FannieMae LENDER LETTER

Lender Letter LL-2010-12 **October 29, 2010**

TO: All Fannie Mae Single-Family Servicers

Making Home Affordable: Interactions with Hardest-Hit Fund Unemployment and Reinstatement Programs

Introduction

The Treasury Department has awarded $7.6 billion in funding for innovative programs developed by state Housing Finance Agencies (HFAs) to prevent foreclosures and stabilize housing markets in 18 states and the District of Columbia. The Hardest-Hit Fund (HHF) programs include temporary relief for unemployed borrowers (HHF Unemployment Programs), and help for borrowers to become current on delinquent mortgage loans (HHF Reinstatement Programs). See financialstability.gov for a list of the participating HFAs and the program criteria.

On August 2, 2010, Treasury released Supplemental Directive 10-07, *Making Home Affordable – Interactions with HFA Hardest-Hit Fund Programs,* clarifying servicer roles and responsibilities regarding interactions between the HHF programs and the Making Home Affordable program.

Fannie Mae servicers must work closely with the HFAs as they assist borrowers in states with HHF programs. This Lender Letter provides guidance to servicers in connection with mortgage loans owned or guaranteed by Fannie Mae for HHF Unemployment Programs and HHF Reinstatement Programs.

Effective Date

Effective immediately, servicers must comply with this Lender Letter and accept funds from HFAs on mortgage loans held in Fannie Mae's portfolio or in an MBS pool with the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property.

HHF Unemployment Program

Each of the participating HFAs has established an HHF program to provide assistance to unemployed borrowers. HHF Unemployment Program details vary by HFA. Borrowers in the HHF Unemployment Program can either be current or delinquent and the property must be the borrower's principal residence. Each HFA will determine if a borrower qualifies for its program. As part of the qualification process, the HFA will contact the servicer to confirm a borrower's monthly payment and loan status. If the borrower is approved for the HHF program, the HFA will notify the servicer with the details of the approval, including the timing of the payments from the HFA to the servicer.

The program may either pay all or a portion of a borrower's monthly mortgage payment for a specified period of time. In the event the HFA requires a borrower to make a portion of the payment, the HFA or its third party vendor is responsible for collecting amounts due from the borrower and forwarding the funds to the servicer. The HFA will send a full monthly payment on behalf of the borrower to the servicer. Servicers must apply these payments as described in the *Servicing Guide*, Part III, Section 101: Scheduled Mortgage Payments.

If the HHF Unemployment Program is combined with another foreclosure prevention alternative, certain restrictions or requirements may apply:

Fannie Mae forbearance: A borrower cannot simultaneously be under a Fannie Mae forbearance that allows for a reduced payment and an HHF Unemployment Program. If a borrower is currently in a forbearance payment arrangement with the servicer and is accepted into the HHF program, the servicer must cancel the payment arrangement and accept funds from the HHF Unemployment Program.

HAMP trial period: A borrower in a HAMP trial period may not use HHF Unemployment Program funds to make his or her trial period payments. A borrower who is currently in a HAMP trial period plan and becomes unemployed may seek consideration for the HHF Unemployment Program. If the borrower is accepted into an HHF Unemployment Program, the borrower's HAMP trial period plan must be terminated.

> **Note:** When a mortgage loan is canceled from a forbearance payment plan or a HAMP trial period plan because the borrower is proceeding with the HHF program, the servicer must continue to report the Delinquency Status Code of 09 (Forbearance), to reflect the mortgage loan's delinquent status.

HAMP permanent modification: If a mortgage loan has been permanently modified under HAMP, a borrower who subsequently becomes unemployed may use an HHF Unemployment Program to make monthly mortgage payments.

Should a borrower remain unemployed upon completion of the HHF Unemployment Program, the servicer must evaluate the borrower for one of Fannie Mae's foreclosure prevention alternatives, including forbearance. The servicer must follow the guidance provided in Announcement SVC-2010-15, *Updates to Fannie Mae's Forbearance, Income Eligibility, and Home Affordable Modification Program Requirements*. If the borrower has become re-employed, the servicer must consider the borrower for HAMP.

Impact on Foreclosure Proceedings

Servicers are required to comply with the foreclosure process requirements as indicated in the *Servicing Guide* and announcements. If foreclosure proceedings have been initiated and a sheriff or foreclosure sale is scheduled less than seven days from the date the servicer is notified of borrower approval by the HFA, the servicer should not notify an attorney (or trustee) to "place on hold" or suspend the foreclosure proceedings. If the notice of borrower approval from the HFA is received seven days or more in advance of a scheduled sheriff or foreclosure sale, a servicer should not suspend the foreclosure proceedings unless it has actually received funds from the HFA.

Reporting to Fannie Mae

Servicers are not required to report a Delinquency Status Code for current mortgage loans. If a borrower is delinquent, a servicer must report a Delinquency Status Code of 09 (Forbearance), and a Delinquency Reason Code 16 (Unemployment) for the period of the HFA's HHF Unemployment Program.

A servicer must be able to readily identify on its servicing system any borrower that is participating in an HHF Unemployment Program. Fannie Mae reserves the right to request that the servicer provide that information.

Reminder Regarding Mortgage Insurance

Servicers are reminded that, as described in the *Servicing Guide* Part II, Section 102: Conventional Mortgage Insurance, the servicer must keep in effect any borrower-purchased mortgage insurance that existed when Fannie Mae acquired the mortgage, unless the conditions Fannie Mae imposes for replacing or canceling the coverage are met. In addition, the servicer must keep in effect any lender-purchased mortgage insurance that existed when Fannie Mae acquired the mortgage until the mortgage is paid in full. In the context of mortgage loans where scheduled payments have been funded, or partially funded, with assistance from the HHF Unemployment Program, but where such loans are not brought current, servicers may need to provide notice to or request consent of the mortgage insurer if the resulting forbearance will preclude adherence to the time frames required for various actions (for example, the initiation of foreclosure proceedings) under the mortgage insurance policy.

HHF Reinstatement Program

HFAs may also offer a Reinstatement Program, which provides funds to bring the borrower's mortgage loan current or reduce the delinquency. If an HFA reinstates a mortgage loan, reinstatement must occur after the period of the HFA assistance from the Unemployment Program. The servicer must accept funds from the HHF Reinstatement Program to cure or reduce a borrower's delinquency.

Principal Reduction Alternative

At this time, Fannie Mae has elected not to participate in the Principal Reduction Alternative options that may be offered by some HFAs. As such, mortgage loans held in Fannie Mae's portfolio or part of an MBS pool that is serviced under the special servicing option, or a shared-risk MBS pool for which Fannie Mae markets the acquired property are not currently eligible for principal reduction.

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

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