
	The mortgage loan must be a first-lien conventional mortgage loan.
	The mortgage loan must not be subject to ▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized; ▪ a current offer for another mortgage loan modification or other workout option; ▪ an approved liquidation workout option; or
	▪ an active and performing repayment plan, forbearance plan, or Trial Period Plan.

> **NOTE:** *The requirement that the mortgage loan must be reported with reason for delinquency code 022, Energy-Environment Costs, in the November 2023 delinquency reporting period (which is for October 2023 activity) for a hardship identified prior to Nov. 1, 2023 and continue to be reported with code 022 until the date of evaluation for the Flex Modification solicitation does not apply.*

The servicer must send the borrower the applicable Flex Modification Solicitation Cover Letter with the Flex Modification Trial Period Plan Solicitation Offer — Not Based on an Evaluation of a BRP Evaluation Notice, or the equivalent, and make appropriate changes to these documents, including the applicable Frequently Asked Questions and as needed to comply with applicable law.

See also Determining the new modified mortgage loan terms for a Fannie Mae Flex Modification for COVID-19 impacted borrowers within this Lender Letter.

Performing an escrow analysis for a Fannie Mae Flex Modification for COVID-19 impacted borrowers Updated May 4, 2022

When a borrower is eligible for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria as outlined in Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification or in Evaluating a borrower who defaulted after completing a COVID-19 payment deferral for a Fannie Mae Flex Modification and the servicer was not collecting escrows on the existing mortgage loan, the servicer is not required to revoke any escrow deposit account waiver and establish an escrow deposit account as a condition of the mortgage loan modification if the servicer confirms the borrower is current on the payments for taxes, special assessments, property and flood insurance payments, payments for borrower-purchased MI, ground rents, and similar.

Prior to offering a Fannie Mae Flex Modification, the servicer must analyze an existing escrow account to estimate the periodic escrow deposit required to ensure adequate funds are available to pay future charges, taking into consideration T&I payments that may come due during the trial period plan.

If the initial escrow analysis identifies an escrow shortage, the servicer must spread repayment of the escrow shortage amount in equal monthly payments over a term of 60 months, unless the borrower decides to pay the shortage amount up-front or over a shorter period, not less than 12 months. Any subsequent escrow shortage that may be identified in the next annual analysis cycle must be spread out over either the remaining term of the initial escrow shortage repayment period or another period of up to 60 months.

Any escrow account shortage that is identified at the time of the mortgage loan modification must not be capitalized and the servicer is not required to fund any existing escrow account shortage.

If applicable law prohibits the establishment of the escrow account, the servicer must ensure that the T&I payments are paid to date.

Determining the new modified mortgage loan terms for a Fannie Mae Flex Modification for COVID-19 impacted borrowers

When a borrower is eligible for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria as outlined in Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification or in Evaluating a borrower who defaulted after completing a COVID-19 payment deferral for a Fannie Mae Flex Modification, the servicer must determine the borrower's new modified mortgage loan terms in accordance with *Determining the Fannie Mae Flex Modification Terms* in D2-3.2-06, Fannie Mae Flex Modification, and in accordance with the requirements below in lieu of those provided in *Determining the New Modified Mortgage Loan Terms* in F-1-27, Processing a Fannie Mae Flex Modification.

> **NOTE:** *With the exception of Step 2, all other steps in the table below that are applicable to a Fannie Mae Flex Modification for COVID-19 impacted borrowers under the reduced eligibility criteria remain unchanged and are included for ease of reference.*

The servicer must determine the post-modification MTMLTV ratio and complete all the steps in the order shown in the following table, unless prohibited by applicable law, to determine the borrower's new modified mortgage loan terms.

<table>
<tr><th>Step</th><th>Servicer Action</th></tr>
<tr><td>1</td><td>Capitalize eligible arrearages. The following are considered as acceptable arrearages for capitalization:
accrued interest;
out-of-pocket escrow advances to third parties, provided they are paid prior to the effective date of the mortgage loan modification;
servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, provided they are paid prior to the effective date of the mortgage loan modification, if allowed by state laws; and
any outstanding non-interest bearing balance from a previously completed loan modification or a previously completed payment deferral.
NOTE: If applicable state law prohibits capitalization of past due interest or any other amount, the servicer must collect such funds from the borrower over a period not to exceed 60 months unless the borrower decides to pay the amount up-front. Late charges may not be capitalized and must be waived ifthe borrower satisfies all conditions of the Trial Period Plan.

See Administering an Escrow Account in Connection With a Mortgage Loan Modification in B-1-01, Administering anEscrow Account and Paying Expenses for additional information.</td></tr>
<tr><td>2</td><td>Set the modification interest rate to a fixed rate based on the requirements in the following table using the contractual interest rate in effect for the periodic payment due in the month of the evaluation date.<table><tr><th>If the mortgage loan is…</th><th>Then the servicer must…</th></tr><tr><td>a fixed rate (including an ARM or step-rate that has reached its final step)</td><td>Set the modified interest rate to the lesser of
the Fannie Mae Modification Interest Rate, or
the borrower’s current contractual interest rate.</td></tr><tr><td>an ARM or step-rate that has not reached its final interest rate</td><td>Set the modified interest rate to the lesser of
the Fannie Mae Modification Interest Rate,
the final interest rate for the step-rate modification, or
the lifetime interest rate cap for the ARM.</td></tr></table></td></tr>
</table>

Step	Servicer Action
3	Extend the term to 480 months from the mortgage loan modification effective date. **NOTE:** *When the mortgage loan is secured by a property where the title is held as a leasehold estate, theterm of the leasehold estate must not expire prior to the date that is five years beyond the new maturity date of the modified mortgage loan. In the event that the current term of the leasehold estate would expire prior to such date, the term of the leasehold estate must be renegotiated to satisfy this requirement for the mortgage loan to be eligible for the mortgage loan modification.*
4	Forbear principal if the post-modification MTMLTV ratio is greater than 100%, in an amount that is the lesser of ▪ an amount that would create a post-modification MTMLTV ratio of 100% using the interest-bearing UPB, or ▪ 30% of the gross post-modification UPB of the mortgage loan.
5	Provide or increase principal forbearance until a 20% P&I payment reduction is achieved; however, the servicer must not forbear more than ▪ an amount that would create a post-modification MTMLTV ratio less than 80% using the interest-bearing principal balance, or ▪ 30% of the gross post-modification UPB of the mortgage loan.

> **NOTE:** *Interest must not accrue on any principal forbearance. Principal forbearance is payable upon the earliest of the maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.*

Update to Fannie Mae Flex Modification eligibility criteria

A COVID-19 payment deferral does not count as a mortgage loan modification when determining the number of times the mortgage loan has previously been modified for purposes of determining eligibility for a Fannie Mae Flex Modification in accordance with *Determining Eligibility for a Fannie Mae Flex Modification* in D2-3.2-06, Fannie Mae Flex Modification.

Evaluation hierarchy for a borrower impacted by COVID-19

Evaluation hierarchy for a borrower impacted by COVID-19 Updated Aug. 9, 2023

The servicer must evaluate borrowers impacted by COVID-19 for a COVID-19 payment deferral or a Fannie Mae Flex Modification in accordance with the eligibility requirements and evaluation hierarchy described below through Oct. 31, 2024. On and after Nov. 1, 2024, the servicer must evaluate borrowers for a workout option in accordance with F-2-10, Fannie Mae's Workout Hierarchy.

If the servicer determines that the borrower is unable to resolve the delinquency through a reinstatement and cannot afford a repayment plan, the servicer must evaluate the borrower for a workout option in accordance with the evaluation hierarchy in the following table.

If the servicer…	Then the servicer must evaluate the borrower impacted by COVID-19 for…
achieves QRPC with the borrower, regardless of whether the borrower was on a COVID-19 related forbearance plan	▪ a COVID-19 payment deferral in accordance with Determining eligibility for a COVID-19 payment deferral, and if eligible offer a COVID-19 payment deferral; unless o the servicer determines that the borrower is not capable of maintaining the full contractual monthly PITI payment, including the amount required to repay any escrow shortage amount over a term of 60 months; o the mortgage loan is greater than 18 months delinquent; or o the COVID-19 payment deferral would result in the mortgage loan exceeding 18 cumulative months of deferred past-due P&I payments; then the servicer must evaluate the borrower for ▪ a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification, and if eligible offer a Fannie Mae Flex Modification; unless o the mortgage loan is two or more months delinquent as of the effective date of the National Emergency declaration related to the COVID-19 emergency; or o the mortgage loan is less than 90 days delinquent; then the servicer must evaluate the borrower for ▪ a Fannie Mae Flex Modification in accordance with D2-3.2-06, Fannie Mae Flex Modification, and if eligible offer a Fannie Mae Flex Modification.

If the servicer…	Then the servicer must evaluate the borrower impacted by COVID-19 for…
does not achieve QRPC with a borrower who is on a COVID-19 related forbearance plan prior to the expiration of the plan	▪ a COVID-19 payment deferral if the borrower is otherwise eligible in accordance with Determining eligibility for a COVID-19 payment deferral, and if eligible, solicit the borrower for a COVID-19 payment deferral in accordance with Soliciting the borrower for a post-forbearance COVID-19 payment deferral; unless ○ the mortgage loan is greater than 18 months delinquent, or ○ the COVID-19 payment deferral would result in the mortgage loan exceeding 18 cumulative months of deferred past-due P&I payments; then the servicer must evaluate the borrower for ▪ a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification, and if eligible, solicit the borrower for a Fannie Mae Flex Modification in accordance with Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification; unless ○ the mortgage loan is two or more months delinquent as of the effective date of the National Emergency declaration related to the COVID-19 emergency; then the servicer must evaluate the borrower for ▪ a Fannie Mae Flex Modification in accordance with D2-3.2-06, Fannie Mae Flex Modification; and if the mortgage loan is 90 or more days delinquent and the borrower is otherwise eligible, solicit the borrower a Fannie Mae Flex Modification in accordance with Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification. **NOTE:** *If the borrower doesn't respond to the COVID-19 payment deferral offeras described in Soliciting the borrower for a post-forbearance COVID-19 payment deferral by the acceptance date provided in the COVID-19 payment deferral agreement, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in accordance with Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification and, if eligible, solicit the borrower for a Fannie Mae Flex Modification in accordance with Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification.*
does not achieve QRPC with a borrower who was not on a COVID-19 related forbearance plan	▪ a Fannie Mae Flex Modification in accordance with D2-3.2-06, Fannie Mae Flex Modification; and if the mortgage loan is 90 or more days delinquent and the borrower is otherwise eligible, solicit the borrower a Fannie Mae Flex Modification in accordance with Evaluating or soliciting a borrower with a COVID-19 related hardship for a Fannie Mae Flex Modification.

Updates to the Investor Reporting Manual

Updates to the *Investor Reporting Manual*

Reporting a Mortgage Loan Eligible for a COVID-19 Payment Deferral

Loan activity reporting must continue on a delinquent mortgage loan that is subject to a COVID-19 payment deferral. If the mortgage loan is in an MBS pool, then the servicer must not request a reclassification.

The final "pre-payment deferral" UPB and LPI values in Fannie Mae's servicing solutions system must match the last reported UPB and LPI in Fannie Mae's investor reporting system. If the values do not match, this will cause an exception in Fannie Mae's servicing solutions system and the COVID-19 payment deferral case cannot close until this discrepancy is resolved.

For a COVID-19 payment deferral, reporting a payment LAR with LPI and UPB movement is only required during the month of the solicitation or if the servicer has chosen to use a processing month and as of the date of evaluation the mortgage loan is

- 18 months delinquent, or
- the COVID-19 payment deferral would cause the mortgage loan to exceed 18 months of cumulative deferred past-due P&I payments.

In this instance, the borrower must make his or her full monthly contractual payment during the evaluation month or processing month, as applicable, and the servicer must report the payment LAR at least one business day prior to the last day of such calendar month. Failure to do so will result in the COVID-19 payment deferral not being processed in Fannie Mae's servicing solutions system.

The following table provides additional instructions based on what is processed in the current reporting month prior to acceptance of the payment deferral in Fannie Mae's investor reporting system.

If…	**Then…**
no LAR or a LAR without LPI and UPB movement is processed by CD22 in the current reporting month prior to the COVID-19 payment deferral's acceptance	the servicer must report a subsequent LAR with LPI and UPB movement reflecting the "pre-COVID-19 payment deferral" activity. The payment LAR must be reported at least one business day prior to the last day of the calendar month. **NOTE:** *This is applicable only in instances where afull monthly contractual payment is required in the evaluation or processing month.*
a LAR was successfully processed and the COVID-19 payment deferral is accepted in the current reporting month	any subsequent LAR received in the same reporting month will be deemed "Invalid" and will be reflected as such in the Loan Activity Summary Report. A detailed list can be obtained from your Investor Reporting analyst. **NOTE:** *The first LAR that Fannie Mae will accept after the COVID-19 payment deferral terms are reflected in the Fannie Mae's investor reporting system will be in the next reporting month.*

Reporting a Mortgage Loan After a COVID-19 Payment Deferral

A COVID-19 payment deferral creates a non-interest bearing balance (referred to in the *Investor Reporting Manual* as "principal forbearance") due and payable at the maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. The servicer must not calculate interest on the principal forbearance amount.

In the reporting month following the acceptance of a COVID-19 payment deferral, the servicer must report the mortgage loan's

- net UPB (gross UPB minus the principal portion of the COVID-19 payment deferral amount) in the "Actual UPB" field on the LAR if there is no LPI movement; or
- amortized UPB based on the net UPB (gross UPB minus the principal portion of the COVID-19 payment deferral amount) in the "Actual UPB" field on the LAR if there is LPI movement.

> **NOTE:** *The initial reduction in UPB caused by the principal forbearance must not be reported to Fannie Mae as a principal curtailment.*

The following table provides additional instructions related to reporting requirements for mortgage loans that were subject to a payment deferral and have an outstanding principal forbearance at the time of a principal curtailment, a payoff, or a repurchase.

If…	Then…
a principal curtailment is received	▪ if the principal curtailment being applied is less than the interest-bearing UPB, the servicer must apply such principal curtailment to the interest-bearing UPB. ▪ if the principal curtailment is greater than or equal to the interest-bearing UPB, then the servicer must apply such curtailment in the following order: 1. to the non-interest bearing balance, if any; and 2. to the interest-bearing UPB.
a payoff or a repurchase is received	the servicer must include the principal forbearance amount when reporting the principal remittance amount. **NOTE:** *Principal forbearance reported on the liquidation LAR consists of the deferred principal amount, the gross interest amount, escrow advances, servicing advances, and any prior principal forbearance on the mortgage loan. Attempting to report a payoff or a repurchase without including the principal forbearance amount will generate an exception (hard reject) upon submission of the LAR.*

> **NOTE:** *Generally, servicer P&I advances will be reimbursed within three to four business days after a COVID-19 payment deferral has been accepted in Fannie Mae's investor reporting system.*

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

PAYMENT DEFERRAL POST COVID-19 FORBEARANCE SOLICITATION COVER LETTER

[Servicer Logo]

[BORROWER 1 NAME] [BORROWER 2 NAME]
[ADDRESS 1]
[ADDRESS 2]
[CITY, STATE ZIP CODE]

[DATE]

Reference: [LOAN NUMBER]

Subject: Unable to Contact You During Your Forbearance Plan – Offer Enclosed

Dear [BORROWER NAME(S)]:

We have been trying to reach you during your forbearance plan to discuss your situation and to provide information on options that may be available to you to resolve your delinquency. We would like to offer you an opportunity to enter into a more permanent solution. You have options, but you must act now. We are here to help. If you have questions about the options listed below, **please contact us immediately.**

Can You Resume Your Regular Monthly Mortgage Payment?

You have been approved for a payment deferral. This is a solution that brings your mortgage current, prevents foreclosure, and delays repayment of the mortgage payments you missed during your forbearance plan. If your hardship has been resolved and you are able to resume making your mortgage payments following your forbearance plan, a payment deferral may be the best option to immediately bring your mortgage current. **Please refer to the enclosed payment deferral agreement for more details on this offer and how to accept it.**

Do You Need More Affordable Monthly Mortgage Payments?

If your hardship has been resolved but you are not able to continue making your mortgage payments following your forbearance plan, you may be eligible for a loan modification that could lower your monthly mortgage payment. The loan modification changes the terms of the loan and targets lowering your monthly mortgage payment by extending the loan term to 40 years from the date of the modification. If you complete a loan modification, it will bring your loan current and prevent foreclosure. Contact us if you would like to explore a loan modification.

[Use only if the borrower has additional forbearance available] Do You Need More Time to Resolve Your Hardship?

You may need more time to resolve your hardship before we can determine what long-term solution best works for you. If so, an extension of your forbearance plan may be available. To receive an extension, you must contact us to discuss your options.

Unable to Resolve the Delinquency or Prefer to Leave Your Home?
You may have other options to avoid foreclosure.

- A short sale: the sale of your property for a price that is less than the amount you still owe on your mortgage.
- A Mortgage Release™ (deed-in-lieu of foreclosure): the transfer of ownership of your property to us in exchange for release of some or all of the amount you still owe on your mortgage.

If you are approved for a short sale or Mortgage Release and complete the necessary steps, we will cancel your remaining mortgage debt obligation. **Cancellation of debt may have tax consequences. Please consult a tax advisor to discuss potential tax consequences.**

QUESTIONS? CONTACT US

[SERVICER'S NAME]
Phone: [8XX-XXX-XXXX]
Email Address: [SERVICER'S EMAIL]
Website: [SERVICER'S WEBSITE]

We encourage you to review the enclosed payment deferral agreement which includes instruction on how to accept the offer. Thank you for your prompt attention to this matter. We are here to help you with your mortgage.

Sincerely,

Customer Support
[SERVICER NAME]

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
Aug. 9, 2023	Removed flexibilities with regard to achieving QRPC, updated the eligibility criteria for a COVID-19 payment deferral or a Fannie Mae Flex Modification for COVID-19 impacted borrowers, and set a final modification effective date for Fannie Mae Flex Modification for COVID-19 impacted borrowers.