

**Announcement SVC-2011-03****April 4, 2011****Updates to Fannie Mae's Mortgage Modification Requirements****Introduction**

With this Announcement, Fannie Mae is updating the requirements to modify conventional mortgage loans as described in the *Servicing Guide*, Part VII, Section 601.02: Using HomeSaver Solutions Network, Section 602: Mortgage Modifications, and Section 602.02: Modifying Conventional Mortgage Loans, as amended by various announcements. Except as noted in this Announcement, all other requirements provided in these sections of the *Servicing Guide* remain unchanged.

Servicers must follow the policies and procedures in this Announcement when they are required to submit a non-delegated modification case through the HomeSaver Solutions<sup>®</sup> Network (HSSN).

All properties secured by conventional mortgage loans held in Fannie Mae's portfolio, mortgage loans that have been (or may be in the future) sold to Fannie Mae for cash and subsequently securitized into MBS pools (known as Pooled from Portfolio (PFP) mortgage loans), and mortgage loans that are part of an MBS pool that have the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property must be serviced in accordance with the policies and procedures in this Announcement.

**Effective Date**

Servicers are required to implement the revised requirements for all mortgage loans evaluated for a modification on or after April 15, 2011.

This Announcement covers the following topics:

- Eligibility
- Underwriting
- Modification Process
- Mortgage Insurer Approval and Reporting
- Reporting Requirements

**Eligibility**

Servicers are required to be judicious *when selecting a modification over a repayment plan* as the most appropriate option to resolve a delinquency. A modification should only be considered when a repayment plan is not the appropriate solution to cure the delinquency. Under a repayment plan, the borrower must make payments in addition to regular monthly payments to cure the delinquency. A servicer should consider a repayment plan when the delinquency

resulted from a temporary hardship that no longer appears to be a problem and that the borrower has the ability to meet the payment terms of the repayment plan over the duration of the plan.

To be eligible for a Fannie Mae modification, the following is required:

- The borrower must first be evaluated for a HAMP modification. If the borrower is not eligible for a HAMP modification, or if the borrower failed a HAMP Trial Period Plan or permanent modification, the borrower may be considered for a Fannie Mae modification.
- The property is a principal residence, a second home, or an investment property.
- The property may be vacant but must not be condemned.
- The borrower must have a financial hardship.
- The mortgage loan is either delinquent or a default is reasonably foreseeable (imminent), in accordance with the *Servicing Guide*, Part VII, Section 602: Mortgage Modifications.

Mortgage loans that previously received a Fannie Mae Alternative Modification™ (Alt Mod™) that become 60 or more days delinquent within the first 12 months after the effective date of the Alt Mod are not eligible for a Fannie Mae modification pursuant to this Announcement. The servicer must immediately work with the borrower to pursue either a preforeclosure sale, or a deed-in-lieu of foreclosure, or commence foreclosure proceedings, in accordance with the mortgage loan documents and applicable state law.

In addition, with respect to any mortgage loan that was previously modified and that becomes 60 or more days delinquent within the first 12 months of the effective date of the mortgage modification, the servicer must immediately work with the borrower to pursue either a preforeclosure sale, or a deed-in-lieu of foreclosure, or commence foreclosure proceedings, in accordance with the mortgage loan documents and applicable state law.

Fannie Mae will consider exceptions to the above eligibility criteria only when there are extenuating circumstances (for example, a borrower's redefault results from a new hardship and the borrower can now demonstrate the ability to make payments to retain the property, or a borrower defaulted on a HAMP modification or prior Fannie Mae modification because of unemployment but has now regained employment).

## **Underwriting**

### **Financial Information**

The servicer must document and verify the borrower's financial information in accordance with the *Servicing Guide* as amended by Announcements SVC-2010-08, *Updates to the Requirements for Evaluating Borrowers for Fannie Mae's Standard Mortgage Modification* and SVC-2010-10, *Miscellaneous Servicing Policy Changes*. Any financial information obtained and verified in connection with a HAMP modification may be used if it is less than 90 days old from the date of evaluation for a Fannie Mae modification.

### **Escrow Accounts**

The borrower's monthly payment must include a monthly escrow amount unless prohibited by applicable law. If the mortgage loan being considered is a non-escrowed mortgage loan, the servicer must revoke any escrow waiver and establish an escrow deposit account in accordance

with the *Servicing Guide*, Part III, Section 103: Escrow Deposit Accounts, prior to the beginning of the trial period (described below). The servicer must perform an escrow analysis based on estimates prior to extending a Trial Period Plan (defined below).

When performing an escrow analysis, servicers should take into consideration tax and insurance premiums that may come due during the trial period. When the borrower's escrow account does not have sufficient funds to cover an upcoming expense and the servicer advances the funds necessary to pay an expense to a third party, the amount of the servicer advance that is paid to a third party may be capitalized.

In the event the initial escrow analysis identifies a deficit—a deficiency in the escrow deposits needed to pay all future tax and insurance payments—the servicer must collect such funds from the borrower over a 60-month period unless the borrower decides to pay the deficit upfront. Any escrow deficit that is identified at the time of the modification eligibility may not be capitalized. The servicer is not required to fund any existing escrow deficit. Though the servicer may encourage a borrower to contribute to the escrow deficit upfront, that is not an eligibility requirement of modification.

## **Property Valuation**

Servicers must obtain a property valuation using a Broker Price Opinion (BPO), an appraisal, Fannie Mae's Automated Property Service™ (APS), Freddie Mac's automated valuation model (AVM) or a third-party AVM, provided that the APS or other AVM renders a reliable confidence score.

The servicer may rely on its own internal AVM provided that:

- the servicer is subject to supervision by a federal regulatory agency,
- the servicer's primary federal regulatory agency has reviewed the model, and
- the AVM renders a reliable confidence score.

If Fannie Mae's APS, Freddie Mac's AVM or the third-party AVM is unable to render a reliable confidence score or the servicer's internal AVM does not meet the requirements above, the servicer must obtain an assessment of the property value utilizing a BPO, an appraisal, or a property valuation method documented as acceptable to the servicer's federal regulatory supervisor. This property value assessment must be rendered in accordance with the FDIC's Interagency Appraisal and Evaluation Guidelines (whether or not such guidelines apply to loan modifications).

In all cases, the property valuation cannot be more than 90 days old at the time the servicer evaluates the borrower for a workout. The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN. The servicer must provide the borrower with a copy of the property valuation, or the opportunity to receive a copy, in conformance with the Equal Credit Opportunity Act.

## **Modification Process**

### **Obtaining Fannie Mae Approval**

If the servicer is not delegated to approve modification terms on Fannie Mae's behalf it must submit all recommendations for a Fannie Mae modification through HSSN for a decision, prior to issuing the Trial Period Plan to the borrower. The servicer must ensure that it provides all of the required information in HSSN for Fannie Mae to review the recommendation. Once Fannie Mae has reviewed the case, Fannie Mae may use the information provided by the servicer through HSSN to provide terms under the modification that Fannie Mae determines are most appropriate given the borrower's circumstances, and will transmit the terms of the Trial Period Plan and the Modification to the servicer through HSSN.

## **HSSN Case Submission Requirements**

Beginning with submissions made on April 15, 2011, HSSN will require that a Campaign ID and property valuation be included on all conventional case submissions that are recommended to Fannie Mae for consideration for a modification.

The Campaign ID indicates the Fannie Mae modification program under which the case is being submitted. The drop down menu of all available Campaign IDs is located on the Create Case screen of HSSN.

HSSN will provide an error message if a conventional loan is submitted for a modification without a valid Campaign ID or property valuation.

As a result of these changes, the servicer must:

- obtain property valuations prior to submission of all conventional modification cases;
- ensure its staff is knowledgeable about the existing Campaign IDs available for its use, including fully documented procedures relating to such IDs and training on these codes;
- review its existing pipeline of mortgage loans and submit any modification cases that do not correspond to an existing Campaign ID through HSSN prior to April 15, 2011.

## **Trial Period Plan**

A borrower evaluated for a mortgage modification on or after the servicer's implementation of the requirements of this Announcement must be placed in a Trial Period Plan prior to permanent modification. The trial period must be three months long for mortgage loans already in default and four months long for mortgage loans where the servicer has determined that default is imminent but has not yet occurred.

The servicer must use a *Trial Period Plan Notice* ([Form 195](#)) to document the borrower's Trial Period Plan. The servicer must retain a copy of the *Trial Period Plan Notice* in the mortgage loan file and note the date of which it was sent to the borrower.

A borrower's trial period starts on the Trial Period Plan Effective Date, which is based on the date the servicer mails the *Trial Period Plan Notice* to the borrower.

- If the servicer mails the *Trial Period Plan Notice* to the borrower on or before the fifteenth day of a calendar month, then the servicer must insert the first day of the following month as the Trial Period Plan Effective Date.

- If the servicer mails the *Trial Period Plan Notice* to the borrower after the fifteenth day of a calendar month, the servicer must use the first day of the month after the next month as the Trial Period Plan Effective Date.

For example, if the servicer mails the *Trial Period Plan Notice* to the borrower on June 3, the servicer should use July 1 as the Trial Period Plan Effective Date. If the servicer mails the *Trial Period Plan Notice* to the borrower on June 25, the servicer should use August 1 as the Trial Period Plan Effective Date.

The first Trial Period Plan payment is due on the Trial Period Plan Effective Date. Receipt of the first Trial Period Plan payment on or before the last day of the month in which the first payment is due will be deemed to be evidence of the borrower's acceptance of the Trial Period Plan and its terms and conditions.

The borrower must be current under the terms of the Trial Period Plan at the end of the trial period in order to receive a permanent mortgage modification. "Current" is defined as the borrower having made each required Trial Period Plan payment by the last day of the month in which it is due. A borrower who fails to make the Trial Period Plan payments on a timely basis is considered to have failed the Trial Period Plan and is not eligible for a permanent mortgage modification.

During the trial period for MBS mortgage loans, the MBS mortgage loans will remain in the related MBS pool and the servicer must continue to service the MBS mortgage loans under Fannie Mae's standard guidelines applicable to MBS mortgage loans. An eligible mortgage loan in a Fannie Mae MBS Pool must be removed from the pool before the Modification Effective Date (defined below).

During the Trial Period Plan, any pending foreclosure sales or trustee sales must be postponed provided the borrower complies with the terms of the *Trial Period Plan Notice*. The foreclosure sale or trustee sale may proceed if the borrower does not make each and every Trial Period Plan payment in the month that it is due.

Although the borrower may make scheduled payments earlier than expected, the length of the Trial Period Plan is set forth in the applicable *Trial Period Plan Notice*, and such payments may not result in acceleration of the Modification Effective Date. No exceptions to this requirement are permitted.

## **Loan Modification Agreement**

The servicer should prepare the *Loan Modification Agreement* (described below) early enough in the trial period to allow sufficient processing time so that the modification becomes effective on the first day of the month following the trial period (Modification Effective Date). If the borrower does not make the final trial period payment until the end of the month in which it is due, the servicer may, at its option, complete the *Loan Modification Agreement* provided that the Modification Effective Date is the first day of the second month following the trial period. However, no additional trial period payment is required during the interim month.

The borrower's permanent modification will become effective when:

- the borrower has satisfied all of the requirements of the Trial Period Plan,

- the borrower and the servicer have executed the *Loan Modification Agreement*, and
- the Modification Effective Date provided in the *Loan Modification Agreement* has occurred.

As required by the *Servicing Guide*, the servicer must ensure that its communications with the borrower clearly convey that the mortgage modification will not be binding, enforceable, or effective unless and until the conditions set forth in the bullet points above have been satisfied, and all other requirements outlined above have occurred. This requirement applies to all mortgage loans in MBS pools, including all Pooled from Portfolio mortgage loans purchased as whole loans for Fannie Mae's portfolio that it subsequently securitizes. As required by the *Servicing Guide*, a modification of any MBS mortgage loan can only become effective after it has been removed from the MBS pool. As a result, the Modification Effective Date must be after the MBS mortgage loan has been removed from the MBS pool. Servicers are reminded that mortgage loan modifications must be signed by an authorized representative of the servicer and must reflect the actual date of signature by the servicer's representative.

The servicer must use the form of *Loan Modification Agreement Cover Letter* (described below) to communicate borrower's eligibility for a permanent modification. A completed *Loan Modification Agreement* must be enclosed with the *Modification Agreement Cover Letter*.

### **Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Mortgage Modification**

For an MBS mortgage loan to be eligible for reclassification from an MBS pool for the purpose of modification, the mortgage loan must have been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency.

A delinquent MBS mortgage loan that is serviced under the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property generally will be removed from its MBS pool in accordance with Fannie Mae's procedures for automatic reclassification of delinquent MBS mortgage loans as portfolio mortgage loans.

For MBS mortgage loans that are not subject to Fannie Mae's automatic reclassification process, Fannie Mae will select for reclassification those mortgages that are part of an MBS pool that are serviced under the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property and that are reported through HSSN as having made all of the required trial period payments in the final month of the trial period. As a result, during the trial period it is very important that servicers reports to Fannie Mae on a timely basis the receipt of funds from the borrower.

### **Reclassification of MBS Mortgage Loans – Imminent Default**

For mortgage loans in MBS pools where the servicer has determined that a borrower's payment default is imminent and that a Trial Period Plan of four trial period payments is required, reclassifications are subject to the following:

- Fannie Mae will reclassify the mortgage loan during the fourth month of the trial period if the borrower has made the fourth payment and the servicer has accepted the payment and



notified Fannie Mae of receipt of the payment before the fifteenth calendar day (the servicer's reclassification date) in the fourth month of the trial period.

- If, prior to the close of the servicer's reclassification date in the fourth month, the borrower has not made the fourth payment, or the servicer has not applied the fourth payment and notified Fannie Mae that the payment has been made, then it will not be possible to reclassify the loan from the MBS pool prior to the Modification Effective Date.
- In the event that the fourth trial period payment is received after the fifteenth calendar day (the servicer's reclassification date) of the fourth month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

### **Reclassification of MBS Mortgage Loans – Payment in Default**

For any MBS mortgage loan that already has a payment in default at the time the modification is negotiated and three trial period payments are required, reclassifications are subject to the following:

- Fannie Mae will reclassify the mortgage loan during the third month of the trial period if the borrower has made the third payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the fifteenth calendar day (the servicer's reclassification date) in the third month of the trial period.
- If, prior to the close of the servicer's reclassification date in the third month, the borrower has not made the third payment, or the servicer has not applied the third payment and notified Fannie Mae that the payment has been made, then it will not be possible to reclassify the loan from the MBS pool prior to the Modification Effective Date.
- In the event that the third trial period payment is received after the fifteenth calendar day (the servicer's reclassification date) of the third month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

### **Conditions of Modification**

If the required trial period payments are not made by the end of the trial period and reported to Fannie Mae, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented. *Loan Modification Agreements* must be signed by the borrower and by an authorized representative of the servicer after the mortgage loan has been removed from any MBS pool and reclassified as a Fannie Mae portfolio mortgage loan, and must reflect the actual date of signature by the servicer's representative. Additionally, payments received should only be applied in accordance with the modified terms once the servicer has confirmed that Fannie Mae has reclassified any MBS mortgage loan. The servicers can confirm that Fannie Mae has reclassified an MBS mortgage loan by reviewing the Purchase Advice that is posted on the Servicer's Reconciliation Facility (SURF™).

After a mortgage loan is reclassified, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

A current MBS mortgage loan is ineligible for reclassification for the purpose of modifying the mortgage loan.

## Standard Documents

The following documents are required for a Fannie Mae modification and are available on [eFannieMae.com](http://eFannieMae.com):

- *Hardship Affidavit* – The servicer may rely on the borrower's signed *HAMP Hardship Affidavit* ([Form 1021](#)) or *Request for Modification and Affidavit* ([RMA](#)) for the purposes of verifying a borrower's financial hardship. If a *HAMP Hardship Affidavit* was not collected in connection with a HAMP evaluation, the servicer must use the *Hardship Affidavit Form* ([Form 194](#)) to document the borrower's financial hardship. The *Hardship Affidavit* must not be more than 90 days old as of the date of the servicer's evaluation for a modification.
- *Trial Period Plan Notice* – The servicer must use a *Trial Period Plan Notice* (Form 195) to document the borrower's Trial Period Plan.
- *Modification Agreement Cover Letter* – The servicer must communicate the borrower's eligibility for a modification using the form of *Modification Agreement Cover Letter* provided on eFannieMae.com. The *Cover Letter* must accompany the *Loan Modification Agreement*.
- *Loan Modification Agreement* – The servicer must document the loan modification using the appropriate form of *Loan Modification Agreement* and related summary instructions provided on eFannieMae.com:
  - *Loan Modification Agreement* (Fixed Interest Rate) [Form 3179](#),
  - *Loan Modification Agreement* (Adjustable Interest Rate) [Form 3161](#), and
  - *Loan Modification Agreement* (Step Interest Rate) [Form 3162](#).

The servicer must incorporate assignment of leases and rents provisions into the Loan Modification Agreement for all mortgages securing investment properties or a two- to four- unit principal residence. The Loan Modification Agreement with assignment of leases and rents shall be recorded. The Assignment of Leases and Rents provisions are set forth in the summary instructions to the applicable Loan Modification Agreement.

The servicer is responsible for ensuring that the *Loan Modification Agreement* complies with all applicable laws, including those relating to recordation, and otherwise complies with the requirements provided in the *Servicing Guide*. The mortgage loan, as modified by the *Loan Modification Agreement*, must retain its lien position.

A copy of the borrower's signed *Hardship Affidavit*, *Trial Period Plan Notice*, *Modification Agreement Cover Letter*, and the fully executed *Loan Modification Agreement* and the property valuation documentation must be maintained in the borrower's loan file.

Fannie Mae reminds servicers that the qualifying income and other financial documentation provided by the borrower may not be more than 90 days old as of the date of the evaluation by the servicer.

## Charges to the Borrower

The servicer must waive all late charges, penalties, stop payment fees, or similar fees upon the borrower receiving a permanent modification. The servicer may not charge the borrower



administrative fees and must pay any actual out-of-pocket expenses, including but not limited to, notary fees, recordation fees, title costs, property valuation fees, or other allowable and documented expenses. Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses in accordance with the Servicing Guide.

Late fees can be assessed but not collected during the trial period; however, all late fees, including any accrued during the trial period, must be waived upon the borrower's successful completion of the trial period and conversion to a permanent modification. If the borrower does not successfully complete the trial period and convert to a permanent modification, the servicer may collect any and all late fees, including those accrued during the trial period.

## **Mortgage Insurer Approval and Reporting**

Fannie Mae has obtained blanket delegations of authority on behalf of all servicers from several of the mortgage insurers. As a result, servicers can process modifications in connection with Fannie Mae-owned or guaranteed loans as described in this Announcement, without obtaining separate mortgage insurer approval at the company or loan level for these insurers. The list of mortgage insurers from which blanket delegations of authority have been obtained are provided on [eFanniemae.com](http://eFanniemae.com).

Servicers will be advised accordingly, and the list on [efanniemae.com](http://efanniemae.com) will be revised as necessary, if the status of any of these blanket delegations changes. Even though these blanket delegations allow servicers to process modifications without obtaining separate mortgage insurer approval, servicers must still ensure that such modification or forbearance does not impair any existing mortgage insurance coverage and adheres to all other requirements of the applicable master policy.

## **Reporting Requirements**

### **Reporting through HSSN**

The *Hardship Affidavit* and any related information must be submitted to Fannie Mae through HSSN. The servicer must report loan level data in HSSN upon receipt of a borrower's first trial period payment under the Trial Period Plan. Additionally, the servicer must record in HSSN receipt of all subsequent trial period payments due under the Trial Period Plan. The servicer must represent and warrant that after application of all trial period payments made by the borrower, once the sum of payments total a full contractual payment on the underlying mortgage loan, the borrower has been in a delinquent status (that is, not current in contractual payments) on each of the last four monthly payment due dates and continues to be delinquent. After an MBS mortgage loan is reclassified, if applicable, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

### **Monthly Investor Reporting and Remitting**

Existing monthly Loan Activity Record (LAR) reporting requirements for Fannie Mae servicers will not change. Servicers must continue to report the standard LAR format for loan payments by the third business day and for payoff activity by the second business day of each month for the prior month's activity (for example, payoff reporting to be received by June 2 will contain May activity).

Servicers should report the post modification unpaid principal balance (UPB) once the modification is closed in HSSN (for example, if the modification is closed on May 25, the post modification UPB should be reported on the June LAR by the third business day in June). If the servicer submits a LAR to report post modification balances before the case is closed in HSSN, an exception will occur.

If the pre-modification UPB or the pre-modification last paid installment (LPI) reported in HSSN for the closed modification does not agree with the pre-modification UPB or the pre-modification LPI in Fannie Mae's investor reporting system, the loan modification will not be processed until the discrepancy is resolved.

If, in the final month of the trial period, the sum of unapplied trial period payments is equal to or greater than a full contractual payment on the underlying mortgage loan, and the loan modification is closed in the same month, the servicer must report the contractual payment before the post modification balances can be reported. This will require two Loan Activity Records and two reporting cycles to complete.

### **Delinquency Status Reporting**

The servicer must report a delinquency status code 09 – Forbearance during the trial period. The servicer must then report a delinquency status code 28 – Modification to indicate that the delinquency status has changed once the borrower has successfully completed the trial period and the modification becomes effective.

In the event that the borrower files bankruptcy during the trial period, the servicer must continue to report the appropriate delinquency status code for loans in a Trial Period Plan. If the borrower successfully completes the Trial Period Plan, the status code would be changed to 28 – Modification. If the borrower fails the Trial Period Plan, the servicer must report the appropriate bankruptcy status code.

### **Credit Bureau Reporting**

The servicer must report a “full-file” status report to the credit repositories for each mortgage loan modification in accordance with the Fair Credit Reporting Act as well as other applicable law and credit bureau requirements as provided by the Consumer Data Industry Association (CDIA). “Full file” reporting means that the servicer must describe the exact status of each mortgage it is servicing as of the last business day of each month. Following the modification, the servicer should use Special Comment Code “CO” to identify loans being paid under a modified payment agreement, but not under a federal government plan as described in the guidance below provided by CDIA.

### **Post Modification Reporting to Credit Bureaus**

The servicer must continue to report one tradeline under the original Account Number:

- Date Opened – the date the account was originally opened.
- Original Loan Amount – the original amount of the loan, including the balloon payment amount, if applicable. If the principal balance increases due to capitalization of delinquent

amounts due under the loan, the original loan amount should be increased to reflect the modified principal balance.

- Terms Duration – the modified terms.
- Scheduled Monthly Payment Amount – the new amount as per the modified agreement.
- Current Balance – the principal balance (including the balloon payment amount, if applicable), plus the interest and escrow due during the current reporting period.
- Account Status Code – the appropriate code based on the new terms of the loan.
- Special Comment Code – CO.
- K4 Segment – used to report the balloon payment information, if applicable.

\*\*\*\*\*

Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicer Solution Center at 1-888-FANNIE5 (888-326-6435) with any questions regarding this Announcement.

Gwen Muse-Evans  
Vice President  
Chief Risk Officer for Credit Portfolio Management