Helping delinquent borrowers understand their options

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Performing due diligence prior to considering foreclosure

The servicer of a portfolio mortgage loan, a participation pool mortgage loan that Fannie Mae holds in its portfolio, or of a special servicing option MBS loan, must protect Fannie Mae's investment by making every reasonable effort to cure the delinquency through Fannie Mae's various workout options before referring a mortgage loan for foreclosure proceedings.

Servicing Guide, E-3.1-02, Performing Due Diligence Prior to Considering Foreclosure (11/12/2014)

Fannie Mae offers mortgage servicers **retention** options to help borrowers retain their homes while enduring a financial hardship.

- Forbearance
- Reinstatement
- Repayment plan
- Payment deferral
- Loan modification

When it’s no longer viable for a borrower to remain in their home, servicers can offer **liquidation** options to help borrowers transfer ownership of the home while avoiding foreclosure.

- Sale with equity
- Short sale
- Mortgage Release

Retention options

Forbearance
Temporarily reduces or suspends monthly payments

Reinstatement
Pay the total missed amount all at once

Repayment plan
Pay past-due amounts over multiple months

Payment deferral
Delay past-due amounts to the end of loan term

Loan modification
Change the terms of the existing loan

https://yourhome.fanniemae.com/get-relief/mortgage-assistance-myths

Liquidation options

Property sale with equity

Sell the property and pay off the mortgage — while keeping the remaining amount to use for new housing or other expenses.

Short sale

A short sale allows a borrower to sell their home for less than the total debt remaining on the mortgage.

Mortgage Release

A Mortgage Release, also known as a deed-in-lieu of foreclosure, transfers ownership of the property to the owner of the mortgage, and the borrower is released from any further financial responsibility.

https://yourhome.fanniemae.com/get-relief/options-to-leave-your-home

Workout hierarchy

When evaluating a borrower for workout options

- The servicer must analyze each case carefully before determining which workout option is most appropriate.
- To ensure that the final workout option agreed upon is realistic, the servicer must consider the borrower's financial condition, except as otherwise authorized under the *Servicing Guide*.
- See *Servicing Guide*, D2-2-05, Receiving a Borrower Response Package (BRP) for information on evaluating the borrower for workout options.

D2-3.1-01, Determining the Appropriate Workout Option (11/12/2014)

Workout hierarchy

Temporary hardship

The following table describes the servicer's requirements if the borrower is experiencing or has experienced a temporary hardship resulting from a short-term decrease in income or increase in expenses.

If the hardship has …	Then the servicer must consider a …
… not been resolved.	D2-3.2-01, Forbearance Plan
… been resolved, and the borrower does not have the ability to reinstate the mortgage loan.	D2-3.2-02, Repayment Plan
… been resolved, and the borrower does not have the ability to afford a repayment plan.	D2-3.2-05, Payment Deferral

Servicing Guide, F-2-10, Fannie Mae Workout Hierarchy (12/09/2020)

Workout hierarchy

Permanent hardship

If the borrower is experiencing a hardship that has resulted in a permanent or long-term decrease in income or increase in expenses, the servicer must evaluate the borrower for a workout option in the following order:

D2-3.2-07, Fannie Mae Flex Modification

D2-3.3-01, Fannie Mae Short Sale

D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure)

Note: If a borrower requests to be evaluated for a liquidation workout option, the servicer must first evaluate the borrower for all liquidation workout options.

Servicing Guide, F-2-10, Fannie Mae's Workout Hierarchy (12/09/2020)

A word about the hierarchy

The hierarchy is intended to help servicers apply workout options in a logical sequence; however, when evaluating a borrower's circumstances, as documented in a "Borrower Response Package (BRP)," the servicer should consider a holistic view of the situation and determine a qualification response for each option.

All options for which the borrower may qualify should be reviewed with the borrower and a final decision made accordingly.

See Consumer Finance Protection Bureau (CFPB) 12 CFR Part 1024.41 (Loss Mitigation Procedures) — Real Estate Settlement Procedures Act (Regulation X).

A closer look

Liquidation options

Property sale with equity

This type of sale is useful when borrowers are facing a financial hardship, can no longer afford mortgage payments, and are prepared to vacate the home upon sale.

When the market value of the property is greater than the amount owed, the difference is the amount the borrower retains after paying off all mortgage-related debt and any other debt secured by the home.

In addition to paying off outstanding mortgage debt, selling with equity provides the most flexibility and avoids the credit damage caused by foreclosure.

Remaining funds (excess equity) can be used by the borrower for any purpose — help with transition to new housing, pay for other expenses, or add to savings.

Short sale

A short sale, also known as a pre-foreclosure sale, is when the property is sold for less than the total mortgage debt remaining (based on market value).

A short sale is a good option when the mortgage debt exceeds the value of the property and the borrower is behind on payments, facing a long-term hardship, and not eligible to refinance or modify the mortgage.

Borrowers avoid foreclosure and pay off a portion of their mortgage balance with the proceeds. Based on financial status, borrowers may be required to make a financial contribution toward the balance.

Once completed, the borrower receives a deficiency waiver that relieves them of any further financial responsibility for the mortgage debt.

Credit repair begins sooner than if a foreclosure is completed.

Borrowers may also qualify for a new Fannie Mae home mortgage in as little as two years after the sale, compared to up to seven years for those who go through foreclosure.

In some cases, borrowers can receive $7,500 in relocation assistance to use toward moving expenses for new housing.

Mortgage Release

A Mortgage Release, also known as a deed-in-lieu of foreclosure, allows for the transfer of property ownership to the mortgage holder in exchange for the release from any further financial responsibility for the mortgage debt.

A Mortgage Release is a good option when the borrower owes more than the home is worth, is behind on payments, is facing a long-term hardship, and is not eligible to refinance or modify the mortgage.

Borrowers may be required to make a financial contribution to receive a Mortgage Release, and, once completed, borrowers receive a deficiency waiver that relieves them of any further financial responsibility for the mortgage debt.

A Mortgage Release eliminates remaining mortgage debt and allows the borrower to avoid the negative impact of foreclosure.

As long as a scheduled foreclosure sale is at least 30 days in the future, a Mortgage Release may be approved and help the borrower begin repairing their credit sooner.

In some cases, borrowers may receive $7,500 in relocation assistance to use toward moving expenses for new housing.

Exit/transition options

- Immediate move
- A 3-month transition period with no rent payment required
- A 12-month lease at current market rent payment

Upon vacating the property by the agreed-upon date, the borrower must ensure the home's interior and exterior are in broom-swept condition and free of damage, trash, and personal belongings.

Borrowers may also qualify for a new Fannie Mae home mortgage in as little as two years after release, compared to up to seven years for those who go through foreclosure.

What would you do?

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What would you do?

The borrower has been out of work, is 3 months delinquent, has been offered a new job in another state, and will relocate within 60 days.

They have no ability to catch up on their arrears and have 15% equity in the home.

What should the servicer do?

Servicer response

Since the borrower has equity, the servicer should encourage the borrower to consider listing the property for sale right away before evaluating for other workout options.

Borrower benefits:

- Stay in property during the listing period
- Eliminate mortgage debt via sale’s proceeds
- Avoid impact of foreclosure
- Receive excess proceeds after debt payoff

What would you do?

Part I

The borrower has owned the home for 3 years and is being transferred out of state by his employer in 90 days.

The borrower is current on his mortgage and will go delinquent upon relocating and paying rent. The property has significant deferred maintenance, and the borrower cannot afford to pay the repairs. The property appraises for less than the mortgage indebtedness. The borrower needs a place to live until he moves in 90 days.

What should the servicer do?

Servicer response

The servicer should educate the borrower on the various liquidation options and comply with the “Workout Hierarchy” to encourage the borrower to follow the short-sale process.

Borrower benefits:

- Stay in property during the listing period
- Eliminate mortgage debt via sale’s proceeds
- Receive deficiency waiver
- Avoid impact of foreclosure
- May be eligible for $7,500 in relocation
- May be eligible for a Fannie Mae loan in as little as two years vs. seven years in a foreclosure

What would you do?

Part II

The borrower listed the home 75 days ago based on servicer evaluation of circumstances. They received a conditional approval to short sell and listed the property at market value. The loan is now two months delinquent, and there have not been many interested buyers due to the deferred maintenance.

The borrower is leaving the area in two weeks, and the property will be vacated.

What should the servicer do?

Servicer response

The servicer should follow up with the borrower and discuss other workout options given that the short sale has not resulted in a buyer. With the borrower's circumstances, it may be advisable to consider a Mortgage Release at this point with immediate vacancy.

Borrower benefits:

- Receive deficiency waiver
- Avoid impact of foreclosure
- May be eligible for $7,500 in relocation
- May be eligible for a Fannie Mae loan in as little as two years vs. seven years in a foreclosure

What would you do?

The borrower refinanced two years ago to leverage all available equity toward debt reduction. The co-borrower recently passed away. The remaining borrower can no longer afford the mortgage on a single income and has found a senior living center with subsidized rent.

There is no remaining equity in the home, and the borrower has depleted all savings to keep the mortgage current. The borrower must sign a lease within 30 days to secure the subsidized unit, but she is unable to afford a move.

What should the servicer do?

Servicer response

The servicer should educate on the various liquidation options and comply with the “Workout Hierarchy” to encourage the borrower to follow the Mortgage Release option with immediate vacancy.

Borrower benefits:

- Vacate the property immediately
- If primary residence, may be eligible for $7,500 relocation assistance
- Forgiveness of mortgage debt
- Avoid impact of foreclosure
- Receive deficiency waiver
- May be eligible for a Fannie Mae loan in as little as two years vs. seven years in a foreclosure

Note: If the mortgage loan is current or less than 60 days delinquent, the borrower must contribute a minimum of 20% of their non-retirement cash reserves.

What would you do?

The borrower is a single parent of a 17-year-old and recently had to take a pay cut to stay employed in his neighborhood/school district of his child.

He is five months behind and cannot afford the mortgage payment. He wants to stay put until his child graduates in three months.

What should the servicer do?

Servicer response

The servicer should educate the borrower on the various liquidation options and comply with the “Workout Hierarchy” to encourage the borrower to consider a Mortgage Release with a three-month no-rent transition.

Borrower benefits:

- Occupy property for three months rent free
- If primary residence, may be eligible for $7,500 relocation assistance
- Forgiveness of mortgage debt
- Avoid impact of foreclosure
- Receive deficiency waiver
- May be eligible for a Fannie Mae loan in as little as two years vs. seven years in a foreclosure

Note: A three-month transition option is not available for NY properties.

What would you do?

The borrower has been disabled and is four months behind. She has found work but at a reduced income. She is unable to reinstate the mortgage and cannot afford the ongoing mortgage payment. There is no equity in the home, and there is quite a bit of deferred maintenance.

She is working on finding a place in an assisted living facility; however, there is a long waiting list. It could take 8 – 12 months for her to get in. She may be able to afford local market rents based on her new income.

What should the servicer do?

Servicer response

The servicer should educate on the various liquidation options and comply with the “Workout Hierarchy” to encourage the borrower to consider a Mortgage Release with a 12-month current market rent transition.

Borrower benefits:

- Occupy property for up to 12 months at current market rent
- If primary residence, may be eligible for $7,500 relocation assistance
- Forgiveness of mortgage debt
- Avoid impact of foreclosure
- Receive deficiency waiver
- May be eligible for a Fannie Mae loan in as little as four years (two with extenuating circumstances)

Note: Leasing the property after the Mortgage Release is not permissible for NY properties.

Resources

Borrower

fanniemae.com — Managing Financial Uncertainty

Loan lookup tool — path to mortgage help for homeowners with a Fannie Mae-owned loan

fanniemae.com — How to Avoid Foreclosure

fanniemae.com — Options to Stay in Your Home

fanniemae.com — Options to Leave Your Home

Servicer

Servicing Guide Fannie Mae Single-Family

Servicer toolkit — additional resources regarding retention and liquidation options

Loss Mitigation Overview for Servicers

fanniemae.com — Loss Mitigation

Servicer Onboarding: Loss Mitigation Training Plan

Liquidation script — for servicers to use with homeowners who need a graceful exit

Servicing Management Default Underwriter (SMDU) — training resources

Servicer Performance — self-assessment (sections 6 and 7)

Financial Hardship Messaging Playbook for Servicers

Servicer Resource Center Assistance

Dial 1-8002FANNIE and press 1 then 3.

For general servicing related or loss mitigation questions, please contact the Servicer Resource Center.