

Announcement SVC-2010-02**February 01, 2010****Update to Imminent Default Guidance for Mortgage Loans Evaluated for the Home Affordable Modification Program****Introduction**

Freddie Mac's Imminent Default Indicator™ (IDI) is a statistical model that predicts the likelihood of default or serious delinquency for mortgage loans that are less than 60 days past due. This Announcement introduces the use of IDI through Fannie Mae's HomeSaver Solutions® Network (HSSN), requires the use of verified income documentation before entering the borrower into a trial period plan, and changes the amount of maximum cash reserves that are allowed in the imminent default screen as outlined in Announcement 09-05R, *Reissuance of the Introduction of the Home Affordable Modification Program, HomeSaver Forbearance™, and New Workout Hierarchy*.

In addition, Announcement 09-05R instructed servicers to use the imminent default screen to evaluate borrowers who are current or less than 30 days delinquent. Fannie Mae is changing the requirement for the imminent default screen to require an imminent default evaluation for all borrowers that are either current or in default but less than **60** days delinquent. This policy change achieves consistency in the treatment of Fannie Mae loans with the treatment of non-GSE loans under the Treasury Department's Supplemental Directive 09-01.

Effective Date

Servicers of conventional mortgage loans held in Fannie Mae's portfolio that are part of an MBS pool with the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property, must utilize IDI when making an imminent default evaluation for borrowers who are current as well as borrowers whose mortgage loans are in default but less than 60 days delinquent. Fannie Mae servicers who are required to use IDI by March 1, 2010 by other investors must implement the use of IDI for mortgage loans owned or securitized by Fannie Mae on the same date. All other servicers must implement the use of IDI as soon as possible but no later than June 1, 2010.

For mortgage loans that were eligible and entered into a trial period plan based on stated income prior to implementation of IDI, the servicer must make the imminent default evaluation for verified income based on the same imminent default screen criteria used for the stated income evaluation. For example, if a borrower facing imminent default was evaluated prior to March 1, 2010 and was determined to be eligible based on the imminent default screen outlined in Announcement 09-05R (i.e., cash reserves of less than three times the monthly mortgage payment including taxes and insurance and a debt coverage ratio of less than 1.20), the servicer must evaluate the borrower for eligibility using verified income based on the same imminent default evaluation criteria. The servicer must continue to process borrowers who were

31 – 59 days past due and determined to be eligible for Home Affordable Modification Program (HAMP) prior to the implementation of IDI under the eligibility requirements in effect at the time of the initial evaluation.

Income Documentation and Commencement of the Trial Period

Effective with the use of IDI, the servicer must verify all financial documentation (income and asset) for borrowers of mortgage loans that are either current or less than 60 days delinquent prior to offering a trial period plan, with the exception of passive/non-wage income of \$100 or less as outlined in Announcement 09-31, *Updates and Clarifications to the Home Affordable Modification Program*. Servicers may no longer offer trial period plans based on stated income when using IDI. All other income documentation requirements outlined in Announcement 09-05R and all subsequent HAMP-related announcements continue to apply.

Eligibility

Effective with the use of IDI, a borrower is not considered in imminent default if the borrower has cash reserves equal to or exceeding \$25,000. If the borrower's cash reserves are less than \$25,000, the loan must be submitted through the IDI. If the IDI result is a "1", the mortgage loan is categorized as "at risk of imminent default," and may be considered in imminent default. However, if the borrower's cash reserves are less than \$25,000 and the IDI result is a "2," the mortgage loan is NOT categorized as "at risk of imminent default". The servicer may further evaluate a borrower for HAMP if the borrower can demonstrate that he or she is experiencing an acceptable hardship. Acceptable hardships include death, divorce, or legal separation of a borrower/co-borrower; long-term or permanent illness or disability of a borrower/co-borrower or dependent family member. The servicer must obtain copies of documentation of an acceptable hardship as outlined below.

Death of a borrower/co-borrower:

- death certificate, or
- obituary or newspaper article reporting the death, and
- income documentation prior to the event compared to income documentation of the remaining borrower after the event.

Long-term or permanent illness or disability of a borrower/co-borrower or persons other than the borrower/co-borrower who is claimed as a dependent for federal income tax purposes:

- medical bills,
- doctor's certificate of illness or disability,
- proof of monthly insurance benefits or government assistance (if applicable), or
- federal income tax return showing medical deductions above the minimum for itemized deductions.

Divorce or legally-documented separation of borrower/co-borrower:

- divorce decree signed by the court;
- current credit report evidencing recorded divorce decree;
- separation agreement signed by the court if separation is legally documented by the court;
- current credit report evidencing recorded separation agreement; or
- in cases where the borrowers are unmarried, a recorded quitclaim deed indicating either borrower relinquishes all rights to the property securing the mortgage loan; or

- income or expense documentation prior to the event compared to the income or expense documentation of the remaining borrower after the event.

Access to IDI

Servicers will launch the File Transfer Portal link in HSSN and log-in using its HSSN user ID and password. A servicer is required to create a Microsoft® Excel® spreadsheet that includes all of the data elements required for an imminent default determination and upload the input file in a Comma Separated Variable (CSV or .csv) format. Only mortgage loans owned or securitized by Fannie Mae are permitted in the input file. A sample Excel spreadsheet – the IDI Data Submission File – is available on eFannieMae.com. It outlines the required data elements, specifies the order in which the data elements must be presented, and provides instructions for creating and submitting the CSV input file.

The following information is provided about three of the data elements in the input file:

Credit Score – If the servicer obtains multiple credit scores for a single borrower, the servicer must select a representative credit score using the lower of two or the middle of three credit scores. If there are multiple borrowers, the servicer must determine the representative score for each borrower and enter the lowest representative score as the credit score for the mortgage loan.

Monthly debt payment-to-income ratio – For the purposes of the imminent default evaluation, a servicer may not include unemployment income in the calculation of the borrower's monthly gross income when calculating the total monthly debt payment-to-income ratio.

Property Value – The servicer must provide the property value used for the initial Net Present Value (NPV) test, which must be less than 90 days old on the date the servicer performs the initial NPV test. Therefore, the servicer must ensure that the property value used during any initial evaluation does not subsequently become more than 90 days old by the time the servicer inputs the property value into the NPV model. Servicers are not required to update the property valuation during the remainder of the trial period for any subsequent NPV evaluation.

The CSV input file will be evaluated by the IDI model and an email notification will be sent to the servicer when the IDI results are available. The time it takes to return the results will depend on the size of the file, however, it is anticipated that results will be returned within a few hours. Once available, the servicer will log into the File Transfer Portal to retrieve the output file. The output file provided to the servicer will be returned in the CSV format. Only results obtained from the IDI in HSSN will be acceptable to make an imminent default determination for Fannie Mae-owned or securitized mortgage loans.

Document Retention

Servicers must retain all documents and information received during the process of determining eligibility for borrowers facing imminent default.

Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (888-326- 6435) with any questions regarding this Announcement.

Marianne E. Sullivan
Senior Vice President
Single-Family Chief Risk Officer