

# Servicing Guide

Fannie Mae Single Family

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## **Servicing Guide: Fannie Mae Single Family**

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## Preface

The 2015 *Servicing Guide* is organized into six parts. There are five parts (A-E), which are structured consistent with the mortgage loan life cycle and the servicers' relationship with Fannie Mae. Part F, Servicing Guide Procedures, Exhibits and Quick Reference Materials, includes a variety of individual supporting materials, including a glossary of terms and a list of contacts. Parts may be structured by subpart, chapter, section, and topic; however, policies and requirements appear at the topic level only. The following table outlines a high-level overview of the 2015 *Servicing Guide*.

Part and Title	Topics Include, but are not limited to,
A, Doing Business with Fannie Mae	<ul style="list-style-type: none"> <li>• Lender Contract, Duties and Responsibilities</li> <li>• Breach of Contract and Nonperformance</li> <li>• Mortgage Loan Files and Document Custodian Requirements</li> <li>• Setting Up Operations (Staffing, Procedures, Custodial Account Requirements)</li> </ul>
B, Escrow, Taxes, Assessments, and Insurance	<ul style="list-style-type: none"> <li>• Escrow Administration</li> <li>• Property Taxes and Assessments</li> <li>• Insurance (Property (Hazard), Flood, MI, and Lender-Placed)</li> </ul>
C, Mortgage Payment Processing, Remitting, Accounting and Reporting	<ul style="list-style-type: none"> <li>• Payment Processing</li> <li>• ARM Loan Servicing</li> <li>• Payment Remitting and Accounting</li> <li>• Reporting</li> </ul>
D, Providing Solutions to Borrowers	<ul style="list-style-type: none"> <li>• Release of Security</li> <li>• Transfers of Ownership</li> <li>• Notice of Liens, Legal Action, and Property Forfeitures and Seizures</li> </ul>

Part and Title	Topics Include, but are not limited to,
	<ul style="list-style-type: none"> <li>Assisting Borrowers Facing Default or In Default</li> <li>Fannie Mae Home Retention and Liquidation Workout Options</li> </ul>
E, Default-Related Legal Services, Bankruptcy, Foreclosure, and Acquired Properties	<ul style="list-style-type: none"> <li>Referring Default-Related Legal Matters to a Law Firm</li> <li>Bankruptcy Proceedings</li> <li>Foreclosure Proceedings</li> <li>Managing Acquired Properties</li> </ul>

### Use of the Numbering System

A numbering system is used in the 2015 *Servicing Guide* to identify the level of content as shown in the following table.

Each...	Has a corresponding...	Example
part	letter	D
subpart	one-digit number beginning with 1	D2
chapter	one-digit number beginning with 1	D2–3
section	one-digit number beginning with 1	D2–3.1
topic	two-digit number beginning with 01	D2–3.1–01

The example column shows how the numbering system can be used to map the location of specific content within the *Servicing Guide* to part D, subpart 2, chapter 3, section 1, topic 01.

The part and subpart are combined as D2, the chapter and sections are combined as 3.1, and the topic is added as —01. Not all parts have subparts and not all chapters have sections. As topics are added, updated, and deleted with each publication of the *Servicing Guide*, the chapter, section and topic identifiers may change as necessary.

### Effective Dates for the Servicing Guide

Each topic within the *Servicing Guide* is followed by a date shown in parentheses. Beginning with the publication of the 2014 *Servicing Guide*, this date represents the date of the most recent Servicing Announcement that amended content within an individual topic. The servicer must refer to the individual Servicing Announcement to determine the policy effective date. A link to all Servicing Announcements that amended the policies in that topic since the publication of

the 2014 *Servicing Guide* can be found in the Related Announcements table at the end of the Servicing Guide topic, if applicable.

### **Amendments to the Servicing Guide**

Fannie Mae may at any time alter or waive any of the requirements, impose other additional requirements, or rescind or amend any and all material set forth in the *Servicing Guide*. The servicer must make sure that its staff is thoroughly familiar with the content and requirements of the *Servicing Guide* as they now exist and as they may be changed from time to time.

### **Notification of Changes and Updates**

Fannie Mae communicates amendments to the Servicing Guide through Servicing Announcements, Lender Letters, and Servicing Notices.

- Servicing Announcements describe changes to policies and requirements within the *Servicing Guide* content. Servicing Announcements are numbered in chronological order as: SVC-2015–XX.
- Lender Letters communicate either
  - new or modified policies and requirements that may be temporary in nature,
  - reminders of existing policies, or
  - advanced notice of policy changes with future effective dates to be included in future *Servicing Guide* updates.

Lender Letters are numbered in chronological order as: LL-2015-XX.

- Servicing Notices provide notification of information not impacting the *Servicing Guide* content, such as updates to an Exhibit on Fannie Mae’s website.

Fannie Mae does not mail printed copies of Guide updates, Servicing Announcements, Lender Letters, or Servicing Notices. Fannie Mae notifies servicers of changes and updates to its Servicing Guide policies and procedures — as communicated in Servicing Announcements, Lender Letters, and Servicing Notices — in two ways:

- posting the documents on Fannie Mae’s website and the AllRegs® website, and
- email notification of those postings to servicers that subscribe to Fannie Mae’s email subscription servicer and select the option “Servicing News”.

### **Exhibits and Forms Incorporated by Reference**

Printed copies may not be the most current version. For the most current version, go to the online version at <http://fanniemae.com/singlefamily/servicing>.

Information about specific forms the servicer must use to fulfill the policies and requirements contained in the *Servicing Guide* is provided within the Guide. Servicers can access the actual forms in two ways:

- on Fannie Mae’s website via the Guide Forms and Legal Docs page, which provides a complete list of all forms, or
- through embedded links in the *Servicing Guide* on AllRegs or Fannie Mae’s website.

Some exhibits that relate to Fannie Mae policies and requirements are only referenced in the *Servicing Guide* but are posted in their entirety on Fannie Mae’s website. All materials referenced by hyperlink, such as forms, exhibits and reference materials that are posted to Fannie Mae’s website are incorporated by reference into the *Servicing Guide* and are fully enforceable.

In addition, from time to time, Fannie Mae issues product-specific guides or directives, which are incorporated into the *Servicing Guide* by reference. All forms, exhibits, and product-specific information — whether it currently exists or is subsequently created — referenced in the *Servicing Guide* now or later are legally a part of the *Servicing Guide* and Fannie Mae’s contract with its servicers.

### **Technical Issues**

In the event of technical difficulties or system failures with Fannie Mae’s website, with delivery of the “Servicing News” options of Fannie Mae’s email subscription servicer, or with the AllRegs website, users may contact the following resources:

- For Fannie Mae’s website and Fannie Mae’s email subscription servicer, the servicer may use the “Contact Us” link of the website to ask a question or obtain more information.
- For the AllRegs website, the servicer may submit an email support request from the AllRegs website or contact AllRegs Customer Service at (800) 848–4904.

### **When Questions Arise**

The *Servicing Guide* explains how to become an approved Fannie Mae servicer and the policies and requirements required to perform normal and routine servicing matter. If a servicer feels that a situation is not covered by the *Servicing Guide*, or a procedure may not apply due to extenuating circumstances, the servicer’s principal contact should be its lead Fannie Mae Servicing Representative (see F-4-03, List of Contacts) unless specifically instructed otherwise in the *Servicing Guide*.

For a list of other Fannie Mae contact information, refer to Quick Reference Materials in the *Servicing Guide*.

# Part A, Doing Business with Fannie Mae



## Doing Business with Fannie Mae

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### Introduction

This part describes the processes and procedures required when doing business with Fannie Mae.

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### In This Part

This part contains information on the following:

Subpart A1, Contractual Obligations . . . . .	2
Subpart A2, Getting Started with Fannie Mae . . . . .	73
Subpart A3, Maintaining Fannie Mae Servicer Status . . . . .	197
Subpart A4, Setting Up Servicer Operations . . . . .	217

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# Subpart A1, Contractual Obligations



## Contractual Obligations

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### Introduction

This subpart describes contractual obligations in doing business with Fannie Mae.

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### In This Subpart

This subpart contains the following chapters:

A1-1, Understanding the Lender Contract . . . . .	3
A1-2, Termination of the Lender Contract without Cause . . . . .	17
A1-3, Repurchases, Indemnifications, and Make Whole Payment Requests . . . . .	22
A1-4, Breach of Contract and Nonperformance . . . . .	55

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# Chapter A1-1, Understanding the Lender Contract



## Understanding the Lender Contract

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### Introduction

This chapter contains information on understanding the lender contract.

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### In This Chapter

This chapter contains information on the following topics:

A1-1-01, Definition of “Seller/Servicer” (11/12/2014) . . . . .	3
A1-1-02, Application and Approval of Seller/Servicer (11/12/2014) . . . . .	4
A1-1-03, Nature of the Contractual Relationship (11/12/2014) . . . . .	6
A1-1-04, Evaluating a Servicer’s Performance (11/12/2014) . . . . .	13

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## A1-1-01, Definition of “Seller/Servicer” (11/12/2014)

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The *Fannie Mae Single-Family Servicing Guide* (hereinafter referred to as the “*Servicing Guide*”) uses the term “seller/servicer” to refer to a seller and/or servicer that may be any or all of the following parties involved in the origination, sale, delivery, and/or servicing of any type of Fannie Mae mortgage loan:

- a seller who is or is not a servicer,
- a servicer who is or is not a seller or lender,
- the originator of the mortgage loan,
- a lender, and/or

- the responsible party.

The use of the phrase “seller/servicer” includes all such parties involved in business with Fannie Mae and its use does not exclude or limit in any capacity the responsibility of such party to Fannie Mae.



## **A1-1-02, Application and Approval of Seller/Servicer (11/12/2014)**

### **Introduction**

Sellers/servicers must be approved to do business with Fannie Mae. Fannie Mae determines a seller/servicer’s qualifications by reviewing the seller/servicer’s financial condition, organization, staffing, servicing experience, and other relevant factors.

Fannie Mae’s standard approval is for the sale and/or servicing of single-family mortgage loans (excluding those mortgage loans delivered under a negotiated contract).

This topic contains the following:

- Seller/Servicer Eligibility
- Application Requirements and Review Fee
- Special Seller/Servicer Approval and Mortgage Selling and Servicing Contract Addendum

### **Seller/Servicer Eligibility**

Approval or rejection of a seller/servicer’s application is at Fannie Mae’s sole discretion and is based on Fannie Mae’s business judgment with respect to the totality of the seller/servicer’s circumstances. A seller/servicer must meet the following minimum requirements described in the table below to be considered for approval to sell and/or service residential first lien mortgage loans.

✓	<b>At a minimum, the servicer must...</b>
	Have as its principal business purpose, the origination, selling, and/or servicing of residential mortgage loans.
	Have demonstrated the ability to originate, sell, and/or service the types of mortgage loans for which approval is being requested.

✓	<b>At a minimum, the servicer must...</b>
	Have adequate facilities and staff experienced in originating, selling, and/or servicing the types of mortgage loans for which approval is being requested.
	Be duly organized, validly existing, properly licensed (in good standing) or otherwise authorized to conduct its business in each of the jurisdictions in which it originates, sells, and/or services residential mortgage loans.
	Meet Lender Adjusted Net Worth requirements established in A3-3-01, Net Worth, Liquidity, and Credit Rating Requirements and any other financial standards or additional net worth and liquidity eligibility criteria the seller/servicer may be required to satisfy based on specific circumstances.
	Have internal audit and management control processes to evaluate and monitor the overall quality of its mortgage loan production and/or servicing.
	Have written procedures for the approval and management of vendors and other third-party service providers.
	Have a fidelity bond and an errors and omissions policy in effect and agree to modify them as necessary to meet Fannie Mae requirements.
	Satisfy any additional eligibility criteria Fannie Mae imposes. Such additional criteria may apply to: <ul style="list-style-type: none"> <li>• individual sellers or servicers,</li> <li>• all sellers/servicers that are seeking approval to sell and/or service certain types of mortgage loans,</li> <li>• all sellers/servicers that share certain characteristics, or</li> <li>• all sellers/servicers.</li> </ul>

Fannie Mae approves or disapproves a seller/servicer based on an assessment of its total circumstances; therefore, a seller/servicer that satisfies Fannie Mae’s general eligibility criteria or any special criteria does not have an absolute right to be approved.

Sellers/servicers are not required to purchase or own Fannie Mae stock as a condition of eligibility.

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### **Application Requirements and Review Fee**

Sellers/servicers applying to do business with Fannie Mae must submit the documentation and basic application review fee described on Fannie Mae’s website. Application review fees are not refundable.

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## Special Seller/Servicer Approval and Mortgage Selling and Servicing Contract Addendum

Certain mortgage loan types require special approval to deliver or service. The following special approvals will be documented by an addendum to the MSSC between Fannie Mae and the seller/servicer:

- co-op share mortgage loans,
- second lien mortgage loans,
- HomeStyle® renovation mortgage loans,
- Texas Section 50(a)(6) mortgage loans, and
- electronic mortgage loans (eMortgages).

Servicers may request approval to service these mortgage loans through its Fannie Mae Servicing Representative (see F-4-03, List of Contacts). Servicers may not service these mortgage loan types unless they obtain the applicable special approval and execute any additional agreements required by Fannie Mae.



## A1-1-03, Nature of the Contractual Relationship (11/12/2014)

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### Introduction

This topic contains the following:

- Overview of the MSSC and Lender Contract
- Defining the Responsible Party
- Fannie Mae's Choice of Law
- Representation and Warranty Requirements for All Fannie Mae Mortgage Loans
- Representation and Warranty Requirements for Mortgage Loans with Mortgage Insurance
- Indemnification for Losses

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## Overview of the MSSC and Lender Contract

Once Fannie Mae approves the seller/servicer, both parties execute the MSSC and any other relevant agreements needed at the time to establish the terms and conditions of the contractual relationship. The continuation of that relationship depends on both parties honoring the mutual promises in the MSSC and on the seller/servicer satisfying the requirements of all of the agreements, including, without limitation:

- the *Selling Guide*, the *Servicing Guide*, the *Servicing Guide Procedures*, the *Guide to Delivering eMortgage Loans to Fannie Mae*, the *Requirements for Document Custodians*, and the *Multifamily Guide(s)* (if applicable) (the “Guides”);
- the *Reverse Mortgage Loan Servicing Manual*, the *Investor Reporting Manual*, and the *Balloon Mortgage Loan Servicing Manual* (the “Manuals”);
- any supplemental servicing instructions or directives provided by Fannie Mae;
- any Announcements, Lender Letters, Notices, release notes, and information posted on Fannie Mae’s website that is incorporated by reference into the *Selling* or *Servicing Guide*;
- all applicable master agreements (including MBS pool purchase contracts and variances), recourse agreements, repurchase agreements, indemnification agreements, loss-sharing agreements, and any other agreements between Fannie Mae and the seller/servicer;
- any other agreement(s) a seller/servicer has entered into with Fannie Mae; and
- all such items as amended, modified, restated, or supplemented from time to time.

The seller/servicer’s obligations under all of the agreements described above are referred to in the *Servicing Guide* in their entirety as the “Lender Contract.”

The MSSC establishes the basic legal relationship between the seller/servicer and Fannie Mae. Specifically as to servicing, the MSSC, when executed

- establishes the seller/servicer as an approved servicer of applicable mortgage loans;
- provides the general terms and conditions for servicing;
- incorporates by reference the terms of the Guides and any supplementary matter such as the *Servicing Guide Procedures*, Manuals, Announcements, Lender Letters, directives, Notices, forms and exhibits and any other procedures and documents which may be incorporated by reference into the Guides, all as amended from time to time; and

- may state the types of mortgage loans the seller/servicer may sell and/or service.

Sellers/servicers must originate and service mortgage loans in a sound, businesslike manner, in accordance with applicable law and good judgment. Engaging in business practices that have the apparent intent of avoiding Fannie Mae requirements that would ordinarily apply violates the Lender Contract.

All of the items that make up the Lender Contract form a single integrated MSSC and not a separate contract or agreement.

Notwithstanding any other provisions in the Guides, or any assignment or transfer of servicing by a seller/servicer to another entity:

- The seller/servicer's benefits and obligations with respect to its contractual rights to service mortgage loans are, and were at the time of execution of the Lender Contract, fully integrated and non-divisible from the seller/servicer's benefits and obligations with respect to its contractual rights and obligations to sell mortgage loans under the Lender Contract.
- Absent such integration, Fannie Mae would not have entered into, or continued to be bound by, the Lender Contract and would not have entered into, or continued to be bound by, separate agreements with the seller/servicer providing for the contractual right to sell or to service mortgage loans for Fannie Mae.
- When Fannie Mae consents to a transfer of servicing, it relies on the integration and non-divisibility of the Lender Contract. Unless explicitly agreed to the contrary in writing by Fannie Mae, Fannie Mae requires that
  - the transferor servicer remain obligated for all selling and servicing representations and warranties and recourse obligations upon the transfer of servicing, and
  - the transferee servicer, whether the original seller, responsible party, or a transferee servicer, undertake and assume joint and several liability for all selling representations and warranties, all servicing responsibilities and liabilities, and all recourse obligations related to the mortgage loans it services.

Regardless of the medium through which they are issued, including without limitation, information posted on Fannie Mae's website, all of Fannie Mae's communications (Guides, Manuals, Announcements, Lender Letters, and Notices) are incorporated into the Guides by reference. These communications are the instructions Fannie Mae provides to enable a servicer to perform its obligations to Fannie Mae under the terms of the MSSC.

Certain information and requirements are posted on Fannie Mae's website. This information and the requirements are incorporated by reference into the Guides.

No borrower or other third party is intended to be a legal beneficiary of the MSSC or to obtain any such rights or entitlements through our seller/servicer communications.

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### **Defining the Responsible Party**

The *Servicing Guide* references “seller,” “servicer,” “lender,” and “seller/servicer”. The *Servicing Guide* generally describes the relationship between Fannie Mae and the servicer. However, the particular designation should not be considered an exclusion with respect to an entity’s responsibilities in connection with a particular mortgage loan. Depending on the structure of the transaction in question, the entity that has the responsibility for a selling representation and warranty or for the servicing responsibilities or liabilities may be

- both the seller and the servicer,
- either the seller or the servicer, or
- neither the seller nor the current servicer.

The “responsible party” means a seller, servicer, or other entity that is responsible for the selling representations and warranties and/or for the servicing responsibilities or liabilities on a mortgage loan.

Terms not defined in the *Servicing Guide* have the meaning given them in the *Selling Guide*.

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### **Fannie Mae’s Choice of Law**

Fannie Mae has adopted New York law as its choice of law provision for the Lender Contract. This *Servicing Guide* shall be construed, and the rights and obligations of Fannie Mae and the seller, servicer, and/or responsible party hereunder determined, in accordance with the laws of the State of New York without regard to its conflict of law rules.

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### **Representation and Warranty Requirements for All Fannie Mae Mortgage Loans**

In order to sell mortgage loans to Fannie Mae or deliver pools of mortgage loans to Fannie Mae for MBS, the seller makes certain representations and warranties concerning the seller itself as well as the mortgage loans it is selling or delivering. The MSSC contains specific representations and warranties as does the *Selling Guide*. Additional representations and warranties are contained in the *Servicing Guide* and elsewhere in the Lender Contract. Violation of any representation or warranty is a breach of the Lender Contract, including the warranty that the mortgage loan

complies with all applicable requirements of the Lender Contract, which provides Fannie Mae with certain rights and remedies.

All selling representations and warranties are made to Fannie Mae as of the date a seller/servicer transfers mortgage loans to Fannie Mae and continue and survive

- the sale of mortgage loans to Fannie Mae or delivery of pools of mortgage loans for Fannie Mae MBS,
- any subsequent resale of the mortgage loans by Fannie Mae, and
- termination of the MSSC and any agreement that is part of the Lender Contract unless Fannie Mae expressly releases the seller/servicer from them in writing.

The seller/servicer makes each representation and warranty set forth in the Lender Contract separately and independently from every other warranty it makes for a specific mortgage loan.

Representations and warranties are not limited to matters of which the seller/servicer had knowledge, except for the warranties numbered 10, 11, and 17 of Section IV, A: Specific Warranties, of the MSSC, which are violated only if the seller/servicer had knowledge of the untruth or, acting as a prudent seller/servicer, should have known about it through the exercise of due diligence. Although warranty number 17 is limited to matters of which the seller/servicer has knowledge or, as a prudent seller/servicer, should have discovered, this limitation does not in any way limit the seller/servicer's warranty number 1 that the mortgage loan meets all applicable requirements in the Lender Contract, nor does it affect any other warranty. Sellers/servicers are deemed to know matters that are of public record.

Because the selling warranties are not limited to matters within a seller/servicer's knowledge, except as noted above, the action or inaction (including misrepresentation or fraud) of the borrower, or a third party, as well as the action or inaction (including misrepresentation or fraud) of the seller/servicer will constitute the seller/servicer's breach of a selling warranty.

A servicer that acquires the servicing of a mortgage loan (either concurrently with or subsequent to Fannie Mae's purchase of the mortgage loan) assumes and is responsible for the same selling warranties that the party responsible for the selling representations and warranties made when the mortgage loan was sold to Fannie Mae. When a servicer transfers its contractual right to service some or all of its servicing responsibilities to another Fannie Mae-approved servicer, any variance or waiver granted to a transferor servicer does not automatically transfer to the transferee servicer. In addition, the transferor servicer and transferee servicer must ensure that all existing special servicing obligations associated with the transferred mortgage loan are disclosed.

By submitting any mortgage loan or participation interest to Fannie Mae under any execution, including MBS, or a portfolio mortgage loan, the seller/servicer represents and warrants that



- there is no agreement with any other party providing for servicing the mortgage loans that continues after such date unless there is full compliance with all the Fannie Mae Guide requirements for subservicing, or
- any prior servicing agreement is made expressly subordinate to Fannie Mae's rights as owner of the mortgage loans.

The party that was servicing for the seller/servicer prior to such date may become the servicer for Fannie Mae, if there is full compliance with all the *Servicing Guide* requirements that provide for assignment of servicing from the seller/servicer concurrent with conveyance of the mortgage loan to Fannie Mae. (For more information, refer to the requirements of A2-7-01, Concurrent Servicing Transfers.)

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### **Representation and Warranty Requirements for Mortgage Loans with Mortgage Insurance**

The seller represents and warrants that each mortgage loan it sells and delivers is insurable and that no fraud or material misrepresentation has been committed

- by any employee, any agent of the responsible party, or any third party including, without limitation, the borrower;
- by act or omission, in connection with the origination of the mortgage loan or servicing prior to the sale; and
- regardless of the level or type of documentation, verification, or corroboration of information that may be required by the *Selling Guide* or any other contract.

A mortgage loan is insurable if a mortgage insurer would not decline to insure it by reason of any fraud, misrepresentation, negligence, or dishonest, criminal, or knowingly wrongful act in origination or servicing, and would not be entitled to deny a claim by reason of any of the foregoing.

See Chapter B-8, Mortgage Insurance for additional information.

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### **Indemnification for Losses**

Fannie Mae requires a party that makes or assumes selling representations and warranties to Fannie Mae to indemnify and hold Fannie Mae (including its successors and assigns and its employees, officers, and directors individually when they are acting in their corporate capacity) harmless against all losses, damages, settlements, judgments, claims, legal actions, costs, expenses, attorney's fees, and other legal fees that are based on, or result from, the responsible

party's breach or alleged breach of its selling warranties or representations or its origination, delivering, or selling activities related to Fannie Mae-owned or Fannie Mae-securitized mortgage loans including any other liabilities that arise in connection with the mortgage loans or the servicing of them prior to the delivery of the mortgage loans to Fannie Mae.

Similarly, Fannie Mae requires a servicer to indemnify and hold Fannie Mae (including its successors and assigns and its employees, officers, and directors individually when they are acting in their corporate capacity) harmless against all losses, damages, judgments, settlements, claims, legal actions, costs and expenses, attorney's fees, and other legal fees that are based on, or result from, the servicer's failure or alleged failure to satisfy its duties and responsibilities for mortgage loans or MBS pools it services for Fannie Mae under the provisions of the Lender Contract any additional requirements that may have been imposed, or any additional obligations the servicer has assumed with respect to such mortgage loans or MBS pools.

In addition, the obligation of a party that makes or assumes selling representations and warranties on mortgage loans secured by manufactured homes to indemnify Fannie Mae in certain circumstances encompasses all losses, damages, judgments, settlements, claims, legal actions, costs and expenses, attorney's fees and other legal fees that are based on, or result from, a breach or alleged breach of obligations owed to the borrower by the manufacturer or by any party that sells the manufactured home to the borrower, delivers it to the site, or installs it at the site.

The indemnities set forth above apply regardless of whether Fannie Mae is a party to the lawsuit or other proceeding (for example, the indemnity would apply if Fannie Mae is served with a subpoena in connection with a suit concerning an indemnifiable claim to which Fannie Mae is not a party). The indemnities set forth above likewise apply regardless of whether the claim, suit, or proceeding has merit. However, the indemnification would not include losses resulting solely from the indemnifying party following the written instructions of Fannie Mae given during a claim, suit, or proceeding.

All payments for indemnification are due within 60 days of demand or within such other time frame as specified by Fannie Mae unless an appeal is made to Fannie Mae. If an appeal is denied, the responsible party must submit the indemnification payment within 15 days from the date of Fannie Mae's denial of the appeal.

The indemnities set forth above do not modify or otherwise affect Fannie Mae's right to manage its defense for any claim, suit, or proceeding in accordance with its own judgment, including, but not limited to selecting its own counsel. If Fannie Mae chooses its own counsel, the indemnifying party will still be obligated to the full extent of the indemnities set forth above, including but not limited to paying the attorney's fees and costs of counsel selected by Fannie Mae. If Fannie Mae decides that its interests and the party's coincide, Fannie Mae may decide to cooperate with the party in a joint defense.



## **A1-1-04, Evaluating a Servicer's Performance (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Performance Management Framework Overview
  - Servicing Performance Categories
  - Evaluating Performance
  - Implementing Performance Improvement Plans
- 

### **Performance Management Framework Overview**

In order to determine the servicer's compliance with its servicing duties under the Lender Contract, Fannie Mae measures the servicer's performance utilizing various performance metrics, which may include servicer reviews and the STAR™ Program for those servicers which Fannie Mae has identified for inclusion in the Program.

Servicers selected to participate in the STAR Program will receive written notification from Fannie Mae prior to being added into the program.

The STAR Program is one of Fannie Mae's performance management frameworks designed to determine the servicer's overall performance based on operational assessments and scorecards. The STAR Reference Guide is the program's primary information resource. The STAR Reference Guide is located on Fannie Mae's website on the STAR Program page and is incorporated herein by reference. Fannie Mae may change the STAR Reference Guide from time to time.

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### **Servicing Performance Categories**

Operational assessments and servicer reviews measure the servicer's performance based on key criteria in certain servicer performance categories, which may include, but are not limited to the following:

- customer service;

- escrow administration;
- property (hazard), flood, and mortgage insurance;
- collections;
- loss mitigation;
- investor relations/reporting;
- mortgage loan payment processing;
- bankruptcy, foreclosure, and REO management;
- data integrity;
- delinquency and annual financial and management reporting;
- document custody and record retention;
- remitting; and
- accounting and reporting.

Fannie Mae reserves the right, from time to time, to

- amend the performance criteria,
- modify how the results are determined, and
- revise the content of the performance metrics.

Fannie Mae may also communicate individual performance targets which may not be included in the STAR Program operational assessments and scorecards. Fannie Mae must regularly monitor each servicer's performance.

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### **Evaluating Performance**

Fannie Mae considers many factors when it evaluates whether the servicer's overall performance is acceptable, including, without limitation, the following:

- trends in performance,
- adequacy of staffing,

- compliance reviews and audits,
- STAR Program results,
- mortgage loan file reviews,
- timeliness of its payment obligations, and
- overall compliance with the requirements of the Lender Contract.

A servicer will be presumed to have unacceptable STAR Program results if the servicer's STAR Program ranking is in the bottom 25% of ranked servicers. Servicers with unacceptable performance, including those who are presumed to have unacceptable performance because their STAR Program ranking is in the bottom 25% of ranked servicers, may be required, in Fannie Mae's sole discretion, to enter into a performance improvement plan. Servicer reviews, scorecards, and operational assessments are considered to be "confidential information" for purposes of the *Servicing Guide*.

The performance improvement plan may be an alternative to the immediate termination of the Lender Contract. Fannie Mae reserves the right to terminate the servicer's Lender Contract in whole or in part, including its selling and/or servicing arrangement at any time with or without cause, in accordance with the Lender Contract.

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### **Implementing Performance Improvement Plans**

Fannie Mae expects all servicers to service all mortgage loans in full compliance with the Lender Contract. The servicer's performance may be measured by Fannie Mae through any number of servicing quality and compliance reviews, including the STAR Program, servicer reviews, as well as, timely payment of its obligations, compliance with the *Servicing Guide*, and other key performance metrics.

Servicers with unacceptable performance, including those that are presumed to have unacceptable performance because their STAR Program ranking is in the bottom 25% of ranked servicers, may be subject to a performance improvement plan issued by Fannie Mae.

Performance improvement plans may require the servicer to take actions and/or meet targets within defined time frames in order to remedy servicing deficiencies, which may include one or more of the following areas:

- customer service;
- escrow administration;

- property (hazard), flood, and mortgage insurance;
- collections;
- loss mitigation;
- investor relations/reporting;
- mortgage payment processing, remitting, accounting and reporting;
- bankruptcy, foreclosure and REO management;
- data integrity;
- delinquency and annual financial and management reporting; and
- document custody and record retention.

The failure of the servicer to meet the terms of its performance improvement plan, including any timeline requirements for the performance improvement, constitutes a breach of the Lender Contract and may result in Fannie Mae terminating the servicer's selling and/or servicing approvals in whole or in part or taking other appropriate actions under its Lender Contract.

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# Chapter A1-2, Termination of the Lender Contract without Cause



## Termination of the Lender Contract without Cause

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### Introduction

This chapter contains information on the termination of the Lender Contract without cause.

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### In This Chapter

This chapter contains the following sections:

A1-2-01, Servicer's Termination of the Lender Contract (11/12/2014) . . . . .	17
A1-2-02, Fannie Mae's Termination of the Lender Contract without Cause (11/12/2014). . . . .	18

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## A1-2-01, Servicer's Termination of the Lender Contract (11/12/2014)

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The servicer or Fannie Mae may terminate the servicing arrangement without cause. By giving Fannie Mae advance written notice, the servicer may terminate its contractual rights to the servicing of all Fannie Mae mortgage loans and MBS pools or participation interests in mortgage loans for all of the mortgage loans and MBS pools it is servicing without providing for a transferee servicer to assume the servicing obligations, responsibilities, and liabilities. However, when the servicer elects to terminate its contractual rights to the servicing of mortgage loans or participation interest in mortgage loans, the servicer is responsible for all reasonable and customary costs and expenses related to the transfer of servicing in connection with a termination.

The servicer's termination of its servicing arrangement does not release it from any of its responsibilities or liabilities related to specific mortgage loans and MBS pools that Fannie Mae

purchased or securitized (or contracted to purchase or securitize) before the termination, unless Fannie Mae expressly agrees in writing to release the servicer from those responsibilities or liabilities.

The termination will become effective on the last business day of the third month following the month in which the notice is given. Absent Fannie Mae's written agreement, the servicer may not terminate its servicing rights for less than all of the mortgage loans or participation interests in mortgage loans that it is servicing for Fannie Mae.



## **A1-2-02, Fannie Mae's Termination of the Lender Contract without Cause (11/12/2014)**

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### **Introduction**

Fannie Mae may terminate the servicer's contractual right to service without cause, in accordance with the MSSC.

Also, see A1-4.1-02, Fannie Mae's Remedies for information on Fannie Mae's right to terminate with cause.

Fannie Mae will give the servicer a termination notice. Any responsibilities or liabilities related to specific portfolio or MBS mortgage loans that the servicer had before the termination will continue to exist after the termination unless Fannie Mae expressly agrees in writing to release the servicer from those responsibilities and liabilities.

When Fannie Mae terminates the Lender Contract, the servicer must comply with instructions provided by Fannie Mae regarding requirements reasonably necessary to effectuate the transfer of servicing in connection with a termination.

The servicer shall be responsible for all reasonable and customary costs and expenses related to the transfer of servicing in connection with a termination.

This topic contains the following:

- Servicer Options When the Termination without Cause Is Not Connected to the Sale of the Mortgage Loan
- When the Termination without Cause Is Connected to the Sale of the Mortgage Loan
- Transfer of Servicing Due to Delinquency Status



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## **Servicer Options When the Termination without Cause Is Not Connected to the Sale of the Mortgage Loan**

If Fannie Mae elects to terminate the servicing without cause and the termination is not in connection with the sale of Fannie Mae's interest in the affected mortgage loans, the servicer may attempt to arrange for a sale of the servicing of the mortgage loans to another Fannie Mae-approved servicer within the 90-day period following the issuance of Fannie Mae's termination notice. The servicing must be sold to another Fannie Mae-approved servicer in good standing that, in Fannie Mae's judgment, will properly service the mortgage loans to be transferred. Before the end of the 90 days, the servicer must notify Fannie Mae of any proposed sale, providing related information for Fannie Mae's consideration. Fannie Mae must approve the transfer before the sale can be completed. Fannie Mae's approval will not be unreasonably withheld.

If Fannie Mae approves the transfer, it must be completed within 60 days after the date of approval and is subject to the following conditions:

- The transferor servicer (seller) is entitled to all the proceeds of the sale of servicing, but it must pay all costs and expenses related to the transfer. Fannie Mae will not pay a termination fee.
- The transferee servicer (purchaser) must assume
  - warranties that were made to Fannie Mae when Fannie Mae purchased or securitized the mortgage loans being transferred, and
  - all of the transferor servicer's contractual obligations covering the servicing of the transferred mortgage loans, including (but not limited to) any outstanding claims.

Once the transfer becomes effective, the transferee servicer (purchaser) will be granted the same contractual rights and servicing compensation that the transferor servicer had received. The transferee servicer's (purchaser's) assumption of these warranties and obligations does not, in any way, release the transferor servicer from its obligations related to selling representations and warranties and servicing responsibilities or liabilities.

Fannie Mae may terminate the servicer's Lender Contract on the 15th day following the end of the 90-day period if, at the end of the 90-day period following Fannie Mae's termination notice without cause

- the servicer has not arranged to sell its servicing and given Fannie Mae the required notice, or
- Fannie Mae does not approve the proposed transfer.

Fannie Mae may then transfer the servicing to the servicer of its choice. If Fannie Mae decides to do so, it may publicly announce that it is soliciting bids for the purchase of the servicing rights from Fannie Mae–approved servicers that are in good standing. Within ten days after any public announcement, Fannie Mae may negotiate and effect the sale of the servicing rights to the highest satisfactory bidder.

Regardless of whether Fannie Mae publicly solicits bids, it must pay the transferor servicer a termination fee (reduced by reasonable and customary costs and expenses related to the transfer of servicing).

**Termination Fee for Mortgage Loans Delivered Prior to January 1, 2013:** For mortgage loans delivered prior to January 1, 2013, the termination fee is the amount equal to two times the servicer’s annualized servicing compensation—base servicing fee plus any excess yield—for the mortgage loan as of the termination date.

**Termination Fee for Mortgage Loans Delivered On or After January 1, 2013:** For mortgage loans delivered on or after January 1, 2013, the termination fee for a without cause termination is based on conditions existing as of the transfer date. The termination fee is an amount equal to the lesser of the following:

- Two times the Net Servicing Rate multiplied by the unpaid principal balance as of the date of transfer of those mortgage loans subject to termination that are not delinquent. For purposes of this calculation, a mortgage loan will be deemed to be delinquent if as of a month end transfer date any payment is outstanding. In the event of a servicing transfer date that takes place other than at month end, a mortgage loan will be deemed to be delinquent if there is any payment outstanding as of the month end immediately preceding the transfer date. No termination fee will be paid for a delinquent mortgage loan.
- The market value of the contractual right to service the mortgage loans as established by a qualified market leader in servicing valuations using costs reflective of Fannie Mae’s cost to engage a subservicer, applying protocols appropriate for the risk of the portfolio as determined by Fannie Mae in its sole discretion.

For purposes of calculating the termination fee, the “Net Servicing Rate” means the note rate of the mortgage loan less all of the following: a) the pass-through rate due Fannie Mae, b) any guaranty fee due Fannie Mae, c) any excess servicing not retained by the servicer, d) any lender paid mortgage insurance, and e) any other component of the note rate that the servicer is not entitled to retain for servicing the loan, expressed as an annualized fractional percentage.

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### **When the Termination without Cause Is Connected to the Sale of the Mortgage Loan**

When Fannie Mae terminates the servicer’s servicing arrangement without cause and in connection with a sale of all of Fannie Mae’s interest in the affected mortgage loans, the

servicer will have no further rights in the servicing of the mortgage loans it had been servicing for Fannie Mae.

For mortgage loans delivered prior to January 1, 2013, the termination fee in such a situation will be an amount equal to two times the servicer's annualized servicing compensation—base servicing fee plus any excess yield—for the mortgage loan as of the termination date.

For mortgage loans delivered on or after January 1, 2013 for which Fannie Mae terminates the servicer's servicing arrangement without cause and in connection with a sale of Fannie Mae's interest in the affected mortgages loans, Fannie Mae will apply the same termination fee calculation utilized for terminations without cause referenced above applicable to mortgage loans delivered on or after January 1, 2013. However, if the servicing responsibilities or liabilities for a mortgage loan are retained by servicer in connection with the sale of Fannie Mae's interest, no termination fee will be paid.

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### **Transfer of Servicing Due to Delinquency Status**

For mortgage loans delivered on or after January 1, 2013 Fannie Mae has the right to terminate and transfer the servicer's servicing rights in a mortgage loan, in the event the mortgage loan has two or more payments outstanding as of the "Determination Date," which is defined as a day of a month designated by Fannie Mae, taking into account necessary compliance with all applicable laws and regulations, including, without limitation, the federal RESPA and Regulation X, as amended. For example, a mortgage loan for which a monthly payment is due and owing for August 1 will have two payments outstanding as of September 2.

In the event Fannie Mae intends to exercise its right to terminate and transfer the servicer's servicing rights due to the delinquency status on mortgage loans delivered on or after January 1, 2013, Fannie Mae will give the servicer notice at least 90 days prior to the first applicable termination date. If Fannie Mae has given the servicer such 90 days notice, Fannie Mae may thereafter suspend its exercise of such termination and transfer rights at any time; provided, however that upon the written request of the servicer Fannie Mae will provide up to 180 days notice prior to suspending the exercise of such termination and transfer rights.

All terminations and transfers effectuated pursuant to delinquency status are effective as of the last day of the transfer month. Fannie Mae will not pay a termination fee in connection with a termination of the servicer's servicing rights due to delinquency status. The mortgage loan servicing will transfer to and remain with the new servicer, even if the mortgage loan becomes current after the Determination Date.

# Chapter A1-3, Repurchases, Indemnifications, and Make Whole Payment Requests



## Repurchases, Indemnifications, and Make Whole Payment Requests

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### Introduction

This chapter includes information on repurchases, indemnifications, and make whole payment requests.

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### In This Chapter

This chapter contains information on the following topics:

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## **A1-3-01, Requirements for Voluntary Repurchase (11/12/2014)**

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### **Introduction**

The servicer may initiate a request for Fannie Mae’s approval to repurchase portfolio mortgage loans that it is servicing for a number of reasons, including when the servicer

- wishes to discontinue its contractual relationship with Fannie Mae, or
- is discontinuing its overall operations and plans to place its servicing portfolio with a servicer that does not do business with Fannie Mae.

There may be other reasons for a voluntary repurchase, such as when the servicer or responsible party

- plans to remove a delinquent regular servicing option mortgage loan from an MBS pool, or
- decides to remove a mortgage loan from an MBS pool to allow an assumption of the mortgage loan, when permitted as described in Voluntary Repurchase of Certain MBS Mortgage Loans.

Fannie Mae will only approve requests to repurchase an MBS mortgage loan for the reasons stated in this topic.

Following the repurchase of any mortgage loan, losses are the responsibility and legal obligation of the responsible party. For modified mortgage loans, the responsible party must comply with all legal obligations in connection with the mortgage loan, including any legal obligation to pay a borrower any earned “pay for performance” incentives.

This topic contains the following:

- Voluntary Repurchase of Portfolio Mortgage Loans
  - Voluntary Repurchase of Certain MBS Mortgage Loans
- 

### **Voluntary Repurchase of Portfolio Mortgage Loans**

When the servicer or responsible party wishes to repurchase a mortgage loan that Fannie Mae holds in its portfolio for any reason other than those discussed above, it must submit

a written offer to the Centralized Repurchase Team (see F-4-03, List of Contacts). Fannie Mae will not approve requests to repurchase a portfolio mortgage loan in connection with a conditional tender of payment that is used as an alternative to refinancing the mortgage loan. See A2-2-03, Prohibited Refinance Practices for additional information.

The following table describes the requirements for the offer to repurchase portfolio mortgage loans.

✓	<b>To offer to repurchase portfolio mortgage loans, the requesting party must...</b>
	Identify the mortgage loans to be repurchased by coupon rate and participation certificate yield (if applicable).
	Explain the reason for the request.
	Set forth the specific terms and conditions of the repurchase.
	Specify the purchase price the requesting party is offering.

After evaluating the offer, Fannie Mae will notify the requesting party of its acceptance or declination of any counteroffer the requesting party proposes.

### **Voluntary Repurchase of Certain MBS Mortgage Loans**

Under certain circumstances, an MBS mortgage loan (or Fannie Mae’s participation interest in it) *must* be repurchased from the pool (see Mandatory Repurchase of Certain MBS Mortgage Loans in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations). However, the following table describes the circumstances under which the servicer *has the option* to repurchase the mortgage loan from the MBS pool.

<b>Option</b>	<b>Circumstance</b>
Optional repurchase of a delinquent regular servicing option MBS mortgage loan	<p>A mortgage loan that has four consecutive payments past due may be repurchased from the MBS pool.</p> <p style="text-align: center;"><b>Note:</b> Fannie Mae/Freddie Mac uniform first lien mortgage loan security instruments provide that a payment is past due if not paid by close of business on the stated due date, which is normally the first day of the month).</p> <p>If the requesting party chooses not to repurchase the mortgage loan at this time, the servicer must continue to advance scheduled P&amp;I payments</p>

Option	Circumstance
	for the mortgage loan until it is removed from the MBS pool. See C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for additional information.
Optional repurchase related to due-on sale enforcement	<p>The servicer may repurchase the mortgage loan as an alternative to enforcing the due-on-sale (or due-on-transfer) provision. The due-on-sale (or due-on-transfer) provision is enforceable when the servicer has knowledge that a mortgaged property has been or is about to be conveyed by the borrower in violation of the due-on-sale (or due-on-transfer) provision, requiring the servicer to call the mortgage loan due and payable. See D1-4.1-01, Determining Whether a Transfer of Ownership Is Permitted for additional information.</p> <p>After removing the mortgage loan from the MBS pool, the servicer may allow an assumption of the mortgage loan. If the new borrower is creditworthy and the mortgage loan meets all of Fannie Mae’s current eligibility requirements, the servicer is authorized to subsequently submit the assumed mortgage loan to Fannie Mae for purchase under any of Fannie Mae’s standard commitments for cash deliveries or as part of an MBS pool delivery.</p>

The servicer of a special servicing option MBS mortgage loan also may repurchase the mortgage loan from the pool as an alternative to enforcing the due-on-sale (or due-on-transfer) provision as described above, but that repurchase requires prior approval by Fannie Mae. Similarly, after removing the mortgage loan from the MBS pool, the servicer may allow an assumption of the mortgage loan.



## **A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations (02/11/2015)**

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### **Introduction**

This topic contains the following:

- Overview of Fannie Mae-Initiated Repurchases, Indemnifications, and Make Whole Payment Requests
  - Repurchase, Indemnification, or Make Whole Payment Requests Response Time Frames and Appeal Process
  - Repurchase as a Result of Mortgage Insurance Coverage Violations
  - Mandatory Repurchase of Certain MBS Mortgage Loans
  - Calculating Repurchase Proceeds
  - Alternatives to Repurchase
  - Deferred Payment Obligations (DPO)
  - Calculation of Indemnification Claim for Loss of Mortgage Insurance Benefits
- 

### **Overview of Fannie Mae-Initiated Repurchases, Indemnifications, and Make Whole Payment Requests**

Fannie Mae may, in addition to any other remedy available at law or in equity, require a party responsible for a breach to pay a compensatory fee, repurchase Fannie Mae's interest in a mortgage loan, remit a make whole payment, or indemnify or otherwise hold Fannie Mae harmless for any loss or damages. If Fannie Mae, in its sole discretion, determines that a breach of a servicer's obligations may be cured, Fannie Mae may provide the servicer an opportunity to cure such breach within a specified time frame. Fannie Mae will strive to apply the most appropriate remedy that is commensurate with the associated level of risk to compensate Fannie Mae for the harm caused by the violation.

Fannie Mae may require the repurchase of a mortgage loan (or of an acquired property) or the remittance of a make whole payment for reasons including, but not limited to

- the breach of any contractual warranty (including instances of fraud or misrepresentation),



- under the terms of any applicable repurchase agreement or contract provisions, or
- because of servicing deficiencies that have a materially adverse effect on the value of the mortgage loan or security property.

Fannie Mae requires some repurchases because the terms under which the mortgage loans were purchased or securitized call for a repurchase under certain conditions or circumstances. Repurchases that fall into this category generally include those in which a portfolio or MBS mortgage loan is in violation of a contractual selling warranty or improper servicing of a portfolio mortgage loan has materially adverse effects on the value of a mortgage loan or acquired property. The Lender Contract provides remedies to Fannie Mae for the seller/servicer's nonperformance. Any remedies that are applied will, in Fannie Mae's sole judgment, be commensurate with the associated level of risk.

In some instances in which the seller/servicer has breached its selling warranties or representations, Fannie Mae may allow the seller/servicer to correct the warranty violation. The decision to repurchase or correct the warranty violation is solely at the discretion of Fannie Mae.

Following the repurchase of any mortgage loan, losses are the responsibility and legal obligation of the responsible party. For modified mortgage loans, the responsible party must comply with all legal obligations in connection with the mortgage loan, including any legal obligation to pay a borrower any earned "pay for performance" incentives.

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### **Repurchase, Indemnification, or Make Whole Payment Requests Response Time Frames and Appeal Process**

Fannie Mae's National Underwriting Center reviews a percentage of the mortgage loans Fannie Mae purchases or securitizes to ensure that they meet Fannie Mae's eligibility criteria and underwriting standards. Fannie Mae may review the servicing of mortgage loans that have experienced early payment defaults, those for which Fannie Mae has acquired the underlying property, as well as any other mortgage loan.

Fannie Mae may request the immediate repurchase of a mortgage loan when an early payment default full file quality control review reveals underwriting deficiencies, even if the mortgage loan has subsequently been brought current. Fannie Mae will continue to review any servicing files requested with the primary focus of confirming that the mortgage loan has been serviced in accordance with the Lender Contract.

Fannie Mae may also issue a repurchase or make whole payment request or pursue another remedy with the entity that is responsible for the selling representations or warranties or for the servicing responsibilities or liabilities (the "seller/servicer" or the "responsible party") and Fannie Mae may require the immediate repurchase of a mortgage loan or an acquired property or the remittance of make whole payments if Fannie Mae

- determines that there was a breach of any of the terms of any applicable contract provisions, including, without limitation, any selling warranty (including instances of fraud or misrepresentation), Fannie Mae determines that a selling warranty was untrue, or Fannie Mae determines that a mortgage loan failed to meet underwriting requirements or is otherwise ineligible; or
- identifies that the mortgage loan was not properly serviced in accordance with the requirements of the *Servicing Guide* and the improper servicing had materially adverse effects on the value of the mortgage loan or the property.

For servicing performance defects related to MBS mortgage loans, the mortgage loan must have been properly removed from an MBS pool on a separate basis consistent with the *Servicing Guide* before a repurchase demand is issued based on a servicing performance defect. A servicing performance defect, by itself, does not form a basis for removing a loan from an MBS Pool.

**Time Frames:** The seller/servicer must submit the requested documentation for an underwriting or servicing review so that Fannie Mae receives the file within 30 days after Fannie Mae notifies the seller/servicer that it has selected a mortgage loan for review, unless Fannie Mae advises that it needs the files in a different time frame. Fannie Mae, in its sole discretion, may request the documentation in a shorter or longer period of time based upon circumstances at the time.

The seller/servicer must pay Fannie Mae the funds that are due in connection with a request for repurchase, indemnification, or make whole payment within 60 days after receipt of the request or within such other time frame as specified by Fannie Mae unless an appeal is made. For repurchase requests made on active mortgage loans (mortgage loans that have not been foreclosed upon or liquidated), the payment of the repurchase price may be made by the seller/servicer with its next scheduled remittance following the completion of the 60-day period.

See A2-4-01, Quality Control Reviews for the requirements when Fannie Mae receives an offer to purchase an acquired property prior to the completion of an underwriting or servicing review.

**Appeal Process:** The responsible party may submit a written appeal of Fannie Mae's repurchase, indemnification or make whole payment request within 60 days of its receipt of Fannie Mae's request. Fannie Mae, in its discretion, may identify a shorter or longer period of time to appeal in the repurchase request based upon circumstances at the time. The responsible party must

- submit to Fannie Mae all supporting documentation related to the appeal at one time in one consolidated package, and
- identify in the appeal the section of the *Servicing Guide* and/or Lender Contract that supports the appeal.

Written notification of a responsible party's intention to submit a complete appeal package at some future date does not satisfy the appeal requirement.

If no written appeal is received within the applicable 60-day time frame or the time frame identified by Fannie Mae in the request for repurchase, indemnification, or a make whole payment, it will be assumed that the responsible party does not contest the repurchase, indemnification or make whole payment demand and the repurchase, indemnification or make whole payment funds are due to Fannie Mae. Thereafter, the appeal process will be unavailable to the responsible party for that particular request.

If Fannie Mae denies the appeal, the responsible party must within 15 days from the date of Fannie Mae's denial letter, or within such time frame as specified by Fannie Mae, complete one of the following four actions:

- complete the repurchase of the mortgage loan or property,
- submit the indemnification or make whole payment,
- submit a second appeal if it has additional material information, or
- notify Fannie Mae of the name of the new servicer and the date of the servicing transfer if the repurchase involves a mortgage loan that will be involved in a servicing transfer.

For repurchases made on an active mortgage loan, the payment of the repurchase price may be made by the servicer with its next scheduled remittance following the completion of the 15 day period.

There are times when a repurchase of an active mortgage loan will involve the transfer of servicing to a new servicer. In such a situation, RESPA requires that the borrowers involved in the servicing transfer receive certain notices in advance of the servicing transfer. If the repurchase of a mortgage loan will involve a servicing transfer to a new servicer, Fannie Mae will provide the parties with additional time to process the repurchase so that all regulatory notices can be provided prior to the repurchase. However, Fannie Mae requires that the party responsible for such a repurchase notify Fannie Mae within the 15 day period described above that a servicing transfer will take place to the identified new servicer and the date of the servicing transfer. Once the transferring servicer has timely notified Fannie Mae that there will be a servicing transfer on an active mortgage loan, the repurchasing party must work with the current servicer to provide all necessary legal notices to the borrower. All repurchases of active mortgage loans involving a servicing transfer must occur at month end as quickly as reasonably possible following Fannie Mae's repurchase request or reaffirmation.

No other appeals are permitted without additional material information. Fannie Mae's decision on an appeal is conclusive. Fannie Mae is not obligated to consider any independent third-party repurchase review of the appeal.

Should Fannie Mae have to take legal action to enforce its right to require repurchase of a mortgage loan (or property), the responsible party also will be liable to Fannie Mae for Fannie Mae's attorney's fees, cost, and related expenses, as well as for any applicable consequential damages.

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### **Repurchase as a Result of Mortgage Insurance Coverage Violations**

The responsible party and the mortgage loan may be eligible for an alternative to repurchase when the mortgage insurance has been rescinded for mortgage loans acquired after July 1, 2014 if

- the responsible party meets Fannie Mae's eligibility criteria, and
- the only defect Fannie Mae identifies in the mortgage loan is the rescission of MI or the responsible party cures all defects identified, except the MI rescission defect, during the required cure period.

The mortgage insurance stand-in (or MI stand-in) is defined as the full mortgage insurance benefit that would have been payable under the original MI policy if the mortgage loan liquidates. If the responsible party and the mortgage loan are deemed eligible for an alternative to repurchase, then the responsible party will be offered one of two agreements for an MI stand-in.

A mortgage loan will not be eligible for the MI stand-in if

- Fannie Mae identifies other defects during the full file quality control review which the responsible party fails to cure during the required cure period, or
- the responsible party does not respond in a timely manner or submit all the required documents within the time frames required by Fannie Mae in A2-4-01, Quality Control Reviews.

If the responsible party cures the defects that made the mortgage loan ineligible for the MI stand-in, Fannie Mae will review the mortgage loan and responsible party for this alternative to repurchase.

The following table describes the requirements the eligible responsible party must meet after Fannie Mae receives notification that the MI has been rescinded.

<b>Step</b>	<b>Responsible Party Action</b>
1	Receives notification from Fannie Mae that the mortgage loan has been selected for a quality control review.
2	Within 30 days of receipt of the notification from Fannie Mae, submits

Step	Responsible Party Action
	<ul style="list-style-type: none"> <li>• a full mortgage loan servicing file, and</li> <li>• the supporting MI documentation.</li> </ul> <p>The supporting MI documentation includes, but is not limited to</p> <ul style="list-style-type: none"> <li>• a copy of the MI rescission letter,</li> <li>• all communication related to the rescission of the MI and rebuttal, and</li> <li>• the mortgage insurer’s investigation reports.</li> </ul>
3	<p>Receives a letter from Fannie Mae that states that the mortgage loan is eligible for an MI stand-in as an alternative to repurchase, if Fannie Mae determines that the mortgage loan is eligible for an MI stand-in.</p>
4	<p>Within 60 days of the date of the letter</p> <ul style="list-style-type: none"> <li>• notifies Fannie Mae of its interest in the MI stand-in,</li> <li>• repurchases the mortgage loan, or</li> <li>• has the MI reinstated and provides proof of the reinstatement to Fannie Mae.</li> </ul>
5	<p>If the responsible party indicates its interest in the MI stand-in, Fannie Mae will offer either</p> <ul style="list-style-type: none"> <li>• an Indemnification Agreement in which the responsible party agrees to immediately pay Fannie Mae the MI stand-in amount after liquidation, or</li> <li>• a Pledge and Security Agreement in which the responsible party agrees to immediately post liquid assets required by Fannie Mae.</li> </ul> <p><b>Note:</b> Fannie Mae will evaluate the financial condition of the eligible responsible party and determine which MI stand-in option to offer the responsible party.</p>
6	<p>Executes and returns the relevant documents and post collateral, if required, within the time frame specified.</p>

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## Mandatory Repurchase of Certain MBS Mortgage Loans

Under certain circumstances, the servicer of an MBS mortgage loan must repurchase a mortgage loan from the MBS pool. Fannie Mae is required to repurchase a mortgage loan or cause the mortgage loan to be repurchased, from an MBS pool under the circumstances set forth below. The servicer must immediately notify Fannie Mae when it is aware of any of the following:

- when a court or governmental regulator determines that Fannie Mae was not authorized to acquire the mortgage loan or a court or agency requires that the mortgage loan be repurchased to comply with applicable law;
- upon notice that any of the following events will occur or at least before:
  - the borrower exercises an option in the mortgage documents to convert from an ARM loan to a fixed interest rate,
  - the borrower exercises an option in the mortgage documents to change from one index to another, or
  - if the maximum or minimum interest rate or the margin used in calculating the rate per the mortgage loan documents changes as a result of a mortgage loan assumption;
- as soon as practicable, if any governmental agency or court requires a transfer of the property securing a mortgage loan (other than to a co-borrower or in connection with a divorce or other transfer excepted from due-on-sale enforcement);
- if any mortgage insurer or the FHA or VA requires transfer of the mortgage loan or the property to it in order to obtain the benefits of the insurance or the guaranty, or requires a longer period of time in addressing certain foreclosure prevention alternatives; and
- if the mortgage loan becomes 24 months past due with respect to payments of principal and interest measured from the last installment paid in full, unless an exception exists.

**24-Month Rule:** An MBS mortgage loan must be removed from its MBS pool if the mortgage loan is at least 24 months past due, as measured from the LPI, unless at least one of the following exceptions has occurred or is occurring (if there is a recourse arrangement in place, the exceptions do not apply):

- the borrower has entered into and is complying with a repayment plan pursuant to which the arrearages on the mortgage loan are required to be paid in full and the mortgage loan brought current by the original maturity date of that loan,
- the servicer and borrower are pursuing a short sale or a Mortgage Release™,

- the foreclosure process on the mortgage loan has begun,
- applicable law (including bankruptcy law, probate law, or the Servicemembers Civil Relief Act of 2004 or other relief act) requires that foreclosure on the related secured property or other legal remedy against the borrower or the related secured property be delayed and the period for delay or inaction has not elapsed, or
- the mortgage loan is in the process of being assigned to the insurer or guarantor that provided any related mortgage insurance or guaranty.

This repurchase requirement applies to all delinquent MBS mortgage loans, regardless of the servicing option or recourse arrangement under which they were purchased or securitized. However, in the case of a recourse arrangement that requires an earlier repurchase, the servicer must adhere to the terms of such recourse arrangement. Also, a special servicing option delinquent MBS mortgage loan normally will be removed from its MBS pool much earlier pursuant to Fannie Mae's procedures for automatic reclassification of delinquent MBS mortgage loans as portfolio mortgage loans. See A1-3-07, Automatic Reclassification of MBS Mortgage Loans. If not, Fannie Mae will automatically reclassify the delinquent MBS mortgage loan when it triggers the repurchase requirement under the 24-month rule.

If repurchase is *not* required because a mortgage loan meets the required conditions, including the condition that the mortgage loan has become current, but the mortgage loan later becomes delinquent, Fannie Mae will review the individual circumstances to determine whether repurchase is warranted at that time.

In order to facilitate the timely removal of a regular servicing option delinquent MBS mortgage loan under the 24-month rule, Fannie Mae will continue to provide each servicer with an advance listing through HSSN of all regular servicing option delinquent MBS mortgage loans that meet the criteria for purchase.

The servicer must purchase any regular servicing option mortgage loan that meets the criteria under the 24-month rule, unless it falls within one of the exceptions listed above. The purchase must be reported to Fannie Mae as activity occurring in the month that contains the due date of the 24th past due payment, or in the applicable later month if the 24-month period is extended due to a pending foreclosure, specified foreclosure prevention alternative, or bankruptcy. The servicer may be subject to additional costs and fees assessed by Fannie Mae for any mortgage loan that the servicer does not purchase from the MBS pool in the time required.

Fannie Mae provides to each servicer an advance listing through HSSN of all regular servicing option delinquent MBS mortgage loans that have 22 consecutive payments past due to facilitate timely removal. Additionally, regular servicing option mortgage loans that were removed from the MBS pools to avert a forbearance, or repayment plan, that become 22 consecutive payments

past due will also be included in this advance listing. The servicer must repurchase the mortgage loan from the MBS pool and will no longer be obligated to make delinquency advances.

This downloadable report on HSSN will be available by the 11th calendar day of each month. The servicer must repurchase any regular servicing option mortgage loan that has 24 consecutive payments past due by the LPI date, and the repurchase must be reported to Fannie Mae as activity occurring in the month that contains the due date of the 24th consecutive past due payment unless an exception applies. See A2-7-03, Post-Delivery Servicing Transfers.

**Note:** Under the Fannie Mae/Freddie Mac uniform first lien mortgage loan security instruments, a payment is past due if not paid by close of business on the stated due date, which is normally the first day of the month.

### Calculating Repurchase Proceeds

Generally, when Fannie Mae requests that the responsible party repurchase a mortgage loan, the repurchase price is the same as the price at which Fannie Mae originally purchased the mortgage loan. This is usually true when the responsible party repurchases a mortgage loan under a repurchase agreement or because of a breach of warranty or other obligation; however, some agreements may specify other terms. If Fannie Mae agrees to a repurchase request as an accommodation to the responsible party, Fannie Mae bases its repurchase price on current market prices.

**Repurchase of a Portfolio Mortgage Loan:** The proceeds Fannie Mae will receive for a repurchase of a portfolio mortgage loan that Fannie Mae holds in its portfolio are usually determined by the steps represented in the following table.

Step	Required Action	
1	Determine the purchase price Fannie Mae originally paid for the mortgage loan. The following table describes the factors that determine the required repurchase proceeds for a mortgage loan other than a reverse mortgage loan.	
	If Fannie Mae originally purchased the mortgage loan...	Then Fannie Mae will...
	at par	multiply the UPB at the time of repurchase by the purchase price that Fannie Mae originally paid for the mortgage loan.
	at a premium or discounted purchase price and the mortgage loan has undergone negative amortization	multiply the UPB at the time of repurchase, limited to the amount of the original purchase price discount or premium.



Step	Required Action	
	The purchase price used to calculate the repurchase amount is expressed as a percentage of par. The following table describes the purchase price based on Fannie Mae's purchase price.	
	<b>If Fannie Mae originally purchased the mortgage loan...</b>	<b>Then the percentage will be...</b>
	at par	100%.
	at a premium	greater than 100%.
	at a discount	less than 100%.
2	Add appropriate adjustments for interest, attorney's fees, legal expenses, court costs, and other expenses Fannie Mae may have incurred.	
3	Make appropriate adjustments to reflect Fannie Mae's percentage ownership in the mortgage loan.	
4	Interest must be calculated as follows:	
	<b>If the remittance type of the mortgage loan is...</b>	<b>Then interest must be calculated through...</b>
	Actual/Actual	the effective repurchase date.
	Scheduled/Actual or Scheduled/Scheduled	the end of the repurchase month.

There will be no reimbursement for any mortgage loan level price adjustments that may have been paid.

**Repurchase of an MBS Mortgage Loan:** The proceeds for the repurchase of an MBS mortgage loan represent the sum of Fannie Mae's share of the outstanding security balance for the mortgage loan as of the repurchase month and one month's interest on that balance.

Interest must be calculated using the following table.

If the amortization type of the mortgage loan is...	Interest must be calculated at...
fixed-rate	the pass-through rate of the MBS pool.
adjustable-rate	either <ul style="list-style-type: none"> <li>the accrual rate for the mortgage loan (if the mortgage loan is in a weighted-average ARM MBS pool), or</li> </ul>

If the amortization type of the mortgage loan is...	Interest must be calculated at...
	<ul style="list-style-type: none"> <li>the accrual rate for the MBS pool (if the mortgage loan is in a stated-structure ARM MBS pool).</li> </ul>

The proceeds for the repurchase of an MBS mortgage loan represent the sum of Fannie Mae’s share of the outstanding security balance for the mortgage loan as of the repurchase month and one month’s interest on that balance.

**Repurchase of an Acquired Property:** Whenever the Guides permit or require repurchase of a mortgage loan without redelivery to Fannie Mae’s portfolio and, at the time of the purchase, title to the security property has passed to Fannie Mae, or is held for Fannie Mae but is in the name of the servicer pursuant to its duties as Fannie Mae’s servicer, the language of the Guides will be applied to require purchase of Fannie Mae’s interest in the property.

The purchase price

- will be the same as if the responsible party was repurchasing the mortgage loan, with accrued interest and other adjustments, including Fannie Mae’s property-related expenses such as maintenance and marketing expenses, through the date of purchase, and
- is not based on the market value of the property at the time of the purchase.

Further, when the responsible party purchases the property or remits a make whole payment Fannie Mae also will convey all rights as owner of the mortgage loan (for example, deficiency rights), if any, that it may still have pursuant to applicable state law, but it has no obligation to the responsible party to have preserved such rights.

Seller/servicers may be required to repurchase properties with tenants in place due to, among other things, violations of selling representations and warranties or improper servicing. Fannie Mae requires the servicer to promptly resolve any repurchase requests, regardless of the presence of a tenant in the related property.

**Make Whole Payment:** A “make whole payment” is the amount that a party responsible for a breach of a selling representation or warranty or a servicing breach must pay Fannie Mae so that Fannie Mae does not incur a loss on the mortgage loan or the property. In the event that a repurchase demand would have been issued but the mortgage loan has been liquidated, Fannie Mae will issue a reimbursement request for a make whole payment instead.

## Alternatives to Repurchase

Fannie Mae may elect an alternate remedy to the immediate repurchase of a mortgage loan when Fannie Mae identifies underwriting deficiencies during a post-purchase review as long as the mortgage loan meets all of the requirements in the following table.

✓	<b>Circumstances under which Fannie Mae may elect not to require immediate repurchase when underwriting deficiencies are identified</b>
	The mortgage loan is current.
	The mortgage loan was not originated based on fraud or misrepresentation.
	The mortgage loan meets Fannie Mae’s mortgage loan eligibility requirements (including any applicable selling warranties).
	The party that is responsible for the repurchase is in good standing with Fannie Mae and is otherwise eligible to receive Fannie Mae’s “no-repurchase-of-performing-mortgages” exemption.

Should the mortgage loan later become delinquent Fannie Mae will review the individual circumstances to determine whether repurchase is warranted.

Fannie Mae may request either the immediate repurchase of a property or an indemnification against any losses Fannie Mae may subsequently incur when a post-foreclosure full file quality control review reveals underwriting deficiencies.

In some instances in which the seller/servicer has breached its Lender Contract, Fannie Mae may allow the seller/servicer to correct the warranty violation.

In certain circumstances, Fannie Mae may provide the seller/servicer with an alternative to the immediate repurchase of the identified mortgage loan. In each case, Fannie Mae will notify the seller/servicer of the type and terms of the repurchase alternative. The alternatives as described in the following table, may include one or more of the following, as determined by Fannie Mae’s sole discretion.

<b>Repurchase Alternative</b>	<b>Definition</b>
Recourse	An agreement by the seller/servicer to provide recourse for the life of the mortgage loan or for some other specified time period.
Collateralized Recourse	Recourse as described above, with respect to which the seller/servicer’s obligation is secured by a specified collateral account.

<b>Repurchase Alternative</b>	<b>Definition</b>
Indemnification	An agreement by the seller/servicer to indemnify, defend, and hold harmless Fannie Mae from any losses, costs, claims, actions, damages, liabilities, judgments, counterclaims, or defenses to which Fannie Mae may become subject relating to the mortgage loan.
Collateralized Indemnification	Indemnification as described above, with respect to which the seller/servicer's obligation is secured by a specified collateral account.
Loss Share	An agreement between Fannie Mae and the seller/servicer to each pay a specified proportion of the losses that have arisen or may arise in the future relating to the mortgage loan.
Loss Reimbursement	An agreement by the seller/servicer to reimburse Fannie Mae for specified losses relating to the mortgage loan.
Pricing Adjustment	The assessment by Fannie Mae and payment by the seller/servicer of a guaranty fee adjustment or additional loan-level price adjustment with respect to the mortgage loan.

Fannie Mae will strive to apply the most appropriate remedy that is commensurate with the associated level of risk to compensate Fannie Mae for the harm caused by the violation.

### **Deferred Payment Obligations (DPO)**

A DPO is defined as the unpaid portion of the mortgage insurance claim where the failure to pay the full amount due is solely attributable to the mortgage insurer's financial inability to pay or its insolvency. Such a mortgage insurer shall be referred to as a "DPO mortgage insurer." Fannie Mae bears the risk of loss that a DPO related claim filed with a mortgage insurer for a properly delivered and serviced mortgage loan that meets all of Fannie Mae's eligibility requirements is not ultimately collectible. A mortgage insurer's financial inability to pay a claim or its insolvency is not considered to be a failure by the servicer to keep mortgage insurance coverage in force, as otherwise required by A1-3-03, Repurchase Obligations Related to Bifurcated Mortgage Loans.

For a mortgage loan where there is a demand for repurchase or make whole payment amount due to Fannie Mae because of a breach of the selling representations and warranties for a non-bifurcated loan, the servicer must remit the full amount of the repurchase price or make whole payment.

For a mortgage loan where there is a demand for repurchase or make whole payment amount due to Fannie Mae because of a breach of the selling representations and warranties for a bifurcated mortgage loan, the responsible party must remit the full amount of the bifurcated repurchase price or make whole payment to the servicer to remit to Fannie Mae. The repurchase price, make whole payment or bifurcated repurchase price must not be reduced by the DPO and must only include a credit for the mortgage insurance payment actually paid by the mortgage insurance company.

Fannie Mae will at all times retain the right to be indemnified according to *Indemnification for Losses* in A1-1-03, Nature of the Contractual Relationship.

The following table describes the Fannie Mae actions and servicer requirements once the responsible party completely satisfies its payment obligations to Fannie Mae with respect to the repurchase or make whole demand for a selling breach of a representation or warranty.

✓	<b>Once the responsible party completely satisfies all of its payment obligations to Fannie Mae with respect to the repurchase or make whole demand for a selling breach of a representation or warranty:</b>
	Fannie Mae agrees to execute such documents as are necessary to convey all its rights to the DPO to the responsible party.
	The responsible party will succeed to all of Fannie Mae’s rights, title and interest in any remaining DPO on the subject mortgage loan. Fannie Mae will no longer have any claim to the remaining DPO, if any, pending on the subject mortgage loan.
	<ul style="list-style-type: none"> <li>• For a non-bifurcated loan the servicer must then notify the DPO mortgage insurer that any future DPO payments must be remitted to the responsible party (or through the servicer to the responsible party) and not to Fannie Mae.</li> <li>• For a bifurcated loan the servicer and responsible party must work together to notify the DPO mortgage insurer that any future DPO payments or investor premium refunds must be remitted to the responsible party and not to the servicer or to Fannie Mae.</li> </ul>
	The responsible party becomes the owner of the mortgage loan or acquired property if a repurchase or bifurcated repurchase price has been paid in full.

In the event the servicer receives a DPO payment or investor premium refund from a mortgage insurer after Fannie Mae has been made whole on a mortgage loan by a responsible party, the servicer must promptly remit those payments to the responsible party. It is the responsibility of the responsible party to pursue the collection from the DPO mortgage insurer of any DPO or investor premium refunds, if applicable, that are outstanding following Fannie Mae’s receipt of the repurchase price, bifurcated repurchase price or make whole funds.

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## Calculation of Indemnification Claim for Loss of Mortgage Insurance Benefits

As a result of an indemnification claim for the loss of the mortgage insurance benefit due to a servicing breach, Fannie Mae may demand that the servicer indemnify Fannie Mae with respect to the insurance benefit that would have been paid by the mortgage insurer if the claim had been allowed. If the indemnification claim for the loss of the mortgage insurance benefit due to a servicing breach involves a DPO mortgage insurer, Fannie Mae will calculate the indemnification claim as the amount it would have received in mortgage insurance benefits from the DPO mortgage insurer if the claim had been allowed and if the servicer had not committed a servicing breach. As the DPO mortgage insurer's regulator approves additional payments on the claims outstanding, Fannie Mae will bill the servicer for any increases in the amount payable on such claims after the initial indemnification claim is filed.

For example, if the DPO mortgage insurer is paying allowed claims at a rate of 60%, and a \$30,000 claim is denied in full or coverage is cancelled due to a servicing breach, Fannie Mae's current indemnification claim to the servicer for the loss of the mortgage insurance benefit would be for 60% of the \$30,000 claim, or \$18,000 ( $\$30,000 \times 60\%$ ). If the DPO mortgage insurer is later permitted to increase the cash payment (and as a result, decrease the DPO) on such allowed claims from 60% to 70%, Fannie Mae will bill the servicer for an additional 10% of the amount Fannie Mae estimated would have constituted the mortgage insurance benefit if the claim had been allowed, or \$3,000 ( $\$30,000 \times 10\%$ ). The servicer is reminded that Fannie Mae is not limited to indemnification as a remedy when the servicer breaches the Lender Contract.

Servicers should contact [mi\\_mail@fanniemae.com](mailto:mi_mail@fanniemae.com) with questions regarding the DPO billings.

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015



## **A1-3-03, Repurchase Obligations Related to Bifurcated Mortgage Loans (02/11/2015)**

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### **Introduction**

A bifurcated mortgage loan is a mortgage loan or property for which the current servicer is not the responsible party for the selling representations and warranties and/or for the prior servicing responsibilities or liabilities. A bifurcated mortgage loan that has not been foreclosed upon is referred to as an active bifurcated mortgage loan. A bifurcated mortgage loan that has been through foreclosure or Mortgage Release but has not been sold by Fannie Mae is referred to as an acquired bifurcated property.

This topic contains the following:

- Issuance of Repurchase Request, Request for a Make Whole Payment, or Request for Indemnification
- Issuance of Repurchase Statement
- Remittance of Bifurcated Repurchase Price and Appeal Process
- Servicer's Failure to Comply
- Hiring of Servicer
- Fannie Mae Custodial Collection Account
- Processing of Funds Following Remittance of the Bifurcated Repurchase Price
- Sharing of Information
- Documentation Retention
- Release of Records
- Conflict of Interest
- Disputes Between the Responsible Party and Servicer

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### **Issuance of Repurchase Request, Request for a Make Whole Payment, or Request for Indemnification**

When Fannie Mae identifies a selling or servicing defect on a bifurcated mortgage loan and elects a repurchase, a make whole payment, or an indemnification payment as the remedy for

the breach, Fannie Mae will issue the request for the repurchase, make whole payment, or indemnification payment to the breaching responsible party.

If Fannie Mae requests an indemnification payment on a bifurcated mortgage loan, the responsible party must remit the indemnification funds directly to Fannie Mae.

If Fannie Mae determines that the appropriate remedy is a repurchase or make whole payment on a bifurcated mortgage loan, the current servicer will be responsible for

- managing the repurchase of an active bifurcated mortgage loan or acquired bifurcated property,
- receiving the repurchase funds or make whole payments from the responsible party, and
- promptly remitting all funds to Fannie Mae in accordance with the *Servicing Guide* on this topic.

A servicer that services a bifurcated mortgage loan must comply with all of the terms of the *Servicing Guide*, except as provided in this topic.

The responsible party for a bifurcated mortgage loan that is subject to a remedy request can appeal by following the appeal process described in Repurchases, Indemnifications, or Make Whole Payment Requests Response Time Frames and Appeal Process in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations. No additional time will be granted for the appeal or for the remittance of payments because the request involves a bifurcated mortgage loan.

If the seller/servicer believes it is not the responsible party, it must promptly notify Fannie Mae that it disputes being the responsible party for the bifurcated mortgage loan. Fannie Mae's determination of responsible party is final.

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### Issuance of Repurchase Statement

All servicers of bifurcated mortgage loans must establish and communicate a unique email address that is designated for responsible parties to use to request a repurchase statement.

**Make Whole Payment or Acquired Bifurcated Property Transactions:** Prior to paying the bifurcated repurchase price, as defined below, the responsible party must obtain a loss statement from Fannie Mae. The loss statement issued on a bifurcated mortgage loan is a statement of the partial amount due to Fannie Mae for a make whole payment or purchase of an acquired bifurcated property, since it does not include the servicer repurchase portion, as defined below. The loss statement is obtained by accessing Fannie Mae's QAS. If the loss statement is not available on QAS or the responsible party does not have QAS access, it may be obtained by submitting a request to the Centralized Repurchase Team (See F-4-03, List of Contacts).



The responsible party must promptly contact the servicer at its designated email address to request a statement of the full amount due to Fannie Mae (a repurchase statement).

When it requests the repurchase statement from the servicer, the responsible party must provide the servicer with a copy of a current loss statement.

**Active Bifurcated Mortgage Loan Transactions:** The servicer must calculate the bifurcated repurchase price for an active bifurcated mortgage loan from its books and records. The responsible party must promptly contact the servicer at its designated email address to request the repurchase statement. No loss statement will be available from Fannie Mae for an active bifurcated mortgage loan.

The servicer must forward an accurate and complete repurchase statement for the bifurcated mortgage loan at issue to the responsible party within ten business days of Fannie Mae’s or the responsible party’s request, once the responsible party has indicated that it will pay the full amount due. It is the responsible party’s duty to notify the servicer that it has agreed to pay the full amount due. The current servicer is authorized and directed to issue the repurchase statement to sellers/servicers that are identified either by the seller/servicer or by Fannie Mae as the responsible party for an outstanding payment obligation on a bifurcated mortgage loan.

**Calculation of Bifurcated Repurchase Price for a Bifurcated Mortgage Loan:** The sum of the “Fannie Mae repurchase portion” (defined below) and the “Servicer repurchase portion” (defined below), less credits for the “PMI payment credits” and “Fannie Mae payments” (each defined below) will equal the “bifurcated repurchase price” for a bifurcated mortgage loan. The amount quoted by the servicer on the repurchase statement must equal the bifurcated repurchase price.

The bifurcated repurchase price for a bifurcated mortgage loan is calculated in accordance with the steps outlined in the following table.

Step	Servicer Action
1	Determine the Fannie Mae repurchase portion, which is defined as the sum of <ul style="list-style-type: none"> <li>• the unpaid principal balance, with adjustments for any active bifurcated mortgage loan as required in the <i>Servicing Guide</i>;</li> <li>• interest on an active bifurcated mortgage loan calculated in accordance with the <i>Servicing Guide</i>, plus delinquent interest, plus imputed interest on either an acquired bifurcated property or a make whole payment; and</li> <li>• expenses that Fannie Mae has incurred, including, without limitation, advances for which Fannie Mae has previously reimbursed the servicer, and any fees and costs</li> </ul>

Step	Servicer Action
	that are otherwise due to Fannie Mae under the servicer’s and responsible party’s Lender Contract.
2	Determine the servicer repurchase portion, which is defined as any and all fees and costs that the servicer has incurred in servicing the bifurcated mortgage loan that are eligible for reimbursement according to the terms of the <i>Servicing Guide</i> but which have not been reimbursed. These fees and costs may include, without limitation: <ul style="list-style-type: none"> <li>• escrow advances for taxes and insurance, and</li> <li>• corporate advances for items such as property preservation fees, attorney’s fees, and costs.</li> </ul>
3	Add the Fannie Mae repurchase portion and the servicer repurchase portion.
4	Subtract credits for PMI payment credits (as hereafter defined) and for Fannie Mae payments (as defined below).

“Fannie Mae payments” are defined as any amount that Fannie Mae or the servicer may have received from

- the sale of the acquired bifurcated property;
- any escrow proceeds, net rental, or other income; and
- a third party as compensation for amounts that are directly related to the risk of owning the relevant mortgage loan, such as certain compensatory fees or indemnification amounts that Fannie Mae, in its sole discretion, has assessed against and collected from a party other than the responsible party.

“PMI payment credits” are defined as

- the amount of any rescinded mortgage insurance premiums that were refunded by the primary mortgage insurance company on a lender-paid or borrower-paid mortgage insurance policy that were not due to the borrower as a result of the fact that they were paid to the borrower covering the time following payoff of the mortgage loan (the “investor premium refunds”);
- any amounts received from borrowers following the rescission or cancellation of mortgage insurance that the servicer collected under the terms of the mortgage loan from the borrower for mortgage insurance payments which the servicer will hold as loss reserve payments; and
- any other payments that have been received by the servicer or Fannie Mae from the primary mortgage insurer, including any payments made on claims filed.

Fannie Mae will not pay the servicer a termination fee when there is a repurchase of an active bifurcated mortgage loan or acquired bifurcated property. The servicer must not assess late charges or other fees to the responsible party due to any possible delay by the responsible party in remitting the bifurcated repurchase price to the servicer.

**Credits on Repurchase Statements:** The repurchase statement must include credits for “PMI payment credits,” and for any “Fannie Mae payments,” both as defined above, that the servicer is aware of plus any credits Fannie Mae reports to the servicer that it has received via the loss statement or such other method as determined by Fannie Mae.

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### **Remittance of Bifurcated Repurchase Price and Appeal Process**

**Active Bifurcated Mortgage Loan Repurchases:** When the current servicer for an active bifurcated mortgage loan will continue to service the mortgage loan for the responsible party following the repurchase, the responsible party must pay the servicer the bifurcated repurchase price in sufficient time so that the servicer can remit the bifurcated repurchase price to Fannie Mae within 60 days of the repurchase request (or with its next scheduled remittance following the completion of the 60-day period) unless a proper appeal is made by the responsible party. The appeal process for a repurchase request on an active bifurcated mortgage loan in which the servicing is not being transferred is described in Repurchase, Indemnification, or Make Whole Requests Response Time Frames and Appeal Process in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations.

When the current servicer will not continue to service the bifurcated mortgage loan following the repurchase, the responsible party must notify Fannie Mae as described in A2-7-03, Post-Delivery Servicing Transfers that there will be a servicing transfer on an active bifurcated mortgage loan. The responsible party must work with the new servicer to provide all necessary legal notices to the borrower. All servicing transfers due to the repurchase of an active bifurcated mortgage loan must occur at month end as quickly as reasonably possible following Fannie Mae’s repurchase request or reaffirmation of the repurchase request.

When the bifurcated repurchase price is remitted by the responsible party to the servicer on an active bifurcated mortgage loan with a scheduled/scheduled or scheduled/actual remittance schedule, the responsible party is required to remit the bifurcated repurchase price to the servicer no less than two business days prior to the end of the month.

**Acquired Bifurcated Property Repurchases:** A responsible party must pay the servicer the bifurcated repurchase price in sufficient time so that the servicer can remit the bifurcated repurchase price to Fannie Mae within 60 days after the responsible party’s receipt of the repurchase request on an acquired bifurcated property, unless a proper appeal is made by the responsible party.

For acquired bifurcated properties, the servicer must identify for the responsible party the days on which it will accept the remittance of the bifurcated repurchase price and transfer the acquired bifurcated property to the responsible party. These repurchase days must be scheduled to occur at least twice a month and no less than every 15 days. Once a servicer has issued a repurchase statement on an acquired bifurcated property, the responsible party is required to remit the bifurcated repurchase price to the servicer on the date that is no less than two business days prior to the day in which the servicing of the acquired bifurcated property will change from the servicer servicing the acquired bifurcated property for Fannie Mae to the current or new servicer servicing the acquired bifurcated property on behalf of the responsible party or its successor or assigns.

**Make Whole Payment:** A responsible party must pay the servicer for remittance to Fannie Mae the bifurcated repurchase price (which in this instance is equal to the make whole payment) within 60 days after receipt of the make whole payment request unless a proper appeal is made as described in Repurchase, Indemnifications, or Make Whole Payment Requests Response Time Frames and Appeal Process in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations.

**Responsible Party and Servicer's Obligation:** The responsible party is also responsible for any interest that accrues as part of the bifurcated repurchase price if it elects to remit the bifurcated repurchase price to the servicer earlier than two business days prior to month end for an active bifurcated mortgage loan or on the dates specified by the servicer for the transfer of the acquired bifurcated property. The servicer must take no longer than two business days from the date the servicer receives the bifurcated repurchase price from the responsible party to remit the Fannie Mae repurchase portion to Fannie Mae for an acquired bifurcated property or make whole payment. The effective date of the repurchase is the date that the servicer receives the bifurcated repurchase price from the responsible party.

**Application of Bifurcated Repurchase Price:** The servicer must first retain the servicer repurchase portion (as described above) of the bifurcated repurchase price to reimburse itself for amounts due it by Fannie Mae that are reimbursable under the Lender Contract but which have not been reimbursed. In the event the responsible party remits an amount less than the bifurcated repurchase price to the servicer, the servicer must deduct the servicer repurchase portion and remit any remaining funds to Fannie Mae as a partial payment of the Fannie Mae repurchase portion. Fannie Mae will seek the balance of the bifurcated repurchase price from the responsible party.

The servicer must handle Deferred Payment Obligations in accordance with A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations.

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## **Servicer's Failure to Comply**

In the event the servicer fails to issue the repurchase statement within ten business days of the responsible party's request for the repurchase statement (provided that the responsible party has provided the servicer with a loss statement for an acquired bifurcated property or make whole payment), and/or the servicer exceeds the required time frame in remitting the bifurcated repurchase price to Fannie Mae, the servicer will be responsible for any delinquent or imputed interest assessed by Fannie Mae for the number of days the servicer exceeds the designated time frames and for any additional fees or costs that may be incurred due to the delay. The servicer must add its own funds in the remittance of the Fannie Mae repurchase portion to Fannie Mae to make up for any interest, fees, or costs assessed due to its failure to comply with the designated time frames.

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## **Hiring of Servicer**

It is the obligation of the responsible party as the new owner of the bifurcated mortgage loan or acquired bifurcated property to either service the mortgage loan or bifurcated property itself following the effective date of repurchase or to hire an entity to service the mortgage loan. The current servicer is not permitted to service the active bifurcated mortgage loan or acquired bifurcated property for the responsible party under the terms of the Lender Contract following repurchase, as the servicing contract between Fannie Mae and the servicer for such mortgage loan terminates with the repurchase.

The responsible party must at all times keep the best interests of the borrower in mind when transferring the servicing of a bifurcated mortgage loan. For example, this might include delaying the servicing transfer a month at its own expense in the event all steps necessary to assure a smooth transfer of the servicing have not been completed at the time the RESPA notices are required to be mailed to the borrower, if applicable.

Promptly after asking the servicer for a repurchase statement for an active bifurcated mortgage loan or an acquired bifurcated property, the responsible party must advise the servicer of the name of the legal entity that will be servicing the active bifurcated mortgage loan or acquired bifurcated property following its payment of the amount due. This notification must include the name of a contact at the new servicer that the current servicer can work with to properly complete the servicing transfer.

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## **Fannie Mae Custodial Collection Account**

A servicer must deposit the Fannie Mae repurchase portion in one or more P&I custodial accounts that it has established for Fannie Mae in accordance with A4-1-02, Establishing

Custodial Bank Accounts. All funds related to the bifurcated repurchase price that are received for a bifurcated mortgage loan must be credited to the custodial account no later than one business day after they are received.

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### **Processing of Funds Following Remittance of the Bifurcated Repurchase Price**

In the event the servicer receives any PMI payment credits or DPO payments following its receipt and remittance of the bifurcated repurchase price from the responsible party, the servicer must promptly remit these funds directly to the responsible party within 15 business days of their receipt. The servicer must remit these custodial funds to the responsible party on behalf of Fannie Mae and must not reduce the amount of the PMI payment credits or DPO payments by any amounts the responsible party may owe the servicer outside of the Lender Contract.

In the event Fannie Mae has, in its sole discretion, assessed any compensatory fees or made any demands for indemnification from a party other than the responsible party in connection with the mortgage loan and the amount assessed is considered an investor loss that would have reduced the bifurcated repurchase price if it had been paid prior to Fannie Mae's receipt of the bifurcated repurchase price, Fannie Mae agrees to use reasonable efforts to forward such amounts it has collected directly to the responsible party upon receipt. Fannie Mae is not obligated to pursue collection of such amounts following receipt of the bifurcated repurchase price.

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### **Sharing of Information**

The servicer and responsible party must cooperate with each other in promptly sharing information necessary to substantiate the amounts identified on the repurchase statement. The servicer must provide the responsible party with documentation reasonably necessary to support all amounts included on the repurchase statement within ten business days of the responsible party's written request.

If the repurchase or make whole payment request involving a bifurcated mortgage loan is based exclusively on a breach of a selling representation or warranty, the servicer is not authorized to share with the responsible party any of the servicing records including collection notes, other than data/documents needed to substantiate the bifurcated repurchase price. For example, payment histories to validate the last paid installment or copies of mortgage loan modification documents needed to validate the mortgage loan modification terms or preliminary servicing transfer data reasonably necessary to transfer servicing if the servicing is to be transferred may be shared. Once the parties have agreed to the servicing transfer date for an active bifurcated mortgage loan, the current servicer is authorized to provide the responsible party or its designee the information it needs to meet all time-critical deadlines such as the dates of scheduled mediation or litigation hearings, tax sales, foreclosure sale dates, etc., that are scheduled to take place shortly after the transfer date.

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## Documentation Retention

The servicer and the responsible party must maintain the original documents related to the origination and servicing of the mortgage loans. The fact that a bifurcated mortgage loan is involved does not change the servicer's obligation as servicer to maintain the complete mortgage loan servicing file and all other documents related to the servicing of the bifurcated mortgage loan.

The servicer and the responsible party must keep

- all of the individual mortgage loan records, including, but not limited to those identified in E-2-07, Post-Closing Mortgage Loan File Documentation, of the *Selling Guide*;
- any and all servicing records for the time it serviced the bifurcated mortgage loan;
- the servicing records for the time any prior servicer serviced the bifurcated mortgage loan; and
- the servicing records for a bifurcated mortgage loan for at least four years from the date Fannie Mae is paid in full unless applicable law requires longer retention or Fannie Mae specifies that the records must be retained for a longer period. The responsible party must make copies of the mortgage loan records available to Fannie Mae upon its request.

The servicer and the responsible party must be able to retrieve and reproduce a complete, accurate, and clear copy of the individual mortgage loan file and servicing documentation in its original format for the time it may have serviced the bifurcated mortgage loan upon request by Fannie Mae, in accordance with the requirements of the *Selling* and *Servicing Guides* regarding retention and storage of records. Following the repurchase of the active bifurcated mortgage loan, the acquired bifurcated property, or the remittance of the make whole payment, the servicer and responsible party agree to make available to Fannie Mae or its designee at no cost to Fannie Mae, information, data, or documents related to the active bifurcated mortgage loan, the liquidation of the acquired bifurcated property, or the remittance of the make whole payment as may reasonably be requested or required by Fannie Mae any time prior to four years following the date Fannie Mae is paid in full.

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## Release of Records

Following Fannie Mae's receipt of the bifurcated repurchase price, the responsible party is entitled to receive a copy of the records related to the origination and servicing of the bifurcated mortgage loan or the acquired bifurcated property, upon its request. The responsible party must advise the servicer which records, if any, it wishes to receive. The servicer must use commercially reasonable efforts to deliver all requested records to the responsible party or its designee.

Once Fannie Mae has received the bifurcated repurchase price for the active bifurcated mortgage loan or acquired bifurcated property, the current servicer will no longer be servicing the active bifurcated mortgage loan or acquired bifurcated property for Fannie Mae. The current servicer's obligations to indemnify Fannie Mae, to maintain records, and to comply with the relevant terms of the *Servicing Guide* post-transfer will survive the repurchase or make whole payment.

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### **Conflict of Interest**

Servicers are not permitted to use their relationship as a servicer with Fannie Mae as an opportunity to collect from the responsible party any amounts that may be independently due the servicer from the responsible party. To the extent the servicer and the responsible party have separate contracts outstanding between them in which other fees are due the servicer, such as servicing release premiums, excess fee amounts, etc., those amounts must be separately billed by the servicer to the responsible party and must not be tied in any way to the bifurcated repurchase price due Fannie Mae. Any attempt by the servicer to combine the amounts due or to refuse to accept any payment that does not also include other amounts which may be due from the responsible party to the servicer outside of the Lender Contract, will violate the conflict of interest policy described in Conflict of Interest/Confidentiality in A2-1-08, Compliance with Requirements and Laws.

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### **Disputes Between the Responsible Party and Servicer**

Any disputes between the servicer and the responsible party about amounts due between them under separate contracts must not delay or interfere with the responsible party's obligation to Fannie Mae to promptly repurchase the bifurcated mortgage loan, acquired bifurcated property, or remit the make whole payment. In the event the responsible party has a good faith dispute about the calculation of the bifurcated repurchase price, even after the servicer has provided documentation to support the amount due, the servicer and responsible party must work together to resolve the dispute and remit the bifurcated repurchase price within the time frame required in Remittance of Bifurcated Repurchase Price and Appeal Process.

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015





## **A1-3-04, Reporting the Repurchase (11/12/2014)**

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### **Introduction**

This topic provides requirements for reporting repurchases to Fannie Mae.

The servicer must also report repurchases under the process described in the *Investor Reporting Manual*.

This topic contains the following:

- Repurchase of an Acquired Property
  - Repurchase of a Second-Lien Mortgage Loan
  - Repurchase of a HAMP Mortgage Loan
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### **Repurchase of an Acquired Property**

As soon as Fannie Mae receives the full amount of the repurchase proceeds, it will execute a quit-claim deed to convey the property to the responsible party (and will work with the responsible party to ensure that the reconveyance deed is appropriately recorded in the land records).

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### **Repurchase of a Second-Lien Mortgage Loan**

If the repurchase relates to a defaulted second-lien mortgage loan for which Fannie Mae advanced funds, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) on how to report the repurchase (and how to remit the funds). Fannie Mae also instructs the servicer about how the servicer must report the repurchase (and remit the funds) when the servicer repurchases an acquired property after it submits an REOgram™ to Fannie Mae and the mortgage loan has been removed from Fannie Mae's investor reporting system records.

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### **Repurchase of a HAMP Mortgage Loan**

The responsible party is required to cancel the related record accessible through the HAMP Reporting Tool on HMPadmin.com, in compliance with the Making Home Affordable Program Administrator's instructions. In connection with the cancellation of the record of the HAMP

permanent mortgage loan modification, Fannie Mae has the right to recover all previously paid incentives to both the borrower and the servicer.

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### **A1-3-05, Repurchase of a Home Affordable Modification Program Mortgage Loan (11/12/2014)**

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If a mortgage loan that is subject to a HAMP modification or a HAMP trial period plan is repurchased, the responsible party must cancel the related record accessible through the HAMP Reporting Tool on HMPadmin.com, in compliance with the Making Home Affordable Program administrator's instructions.

Fannie Mae has the right to recover all previously paid incentives in connection with the cancellation of the record of the HAMP permanent mortgage loan modification.

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### **A1-3-06, Redelivering a Mortgage Loan (11/12/2014)**

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Fannie Mae may allow the redelivery of a mortgage loan that was repurchased by the responsible party, as long as the defect making the mortgage loan ineligible has been corrected and it meets Fannie Mae's current underwriting standards. This includes mortgage loans repurchased due to mortgage insurance rescissions, claim denials, or mortgage insurer-initiated cancellation of coverage. The terms for redelivery of mortgage loans previously repurchased from Fannie Mae will be considered on a case-by-case basis at Fannie Mae's sole discretion, on a negotiated basis.

**Note:** Fannie Mae will not accept redelivery of a mortgage loan that was required to be repurchased by a secondary market investor, government-sponsored enterprise (GSE), or private institutional investor other than Fannie Mae even if the identified defect has been corrected and the mortgage loan may otherwise meet Fannie Mae requirements.

A mortgage loan that a lender repurchased from another investor or GSE that was delivered in error to that investor or GSE is eligible for delivery to Fannie Mae as long as it meets all current requirements.

In the event a mortgage loan is deemed ineligible for redelivery to Fannie Mae or rejected by Fannie Mae upon redelivery, any future losses incurred after repurchase are the responsibility of the responsible party and not Fannie Mae.

The table below provides references to the Announcements that have been issued that are related to this topic.



## **A1-3-07, Automatic Reclassification of MBS Mortgage Loans (11/12/2014)**

### **Introduction**

This topic contains the following:

- Reclassification of MBS Mortgage Loans
- Changes to the Servicer's Records

### **Reclassification of MBS Mortgage Loans**

Rather than requiring the servicer to repurchase certain delinquent MBS mortgage loans that are serviced under the special servicing option—those for which Fannie Mae has the entire foreclosure loss risk and those for which Fannie Mae and the servicer share the foreclosure loss risk, with Fannie Mae having the responsibility for marketing the acquired property—Fannie Mae will reclassify a mortgage loan that satisfies its selection criteria as an actual/actual remittance type portfolio mortgage loan. See F-1-36, *Reclassifying an MBS Mortgage Loan* for additional information.

Generally, Fannie Mae will select mortgage loans that have at least three monthly payments past due for reclassification in the month when the fourth payment is delinquent. The servicer must review the list of mortgage loans selected for automatic reclassification on HSSN and deselect any mortgage loans that has

- been brought current,
- had enough payment applied to reduce the delinquency to three months, or
- been paid off, foreclosed, or otherwise liquidated.

All MBS mortgage loans (regular servicing and special servicing option mortgage loans) removed from MBS pools will be held in Fannie Mae's portfolio subject to repurchase

requirement. The servicer remains responsible for the recourse obligation on a regular servicing option mortgage loan that is removed from the pool and held in Fannie Mae's portfolio.

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### Changes to the Servicer's Records

The servicer must change its internal records to reflect the appropriate reclassification remittance type, as described in the *Investor Reporting Manual* and F-1-36, Reclassifying an MBS Mortgage Loan.



### **A1-3-08, Custodial Document Requirements (11/12/2014)**

The servicer must instruct the document custodian to release all of the custodial documents. Generally, requests for the release of documents for MBS mortgage loans should be submitted on a *Request for Release/Return of Documents* ([Form 2009](#)).

However, to avoid the misplacement or loss of custodial documents, Fannie Mae permits the servicer to leave the custodial documents for reclassified mortgage loans with its existing document custodian, as long as the document custodian satisfies all of Fannie Mae's eligibility criteria for document custodians. Since these mortgage loans are now Fannie Mae portfolio mortgage loans, the servicer and the document custodian are bound by the policies and procedures related to ownership of the mortgage loan documents, retention of applicable records, and guaranteed access to individual mortgage loan files and records that Fannie Mae has in place for portfolio mortgage loans.

The servicer must select a new document custodian and arrange for the orderly transfer of the custodial documents to the new document custodian if the existing document custodian

- no longer satisfies Fannie Mae's eligibility criteria for document custodians, or
- becomes unable to retain custody of the custodial documents for some other reason.

The servicer must include in the transfer any documents that are being held by a law firm if the mortgage loan is subsequently reinstated.

If the servicer has difficulty in placing the documents with a new document custodian in a timely manner, the servicer must use Fannie Mae's DDC, unless Fannie Mae agrees to some other temporary alternative arrangement.

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# Chapter A1-4, Breach of Contract and Nonperformance



## Breach of Contract and Nonperformance

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### Introduction

This chapter contains information for understanding breach of contract and nonperformance

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### In This Chapter

This chapter contains the following topics:

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## Section A1-4.1, Remedies Available to Fannie Mae



### A1-4.1-01, Defining a Breach of Contract (11/12/2014)

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Any of the following events constitute a breach of the servicer's contractual obligations:

- The servicer's failure to comply with any provision of the Lender Contract including, but not limited to, the following:
  - a failure to establish and maintain satisfactory accounts for the deposit of Fannie Mae's and borrowers' funds;
  - the use of Fannie Mae's or borrowers' funds in any manner other than as permitted by this *Servicing Guide* including, but not limited to
    - the failure to deposit all funds collected for the mortgage loans into the proper custodial account not later than the first business day following their receipt, or
    - the failure to remit all funds due Fannie Mae within the required time frames;
  - the failure to ensure that the servicing-related policies for servicing all Fannie Mae-issued MBS mortgage loan pools (including those Pooled from Portfolio, or PFP) are in compliance with this *Servicing Guide* and that the mortgage loans in the MBS pools are all serviced in a consistent manner;
  - the failure to bear the risk of loss from borrower defaults for MBS pools serviced under the regular servicing option;
  - the failure to maintain adequate and accurate accounting records and mortgage loan servicing records, in accordance with Fannie Mae's requirements;
  - the failure to take prompt and diligent action consistent with applicable law to collect sums past due on the mortgage loans or to take any other diligent action that Fannie Mae or acceptable industry practice reasonably requires with respect to mortgage loans that are in default; or

- the failure to take diligent action consistent with applicable law to foreclose any mortgage loan that is in default, whether or not resulting from the acts or omissions of a law firm or other person or entity the servicer chooses to effect such foreclosure.
- Unacceptable performance as determined by Fannie Mae with regard to the servicer’s compliance with the Lender Contract, including, but not limited, to Servicer Performance Measurements as described in the *Servicing Guide*, STAR Program results and the requirements of any written performance improvement plan.
- The servicer’s insolvency, the adjudication of the servicer as a bankrupt, the appointment of a receiver, the servicer’s execution of a general assignment for the benefit of its creditors, or any change in the servicer’s financial status that, in Fannie Mae’s opinion, materially and adversely affects its ability to provide satisfactory servicing of the mortgage loans (if any of these events should occur, no interest in any mortgage loan or pool of mortgage loans shall be deemed an asset or liability of the servicer’s successors or assigns, nor shall any interest pass by operation of law without Fannie Mae’s consent).
- The sale of a majority interest in the servicer or a change in the corporate status or structure of a corporate servicer without Fannie Mae’s prior written consent.
- A change in the servicer’s financial or business condition, or in its operations, which, in Fannie Mae’s sole judgment, is material and adverse.
- The servicer’s failure to meet Fannie Mae’s standards and requirements for eligible servicers if, in Fannie Mae’s opinion, the failure materially and adversely affects the servicer’s ability to comply with the provisions of the Lender Contract.
- The finding by a court of competent jurisdiction that the servicer, or any of its principal officers, has committed an act that constitutes civil fraud, or the conviction of the servicer or its officer(s) for any criminal act that is related to the servicer’s mortgage loan servicing activities, if Fannie Mae believes that such act materially and adversely affects the servicer’s reputation or the reputation or interests of Fannie Mae.
- The servicer has a 30-, 60-, or 90+-day delinquency rate or an REO rate more than 50% higher than the average 30-, 60-, or 90+-day delinquency rate or REO rate for any or all mortgage loans owned or guaranteed by Fannie Mae nationally or in the same geographic area (which may include Standard Metropolitan Statistical Area, county, or state) in which the mortgaged premises that secure the mortgage loans either sold by the seller or serviced by the servicer are located and with similar mortgage and borrower characteristics (for example, origination year, loan to value ratio, documentation type, etc.).

- The placement of the servicer on probation or restriction of its activities in any manner by a federal or State government agency that would materially and adversely affect the servicer's ability to comply with the terms or conditions of the Lender Contract.
- Any judgment, order, finding or regulatory action to which the servicer is subject that would materially and adversely affect the servicer's ability to comply with the terms or conditions of the Lender Contract.



## **A1-4.1-02, Fannie Mae's Remedies (11/12/2014)**

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### **Introduction**

Fannie Mae has remedies available in the event of a seller/servicer's breach of contract and nonperformance. All rights and remedies under the Lender Contract are distinct, cumulative, and non-exclusive, not only as to each other but as to any rights or remedies afforded by law or equity. They may be exercised together, separately or successively. Fannie Mae has no obligation to pursue any specific remedy, and its decision to pursue one or more remedies does not waive, limit, or affect Fannie Mae's right to pursue any other remedy. Any remedies that are applied will, in Fannie Mae's sole judgment, be commensurate with the associated level of risk.

This topic contains the following:

- Overview of Remedies
- Imposition of Sanctions
- Suspension of New Servicing
- Fannie Mae's Termination For Cause
- Alternatives to Contract Termination

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### **Overview of Remedies**

Fannie Mae has remedies available in the event of a servicer's breach of contract or nonperformance.

In lieu of exercising its right to terminate the Lender Contract or the servicer's servicing arrangement, Fannie Mae may pursue a variety of other remedies, either to correct a specific



problem or to improve the servicers overall performance. Possible remedies include those identified in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations, among others.

If Fannie Mae decides not to take action against the seller/servicer at any point in time, it does not mean that it condones any action or inaction by the seller/servicer that would be grounds for suspension or termination or that Fannie Mae is waiving its right to take action in the future.

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### **Imposition of Sanctions**

When Fannie Mae determines that the servicer's performance of its selling and/or servicing obligations does not meet the standards in its Lender Contract, Fannie Mae may impose a formal sanction to give the servicer official notice of its shortcomings and an opportunity to correct its deficiencies. Prior to imposing any sanction, Fannie Mae generally gives the servicer notice of the contemplated action so the servicer can submit a written response or request a meeting with its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

The servicer's written response must include a description and explanation of any mitigating circumstances or specific proposals to satisfy Fannie Mae's objections to the servicer's performance of its obligations under the Lender Contract. Fannie Mae reserves the right to omit these steps and take immediate action to terminate or suspend the Lender Contract at any time in accordance with the provisions thereof.

If any act, omission, or failure of performance by the servicer constitutes a breach of the Lender Contract, Fannie Mae is not obligated to impose a sanction prior to exercising its contractual right to terminate or suspend the servicing arrangement or all of its Lender Contract. If Fannie Mae initially chooses to place the servicer under a formal sanction, Fannie Mae can subsequently decide that termination or suspension is the more appropriate action and take immediate steps to effect the termination even if the terms of the sanction have not yet expired.

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### **Suspension of New Servicing**

Fannie Mae may suspend the servicer's right to add new mortgage loans to its Fannie Mae servicing portfolio whether those mortgage loans represent new mortgage loans Fannie Mae would purchase or securitize or existing Fannie Mae-owned or securitized mortgage loans that would be transferred from another servicer. The suspension of new servicing applies to all types of mortgage loans or to specific products, depending on the nature of the servicer's performance deficiencies.

Fannie Mae will specify a time period for each suspension. The exact suspension period will relate to the seriousness of the deficiencies and the anticipated time it will take to correct them.

In some cases, Fannie Mae may specify a definite date on which the suspension will end. In other cases, Fannie Mae may state that the suspension is for an indefinite period. Fannie Mae usually specifies an indefinite period when it wants the servicer to satisfy certain conditions — such as the hiring of additional staff or reducing a high delinquency ratio and maintaining it at an acceptable level for a certain number of months — before it removes the suspension. Fannie Mae will specify the performance areas that must be improved to avoid termination of the servicing arrangement.

Fannie Mae may remove this sanction if the servicer accomplishes the expected improvement before the suspension period ends. If it appears that no improvement is forthcoming, Fannie Mae may decide, either at or before the end of the stated suspension period, that it is appropriate to terminate either with or without cause all or part of the servicing arrangement or the entire Lender Contract under the applicable provisions of the Lender Contract.

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### **Fannie Mae's Termination For Cause**

Fannie Mae may terminate a servicer's Lender Contract, including its selling and/or servicing arrangement at any time with or without cause, in accordance with the Lender Contract. Fannie Mae will give the servicer a termination notice. Any responsibilities or liabilities related to specific portfolio or MBS mortgage loans that the servicer had before the termination will continue to exist after the termination unless Fannie Mae expressly agrees in writing to release the servicer from those responsibilities and liabilities.

As guarantor, Fannie Mae must be able to direct servicing to entities best suited to perform servicing functions to the extent the servicer is not able to meet its contractual obligations.

When Fannie Mae terminates the Lender Contract, the servicer must comply with instructions provided by Fannie Mae regarding requirements reasonably necessary to effectuate the transfer of servicing in connection with a termination. Fannie Mae may retain the servicing or hire a new servicer or subservicer to service the mortgage loans. Fannie Mae will negotiate a new servicing or subservicing fee with the entity that Fannie Mae hires to service the mortgage loans following termination of the servicer's rights to service the mortgage loans.

The servicer shall be responsible for all reasonable and customary costs and expenses related to the transfer of servicing in connection with a termination.

When Fannie Mae terminates a servicer's servicing arrangement for cause based on the servicer's breach of its Lender Contract related to its servicing arrangement or in connection with the termination of the entire Lender Contract, the servicer will have no further rights in the servicing of the mortgage loans it had been servicing for Fannie Mae. Fannie Mae will not pay a termination fee in such cases and it may make the termination effective immediately.

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## Alternatives to Contract Termination

The Lender Contract provides remedies to Fannie Mae for the seller/servicer's breach of contract and nonperformance. Any remedies that are applied will, in Fannie Mae's sole judgment, be commensurate with the associated level of risk. In addition to termination, there are less stringent sanctions and/or additional requirements that Fannie Mae may impose as a condition for not terminating the Lender Contract. Some possible requirements are set forth in the *Selling Guide*, including the following conditions that apply to sellers, servicers, and responsible parties that assume the selling representations and warranties or servicing responsibilities or liabilities:

- requiring the responsible party to indemnify Fannie Mae for actual and prospective losses;
- requiring the responsible party to repurchase a mortgage loan or an acquired property;
- requiring the responsible party to remit a make whole payment;
- imposing a compensatory fee;
- imposing a suspension or some other formal sanction against the responsible party;
- requiring additional and more frequent financial and operational reporting;
- accelerating the processing and rebuttal time periods and payment of outstanding repurchases and repurchase/indemnification obligations;
- requiring the servicer to take steps to sell and transfer all of its Fannie Mae servicing, or portions thereof as designated by Fannie Mae, to an unrelated entity upon 90 days' written notice from Fannie Mae;
- limiting the responsible party from acquiring additional Fannie Mae servicing (over and above its existing servicing) in either its servicing or its subservicing portfolio;
- denying transfer of servicing requests or denying pledged servicing requests;
- modifying or suspending any contract or agreement with the responsible party, such as a Master Agreement, including termination, suspension, or rescission of any variance approved under the terms thereof;
- requiring the responsible party to post collateral in the form of cash or cash equivalents reasonably acceptable to Fannie Mae in an amount determined by Fannie Mae based on the particular circumstances;
- imposing limits on trading desk transactions; and

- imposing some other formal sanction on the responsible party.

Fannie Mae may offset any obligations that it may owe the responsible party against any obligations the responsible party may owe Fannie Mae under any existing agreement, whether or not Fannie Mae has made any demand under such agreement and even though such obligations may not yet be immediately due.

Fannie Mae may pursue these alternative remedies for a variety of reasons, including when it believes that the servicer should have an opportunity to cure the breach of the Lender Contract and their imposition will lead to a cure. Fannie Mae has no obligation to pursue any of these alternative remedies and its decision to pursue one or more of the remedies does not affect its ability to terminate the Lender Contract or one of the individual arrangements at any time that Fannie Mae deems it appropriate to do so under the provisions of the Lender Contract. Fannie Mae will strive to apply the most appropriate remedy that is commensurate with the associated level of risk to compensate Fannie Mae for the harm caused by the violation.

Fannie Mae is willing to work with servicers and responsible parties and consider other solutions that can correct or adequately address its concerns. Fannie Mae has no obligation to pursue any of these alternatives, and its decision to pursue one or more of the alternatives does not waive, limit, or affect Fannie Mae's right to terminate the Lender Contract (or one or more individual arrangements) at any time that Fannie Mae has cause to do so under the provisions of the Lender Contract. Fannie Mae's decision not to take action against the servicer does not mean that Fannie Mae condones any action or inaction by the servicer, or that Fannie Mae is waiving its right to take action in the future.

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## Section A1-4.2, Imposition of Compensatory Fees

### A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process (11/12/2014)

If Fannie Mae believes that the servicer is failing to comply with Fannie Mae’s servicing requirements, it may pursue a variety of remedies, either to correct a specific problem or to improve the servicer’s overall performance. One possible remedy is the imposition of a compensatory fee to compensate Fannie Mae for damages and to emphasize the importance Fannie Mae places on a particular aspect of the servicer’s performance. Sometimes, a compensatory fee will relate to the action the servicer took (or failed to take) for a specific mortgage loan. At other times, the compensatory fee may relate to the effect that the servicer’s deficiencies may have on Fannie Mae’s cash flow

Fannie Mae may charge a compensatory fee in any of the following situations when it feels that the imposition of a fee — which gives the servicer a financial incentive to correct its servicing problems — will improve the quality of the servicer’s performance.

The following table describes some of the types of compensatory fees Fannie Mae may charge and the calculation of the relevant compensatory fee.

Compensatory Fee Category	Calculation of the Compensatory Fee
Delayed remittance of claim proceeds	In some cases, mortgage insurance claim settlements serviced under the special servicing option are sent directly to the servicer in error. The servicer must remit the claim proceeds to Fannie Mae within the required time frames outlined in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property. If the servicer does not remit the claim proceeds timely, Fannie Mae may impose a daily interest charge until it does receive them. This interest charge will be calculated at the prime rate that was in effect on the first business day of the month in which the remittance was due (as published in <i>The Wall Street Journal</i> ’s prime rate index), plus 3%.

<b>Compensatory Fee Category</b>	<b>Calculation of the Compensatory Fee</b>		
Late submission of REOgram	The servicer must notify Fannie Mae of an acquired property in accordance with E-4.1-01, Notifying Fannie Mae of an Acquired Property. If Fannie Mae does not receive the REOgram as required, Fannie Mae may charge the servicer \$100 a day until it does receive it. Fannie Mae will not enforce this fee if the servicer provides a reasonable explanation for the delay; however, the servicer must indemnify Fannie Mae for all losses, expenses, judgments, costs, and attorney fees that Fannie Mae sustains as a result of its failure to submit the information to Fannie Mae in a timely manner.		
Unauthorized transfer of servicing	The servicer must obtain Fannie Mae's prior approval of any transfer of servicing or subservicing as outlined in A2-7-03, Post-Delivery Servicing Transfers. If a servicer fails to obtain Fannie Mae's prior approval of any transfer of servicing, Fannie Mae may assess a compensatory fee that can vary depending on the circumstances and exercise any other available remedy; however, it will not exceed 1% of Fannie Mae's share of the aggregate UPB of the applicable mortgage loans being transferred.		
Late remittance of monthly collections	The servicer must remit funds to Fannie Mae as outlined in the <i>Investor Reporting Manual</i> . If the servicer does not remit the funds or does not remit the funds when due, Fannie Mae may (in addition to exercising its other available remedies) charge the compensatory fees outlined in the following table to cover Fannie Mae's internal administrative costs and risk.		
	<b>Delayed Remittance</b>	<b>Formula for Calculation of Compensatory Fee</b>	<b>Compensatory Fees Not Less Than</b>
	First Instance	1. Multiply the calculated late remittance by the number of days the remittance is late, and then  2. Multiply that product by the sum of the prime interest rate*, plus 3%.	In any given month, not less than \$250.
	Second Instance (if it occurs within one year of the first instance)	1. Multiply the calculated late remittance by the number of days the remittance is late, and then	In any given month, not less than \$500.

Compensatory Fee Category	Calculation of the Compensatory Fee		
		2. Multiply that product by the sum of the prime interest rate*, plus 3%.	
	Subsequent Instances (if they occur within one year of most recent instance)	1. Multiply the calculated late remittance by the number of days the remittance is late, and then  2. Multiply that product by the sum of the prime interest rate*, plus 3%.	In any given month, not less than \$1,000.
	*Prime interest rate as published in <i>The Wall Street Journal's</i> prime rate index.		
Excessive amount of delinquent installments	<p>Fannie Mae evaluates the servicer's delinquencies for actual/actual remittance type mortgage loans to determine their effect on its cash flow. In any given month, Fannie Mae may compare the amount of past due installments for the delinquencies the servicer reports to Fannie Mae to the total installments for all of the mortgage loans in its Fannie Mae servicing portfolio. If this ratio is too high, Fannie Mae will work with the servicer to establish a goal for improvement and a time frame for accomplishing the goal.</p> <p>If the goal is not met within the established time frame, Fannie Mae may charge the servicer a compensatory fee on that portion of the goal that is not met. Generally, the fee will be calculated at the prime rate that was in effect on the first business day of the month in which the remittance was due (as published in <i>The Wall Street Journal's</i> prime rate index), plus 3%.</p> <p>Fannie Mae may continue to charge a compensatory fee until the goal is met or until it becomes evident that Fannie Mae must consider more serious disciplinary actions, and may charge a higher compensatory fee as well.</p>		
Late submission of annual financial statements/reports	The servicer must submit its annual financial statements to Fannie Mae as outlined in A3-3-02, Financial Statements and Reports. If the servicer does not submit its annual financial statements or reports when they are due, Fannie Mae may charge a compensatory fee of \$1,000 per month until it receives them.		

Compensatory Fee Category	Calculation of the Compensatory Fee	
Late or inaccurate submission of Fannie Mae investor reporting system reports	If the servicer fails to submit its reports by the required deadlines or submits inaccurate Fannie Mae investor reporting system reports or reports not in the correct format as required in the <i>Investor Reporting Manual</i> , the servicer may be subject to the compensatory fees for Fannie Mae’s internal administrative costs as outlined in the following table.	
	Late or Inaccurate Monthly Reporting	Compensatory Fee
	First Instance	Greater of \$250 or \$50 per mortgage loan up to a maximum of \$5,000
	Second Instance	Greater of \$500 or \$50 per mortgage loan up to a maximum of \$10,000
	Each Subsequent Instance (if it occurs within one year of the most recent prior instance)	Greater of \$1,000 or \$50 per mortgage loan up to a maximum of \$15,000
<p>Fannie Mae reserves the right to elect instead of to hold the servicer liable for actual damages.</p> <p>Instances of late reporting include, but are not limited to</p> <ul style="list-style-type: none"> <li>• Untimely Reporting of ARM Loan Conversions – The servicer must provide information about the conversion when it submits its monthly Fannie Mae investor reporting system reports to Fannie Mae as required by the <i>Investor Reporting Manual</i>.</li> <li>• Failure to Comply with Reporting Deadlines – The servicer must comply with the reporting time frames outlined in the <i>Investor Reporting Manual</i>.</li> <li>• Delayed Remittance of Collections – The servicer must comply with the reporting time frames outlined in the <i>Investor Reporting Manual</i>.</li> </ul>		
Late or inaccurate reporting of MBS security balances	If the servicer fails to meet the required deadlines or is inaccurate in reporting its security balances as outlined in the <i>Investor Reporting Manual</i> , it may be subject to the compensatory fees outlined in the following table.	



Compensatory Fee Category	Calculation of the Compensatory Fee	
	<b>Late or Inaccurate Monthly Reporting of MBS Security Balances</b>	<b>Compensatory Fee</b>
	First Instance	Greater of \$250 or \$50 per MBS pool up to a maximum of \$10,000
	Second Instance	Greater of \$500 or \$100 per MBS pool up to a maximum of \$50,000
	Subsequent Instances or Repeated Instances	Greater of \$1,000 or \$100 per MBS pool with no maximum
	<p>Fannie Mae reserves the right to elect instead to hold the servicer liable for actual damages incurred beyond Fannie Mae's internal administrative costs.</p> <p>Instances of late or inaccurate reporting of MBS security balances include, but are not limited to</p> <ul style="list-style-type: none"> <li>• Security balances transmitted after 5 PM (Eastern Time) on the second business day of the month.</li> <li>• Unauthorized Multiple Transfers of MBS Pool Remittances as described below.</li> </ul>	
Multiple wire transfers of MBS pool remittances	<p>If the servicer makes multiple wire transfers for its MBS remittances in the same month, it may be subject to the following compensatory fees:</p> <ul style="list-style-type: none"> <li>• The first time the servicer makes multiple wire transfers in a given month, Fannie Mae will charge a \$50 compensatory fee for each additional wire transfer.</li> <li>• If the servicer makes multiple wire transfers in subsequent months, Fannie Mae will charge \$100 for each additional wire transfer the first time it happens; \$200 the second time, etc.</li> </ul>	
Late filing of final request for reimbursement	The servicer must submit its final <i>request for expense reimbursement</i> to request reimbursement of its advances, required in E-5-01, Requesting Reimbursement for Expenses.	

<b>Compensatory Fee Category</b>	<b>Calculation of the Compensatory Fee</b>
	When Fannie Mae receives a request for reimbursement that is submitted later than this, Fannie Mae may deny the request or assess a late submission compensatory fee. Any late submission compensatory fee will be individually determined by taking into consideration the severity of the filing delay and the frequency with which the servicer files late requests for reimbursement.



## **A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process (01/14/2015)**

### **Introduction**

Periodically, Fannie Mae reviews the servicer's handling of seriously delinquent portfolio mortgage loans or MBS mortgage loans when serviced under the special servicing option to determine whether specific actions, such as referral to foreclosure, foreclosure sale, conveyance or claim filing, are being taken in a timely manner. Fannie Mae reserves the right to review any seriously delinquent mortgage loan and pursue any remedy available to it for delays when it deems appropriate, which may be prior to or after the liquidation of the mortgage loan. If the servicer fails to complete a foreclosure action within the time frame prescribed by Fannie Mae, one of the remedies that Fannie Mae may pursue is the assessment of compensatory fees.

If Fannie Mae selects compensatory fees as the appropriate remedy for delays in connection with a completed foreclosure, compensatory fees will be assessed if the entire period from the date the delinquency began, the LPI date, through the foreclosure sale date is longer than Fannie Mae's allowable foreclosure time frame in the applicable jurisdiction as described in *Assessing the Foreclosure Time Frame*. This also includes foreclosure sales that result in a third-party sale. Fannie Mae has the right to rely on the delinquent mortgage loan status data submitted by the servicer as definitively and conclusively reflecting the status of a mortgage loan for purposes of the assessment and collection of compensatory fees for delays in liquidating delinquent mortgage loans. Accordingly, Fannie Mae may choose to reject any information provided by the servicer to support a status code that is different from the one reported.

The servicer's failure to report on an accurate and timely basis and to otherwise comply with the requirements of the *Servicing Guide* may result in the imposition of compensatory fees separate from compensatory fees that may be imposed for foreclosure time frame non-compliance. See A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process for additional information.

For mortgage loans with a foreclosure sale date on or after January 1, 2015, compensatory fees will not be assessed if the aggregate amount of monthly compensatory fees for a specific servicer is less than the minimum threshold amount of \$25,000. Compensatory fees not meeting the minimum threshold amount will not be carried over to the following month's invoice, if any. Fannie Mae may assess the servicer a compensatory fee of \$1,000 for internal administrative costs plus any third party costs if a servicer must rescind a foreclosure sale due to the servicer's failure to follow Fannie Mae guidelines or other servicer error or alleged error. Fannie Mae will not reimburse foreclosure fees and costs that are required to complete a new foreclosure following rescission.

This topic contains the following:

- Assessing the Foreclosure Time Frame
- Calculating Compensatory Fees
- Appealing a Compensatory Fee Assessment

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## Assessing the Foreclosure Time Frame

When determining the servicer's compliance with Fannie Mae's time frames for completing foreclosure, adjustments are made for allowable delays. Allowable delays and the applicable number of days permitted for each delay are shown in the [Foreclosure Time Frames and Compensatory Fee Allowable Delays Exhibit](#).

Delays due to urgent or unforeseeable circumstances or for situations in which applicable law necessitates additional time may also be considered; however, such circumstances should be rare.

The assessment of compensatory fees is suspended for mortgage loans with a foreclosure sale date on or after January 1, 2015 in the following four jurisdictions:

- District of Columbia,
- Commonwealth of Massachusetts,
- State of New Jersey, and
- State of New York.

The suspension will last, at a minimum, for foreclosure sale dates through June 30, 2015. After the suspension period, Fannie Mae will update the allowable foreclosure time frames for these jurisdictions and will retroactively apply the foreclosure time frames to foreclosure sale dates that occur on or after January 1, 2015, as applicable. Upon completion of the suspension and retroactive revisions to each jurisdiction's allowable foreclosure time frame, Fannie Mae will bill the servicer in arrears for any compensatory fees incurred during the suspension period in a supplemental monthly billing. Fannie Mae will notify servicers of when to expect these supplemental monthly invoices and identify separate periods for the appeal process prior to a supplemental monthly billing.

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## Calculating Compensatory Fees

Compensatory fees will be applied based on the UPB of the mortgage loan, the applicable pass-through rate, the length of the delay, and any additional costs that are directly attributable to the delay. Fannie Mae assesses the servicer's foreclosure time frame performance at the state level and on a monthly basis at the mortgage loan level using the process in the following table.

Step	Calculating Compensatory Fees
1	a. Calculate the number of days the servicer took to complete the foreclosure process, from the LPI date through the foreclosure sale date.

Step	Calculating Compensatory Fees
	b. Determine whether the days are fewer than the allowable time frame (“under standard”) or in excess of the allowable time frame (“over-standard”).
2	The compensatory fee or “credit” for each mortgage loan will be calculated using <ul style="list-style-type: none"> <li>• the UPB of the mortgage loan,</li> <li>• the applicable pass-through rate, and</li> <li>• the number of days the mortgage loan was over- or under-standard, respectively.</li> </ul>
3	Apply any “credit” if applicable, to offset any compensatory fees that the servicer has incurred for over-standard performance at the state level and within the billing month.
4	If the servicer’s performance is under-standard for the state being evaluated, the servicer will not have a compensatory fee for that state. <p style="margin-left: 40px;"><b>Note:</b> The servicer must not apply the remaining “credit” toward any compensatory fee resulting from over-standard performance in another state.</p> <p style="margin-left: 40px;"><b>Note:</b> Any under-standard “credits” may not be applied to compensatory fee invoices in subsequent months for the same or a different state.</p> <p>If the servicer’s performance is over-standard for the state being evaluated, the servicer may be assessed compensatory fees for that state.</p>

**Note:** State-level balances are summarized and the servicer will be billed accordingly each month.

See F-2-04, Compensatory Fee Calculation Examples for examples that illustrate how compensatory fees are calculated.

### Appealing a Compensatory Fee Assessment

If the servicer chooses to appeal a compensatory fee in connection with a delay that is outside of the servicer’s control, the servicer must submit an appeal with all relevant supporting documentation to Fannie Mae via the Fannie Mae File Transfer Portal. The servicer must summarize and submit to Fannie Mae all supporting documentation for all uncontrollable delays for which an adjustment is being requested at the initial submission of the appeal. Additional delays claimed in subsequent appeals will not be considered. Supporting documents may include, but are not limited to

- attorney chronologies,
- servicing notes, or
- court documents.

Fannie Mae includes a template for appeals and detailed instructions of the process for appealing compensatory fees with the compensatory fee invoice. The servicer may appeal compensatory fee assessments for both over-standard and under-standard performance. The servicer may request recalculation of compensatory fees in instances where data that was initially reported to Fannie Mae was incorrect.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-01</a>	January 14, 2015

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# Subpart A2, Getting Started with Fannie Mae



## Getting Started with Fannie Mae

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### Introduction

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### In This Subpart

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# Chapter A2-1, Servicer Duties and Responsibilities



## Servicer Duties and Responsibilities

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### Introduction

This chapter contains information on servicer duties and responsibilities.

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### In This Chapter

This chapter contains the following topics:

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## **A2-1-01, General Servicer Duties and Responsibilities (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Overview of General Servicer Duties and Responsibilities
  - Processing of Funds
  - Delinquency Advances
  - Servicing Advances
- 

### **Overview of General Servicer Duties and Responsibilities**

The servicer services Fannie Mae mortgage loans as an independent contractor and not as an agent, assignee, or representative of Fannie Mae. Most of the policies and standards described in the *Servicing Guide* are intended to set forth the broad parameters under which servicers must exercise sound and professional judgment as mortgage loan servicers in the performance of their duties. As a result, in most instances Fannie Mae has not set forth absolute requirements because it believes that servicers need to maintain the discretion to apply appropriate judgment in dealing with borrowers and mortgage loans on a case by case basis, consistent with Fannie Mae's servicing policies. Further, even where Fannie Mae has set forth a "requirement," it has not enumerated specifically how the servicer should implement it. Fannie Mae generally will not object to the practices the servicer regularly applies so long as they are carried out in accordance with established written procedures that are consistent with Fannie Mae's servicing policies. The servicer may apply practices used on its own portfolio of mortgage loans to Fannie Mae mortgage loans as long as the practices are in accordance with the servicer's established written procedures and are consistent with Fannie Mae's servicing policies.

As a general matter, the servicer must have sufficient staffing levels and properly trained staff (including third-party providers of its outsourced servicing activities) to

- carry out all aspects of their servicing duties in accordance with the timing requirements of the *Servicing Guide*,
- maintain acceptable performance standards, and
- provide borrowers with assistance when it is requested.

The servicer must have effective processes to promptly address borrower inquiries (relating to both current and delinquent mortgage loans) and provide timely payoff quotes and refunds of escrow deposits after payoff. To the extent consistent with the borrower's mortgage loan documents and applicable laws and regulations, Fannie Mae encourages servicers to adopt servicing practices that allow for an appropriate level of discretion to take into account the facts of a particular mortgage loan and the circumstances of the borrower.

In performing the services and duties incident to the servicing of mortgage loans, the servicer must take whatever action that is necessary to protect the beneficial interest of Fannie Mae and an MBS trust in the security property as long as it is authorized to do so by the terms of the mortgage loan. Among other things, this generally includes, but is not limited to:

- paying property taxes, special assessments, and other matters to avoid possible tax liens;
- maintaining adequate property (hazard) insurance to cover damage from unforeseen casualty losses;
- establishing and maintaining accounts for the deposit of borrowers' funds;
- responding to borrowers' inquiries (relating to both current and delinquent mortgage loans) about the terms of their mortgage loans or the actions the servicer has (or has not) taken in its servicing of the mortgage loans;
- making periodic property inspections to ensure that the physical condition of the property is satisfactory, that there are no apparent hazardous conditions (such as the presence of hazardous wastes or toxic substances) affecting the property, and that there are no apparent violations of applicable law that might result in a seizure or forfeiture of the property, and to determine and initiate the needed responsive actions (see D2-2-11, Requirements for Performing Property Inspections and E-3.3-03, Inspecting Properties Prior to Foreclosure Sale for additional information);
- maintaining accurate mortgage loan servicing and accounting records, including proper coding of mortgage loans to ensure that proper MBS mortgage loan servicing guidelines are followed;
- collecting and promptly remitting any and all amounts due Fannie Mae;
- taking prompt and appropriate action to resolve or prevent a delinquency, including any action necessary to liquidate a defaulted mortgage loan (see Parts D and E for additional information);
- performing certain administrative functions related to an acquired property when Fannie Mae so requests (see E-4.3-01, Managing the Property Post-Foreclosure Sale for additional information);

- advancing reasonable amounts, if necessary, to cover expenses arising in connection with any of the duties described above; and
- providing timely payoff quotes and refunds of escrow deposits after payoff.

The servicer must use good judgment and take the actions described in the following table.

✓	The servicer must...
	Exercise sound professional judgment as the mortgage loan servicer in the performance of their duties.
	Use its discretion to apply appropriate judgment in dealing with borrowers and mortgage loans on a case-by-case basis, consistent with Fannie Mae's servicing policies.
	Perform specific administrative responsibilities and business obligations in the overall conduct of its mortgage loan operations as described in the <i>Servicing Guide</i> .
	Service all mortgage loans in a sound, businesslike manner.
	Protect against fraud, misrepresentation, or negligence by any parties involved in the mortgage loan servicing process.
	Have adequate controls and quality control procedures in place.

Fannie Mae's basic servicing policies do not change on the basis of its lien position.

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## Processing of Funds

The servicer's authorization to receive, handle, or dispose of funds representing mortgage loan payments (for principal, interest, and tax and insurance escrow deposits) or of other funds or assets related to the mortgage loans it services for Fannie Mae or to the properties secured by those mortgage loans is limited to those servicing actions that are expressly authorized in the *Servicing Guide* or in the Lender Contract.

Because these funds and assets are owned by Fannie Mae and other parties (such as the borrower, a participating seller/servicer, or an MBS holder, if applicable), the servicer, in its handling of these funds, is acting on behalf of and as a fiduciary for, Fannie Mae and other parties, as their respective interests may appear; the servicer is not acting as a debtor of Fannie Mae.

If the servicer takes any action with respect to these funds or assets that is not expressly authorized, such as the withdrawal or retention of mortgage loan payment funds Fannie Mae is due as an offset against any claim the servicer may have against Fannie Mae, the servicer is not only violating the provisions of the *Servicing Guide* and the Lender Contract, but also is

violating the rights of any and all other parties that have a beneficial interest in the funds. Such action is therefore prohibited and will be considered a breach of the Lender Contract.

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### **Delinquency Advances**

Because the servicer of scheduled/actual and scheduled/scheduled remittance types must remit funds to Fannie Mae when they are scheduled to be remitted rather than when they are actually collected, there may be times when the funds collected are not sufficient to make the servicer's required payment. In those cases, the servicer must advance its own funds to cover funds due for delinquent mortgage loans if the funds have not been collected. Funds advanced for this purpose are referred to as "delinquency advances." See C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for additional requirements related to delinquency advances.

The servicer of portfolio and participation pool mortgage loans that are scheduled/actual remittance types is required to advance scheduled interest only through the third month of delinquency, except for concurrent sales participation pool mortgage loans, which require that interest be advanced through the foreclosure sale date. To avoid advancing interest from its own funds to pass through the interest due Fannie Mae, the servicer may use the funds it has on hand for any prepaid P&I installments, curtailments, or payments-in-full to offset interest shortfalls that occur as the result of mortgage loan delinquencies. However, if the servicer has no collections on hand that represent funds not yet due for remittance to Fannie Mae, it must make the delinquency advance from its own funds. The servicer may reimburse itself for its delinquency advances from borrower collections that are subsequently deposited to the P&I custodial account.

The servicer of portfolio and MBS mortgage loans that are scheduled/scheduled remittance types, regardless of the applicable servicing option, is required to advance scheduled P&I until a delinquent mortgage loan is removed from Fannie Mae's active accounting records or the MBS pool. The servicer must make a delinquency advance if the funds on deposit in the servicer's P&I custodial account on the day the monthly remittance is due to Fannie Mae are less than the amount of the required monthly remittance. The servicer may reimburse itself for its delinquency advances from borrower collections that are subsequently deposited to the P&I custodial account.

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### **Servicing Advances**

The servicer must pay all out-of-pocket costs and expenses incurred in performing its servicing obligations, such as those related to the following:

- preservation and protection of the security property (see [Property Preservation Matrix and Reference Guide](#) for additional information),
- enforcement of judicial proceedings, and

- management and disposition of acquired properties.

Funds advanced for this purpose are referred to as “servicing advances.”

Servicing advances may be recovered from the borrower, insurance proceeds, claims settlements, or other available sources, except as described below. Fannie Mae will reimburse the servicer for certain unrecovered losses under the following circumstances:

- when the expense relates to protection of the security or foreclosure costs for a portfolio mortgage loan, or
- for an MBS mortgage loan serviced under the special servicing option.

Fannie Mae will not reimburse the servicer for unrecovered losses for costs, losses, or other items that the servicer agreed to hold Fannie Mae harmless against under its warranties or indemnification agreements or for advances made in connection with litigation or proceedings that Fannie Mae did not approve (if its approval was specifically required).

In no event may the servicer recover its servicing advances for a specific mortgage loan from the P&I payments for another mortgage loan or from the T&I deposits in another borrower’s account.



## **A2-1-02, Servicer’s Duties and Responsibilities Related to MBS Mortgage Loans (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Nature of the MBS Trust
  - Prohibited Actions
  - Servicing Requirements of MBS Mortgage Loans
- 

### **Nature of the MBS Trust**

The MBS Trust Agreements and the Trust Indentures clarify and document the various roles and capacities of Fannie Mae, including its responsibilities regarding the servicing of MBS mortgage loans. MBS mortgage loans are subject to a Trust Indenture or a Trust Agreement. The MBS trust documents are the governing documents for a Fannie Mae MBS trust and

- include key servicing requirements;
- set forth Fannie Mae’s roles as issuer, master servicer, guarantor, and trustee; and
- describe the servicer’s role as the direct servicer.

Under the MBS Trust Agreements and the Trust Indentures, mortgage loans and the proceeds of those mortgage loans are held by Fannie Mae as trustee for the benefit of the MBS trusts and their beneficial owners, the MBS investors; the servicer is responsible for servicing MBS mortgage loans for the MBS trusts that own the mortgage loans.

Fannie Mae is also the master servicer for the MBS trusts, and, in that capacity, contracts with the servicer as the direct servicer and has the responsibility for assuring that servicing is performed in accordance with the Trust Agreement or the Trust Indenture, as applicable.

Daily servicing operations are performed by the direct servicers pursuant to the MSSC, any applicable Pool Purchase Contract or other agreement (such as a Master Agreement, if any) applicable to the purchase and servicing of mortgage loans in MBS trusts. The Trust Agreement uses the term “Servicing Contract” to refer to any of the agreements between the servicer and Fannie Mae relating to the servicing of MBS mortgage loans.

By servicing MBS mortgage loans, the servicer agrees that

- a successor to Fannie Mae as master servicer for the MBS trusts automatically will succeed to the rights of Fannie Mae under any Servicing Contract and will have authority to enforce the terms and conditions of the applicable Servicing Contract, including the authority to terminate the servicer, in accordance with the terms of the Servicing Contract, and to appoint a replacement servicer; and
- Fannie Mae as trustee, on behalf of the trusts, and Fannie Mae as guarantor are third-party beneficiaries of the Servicing Contract between that servicer and Fannie Mae as master servicer, with the authority to enforce such contract under certain conditions.

The servicer’s duties and responsibilities and its obligations under the Lender Contract do not change on the basis of whether the mortgage loan is a portfolio or MBS mortgage loan. Fannie Mae has fiduciary responsibilities to MBS certificate holders, and as such it imposes certain restrictions on the servicer’s authority as it relates to servicing MBS mortgage loans (some of which also may apply to mortgage loans that are not securitized).

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## Prohibited Actions

The servicer must not take the following actions with respect to an MBS mortgage loan:

- Sell or hypothecate the mortgage loan (or a participation interest in a mortgage loan), other than repurchasing it for its own account under the provisions of Chapter: Repurchases, Indemnifications, and Make Whole Payment Requests.
- Modify any of the terms of the mortgage loan (including the extension of a future advance or a release of a borrower from liability), unless either Fannie Mae agrees to a mortgage loan modification as a means of preventing foreclosure of the mortgage loan, or the servicer releases the borrower from liability in connection with an eligible property transfers as outlined in D1-4.1-02, Allowable Exemptions Due to the Type of Transfer.
- Repurchase or reclassify any MBS mortgage loan for the purpose of modifying any of the terms of the mortgage loan (including the extension of a future advance or a release of a borrower from liability), or for any other reason, unless Fannie Mae specifically permits or requires repurchase or reclassification, or unless Fannie Mae specifically agrees. (See D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options for additional information.)
- Defer the exercise of any right to accelerate the mortgage loan debt, except as is consistent with Fannie Mae’s policy of considering certain types of transfers of ownership as exempt transactions or agreeing to forbearance or mortgage loan modifications for delinquent borrowers. (See Information Related to Transfers of Ownership Applicable to All Mortgage Loans section of the *Servicing Guide* for additional information.)
- Exercise any “call option” provided for by the terms of a conventional mortgage loan, unless Fannie Mae normally requires such options to be exercised for mortgage loans in its portfolio. (See D1-5-01, Call Options and Cross-Default Provisions for additional information.)
- Release all or any portion of the property from the mortgage lien, except in accordance with the terms of the mortgage loan, an approved partial release, or under a court order or decree, and then only to the extent that Fannie Mae allows for, for mortgage loans in its portfolio.
- Accept a voluntary Mortgage Release under any conditions other than those Fannie Mae allows for, for mortgage loans in its portfolio, as described in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).
- Exercise any “put option” provided by a mortgage loan, such as the optional assignment of certain FHA Section 221 mortgage loans following their twentieth anniversary.
- Change an ARM index or the manner in which the index values are selected, unless specifically provided for in the mortgage loan documents. (See Part C Chapter: Servicing ARM Loans and Chapter: Repurchases, Indemnifications, and Make Whole Payment Requests for additional information.)

## Servicing Requirements of MBS Mortgage Loans

All mortgage loans that have been or may be in the future sold to Fannie Mae for cash and subsequently securitized into MBS pools (referred to as PFP mortgage loans) must be serviced as MBS mortgage loans. This requirement does not change the servicer's existing reporting and remitting requirements for these mortgage loans nor does it change the custodial depository requirements for the applicable remittance type under which these mortgage loans are serviced.

Fannie Mae notifies the servicer of mortgage loans that have been securitized into an MBS pool. The servicer must code all of these mortgage loans in their records as MBS mortgage loans as soon as possible and service them in accordance with the provisions of the *Servicing Guide* applicable to MBS mortgage loans.

The servicing requirements of a MBS Trust Agreement or Trust Indenture vary depending on the MBS trust documents under which a particular MBS mortgage loan was pooled. The following table describes the three categories of MBS trust documents.

Category of MBS Trust Documents	Description
1980's Indentures	The various fixed-rate or ARM Trust Indentures (each a "1980's Indenture") for MBS mortgage loan pools with issue dates up to and including May 1, 2007.
2007 Amended Trust Agreement	The 2007 Amended Trust Agreement applies to MBS mortgage loan pools with issue dates from June 1, 2007 through December 1, 2008.
2009 Trust Agreement	The 2009 Trust Agreement applies to MBS mortgage loan pools with issue dates on or after January 1, 2009.

Not all workout options will be available for all MBS mortgage loans. Since the availability of a particular workout option for an MBS mortgage loan depends on the MBS trust documents under which that mortgage loan was pooled, the servicer must identify the issue date of the MBS in order to determine whether a workout option is available to a borrower. The use of one type or a combination of workout options is determined by facts and circumstances related to the particular mortgage loan and borrower, as such facts and circumstances may change from time to time and includes, but is not limited to:

- whether the workout option is available for the MBS mortgage loan based on which MBS trust documents apply to the MBS mortgage loan;
- the facts and circumstances related to the particular mortgage loan and borrower, as such facts and circumstances may change from time to time; and



- the applicable *Servicing Guide* provisions or, in the absence of *Servicing Guide* provisions, customary servicing practices of prudent servicers in servicing and administering mortgage loans for their own portfolios.

In the *Servicing Guide* or through its contracts with servicers, Fannie Mae from time to time may limit the availability and application of certain servicing terms stated in a trust document. Thus, the *Servicing Guide* may be more restrictive than the MBS trust documents with respect to servicing provisions, but neither the *Servicing Guide* nor any contractual agreement (including variances and waivers) with a servicer may be more expansive than or otherwise inconsistent with the MBS trust documents.



## **A2-1-03, Execution of Legal Documents (11/12/2014)**

### **Introduction**

The servicer ordinarily appears in the land records as the mortgagee to facilitate performance of the servicer's contractual responsibilities, including (but not limited to) the receipt of legal notices that may impact Fannie Mae's lien, such as notices of foreclosure, tax, and other liens. However, Fannie Mae may take any and all action with respect to the mortgage loan it deems necessary to protect its or an MBS trust's ownership of the mortgage loan, including recordation of a mortgage assignment, or its legal equivalent, from the servicer to Fannie Mae or its designee. In the event that Fannie Mae determines it necessary to record such an instrument, the servicer must assist Fannie Mae by

- preparing and recording any required documentation, such as mortgage assignments, powers of attorney, or affidavits; and
- providing recordation information for the affected mortgage loans.

The servicer is authorized to execute legal documents related to payoffs, foreclosures, releases of liability, releases of security, mortgage loan modifications, subordinations, assignments, and conveyances (or reconveyances) for any mortgage loan for which it (or the Mortgage Electronic Registration System, or MERS®) is the owner of record. When an instrument of record requires the use of an address for Fannie Mae, including assignments of mortgage loans, foreclosure deeds, REO deeds, and lien releases, the servicer must refer to the procedures in F-1-13, Obtaining and Executing Legal Documents.

This topic contains the following:

- Fannie Mae's Limited Power of Attorney to Execute Documents
- Correcting Conveyances to Fannie Mae

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## **Fannie Mae's Limited Power of Attorney to Execute Documents**

When Fannie Mae is the owner of record for a mortgage loan, it permits the servicer that has Fannie Mae's limited power of attorney to execute certain types of legal documents on Fannie Mae's behalf. The servicer must have a limited power of attorney in place to be authorized to execute the following legal documents on behalf of Fannie Mae:

- release of a borrower from personal liability under the mortgage or deed of trust following an approved transfer of ownership of the security property;
- full satisfaction or release of a mortgage or the request to a trustee for a full reconveyance of a deed of trust;
- partial release or discharge of a mortgage or the request to a trustee for a partial reconveyance or discharge of a deed of trust;
- modification or extension of a mortgage or deed of trust;
- subordination of the lien of a mortgage or deed of trust;
- completion, termination, cancellation, or rescission of foreclosure relating to a mortgage or deed of trust, including (but not limited to) the following actions:
  - the appointment of a successor or substitute trustee under a deed of trust, in accordance with state law and the deed of trust;
  - the issuance or cancellation or rescission of notices of default;
  - the cancellation or rescission of notices of sale; and
  - the issuance of such other documents as may be necessary under the terms of the mortgage, deed of trust, or state law to expeditiously complete said transactions, including, but not limited to, assignments or endorsements of mortgage loans, deeds of trust, or promissory notes to convey title from Fannie Mae to the Attorney-in-Fact under this Limited Power of Attorney;
- conveyance of properties to FHA, HUD, the VA, RD, or a state or private mortgage insurer; and
- assignment or endorsement of mortgage loans, deeds of trust, or promissory notes to FHA, HUD, VA, RD, a state or private mortgage insurer, or MERS.

To request a limited power of attorney, the servicer must refer to the *Fannie Mae Contacts for Document Execution Requests* in F-1-13, Obtaining and Executing Legal Documents.

Upon receiving the executed limited power of attorney from Fannie Mae, the servicer must have the document recorded in the proper jurisdiction. The servicer is authorized to submit the limited power of attorney for recordation immediately upon its receipt or wait until such time as it is actually needed to process a covered transaction.

If the servicer does not have a limited power of attorney to execute documents on Fannie Mae's behalf or has a power of attorney that does not authorize it to execute documents for a specific type of transaction, the servicer must send the documents requiring execution in any instance in which Fannie Mae is the owner of record for the mortgage loan by email, when permitted. If, however, an original document must be executed by Fannie Mae, the servicer must send the document by regular or overnight mail to Vendor Oversight/Custody Group, the NSO, or NSO Loss Mitigation (see F-4-03, List of Contacts).

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### **Correcting Conveyances to Fannie Mae**

The servicer must execute a quitclaim deed for properties that have been conveyed in error to Fannie Mae. The servicer must comply with F-1-13, Obtaining and Executing Legal Documents in preparing the reconveyance quitclaim deed. A quitclaim deed is an instrument of conveyance of real property that passes whatever title, claim, or interest that the grantor has in the property, but does not make any representations as to the validity of such title. A quitclaim deed is not a guarantee that the grantor has clear title to the property; rather it is a relinquishment of the grantor's rights, if any, in the property. The holder of a quitclaim deed receives only the interest owned by the person conveying the deed.

Fannie Mae will execute the quitclaim deed only if the servicer has prepared the document to quitclaim or assign back to the previous grantor or assignor. Within five business days of receipt of the fully executed quitclaim deed from Fannie Mae, the servicer must submit the quitclaim deed for recording.

The servicer must send the request for quitclaim deed execution to Fannie Mae as described in *Fannie Mae Contacts for Document Execution Requests* in F-1-13, Obtaining and Executing Legal Documents.



## **A2-1-04, Note Holder Status for Legal Proceedings Conducted in the Servicer's Name (11/12/2014)**

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### **Introduction**

Fannie Mae is at all times the owner of the mortgage note, whether the mortgage loan is in Fannie Mae's portfolio or part of the MBS pool. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, except in the limited circumstances expressly described in this topic.

This topic contains the following:

- Ownership and Possession of Note by Fannie Mae
  - Temporary Possession by the Servicer
  - Physical Possession of the Note by the Servicer
  - Reversion of Possession to Fannie Mae
- 

### **Ownership and Possession of Note by Fannie Mae**

Fannie Mae may have direct possession of the note or a custodian may have custody of the note. If Fannie Mae possesses the note through a document custodian, the document custodian has custody of the note for Fannie Mae's exclusive use and benefit.

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### **Temporary Possession by the Servicer**

In order to ensure that a servicer is able to perform the services and duties incident to the servicing of the mortgage loan, Fannie Mae temporarily gives the servicer possession of the mortgage note whenever the servicer, acting in its own name, represents the interests of Fannie Mae in foreclosure actions, bankruptcy cases, probate proceedings, or other legal proceedings.

This temporary transfer of possession occurs automatically and immediately upon the commencement of the servicer's representation, in its name, of Fannie Mae's interests in the foreclosure, bankruptcy, probate, or other legal proceeding.

When Fannie Mae transfers possession, if the note is held by a document custodian on Fannie Mae's behalf, the custodian has possession of the note on behalf of the servicer so that the

servicer has constructive possession of the note and the servicer shall be the holder of the note and is authorized and entitled to enforce the note in the name of the servicer for Fannie Mae's benefit.

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### **Physical Possession of the Note by the Servicer**

In most cases, the servicer will have a copy of the mortgage note. If the servicer determines that it needs physical possession of the original mortgage note to represent the interests of Fannie Mae in a foreclosure, bankruptcy, probate, or other legal proceeding, the servicer may obtain physical possession of the original mortgage note by submitting a request directly to the document custodian.

If Fannie Mae possesses the original note through a third-party document custodian that has custody of the note, the servicer must submit a *Request for Release/Return of Documents* ([Form 2009](#)) to Fannie Mae's custodian to obtain the note and any other custodial documents that are needed.

In either case, the servicer must specify whether the original note is required or whether the request is for a copy.

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### **Reversion of Possession to Fannie Mae**

At the conclusion of the servicer's representation of Fannie Mae's interests in the foreclosure, bankruptcy, probate, or other legal proceeding, or upon the servicer ceasing to service the loan for any reason, possession automatically reverts to Fannie Mae, and Fannie Mae resumes being the holder for itself, just as it was before the foreclosure, bankruptcy, probate, or other legal proceeding. If the servicer has obtained physical possession of the original note, it must be returned to Fannie Mae or the document custodian, as applicable.

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## **A2-1-05, Use of Fannie Mae Trademarks (11/12/2014)**

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### **Introduction**

Fannie Mae owns and uses the Fannie Mae trademark, the Fannie Mae logo, the Federal National Mortgage Association trade name, and numerous other trademarks that identify Fannie Mae as the source or sponsor of various products or services, collectively the “Marks” or the “Fannie Mae Marks.” For a list of Marks currently used by Fannie Mae and guidelines on how to refer to them, see [Fannie Mae’s website](#).

Fannie Mae may adopt, use, or obtain rights to other Marks from time to time. The absence of a specific Mark from Fannie Mae’s published lists does not mean that it is not a Fannie Mae Mark. If a seller/servicer has questions about whether or not an unlisted Mark is a Fannie Mae Mark, it should contact its lead Fannie Mae regional office (see F-4-03, List of Contacts).

This topic contains the following:

- License to Use Fannie Mae Marks
  - Limitations on the Use of Fannie Mae’s Marks Under the License
  - Termination of the License to Use the Fannie Mae Name and Trademarks
- 

### **License to Use Fannie Mae Marks**

Subject to the limitations set forth below, Fannie Mae grants to sellers/servicers a nonexclusive, royalty-free, non-assignable and non-sublicenseable license to use and display the Fannie Mae Marks within the United States, including its territories and possessions, solely in connection with the sale, offering for sale, advertising and rendering of seller/servicer’s financial services and for the purposes of making truthful, accurate, and non-misleading references to Fannie Mae or Fannie Mae’s products or services.

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## Limitations on the Use of Fannie Mae's Marks Under the License

A seller/servicer may make nominative use of the Fannie Mae name to indicate that it is a Fannie Mae–approved seller/servicer but use of the Marks by seller/servicer, and of the Fannie Mae name in particular, may not in any way state or imply that Fannie Mae has endorsed the seller/servicer's products or services, nor constitute co-branded marketing by seller/servicer, unless Fannie Mae gives seller/servicer specific written permission to do so.

Specifically, a seller/servicer may state that it is a “Fannie Mae–approved lender” or use the Fannie Mae name when referring to a specific mortgage loan or mortgage loan product that Fannie Mae purchases—such as “Fannie Mae's MyCommunityMortgage®.” A seller/servicer may not use the Marks in the promotion of seller/servicer's products or services in way that is likely to cause confusion, mistake or likely to deceive the public on the actual source or sponsor of the products or services. As such, a seller/servicer may not register, use or refer to a domain name that contains the Fannie Mae name, a Fannie Mae Mark, or any derivation thereof, to conduct or promote its own activities.

A seller/servicer's right to use Fannie Mae Marks under this license is conditioned on the seller/servicer's agreement that the nature and quality of all services that it provides, offers, or sells in connection with its use of the Marks will meet industry standards, adhere to the terms and conditions Fannie Mae specifies both for use of Fannie Mae Marks and the offering of the Fannie Mae products or services by the sellers/servicers.

A seller/servicer may use a Mark only in connection with the particular products and/or services, including financial products and services, for which Fannie Mae uses the Mark or for which Fannie Mae has registered (or applied to register) or use the particular Mark. If a seller/servicer is not certain about the characteristics of the products or services for which the particular Mark is to be used, it should request clarification from Fannie Mae.

A seller/servicer may use a Mark for a particular mortgage loan, service, or product (or to identify the features of such mortgage loan, service, or product) only if the mortgage loan, service, or product that the seller/servicer offers satisfies all of the requirements that Fannie Mae has established for the particular mortgage loan, service, or product to be eligible for purchase by Fannie Mae. The seller/servicer may not use the Mark in connection with a mortgage loan that is offered to another entity for purchase. However, Fannie Mae does permit a seller/servicer to use a Mark to identify a mortgage loan that meets all of Fannie Mae's requirements except that it exceeds Fannie Mae's maximum allowable mortgage loan amount, provided the seller/servicer clearly and prominently states the following in connection with the mortgage loan: “This mortgage loan is not eligible for purchase by Fannie Mae.”

A seller/servicer may elect to promote a particular mortgage loan, service, or product to be eligible for purchase by Fannie Mae under a proprietary trademark and has no obligation to use the Marks licensed hereunder.

A seller/servicer has no right to challenge the validity or enforceability of the Marks, to sublicense the use of any the Marks, or to benefit from the value of any good will that might be created by the seller/servicer's use of the Marks.

If Fannie Mae believes that a seller/servicer is not conforming to these standards of quality, Fannie Mae may require the seller/servicer immediately to either comply with the standards or discontinue use of the Marks. If appropriate, Fannie Mae may pursue equitable remedies, including specific performance or injunctive relief, to remedy the seller/servicer's breach.

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### **Termination of the License to Use the Fannie Mae Name and Trademarks**

The license to use the Marks is terminated automatically when the Lender Contract is terminated, regardless of which party initiates the termination or the reason for the termination. Fannie Mae also may terminate the license to use the Marks in connection with a material breach of the Contract or the terms and conditions of the Fannie Mae trademark license, even if Fannie Mae decides not to terminate the Lender Contract.



## **A2-1-06, Subservicing (11/12/2014)**

### **Introduction**

The servicer may use other organizations to perform some or all of its servicing functions on its behalf. Fannie Mae refers to these arrangements as “subservicing” arrangements, meaning that the servicer (the “subservicer”) other than the contractually responsible servicer (the “master” servicer) is performing the servicing functions.

The following are not considered to be subservicing arrangements:

- when a computer service bureau is used to perform accounting and reporting functions, and
- when the originating seller/servicer sells and assigns servicing to another seller/servicer, unless the originating seller/servicer continues to be the contractually responsible servicer.

This topic contains the following:

- Requirements for Subservicing Arrangements
- When Post-Delivery Transfers of Servicing Involve Subservicers



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## Requirements for Subservicing Arrangements

A servicer may use a subservicer only if it will not interfere with the servicer's ability to meet Fannie Mae's remitting and reporting requirements.

The servicer may not enter into new subservicing arrangements or extend existing arrangements to include newly originated mortgage loans, unless both the servicer and the subservicer are Fannie Mae-approved servicers in good standing who are able to perform the duties associated with the master servicer/subservicer arrangement.

The master servicer must ensure that its written agreement with the subservicer acknowledges Fannie Mae's right to rescind its recognition of the subservicing arrangement if Fannie Mae decides to transfer the master servicer's portfolio for any reason.

The servicer is not required to submit each separate subservicing arrangement under an existing subservicing agreement to Fannie Mae for its approval. However, if the arrangement is a new one, the subservicer must submit the applicable *Letters of Authorization for P&I Custodial Account* (Form 1013) for a P&I custodial account and *Letter of Authorization for T&I Custodial Account* (Form 1014) for a T&I custodial account) indicating that it has established the required custodial accounts and submit these forms electronically to Fannie Mae's Custodial Accounting Team (See F-4-03, List of Contacts ).

Even if a subservicing arrangement is known, approved of, or consented to by Fannie Mae, the servicer remains fully liable to Fannie Mae for the performance of all servicing obligations. Fannie Mae may enforce any rights and remedies it may have against the servicer for breach of the servicing obligations, whether such breach was caused by the servicer or by the subservicer. In addition to the foregoing and not in limitation thereof, Fannie Mae also may enforce any rights and remedies it may have against the subservicer for breach of the servicing obligations. See A2-7-03, Post-Delivery Servicing Transfers

The master servicer must confirm its existing subservicing arrangements when it submits the *Lender Record Information* (Form 582) each year.

Each mortgage loan that is subject to a subservicing arrangement must be identified in Fannie Mae's records. The servicer initially reports the type of subservicing arrangement and the subservicer's identification number to Fannie Mae in the month after Fannie Mae purchases or securitizes a mortgage loan or pool of mortgage loans. Since Fannie Mae maintains this information for all mortgage loans the seller/servicer services for it, the seller/servicer subsequently will need to update Fannie Mae's records for specific mortgage loans when it enters into a new subservicing arrangement (or terminates an existing one) that affects those mortgage loans. Sellers/servicers must report loan-level detail for their subservicing arrangements to Fannie Mae through Fannie Mae's investor reporting system.

The following table describes requirements, pursuant to the MSSC and the Guides, of a subservicing arrangement.

✓	<b>When a servicer enters into a subservicing arrangement with respect to all related mortgage loans...</b>
	The servicer represents and warrants to Fannie Mae that the subservicer will service those mortgage loans in accordance with all Fannie Mae requirements.
	The subservicer agrees with Fannie Mae to service those mortgage loans in accordance with all Fannie Mae requirements.
	The servicer and subservicer each represent and warrant to Fannie Mae that <ul style="list-style-type: none"> <li>• the provisions of any agreement between the originating lender, the transferor servicer, and any other party providing for servicing those mortgage loans will not continue after the date on which Fannie Mae funds the cash delivery or issues the MBS with respect to those mortgage loans, except as the subservicing agreement between the servicer and the subservicer; and</li> <li>• the subservicing agreement does not conflict with Fannie Mae’s servicing requirements.</li> </ul>
	The master servicer and its subservicers may negotiate the servicing fees that the subservicers will receive. The master servicer’s and the subservicer’s rights to receive the servicing fee and subservicing fee will be terminated if Fannie Mae transfers the servicing portfolio for any reason.
	Each subservicer must establish custodial accounts for all Fannie Mae mortgage loans that it subservices for a master servicer. Funds for MBS pools and for portfolio mortgage loans cannot be commingled in the same custodial account. A subservicer’s custodial accounts related to mortgage loans it is servicing for the master servicer must be separate from any other accounts it maintains for mortgage loans it services directly for Fannie Mae or for any other investor, including other mortgage loans (which are not Fannie Mae mortgage loans) that it services for the master servicer.
	The master servicer must report to Fannie Mae under the correct remittance type and must ensure that Fannie Mae receives the proper remittance amount regardless of whether the master servicer allows the subservicer to report activity to the master servicer under a different remittance type.
	The master servicer must remit to Fannie Mae all mortgage loan funds in sufficient time to ensure that Fannie Mae receives the correct remittance amount when it is due, regardless of any arrangement the master servicer and subservicer have to accept collections from the subservicer at a later date. If the subservicer uses a remittance date

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✓	<b>When a servicer enters into a subservicing arrangement with respect to all related mortgage loans...</b>
	that is later than the one Fannie Mae prescribes, the master servicer must advance any funds necessary.

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### When Post-Delivery Transfers of Servicing Involve Subservicers

As required in A2-7-03, Post-Delivery Servicing Transfers, servicers must obtain Fannie Mae's prior written consent for any transfer of servicing responsibilities involving Fannie Mae mortgage loans. Fannie Mae's prior written consent is required for all servicing transfers involving a subservicer, including a transfer of servicing responsibilities from

- one subservicer to another,
- the master servicer to a subservicer, or
- the subservicer to the master servicer.

The transferee servicer must indicate on the *Request for Approval of Servicing Transfer* (Form 629) if the transferee servicer will use a subservicer as a result of the servicing transfer.

As part of its review of the transfer of servicing review, Fannie Mae will also evaluate the performance and capacity of any subservicer the transferee servicer intends to utilize. See A2-7-03, Post-Delivery Servicing Transfers for additional information.

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## **A2-1-07, Second Lien Mortgage Loan Requirements (11/12/2014)**

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### Introduction

This topic contains the following:

- Coordination with First Lien Mortgage Loan Servicer
- Required Advances for Second Lien Mortgage Loans
- Subordination of Second Lien Mortgage Loan

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## Coordination with First Lien Mortgage Loan Servicer

The servicer of a second lien mortgage loan is responsible for coordinating with the servicer of the first lien mortgage loan on any actions it takes to protect Fannie Mae's or an MBS trust's investment and, if necessary, advance funds to protect that investment.

The servicer must send a written notice of Fannie Mae's ownership interest to the servicer of the first lien mortgage loan as soon as Fannie Mae purchases or securitizes the second lien mortgage loan. This notice must include a request for the first lien mortgage loan servicer to provide immediate notice to the second lien mortgage loan servicer of any event or situation that might jeopardize Fannie Mae's or an MBS trust's investment in the second lien mortgage loan.

This close coordination should continue through the disposition of an acquired property or satisfaction of the mortgage loan debts.

The servicer of the second lien mortgage loan must work with the first lien mortgage loan servicer to identify specific servicing responsibilities that might be more effective if they were shared or handled by only one servicer instead of by the two servicers acting independently. Any agreement that is reached must concentrate on eliminating duplication of effort and avoiding unnecessary expenses. Both servicers must have a clear understanding of their specific responsibilities.

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## Required Advances for Second Lien Mortgage Loans

The servicer of a second lien mortgage loan must advance reasonable amounts for expenditures that are required to protect Fannie Mae's investment in the second lien mortgage loan regardless of whether the mortgage loan is current or delinquent. These advances usually relate to the second lien mortgage loan, but occasionally they may be required for the first lien mortgage loan. The servicer must document the individual mortgage loan file to support fully the need for the advance.

Among other things, the servicer may be required to advance funds for

- the payment of real estate taxes and/or property (hazard) or flood insurance premiums,
- property management expenses,
- maintenance,
- repairs,

- prevention of waste, and
- capital improvements to the property.

The servicer must advance funds to reinstate or satisfy the first lien mortgage loan with conventional mortgage insurance if required by the mortgage insurer as a condition for claim filing.

**Advances for Second Lien Mortgage Loans:** Whenever the servicer advances funds for the protection of the security, appropriate arrangements should be made for the borrower to repay the advance. If the mortgage loan is current and the borrower cannot or will not repay the advance in a lump-sum payment or in installments, the servicer may make the advance, as described in the following table.

<b>If the second lien mortgage loan is a...</b>	<b>And...</b>	<b>Then the servicer...</b>
portfolio mortgage loan	the mortgage loan instrument, local laws, and government regulations allow the capitalization of advances	should capitalize its advance by: <ol style="list-style-type: none"> <li>1. increasing the UPB by the amount of its advance, and then</li> <li>2. requesting that Fannie Mae reimburse it for Fannie Mae's share of the advance, via <i>request for expense reimbursement</i>.</li> </ol>
	the mortgage loan instrument, local laws, or government regulations do not allow the capitalization of advances	should request that Fannie Mae reimburse it for Fannie Mae's share of the advance, via <i>request for expense reimbursement</i> .
MBS mortgage loan	the mortgage loan instrument, local laws, and government regulations allow the capitalization of advances	may apply subsequent mortgage loan payments against the advance.

If the mortgage loan is delinquent, the servicer should arrange for the borrower to repay the advance, either in installments, or as part of the full amount required to reinstate the mortgage

loan. If the mortgage loan is subsequently foreclosed and the borrower had not repaid the advance, Fannie Mae will reimburse the servicer for Fannie Mae’s share of the advance when

- the acquired property is sold, unless the mortgage loan is an MBS mortgage loan serviced under the regular servicing option, or
- the insurance claim is settled if the mortgage loan is insured by a conventional mortgage insurer.

**Advances for the First Lien Mortgage Loan:** Whether the servicer of the second lien mortgage loan is required to advance funds for the protection of the secured property depends on the conditions described in the following table.

<b>If Fannie Mae...</b>	<b>Then the servicer of the second lien mortgage loan...</b>
holds both the first and second lien mortgage loans	does not need to advance funds for the protection of the security, although it may have to advance funds to reinstate or pay off the first lien mortgage loan in connection with the second lien mortgage loan foreclosure.
does not hold the first lien mortgage loan	must advance funds to pay delinquent payments, taxes, property (hazard) or flood insurance premiums, and any other charges related to the first lien mortgage loan if that is required to protect Fannie Mae’s investment.

The servicer must obtain approval from its Fannie Mae Servicing Representative (see F-4-03, List of Contacts), even when Fannie Mae holds the first lien mortgage loan, before it advances funds to pay more than three monthly installments, pay-off the first lien mortgage loan, or pay any expense if its advances for the first lien mortgage loan have reached \$7,500.

To request reimbursement for Fannie Mae’s share of any advances made on the first lien mortgage loan, the servicer of a portfolio mortgage loan or MBS mortgage loan serviced under the special servicing option must submit a *request for expense reimbursement* to Fannie Mae.

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### **Subordination of Second Lien Mortgage Loan**

When a first lien mortgage loan is being refinanced, the second lien mortgage loan holder may be asked to execute a subordination agreement, which keeps the second lien mortgage loan in its original lien position even though it will predate the new first lien mortgage loan. The servicer should restrict the degree of subordination as much as possible.

The servicer may consider the following guidelines when evaluating a subordination offer.

<b>If Fannie Mae...</b>	<b>Then the servicer...</b>
is not providing the funds to refinance the first lien mortgage loan	<p>should agree to subordinate Fannie Mae’s interest only if the combined unpaid balances of the second lien mortgage loan and the new first lien mortgage loan represent 80% or less of the current appraised value of the property.</p> <p>The servicer may require that a portion of the proceeds from the refinancing be applied to reduce the unpaid balance of Fannie Mae’s second lien mortgage loan.</p>
is providing the funds to refinance the first lien mortgage loan	<p>should consolidate the first and second lien mortgage loans or work to ensure the second lien is paid in full.</p> <p>Otherwise, the servicer may agree to subordinate Fannie Mae’s interest as long as the combined unpaid balances of the second lien mortgage loan and the new first lien mortgage loan do not exceed Fannie Mae’s underwriting guidelines for single-family first lien mortgage loans and represent 80% or less of the current appraised value of the property. To meet these requirements, it may be necessary to apply funds toward the reduction of the second lien mortgage loan debt, reduce the amount of the new first lien mortgage loan, or both.</p>

When a borrower who has an FHA Title I home improvement loan refinances his or her existing first lien mortgage loan to obtain a lower interest rate or a longer term, the servicer may agree to subordinate the Title I loan to the new refinance mortgage loan (without obtaining Fannie Mae’s or FHA’s prior written consent) as long as the amount of the new refinanced mortgage loan is not greater than the sum of the existing first lien mortgage loan and reasonable financing or closing costs. If the borrower is refinancing for any other reason, the servicer must obtain FHA’s written authorization to subordinate the Title I loan to the new first lien mortgage loan in order to ensure that the security value of the Title I loan is not impaired or reduced.



## **A2-1-08, Compliance with Requirements and Laws (04/08/2015)**

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### **Introduction**

The seller/servicer (and any subservicer or third-party originator it uses) must be aware of, and in full compliance with, all federal, state, and local laws (e.g., statutes, regulations, ordinances, administrative rules and orders that have the effect of law, and judicial rulings and opinions) that apply to any of its origination, selling, or servicing practices or other business practices (including the use of technology) that may have a material effect on Fannie Mae. Among other things, this means that the seller/servicer must comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth-in-lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, anti-money laundering, terrorist activity, ability to repay or the enforcement of any of the terms of the mortgage loan. Sellers/servicers also must ensure that appraisals conducted in connection with single-family mortgage loans delivered to Fannie Mae conform to the Appraiser Independence Requirements.

As applicable law can change quickly, and sometimes without widespread notice, the seller/servicer must establish appropriate facilities for monitoring applicable legal developments and implementing appropriate measures to stay in compliance with applicable law, and demonstrate satisfactory performance of its legal compliance upon Fannie Mae's request. When a local or state law or regulation represents a potential conflict with Fannie Mae's requirements, the seller/servicer must advise its lead Fannie Mae regional office (see F-4-03, List of Contacts).

A seller/servicer may be required to repurchase a mortgage loan that is in breach of requirements of this topic at any time notwithstanding the number of payments a borrower may have made. See A1-1-03, Nature of the Contractual Relationship and A1-4.1-02, Fannie Mae's Remedies.

This topic contains the following:

- Compliance with Fannie Mae Data Breach Incident Requirements
- Compliance with Department of Treasury Office of Foreign Assets Control (OFAC) Regulations
- Compliance with the Housing and Economic Recovery Act (HERA) Reporting Requirements
- Compliance with Requirements of Insurer/Guarantor
- Conflict of Interest/Confidentiality
- Compliance with the Bank Secrecy Act Anti-Money Laundering Provisions



## Compliance with Fannie Mae Data Breach Incident Requirements

The servicer must maintain a response program consistent with the requirements of the Interagency Guide on Response Programs for Unauthorized Access to Customer Information and Customer Notice for all Fannie Mae mortgage loans. The servicer must comply with all state and federal laws that require consumer notification when their NPI has been compromised.

The following table outlines the servicer's actions whenever the servicer determines there has been a data breach.

✓	The servicer must...
	Provide written notice to the borrowers and any state agencies or other bodies in accordance with privacy and data security breach laws.
	Maintain a copy of the notice in the individual mortgage loan file.
	Notify its Fannie Mae Servicing Representative via phone or email (see F-4-03, List of Contacts).

The servicer must request permission to use Fannie Mae's name from Fannie Mae's Privacy Office (see F-4-03, List of Contacts) if the servicer intends to refer to Fannie Mae in any notices sent to affected borrowers or regulatory agencies.

The servicer must fully cooperate with Fannie Mae, including, without limitation, providing information and access as requested to enable Fannie Mae to comply with its legal, regulatory, and privacy incident management obligations.

**Additional Requirements:** The servicer must provide written notice to Fannie Mae's Privacy Office (see F-4-03, List of Contacts) of the data breach no later than 72 hours after the servicer is made aware of the incident if it

- affects 10 or more borrowers,
- requires notice to state agencies or other regulatory bodies designated by privacy and data security breach laws, or
- involves the intentional misuse of borrower NPI.

The following table outlines the notice requirements.

✓	The notice must include...
	A detailed description of the scope of the incident.
	A description of the related NPI.

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✓	The notice must include...
	The root cause (if known).
	The response plan.
	A copy of the breach notice that the servicer plans to send to the borrower(s) or an explanation as to why the servicer is not sending a breach notice.

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### **Compliance with Department of Treasury Office of Foreign Assets Control (OFAC) Regulations**

The servicer must establish and maintain an effective OFAC compliance program that ensures compliance with OFAC regulations. In addition, the servicer must periodically screen the mortgage loans that it services for Fannie Mae against OFAC's list of Specially Designated Nationals and Blocked Persons ("OFAC SDN List"). The servicer must file a report with OFAC, as required by OFAC regulations, if a valid match is identified.

If the servicer identifies a valid match against the OFAC SDN List, the servicer must notify Fannie Mae Ethics via email (see F-4-03, List of Contacts) within 24 hours of blocking or rejecting a mortgage transaction.

The servicer must include the information in the following table with the email notification.

✓	The email must include...
	The Fannie Mae loan number.
	The borrower name.
	A point of contact with the servicer who will be able to discuss the OFAC SDN List match.

Upon receipt of the notice, a representative from Fannie Mae will contact the servicer to discuss the OFAC SDN List match and any potential next steps. If necessary, Fannie Mae may require the servicer to provide additional information or documentation regarding the OFAC SDN List match.

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### **Compliance with the Housing and Economic Recovery Act (HERA) Reporting Requirements**

The servicer must comply with the HERA, which requires Fannie Mae to promote diversity to the maximum extent possible in balance with financially safe and sound business practices through:

- the inclusion and utilization of minorities, women, and individuals with disabilities, and

- the use of minority-, women-, and disabled-owned businesses at all levels, in management and employment, in all business and activities, and in all contracts for services of any kind.

**Note:** “HERA-Inclusive” is a business that is certified as either a minority-owned, woman-owned, or disabled-owned business. Servicers can find more information on ownership categories on the Diverse Suppliers page on Fannie Mae’s website which contains links to the currently applicable definitions.

Pursuant to HERA, the servicer must perform the actions described in the following table:

✓	<b>The servicer must...</b>
	Provide Fannie Mae with data regarding the diversity status of the servicer, its agents, subcontractors, and vendors, including <ul style="list-style-type: none"> <li>• appropriate certifications of minority-, women-, and disabled-owned status;</li> <li>• reports, as requested, on the number of minorities, women, and individuals with disabilities utilized; and</li> <li>• any other information Fannie Mae requests for purposes of complying with HERA or any other diversity and inclusion requirements.</li> </ul>
	Complete a Fannie Mae supplier registration profile that accurately reflect its ownership status, regardless of whether it is “HERA-Inclusive,” and its team composition report. The servicer may access the registration profile on the Existing Suppliers page on Fannie Mae’s website. The servicer must also <ul style="list-style-type: none"> <li>• update its profile to reflect such ownership changes within 30 days of any change of ownership, and</li> <li>• provide ownership and team composition information in accordance with the Existing Suppliers guidance on Fannie Mae’s website annually by November 1, or as determined by Fannie Mae.</li> </ul>
	Commit to practice the principles of equal employment opportunity and non-discrimination in all its business activities.
	Agree to require each of its agents, subcontractors, and vendors that provide services or goods to Fannie Mae to similarly commit to practice the principles of equal employment opportunity and non-discrimination in all their business activities.

In addition to the reporting requirements described, Fannie Mae encourages servicers to develop a process to collect the ownership status of the agents, subcontractors, and vendors utilized by the servicer in servicing mortgage loans for Fannie Mae.

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### Compliance with Requirements of Insurer/Guarantor

The servicer must comply with all requirements that the FHA, VA, HUD, and RD, or the mortgage insurance companies have for mortgage loans that they insure or guarantee. The servicer must take all actions necessary to ensure that Fannie Mae recovers the full amount due under the guaranty or the full claim under the insurance contract. The servicer must not fail to act which prevents Fannie Mae from recovering the full amount.

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### Conflict of Interest/Confidentiality

The servicer must take appropriate steps to ensure the security, integrity, and confidentiality of individual mortgage loan files and borrower payment records and to protect against unauthorized access to or use of such individual mortgage loan files and records.

This information must not be used by the servicer or anyone connected with it, or be passed on to a third party for its use, in any way that could be viewed as a conflict of interest, a breach of confidentiality, or the gaining of an unfair advantage from its relationship with Fannie Mae.

Before the servicer discloses NPI, it must have the borrower's authorization, unless permitted by applicable law. The information disclosed in such cases must be accurate, complete, and easily understandable.

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### Compliance with the Bank Secrecy Act Anti-Money Laundering Provisions

The following table describes the servicer's requirements under the anti-money laundering provisions of the Bank Secrecy Act (BSA).

If the servicer...	Then the servicer must...	And...
is subject to the anti-money laundering provisions of the BSA	<ul style="list-style-type: none"><li>• be in compliance with all applicable provisions of the BSA and its implementation regulations.</li><li>• report all instances of non-compliance, compliance failures, or sanctions related to the anti-money laundering requirements of the BSA, if applicable, to Fannie</li></ul>	<ul style="list-style-type: none"><li>• report all instances of suspicious activity related to Fannie Mae mortgage loans or Fannie Mae's business activities to Fannie Mae's Mortgage Fraud division (See F-4-03, List of Contacts).</li><li>• continue to report changes in ownership interest using the <i>Lender Record</i></li></ul>

If the servicer...	Then the servicer must...	And...
	Mae's Ethics division (See F-4-03, List of Contacts).	<p><i>Information</i> (Form 582) update process in Submission of the Lender Record Information Form in A3-3-02, Financial Statements and Reports.</p> <p>Fannie Mae reserves the right to make additional inquiries to the servicer of any owner, including but not limited to, any direct, indirect, or beneficial owner that is a foreign party.</p>
is not subject to the anti-money laundering provisions of the BSA	develop internal policies, procedures, and controls to identify suspicious activities that may involve money laundering, fraud, terrorist financing, or other crimes similar to those required by the anti-money laundering provisions of the BSA and its implementing regulations.	

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue date
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015

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# Chapter A2-2, Refinance and Lending Practices



## Refinance and Lending Practices

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### Introduction

This chapter contains information on refinance lending practices.

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### In This Chapter

This chapter contains the following topics:

A2-2-01, Questionable Refinance Practices (11/12/2014) .....	104
A2-2-02, Responsible Lending Practices (11/12/2014) .....	105
A2-2-03, Prohibited Refinance Practices (11/12/2014) .....	106

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### A2-2-01, Questionable Refinance Practices (11/12/2014)

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Questionable refinancing practices can critically affect the integrity of Fannie Mae's portfolio and the MBS it issues. The servicer must include in its policies and procedures for originating new mortgage loans, refinancing existing mortgage loans, and reviewing mortgage loans originated by third parties appropriate safeguards to preclude the possibility of violating Fannie Mae's prohibitions against questionable refinancing practices.

The servicer may advertise its availability for handling refinancings of mortgage loans in its portfolio, as long as it does not specifically target borrowers with Fannie Mae mortgage loans. Fannie Mae will not object to the servicer promoting the terms it has available for refinancings by sending letters or promotional material if the servicer targets

- borrowers of all mortgage loans in its servicing portfolio (those it owns as well as those serviced for others),

- all borrowers who have specific types of mortgage loans (such as FHA, VA, conventional fixed-rate, or conventional adjustable-rate), or
- borrowers of mortgage loans that fall within specific interest rate ranges.

The servicer may not treat mortgage loans it holds in its own portfolio and those it sold to another investor, including Fannie Mae, as separate classes of mortgage loans for purposes of advertising the availability of refinancing terms. The servicer may provide payoff information and otherwise cooperate with individual borrowers who contact it about prepaying their mortgage loans by advising them of refinancing terms and streamlined origination arrangements that are available, including Fannie Mae's own alternatives. Additionally, the servicer cannot, as a means of making a mortgage loan eligible for repurchase from an MBS pool, encourage a borrower to refrain from making payments on his/her mortgage loan.

Fannie Mae analyzes MBS pools that have high levels of prepayments. If these analyses raise serious concerns about the seller/servicer's practices, Fannie Mae will conduct a review of the seller/servicer's origination and refinancing activities to ensure that they are in compliance with Fannie Mae's requirements. Fannie Mae will take appropriate disciplinary action if it finds that the seller/servicer has violated its policies and requirements including, but not limited to, requiring the seller/servicer to make it whole for any losses resulting from claims made by MBS certificate holders.



## **A2-2-02, Responsible Lending Practices (11/12/2014)**

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The seller/servicer must use prudent, sound, and responsible business practices in its marketing, origination, and servicing efforts and to make sure that borrowers who have blemished credit histories receive the benefits of those practices. The seller/servicer's operating policies and procedures must provide for an effective means of identifying and avoiding predatory lending practices.

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## **A2-2-03, Prohibited Refinance Practices (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Delivering a Mortgage Loan with a Refinance in Process
  - Prearranged Refinancing Agreements
  - Refinancing Arrangements to Advance Borrower Payments
  - Conditional Tenders of Payment
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### **Delivering a Mortgage Loan with a Refinance in Process**

Fannie Mae considers a servicer to be in the process of refinancing a mortgage loan if, at the time the mortgage loan is delivered to Fannie Mae, the seller/servicer has taken another application from the same borrower for another mortgage loan of the same lien priority that is secured by the same property or has entered into an agreement with one of its third-party originators to acquire or fund another mortgage loan that has the same borrower, the same security property, and the same lien priority as the mortgage loan that is being delivered to Fannie Mae.

Fannie Mae also considers the delivery of a seasoned mortgage loan that is in the process of being refinanced as a form of targeting, and therefore unacceptable, even if no agreement for future refinancing was entered into at the time of origination. Therefore, a seller/servicer must not deliver for Fannie Mae's purchase or securitization any mortgage loan that it has agreed to refinance or that it is currently in process of refinancing. The seller/servicer must have in place procedures to ensure that it does not deliver to Fannie Mae any mortgage loan that it is in the process of refinancing or acquiring from, or funding for, a third-party originator.

There may be other instances in which the seller/servicer (although not a party to any prearranged refinancing agreement) may be aware of, or suspect the existence of, some type of refinancing agreement between the borrower(s) and another party or some other situation that may affect the expected prepayment pattern for mortgage loans that will be delivered to Fannie Mae. In such cases, the seller/servicer should contact its lead Fannie Mae regional office (see F-4-03, List of Contacts) to determine whether the mortgage loan(s) in question can be delivered to Fannie Mae.



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## Prearranged Refinancing Agreements

The seller/servicer may not deliver a mortgage loan to Fannie Mae if the servicer entered into any arrangement with the borrower to provide refinancing of the mortgage loan (at some future date and usually for reduced costs) when the mortgage loan was initially originated — unless the seller/servicer obtains a negotiated contract from Fannie Mae that allows delivery of the mortgage loan in spite of its shortened prepayment expectation.

The seller/servicer must not, as a normal course of business, deliver for Fannie Mae's purchase or securitization any mortgage loan for which the servicer (or any of its affiliates or third-party originators) and the borrower have entered into either a formal or informal arrangement offering special terms (such as a reduction in the costs) for a future refinancing of the mortgage loan being originated as an inducement for the borrower to enter into the original mortgage loan transaction.

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## Refinancing Arrangements to Advance Borrower Payments

Refinancing arrangements that call for the servicer to advance a number of payments in the borrower's behalf and then to refinance the mortgage loan once the agreed-upon payments have been advanced are in conflict with the intent of Fannie Mae's refinancing policy and with the requirements of the *Servicing Guide*.

The only provisions of the *Servicing Guide* that permit the servicer to advance funds on a borrower's behalf are those related to making servicing advances or delinquency advances.

If the borrower is not obligated to make a payment during a given period, the servicer's advance for the payment is not one of the types of advances that Fannie Mae permits.

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## Conditional Tenders of Payment

Conditional tenders of payment are not an acceptable alternative to refinancing for Fannie Mae mortgage loans, regardless of whether they relate to a mortgage loan being serviced for Fannie Mae or to a mortgage loan that is being delivered to it. Fannie Mae does not consider a refinancing to have occurred unless the mortgage debt is satisfied and the lien against the property is released. The only exceptions to this are

- negotiated transactions involving seasoned mortgage loans held in a seller/servicer's portfolio that have been modified since they were originated;
- transactions involving mortgage loans secured by properties in New York that are originated under the statutory provisions that permit refinance mortgage loans to be documented by a consolidation, extension, and modification agreement; and

- transactions involving the refinancing of a balloon mortgage loan that has a conditional refinance option.

The servicer must not

- use conditional tenders of payment as a refinancing alternative, or
- honor requests it receives for conditional tenders of payment for any mortgage loan that it services for Fannie Mae.

The seller/servicer that offers conditional tenders of payment as a refinancing alternative must not deliver any refinance mortgage loan to Fannie Mae unless it is documented by a new note and a new mortgage loan, unless it is one of the previously mentioned authorized exceptions.

If Fannie Mae's post-purchase underwriting performance review of a refinance mortgage loan reveals that the conditional tender of payment procedure was used as an alternative to refinancing the mortgage loan, Fannie Mae will require the seller/servicer to repurchase the mortgage loan in question and, if multiple occurrences of this practice are identified, Fannie Mae may take other appropriate action against the seller/servicer.

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# Chapter A2-3, Servicer Compensation



## Servicer Compensation

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### Introduction

This chapter contains information on servicer compensation.

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### In This Chapter

This chapter contains the following topics:

A2-3-01, Servicer Compensation (11/12/2014) .....	109
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## A2-3-01, Servicer Compensation (11/12/2014)

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### Introduction

This topic contains the following:

- Servicing Fees
  - Calculating and Collecting Servicing Fees
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### Servicing Fees

Servicing fees are payable to the servicer from the time Fannie Mae purchases or securitizes a mortgage loan until it is liquidated (or otherwise removed from an MBS pool or Fannie Mae's active accounting records), as long as the servicer collects or remits the mortgage loan payments.

As compensation for servicing mortgage loans for Fannie Mae, Fannie Mae pays the servicer servicing fees and allows it to retain the following:

- late charges,
- fees charged for special services,
- yield differential adjustments, and
- in some cases, either a share or all of any applicable prepayment premiums that Fannie Mae permits under the terms of a negotiated contract.

As described in the Lender Contract, the servicer bears the cost of servicing mortgage loans sold to Fannie Mae, except as expressly provided otherwise in Fannie Mae's Guides. The servicing fee that Fannie Mae pays the servicer and the other revenue sources consistent with the Guides are intended to compensate the servicer for a variety of standard activities associated with the servicing of mortgage loans.

The servicer may not sell, assign, transfer, pledge, or hypothecate its servicing compensation (or any portion of it) or enter into any agreement that would result in the sale, assignment, transfer, pledge, or hypothecation of that income or its servicing rights, except under the conditions and circumstances specified in A2-7-02, Pledge of Servicing Rights.

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### Calculating and Collecting Servicing Fees

The exact servicing fee that applies to any given mortgage loan appears on the trial balance report that is produced by Fannie Mae's investor reporting system (see the [Investor Reporting Manual](#)).

Because servicing fees are computed on the same UPB and for the same period as the interest portion of the monthly installment, the servicer generally can base its servicing fee calculation on the interest collected. However, when a mortgage loan is undergoing negative amortization, servicing fees must be based on the interest amount that is accrued, rather than on the amount that was actually collected.

For mortgage loans where military indulgence is warranted or required under the Servicemembers Civil Relief Act, see D2-3.4-01, Military Indulgence, for the calculation of servicing fees.

The servicer is authorized to obtain its servicing fee compensation by way of the methods in the following table.

<b>If the servicing fee is paid...</b>	<b>Then the servicer is authorized to obtain its servicing fee compensation by...</b>
on a monthly basis	<ul style="list-style-type: none"><li>• deducting its fee from each borrower's payment before it is deposited to the custodial account, or</li></ul>

<b>If the servicing fee is paid...</b>	<b>Then the servicer is authorized to obtain its servicing fee compensation by...</b>
	<ul style="list-style-type: none"> <li>writing itself a check against its custodial account for the amount of servicing fee that is due each month.</li> </ul>
upon liquidation of the mortgage loan	<ul style="list-style-type: none"> <li>deducting its fee from the amount sent to Fannie Mae when the borrower pays off his or her mortgage loan, or</li> <li>deducting its fee from the proceeds of a third-party foreclosure sale or from the amount remitted to redeem an acquired property.</li> </ul>

Depending on the type of mortgage loan, the servicer is authorized to retain additional servicing compensation as described in the following table.

<b>If the mortgage loan is a...</b>	<b>Then the servicer is authorized to retain as additional servicing compensation the amount by which the mortgage coupon rate exceeds...</b>
portfolio mortgage loan	<ul style="list-style-type: none"> <li>Fannie Mae's pass-through rate for a mortgage loan, or</li> <li>Fannie Mae's required yield for a participation interest.</li> </ul>
MBS mortgage loan	<ul style="list-style-type: none"> <li>the pass-through rate for a fixed-rate MBS mortgage loan,</li> <li>the pool accrual rate for a stated-structure ARM MBS pool, or</li> <li>the accrual rate for the mortgage loan for a weighted-average ARM MBS pool, to the extent that it is greater than the minimum allowable retained servicing spread but less than the maximum allowable retained servicing spread.</li> </ul>

 **A2-3-02, Servicing Fees for Portfolio and MBS Mortgage Loans (11/12/2014)**

The servicer's total servicing fee for a mortgage loan generally is the difference between the mortgage interest rate and the rate at which the servicer passes through interest to Fannie Mae.

However, the servicer of an MBS mortgage loan must pay Fannie Mae a guaranty fee, so its total servicing fee compensation is reduced by the amount of the guaranty fee. In addition, the total servicing compensation for a conventional mortgage that has lender-purchased mortgage insurance is reduced by the accrual for the applicable renewal premium for this coverage. The total servicing fee (after deduction of the applicable guaranty fee for an MBS mortgage and/or the applicable renewal premium accrual for a mortgage with lender-purchased mortgage insurance) must at least equal Fannie Mae's required minimum servicing fee for the particular type of mortgage loan.

Refer to F-2-10, Servicing Fees for MBS Mortgage Loans and F-2-11, Servicing Fees for Portfolio Mortgage Loans for a list of the servicing fees by mortgage loan type.

**Servicing Fees During and After a Home Affordable Modification Program or Second-Lien Modification Program Trial Period Plan:** During a HAMP or a 2MP trial period, the servicer continues to earn servicing fees to the extent that the borrower's payments equal a contractual full payment.

The servicer will receive servicing fees when the mortgage loan modification becomes effective. If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%). For mortgage loans that have lender-paid mortgage insurance, refer to B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.



### **A2-3-03, Yield Differential Adjustments (11/12/2014)**

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When the interest rate of an actual/actual remittance type fixed-rate mortgage loan is greater than Fannie Mae's required yield, it allows the servicer to retain all or part of this difference. A similar concept applies for actual/actual remittance type ARM loans when the mortgage margin — or net mortgage margin for net yield commitments — exceeds Fannie Mae's required commitment margin. The exact amount of the difference that the servicer may retain — which is called a yield differential adjustment — is determined by the policy Fannie Mae had in effect when it issued its commitment to purchase the mortgage loan. In addition, ARM loans may have a short-term yield differential until the first interest rate change if the "base interest rate" or "net mortgage rate" exceeds Fannie Mae's required yield.

The exact amount of yield differential adjustment that the servicer may retain is usually determined by the policy that was in effect when Fannie Mae issued its commitment to purchase the mortgage loan. See F-2-06, Historical Yield Differential Adjustment Provisions for Fannie

Mae’s present yield differential adjustment policy and a historical record of the various yield differential adjustment policies that may apply to mortgage loans in the servicer’s portfolio.

Yield differential adjustments may be changed, or eliminated altogether, under the conditions described in the following table.

<b>If Fannie Mae...</b>	<b>Then...</b>
sells the mortgage loan or an interest in it	any yield differential adjustment will be eliminated —although Fannie Mae’s pooling of portfolio mortgage loans to form an MBS will not affect the servicer’s yield differential adjustment.
terminates the servicer’s right to service the mortgage loan (either with cause or without cause)	any yield differential adjustment will be eliminated, unless Fannie Mae agrees otherwise in writing.
purchased an ARM loan at a <i>discount</i>	the yield differential adjustment will be eliminated when the first interest rate adjustment occurs. (See F-2-06, Historical Yield Differential Adjustment Provisions for an exception to this policy.)
purchased an ARM loan at <b>par</b>	the yield differential adjustment may be reduced when the first interest rate change occurs. (See F-2-06, Historical Yield Differential Adjustment Provisions for an explanation of how the new yield differential adjustment is determined.)

Additionally, if the servicer chooses to terminate its servicing responsibility under the terms of the Lender Contract, any yield differential adjustment will be eliminated, unless Fannie Mae agrees otherwise in writing.

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 **A2-3-04, Late Charges as Compensation (11/12/2014)**

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The servicer may collect any late charges that are provided for in the mortgage instrument as long as they are consistent with federal and state laws. Also, see C-1.1-01, Servicer Responsibilities for Processing Mortgage Loan Payments for Fannie Mae requirements regarding late charges.

The servicer must report the amount of late charges it collects each month for a given mortgage loan as part of the monthly activity information it provides through Fannie Mae's investor reporting system. See the *Investor Reporting Manual* for additional information.



## **A2-3-05, Fees for Special Services (11/12/2014)**

### **Introduction**

This topic contains the following:

- Prohibited Fees for Special Services
- Allowable Fees for Special Services
- Additional Fee Assessment Guidelines

### **Prohibited Fees for Special Services**

The servicer is not authorized to charge the borrower fees relating to the following activities:

- handling borrower disputes;
- facilitating routine borrower collections;
- arranging repayment or forbearance plans;
- sending borrowers notices (sometimes called “demand” or “breach” letters) relating to nonpayment of principal, interest, taxes, or insurance in advance of a formal acceleration notice that matures the mortgage loan principal balance and begins the foreclosure process; and
- updating the servicer's records to “reinstate” a mortgage loan that has been brought current.

Also, the servicing fee generally is not intended to encompass certain additional work that the servicer performs at Fannie Mae's request, e.g.

- performing certain property inspections on mortgage loans in default,
- handling certain workout options for which Fannie Mae has agreed to compensate the servicer, or



- engaging in property preservation activities.

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### Allowable Fees for Special Services

The servicing fee generally is not intended to encompass certain additional work (special services) that the servicer performs at the borrower’s request or on the borrower’s behalf. Special services include work related to

- a change in ownership of the security property,
- replacement of insurance policies,
- a release of the security,
- providing expedited service via fax,
- providing more than one payoff statement in a short period of time (or even a single payoff statement if applicable law expressly permits a borrower fee),
- providing duplicate copies of mortgage loan documents,
- accepting a “phone pay” payment, and
- consummating the assumption or modification of a mortgage loan.

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### Additional Fee Assessment Guidelines

The following table describes additional fee assessment guidelines based on activities for ARM loan adjustments, assumptions, or modifications.

<b>For...</b>	<b>The servicer...</b>
ARM loan adjustments	may not charge fees for the interest rate or payment changes that are required periodically for ARM loans, although it may charge a processing fee to cover the administrative costs of converting an ARM loan to a fixed-rate mortgage loan, limited to \$100 for most ARM plans or \$250 for ARM plans that include a monthly conversion option.
assumptions of conventional mortgage loans	must limit the assumption fee, although out-of-pocket expenses for processing the transaction —such as the cost of the credit report —may be charged at actual cost. Fannie Mae considers the following fee schedule to be reasonable; however, if the

For...	The servicer...
	servicer's costs do not warrant these fees, it should charge lower fees: <ul style="list-style-type: none"> <li>• \$100 if the change of ownership does not require a review of the purchaser's credit, or</li> <li>• the greater of \$400 or 1% of the UPB of the mortgage loan —up to a maximum of \$900 —if the change of ownership requires credit approval of the new borrower.</li> </ul>
assumptions of FHA or VA mortgage loans	must follow FHA or VA requirements regarding the maximum allowable assumption fees for these government mortgage loans.
modifications	must refer to the Home Retention Workout Options section of part D for allowable servicing fees, costs, or charges.



### **A2-3-06, Prepayment Premiums (11/12/2014)**

The servicer must not collect prepayment premiums from the borrower when a mortgage loan is paid in full —unless the mortgage loan was delivered under a negotiated contract that specifically permitted enforcement of the provisions of the mortgage documents that authorized the charging of a premium for prepayments. Even then, the servicer must not charge the prepayment premium when the mortgage debt is accelerated as the result of the borrower's default in making his or her mortgage loan payments.

If the servicer collects prepayment premiums under the terms of a negotiated contract, it must report any prepayment premium it collects for a given mortgage loan (even if the premium is not remitted to Fannie Mae) as part of the monthly activity information it provides through Fannie Mae's investor reporting system.

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# Chapter A2-4, Fannie Mae’s Quality Control Review



## Fannie Mae’s Quality Control Review

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### Introduction

This chapter contains information on Fannie Mae’s quality control review.

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### In This Chapter

This chapter contains the following topic:

A2-4-01, Quality Control Reviews (11/12/2014) .....	118
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## **A2-4-01, Quality Control Reviews (11/12/2014)**

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### **Introduction**

Fannie Mae may review mortgage loans it has purchased or securitized (including those with early payment defaults, those that have been foreclosed, as well as any other mortgage loan) to ensure that its underwriting, eligibility, and servicing requirements have been met.

When Fannie Mae's quality assurance risk assessment identifies a mortgage loan as having a higher degree of risk, Fannie Mae may perform a post-foreclosure full file quality control review to evaluate the seller/servicer's initial underwriting of the mortgage loan and, if applicable, the actions the seller/servicer took in servicing the mortgage loan. In such cases, Fannie Mae will notify the seller/servicer about the type of review Fannie Mae will perform and the scope of the review.

This topic contains the following:

- Notification of a Quality Control Review
- Timely Delivery of Individual Mortgage Loan Files
- Document Submission Requirements
- Fannie Mae's Quality Control Review
- Requirements Specific for Servicing Quality Control Reviews
- Fannie Mae Quality Control Report of Findings
- Appeal of Fannie Mae QC Review Decisions
- Servicing Review File Requirements
- Underwriting or Servicing Reviews of Acquired Properties

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### **Notification of a Quality Control Review**

Sellers/servicers are notified which mortgage loans Fannie Mae has selected for review via written or electronic notification. Electronic notification will be delivered via the Quality Assurance System if the seller/servicer has signed up for it.

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## Timely Delivery of Individual Mortgage Loan Files

The seller/servicer must send the requested documentation for an underwriting or servicing review so that Fannie Mae receives the review file within 30 days after Fannie Mae notifies the seller/servicer that it has selected a mortgage loan for review. Fannie Mae, in its sole discretion, may request the documentation in a shorter or longer period of time based upon circumstances at the time.

Fannie Mae will make every effort to work with the seller/servicer when extenuating circumstances prevent it from delivering documentation in a timely manner. However, if a seller/servicer delays in providing the requested information, Fannie Mae, in its sole discretion, reserves the right to require indemnification or repurchase (depending on the circumstances of the individual case) of these mortgage loans. When a seller/servicer has a pattern of extensive delays or unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the seller/servicer, up to and including termination.

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## Document Submission Requirements

The seller and servicer must maintain a complete individual mortgage loan file and be able to produce copies of the complete individual mortgage loan file upon Fannie Mae's request. The servicing review file must include supporting documents for all *requests for expense reimbursement* it has submitted or intends to submit to Fannie Mae (for example, vendor invoices and third-party invoices from the vendor rendering services), in addition to other servicing and liquidation information such as

- property inspection reports,
- copies of delinquency repayment plans,
- copies of disclosures of ARM loan interest rate and payment changes,
- documents related to insurance loss settlements, and
- foreclosure records, as stated in the *Servicing Guide*.

In all instances, the servicer must document its compliance with all Fannie Mae policies and procedures, including, but not limited to, timelines that are required by the *Servicing Guide*. The servicer must maintain in the individual mortgage loan file all documents and system records that preserve Fannie Mae's ownership interest in the individual mortgage loan.

The seller/servicer must package the requested documentation requested by Fannie Mae. When Fannie Mae requests both a mortgage loan origination and a mortgage loan servicing file, the

seller/servicer may package the material as a single file (with the origination and servicing documentation separated and clearly labeled within the file) or as two separate files that are packaged together (with one file identified as the “origination” file and the other identified as the “servicing” file).

The complete mortgage loan file must include clear copies of any required paper documents, not the originals. Paper documents must be sent in a manila folder, with the credit and property documents on the right side and the legal documents on the left side.

If the seller/servicer keeps its files electronically, Fannie Mae must be able to reproduce the documents required in a manner in terms of cost and time frames acceptable to Fannie Mae.

If the seller/servicer wishes to submit files in a form other than paper, it must contact the Fannie Mae's NUC File Receipt and Assignment team (see F-4-03, List of Contacts) to ensure that the requested form is compatible with the National Underwriting Center's systems and processes. The requested files must be sent to Fannie Mae's NUC File Receipt and Assignment team (see F-4-03, List of Contacts).

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### **Fannie Mae's Quality Control Review**

Fannie Mae has QC policies and procedures in place for its review of performing and non-performing mortgage loans. Fannie Mae uses a statistically valid approach in selecting a random sample of new mortgage loan deliveries for review. The random sample is augmented with targeted, discretionary sampling, which aids in the measurement of the overall quality of mortgage loan deliveries. The QC process evaluates individual mortgage loan files on a comprehensive basis with the primary focus of confirming that mortgage loans meet Fannie Mae's underwriting and eligibility requirements. Fannie Mae will continue to review any servicing files requested with the primary focus of confirming that the mortgage loan has been serviced in accordance with the Lender Contract.

Fannie Mae performs a risk assessment for the selected mortgage loans, which is similar to the process used by DU®, to determine the scope of its underwriting performance review. Generally, Fannie Mae looks beyond the documentation and underwriting decisions for individual mortgage loans since it believes that the most effective quality control process is one in which it shares with the lender information about the lender's overall underwriting performance which Fannie Mae has obtained through individual loan-level analyses, trend analyses, and peer group comparisons.

Fannie Mae may perform an early payment default full file quality control review for any mortgage loan. However, as a matter of practice, Fannie Mae reviews only those mortgage loans that it identifies as having a high probability of actually going to foreclosure (thus significantly reducing the number of mortgage loans for which this type of review is required). When Fannie

Mae notifies the servicer that a mortgage loan has been selected for an early payment default review, it will indicate the documentation that it expects the servicer to submit to it.

Fannie Mae may perform a post-foreclosure full file quality control review for every foreclosed mortgage loan. The scope of its review will vary depending on the results of its risk assessment for the mortgage loan.

The QC process also provides sellers/servicers with data and feedback about the quality of their mortgage loan origination process. The goal is to engage sellers/servicers in frequent, meaningful exchanges of information about trends in the quality of delivered mortgage loans and to inform sellers/servicers about significant underwriting deficiencies identified through the quality control review process. Together, Fannie Mae and its sellers/servicers should share a commitment to improving the quality of mortgage loan originations. Fannie Mae requires that sellers/servicers implement and enforce strong underwriting processes and, if necessary, will work with sellers/servicers to develop action plans to improve origination quality.

Fannie Mae's QC policies are administered by its National Underwriting Center. The selection process may change at any time to address concerns.

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### **Requirements Specific for Servicing Quality Control Reviews**

Fannie Mae will utilize delinquent mortgage loan status code data and other information collected from the servicer during other interactions to identify delays in the default management process. Fannie Mae may elect to perform a servicing review to further evaluate the actions the servicer took in servicing those mortgage loans.

Fannie Mae will notify the servicer of the intention to perform a desk review or an on-site review. The servicer must submit the requested documentation or make it available for an on-site review in the time frame specified in the notification. If the servicer fails to do so, Fannie Mae may exercise available remedies, including compensatory fees, without first reviewing the individual mortgage loan file. The list of documents that must be included in any servicing review file Fannie Mae request are outlined in *Servicing Review File Requirements*.

Fannie Mae will communicate any performance deficiencies noted to the servicer. Unless Fannie Mae elects to immediately terminate the servicer's right to service the mortgage loans, the servicer will be given an opportunity to explain any mitigating circumstances or factors that justify the servicing actions it took or did not take within the time frame specified by Fannie Mae in its communication of the performance deficiencies.

Fannie Mae's evaluation of the actions the servicer took in servicing the mortgage loan will focus primarily on determining whether the servicer took all of the appropriate steps to cure the delinquency or avoid foreclosure (through Fannie Mae's various relief provisions or foreclosure

prevention alternatives) and, if a foreclosure could not be avoided, on confirming that the servicer completed the legal actions within Fannie Mae's required time frames.

For the most part, Fannie Mae will rely on various reports that are produced by its automated delinquency and foreclosure prevention management systems to evaluate the servicer's performance. However, when Fannie Mae's analysis of these reports indicates that there is a possibility that the servicer's delinquency management performance is poor or if Fannie Mae believes certain servicing files should be reviewed for other reasons, Fannie Mae may require the servicer to submit a servicing review file for a mortgage loan to Fannie Mae's REAM Division (see F-4-03, List of Contacts).

If Fannie Mae identifies any deficiencies in its evaluation of the servicing review file, it will communicate them to the servicer. The servicer, in most instances, will be given an opportunity to explain any mitigating circumstances or factors that justify the servicing actions it took (or did not take).

When the servicer's review identifies significant deficiencies, it may offer to purchase the property from Fannie Mae when it submits the complete individual mortgage loan file (rather than waiting for the results of Fannie Mae's review). Fannie Mae will entertain such offers—as long as they will make Fannie Mae whole and are permitted by the Trust Agreement, if applicable—since Fannie Mae would no longer have to be concerned about the property disposition process.

When Fannie Mae has received the origination and/or servicing review file, it will begin the process of reviewing the file(s) to determine whether the mortgage loan met Fannie Mae's origination, eligibility and/or servicing standards. If Fannie Mae concludes that a mortgage loan was ineligible and should never have been sold to Fannie Mae, Fannie Mae generally will issue a request for repurchase (calling for the servicer to take title to the property and pay Fannie Mae for its full investment in it). Fannie Mae may, on occasion, give the servicer the option of having Fannie Mae dispose of the property (and agreeing to indemnify Fannie Mae for any loss Fannie Mae incurs in connection with the sale), or require the lender to fully reimburse Fannie Mae for its loss through a demand for a make whole payment in the event that Fannie Mae sells the property or accepts a purchase offer prior to notifying the servicer that the mortgage loan did not meet Fannie Mae's eligibility or underwriting requirements.

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### **Fannie Mae Quality Control Report of Findings**

Fannie Mae provides sellers/servicers with ongoing feedback about their overall QC performance. The level of detail provided to each seller/servicer varies, but may include identifying defect types, reporting on frequent or common defects, and describing quality trend analyses and significant underwriting deficiencies identified through the QC review process.



This information is provided through a variety of methods that range from regular electronic transmissions to more formal periodic discussions.

When Fannie Mae identifies a defective mortgage loan, it may in its sole discretion, impose a condition to retaining the mortgage loan, such as requiring the seller/servicer to agree to an alternative remedy to repurchase (for example, executing an indemnification agreement). In some cases, Fannie Mae will issue a repurchase or make whole payment request to the seller/servicer. In other cases, Fannie Mae may provide the seller/servicer with an alternative to the immediate repurchase of an identified mortgage loan. (See Alternatives to Repurchase in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations.) Fannie Mae will strive to apply the most appropriate remedy that is commensurate with the associated level of risk to compensate Fannie Mae for the harm caused by the violation. In each such case, Fannie Mae will notify the seller/servicer of the type and term of the repurchase alternative.

The *Servicing Guide* contains timelines by which sellers/servicers must pay Fannie Mae the funds that are due in connection with a repurchase or make whole payment request in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations. If a seller/servicer delays in this or has a pattern of unresponsiveness, Fannie Mae may consider this an independent breach of contract and consider other actions against the seller/servicer, up to and including termination.

For performing mortgage loans with significant underwriting deficiencies, Fannie Mae may choose not to require immediate repurchase, but may instead request indemnification. Certain repurchase alternatives may be available only to a seller/servicer that is in good standing with Fannie Mae, in a strong financial condition acceptable to Fannie Mae, and that otherwise satisfies Fannie Mae's eligibility criteria. (If the servicing of a mortgage loan has been transferred to a seller/servicer other than the one that sold the mortgage loan to Fannie Mae's, eligibility for this benefit will be based on the evaluation of the responsible party.) The nature and severity of the findings, financial and operational strength of the seller/servicer, the quality of the mortgage loans sold, servicing performance, and the mortgage loan payment history are criteria used by Fannie Mae in deciding whether to use this option.

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## Appeal of Fannie Mae QC Review Decisions

Fannie Mae maintains a process for sellers/servicers to appeal repurchase and make whole payment requests. A repurchase or reimbursement request may be rescinded because the seller/servicer provides documentation within the time period specified by Fannie Mae (when Fannie Mae, in its sole discretion determines that a breach of the Lender Contract may be cured). Refer to A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations for additional information.

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## Servicing Review File Requirements

The following table provides a list of the documentation that must be included in the servicing review file.

✓	The servicer must include in the servicing review file...
	The collection history for the default that led to the foreclosure or mortgage release (including the reason for the default, delinquency notices sent, and copies of borrower’s previous payment histories).
	A summary of all attempts to develop a workout plan or arrange a workout option, including evidence of any communication with Fannie Mae.
	A bankruptcy tracking log, or a separate report indicating the dates of any bankruptcy filings and the dates that any lifting of a bankruptcy stay was attempted and attained.
	The foreclosure tracking log, or a separate report indicating the date that the case was referred to the foreclosure attorney and the date of the foreclosure sale, as well as summarizing any communications with Fannie Mae about delays in the foreclosure process (including delays resulting from the presence of hazardous waste, natural disasters, massive layoffs, etc.) or departures from standard foreclosure procedures (such as using judicial foreclosure in a power of sale state).
	Any other type of information that is requested, given the type of review.


The outside of the servicing review file must clearly identify the case, as follows:

- servicing file for acquired property;
- mortgage remittance type (A/A, S/A, or S/S);
- servicing option (special or shared risk);
- Fannie Mae mortgage loan number;
- servicer mortgage loan number;
- borrower’s name; and
- property address.

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## Underwriting or Servicing Reviews of Acquired Properties

When Fannie Mae receives an offer to purchase an acquired property that is also subject to an underwriting or servicing review, Fannie Mae may accept the purchase offer without first



notifying the servicer, whether or not a final decision has been reached with respect to the review. If, after completion of the review, Fannie Mae determines that the mortgage loan did not meet its eligibility or underwriting requirements and Fannie Mae has incurred a loss by selling the property, the seller/servicer will be required to fully reimburse Fannie Mae for its loss.

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# Chapter A2-5, Individual Mortgage Loan Files and Records



## Individual Mortgage Loan Files and Records

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### Introduction

This chapter contains information on mortgage loan files and records.

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### In This Chapter

This chapter contains the following topics:

A2-5.1, Ownership, Establishment and Maintenance of Mortgage Loan Files and Records	127
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## Section A2-5.1, Ownership, Establishment and Maintenance of Mortgage Loan Files and Records



### **A2-5.1-01, Ownership of Individual Mortgage Loan Files and Records (11/12/2014)**

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All records pertaining to mortgage loans sold to Fannie Mae are at all times the property of Fannie Mae and any other owners of a participation interest in the mortgage loan, regardless of their physical form or characteristics or whether they were developed or originated by the mortgage loan seller, servicer, or others. The types of records owned by Fannie Mae include, but are not limited to, the following:

- mortgage notes,
- security instruments,
- mortgage loan applications,
- credit reports,
- property appraisals,
- payment records,
- insurance policies and insurance premium receipts,
- water stock certificates,
- ledger sheets,
- insurance claim files and correspondence,
- foreclosure files and correspondence,

- current and historical computerized data files,
- machine-readable materials, and
- all other documents, instruments, and papers pertaining to the mortgage loan including, without limitation, any records, data, information, summaries, analyses, reports, or other materials representing, based on, or compiled from such records that are reasonably required to originate and subsequently service a mortgage loan properly.

The mortgage loan originator, seller, or servicer, any service bureau, or any other party providing services in connection with servicing a mortgage loan for or delivering a mortgage loan to Fannie Mae will have no right to possession of these documents and records except under the conditions specified by Fannie Mae.

Any of these documents and records in possession of the mortgage loan originator, seller, or servicer, any service bureau, or any other party providing services in connection with selling a mortgage loan to, or servicing a mortgage loan for, Fannie Mae are retained in a custodial capacity only.

The seller/servicer must maintain an individual mortgage loan file for each mortgage loan it sells to Fannie Mae. Each file must be clearly identified by Fannie Mae's loan number, which can be marked on the file folder or logically associated with any file which is composed of electronic records.

Individual mortgage loan files for participation mortgage loans must be clearly identified by the words "Fannie Mae participation" and Fannie Mae's percentage interest.

Individual mortgage loan files for MBS mortgage loans must identify the number of the related MBS pool.

Individual mortgage loan files must include any records that will be needed to service and that support the validity of the mortgage loan. The servicer must use the individual mortgage loan file established at the time of origination to accumulate other pertinent servicing and liquidation information, including, but not limited to, the following:

- property inspection reports,
- copies of delinquency repayment plans,
- copies of disclosures of ARM loan interest rate and payment changes,
- documents related to insurance loss settlements, and

- foreclosure notices.



## **A2-5.1-02, Overview of Individual Mortgage Loan Files and Records (11/12/2014)**

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### **Introduction**

This topic contains the following:

- General Provisions of Individual Mortgage Loan Files and Records
- Contents of the Individual Mortgage Loan File
- Special Individual Mortgage Loan File Requirements for Bifurcated Mortgage Loans
- Identifying Manufactured Home Mortgage Loans

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### **General Provisions of Individual Mortgage Loan Files and Records**

The individual mortgage loan file consists of the mortgage loan origination file, mortgage loan custodial file, and mortgage loan servicing file held by a seller, servicer, or prior servicer arising from or related to the origination, sale, securitization, or servicing of an individual mortgage loan or acquired property, as applicable.

The mortgage loan origination file consists of all documents, records, and reports used to support the underwriting decision required by the Lender Contract or any documentation required by Fannie Mae or by law relating to the mortgage loan arising from or related to the origination, closing, sale, securitization, and/or delivery of a mortgage loan, including, but not limited to, those that are required as part of the post-closing mortgage loan file documentation requirements in the *Selling Guide*.

The mortgage loan custodial file consists of the custodial documents and any and all documents, books, records, and reports, in any format, required to be retained by the document custodian pursuant to the *Servicing Guide* or other Fannie Mae requirements.

The mortgage loan servicing file (including the file maintained with respect to an acquired property) consists of all documents, books, records, reports, and payment and escrow histories, in any format, arising from or related to the servicing of the mortgage loan or acquired property by the current servicer or any prior servicer, including, but not limited to, those required at any time

by the Lender Contract or an insurer, including, but not limited to, those set forth in the *Servicing Guide*.

Individual mortgage loan files and records that may be required to be sent to Fannie Mae include:

- mortgage origination files,
- mortgage loan custodial files,
- individual mortgage loan files (including the mortgage loan servicing file),
- permanent mortgage account records, and
- accounting system reports.

The seller/servicer is responsible for maintaining these files and records, as well as borrower payment records. The responsibility for the physical possession of the mortgage loan documents may vary depending on whether the mortgage loan is a portfolio or MBS mortgage loan. See A2-6-01, Custodial Documents for additional information.

The seller/servicer must establish the individual mortgage loan file when it originates a mortgage loan. If the seller/servicer does not service the mortgage loan, it must transfer the files and records to the servicer to ensure that the servicer will have complete information about the mortgage loan in its records.

The accounting records relating to mortgage loans serviced for Fannie Mae must be maintained in accordance with sound and generally accepted accounting principles and in such a manner as will permit Fannie Mae's representatives to examine and audit such records at any time.

State and federal laws now recognize electronic records as being equivalent to paper documents for legal purposes. Therefore, Fannie Mae's requirements for record accessibility and retention apply equally to paper and electronic records.

The servicer must implement appropriate measures designed to

- ensure the accuracy, security, integrity, and confidentiality of files and records;
- protect against any anticipated threats or hazards to the security or integrity of files and records; and
- protect against unauthorized access to or use of files and records and is responsible for requiring, by contract, that any subservicers or other third parties that access mortgage files and records also implement these measures.



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## Contents of the Individual Mortgage Loan File

The individual mortgage loan file must include, but is not limited to, the following:

- copy of the Participation Certificate, if applicable;
- copy of the related Schedule of Mortgages for a mortgage loan if an MBS mortgage loan;
- originals of the recorded mortgage or deed of trust, any applicable rider, and any other documents changing the mortgage loan terms or otherwise affecting Fannie Mae's legal or contractual rights;
- copy of the mortgage or deed of trust note and any related addenda;
- copy of either the unrecorded assignment to Fannie Mae (or the recorded assignment, when applicable), or the original assignment to MERS, if the mortgage loan is registered with MERS and MERS is not named as nominee for the beneficiary, and copies of all required intervening assignments;
- copy of the FHA mortgage insurance certificate, VA mortgage loan guaranty certificate, RD mortgage loan note guarantee certificate, HUD Indian mortgage loan guarantee certificate, or conventional mortgage insurance certificate, if applicable;
- copy of the underwriting documents, including any Desktop Underwriter® reports;
- copy of the title policy, property (hazard) insurance policy, flood insurance policy (if required), and any other documents that might be of interest to a prospective purchaser or servicer of the mortgage loan or might be required to support title or insurance claims at some future date (for example, FEMA flood hazard determination form, title evidence, or survey);
- copy of the final HUD-1 Settlement Statement (or HUD-1A if applicable) or other closing statement evidencing all settlement costs paid by the borrower and seller, executed by the borrower and seller (if applicable);

**Note:** In escrow states, if the seller/servicer is unable to have the final HUD-1 signed by the borrower and seller, the seller/servicer may supplement the final HUD-1 signed by the escrow officer with either

- the estimated HUD-1 (or multiple matching documents) signed by the borrower and seller, or
- the final Escrow Instructions (or multiple matching documents) signed by the borrower and seller;

- copies of all documents or records that are used to evaluate a borrower and the property condition when determining the eligibility for a workout option; and
- copies of property inspection orders and reports.

In all instances, the servicer must document its compliance with all Fannie Mae policies and procedures, including but not limited to, timelines that are required within the *Servicing Guide*. The servicer must maintain in the individual mortgage loan file all documents and system records that preserve Fannie Mae's ownership interest in the mortgage loan. Refer to F-1-05, Examples of Documentation Required in the Mortgage Loan Servicing File, which includes some (but not all) of the types of documentation that is required to be in the individual mortgage loan file.

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### **Special Individual Mortgage Loan File Requirements for Bifurcated Mortgage Loans**

The servicer and the responsible party must keep all of the individual mortgage loan records, including, but not limited to those identified in *Selling Guide, E-2-07, Post-Closing Mortgage Loan File Documentation* and any and all servicing records for the time it serviced the bifurcated mortgage loan.

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### **Identifying Manufactured Home Mortgage Loans**

Examples of the collateral document(s) for a manufactured home that are required for a mortgage loan for which an application was taken on or after August 24, 2003 include:

- documentation (if it is available) indicating that no certificate of title (or similar ownership document) was ever issued in states where a manufactured home can become real property without first being titled as personal property,
- documentation evidencing such surrender or retirement in states where the certificate of title (or similar ownership document) can be surrendered or retired when the home becomes real property,
- the certificate of title (or similar ownership document) if it has not been or cannot be surrendered,
- any UCC financing statement (or similar notice of lien) that was filed pursuant to applicable law, or
- a security agreement that creates a lien on the manufactured home in addition to the mortgage loan or deed of trust.

Servicers that have collateral documents for manufactured home loans prior to August 24, 2003, must retain any such documents, but they are not required to seek these documents for such mortgage loans.

In order to be prepared to meet special servicing and default management requirements for mortgage loans secured by manufactured homes, servicers must ensure that all mortgage loans that are secured by manufactured homes are so identified on their internal systems.

If it comes to the attention of the servicer that it is servicing a mortgage loan secured by a manufactured home that was delivered to Fannie Mae without notation of Special Feature Code 235 (which is required to identify that property type), the servicer must follow the process documented in F-1-11, Manufactured Home Post-Purchase Adjustments.

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## Section A2-5.2, Retention and Examination of Individual Mortgage Loan Files and Records



### A2-5.2-01, Storage of Individual Mortgage Loan Files and Records (11/12/2014)

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#### Introduction

This topic contains the following:

- Record Storage Formats
  - Electronic Records and Transactions
  - Receipt of Electronic Records
  - General Rules on Transactions with Fannie Mae
- 

#### Record Storage Formats

Generally, the documents associated with the origination and servicing of a mortgage loan that the seller/servicer must be retain in paper format are

- the security instrument (and any related riders),
- any other document that changes the terms of the mortgage loan,
- the assignment for a MERS-registered mortgage loan (when MERS is not named as nominee for the beneficiary),
- the unrecorded assignment of the mortgage loan to Fannie Mae (if the mortgage loan is not registered with MERS and the seller/servicer or a document custodian is holding the assignment as a custodial document), and

- the note and any related addenda (if the servicer or a document custodian is holding the note as a custodial document).

When the seller/servicer chooses to store these documents in a format other than paper, it must provide any prospective transferee servicer with information about the methods it uses for document and records storage. If the transferee servicer uses a different storage method, the transferor seller/servicer must work with the transferee servicer to convert the documents and records to a format that is compatible with the transferee servicer's storage methods.

Any servicer submitting an electronic mortgage loan modification to Fannie Mae must ensure that the electronic record complies with all other requirements of the *Servicing Guide* and applicable law.

Fannie Mae requires that electronic and non-electronic mortgage loan modifications be provided to the servicer's document custodian. If the custodian is not yet electronically enabled, Fannie Mae will not object to the provision of a paper copy of an electronic mortgage loan modification being provided to the custodian. However, the servicer must implement processes which ensure that the integrity of the information in the paper copy has been preserved.

All other documents in the individual mortgage loan file may be retained in an electronic format (as discussed in Record Retention Requirements in A2-5.2-03, Retention and Storage of Individual Mortgage Loan Files and Records).

The seller/servicer may retain most of the records required to originate and service a mortgage loan in other-than-paper format, regardless of whether the documentation was originally obtained in paper format or in some other type of format. The seller/servicer may use the following methods for storing this documentation:

- photographic,
- microfilm,
- electronic (including digital), or
- other storage technology.

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## Electronic Records and Transactions

An electronic record is a contract or other record that is created, generated, sent, communicated, received, or stored by electronic means. A record is information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

The servicer (and/or, as applicable, document custodian) is required to retain the foregoing records as set out below. All records in the individual mortgage loan file may be retained as electronic records, except for the promissory note and any ink-signed originals of instruments that modify or supplement the promissory note. For sellers/servicers that have been approved by Fannie Mae to deliver eMortgages, this requirement will not apply to eMortgage loans.

Moreover, electronic records may be delivered as part of an electronic transaction by the seller/servicer to the servicer, document custodian, or Fannie Mae, or by a third party, when one is involved.

All electronic records for mortgage loans sold to Fannie Mae must comply with all applicable requirements and standards set forth or referenced in the federal Electronic Signatures in ESIGN and, if applicable, the UETA adopted by the state in which the subject property secured by the mortgage loan associated with an electronic record is located.

The servicer must ascertain that any electronic documents it uses meet all legal standards, and must have appropriate storage, retrieval, and back-up systems for such electronic documents.

Fannie Mae may provide notices, demands, or requests, including notices of defect and demand letters for indemnification or repurchases, to sellers/servicers in accordance with the electronic record provisions to the *Servicing Guide*.

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### **Receipt of Electronic Records**

Unless Fannie Mae specifies otherwise, Fannie Mae relies on the rules set forth in Section 15 of UETA to make the determination of whether an “electronic record” has been sent and received, and Fannie Mae will not consider an electronic record to have been received until it is able to access it during its regular business hours.

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### **General Rules on Transactions with Fannie Mae**

When Fannie Mae and the servicer or document custodian participate in a transaction that is effected by electronic means and/or evidenced by electronic records, both parties agree to be bound by any electronic records transmitted to or from Fannie Mae that are permitted or required to be delivered electronically under

- the Lender Contract,
- Fannie Mae's *Selling Guide* and *Servicing Guide*,
- any negotiated transaction with the servicer related to Fannie Mae's Guides, and

- any other directions that Fannie Mae has otherwise provided to the servicer or document custodian in another paper or electronic writing (such as Announcements, Lender Letters, a product-specific guide, or Fannie Mae's separate publication, Fannie Mae [Requirements for Document Custodians](#)).

All electronic transactions must be conducted in a way that Fannie Mae has expressly authorized. Fannie Mae may provide notices, demands, or requests, including notices of defects and demand letters for indemnification, repurchases and repurchase alternatives, to sellers/servicers in accordance with the electronic records provisions of the *Servicing Guide*.

The servicer or document custodian agrees that Fannie Mae is authorized to rely conclusively on the accuracy, authenticity, integrity, and validity of the electronic records (including any delivery instructions) and that Fannie Mae is under no obligation to verify or authenticate inaccuracies or inconsistencies.

Fannie Mae will try to correct errors and/or process changes if it receives appropriate notification, but Fannie Mae cannot be held responsible if changes or corrections are not received in time to act on them.

In no event will Fannie Mae be liable for the failure of its Internet service provider, the Internet service provider of the servicer or a document custodian, or any telecommunications, information processing, and/or information storage service to transmit an electronic record in a timely and accurate manner or for any other inaccuracy or delay that results from the failure of a third-party provider of telecommunications or other services.



## **A2-5.2-02, Seller/Servicer's or Document Custodian's Electronic Transactions with Third Parties (11/12/2014)**

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### **Introduction**

Fannie Mae expects the seller/servicer to have in place appropriate measures to ensure the authenticity, integrity, security, and accuracy of all information that it uses to service Fannie Mae mortgage loans. The seller/servicer may obtain the documents that are needed to service a mortgage loan through the use of an electronic record. Similarly, a document custodian may accept mortgage loan data in an electronic format from a seller/servicer and provide its certification of an MBS pool submission to Fannie Mae electronically. The type of electronic format, signature requirements, and storage of electronic records will depend, in part, on the type of electronic record. From time to time, Fannie Mae may specify an electronic format for a particular electronic record. The seller/servicer or document custodian is responsible for ensuring that any electronic record includes, at a minimum, all of the information that would have been required had the record been a paper document.

This topic contains the following:

- Electronic Records Received from Third Parties
  - Consent Requirements
  - Electronic Signatures
  - Integrity of the Electronic Record
- 

### **Electronic Records Received from Third Parties**

Fannie Mae requires the seller/servicer or document custodian to satisfy certain conditions related to the use of electronic records received from third parties. These conditions represent Fannie Mae's minimum standards and relate to

- reaching a mutual agreement (or providing consent) to use the electronic record(s) (or disclosures);
- specifying the format for, and evidence of, electronic signatures; maintaining the integrity of the electronic record(s); and
- reproducing the electronic records in paper or other format if requested by Fannie Mae.



The seller/servicer is responsible for the accuracy and authenticity of information it obtains related to the origination and servicing of mortgage loans sold to Fannie Mae. The seller/servicer must determine the most appropriate procedures and controls to use given the nature of its operations and its business relationship with the third party.

A document custodian should make a similar determination consistent with its operations and its relationships with the servicers with which it does business.

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### **Consent Requirements**

The seller/servicer or document custodian must ensure that the parties to any electronic record have appropriately agreed to the use of the electronic record and/or electronic signature in a way that will create a binding electronic record under the ESIGN, the UETA, and any other applicable laws. The seller/servicer must obtain the specific agreement of the borrower(s) to the use of any electronic record, making sure that it complies with the requirements of ESIGN (refer to Chapter 101(c) of ESIGN) that address the type and content of the consent that must be obtained before using an electronic format to provide any of the disclosures that must be given to borrowers in connection with the servicing of a mortgage loan. Sellers/servicers and document custodians must be aware of, and comply with, any additional requirements related to the use of electronic signatures, records, and disclosures that are imposed by regulatory agencies or state legislation.

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### **Electronic Signatures**

If an electronic record requires (or permits) an electronic signature, the transmission of the electronic record, along with any passwords or other identification required by Fannie Mae (such as the seller/servicer's nine-digit Fannie Mae seller/servicer number), will constitute the servicer's or the document custodian's electronic signature.

The seller/servicer or document custodian may use any form of electronic signature that is valid under applicable law. All electronic signatures must be "attributable" to the signer, which includes the individual responsible for signing the document, as well as any entity that individual intends to bind by the signature. Attribution may be achieved through any combination of technological methods, business processes, and surrounding circumstances that produces a level of attribution that is appropriate to the document in question, taking into account the nature of the document and the identities of the parties involved.

The seller/servicer or document custodian must collect and retain appropriate evidence to

- document a signer's agreement to use an electronic signature,
- demonstrate a signer's execution of a particular electronic signature, and
- prove its attribution of the electronic signature to that signer.

Any files that the seller/servicer maintains must include:

- the name of the person and related entity, if applicable, who signed each document in the individual mortgage loan file,
- the borrower's consent for the use of any electronic signature or disclosure,
- the date of the signature, and
- the method by which the document was signed, as well as any associated information that can be used to verify the electronic signature.

When the servicer issues any disclosure electronically, the individual mortgage loan file also must include evidence of:

- any required disclosures made before obtaining the borrower's consent,
- the borrower's consent to receiving subsequent disclosures electronically, and
- evidence of how the servicer "reasonably demonstrated" the borrower's ability to receive the disclosures for which the consent was provided.

When Fannie Mae performs a post-purchase, early payment default, or post-foreclosure quality control review on a mortgage loan for which one or more electronic signatures were used, the servicer must include with any underwriting and legal documentation it is required to submit to Fannie Mae the evidence and attribution information for each such use of an electronic signature.

This information must be sufficient to enable Fannie Mae to conduct a thorough post-purchase quality control review. For example, the evidence of the borrower's signature with respect to a verification of employment must allow Fannie Mae the ability to request and receive a re-verification of the information from the borrower's employer.

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### **Integrity of the Electronic Record**

Electronic records must be generated, processed, stored, and transmitted in a manner that ensures that each electronic record

- accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record (or otherwise), and
- remains accessible for later reference by all persons who are legally entitled to access it for the period of time for which such access is legally required.

The seller/servicer or the document custodian must take appropriate steps to ensure the electronic record accurately reflects the information as it was first presented in the electronic record to the

signer or intended beneficiary of that electronic record (including the exact format in which the information was presented in any case in which certain methods or presentation are prescribed by law or regulation or would be material to the likely interpretation of any rights or obligations conferred by the record).

To reduce the risk of fraudulently created records, the seller/servicer or document custodian also is responsible for authenticating the identity of the transmitter of any electronic record and ensuring the integrity of the electronic record at each stage of its creation, transmission, and storage while the electronic record is under its control. The seller/servicer or document custodian must be able to reproduce the electronic record(s) in paper (or other) format if Fannie Mae so requests.



## **A2-5.2-03, Retention and Storage of Individual Mortgage Loan Files and Records (11/12/2014)**

### **Introduction**

This topic contains the following:

- Record Retention Requirements
- Access to Records
- Data Integrity

### **Record Retention Requirements**

If the seller/servicer is acting as the document custodian and thus has possession of the original mortgage loan note and any related addenda or an original assignment of the mortgage loan to Fannie Mae for a mortgage loan that is not registered with MERS, those records must be retained in original form.

The following table describes the record retention requirements for certain types of records.

<b>Type of record</b>	<b>Requirements</b>
Mortgage loan payment records	The seller/servicer must maintain permanent mortgage account records for each mortgage loan it services for Fannie Mae. The records must be identified by Fannie Mae's loan number (and any related participation certificate or MBS pool number) in addition to any other identification the seller/servicer uses. The seller/servicer may develop its own system for

Type of record	Requirements
	<p>maintaining these records, as long as it can produce an account transcript within a reasonable time after it is requested.</p> <p>The seller/servicer’s accounting system must be able to produce detailed information on</p> <ul style="list-style-type: none"> <li>• all transactions that affect the mortgage loan balance (the amount and due date of each payment, when the payment was received, and how the payment was applied);</li> <li>• the financial status of the mortgage loan (the latest outstanding balances for principal, escrow deposits, advances, and unapplied payments); and</li> <li>• any overdrafts in the escrow account.</li> </ul>
Accounting reports	<p>Unless Fannie Mae indicates otherwise, the seller/servicer may destroy any accounting reports 18 months after such reports are filed with Fannie Mae.</p>
Annual statement of eligibility for document custodians (Form 2001)	<p>The servicer must maintain a copy of <a href="#">Form 2001</a> in paper or electronic form in its records for seven years at all locations that are covered by the completed form and ensure that they are available for on-site reviews.</p>
Records related to HAMP	<p>The servicer must retain all documents and information received during the process for determining borrower eligibility for HAMP, including the outcome of the evaluation and/or evidence supporting the rationale if a trial period plan is not finalized, for a period of seven years from the date of document collection or for four years from the date the mortgage loan is liquidated (measured from the date of borrower payoff or the date that any applicable claim proceeds are received), whichever is later.</p> <p>The servicer must also retain all data, books, reports, documents, audit logs, and records, including electronic records, related to HAMP. In addition, the servicer must maintain a copy of all computer systems and application software necessary to review and analyze any electronic records. Unless otherwise directed by Fannie Mae, the servicer must retain these records for mortgage loans owned or securitized by Fannie Mae for at least four years, or for such longer period as may be required pursuant to applicable law.</p>

Type of record	Requirements
Records related to 2MP	<p>The servicer must retain all documents and information received during the process for determining borrower eligibility for 2MP, including evidence of application of each mortgage loan modification step, for a period of seven years from the date of document collection or for four years from the date the mortgage loan is liquidated (measured from the date of payoff or the date any applicable claims proceeds are received), whichever is later.</p> <p>The servicer must retain all documents and information related to the monthly payments during and after any trial period, as well as incentive payment calculations and such other required documents.</p> <p>In addition, the servicer must retain detailed records to document the reason(s) for any trial mortgage loan modification failure.</p>
Records related to bankruptcy or foreclosure proceedings	<p>The seller/servicer must retain any of the documents required to be included in the individual mortgage loan file (see Contents of the Individual Mortgage Loan File in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records) and must ensure that they are readily accessible if needed in any bankruptcy or foreclosure proceeding, or for any other purpose in connection with the servicing of the mortgage loan. The seller/servicer may hold copies if originals are not required, while originals have been sent for filing but have not yet been returned, or while the originals are otherwise temporarily out of the seller/servicer's possession.</p>
Expense reimbursement claims	<p>The servicer must retain in the mortgage loan servicing file all supporting documentation for all requests for expense reimbursement (for example, vendor invoices and third-party invoices from the vendor rendering services).</p>
Liquidation records	<p>After a mortgage loan is liquidated, the seller/servicer must keep the individual mortgage loan records, including property inspection reports, copies of delinquency repayment plans, copies of disclosures of ARM loan interest rate and payment changes, documents related to insurance loss settlements, and foreclosure records, as required by the <i>Servicing Guide</i> for at least four years (measured from the date of payoff or the date that any applicable claim proceeds are received), unless the local jurisdiction requires longer retention or Fannie Mae specifies that the records must be retained for a longer period.</p>

Type of record	Requirements
Records related to repurchase or reimbursement	If a mortgage loan or property is repurchased or a make whole payment remitted, the responsible party must keep the individual mortgage loan records for at least four years (measured from the date of borrower payoff or the date that any applicable claim proceeds are received), unless applicable law requires longer retention or Fannie Mae specifies that the records must be retained for a longer period.

### Access to Records

The responsible party must make copies of the individual mortgage loan records available to Fannie Mae upon its request. Fannie Mae has the right to examine, at any reasonable time, any and all

- records that pertain to mortgage loans it holds in its portfolio or those that have been included in an MBS pool,
- accounting reports associated with those mortgage loans and borrower remittances, and
- reports, data, information, and documentation that it considers necessary to ensure that the seller/servicer is in compliance with Fannie Mae’s requirements.

Fannie Mae’s examination and audit of the seller/servicer’s records will consist of

- monitoring all monthly accounting reports submitted to Fannie Mae;
- conducting periodic procedural reviews during visits to the seller/servicer’s office or the document custodian’s place of business;
- conducting, from time to time, in-depth audits of the servicer’s internal records and operating procedures—including, but not limited to, the examination of financial records, borrower escrow accounts, and underwriting standards; and
- performing spot-check reviews of mortgage loans in the seller/servicer’s portfolio on a random sample basis.

When Fannie Mae sends written request to the seller/servicer or responsible party to examine mortgage loan records, the seller/servicer or responsible party must deliver all mortgage loan records and documents to Fannie Mae or its designee at no cost to Fannie Mae.

Each mortgage loan must be clearly identified. If the seller/servicer is retaining any of the records in a format other than paper, the seller/servicer must reproduce them at its own expense. Fannie Mae will not execute any trust receipts for documents it requests and will not participate

in, or provide compensation for, their delivery. If Fannie Mae has only a participation interest in a mortgage loan, Fannie Mae will agree to provide proof of its ownership interest upon request.

If the seller/servicer does not respond to Fannie Mae's request to produce any documents or other records that Fannie Mae requires it to maintain, Fannie Mae will presume that it did not produce the requested records because they would confirm that the seller/servicer did not take certain actions required by Fannie Mae. If that is not the case, the seller/servicer must provide a reasonable explanation for its failure to produce the records and, if appropriate, offer evidence that any particular requirement Fannie Mae is concerned about was satisfied.

If the seller/servicer fails to provide a reasonable explanation or any evidence showing that the requirement was satisfied, Fannie Mae can take any action that is authorized under the Lender Contract or Fannie Mae's Guides for the seller/servicer's breach of Fannie Mae's requirements.

If Fannie Mae has to take legal action to obtain these records, the seller/servicer will be liable for any legal fees, costs, and related expenses incurred by Fannie Mae in enforcing its right of access to the records, unless it is determined that Fannie Mae had no legal right of access to them.

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### **Data Integrity**

No matter which method the seller/servicer uses for obtaining and storing mortgage loan records, it is responsible for ensuring that the record or information is prepared in compliance with Fannie Mae's requirements, and for ensuring the integrity and accuracy of the individual mortgage loan file.

The seller/servicer must periodically review changes in technology to make sure that all records (including electronic records) will continue to be obtainable and readable in the future.

If the seller/servicer originally obtains a document in paper format, it may later convert the document to an electronic format for storage purposes—and destroy the original document, if it is not one of the documents that must be maintained in its original paper form. Electronic records that were initially generated in paper form must be legible, and the seller/servicer must accurately and authentically preserve any alterations, erasures, white-outs, or similar indications of changes.

The seller/servicer must still be able to retrieve and reproduce a complete and clear copy of the record in its original format (including any addenda, photos, and attachments, if applicable) upon request by Fannie Mae.

The seller/servicer must retain documentation that explains the process used to convert paper-based records to electronic formats and specifies the date of conversion, method of conversion, and disposition of the original paper records.





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# Chapter A2-6, Requirements Related to the Custodial Documents



## Requirements Related to the Custodial Documents

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### Introduction

This chapter contains information on the requirements related to custodial documents.

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### In This Chapter

This chapter contains the following topics:

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## **A2-6-01, Custodial Documents (11/12/2014)**

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### **Introduction**

Custodial documents are the legal documents pertaining to a mortgage loan that Fannie Mae's DDC or a seller/servicer-designated document custodian takes into physical possession when Fannie Mae purchases or securitizes a mortgage loan.

This topic contains the following:

- Required Custodial Documents for Portfolio and MBS Mortgage Loans
  - Document Storage Requirements for Portfolio Mortgage Loans
  - Document Storage Requirements for MBS Mortgage Loans
  - Releasing Custodial Documents
- 

### **Required Custodial Documents for Portfolio and MBS Mortgage Loans**

The following documents are considered to be key custodial documents for portfolio and MBS mortgage loans:

- original mortgage notes (and note addenda);
- other documents that are delivered to the document custodian to assist in certification of portfolio mortgage loans or certification of eligibility of the mortgage loan for inclusion in an MBS pool, such as any instruments that modify the terms of the note, powers of attorney, and interest rate buydown plans; and
- original, unrecorded assignments of mortgage loans to Fannie Mae (or corresponding documents for co-op share loans).

All other documents may be held in the individual mortgage loan file maintained by the servicer.

**Note:** When mortgage loans are registered in MERS, assignments of the mortgage loans to Fannie Mae are not required custodial documents.

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### **Document Storage Requirements for Portfolio Mortgage Loans**

Custodial documents for portfolio mortgage loans must be stored with Fannie Mae's DDC.

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## Document Storage Requirements for MBS Mortgage Loans

Custodial documents for MBS mortgage loans may be maintained by a seller/servicer-designated document custodian, which may be a third-party custodian, the seller/servicer itself, an affiliate of the seller/servicer, or Fannie Mae's DDC. If the seller/servicer chooses to use a document custodian other than Fannie Mae's DDC, the document custodian must be a Fannie Mae-approved custodian in compliance with the requirements set out in the *Selling Guide*, *Servicing Guide*, and the [Requirements for Document Custodians](#).

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## Releasing Custodial Documents

The document custodian must not release custodial documents for either portfolio or MBS mortgage loans unless it receives a written request containing substantially the same information as required by the *Request for Release/Return of Documents* ([Form 2009](#)). If a servicer transfers documents to a different document custodian at any time after an MBS pool is issued, the new document custodian must recertify the pool by indicating that it has received all required documents and that any new documents required in connection with the transfer satisfy Fannie Mae's requirements. See A2-6-05, Transfer of Custodial Documents to a Different Document Custodian for additional information.

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## **A2-6-02, Document Custodians (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Roles and Responsibilities of the Document Custodian
  - Selecting a Document Custodian
  - Documentation of the Document Custodian Relationship
  - Compensation for the Document Custodian
  - Liability for Custodial Documents
  - Approval Process for New Document Custodians
  - Eligibility Criteria Applicable to All Document Custodians
  - Eligibility Criteria Applicable to Sellers/Servicers or Affiliates Acting as a Document Custodian
  - Monitoring the Financial Rating of Document Custodians
  - Insurance Requirements for Document Custodians
  - Financial Institution Bond
  - Errors and Omissions Insurance
- 

### **Roles and Responsibilities of the Document Custodian**

The document custodian must

- provide appropriate information to enable a seller/servicer to determine that the document custodian satisfies Fannie Mae's eligibility criteria, and
- assist the seller/servicer in monitoring the document custodian's financial viability and operational capabilities on an ongoing basis.

The document custodian must review and examine all required custodial documents that the seller/servicer delivers to it to ensure that all required documents are received and that they conform to the data and documentation provisions of the Guides that apply to document custody in addition to the provisions of the *RDC Guide*. From that point forward, the document custodian must exercise control over all documents that are retained in its custody on behalf of Fannie Mae. If the document custodian discovers errors or missing documents as part of the certification process prior to Fannie Mae's purchase of the mortgage loans, the document custodian must work with the seller to resolve the issues. The document custodian is acting on behalf of the seller/servicer and Fannie Mae when certifying mortgage loan documents and data at the time of acquisition by Fannie Mae.

At any time, with or without cause, Fannie Mae has the right to require a servicer or document custodian to transfer documents to a different document custodian, which may be the Fannie Mae DDC or another eligible document custodian.

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### Selecting a Document Custodian

For portfolio mortgage loans, the seller/servicer must use Fannie Mae's DDC. For MBS mortgage loans, the seller/servicer may select any Fannie Mae-approved document custodian (including Fannie Mae's DDC) that meets the eligibility and operational requirements set forth in the Guides and the *RDC Guide*.

---

### Documentation of the Document Custodian Relationship

Each custodian arrangement must be evidenced by the execution of a custodial agreement. All arrangements for the custody of portfolio or MBS mortgage loans between the seller/servicer and Fannie Mae's DDC must be evidenced by the execution of a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)). All other arrangements for the custody of MBS mortgage loans between the seller/servicer and a seller/servicer-designated document custodian (other than Fannie Mae's DDC) must be evidenced by the execution of a *Master Custodial Agreement* ([Form 2003](#)). Both [Form 2010](#) and [Form 2003](#) are triparty agreements by and among the seller/servicer, the document custodian, and Fannie Mae.

To execute a *Master Custodial Agreement* ([Form 2003](#)), the seller/servicer must send the [Form 2003](#), showing original signatures for both the seller/servicer and the document custodian, to the Custodian Oversight and Monitoring Operations department (see F-4-03, List of Contacts).

Fannie Mae will sign the document, retain the original, and send copies of the fully executed Agreement to the seller/servicer and document custodian. For information on executing [Form 2010](#), refer to Execution of a Designated Custodian Master Custodial Agreement in A2-6-03, Fannie Mae's Designated Document Custodian.

If the document custodian is newly approved, the document custodian will need to register for the Document Certification application. For all MBS mortgage loans, the document custodian will certify the mortgage loans through the Document Certification application.

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### **Compensation for the Document Custodian**

The seller/servicer must pay all compensation the document custodian is due for the performance of its duties under the custodian arrangement. Fannie Mae is under no obligation to pay any compensation to the document custodian.

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### **Liability for Custodial Documents**

The seller/servicer is responsible for the safekeeping of Fannie Mae custodial documents at all times. Therefore, the seller/servicer will be held liable to Fannie Mae for any and all liabilities, obligations, and losses incurred by or asserted against Fannie Mae as the result of the seller/servicer's selection of the document custodian or by reason of such document custodian's custody of the custodial documents, regardless of whether the document custodian meets Fannie Mae's eligibility criteria.

Both [Form 2003](#) and [Form 2010](#) provide that the document custodian will be liable to Fannie Mae for any and all liabilities, obligations, and losses incurred by or asserted against Fannie Mae as the result of any negligence, malfeasance, act or omission by the document custodian, in its performance (or nonperformance) of the functions and duties of the document custodian required by [Form 2003](#) or [Form 2010](#), as applicable, the Guides, or the [Requirement for Document Custodians](#).

The seller/servicer is required to establish appropriate methods for monitoring the financial viability rating, and operational capabilities of any document custodian it uses to hold custodial documents for Fannie Mae. At a minimum, the seller/servicer must require the document custodian to advise it each year about the results of internal audits so that the seller/servicer can evaluate whether Fannie Mae documents are being properly managed and controlled.

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### **Approval Process for New Document Custodians**

Fannie Mae requires each new document custodian to be approved by Fannie Mae before it certifies and/or holds Fannie Mae MBS mortgage loans. If a document custodian that does not currently hold Fannie Mae mortgage loans desires to certify and/or hold MBS mortgage loans for Fannie Mae, the document custodian must comply with the application and approval process outlined in the [Requirement for Document Custodians](#). If approved, the document custodian will be an Active Document Custodian. The document custodian will maintain its active status provided it certifies at least one mortgage loan on behalf of Fannie Mae in each calendar year.

To receive approval, the document custodian must submit a completed *Application for Active Document Custodianship* (Form 2008) to Fannie Mae along with the required supporting documentation described on the Form and the related instructions, which are available on Fannie Mae’s website. For information concerning the approval process for new document custodians, see the [Requirement for Document Custodians](#).

### Eligibility Criteria Applicable to All Document Custodians

In order to serve as a Fannie Mae document custodian, an institution must meet all of the criteria described in the following table.

Status	The institution must...
Regulation of institution	be one of the following: <ol style="list-style-type: none"> <li>1. a financial institution that is subject to supervision and regulation by the:                             <ol style="list-style-type: none"> <li>a. FDIC,</li> <li>b. Board of Governors of the Federal Reserve System,</li> <li>c. OCC, or</li> <li>d. NCUA;</li> </ol> </li> <li>2. a subsidiary or parent of a financial institution or holding company that is supervised and regulated by one of these entities;</li> <li>3. a Federal Home Loan Bank.</li> </ol>
Good standing with regulator	be in good standing with its regulator, if the document custodian itself is the regulated institution. If the document custodian is not a regulated institution, the document custodian’s parent or subsidiary must be in good standing with its regulator. <p>To be in good standing, the document custodian (or its parent or subsidiary, when applicable) cannot be in receivership or conservatorship, undergoing liquidation, or operating under any other program of management oversight by its primary regulator.</p> <p>Fannie Mae will consider a request to permit a document custodian that is successfully operating under an approved capital plan to hold Fannie Mae documents, particularly if the custodian</p>

Status	The institution must...
	is an organization that has previously acted as a document custodian for Fannie Mae documents.
Financial rating	satisfy Fannie Mae’s financial rating requirements, as applicable: <ol style="list-style-type: none"> <li>1. A third-party document custodian must have one of the following ratings:                             <ol style="list-style-type: none"> <li>a. 125 or better rating from IDC or</li> <li>b. C or better rating from Kroll Bond Rating Agency, Inc.</li> </ol> </li> <li>2. A document custodian that is the seller/servicer or an affiliate of the seller/servicer must have one of the following ratings:                             <ol style="list-style-type: none"> <li>a. 130 or better rating from IDC, or</li> <li>b. C+ or better rating from Kroll.</li> </ol> </li> </ol>

When the document custodian is not a regulated financial institution, the document custodian’s parent or subsidiary must, itself, meet the financial rating standards. If the regulated entity is rated by IDC and Kroll, then the document custodian (or its parent or subsidiary) only needs to satisfy one of the two rating requirements (provided that the other rating is not lower than a 75 from IDC or a D from Kroll).

### **Eligibility Criteria Applicable to Sellers/Servicers or Affiliates Acting as a Document Custodian**

In addition to the custodial institution meeting the eligibility criteria mentioned, a seller/servicer that serves as a Fannie Mae document custodian or designates an affiliated entity as a Fannie Mae document custodian must have a financial rating that meets or exceeds at least one of the following criteria:

- Fitch Long Term rating of BBB,
- Standard & Poor’s Long Term rating of BBB, or
- Moody’s Investors Service, Inc. Long Term rating of Baa2.

If the seller/servicer is not a rated institution, then the nearest parent that has a rating must have a financial rating that meets or exceeds at least one of the criteria mentioned above. If the seller/servicer fails to meet the recommended financial rating, Fannie Mae, in its sole discretion, may



restrict the seller/servicer’s ability to serve as Fannie Mae’s document custodian or to use an affiliated document custodian or may impose additional duties and restrictions on the seller/servicer and/or on the affiliated document custodian.

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### **Monitoring the Financial Rating of Document Custodians**

The seller/servicer and the document custodian must have procedures in place to monitor the document custodian’s financial rating on a quarterly basis to ensure ongoing eligibility to act as a document custodian. If the custodian is not a regulated institution and is relying upon its parent’s or subsidiary’s rating, then the seller/servicer and the document custodian must have procedures in place to monitor that parent’s or subsidiary’s rating. Should the financial rating fall below the minimum criteria, both the document custodian and the seller/servicer must immediately notify its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) and send an email notification to Fannie Mae’s Custodian Oversight and Monitoring Operations department (see F-4-03, List of Contacts). Fannie Mae will determine, in its sole discretion, whether it will allow the custodial documents to remain with the current document custodian or require them to be transferred to an acceptable document custodian.

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### **Insurance Requirements for Document Custodians**

Each document custodian must have a financial institution bond (or equivalent insurance) and errors and omissions insurance policies in effect at all times. The requirements described in the *Servicing Guide* do not diminish or alter any current insurance requirements or obligations otherwise required by Fannie Mae for a seller/servicer (in its capacity other than as a document custodian).

The required coverage must be underwritten by insurance carriers rated by either A.M. Best Company, Inc. or Standard & Poor’s, Inc. as outlined in the following table.

<b>Rating Agency</b>	<b>Required Rating</b>
A.M. Best Company, Inc.	“B” or better rating.
Standard & Poor’s, Inc.	“BBB” or better rating.

A document custodian that is a subsidiary or affiliate of a financial institution may use its parent’s or affiliate’s financial institution bond and errors and omissions insurance policies.

The document custodian must be named as a joint insured under the financial institution bond and the errors and omission policies and, if the document custodian is not a regulated financial institution, the parent’s or affiliate’s bond or insurance policies must at a minimum meet Fannie Mae’s requirements as stated in the Guides.

The document custodian must notify the seller/servicer and Fannie Mae's Custodian Oversight and Monitoring department at least 30 days before the effective date of an insurer's action to cancel, reduce, decline to renew, or impose a restrictive modification to the document custodian's coverage, for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy. See A2-6-06, Document Custodian Reporting Requirements: Active and Inactive Status.

The document custodian must also report to the seller/servicer and to Fannie Mae's Custodian Oversight and Monitoring department within 10 business days after the occurrence of any single loss in excess of \$100,000 that would be covered by the financial institution bond or the errors and omissions policy. This must be reported even if no claim will be filed or if Fannie Mae's interest will not be affected. In addition, the document custodian must promptly advise both the seller/servicer and Fannie Mae of any cases of embezzlement or fraud in the document custodian's organization, even if Fannie Mae's mortgage notes are not involved or if no loss has been incurred. The document custodian's report must indicate the total amount of any embezzlement or fraud loss regardless of whether a claim was or will be filed with an insurer.

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### **Financial Institution Bond**

A document custodian must have a financial institution bond (or equivalent insurance) protecting against, at a minimum

- losses resulting from dishonest or fraudulent acts of directors, officers, employees, and contractors; and
- physical damage or destruction to, or loss of, any mortgage notes and assignments while such documents are located on the document custodian's premises or in transit while under the control of the document custodian.

The insurance coverage must be in an amount that is commercially reasonable and is commonly found in the mortgage industry, based on the number of mortgage notes and assignments held in custody. The policy's deductible clause may be for any amount up to a maximum of 5% of the face amount of the bond. A document custodian must obtain Fannie Mae's permission for a higher deductible amount.

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### **Errors and Omissions Insurance**

A document custodian must have errors and omissions insurance covering the following:

- liability due to errors or omissions in the performance of services, and

- claims resulting from the document custodian's breach of duty, neglect, misstatement, misleading statement, or other wrongful acts committed in the conduct of document custodial services.

Coverage limits must be not less than \$1 million per claim and \$10 million in the aggregate, on a claims-made basis. The policy's deductible clause may be for any amount up to a maximum of 5% of the face amount of the policy.



## **A2-6-03, Fannie Mae's Designated Document Custodian (11/12/2014)**

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### **Introduction**

The Fannie Mae DDC is The BNY Mellon. The DDC performs all of the standard custodial services for the certification and custody of Fannie Mae mortgage loan deliveries. Fannie Mae requires that all portfolio mortgage loan deliveries be certified and held by its DDC. This applies to the following:

- portfolio mortgage loans,
- ASAP Plus™ mortgage loans,
- ASAP Plus mortgage loans that are redelivered as MBS pools, and
- E-notes (portfolio mortgage loans only).

For MBS mortgage loan deliveries, sellers/servicers may elect to use Fannie Mae's DDC to hold custodial documents or may select another approved document custodian that meets the eligibility and operational requirements as set forth in the Guides and in the *RDC Guide*.

This topic contains the following:

- Execution of a Designated Custodian Master Custodial Agreement
- Payment of Fees for Certification and Custody Services

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### **Execution of a Designated Custodian Master Custodial Agreement**

Fannie Mae requires sellers/servicers of portfolio mortgage loans to execute a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)). [Form 2010](#) covers certification and custody for both portfolio and MBS pool mortgage loans.

The seller/servicer must complete [Form 2010](#) and send it directly to the DDC for its execution.

Upon receipt of the executed [Form 2010](#), the DDC will send the seller/servicer ancillary documentation for completion. After the DDC has received the completed ancillary documentation from the seller/servicer and has completed its on-boarding and other procedures related to the acceptance of new customers, [Form 2010](#) will be executed by the DDC and Fannie Mae. A copy of the fully executed [Form 2010](#) will be returned to the seller/servicer for its records.

**Note:** The DDC will not certify mortgage loans for a seller/servicer until it has received an executed copy of [Form 2010](#) and the required ancillary documents.

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### Payment of Fees for Certification and Custody Services

The DDC will bill the seller/servicer for certification and custody of portfolio and MBS pool mortgage loans (if applicable) upon certification of each file delivered to the DDC. However, if the seller and servicer of a mortgage loan are different entities and the seller has negotiated a fee arrangement with the servicer, the seller or servicer should notify the document custodian of the fee arrangements to ensure proper billing. In the event that payment has not been remitted to the DDC for services it has provided, Fannie Mae will look to the servicer as the responsible party. Failure to remit payments to the DDC as required is a breach of the requirements of the servicer's MSSC.



## **A2-6-04, Operational Requirements Applicable to All Document Custodians (11/12/2014)**

### Introduction

This topic contains the following:

- Operating Standards
- Independent Custody Department
- Commingling of Fannie Mae Custodial Documents
- Monthly Quality Control Review
- Annual Audit Requirements

## Operating Standards

All document custodians must meet at least the minimum operating standards with respect to staffing, written procedures, disaster recovery plans, document tracking capabilities, and physical storage facilities outlined in the following table.

✓	<b>The document custodian must...</b>
	Register for the Web-based Document Certification system in order to have the ability to electronically transmit MBS pool certifications. The institution agrees to be bound by any electronic record transmitted to or from Fannie Mae that is permitted or required to be delivered electronically under the <i>Selling Guide</i> and <i>Servicing Guide</i> or directions that Fannie Mae has otherwise provided to the document custodian in another form.
	Employ a staff that is familiar with the forms and procedures for mortgage loan and pool certifications and mortgage document control that Fannie Mae requires and how they relate to each staff member's specific functions.
	Have established written procedures that address the review and control of the mortgage note, assignments of the mortgage or deed of trust, and any special documentation that Fannie Mae requires for certain types of mortgage loans, and also have authorized access procedures and measures in place to determine that employees adhere to the access procedures and all other written procedures.
	Maintain a written disaster recovery plan that covers relocation/restoration of the facilities, physical recovery of the files, backup and recovery of information from electronic data processing systems, and additional requirements of periodic testing and monitoring of the plan.
	Have sufficient capabilities to track the receipt and release of documents or files, to keep track of the physical location of the documents or files, and to provide management reports to identify released documents or files, etc.
	Maintain secure, fire-resistant storage facilities that have adequate dual-access controls to ensure the safety and security of the custodial documents and that provide at least two hours of fire protection.
	Be able to meet other requirements that Fannie Mae may subsequently specify.

## Independent Custody Department

Fannie Mae requires that if a seller/servicer wants to act as the document custodian for MBS mortgage loans it delivers to Fannie Mae, it must have an independent custody department (which is established and operated under trust powers granted by its primary regulator). This

requirement also applies to an affiliate of a seller/servicer that is acting as Fannie Mae's document custodian.

The seller/servicer's or affiliate's custody department must comply with the requirements described in the following table.

✓	<b>The seller/servicer's or affiliate's custody department must...</b>
	Satisfy Fannie Mae's eligibility criteria for document custodians.
	Be physically separate from the departments performing mortgage loan origination, selling, and servicing functions.
	Maintain its own separate personnel, files, and operations.
	Be subject to periodic review or inspection by the seller/servicer's primary regulator, or by the primary regulator of the seller/servicer's parent or subsidiary if the seller/servicer is not a regulated institution.
	Have custodial officers who are duly authorized by corporate resolution or bylaws to act on behalf of the seller/servicer in its trust capacity and are empowered to enter into the <i>Master Custodial Agreement</i> ( <a href="#">Form 2003</a> ).

### **Commingling of Fannie Mae Custodial Documents**

Third-party document custodians may commingle Fannie Mae mortgage loan custodial files with other investors' mortgage loan files as long as

- the mortgage loans are identified as Fannie Mae mortgage loans on the physical file and on the document custodian's tracking system,
- the MBS mortgage loan pool files can be assembled quickly upon Fannie Mae's request, and
- Fannie Mae has reasonable access to the document custodian's system in the event the document custodian is unable to assemble the mortgage loan pool files.

All sellers/servicers or affiliates that serve as document custodians are required to segregate Fannie Mae mortgage loan custodial files from those of other investors. All Fannie Mae mortgage loan custodial files must be clearly identified as Fannie Mae assets.

### **Monthly Quality Control Review**

Document custodians must develop and implement a monthly QC review process to examine the quality of document and data certifications for the prior month. See the [Requirement for Document Custodians](#) for information concerning the minimum requirements for the monthly QC process and requirements for reporting QC results to Fannie Mae.

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## Annual Audit Requirements

Document custodians must engage the services of an independent third-party audit firm to perform an annual audit to assess whether the document custodian satisfies Fannie Mae's eligibility criteria and operates in compliance with Fannie Mae's requirements. Document custodians are responsible for all costs associated with the independent audit.

See the [Requirement for Document Custodians](#) for information concerning the minimum eligibility standards for independent third-party auditors and minimum audit requirements.

**Note:** Fannie Mae's name must not be used in any documents pertaining to the audit or the audit results without Fannie Mae's express prior written consent.

Fannie Mae reserves the right to perform on-site reviews of document custodians, as necessary.

Fannie Mae's *Annual Statement of Eligibility for Document Custodians* ([Form 2001](#)) includes the document custodian's certification that it meets the requirement pertaining to having had an annual audit performed by an eligible independent third-party audit firm. See *Annual Statement of Eligibility of Document Custodians* located in A2-6-06, Document Custodian Reporting Requirements: Active and Inactive Status for additional information concerning annual certifications.



## A2-6-05, Transfer of Custodial Documents to a Different Document Custodian (11/12/2014)

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### Introduction

This topic contains the following:

- Transfer of Custodial Documents to a Different Custodian
- Release of Custodial Documents
- Recertification of Custodial Documents

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### Transfer of Custodial Documents to a Different Custodian

The servicer of an MBS pool may transfer custodial documents related to the pool to a different eligible document custodian if, at any time, it prefers to use a different document custodian.

When an MBS pool or individual mortgage loan in a pool is included in a transfer of servicing, the transferee servicer may choose to make arrangements with a different document custodian. The existing document custodian is responsible for controlling and maintaining the integrity of the custodial documents until they are released to the new document custodian. The servicer (or, if applicable, the transferee servicer) must make appropriate arrangements for the safe transfer of the custodial documents to the new custodian's facilities and for the payment of all costs related to the transfer.

When custodial documents are transferred to a new document custodian for any reason, the servicer (or, if applicable, the transferee servicer) also must give Fannie Mae at least 30 days prior written notice of the transfer of the custodial documents. This notice must include a trial balance for the MBS pool that

- lists each mortgage loan expected to be in the pool as of the date of the proposed transfer, and
- appropriately identifies each mortgage loan for which custodial documents are to be transferred (or, if applicable, makes a single notation to reflect that the custodial documents for all of the mortgage loans remaining in the pool will be transferred).

If a transferee servicer does not want to use the same document custodian that had been holding the documents for any MBS pools that are included in a servicing transfer, it must advise Fannie Mae of the change in document custodian arrangements when it sends the *Request for Approval of Servicing or Subservicing Transfer* ([Form 629](#)) to Fannie Mae's NSO Servicing Transfers Group (see F-4-03, List of Contacts).

Before documents can be transferred to a new document custodian, the new document custodian must execute a custodial agreement *Master Custodial Agreement* ([Form 2003](#)) or *Designated Custodian Master Custodial Agreement* ([Form 2010](#)), as applicable) to cover the transferred MBS pools (or mortgage loans in an MBS pool), unless it already has a custodial agreement with the transferee servicer on file with Fannie Mae.

When a transferee servicer is transferring custodial documents to a new document custodian of its choice, it should not submit a custodial agreement executed by the new document custodian(s) until after it receives notification that the servicing transfer has been approved. At that time, the transferee servicer must submit a custodial agreement ([Form 2003](#) or [Form 2010](#), as applicable) for each document custodian it will be using (unless it plans to use a document custodian for which it already has a [Form 2003](#) or [Form 2010](#) on file with Fannie Mae).

If the custodial documents remain with the same document custodian, but the transferee servicer has entered into an arrangement with the transferor servicer's document custodian for the first time, the transferee servicer and that document custodian must execute a custodial agreement [Form 2003](#) or [Form 2010](#), as applicable).



**Note:** In the case of a transfer of servicing in which the transferee servicer wants to move the custodial documents to a different document custodian, only MBS mortgage loans may be moved to the new document custodian. All portfolio mortgage loans must remain at, or must be moved to Fannie Mae's DDC.

In the case of a transfer of servicing in which there is no change of document custodian, only MBS mortgage loans may remain with the same document custodian. Any portfolio mortgage loans included in the servicing transfer and held by the document custodian must be moved to Fannie Mae's DDC.

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### Release of Custodial Documents

After the servicer notifies Fannie Mae of the pending transfer of the custodial documents to a new document custodian (or, in the case of custodial documents being moved in connection with a servicing transfer, after Fannie Mae approves the transfer), the servicer is authorized to instruct the existing document custodian to

- release the custodial documents for each mortgage loan remaining in the MBS pool (or for each transferred mortgage loan, if the documents are being released in connection with a mortgage loan-level transfer of servicing), and
- execute a *Request for Release/Return of Documents* (Form 2009) for any mortgage loans for which required custodial documents will not be transferred because an attorney has possession of them in connection with a liquidation of the mortgage loan.

Instructions to the existing document custodian are provided on Form 2009. The document custodian must include a copy of this form with the custodial documents it releases. Once all of the documents have been released, the existing document custodian(s) must send the servicer a written notice of release (which, in turn, the servicer must forward to its lead Fannie Mae regional office). The release must be worded as follows:

*All documents held by [Name of existing document custodian] pertaining to Fannie Mae Pool Number [enter the numbers for all pools for which documents were released] and include, at a loan-level, the property address and mortgage loan numbers so they can be identified with the pool(s)] have been released to [name of the new document custodian]. The release was made to [name of the representative of the new document custodian who took actual possession of the documents] and completed on [date of the physical transfer of custodial documents] to the new document custodian.*

When the servicer transfers custodial documents to a different document custodian, the transferor servicer must provide the existing document custodian and the new document custodian with the following:

- a trial balance that
  - lists each mortgage loan expected to be in the pool as of the date of the document transfer; and
  - identifies those mortgage loans for which documents are to be transferred. (Note: The trial balance may be a new trial balance or an updated copy of the one the servicer submitted earlier to its lead Fannie Mae regional office.);
- the required legal documents and [Form 2009](#) that were obtained from the existing document custodian; and
- an electronic tape that provides certain loan-level information for each mortgage loan for which custodial documents are being transferred.

The servicer is authorized to package the documentation as a “pool” file that includes documentation for all of the mortgage loans in the pool or as separate files for each mortgage loan for which documents are being transferred. When the servicer sends individual files, it should band (or box) them together with the trial balance to ensure that the new document custodian can associate the documents with the correct MBS pool.

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### **Recertification of Custodial Documents**

Recertification may be required when there is a

- transfer of servicing (whether or not there is a change in document custodian), or
- transfer of documents by the existing servicer to a new document custodian.

The new document custodian must review the files it receives to

- verify that it received all of the files that were to be transferred, and
- ensure that all of the required documents have been received, are satisfactory, and conform with Fannie Mae’s requirements.

Generally, the required custodial documents will include the same documentation that a seller/servicer submits for mortgage loans included in a new MBS pool delivery, as described in *Selling Guide C3–07–04, Delivering Data and Documents*.

However, additional documents may be required in connection with a transfer of servicing or at the servicer’s initiation.

The new document custodian must abide by the requirements outlined in the following table when recertifying custodial documents.

<b>If the recertification...</b>	<b>Then the new document custodian must complete the required recertification as quickly as possible, but no later than...</b>
is not associated with a transfer of servicing	six months after the date the documents were transferred.
is associated with a transfer of servicing	six months after the effective date of the transfer of servicing.

When the new document custodian completes the recertification, it must send the servicer (or, if applicable, the transferee servicer) an *MBS Custodian Recertification (Form 2002)*. The document custodian must retain with its records for the applicable MBS pool, a copy of the [Form 2002](#) and the trial balance (or annotated *Schedule of Mortgages (Form 2005)*) for the MBS pool.

As soon as the servicer receives this notification it must send a copy of the recertification to the servicer (or the transferee servicer) for retention, along with a copy of a trial balance (or the annotated [Form 2005](#)) that reflects the composition of the MBS pool on the date of the document transfer and identifies the mortgage loans for which custodial documents were transferred.



## **A2-6-06, Document Custodian Reporting Requirements: Active and Inactive Status (11/12/2014)**

### **Introduction**

This topic contains the following:

- Annual Statement of Eligibility of Document Custodians
- Annual Determination of Active and Inactive Status
- Termination of Document Custodian Based on Inactive Status
- Change in Document Custodian's Organization or Ownership

### **Annual Statement of Eligibility of Document Custodians**

Fannie Mae document custodians must self-verify annually that they continue to meet Fannie Mae's eligibility and operational requirements for document custodians.

Document custodians must prepare an *Annual Statement of Eligibility for Document Custodians (Form 2001)* for each calendar year. The completed form must be submitted to Fannie Mae no later than March 31st of the year following the year covered by the form. [Form 2001](#) must be emailed or mailed to the Custodian Oversight and Monitoring Operations department (see F-4-03, List of Contacts).

[Form 2001](#) does not replace or diminish the seller/servicer's responsibility to monitor the eligibility and operations compliance of the document custodian(s) it uses; it supplements that requirement.

Document custodians no longer complying with Fannie Mae's eligibility or operational requirements must contact Fannie Mae's Custodian Oversight and Monitoring Operations department (see F-4-03, List of Contacts) immediately.

Refer to Record Retention Requirements in A2-5.2-03, Retention and Storage of Individual Mortgage Loan Files and Records for retention requirements for [Form 2001](#).

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### **Annual Determination of Active and Inactive Status**

Fannie Mae will designate each document custodian as either an Active Document Custodian or an Inactive Document Custodian. An Active Document Custodian is defined as an entity that has certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year. An Inactive Document Custodian is defined as an entity that has not certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year but is holding mortgage loans in custody for Fannie Mae.

Fannie Mae will determine a document custodian's subsequent designation (active or inactive) on an annual basis ending December 31st of each calendar year. Both Active and Inactive Document Custodians are obligated to meet Fannie Mae's eligibility and operational requirements as set forth in the Guides and in the [Requirements for Document Custodians](#) in order to hold mortgage loans in custody for Fannie Mae.

Any document custodian identified by Fannie Mae as an Active Document Custodian, based on the criteria previously set forth, will not have to apply for approval provided the document custodian maintains its Active Document Custodian status by certifying at least one loan on behalf of Fannie Mae in each subsequent calendar year.

If an Inactive Document Custodian desires to certify new MBS mortgage loans for Fannie Mae, the custodian must comply with the application and approval process previously described. An Inactive Document Custodian must be approved as an Active Document Custodian before it may certify new MBS loans for Fannie Mae. Any document custodian that is approved by Fannie Mae as an Active Document Custodian will maintain its Active Document Custodian

status provided it certifies at least one MBS or portfolio loan on behalf of Fannie Mae in each subsequent calendar year.

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### **Termination of Document Custodian Based on Inactive Status**

Fannie Mae reserves the right to terminate any Inactive Document Custodian, regardless of how long such custodian was previously an Active Document Custodian, and require them to move the documents to an Active Document Custodian, even though such Inactive Document Custodian meets all of Fannie Mae's eligibility and operational requirements for Document Custodians.

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### **Change in Document Custodian's Organization or Ownership**

Fannie Mae requires official notice at least 30 days prior to any sale, merger, reorganization, or other major change in a document custodian's organization or ownership. The document custodian must provide notification via email to the Custodian Oversight and Monitoring Operations department (see F-4-03, List of Contacts). Fannie Mae will then determine if the document custodian needs to seek re-approval or take any other actions to satisfy Fannie Mae's requirements to act as a document custodian.

Fannie Mae also requires that when all or part of an existing document custodian's custody business is being acquired by a new document custodian ("custody acquisition"), but the servicer remains the same, both the existing and the new document custodian must provide Fannie Mae at least 30 days advance written notice of such acquisition. See the [Requirement for Document Custodians](#) for information concerning specific responsibilities required of the existing and new document custodians in connection with the proposed custody acquisition.

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# Chapter A2-7, Servicing Transfers



## Servicing Transfers

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### Introduction

This chapter contains information on Servicing Transfers.

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### In This Chapter

This chapter contains the following topics:

A2-7-01, Concurrent Servicing Transfers (11/12/2014) .....	169
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## **A2-7-01, Concurrent Servicing Transfers (11/12/2014)**

### **Introduction**

A concurrent servicing transfer (also known as a transfer of servicing concurrent with delivery) occurs when a seller transfers the servicing rights for a mortgage loan to a Fannie Mae–approved servicer at the same time it sells the mortgage loan to Fannie Mae. This is an “automatic” transfer because Fannie Mae’s prior approval of the transaction is not required.

In a concurrent servicing transfer (also known as a transfer of servicing concurrent with delivery), the transferee servicer is under the same contractual obligations under the MSSC as the mortgage loan seller. The transferee servicer must meet Fannie Mae’s eligibility criteria that apply to a seller/servicer that becomes Fannie Mae’s servicer in a post-delivery transfer of servicing as set forth in A2-7-03, Post-Delivery Servicing Transfers.

If the mortgage loan seller is servicing the mortgage loans prior to delivery and will not be servicing the mortgage loans after delivery, the mortgage loan seller may automatically transfer servicing to a seller/servicer that is eligible to service them for Fannie Mae, and has agreed to do so, effective concurrently with delivery of the mortgage loans to Fannie Mae. The mortgage loan seller must notify Fannie Mae at the time of mortgage loan delivery that servicing has been transferred.

Additionally, the mortgage loan seller may designate the seller/servicer as Fannie Mae’s servicer for the mortgage loans by notifying Fannie Mae at the time of delivery if

- the mortgage loan seller is not servicing the mortgage loans prior to delivery because it has contracted with a transferee servicer to service the mortgage loans for the mortgage loan seller;
- the mortgage loan seller will not be servicing the mortgage loans after delivery;
- the transferee servicer is eligible to service the mortgage loans for Fannie Mae; and
- the transferee servicer agrees to service the mortgage loans for Fannie Mae, which requires the contractual servicing relationship be with Fannie Mae instead of with the mortgage loan seller.

If the servicer wants the contractual servicing relationship to be with the mortgage loan seller instead of with Fannie Mae, even after delivery of the mortgage loans to Fannie Mae, the mortgage loan seller must become Fannie Mae’s servicer (as “master servicer”), and the servicer must become a “subservicer.” (See Topic: *Subservicing*).

After Fannie Mae has purchased or securitized a mortgage loan, Fannie Mae must approve all subsequent assignments of servicing related to that mortgage loan before the servicing can be transferred.

This topic contains the following:

- Servicing Assignment Contract
- Notification of Concurrent Servicing Transfers
- Notifying Borrowers
- Termination of Concurrent Servicing Transfers

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## Servicing Assignment Contract

The servicing transfer agreement between the seller/servicer and the transferee servicer must provide (among other requirements) that

- the effective date for transfer of the servicing of the mortgage loans will be no later than the date Fannie Mae funds the cash delivery or issues the MBS;
- Fannie Mae may request and obtain (at any time) a copy of such agreement; and
- the agreement must provide, for the stated benefit of Fannie Mae, that the transferee servicer, as of the effective date
  - accepts the servicing portfolio and agrees to service the mortgage loans in accordance with all Fannie Mae requirements;
  - assumes responsibility for all of the seller/servicer’s contractual obligations related to the mortgage loans, including all selling warranties and any other liabilities that arise in connection with the mortgage loans or the servicing of them prior to the delivery of the mortgage loans to Fannie Mae;
  - has performed due diligence review(s) of the servicing portfolio to its satisfaction, which includes examination of the books, records, and custodial accounts of the seller/servicer with respect to the servicing portfolio;
  - assumes full responsibility to Fannie Mae for the correctness of such books and records; and
  - represents and warrants that the provisions of any agreement between the transferee servicer and any other party providing for servicing the mortgage loans will not continue after the date on which Fannie Mae funds the cash delivery or issues the MBS.

By accepting a transfer of servicing, the transferee servicer agrees to the above matters and represents and warrants that they are correct (as applicable), even in those cases in which the contractual relationship between the seller/servicer and the transferee servicer is such that no agreement to assign the servicing is legally necessary at the time the mortgage loans are delivered to Fannie Mae.

Further, by designating another seller/servicer as servicer of the mortgage loans on the applicable loan schedule, the seller/servicer represents and warrants that with respect to such mortgage loans:

- the servicer has agreed to the above matters and represents and warrants that they are correct (as applicable), and



- the provisions of any agreement between the seller/servicer and any other party providing for servicing of the mortgage loans will not continue after the date on which Fannie Mae funds the cash delivery or issues the MBS.

However, the seller/servicer is not released from any liabilities to Fannie Mae with respect to the mortgage loans or the servicing of them prior to the delivery of the mortgage loans to Fannie Mae. The seller/servicer and the transferee servicer will be jointly and severally liable to Fannie Mae for the obligations and liabilities related to the mortgage loans or the servicing of them that arise before delivery of the mortgage loans to Fannie Mae.

In addition to the requirements of this section, a transfer of servicing that becomes effective concurrent with delivery of the mortgage loans to Fannie Mae must be implemented in accordance with Fannie Mae's requirements in A1-1-03, Nature of the Contractual Relationship.

After Fannie Mae has purchased or securitized a mortgage loan, Fannie Mae must approve all subsequent assignments of servicing related to that mortgage loan before the servicing can be transferred. See A2-7-03, Post-Delivery Servicing Transfers for additional information.

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### Notification of Concurrent Servicing Transfers

The mortgage loan seller must notify Fannie Mae of the transferee servicer by entering the transferee servicer's nine-digit Fannie Mae seller/servicer number into the Loan Delivery application.

If required, the mortgage loan seller must also include in its delivery package mortgage loan assignments prepared in accordance with the following guidance.

**General Requirements:** Sellers/servicers must prepare an assignment of the mortgage to Fannie Mae for any mortgage loan that is not registered with MERS, although the assignment should not be recorded. If the mortgage loan seller is not going to service the mortgage loan, the unrecorded assignment to Fannie Mae must be executed by the servicer.

Sellers/servicers may use the standard Fannie Mae form of assignment. When a seller/servicer chooses not to use Fannie Mae's standard assignment forms, the mortgage assignments that it prepares must meet the requirements described in the following table.

✓	The mortgage assignment must...
	Show the assignee as Fannie Mae.
	Be prepared in recordable form, but not be recorded.
	Not include a recitation that the assignment of the mortgage loan or lien is "without recourse."

**Note:** Recordable form usually is whatever form the local recorder's office requires.

**Information Required for Recordation:** If state law does not specifically address the information required for recordation, sellers/servicers must include the following information in the assignments:

- the date of execution;
- the seller/servicer's name;
- the borrower's name;
- a legal description of the property;
- the recording information related to the mortgage loan, such as the deed book and page number or the instrument number;
- the original mortgage loan amount;
- the date of the mortgage loan;
- an authorized signature;
- an appropriate notarization, if one is required by state law;
- the Fannie Mae's Washington, DC Address (see F-4-03, List of Contacts), if required by the jurisdiction.

**Missing Information:** Occasionally, a seller/servicer may not be able to meet Fannie Mae's specific assignment requirements because the local recorder's office has not returned the recorded mortgage loan documents. To avoid delays in funding, Fannie Mae will purchase or securitize the mortgage loan if the only reason for the incomplete assignment was that the mortgage loan recordation data necessary for a recordable form was unavailable at the time of delivery. Fannie Mae has the right to complete any missing information without the seller/servicer's authorization should the assignment need to be recorded at a later date.

**Special Provision for Puerto Rico:** Assignments of mortgage loans generally are not recordable in Puerto Rico. Therefore, because the originating seller/servicer remains the mortgagee of record, the unrecorded assignment of the mortgage loan to Fannie Mae must run from the originator of the mortgage loan to Fannie Mae. If the seller/servicer selling the mortgage loan to Fannie Mae is not the mortgage loan originator, it must make every effort to get the originator to execute an assignment of the mortgage loan to Fannie Mae (or, at least, to execute a blanket assignment that covers the mortgage loan). If it is unable to obtain an assignment from the

mortgage loan originator for any reason, it (or the servicer, if the seller is not servicing the mortgage loan) must execute an individual unrecorded assignment of the mortgage loan to Fannie Mae.

No intervening assignments need to be prepared, recorded, or retained in the individual mortgage loan file.

The recordation of deeds of assignment is permitted in connection with direct mortgage loans (which are mortgage loans that are documented by a single instrument that combines the terms of the note and the terms of the mortgage loan). If the mortgage loan is a direct mortgage loan, the servicer must execute an assignment of the mortgage loan to Fannie Mae (which must be in recordable form, but unrecorded). In this case, the individual mortgage loan file must include a complete, unbroken chain of public deeds of assignment for the mortgage loan that evidence the transfer of title beginning with the originating seller/servicer and ending with the servicer.

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### Notifying Borrowers

The transferee servicer must take the actions described in the following table.

✓	The transferee servicer must...
	Within five days after the servicing transfer, initiate welcome calls to borrowers to confirm the mortgage loan terms and contact information and set payment expectations.
	Make at least three welcome call attempts by the end of the month following the file transfer from the prior servicer, unless the servicer achieves contact with the borrower or receives a mortgage payment.
	Use commercially reasonable efforts, subject to applicable laws, to maintain accurate contact information for each borrower.

If the servicer determines that a phone number is invalid or the RESPA notification of transfer letter is returned, the servicer must initiate skip trace activities to obtain alternate phone numbers or mailing addresses.

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### Termination of Concurrent Servicing Transfers

If a concurrent servicing transfer does not meet Fannie Mae's eligibility standards as stated in the *Servicing Guide*, Fannie Mae is entitled to terminate the transferee servicer's servicing with respect to the affected mortgage loans in order to transfer servicing of the mortgage loans to another servicer pursuant to Fannie Mae's rights under the MSSC. The mortgage loan seller is obligated for all costs, expenses, and /or losses resulting from its designation of an ineligible servicer.



## A2-7-02, Pledge of Servicing Rights (11/12/2014)

### Introduction

A seller/servicer may pledge, or grant a security interest in, the servicing rights to all or part of its Fannie Mae servicing portfolio, including mortgage loans in MBS pools, for the following purposes:

- to fund the purchase of additional servicing portfolios;
- to provide collateral for warehouse lines of credit; or
- to effect the purchase of a mortgage banking company, including a management buyout of its existing company.

The seller/servicer must request Fannie Mae's prior approval of a specific pledging transaction at least 30 days prior to the proposed effective date.

The transaction between the seller/servicer and the secured creditor must be documented by a security agreement in a form determined by the seller/servicer and the secured creditor. Both the seller/servicer and the secured creditor also must execute an acknowledgment agreement in a form approved by Fannie Mae, which sets forth the rights and responsibilities of the seller/servicer, the secured party, and Fannie Mae.

This topic contains the following:

- Security Agreement
- Acknowledgement Agreement
- Transfer of Interest in Servicing Compensation

### Security Agreement

The seller/servicer pledging its servicing rights and the secured party to whom the rights are pledged must enter into a legally binding security agreement. Fannie Mae does not specify precise terms or provisions that must be included in the security agreement. However, since the terms and provisions of the acknowledgment agreement (which is executed by the seller/servicer, the secured creditor, and Fannie Mae) will prevail if there are any conflicts or inconsistencies between the security agreement and the acknowledgment agreement, both parties executing

the security agreement should make every effort to ensure that there are no conflicts or inconsistencies between the two agreements.

Each request for approval of a proposed pledge of servicing must include a copy of the related proposed security agreement. The seller/servicer and the secured creditor may amend the security agreement after Fannie Mae approves the transaction without obtaining Fannie Mae's prior consent, as long as all representations and warranties made by the seller/servicer and the secured party in the acknowledgment agreement will apply to such amendment.

The secured creditor must include in any financing statement it files for recordation in connection with the security agreement a statement, in the form prescribed by Fannie Mae and set forth in the acknowledgment agreement, that the security interest described in the financing statement is subject and subordinate to all rights, powers, and prerogatives of Fannie Mae under, and in connection with the terms of the acknowledgment agreement, the Mortgage Selling and Servicing Contract, the *Selling Guide*, the *Servicing Guide*, and any other agreements between Fannie Mae and the seller/servicer, which rights, powers, and prerogatives include, without limitation, the right of Fannie Mae to terminate the seller/servicer's Lender Contract with or without cause and the right to sell, or have transferred, the seller/servicer's Fannie Mae servicing rights as therein provided.

The secured creditor must provide a copy of any recorded financing statement to the seller/servicer's appropriate Fannie Mae regional office. The secured creditor must file for recording a proper release of the recorded financing statement within five business days after the effective date of the termination, transfer, or extinguishment of the security interest, notifying the appropriate Fannie Mae regional office of the filing if the

- security interest is released or extinguished, or
- pledged servicing rights are transferred to the secured creditor as the result of the seller/servicer's default under the security agreement or in accordance with the terms of the acknowledgment agreement.

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### **Acknowledgement Agreement**

Fannie Mae will not approve any request for the pledging of a seller/servicer's servicing rights unless the seller/servicer and the secured creditor execute an acknowledgment agreement in a form approved by Fannie Mae. The basic form of acknowledgment agreement, which may be modified by Fannie Mae to describe the particular pledge transaction and include any other terms and conditions to Fannie Mae's approval of such transaction, is available through Fannie Mae's regional offices (see F-4-03, List of Contacts).

Under the terms of the acknowledgment agreement, the secured creditor's security interest is subordinate to all of Fannie Mae's rights, powers, and prerogatives under the following:

- the acknowledgment agreement,
- the MSSC,
- the *Selling Guide* and *Servicing Guide*, and
- any other agreements between Fannie Mae and the seller/servicer.

The secured creditor has no claim or entitlement as a secured creditor against Fannie Mae, and Fannie Mae has no duty or obligation to the secured creditor, except as otherwise expressly provided in the acknowledgment agreement. The acknowledgment agreement provides that if the secured party sells one or more participations in the loans made pursuant to the security agreement, such participants shall benefit under the security agreement and the acknowledgment agreement solely through the secured party.

Both the secured creditor and the seller/servicer must indemnify and hold Fannie Mae harmless against all losses, claims, lawsuits, actions, liabilities, damages, judgments, costs, and expenses arising or resulting from any action they take (or do not take) in compliance with the terms of either the security agreement or the acknowledgment agreement.

The secured creditor also must agree to indemnify and hold Fannie Mae harmless against all losses, claims, lawsuits, actions, liabilities, damages, judgments, costs, and expenses arising from or connected with the security agreement or the secured creditor's foreclosure, transfer, or sale of the servicing rights under the terms of the security agreement.

The secured creditor has the right to request Fannie Mae to transfer the servicing of the mortgage loans for which servicing rights have been pledged if the secured party elects to enforce its security interest or any remedy for the seller/servicer's default under the security agreement. If the secured creditor has a valid power of attorney authorizing it to make the transfer request on the seller/servicer's behalf, the secured creditor may request

- that the servicing be transferred to it (if it is an approved Fannie Mae servicer), or
- that the servicing be transferred to such other Fannie Mae–approved servicer as the secured creditor designates.

The transfer of servicing request will be evaluated, processed, and documented under Fannie Mae's general procedures for servicing transfers, unless Fannie Mae agrees to modify a specific requirement or amend a particular document. Fannie Mae will not unreasonably withhold its consent to a transfer that is proposed by the secured party. If Fannie Mae finds the proposed transferee servicer unacceptable, it will work with the secured party to find another transferee servicer that is acceptable; provided, however, that Fannie Mae shall retain the right to establish conditions to the approval of any such transfer in its sole discretion.

Fannie Mae has the right, under the terms of its contracts with the seller/servicer, to terminate, sell, or transfer the servicing that has been pledged. If Fannie Mae exercises that right, it will decide either to

- market and sell the pledged servicing in a manner it deems appropriate, or
- retain the pledged servicing and have the market value (the “appraised market value”) established by a qualified market leader in servicing valuations selected by Fannie Mae.

Under the terms of the acknowledgment agreement, the servicing rights that have been pledged shall be at all times after such termination, sale, or transfer effected by Fannie Mae in accordance with its contractual provisions with the seller/servicer, free and clear of the secured creditor's security interest.

When Fannie Mae exercises its right to terminate, sell, or transfer servicing that has been pledged, it may select the secured creditor or its designee to act as the new servicer or subservicer of the mortgage loans or it may select another Fannie Mae–approved servicer. Fannie Mae will notify the secured creditor after it terminates the seller/servicer's servicing rights that have been pledged.

To the extent that Fannie Mae is fully reimbursed for all costs and expenses related to the determination of appraised market value or the sale or transfer and for any and all amounts it is or may be due for obligations not met under its Lender Contract, Fannie Mae will notify the secured creditor of its right to claim all or part of any remaining sales proceeds, appraised market value, or any applicable contract termination fees—if it has a valid power of attorney from the seller/servicer authorizing it to request distribution of the sales proceeds or any applicable contract termination fees.

A secured creditor's failure to execute the acknowledgment agreement may impair its ability to claim any portion of the sales proceeds, appraised market value, or any applicable contract termination fees if Fannie Mae terminates the servicer's contract and sells the servicing portfolio and will impair its ability to request Fannie Mae to transfer the mortgage loans for which the servicing rights are pledged to another servicer if the servicer defaults under the security agreement. A servicer's failure to execute the acknowledgment agreement could result in a suspension of its selling and servicing rights or in the termination of its Lender Contract, if it proceeds with an unauthorized pledging of its servicing rights.

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### **Transfer of Interest in Servicing Compensation**

A seller/servicer's sale, assignment, transfer, pledge or hypothecation of all or any portion of its compensation for servicing loans for Fannie Mae, or its execution of any agreement that would result in the sale, assignment, transfer, pledge, or hypothecation of its servicing income or its

servicing rights, as described in A2-3-01, Servicer Compensation, shall also be subject to the conditions and circumstances specified in this topic.



## **A2-7-03, Post-Delivery Servicing Transfers (11/12/2014)**

### **Introduction**

This topic contains the following:

- Overview of Post-Delivery Servicing Transfers
- Obligations of the Transferor and Transferee Servicers
- Requesting Fannie Mae Approval
- Conditions for Approval
- Providing Consent to the Servicing Transfer
- Servicing Transfer as a Result of the Servicer's Termination of the Servicing Relationship
- Special Notifications to the Transferee Servicer
- When a Servicing Transfer Includes Mortgage Loans Modified Under HAMP and 2MP
- Servicing Fee
- Assumption of Warranties and Other Obligations
- Notifying Borrowers
- Notifying Third Parties
- Transfer of Individual Mortgage Loan Files and Portfolio Information
- Submission of Final Accounting Reports/Remittances
- Preparing Mortgage Assignments
- Transfer of Custodial Documents
- Transitional Responsibilities



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## Overview of Post-Delivery Servicing Transfers

Subsequent to the delivery of mortgage loans to Fannie Mae, the servicer must obtain Fannie Mae's prior written consent for any transfer of servicing responsibilities involving Fannie Mae mortgage loans and/or acquired properties, including transfers

- resulting from a change in the servicer's corporate ownership or structure, and
- involving a subservicer, including master servicer transfers from one subservicer to another, from the master servicer to a subservicer, or from the subservicer to the master servicer.

The servicer or subservicer must not transfer its responsibility for servicing or subservicing any mortgage loans and/or acquired properties unless Fannie Mae approves the transfer. See When Post-Delivery Transfers of Servicing Involve Subservicers in A2-1-06, Subservicing for additional information.

Any unauthorized transfer of servicing or subservicing will not be recognized by Fannie Mae. An unauthorized transfer of servicing or subservicing may occur when the servicer or subservicer fails to

- give Fannie Mae adequate notice of a proposed transfer (as defined in Requesting Fannie Mae's Approval),
- obtain its written approval for a transfer, or
- fulfill any conditions of Fannie Mae's approval of a given transfer of servicing.

Any unauthorized transfers of servicing may be the basis for terminating the contractual relationships Fannie Mae has with the transferor, transferee servicers, and any involved subservicer. However, instead of terminating the contractual relationship(s), Fannie Mae may choose to

- impose sanctions;
- impose compensatory fees (see A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process) for calculation of the compensatory fee for an unauthorized transfer of servicing);
- hold any transferor or transferee servicer or subservicer that enters into an unauthorized transfer of servicing jointly and severally liable for any losses, liabilities, or other expenses Fannie Mae incurs as the result of the unauthorized transfer; and/or
- impose other available remedies.

The transferee servicer must indicate on the *Request for Approval of Servicing or Subservicing Transfer* (Form 629) if the transferee servicer will use a subservicer as a result of the servicing transfer.

As part of the transfer of servicing review, Fannie Mae will also evaluate the performance and capacity of any subservicer the transferee servicer intends to utilize.

Fannie Mae generally will consider requests for transfers of either all or a portion of the mortgage loans and/or acquired properties that a servicer services and/or manages for it. Transfers of servicing or subservicing of individual mortgage loans in an MBS pool are permitted unless the transfer involves regular servicing option MBS mortgage loans or shared-risk special servicing option MBS mortgage loans for which the servicer's shared-risk liability is still in effect, in which case the servicing of all of the mortgage loans in the pool must be transferred.

Fannie Mae will consider the transfer of servicing, including servicing involving a subservicer, for government-guaranteed mortgage loans only if the proposed transferee servicer is a HUD-approved coinsurer that is willing to assume the coinsurance obligations for the mortgage loans.

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### Obligations of the Transferor and Transferee Servicers

The following table provides the requirements of the transferor servicer prior to requesting Fannie Mae's approval.

✓	The transferor servicer must...
	Confirm that the transferee servicer is <ul style="list-style-type: none"><li>• approved to service all products included in the transfer, including those described in Special Seller/Servicer Approval and MSSC Addendum in A1-1-02, Application and Approval of Seller/Servicer,</li><li>• aware of its duties and obligations, and</li><li>• agrees to assume the additional responsibilities related to the servicing of those mortgage loans.</li></ul>
	Provide special notification to the transferee servicer of the products being transferred.

The transferee servicer must assume all of the responsibilities, duties, and selling warranties that were agreed to whether made when the mortgage loan was originally sold to Fannie Mae or subsequent to that date. This includes responsibility for the performance of obligations that predate the transfer, including special servicing obligations. However, the transferee servicer's

assumption of these responsibilities, duties, and warranties will in no way release the transferor servicer from its contractual obligations related to the transferred mortgage loans. The two servicers will be jointly and severally liable to Fannie Mae for all warranties and for repurchase, all special obligations under agreements previously made by the transferor servicer or any previous seller or servicer (including actions that arose prior to the transfer). When a servicer transfers its contractual right to service some or all of its Fannie Mae single-family servicing to another Fannie Mae-approved servicer, any variance or waiver granted to a transferor servicer does not automatically transfer to the transferee servicer. In addition, the transferor servicer and transferee servicer must ensure that all existing special servicing obligations associated with the transferred mortgage loan are disclosed.

By beginning to service the mortgage loans the transferee servicer agrees to assume all obligations related to the servicing of MBS pools—including all duties and responsibilities under the regular servicing option or a shared-risk special servicing option, bearing all costs and risks previously borne by the transferor servicer or any earlier seller or servicer, as well as any additional costs and risks that arise subsequent to, or as the result of conditions imposed on, the transfer.

Fannie Mae's consent to a transfer of servicing does not release either the transferor servicer or the transferee servicer from any obligation it would otherwise have to Fannie Mae. As of the sale date for an approved transfer of servicing or subservicing the transferor servicer and the transferee servicer acknowledge their joint and several liability with respect to the transferred mortgage loans (and for any special obligations outstanding as of the sale date, unless Fannie Mae has agreed to release one of the servicers from a specific responsibility). Fannie Mae may look to either the transferee servicer or transferor servicer for fulfilling any financial or other obligations related to the warranties, repurchase, and special obligations. In fact, all servicers also acknowledge their obligation to ensure that Fannie Mae is paid directly any proceeds of the servicing transfer that may be required to offset any claims Fannie Mae may have against the transferor servicer and agree to indemnify Fannie Mae for any loss or damage arising out of a failure to fully transfer all documents, records, and funds required by the servicing transfer agreement.

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### Requesting Fannie Mae Approval

When requesting approval to transfer servicing, the transferor or transferee servicer or subservicer must submit the information in the following table to Fannie Mae.

✓	<b>The transferor or transferee servicer or subservicer must submit to Fannie Mae...</b>
	A fully completed <i>Request for Approval of Servicing or Subserving Transfer</i> ( <a href="#">Form 629</a> ) in an electronic format to Fannie Mae's NSO Servicing Transfers Group (see F-4-03, List of Contacts) at least 60 days prior to the proposed transfer date.

✓	<b>The transferor or transferee servicer or subservicer must submit to Fannie Mae...</b>
	A check for a nonrefundable \$500 processing fee to the address referenced on the <a href="#">Form 629</a> noting the names of the transferee and transferor servicer, any subservicer, and the proposed transfer date.

The transfer and sale dates must be included on [Form 629](#). The transfer date refers to the date on which the physical transfer of the servicing or subservicing responsibilities from the transferor servicer or subservicer, as the case may be, to the transferee servicer or subservicer occurs. It may not necessarily be the same date as the sale date identified in a servicing transfer agreement. The sale date is the date on which the ownership of the servicing rights and the legal liability for the servicing of the Fannie Mae mortgage loans transfer from one servicer to another.

**Note:** While Fannie Mae requires the transferring parties to identify the sale date associated with a servicing transfer, Fannie Mae's approval will only be issued as to the transfer date.

The proposed transfer date must be the first business day of the month for which the transferee servicer will be responsible for reporting the loan-level detail activity to Fannie Mae. Forms not submitted within the above time frames must be resubmitted and received in time for the next scheduled transfer cycle. A processing fee will not be assessed again for resubmitted forms.

The servicer must submit [Form 629](#) for all active mortgage loans.

The transferor servicer must submit a separate [Form 629](#) for

- acquired properties,
- REMIC,
- reverse mortgage loans, and
- SMBS mortgage loans.

The servicer must submit an eTransfer file for certain active mortgage loans.

All [Form 629](#) submitted for a transfer of servicing must contain an applicable mortgage loan-level list in excel format containing all items mentioned in [Form 629](#).

Refer to the F-1-14, Post-Delivery Servicing Transfers for additional information.

**Bifurcated Mortgage Loans:** Once the parties have agreed to a servicing transfer date for an active bifurcated mortgage loan, the transferor servicer is authorized to provide to the responsible

party or its designee the information it needs to meet all time-critical deadlines that are scheduled to take place shortly after the transfer date, such as the dates of scheduled mediation or litigation hearing, tax sales, foreclosure sale dates.

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### Conditions for Approval

The following table describes the requirements of the proposed transferee servicer.

✓	The proposed transferee servicer must...
	Be an approved servicer that is in good standing with Fannie Mae.
	Have in place appropriate controls and adequate procedures relating to transfers of servicing, including those addressing the boarding and reconciliation of mortgage loans to help avoid delays in actively servicing the mortgage loans or managing the acquired properties.

Fannie Mae will also evaluate the transferee and transferor servicers' and the subservicer's performance prior to approval in the following areas (although it may consider additional factors if it chooses to do so):

- overall servicing or subservicing performance, including the servicing and subservicing of special mortgage loan products, accounting, and remitting;
- capacity to service or subservice the mortgage loans and/or acquired properties that are to be included in the proposed transfer;
- characteristics of the transferor servicer's retained servicing portfolio;
- overall performance of other contractual duties and obligations;
- delinquency ratios;
- foreclosure and acquired property activity;
- status of unresolved issues related to repurchase requests, claim denials or curtailments, compensatory fees, indemnification claims, or other outstanding claims; and
- financial condition.

The transferor and/or transferee servicer(s) must provide additional information upon Fannie Mae's request during the review process.

Fannie Mae's contractual requirements related to transfers of servicing and the servicers' obligations to perform under them apply in all cases (unless Fannie Mae expressly waives them in writing). Fannie Mae encourages a servicer that is contemplating the purchase of another servicer's portfolio to contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) early in the negotiation process. This will ensure that the servicer

- is aware of any objections Fannie Mae might have to its becoming a transferee servicer or subservicer for the servicing portfolio it is considering purchasing,
- can determine whether the proposed transfer involves unusual circumstances or conditions that might require additional time for Fannie Mae to review, and
- ascertain whether the proposed transfer has terms that might not be readily acceptable to Fannie Mae.

Fannie Mae will make no representations or warranties about the value, condition, or any other aspects of the mortgage loans, servicing rights, and/or acquired properties for which servicing is to be transferred. Because the transferee servicer will be liable to Fannie Mae for all obligations of the transferor servicer, Fannie Mae expects that the transferee servicer will perform a due diligence review of the servicing portfolio that it is acquiring. However, the transferee servicer's obligations to Fannie Mae are not contingent on the performance of such a due diligence review. To assist the servicers in processing and reconciling the transfer of servicing, Fannie Mae has designed a series of reports that should significantly reduce the likelihood of errors or delays in the transfer process. The information in these reports can be used to reconcile and correct loan-level information related to the mortgage loans for which servicing is to be transferred. Any information in the reports Fannie Mae provides will be compiled from data in its records (including information it received from third parties, but did not independently verify). However, Fannie Mae does not attest to the accuracy, completeness, or suitability of the information for the servicers' use for any particular purpose(s). For any given transfer of servicing, Fannie Mae uses appropriate business practices to permit the transferor servicer and the transferee servicer and subservicer (but no other parties) to have access to the data on which the reports are based. Fannie Mae does not represent or warrant that any unauthorized party will not be able to gain access to the data (particularly when it is transmitted electronically), nor will Fannie Mae be responsible for any damages arising out of, or related to, such parties gaining access to the data and using the information it provides.

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### **Providing Consent to the Servicing Transfer**

If Fannie Mae consents to a proposed transfer of servicing, it will deliver its consent notice to the transferor and transferee servicers by email to the contacts designated on [Form 629](#). By implementing the related transfer of servicing, both the transferor and transferee servicers agree

to the provisions of the MSSC, Lender Contract, and any amendments made to such agreements. The transferor and transferee servicers must comply with any other provisions set forth in the consent notice. As a condition of approving the transfer of servicing, Fannie Mae reserves its right to request and obtain (at any time) a copy of the servicing transfer agreement between the transferor servicer and the transferee servicer.

Fannie Mae's conditions for approval of a servicing transfer are discussed in the F-1-14, Post-Delivery Servicing Transfers. Fannie Mae may also impose additional terms and conditions on its consent to a servicing transfer as deemed appropriate under the particular circumstances, as described in its communication to the transferor servicer.

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### **Servicing Transfer as a Result of the Servicer's Termination of the Servicing Relationship**

If a servicer decides to terminate its servicing relationship with Fannie Mae, the transfer of the servicer's entire servicing portfolio must include all mortgage loans that are being serviced even if they no longer generate any servicing fee income. Therefore, acquired properties that have been removed from an active accounting status must be transferred, unless Fannie Mae has notified the servicer that Fannie Mae's records have been closed or the servicer is only waiting for a request of reimbursement claims payment from Fannie Mae.

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### **Special Notifications to the Transferee Servicer**

The transferor servicer must provide special notification to the transferee servicer when a transfer of servicing includes, but is not limited to the following types of mortgage loans:

- mortgage loans modified under HAMP and/or 2MP,
- eMortgages, and/or
- mortgage loans subject to resale restrictions.

Refer to [Form 629](#) for information about the other types of mortgage loans that must be disclosed and F-1-14, Post-Delivery Servicing Transfers for additional information.

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### **When a Servicing Transfer Includes Mortgage Loans Modified Under HAMP and 2MP**

For mortgage loans modified under HAMP and 2MP, the transferee servicer must assume all of the responsibilities and duties of HAMP and/or 2MP. However, the transferee servicer's assumption of these responsibilities, duties, and warranties will in no way release the transferor

servicer from its contractual obligations related to the transferred mortgage loans. The two servicers will be jointly and severally liable to Fannie Mae for

- all warranties and for repurchase,
- all special obligations under agreements previously made by the transferor servicer or any previous servicer or servicer (including actions that arose prior to the transfer), and
- all reporting, compliance, and audit oversight related duties regarding the transferred mortgage loans.

### Servicing Fee

As described in the following table, the transferee servicer will generally receive the same servicing compensation that the transferor servicer was receiving.

<b>For...</b>	<b>The transferee servicer will generally receive...</b>
actual/actual and scheduled/actual remittance type portfolio mortgage loans	the same servicing fee—the base servicing fee plus any excess yield—that the transferor servicer had been receiving.
MBS mortgage loans and scheduled/scheduled remittance type mortgage loans held in Fannie Mae’s portfolio	compensation at the same rate that the transferor servicer had been receiving, which is the difference between the mortgage interest rate (less any applicable premium for lender-purchased mortgage insurance) and the sum of Fannie Mae’s required pass-through rate, the guaranty fee rate, and, if applicable, any portion of the servicing fee that has been securitized.

### Assumption of Warranties and Other Obligations

The transferee servicer must assume all of the duties, selling representations and warranties, servicing responsibilities and liabilities, and recourse and repurchase obligations of the transferor servicer unless explicitly agreed to otherwise in writing by Fannie Mae with respect to the mortgage loans and acquired properties. This includes responsibility for the performance of special servicing obligations that were agreed to, whether those obligations were made when the mortgage loans were originally sold to Fannie Mae or subsequent to that date. However, the transferee servicer’s assumption of these responsibilities, duties, liabilities, and warranties



will not release the transferor servicer from its contractual obligations related to the transferred mortgage loans or acquired properties.

As of the earlier of the sale date or the transfer date for an approved transfer of servicing, the transferor servicer and the transferee servicer have joint and several liability with respect to all duties, selling representations and warranties, recourse and repurchase obligations, all obligations under agreements previously made by the transferor servicer or any previous seller or servicer with Fannie Mae, and servicing responsibilities and liabilities relating to the transferred mortgage loans and acquired properties.

Fannie Mae does not release the transferor servicer of its obligations with respect to the transferred mortgage loans or acquired properties. Fannie Mae reserves the right to require payment of any proceeds of the servicing transfer to offset any claims Fannie Mae may have against the transferor servicer or transferee servicer. Both the transferor servicer and the transferee servicer agree to indemnify Fannie Mae for any loss or damage arising out of a failure to fully transfer all documents, records, and funds.

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### Notifying Borrowers

The transferor and transferee servicers must work together closely to ensure that borrowers whose mortgage loans are the subject of a servicing transfer receive the information described in the following table.

✓	<b>The transferor and transferee servicer must provide borrowers...</b>
	Prompt and accurate information of a pending transfer of servicing.
	Prompt and courteous responses to their inquiries about the transfer.
	Specific notices regarding the transfer of servicing.

All notices provided to borrowers must be made in accordance with applicable law, including the provisions of the RESPA and any state law requirements.

The transferee servicer must take the actions described in the following table.

✓	<b>The transferee servicer must...</b>
	Within five days after the servicing transfer, initiate welcome calls to borrowers to confirm the mortgage loan terms and contact information and set payment expectations.
	Make at least three welcome call attempts by the end of the month following the file transfer from the prior servicer, unless the servicer achieves contact with the borrower or receives a mortgage payment.

Use commercially reasonable efforts, subject to applicable laws, to maintain accurate contact information for each borrower.

If the servicer determines that a phone number is invalid or the RESPA notification of transfer letter is returned, the servicer must initiate skip trace activities to obtain alternate phone numbers or mailing addresses.

### Notifying Third Parties

The transferor or transferee servicer must take certain actions to ensure that all servicing functions that involve third parties will continue uninterrupted (or will be discontinued if that is appropriate) after the transfer of servicing. For specific information on the required actions, refer to F-1-14, Post-Delivery Servicing Transfers.

Both the transferor and transferee servicers must take the notification actions described in the following table when working with the document custodian.

✓	<b>The transferor and transferee servicers must...</b>
	Advise the document custodian maintaining possession of the custodial documents related to the transfer of servicing of the pending transfer.
	Make arrangements for the prompt and safe transfer of the custodial documents to a new document custodian designated by the transferee servicer.

The transferor and transferee servicers must comply with the requirements outlined in A2-6-05, Transfer of Custodial Documents to a Different Document Custodian with regard to document custodians.

If the transferor servicer had been acting as the document custodian, the transferee servicer may elect to use the transferor servicer as the document custodian, unless Fannie Mae has indicated that it will not agree to such an arrangement. In such cases, the transferor servicer must continue to meet the eligibility criteria and operational requirements Fannie Mae has in place for document custodians as described in the *Servicing Guide*, *Selling Guide*, and the *RDC Guide*.

The document custodian designated by the transferee servicer is required to recertify the custodial documents related to the transfer of servicing regardless of whether the documents themselves are moved and in accordance with Recertification of Custodial Documents in A2-6-05, Transfer of Custodial Documents to a Different Document Custodian. If the documents are not moved, the document custodian must change the servicer associated with the mortgage loan custodial files in its tracking system. The document custodian is required to track the custodial documents it holds on behalf of Fannie Mae by servicer. In addition, the transferee

servicer must have a valid *Master Custodial Agreement (Form 2003)* in place with the document custodian.

### Transfer of Individual Mortgage Loan Files and Portfolio Information

The storage format of the individual mortgage loan files must be in accordance with A2-5.2-01, Storage of Individual Mortgage Loan Files and Records. For specific information that must be delivered by the transferor servicer to the transferee servicer, refer to F-1-14, Post-Delivery Servicing Transfers.

In general, the transferee servicer must incorporate flexibility into its default and other servicing procedures to take into consideration problems that may be attributable to the logistics of servicing transfers. The following table describes the requirements of the transferor servicer with regard to transferring individual mortgage loan files and portfolio information.

✓	<b>The transferor servicer must...</b>
	Deliver to the transferee servicer the complete individual mortgage loan file, as defined in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records, for each mortgage loan included in the transfer.
	Identify to the transferee servicer any mortgage loans that are in foreclosure, bankruptcy, or subject to a workout option and for any acquired properties (if Fannie Mae has not sold them by the transfer dater), as required in F-1-14, Post-Delivery Servicing Transfers.
	Turn over the complete books and records to the transferee servicer of each mortgage loan or acquired property.
	Maintain adequate records of the mortgage loans and acquired properties included in the portfolio transfer in their corporate records so that it can easily identify the documents and information turned over to the transferee servicer.

The following table describes the requirements of the transferee servicer with regard to transferring individual mortgage loan files.

✓	<b>The transferee servicer must...</b>
	Receive a complete copy of the individual mortgage loan files so that it is able to service the transferred mortgage loans without interruption as of the transfer date.
	Understand borrower account histories (including the amount and nature of all servicing advances and fees assessed to the borrower) as of the transfer date.
	Review its subsequent collection of funds from borrowers to ensure accurate accounting for recovery of advances charged to the borrower.

✓	<b>The transferee servicer must...</b>
	Honor any forbearance agreements or other arrangements made with borrowers by the previous servicer (or provides reasonable notice of any change in these arrangements—if contractually permitted).

The following table describes the requirements of both the transferor and transferee servicers with regard to transferring individual mortgage loan files and portfolio information.

✓	<b>Both the transferor and transferee servicer must...</b>
	Ensure that fees and charges improperly assessed to a borrower are promptly refunded or credited to the borrower's account.
	Establish procedures for the delivery and receipt of information after the transfer date in the event that the transferor servicer obtains any other information related to the transferred mortgage loans that must be sent to the transferee servicer.
	Maintain adequate records of the mortgage loans and acquired properties included in the portfolio transfer in their corporate records so that they can easily identify <ul style="list-style-type: none"> <li>• the mortgage loans and acquired properties included in the transfer,</li> <li>• the transfer date,</li> <li>• the parties involved in the transfer, and</li> <li>• the documents and information turned over to the transferee servicer.</li> </ul>

### Submission of Final Accounting Reports/Remittances

The transferor servicer must submit the monthly LARs for Fannie Mae’s investor reporting system, and, if applicable, reporting the related MBS pool security balances, for the month of the transfer date. The transferor servicer is contractually responsible for all remittances due Fannie Mae (including MBS pool guaranty fees) for the final monthly accounting period.

For additional information regarding the final accounting reports and remittance requirements related to mortgage loans included in a transfer of servicing, refer to the F-1-14, Post-Delivery Servicing Transfers.

### Preparing Mortgage Assignments

An assignment from the transferor servicer to the transferee servicer must be prepared and recorded. The transferee servicer must deliver the recorded mortgage assignment to the

applicable document custodian for all mortgage loans subject to a transfer of servicing within six months of the transfer date. For additional information regarding the mortgage assignment requirements, refer to F-1-14, Post-Delivery Servicing Transfers.

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### Transfer of Custodial Documents

In the event of a transfer of servicing that involves MBS mortgage loans, the transferee servicer may

- continue to store the custodial documents with the existing document custodian (provided the document custodian meets all the requirements outlined in Chapter: Requirements Related to Custodial Documents), or
- transfer the custodial documents to a different eligible document custodian, including Fannie Mae's DDC.

The custodial documents for any portfolio mortgage loan must remain at, or must be moved to, Fannie Mae's DDC.

Refer to the procedures in *Transfer of Custodial Documents* in F-1-14, Post-Delivery Servicing Transfers for additional information.

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### Transitional Responsibilities

The following table describes the transitional responsibilities of both the transferor and transferee servicers.

✓	<b>Both the transferor and transferee servicers must...</b>
	Ensure that their staffs and facilities are adequately prepared to process servicing and accounting transactions and to respond to borrower inquiries during the transfer transition period.
	Assume responsibility for responding to borrower inquiries that are received after the transfer date.

The following table describes the transitional responsibilities of the transferee servicer.

✓	<b>The transferee servicer must...</b>
	Give special consideration to the borrower's needs.

✓	<b>The transferee servicer must...</b>
	Make every effort to resolve disputes to the borrower's satisfaction when the dispute arises from a legitimate misunderstanding of the instructions that were included in the notices of transfer that were sent to the borrower.
	Waive late notices.
	Make appropriate adjustments to payment and credit records to reflect misapplied or unapplied payments that were owed to the transferee servicer, but which were sent to the transferor servicer, if necessary.

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# Chapter A2-8, Mortgage Electronic Registration System



## Mortgage Electronic Registration System

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### Introduction

This chapter contains information on the Mortgage Electronic Registration System.

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### In This Chapter

This chapter contains the following topic:

A2-8-01, Mortgage Electronic Registration System (11/12/2014) . . . . . 193

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## A2-8-01, Mortgage Electronic Registration System (11/12/2014)

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### Introduction

MERS is an electronic system that assists in the tracking of mortgage loans, servicing rights, and security interests. To initiate the electronic tracking, a seller/servicer assigns a special MERS MIN to the mortgage loan, registers the mortgage loan in MERS and the either

- originates the mortgage loan with MERS appearing in the security instrument as nominee for the beneficiary and its successors and assigns, or
- records an assignment of the mortgage loan to MERS (thus making MERS the mortgagee of record).

This topic contains the following:

- Registration of a Mortgage Loan to MERS
- Naming MERS as the Nominee for the Beneficiary in the Security Instrument
- Termination of the Use of MERS

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## Registration of a Mortgage Loan to MERS

When a MERS-registered mortgage loan is delivered to Fannie Mae, the seller/servicer reports the MIN on the Loan Schedule (*FRM/GEM Loan Schedule (Form 1068)* or *ARM/GPARM Loan Schedule (Form 1069)*) or on the *Schedule of Mortgages (Form 2005)*

The following table outlines the steps that must be taken when a mortgage loan is registered with MERS.

<b>If the mortgage loan is...</b>	<b>Then...</b>
registered with MERS before Fannie Mae purchases it	Fannie Mae will notify MERS to ensure that its records are updated to reflect Fannie Mae's ownership interest in the mortgage loan.
not registered with MERS until after Fannie Mae purchases it	the seller/servicer must report Fannie Mae's ownership when it registers the mortgage loan.

If the seller/servicer encounters a situation where Fannie Mae is the owner of record for a mortgage loan because the original assignment of the mortgage loan to Fannie Mae was recorded in the public records, the seller/servicer must correct the error before it completes the MERS registration by

- preparing an assignment of the mortgage loan from Fannie Mae to MERS,
- sending the assignment to Fannie Mae for execution, and
- recording the assignment in the public records.

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## Naming MERS as the Nominee for the Beneficiary in the Security Instrument

MERS will have no beneficial interest in the mortgage loan, even if it is named as the nominee for the beneficiary in the security instrument. In addition, the failure of MERS to perform any obligation with respect to a MERS-registered mortgage loan does not relieve the seller/servicer from its responsibility for performing any obligation required by the terms of its Lender Contract.

The following table describes the requirements of the seller/servicer.

<b>✓</b>	<b>The seller/servicer must...</b>
	Accurately and timely prepare and record security instruments, assignments, lien releases, and other documents relating to MERS-registered mortgage loans.



✓	<b>The seller/servicer must...</b>
	Take all reasonable steps to ensure that the information on MERS is updated and accurate at all times.
	Be solely responsible any failure to comply with the provisions of the MERS Member Agreement, Rules, and Procedures and for any liability that it or Fannie Mae incurs as a result of the registration of mortgage loans with MERS or any specific MERS transaction.

Registration of Fannie Mae mortgage loans in MERS (as either assignee or the nominee of the original mortgagee) does not change the seller/servicer’s responsibility for complying with all applicable provisions of

- the MSSC;
- Fannie Mae’s Guides, as they may be amended from time to time;
- the seller/servicer’s Master Agreement;
- any negotiated contract that it has with Fannie Mae, unless Fannie Mae specifies otherwise; or
- any other agreements that are part of the Lender Contract.

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### Termination of the Use of MERS

If the seller/servicer decides to discontinue the use of MERS, the seller/servicer must request from MERS the mortgage loan to be “deactivated” in MERS. MERS will notify Fannie Mae about the deactivation of any mortgage loan in which it has an interest.

If the seller/servicer’s membership in MERS is terminated, the seller/servicer must promptly notify Fannie Mae.

For each MERS-registered mortgage loan that it is servicing for Fannie Mae, the seller/servicer must perform the functions outlined in the following table.

✓	<b>The seller/servicer must...</b>
	Prepare an assignment of the mortgage loan from MERS to itself.
	Have the assignment executed.
	Record the executed assignment in the public land records.
	Prepare in (recordable form) an unrecorded assignment of the mortgage loan from itself to Fannie Mae.



✓	<b>The seller/servicer must...</b>
	Submit the original of that assignment to Fannie Mae's DDC or the applicable document custodian.

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# Subpart A3, Maintaining Fannie Mae Servicer Status



## Maintaining Fannie Mae Servicer Status

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### Introduction

This subpart contains information on maintenance of servicer eligibility.

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### In This Subpart

This subpart contains the following chapters:

A3-1, Maintaining Servicer Eligibility .....	198
A3-2, Maintaining Acceptable Fidelity Bond and Errors and Omissions Coverage .....	200
A3-3, Submission of Operational and Financial Information .....	207

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# Chapter A3-1, Maintaining Servicer Eligibility



## Maintaining Servicer Eligibility

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### Introduction

This chapter contains information on maintaining servicer eligibility.

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### In This Chapter

This chapter contains the following topic:

A3-1-01, Maintaining Eligibility (11/12/2014) ..... 198

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## A3-1-01, Maintaining Eligibility (11/12/2014)

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### Introduction

To maintain eligibility as a Fannie Mae servicer, the servicer must comply with its Lender Contract. Failure to do so may result in Fannie Mae taking a range of possible actions up to and including terminating the Lender Contract for cause.

This topic contains the following:

- Eligible Seller/Servicer Maintenance Fee
  - Deactivated Sellers/Servicers
- 

### Eligible Seller/Servicer Maintenance Fee

The seller/servicer will be assessed an eligible seller/servicer maintenance fee of \$1,000 at the beginning of each calendar year. Fannie Mae will waive this annual fee if a seller/servicer has met any of the following thresholds during the previous calendar year:

- delivered at least one mortgage loan, as portfolio mortgage loan or in an MBS pool, to Fannie Mae;
- acted as the servicer (or master servicer) for a portfolio of Fannie Mae mortgage loans as of December 31, with a minimum unpaid principal balance of \$25 million; or
- paid a minimum of \$5,000 of DO® and DU fees to Fannie Mae.

Amounts due will be billed during the first quarter of the calendar year. Failure to pay the eligible seller/servicer maintenance fee in a timely manner will result in Fannie Mae's revoking the seller/servicer's approval.

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### **Deactivated Sellers/Servicers**

If a seller/servicer has not delivered any mortgage loans to Fannie Mae in the previous calendar year, the seller/servicer's selling and/or servicing status may be deactivated. Once deactivated as a seller and/or a servicer, the seller/servicer must go through a reactivation process in order to be eligible to sell (if selling status was deactivated) or service (if servicing status was deactivated).

**Reactivation Process:** The seller/servicer will be re-activated as a Fannie Mae seller and/or servicer after Fannie Mae reviews seller/servicer documentation and determines that the seller/servicer meets the eligibility requirements. The seller/servicer will be charged a \$2,500 reactivation fee to complete the reactivation process. This fee will be waived for a selling reactivation if the seller/servicer was the servicer (or master servicer) for a portfolio of Fannie Mae mortgage loans as of December 31, with a minimum unpaid principal balance of \$25 million. This fee will also be waived for a servicing reactivation if the seller/servicer has delivered at least one mortgage loan, as a portfolio or MBS mortgage loan, to Fannie Mae during the previous calendar year.

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# Chapter A3-2, Maintaining Acceptable Fidelity Bond and Errors and Omissions Coverage



## Maintaining Acceptable Fidelity Bond and Errors and Omissions Coverage

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### Introduction

This chapter contains information to maintain acceptable fidelity bond and errors omissions coverage requirements.

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### In This Chapter

This chapter contains the following topics:

A3-2-01, Fidelity Bond Coverage (11/12/2014) .....	200
A3-2-02, Errors and Omissions Coverage (11/12/2014) .....	203
A3-2-03, Reporting Events (11/12/2014) .....	206

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## A3-2-01, Fidelity Bond Coverage (11/12/2014)

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### Introduction

This topic contains the following:

- Fidelity Bond Coverage Requirements
- Fidelity Bond Coverage Amounts
- Deductible Clause

---

## Fidelity Bond Coverage Requirements

The seller/servicer must have a blanket fidelity bond in effect at all times in an amount sufficient to meet Fannie Mae's minimum coverage requirements.

The fidelity bond should protect the seller/servicer against dishonest or fraudulent acts by the seller/servicer's principal owner. The fidelity bond must insure the seller/servicer against losses resulting from dishonest or fraudulent acts committed by

- the seller/servicer's personnel,
- employees of outside firms while providing legal services to the seller/servicer or performing as data processors of checks or other accounting records for the seller/servicer,
- persons assigned to the seller/servicer through an intervening employer or agency to perform the usual duties of an employee of the seller/servicer on a contingent or temporary basis, and
- interns.

The seller/servicer must obtain a direct surety bond to cover any officers, including its principal owner, if they cannot be covered by the fidelity bond.

If the seller/servicer is a subsidiary of another institution, it may use its parent's fidelity bond as long as it is named as a joint insured under the bond. However, the seller/servicer must obtain a fidelity bond in its own name for an amount that is at least equal to the amount of the parent's deductible, with a separate deductible amount that is no higher than the maximum amount Fannie Mae allows for the servicer's coverage if the parent's deductible amount exceeds the maximum deductible that Fannie Mae would allow for the servicer's total servicing portfolio.

For corporate sellers/servicers, Fannie Mae will accept coverage under the following types of fidelity bonds:

- the Mortgage Bankers Blanket Bond,
- the Savings and Loan Blanket Bond, or
- the Bankers Blanket Bond.

Fannie Mae will also accept coverage underwritten by an insurer that is affiliated with Lloyd's of London.

The seller/servicer must obtain individual coverage if owned as a sole proprietorship or as a partnership.

The following table provides the required provisions that each fidelity bond must include.

✓	<b>Required Provisions (whenever they can be obtained)</b>
	Fannie Mae must be named as a “loss payee” on drafts the insurer issues to pay for covered losses incurred by Fannie Mae.
	Fannie Mae must have the right to file a claim directly with the insurer if the seller/servicer fails to file a claim for a covered loss incurred by Fannie Mae.
	Fannie Mae must be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the seller/servicer’s coverage for any reason other than a partial or full exhaustion of the insurer’s limit of liability under the policy. The insurer also must agree to notify Fannie Mae within ten days after the insurer receives a seller/servicer’s request to cancel or reduce any coverage.

Within 30 days after the seller/servicer obtains or renews its fidelity bond or its errors and omissions coverage, it should send a copy of the insurance certificate to its lead Fannie Mae regional office (see F-4-03, List of Contacts). If the seller/servicer obtains an endorsement to the bond or obtains additional coverage, it also should provide a copy of the endorsement or a description of the additional coverage, unless this information can be summarized substantively on the insurance certificate.

The insurance certificate should indicate

- the insurer’s name,
- the bond number,
- the named insured,
- the effective date of the coverage, and
- the deductible amount.

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### **Fidelity Bond Coverage Amounts**

The fidelity bond coverage must be equal to a percentage of the total portfolio of residential mortgage loans that the seller/servicer services. The amount of coverage required for a direct surety bond covering officers not included in the seller/servicer’s fidelity bond coverage is calculated the same way as fidelity bond coverage, except that the percentages are applied only to the seller/servicer’s Fannie Mae servicing portfolio. The deductible limits for fidelity bonds also apply to direct surety bonds.



The amount of fidelity bond coverage is determined in accordance with the following table.

<b>UPB of Mortgage Loans Serviced</b>	<b>Coverage Required</b>
\$100,000,000 or less	\$300,000
	+0.150% of the next \$400,000,000
	+0.125% of the next \$500,000,000
	+0.100% of any amount over \$1,000,000,000

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### **Deductible Clause**

The policy's deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the bond.

The seller/servicer must get Fannie Mae's permission for higher deductible amounts in accordance with *Requesting a Higher Deductible Amount for Fidelity Bond Coverage* in F-1-09, Maintaining Fannie Mae Servicer Status.



## **A3-2-02, Errors and Omissions Coverage (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Errors and Omissions Coverage Requirements
- Errors and Omissions Coverage Amounts
- Deductible Clause

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### **Errors and Omissions Coverage Requirements**

The seller/servicer must have an errors and omissions insurance policy in effect at all times in an amount sufficient to meet Fannie Mae's minimum coverage requirements.

If the seller/servicer is a subsidiary of another institution, it may use its parent's errors and omissions insurance policy as long as it is named as a joint insured under the policy. The seller/

servicer must obtain an errors and omissions policy in its own name for an amount that is at least equal to the amount of the parent’s deductible, with a separate deductible amount that is no higher than the maximum amount Fannie Mae allows for the seller/servicer’s coverage, if the parent’s deductible amount exceeds the maximum deductible that Fannie Mae would allow for the servicer’s total servicing portfolio.

The seller/servicer must obtain individual coverage if owned as a sole proprietorship or as a partnership.

The following table provides the required provisions that each errors and omissions insurance policy must include.

✓	<b>Required Provisions (whenever they can be obtained)</b>
	Fannie Mae must be named as a “loss payee” on drafts the insurer issues to pay for covered losses incurred by Fannie Mae.
	Fannie Mae must have the right to file a claim directly with the insurer if the seller/servicer fails to file a claim for a covered loss incurred by Fannie Mae.
	Fannie Mae must be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the seller/servicer’s coverage for any reason other than a partial or full exhaustion of the insurer’s limit of liability under the policy. The insurer also must agree to notify Fannie Mae within ten days after the insurer receives a seller/servicer’s request to cancel or reduce any coverage.

Within 30 days after the seller/servicer obtains or renews its errors and omissions coverage, it should send a copy of the insurance certificate to its lead Fannie Mae regional office (see F-4-03, List of Contacts). If the seller/servicer obtains an endorsement to the policy or obtains additional coverage, it also should provide a copy of the endorsement or a description of the additional coverage, unless this information can be summarized substantively on the insurance certificate.

The insurance certificate should indicate

- the insurer’s name,
- the policy number,
- the named insured,
- the type and amount of coverage (specifying whether the insurer’s liability limits are on an aggregate loss or per mortgage loan basis),

- the effective date of the coverage, and
- the deductible amount.

The errors and omissions policy must, at a minimum, protect the seller/servicer against negligence, errors, and omissions in

- maintaining property (hazard) and flood insurance that meets Fannie Mae's requirements,
- maintaining any required mortgage insurance or loan guaranty,
- determining whether properties are located in Special Flood Hazard Areas,
- paying real estate taxes and any special assessments, and
- complying with reporting requirements of the mortgage insurer or guarantor.

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### **Errors and Omissions Coverage Amounts**

The errors and omissions coverage should equal the amount of the seller/servicer's fidelity bond coverage. However, Fannie Mae will not require errors and omissions coverage in excess of \$10 million if the seller/servicer's portfolio consists only of mortgage loans secured by one- to four-unit properties. See the formula in A3-2-01, Fidelity Bond Coverage to determine the amount of coverage required.

Fannie Mae accepts policies that provide for either coverage per aggregate loss or coverage per mortgage loan. If the policy provides for coverage per mortgage loan, the insurer's liability per mortgage loan must at least equal the amount of the highest UPB at the time of each premium renewal date for a residential mortgage loan that the seller/servicer has in its total portfolio.

The errors and omissions policy must provide for full liability on property (hazard) insurance losses, but may place sublimits on the insurer's liability for the different types of losses.

Sublimits of liability must equal at least 15% of the liability that applies for property insurance.

Fannie Mae will accept a mortgage impairment or mortgagee interest policy as a substitute for an errors and omissions policy, provided Fannie Mae receives substantially the same coverage that an errors and omissions policy would provide.

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### **Deductible Clause**

For policies that provide coverage per mortgage loan, the maximum deductible amount for each mortgage loan cannot be more than 5% of the insurer's liability per mortgage loan.

For policies that provide coverage per aggregate loss, the deductible clause may be for any amount up to the greater of \$100,000, or 5% of the face amount of the policy.

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### **A3-2-03, Reporting Events (11/12/2014)**

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The seller/servicer must report the following events to Fannie Mae within ten business days after they occur, including

- the occurrence of a single fidelity bond or errors and omissions policy loss that exceeds \$100,000, and
- the receipt of a notice from the insurer regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of the servicer's fidelity bond or errors and omissions policy.

The servicer must report these events in accordance with *Reporting Fidelity Bond/Error & Omissions Insurance Loss Events* in F-1-09, Maintaining Fannie Mae Servicer Status.

In addition, if Fannie Mae's funds are not involved, the seller/servicer must promptly advise Fannie Mae of all cases of embezzlement or fraud in its organization even if no loss has been incurred. The seller/servicer's report should indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

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# Chapter A3-3, Submission of Operational and Financial Information



## Submission of Operational and Financial Information

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### Introduction

This chapter includes information pertaining to submission of operational and financial information.

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### In This Chapter

This chapter includes the following topics:

A3-3-01, Net Worth, Liquidity, and Credit Rating Requirements (11/12/2014) . . . . .	208
A3-3-02, Financial Statements and Reports (11/12/2014) . . . . .	211
A3-3-03, Required Servicer Rating (11/12/2014) . . . . .	214
A3-3-04, Reporting Changes in the Servicer’s Organization (03/18/2015) . . . . .	214

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## **A3-3-01, Net Worth, Liquidity, and Credit Rating Requirements (11/12/2014)**

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### **Introduction**

Sellers/servicers must meet minimum net worth requirements to maintain their seller/servicer eligibility. If a seller/servicer fails to maintain a financial condition that is satisfactory to Fannie Mae, such failure constitutes a breach of the Lender Contract, permitting Fannie Mae to terminate the seller/servicer's selling and/or servicing approvals, or take other appropriate actions, under its Lender Contract.

Fannie Mae may, at any time, impose additional net worth, liquidity, or financial condition requirements, including

- provisions related to declines in net worth,
- profitability,
- minimum capital requirements,
- cross-default provisions,
- recourse, and
- outstanding repurchase limitations.

Any additional requirements Fannie Mae imposes may apply to a particular seller/servicer, a defined group or type of seller/servicer, or all sellers/servicers.

This topic contains the following:

- Calculating Net Worth and Liquidity
  - Breach of Net Worth or Liquidity Requirements
  - Credit Rating Requirements
- 

### **Calculating Net Worth and Liquidity**

Approved sellers/servicers must have and maintain a Lender Adjusted Net Worth of at least \$2.5 million, plus a dollar amount that represents 0.25% of the UPB of the seller/servicer's total portfolio of mortgage loans serviced for Fannie Mae.

The seller/servicer’s total Fannie Mae servicing portfolio includes mortgage loans or participation interests in MBS pools, first– and second–lien mortgage loans held in Fannie Mae’s portfolio, Fannie Mae’s participation interest in portfolio mortgage loans, and multifamily mortgage loans.

**Note:** For entities such as nonprofit corporations whose financial reporting requirements or standards do not facilitate calculation of Lender Adjusted Net Worth, as discussed above, Fannie Mae will determine equivalent financial data to monitor compliance with the minimum net worth requirements.

Minimum Lender Adjusted Net Worth requirements may be indexed to future conforming mortgage loan limits. Fannie Mae will announce new net worth requirements and their effective dates when applicable.

Sellers/servicers also must have minimum acceptable levels of capital as outlined in the following table.

Type of entity	Minimum Acceptable Levels of Capital*
Commercial banks and thrifts	Total Risk-Based Capital ratio of 10% or higher.
	Tier 1 Risk-Based Capital ratio of 6% or higher.
	Tier 1 Leverage Capital ratio of 5% or higher.
All others	Lender Adjusted Net Worth/Total Assets ratio of 6%, or equivalent, as determined by Fannie Mae, for entities/peer groups not reporting such data.

\* For commercial banks and thrifts, as reflected in Call Reports and Thrift Financial Reports.

### Breach of Net Worth or Liquidity Requirements

Fannie Mae considers a decline in a Lender’s Adjusted Net Worth by more than 25% over a quarterly reporting period, or by more than 40% over two-consecutive quarterly reporting periods, to be a material and adverse change in the seller/servicer’s financial condition that constitutes a breach of the Lender Contract.

If the seller/servicer records four or more consecutive quarterly losses and experiences a decline in its Lender Adjusted Net Worth of 30% or more during the same period, the seller/servicer will be considered in breach of the Lender Contract, and Fannie Mae may pursue any of its available remedies, including suspension or termination.

The following cross-default events constitute the seller/servicer's breach of the Lender Contract:

- a breach by the seller/servicer on a credit or funding facility, including warehouse lines;
- a breach by any seller/servicer-affiliated or related entity in any of its obligations with Fannie Mae, including parental guarantees; or
- a breach of any agreements with any other creditors where such breach involves an amount that exceeds 3% of the seller/servicer's Lender Adjusted Net Worth and which extends beyond any applicable cure period provided the seller/servicer in such agreement.

Sellers/servicers must provide Fannie Mae with written notification in the form of an updated *Lender Record Information* (Form 582) of any of the above cross-default events within 30 days of occurrence. This notice must be provided to Fannie Mae electronically.

The total UPB of all outstanding Fannie Mae repurchase requests cannot exceed 25% of Lender Adjusted Net Worth as of the latest quarter end. If a breach of this requirement occurs, the seller/servicer will have 30 days to reduce the outstanding repurchase requests to a level that complies with this requirement.

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### **Credit Rating Requirements**

For the seller/servicer to be permitted to take on unsecured credit recourse obligations, with credit recourse defined to include any seller/servicer contractual credit enhancement to Fannie Mae (over and above the standard selling representations and warranties and servicing responsibilities or liabilities) such as an automatic repurchase requirement upon mortgage loan default, unconditional indemnification, or loss participation obligation, for either a limited time period, or for life of mortgage loan, it must meet minimum long-term external credit rating requirements of AA- or Aa3 from two of the three following agencies: Moody's, Standard & Poor's, or Fitch. If long-term credit ratings are available from fewer than three agencies, all available ratings must comply with the standards above. If external ratings are not available, the seller/servicer must have internal ratings, as determined and assigned by Fannie Mae, equivalent to AA- or higher.

For sellers/servicers who do not meet this requirement, Fannie Mae may require collateral posting or other forms of risk reduction measures.





## **A3-3-02, Financial Statements and Reports (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Timing of Required Financial Statements
  - Contents of Required Financial Statements
  - Submission of the Lender Record Information
  - Submission of Special Financial Statements and Reports
  - Failure to Submit Required Financial Reports
- 

### **Timing of Required Financial Statements**

Fannie Mae requires the seller/servicer to submit their annual audited financial statements and an executed *Authorization for Verification of Credit and Business References* ([Form 1001](#)) within 90 days after its fiscal year-end either

- electronically to [audited\\_financial@fanniemae.com](mailto:audited_financial@fanniemae.com), or
- via hard copy to Fannie Mae's Lender Eligibility and Compliance Unit (see F-4-03, List of Contacts).

The seller/servicer must also submit the following information to Fannie Mae at any time upon request:

- unaudited financial statements,
- audited financial statements other than the annual statements (if reasonably available), or
- any other financial information that Fannie Mae considers necessary and reasonable.

Based on applicable circumstances, Fannie Mae may also impose specific liquidity requirements, and require increased reporting on a seller/servicer's liquidity at any time.

The seller/servicer's failure to timely provide the additional financial reporting upon Fannie Mae's request or its failure to comply with liquidity requirements or liquidity reporting may

result in Fannie Mae imposing sanctions or other remedies, including termination or suspension of the Lender Contract.

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### **Contents of Required Financial Statements**

The seller/servicer's year-end financial statements must meet the following requirements:

- be prepared under GAAP,
- include the opinion of an independent public accountant, and
- be comparative with the previous year's reports.

If the seller/servicer's financial statements are consolidated with those of its parent or holding company, they must include sufficient detail that enables Fannie Mae to review the seller/servicer's financial data separately from that of the other companies.

The financial statements must include the following:

- a balance sheet,
- an income statement,
- a statement of retained earnings,
- a statement of additional paid-in capital,
- a statement of changes in financial position, and
- all related notes.

If the seller/servicer is a state or federally supervised depository institution, it may submit its latest published financial statements if audited statements are not available every year provided that

- it submits a written certification that it does not get yearly audited statements, and
- the published statements are identical to those submitted to its supervising authority.

The seller/servicer must submit a balance sheet, income statement, and statement of changes in financial position, if they are not included in its published statements.

If the seller/servicer is not a supervised depository institution, but is a HUD-approved mortgagee, it may submit a copy of the annual financial audit report required by HUD instead of sending separate financial statements.

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### **Submission of the Lender Record Information**

The seller/servicer must update its *Lender Record Information* (Form 582) when it submits its annual financial statements, within 90 days of its fiscal year end. The form must be submitted to Fannie Mae electronically through Fannie Mae's website.

After the initial report submission, the servicer must update the Form 582 promptly after the occurrence of any change in previously submitted information.

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### **Submission of Special Financial Statements and Reports**

If the seller/servicer is a mortgage banker (including one that is a subsidiary of a federally supervised financial institution), housing finance agency, or real estate investment trust, it must submit a *Mortgage Bankers' Financial Reporting Form* (Form 1002) following the end of each calendar quarter in lieu of Form 582.

The seller/servicer must submit this information within 30 days for the March 31, June 30, and September 30 reports and within 60 days for the December 31 report.

Each report should include only the financial data related to the quarterly reporting period for which the report is being submitted.

If the seller/servicer operates under an accounting cycle other than the standard calendar quarterly cycle, it does not need to change its methodology, but it needs to be sure that the information submitted with each reporting period includes data for only the quarter required for that specific report.

Incomplete, inaccurate, or late submissions may affect the servicer's ability to conduct business with Fannie Mae. The seller/servicer must provide timely notification to Fannie Mae if extenuating circumstances prevent the seller/servicer from filing on time.

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### **Failure to Submit Required Financial Reports**

Untimely submission of financial statements and/or reports constitutes an inadequate verification of the servicer's ability to meet Fannie Mae's financial and eligibility requirements. If the seller/servicer fails to timely submit required financial statements and/or reports, Fannie Mae may

- suspend the seller/servicer's privileges for selling or servicing mortgage loans or terminate the Lender Contract if Fannie Mae does not receive the requested financial reports and information when they are due,

- exercise any other available and appropriate remedy, including charging a compensatory fee (see A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process), and/or
- require sellers/servicers to provide special reports related to financial information about their operations.

If Fannie Mae has not received the financial statements within 120 days of the servicer's fiscal year-end, Fannie Mae may decide that it is more appropriate to suspend or terminate the servicer's selling and/or servicing arrangements rather than to impose this fee.

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### **A3-3-03, Required Servicer Rating (11/12/2014)**

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A servicer that has external servicer ratings as a primary servicer for prime residential mortgage loans must obtain a rating from at least one of the following agencies and must maintain the corresponding minimum rating provided in the following table.

<b>Rating Agency</b>	<b>Minimum Required Rating</b>
Moody's	SQ3
Standard & Poor's	Average
Fitch	RPS3

The servicer of Alt-A or non-prime products must maintain ratings equivalent to the ratings for prime servicers if the servicer's Lender Contract does not have any required minimum servicer ratings. If servicer ratings are available from fewer than three agencies, all available ratings must comply with the standards above.

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### **A3-3-04, Reporting Changes in the Servicer's Organization (03/18/2015)**

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The seller/servicer must send Fannie Mae advance written notice of any contemplated major change in its organization to allow Fannie Mae adequate time to review and analyze the contemplated change and provide its prior written approval, or notice of non-objection or objection, where required. The written notice from the seller/servicer must include copies of any filings with, or approvals from, the seller/ servicer's state and/or other regulatory authority. The

servicer must provide the advance written notice to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

Examples of such major changes requiring advance written notice include, but are not limited to, the following:

1. any mergers, consolidations, or reorganizations;
2. the sale of all or substantially all of the seller/servicer's assets or the purchase of all or substantially all of the assets of another Fannie Mae-approved seller or servicer;
3. any substantial change in ownership, regardless of whether it is by direct or indirect means (indirect means include any change in the ownership of the seller/servicer's parent, any owner of the parent, or any other beneficial owner of the seller/servicer that does not own a direct interest in the seller/servicer);
4. a change in an organization's legal structure or charter;
5. the change of any senior management personnel;
6. a significant change in the seller/servicer's financial position;
7. a change in the legal name of the seller/servicer's organization; or
8. a change in the address of the seller/servicer's principal place of business.

Items 1, 2, 3, and 4 require Fannie Mae's prior written approval or notice of non-objection to the change before the change is made.

If the seller/servicer fails to provide adequate advance written notice of, or obtain prior written approval or notice of non-objection, where required, for such contemplated change(s), such failure is a breach of the Lender Contract and Fannie Mae may exercise any available remedies.

The seller/servicer is also required to provide immediate written notice to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) if a regulatory agency assumes a participatory role in the management of the firm's operations.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015

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# Subpart A4, Setting Up Servicer Operations



## Setting Up Servicer Operations

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### Introduction

This subpart contains information on setting up servicer operations.

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### In This Subpart

This subpart contains the following chapters:

A4-1, Establishing and Implementing Internal Operations for All Mortgage Loans and Acquired Properties .....	218
A4-2, Requirements for Delinquent Mortgage Loans and Mortgage Loans at Risk of Default .....	239

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# Chapter A4-1, Establishing and Implementing Internal Operations for All Mortgage Loans and Acquired Properties



## Establishing and Implementing Internal Operations for All Mortgage Loans and Acquired Properties

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### Introduction

This chapter includes information pertaining to establishing and implementing internal operations for mortgage loans and acquired properties.

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### In This Chapter

This chapter includes the following topics:

A4-1-01, Staffing, Training, Procedures, and Quality Control Requirements (11/12/2014) . . . . .	219
A4-1-02, Establishing Custodial Bank Accounts (03/18/2015) . . . . .	230
A4-1-03, Addressing Borrower Inquiries and Disputes (11/12/2014) . . . . .	236

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## **A4-1-01, Staffing, Training, Procedures, and Quality Control Requirements (11/12/2014)**

### **Introduction**

This topic contains the following:

- Staffing Requirements
- Training Requirements
- Establishing Written Policies or Procedures
- Business Continuity Procedures
- Quality Control Procedures
- Quality Control Procedures for Delinquency Management and Default Prevention
- Quality Control of Systems

### **Staffing Requirements**

The servicer must comply with the staffing requirements outlined in the following table.

✓	<b>The servicer must...</b>
	Have sufficient staffing levels and properly trained staff (including third-party providers of its outsourced servicing activities) to <ul style="list-style-type: none"><li>• carry out all aspects of their servicing duties in accordance with the timing requirements of the <i>Servicing Guide</i>,</li><li>• maintain acceptable performance standards, and</li><li>• provide borrowers with assistance when it is requested.</li></ul>
	Ensure that its staff is able to effectively communicate with borrowers whose mortgage loans it services by either <ul style="list-style-type: none"><li>• employing multilingual staff, if applicable, to communicate with the diversity of borrowers whose mortgage loans it services, or</li></ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• making translation services available to the borrower.</li> </ul>
	<p>Develop an approach to managing delinquent borrowers that</p> <ul style="list-style-type: none"> <li>• provides continuity of contact with the borrower, and</li> <li>• allows a borrower to contact one individual or a dedicated team of individuals in the servicer’s organization to obtain accurate information on the various workout options available to the borrower.</li> </ul> <p>When using a team approach, servicers must provide the borrower with the ability to request and speak to, or leave a message for, a specific person from the assigned team.</p>
	<p>Ensure that the staff</p> <ul style="list-style-type: none"> <li>• completes the review of a borrower’s appeal of a mortgage loan modification determination if different than those responsible for the initial evaluation and decision on the complete BRP, and</li> <li>• tracks all information related to appeals in the mortgage loan servicing file.</li> </ul>

Fannie Mae encourages the servicer to develop a borrower delinquency management model that allows a borrower to contact one individual or a dedicated team of individuals in the servicer’s organization to obtain accurate information on the various workout options available to the borrower. If the servicer develops such a model, the individual or dedicated team of individuals should also be able to handle and resolve borrower issues throughout the delinquency management process and provide updates on the status of any request for a workout option and the status of pending foreclosure proceedings. The goal of the model is to ensure that servicers present all workout options and more effectively move the borrower through the default prevention process to resolution.

### Training Requirements

The servicer must design and implement a training program that includes:

- the fundamentals of all Fannie Mae workout options programs;
- familiarity with *Fannie Mae’s Workout Hierarchy*;
- training on an annual basis and as training needs are identified through quality assurance reviews;

- delivery of continual training programs to all employees and agents on policy changes communicated through future Announcements, Lender Letters, and any other correspondence that Fannie Mae may issue; and
- training on compliance with applicable laws and regulations.

Additionally, the servicer’s foreclosure and bankruptcy staff must be knowledgeable about Fannie Mae’s workout options.

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### Establishing Written Policies or Procedures

The servicer must have fully documented written policies and/or procedures that address all aspects of mortgage servicing to ensure that its staff and any outsourcing and third-party vendors used by the servicer consistently comply with Fannie Mae’s requirements.

The following table describes some of, but not all the requirements for written policies and/or procedures.

Topic	Policy or Procedure Requirements
Oversight of outsourcing and third-party vendors	The servicer must establish policies and procedures in place to ensure that all outsourcing firms and third-party vendors used by the servicer are fully compliant with the requirements of the <i>Servicing Guide</i> , where applicable, and ensure that any individual or entity involved in the servicing of mortgage loans owned by Fannie Mae is not included on the FHFA’s Suspended Counterparty Program list available on FHFA’s website. This includes, but is not limited to, any activity related to marketing, maintenance, or the sale of Fannie Mae acquired properties.
Automatically drafting payments from the borrower’s bank account	If the servicer uses automatic drafting arrangements or allows other nontraditional payment methods, it must have controls and procedures in place to ensure that it will still be able to meet all of Fannie Mae’s applicable requirements for custodial and remittance accounting in A4-1-02, Establishing Custodial Bank Accounts and C-3-01, Responsibilities

Topic	Policy or Procedure Requirements
	Related to Remitting P&I Funds to Fannie Mae.
Responsibilities for ARM loan servicing	<p>The servicer must establish procedures to</p> <ul style="list-style-type: none"> <li>• ensure that it follows the terms of other negotiated plans when it makes interest rate and payment change adjustments,</li> <li>• monitor the appropriate indexes for any negotiated ARM plans to ensure that it uses the latest available value for the index to determine an interest rate change, and</li> <li>• ensure prompt referral to the foreclosure prevention unit to evaluate workout options, if appropriate.</li> </ul>
Notifying the borrower of balloon mortgage loan maturity	The servicer must establish and consistently apply a policy that specifically addresses the determination of the “effective receipt date and time” for requests to refinance balloon mortgage loans.
Insurance loss events	<p>The servicer must have written policies and procedures to</p> <ul style="list-style-type: none"> <li>• protect the interests of Fannie Mae and the borrower when an insurance loss event occurs,</li> <li>• determine when a licensed contractor is required and make those policies and procedures available to Fannie Mae upon request, and</li> <li>• apply any insurance loss proceeds in excess of the cost to repair.</li> </ul>
Automatic termination of conventional mortgage insurance	The servicer must establish appropriate monitoring procedures to ensure that borrower-purchased mortgage insurance is automatically terminated when required by Fannie Mae.

Topic	Policy or Procedure Requirements
Fees assessment for special services	<p>The servicer must have written policies that address the following points:</p> <ul style="list-style-type: none"> <li>• the types or categories of fees and, if known, specific amounts of fees that may be assessed to borrowers for services that are above and beyond the ordinary and customary activities performed by the servicer covered by its servicing fee and related income;</li> <li>• that any fees charged to borrowers (or reimbursed by Fannie Mae) must be related to work actually done by the servicer, either directly or indirectly through third parties, including affiliates of the servicer;</li> <li>• that the assessment of any fees (other than foreclosure and bankruptcy-related fees that are incurred to enforce the mortgage loan obligation) are allowed pursuant to the provisions of Fannie Mae’s Guides, and are clearly disclosed to borrowers in advance of the rendering of the service (where practical) or subsequently (e.g., on monthly statements). (For any service requested by the borrower for which there are options or alternatives for free or reduced costs for similar services (e.g., mail versus fax charges), such services must be explained to the borrower before the service is provided.); and</li> <li>• that fees may be charged on a repetitive basis only when required or permitted by Fannie Mae’s Guides or otherwise clearly supported by the circumstances relating to a particular mortgage loan.</li> </ul>
Eligible transfers of property ownership	The servicer must implement policies and procedures to promptly identify and

Topic	Policy or Procedure Requirements
	<p>communicate with the new borrower (including a widow, executor, or administrator of the borrower’s estate, or other authorized representative of the borrower upon notification of the borrower’s death) in connection with a property transfer that is an exempt transaction. These policies and procedures must allow the new borrower to</p> <ul style="list-style-type: none"> <li>• continue making monthly payments, and</li> <li>• pursue an assumption of the mortgage loan or a workout option, as applicable.</li> </ul>
Post-delivery servicing transfers	The servicer must have adequate procedures relating to the boarding of new mortgage loans subsequent to acquisition of servicing pursuant to a servicing transfer to avoid any delayed application of borrower payments of principal, interest, taxes, or insurance, if applicable.
Call center operations	The servicer must have a written policy that addresses inbound call coverage for the customer service, collections, and foreclosure prevention departments and maintaining contact method standards and service levels. See Call Center Coverage Requirements in A4-2.1-04, Establishing Contact with the Borrower for additional information.
Collection procedures	The servicer must have procedures in place to immediately address a one-payment delinquency to prevent it from becoming more serious. The servicer must have a policy in place for collection call campaigns.
Behavioral model tool	The servicer must have written policies and procedures to manage mortgage loans considered high risk by the model and that address the utilization of the model, if the servicer uses such a tool.

Topic	Policy or Procedure Requirements
Borrower's appeal of the denial of any mortgage loan modification	<p>The servicer must have comprehensive processes and written policies and procedures to respond to a borrower's appeal of the denial of any mortgage loan modification trial period plan solely in connection with a borrower's first complete BRP that is received</p> <ul style="list-style-type: none"> <li>• on or after January 10, 2014,</li> <li>• 90 days or more before a scheduled foreclosure sale or if a foreclosure sale date is unknown, and</li> <li>• with respect to a mortgage loan secured by a principal residence.</li> </ul>
Forbearance plan	<p>The servicer must establish written policies and procedures that describe how to</p> <ul style="list-style-type: none"> <li>• determine borrower's reemployment status,</li> <li>• determine when a forbearance plan requires a payment and how the payment is determined,</li> <li>• cancel any existing HAMP trial mortgage loan modification determined to be eligible for a forbearance plan, and</li> <li>• document the decision-making process when applying discretion or business judgment.</li> </ul>
Unemployment forbearance plan terms	<p>The servicer must establish written policies and procedures that describe how to</p> <ul style="list-style-type: none"> <li>• determine the borrower's employment status;</li> <li>• determine when an Unemployment Forbearance plan requires a payment and document how the payment amount is determined;</li> </ul>

Topic	Policy or Procedure Requirements
	<ul style="list-style-type: none"> <li>• terminate any existing HAMP or Fannie Mae standard mortgage loan modification Trial Period Plan when a borrower accepts an offer for an Unemployment Forbearance plan;</li> <li>• determine when to apply discretion or business judgment in the evaluation of a borrower for Unemployment Forbearance;</li> <li>• communicate the terms of the Unemployment Plan with borrowers;</li> <li>• ensure appropriate documentation in servicer system notes that reflect, at a minimum, the dates of communication, names of the person contacted, and a summary of the conversation; and</li> <li>• follow the timelines for reviewing the Borrower Response Package, sending appropriate notices, and other requirements as described in D2-2-05, Receiving a Borrower Response Package.</li> </ul> <p>Written correspondence must be retained in an accessible manner and made available upon request.</p>
Completing the preforeclosure sale review	The servicer must have written policies and procedures requiring a review of the mortgage loan servicing file at least 30 days prior to the scheduled foreclosure sale.
Foreclosure, conveyance, and claim oversight	<p>The servicer must have appropriate policies, procedures, and controls to ensure that foreclosures, conveyances, and claims are processed in accordance with the provisions of</p> <ul style="list-style-type: none"> <li>• the requirements of the FHA, HUD, VA, RD or the mortgage insurer, and</li> </ul>



Topic	Policy or Procedure Requirements
	<ul style="list-style-type: none"><li>• any special requirements of Fannie Mae.</li></ul>
Bankruptcy monitoring and management	The servicer must have written procedures to monitor and manage bankruptcy proceedings effectively.

The servicer must comply with Fannie Mae’s request to review the servicer’s written policies and procedures, as well as examples of the application of those policies and procedures to specific instances.

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### Business Continuity Procedures

The servicer must ensure that it and any subservicers, third-party originators, outsourcing firms, and or third-party vendors used by the servicer implement and maintain business continuity procedures to ensure their ability to regain critical business operations in the event of a disruption or disaster. All parties must have

- adequate facilities and staff to continue operations in the event of a business disruption or disaster, and
- a data recovery plan in place that maintains and will restore critical electronic data and systems in the event of a business disruption or disaster.

The servicer must implement and maintain business continuity procedures that ensure the servicer’s ability to regain critical business operations in the event the subservicers, third-party originators, outsourcing firms, and/or third-party vendors used by the servicer fail to maintain business continuity, suffer complete business failure, or dissolution.

The procedures must be in a written format, comprehensive, and accessible to critical staff and must be annually tested and updated. Results of the tests must be provided to Fannie Mae upon request.

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### Quality Control Procedures

The servicer must monitor its compliance with Fannie Mae’s requirements through regular quality control procedures it establishes and conducts. The servicer must maintain adequate quality control procedures and systems to

- ensure that the mortgage loans are serviced in accordance with sound mortgage banking and accounting principles and in compliance with Fannie Mae’s Guides;

- guard against misrepresentation and dishonest, fraudulent, or negligent acts by any parties involved in the mortgage loan servicing process;
- protect against errors and omissions by officers, employees, or other authorized persons;
- verify and audit routinely the accuracy of the ARM loan adjustment and its facilitation of timely responses to errors identified by the borrower, the servicer’s regulatory agency, or Fannie Mae; and
- protect Fannie Mae’s investment in the security properties.

The servicer must perform annual quality control tests to ensure that all outsourcing firms and third-party vendors used by the servicer are fully compliant with the *Servicing Guide*. Results of the quality control tests must be provided to Fannie Mae upon request.

Failure to maintain adequate quality control measures will result in the servicer being in breach of its Lender Contract.

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### Quality Control Procedures for Delinquency Management and Default Prevention

The servicer must develop a quality control program that addresses specific aspects of delinquency management and default prevention. The following table provides some of the requirements for the servicer’s quality control program.

✓	<b>The quality control program must include, but is not limited to, the following...</b>
	Monitoring the effectiveness of collection and foreclosure prevention calls to borrowers.
	Conducting periodic reviews of any Behavioral Model Tool to ensure its effectiveness and make details of the model and any analysis available to Fannie Mae upon request.  <b>Note:</b> Fannie Mae reserves the right to require the servicer to discontinue its use for Fannie Mae mortgage loans or implement additional measures for targeting its collection and default management practices.
	Determining whether documentation of collection and foreclosure prevention activities is accurately maintained in the servicer’s mortgage loan servicing system.
	Monitoring whether workout options are considered in the preferred order of <i>Fannie Mae’s Workout Hierarchy</i> .
	Determining that all appropriate workout options were considered and documented prior to the decision to foreclose.

✓	The quality control program must include, but is not limited to, the following...
	Determining the adequacy of internal controls and procedures in connection with pre-referral review activities to ensure compliance with these requirements and applicable law.
	Determining whether accurate and timely delinquency status information is submitted to Fannie Mae.
	Determining that all communications with borrowers comply with the requirements of applicable laws, including debt collection laws such as the Fair Debt Collection Practices Act, the provisions of the United States Bankruptcy Code, and any applicable state laws.

### Quality Control of Systems

The servicer's quality control must ensure compliance with Fannie Mae's requirements and the legal requirements of each jurisdiction in which it operates, be well-documented, and provide for a review of the following systems:

- delinquent mortgage loan servicing system,
- system to control and monitor bankruptcy proceedings, and
- foreclosure monitoring system.

The servicer must

- conduct regular testing of compliance with applicable laws in all jurisdictions in which it operates,
- regularly review and assess the adequacy of internal controls,
- keep a record of any activity under these internal systems,
- report comprehensive results of all testing to the senior management,
- promptly take appropriate corrective action if these systems identify a problem area, and
- make the comprehensive results of all testing and evidence of correction actions taken and the related results available for review upon Fannie Mae's request.



## **A4-1-02, Establishing Custodial Bank Accounts (03/18/2015)**

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### **Introduction**

The servicer must hold in a custodial bank account prior to its remittance to Fannie Mae any funds it receives for a portfolio mortgage loan or a MBS mortgage loan.

The servicer must provide Fannie Mae with a status of the funds in the custodial account at the end of each month.

The servicer is responsible for the safekeeping of custodial funds at all times. Even if the servicer has complied with all of the requirements of the *Servicing Guide*, Fannie Mae will hold the servicer responsible for any loss of funds deposited in a custodial account and any damages Fannie Mae suffers because of delays in obtaining the funds from the custodial account.

The servicer must refer to F-1-03, Establishing and Implementing Custodial Accounts for requirements for establishing and implementing custodial accounts and drafting arrangements

Also see A2-1-02, Servicer's Duties and Responsibilities Related to MBS Mortgage Loans for additional information.

This topic contains the following:

- Eligible Custodial Depositories
- Remedies for Ineligible Custodial Depository
- P&I Custodial Accounts
- T&I Custodial Accounts
- Interest-Bearing Accounts
- Subservicing Custodial Accounts
- Use of Clearing Accounts

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### **Eligible Custodial Depositories**

All custodial accounts (and clearing accounts) for mortgage loans with a scheduled/scheduled remittance type must be established in a Federal Reserve Bank, a Federal Home Loan Bank,

or another depository institution provided that such other depository institution meets the requirements listed in the following table.

Item	The depository institution must...
a.	Have accounts that are insured by the FDIC or the NCUSIF.
b.	Be rated as “well capitalized” by its federal or state regulator.
c.	<p>Have a financial rating that meets at least one of the following criteria:</p> <ul style="list-style-type: none"> <li>• Institutions with assets of \$30 billion or more must have either                             <ul style="list-style-type: none"> <li>– a short-term issuer rating by S&amp;P of “A-3” (or better) or, if no short-term issuer rating is available by S&amp;P, a long-term issuer rating of “BBB-” (or better) by S&amp;P; or</li> <li>– a short-term bank deposit rating by Moody’s of “P-3” (or better) or, if no short-term bank deposit rating is available by Moody’s, a long-term bank deposit rating of “Baa3” (or better) by Moody’s.</li> </ul> </li> <li>• Institutions with assets of less than \$30 billion must have a financial rating of either                             <ul style="list-style-type: none"> <li>– 125 (or better) by IDC, or</li> <li>– C+ (or better) by Kroll.</li> </ul> </li> </ul>

If a depository institution satisfies the standards in (a) and (b) and has a rating that meets or exceeds at least one of the applicable ratings specified in (c) above, it will be an eligible depository even if it is rated by another organization below the minimum level specified in (c).

The servicer must keep its custodial accounts for mortgage loans with either actual/actual or scheduled/actual remittance types (or both) in a Federal Reserve Bank, a Federal Home Loan Bank, or a depository institution that satisfies the standards in (a) and (b) in the previous table, and has a financial rating of either

- 75 (or better) by IDC, or
- C (or better) by Kroll.

The servicer must monitor these ratings based on the frequency used by the ratings agency for publishing and updating rating changes to determine the continued eligibility of a depository institution.

Fannie Mae may require that funds be transferred out of a depository institution — even if the institution satisfies Fannie Mae’s financial rating criteria — or more quickly than indicated above if Fannie Mae decides that it is in its best interests or the interests of MBS investors to do so.

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### Remedies for Ineligible Custodial Depository

The servicer must notify Fannie Mae within three business days when its custodial depository fails to meet Fannie Mae’s eligibility requirements. If the servicer’s custodial depository that holds P&I or T&I funds becomes an ineligible depository by failing to meet Fannie Mae’s requirements for custodial depositories, Fannie Mae may implement one or more remedies with respect to the disposition of those P&I and T&I funds.

The specific remedies that are available to Fannie Mae may vary depending on the magnitude of P&I and T&I custodial funds the servicer and its affiliates collect and hold on Fannie Mae’s behalf and the amount of risk to these P&I and T&I funds assessed, as well as other factors determined by Fannie Mae and include, but are not limited to those described in the following table.

✓	Specific remedies for ineligible custodial depository
	Transfer funds to an eligible custodial depository.
	Move funds to a trust account as directed by Fannie Mae.
	Hold P&I and T&I funds in a custodial account in amounts fully insured by the FDIC or NCUSIF, or other governmental insurer or guarantor acceptable to Fannie Mae.
	Require more frequent remittances to Fannie Mae (on a schedule directed by Fannie Mae) while allowing funds to remain in the ineligible custodial depository account.

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### P&I Custodial Accounts

The servicer must maintain separate P&I custodial accounts for each remittance type for Fannie Mae mortgage loans under which the servicer reports. The servicer, at its discretion, is authorized to maintain multiple P&I custodial accounts per remittance type. For scheduled/scheduled remittance types, the servicer must establish at least two P&I custodial accounts, to ensure P&I funds for MBS pools are not commingled with those of portfolio mortgage loans or with other funds the servicer collects, if applicable.

If the servicer deposits funds for various MBS pools serviced into the same P&I custodial account, the servicer must maintain detailed accounting records for each pool’s contribution to the custodial account and be able to identify the portion of the funds that are due from each pool for its respective P&I remittances.

P&I and T&I funds must not be commingled in the same custodial account, regardless of the remittance type.

The funds in the P&I custodial account must relate to mortgage P&I payments due Fannie Mae that were

- received from the borrower;
- applied from an interest rate buydown account; or
- advanced by the servicer to cover a scheduled amount, including
  - principal curtailments,
  - payments in full,
  - proceeds from a third-party foreclosure sale, and
  - repurchase proceeds.

The servicer also must deposit into the P&I custodial account other funds that are due for remittance to Fannie Mae including

- guaranty fees,
- guaranty fee buydown charges,
- upfront commitment fees,
- pair-off fees,
- extension fees,
- LLPAs related to mortgage loans in MBS pools, and
- special remittances related to portfolio and MBS mortgage loans or to acquired properties.

The servicer must deposit any excess servicing fee that has been securitized in an MBS P&I custodial account at the same time the related P&I payment is credited to the P&I custodial account.

See F-1-03, Establishing and Implementing Custodial Accounts for additional information.

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### **T&I Custodial Accounts**

The servicer is authorized to

- commingle T&I escrow funds for all remittance types for Fannie Mae mortgage loans in the same custodial account, or
- establish multiple T&I custodial accounts for each remittance type, and
- establish separate T&I accounts for the deposit of property (hazard) or flood insurance loss drafts, partial payments, or unapplied funds.

Funds in the T&I custodial account may not be commingled with P&I funds, the servicer's general corporate funds or with funds held by the servicer for other investors.

The servicer may use the T&I custodial account for the following types of funds:

- escrow deposits collected for the payment of escrow related expenses;
- advances the servicer made to cover servicing advances required for payment of foreclosure-related expenses, as well as the T&I for delinquent mortgage loans;
- payments that are being held as unapplied pending a determination of their proper application; and
- interest rate buydown accounts, to the extent that the amount is not yet scheduled for application to a monthly payment.

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### **Interest-Bearing Accounts**

All custodial accounts established for P&I funds or T&I funds may be interest-bearing accounts. All funds in a custodial account must be immediately available on demand, without the servicer (or Fannie Mae) having to provide advance notice of its intent to withdraw funds or pay a penalty fee for early withdrawals.

Interest-bearing accounts must meet all federal, state, and local laws and government regulations.

The servicer is responsible for the payment of any penalties related to excess withdrawals if the servicer chooses to maintain custodial funds in accounts that limit the number of withdrawals (such as money-market accounts). Funds in a custodial account may not be invested in any vehicle that

- limits Fannie Mae's access to the funds,
- requires an advance notice of withdrawal, or



- requires the payment of a withdrawal penalty.

The servicer must agree to the conditions outlined in the following table when it uses an interest-bearing account to accumulate funds.

✓	Conditions for using an interest-bearing account
	Within 30 days after interest is credited to the T&I account the servicer must disburse it from the account, paying any interest related to escrowed funds (less administrative expenses related to maintenance of the account) to the borrower.
	The servicer must pay any expenses, losses, damages, or withdrawal penalties sustained because the borrower's escrow funds were not in a demand deposit account.

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### Subservicing Custodial Accounts

When a subservicing arrangement exists, the subservicer must establish separate custodial accounts for all Fannie Mae mortgage loans that it either

- subservices for a master servicer, or
- services directly for Fannie Mae or any other investor.

**Note:** The use of subservicer custodial accounts does not relieve the master servicer of its responsibilities for establishing the required custodial accounts and ensuring that the custodial funds are handled in accordance with Fannie Mae's requirements.

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### Use of Clearing Accounts

The servicer may use general ledger or internal operating accounts as clearing accounts provided that

- the institution is an eligible depository and meets the requirements outlined in *Eligible Custodial Depositories*,
- the account is titled to indicate it is custodial in nature and includes "for the benefit of Fannie Mae" in the account title,
- the deposits are subsequently recorded in a separate custodial account meeting Fannie Mae's custodial requirements within one business day (including any period during which funds were in a clearing account or general ledger account) of receipt from the borrower, and

- adequate records and audit trails must be maintained to support all credits to, and charges from the borrower's payment records and the clearing accounts.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## A4-1-03, Addressing Borrower Inquiries and Disputes (11/12/2014)

### Introduction

This topic contains the following:

- Addressing Borrower Inquiries and Disputes for All Mortgage Loans
- Managing Texas Section 50(a)(6) Mortgage Loans

### Addressing Borrower Inquiries and Disputes for All Mortgage Loans

The servicer must comply with the requirements outlined in the following table when responding to borrower inquiries and disputes.

✓	The servicer must...
	Promptly respond to all inquiries, especially in the event of a borrower dispute, about the following: <ul style="list-style-type: none"><li>• the terms of their mortgage loan,</li><li>• the status of their account, or</li></ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>any actions the servicer took or did not take in servicing their mortgage loan.</li> </ul>
	Ensure that all processes to respond to borrower inquiries and resolve allegations of servicer errors asserted by borrowers are compliant with applicable law, including timelines for responding to borrowers and any applicable prohibitions on foreclosure referral or foreclosure sale.
	Ensure that borrowers have an effective means to communicate with the servicer to facilitate resolution of the dispute and resolve disputes without imposing unnecessary additional fees on borrowers.
	Not commence foreclosure proceedings without a thorough review of the circumstances surrounding an ongoing dispute and reasonable efforts to resolve the dispute.

The following table describes the information the servicer must provide the borrower when the borrower makes an inquiry to determine the owner or assignee of his or her mortgage loan.

<b>If the mortgage loan is...</b>	<b>Then the servicer must...</b>
a portfolio mortgage loan	<ul style="list-style-type: none"> <li>indicate the owner of the mortgage loan as “Fannie Mae”;</li> <li>provide the owner contact address of 3900 Wisconsin Ave, NW, Washington, DC, 20016-2892; and</li> <li>provide the contact number of the owner as 1-800-7FANNIE (1-800-732-6643).</li> </ul>
MBS mortgage loan	<ul style="list-style-type: none"> <li>indicate the owner of the mortgage loan as “Fannie Mae in its capacity as Trustee”;</li> <li>provide the owner contact address of 3900 Wisconsin Ave, NW, Washington, DC, 20016-2892;</li> <li>provide the contact number of the owner as 1-800-7FANNIE (1-800-732-6643);</li> <li>provide the six-digit pool number as the Trust identifier. The Fannie Mae Trust identifier for structured deals is the designated trust name (e.g., Fannie Mae REMIC Trust 2005-W2); and</li> </ul>

If the mortgage loan is...	Then the servicer must...
	<ul style="list-style-type: none"> <li>refer the borrower to the Fannie Mae contact number above for the related Trust identifier for mortgage loans in PFP pools.</li> </ul> <p><b>Note:</b> The six-digit MBS pool number appears in Fannie Mae’s investor reporting system application under the “VIEW LOAN” screen.</p>

Servicers must indicate in their communication to borrowers that the owner status of their loan is based upon the servicer’s review of its records as of a date certain and that loan ownership status may change from time to time.

### Managing Texas Section 50(a)(6) Mortgage Loans

The servicer of a Texas Section 50(a)(6) mortgage loan must comply with the requirements in the following table.

✓	The servicer must...
	Have adequate procedures to receive and timely respond to borrower inquiries, claims of defects, and other complaints.
	Have processes and procedures in place to timely cure any failures to comply with applicable law.

If the servicer receives notification of failure to comply with respect to a Fannie Mae Texas Section 50(a)(6) mortgage loan, it must immediately notify its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) and, if the notification is in writing, provide Fannie Mae with a copy of the notification.

A servicer’s failure to cure within 60 days after being notified of a failure to comply may, under Texas law, result in the forfeiture of all principal and interest due under the Texas Section 50(a)(6) mortgage loan.

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# Chapter A4-2, Requirements for Delinquent Mortgage Loans and Mortgage Loans at Risk of Default



## Requirements for Delinquent Mortgage Loans and Mortgage Loans at Risk of Default

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### Introduction

This chapter includes information pertaining to requirements for delinquent mortgage loans and mortgage loans at risk of default.

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### In This Chapter

This chapter includes the following topics:

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## Section A4-2.1, Establishing Default Management Strategies



### A4-2.1-01, Preventing Defaults and Managing Delinquencies (11/12/2014)

#### Introduction

This topic contains the following:

- General Responsibilities for Preventing Defaults and Managing Delinquencies

#### General Responsibilities for Preventing Defaults and Managing Delinquencies

The servicer must take the actions described in the following table in the servicing of Fannie Mae mortgage loans.

✓	The servicer must...
	Identify and distinguish the pool issue date of a MBS mortgage loan and be familiar with the varying servicing requirements applicable to those pool issue dates.
	Adapt its systems to be able to identify the MBS issue dates for PFP mortgage loans in MBS pools.
	Comply with all specific written direction Fannie Mae issues to an individual servicer regarding actions to be taken in connection with preventing a foreclosure, including, but not limited to, actions to be taken in connection with mortgage loan modifications, short sales, and deeds-in-lieu of foreclosure, with respect to either <ul style="list-style-type: none"><li>• all mortgage loans purchased or securitized by Fannie Mae, or</li><li>• a designated population.</li></ul>
	Cooperate with third parties engaged by Fannie Mae to support the servicer in the fulfillment of the servicer's obligations that may impose additional requirements.
	Establish a practice for servicing delinquent mortgage loans that follows the accepted standards used by prudent servicers.

✓	<b>The servicer must...</b>
	Apply the requirements of a borrower Delinquency Management Model that allows a borrower to contact one individual or a dedicated team of individuals in the servicer's organization to obtain accurate information on the various foreclosure prevention alternatives available to the borrower. If the servicer develops a model for itself or any other investor, it must apply the requirements of the model to mortgage loans serviced for Fannie Mae.
	Employ collection and foreclosure prevention strategies that are designed to meet the goal of bringing delinquent mortgage loans current in as short a time as possible.
	Ensure that all notices and information provided to the borrower are clear and understandable.
	Be aware of any programs that may assist a borrower in resolving their delinquencies, or of any counseling agencies that may help them in their debt management and refer the borrower to those programs or agencies when it is appropriate.

Some of the servicer's operational requirements for servicing delinquent mortgage loans are listed in the following table.

✓	<b>The servicer must have...</b>
	An accounting system that immediately alerts the appropriate department that a mortgage loan is delinquent.
	A collection department staff that is familiar with all FHA, HUD, VA, RD, mortgage insurer, and Fannie Mae procedural and reporting requirements, if applicable.
	Counseling procedures to advise borrowers on how to avoid or cure delinquencies.
	Guidelines for the individual analysis of each delinquency.
	Instructions and adequate controls for the following: <ul style="list-style-type: none"> <li>• sending delinquency notices,</li> <li>• assessing late charges,</li> <li>• applying or returning partial payments,</li> <li>• maintaining collection histories, and</li> <li>• reporting delinquencies to credit bureaus.</li> </ul>
	Management review procedures to evaluate the borrower's actions and the servicer's collection efforts before the execution of a workout option or the decision to start liquidation proceedings.

## **A4-2.1-02, Property Inspection Vendor Management and Oversight (11/12/2014)**

The servicer must refer to the following table for guidelines on managing and overseeing third-party property inspection vendors.

✓	<b>The servicer must...</b>
	Not enter into or participate in any arrangement with property inspection vendors <ul style="list-style-type: none"> <li>• for which the servicer receives a direct benefit for Fannie Mae mortgage loans or acquired properties that is not passed through to Fannie Mae, or</li> <li>• that is influenced by an actual or perceived conflict of interest (particularly those arrangements with affiliates).</li> </ul>
	Use the most cost-effective and efficient vendors for property inspections related to any Fannie Mae mortgage loans or acquired properties without regard to arrangements that could provide a financial benefit directly to servicers.

## **A4-2.1-03, Managing Short Sales**

All properties being considered for a short sale must be listed on a MLS for a minimum of five consecutive calendar days, including one weekend (i.e., Saturday and Sunday), prior to the servicer

- submitting the short sale recommendation to Fannie Mae for review, or
- approving the short sale.

The following table describes the property listing requirements based on geographic location.

<b>If the geographic area in which the property is located is...</b>	<b>Then the property must be advertised...</b>
covered by MLS	on the applicable MLS that covers the geographic area in which the property is located.



If the geographic area in which the property is located is...	Then the property must be advertised...
not covered by MLS	in a manner customary for that real estate market.

A printed copy of the property listing must be kept in the mortgage loan servicing file.



## **A4-2.1-04, Establishing Contact with the Borrower (11/12/2014)**

### **Introduction**

This topic contains the following:

- Call Center Coverage Requirements
- Requirements for Borrower Contact Attempts

### **Call Center Coverage Requirements**

The following table provides the requirements for call center operations.

✓	<b>Call Center Coverage Requirements</b>
	The average speed to answer an inbound call must be 60 seconds or less.
	The monthly Call Blockage Rate must be less than or equal to 1%.
	The Call Abandonment Rate must be less than or equal to 5%.
	For live chats (that is, electronic question and answer sessions), responses must be initiated in less than or equal to 5 minutes from a chat inquiry.
	On average, emails from borrowers must be responded to within 48 hours of receipt.
	The foreclosure prevention department staff must be available during inbound and outbound collection activity unless collections staff are also well-versed in workout options.

### **Requirements for Borrower Contact Attempts**

The servicer must attempt to establish QRPC to resolve the mortgage loan delinquency. All contact attempts must be documented in the mortgage loan servicing file.

The following table provides the servicer’s responsibilities in its attempts to contact a borrower.

✓	<b>The servicer must...</b>
	Utilize the minimum level of effort and number of attempts discussed in this Guide to contact the borrower during the various stages of delinquency.
	Establish QRPC early in the delinquency, or when default is determined to be imminent.
	Document all contact attempts in the mortgage loan servicing file and provide evidence to Fannie Mae that it satisfied the QRPC standard upon request.
	Vary the days of the week and times of the day of calls to an individual borrower to achieve adequate outreach, and include some evening and weekend calls.

 **A4-2.1-05, Requirements for Collection and Foreclosure Prevention Strategies Unique to Second Lien Mortgage Loans (11/12/2014)**

The following table lists the responsibilities of the servicer of a second lien mortgage loan in implementing its collection and foreclosure prevention strategies.

✓	<b>The servicer must...</b>
	<p>Contact the first lien mortgage servicer to determine the following:</p> <ul style="list-style-type: none"> <li>• the status of the first lien mortgage loan,</li> <li>• any previous or ongoing collection efforts employed by that servicer, and</li> <li>• the borrower’s commitment and performance during those collection efforts.</li> </ul> <p>The servicer must take the information received from the first lien mortgage servicer into consideration when deciding the collection method it intends to use.</p>
	Keep in mind that the servicing of delinquent second lien mortgage loans requires accelerated follow-up and expedited liquidation decisions if the collection methods used are not successful.
	Begin its telephone contact attempts before it mails the late payment notice, concentrating particularly during the five- to ten-day period that precedes the due date of the next installment.



## Section A4-2.2, Requirements for Default-Related Law Firms



### A4-2.2-01, Selecting and Retaining Law Firms (11/12/2014)

#### Introduction

The servicer is responsible for selecting qualified, experienced law firms for all jurisdictions to handle default-related legal services relating to Fannie Mae mortgage loans. Default related legal services include foreclosure, workout options, bankruptcy and related litigation.

See F-2-05, Firm Minimum Requirements and Compliance with the Housing and Economic Recovery Act in A2-1-08, Compliance with Requirements and Laws for additional information regarding requirements for law firm selection. For a Mortgage Release, a servicer is authorized to select a third-party other than a law firm to prepare documentation; however, the servicer must select qualified and experienced vendors to complete the services related to this activity.

In order to mitigate risk arising from the concentration of legal work relating to Fannie Mae mortgage loans, servicers must select and retain an appropriate number of law firms for each jurisdiction.

Fannie Mae does not allow for the direct referrals of Fannie Mae mortgage loans to trustees for foreclosure in any jurisdiction.

Fannie Mae retains counsel directly for legal services relating to acquired properties.

This topic contains the following:

- Managing Legacy Matters
- Performing Due Diligence When Selecting and Retaining Law Firms
- Submitting a Servicer Selection Form
- Law Firm Training and the Limited Retention Agreement
- The Use of Special Counsel

## Managing Legacy Matters

Matters that were referred to law firms that were part of Fannie Mae's retained attorney network under the previous structure will be considered “Legacy Matters,” and will be governed by the pre-existing engagement letters between those law firms and Fannie Mae. The following table provides additional guidance to servicers handling Legacy Matters.

If the servicer...	Then the servicer...
elects to leave Legacy Matters at a law firm that it does not select and retain pursuant to current policy	<ul style="list-style-type: none"> <li>• is responsible for managing and overseeing the law firm's performance and compliance in accordance with the requirements of Fannie Mae's current default-related legal services structure.</li> </ul>
decides to transfer Legacy Matters to law firms selected and retained pursuant to current policy	<ul style="list-style-type: none"> <li>• must do so at its own expense,</li> <li>• must provide Fannie Mae' Legal department with five business days' prior written notice via email (see F-4-03, List of Contacts), and</li> <li>• will be responsible for any errors, omissions, or delays by the transferee law firm.</li> </ul>

## Performing Due Diligence When Selecting and Retaining Law Firms

The following table lists the servicer's duties related to law firm selection.

✓	The servicer must...
	Collect data from the law firm.
	Conduct appropriate due diligence to evaluate whether the law firm meets Fannie Mae's minimum requirements as described in F-2-05, Firm Minimum Requirements.
	Maintain documentation evidencing its law firm selection process, including how law firms are <ul style="list-style-type: none"> <li>• solicited,</li> <li>• evaluated, and</li> <li>• selected.</li> </ul>

If the servicer concludes that a law firm does not meet Fannie Mae's minimum requirements, or as a result of the due diligence process decides not to retain the law firm, the servicer must inform the law firm that it has not been selected. Information relating to law firms that are not selected and retained by the servicer must be maintained for the longer of any retention period applicable to the servicer or seven years.

A servicer is not obligated to inform Fannie Mae if the servicer

- determines that a law firm does not meet the minimum requirements, or
- decides not to retain a law firm.

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### Submitting a Servicer Selection Form

The servicer must submit a *Servicer Selection Form* ([Form 200](#)) to Fannie Mae for each law firm it wishes to retain to provide default-related legal services for Fannie Mae mortgage loans. By submitting [Form 200](#), the servicer certifies the law firm's satisfaction of Fannie Mae's minimum requirements and other certain required disclosures. [Form 200](#) must be submitted to Fannie Mae's NSO (see F-4-03, List of Contacts).

The following table provides Fannie Mae's requirements related to the submission of [Form 200](#).

✓	The servicer must...
	Submit a <a href="#">Form 200</a> for each jurisdiction for which the servicer wishes to retain a law firm, if the law firm practices in multiple jurisdictions.
	Retain all information submitted by a law firm in support of the law firm's application or otherwise gathered by the servicer regarding the law firm.  <b>Note:</b> Information relating to law firms that are selected and retained by the servicer must be maintained as long as the law firm is providing legal services with respect to Fannie Mae mortgage loans and, thereafter, for the longer of any retention period applicable to the servicer or seven years.
	Make all information available to Fannie Mae upon request.

Within 15 business days following the submission of [Form 200](#), Fannie Mae expects that it will be in a position to issue a "No Objection" determination, an "Objection" determination, or request additional information for each [Form 200](#) submitted.

The following table provides the servicer with further instructions based on Fannie Mae's response to [Form 200](#).

<b>If Fannie Mae...</b>	<b>Then the servicer must...</b>
issues an “Objection” determination	not retain the law firm to handle Fannie Mae matters and inform the law firm that it was not selected.
issues a “No Objection” determination	inform the law firm that it must attend Fannie Mae new law firm training and sign a limited retention agreement with Fannie Mae in order to become eligible to receive referrals of Fannie Mae mortgage loans.
requests additional information	provide the requested information as quickly as possible.

Servicers cannot rely upon the fact that another servicer previously submitted [Form 200](#) with respect to a law firm and received a “No Objection” determination.

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### **Law Firm Training and the Limited Retention Agreement**

All law firms that receive a "No Objection" determination from Fannie Mae must complete Fannie Mae new law firm training. Law firms only have to attend this training once, regardless of the number of servicers that select and retain the law firm.

Law firms must also execute a limited retention agreement. The limited retention agreement will recognize and reflect a joint attorney-client relationship between the law firm, Fannie Mae and the servicer. It will also provide that it controls in the event that there are any inconsistent provisions in any agreement between the law firm and the servicer. Servicers may access the form of the limited retention agreement by logging in to the password-protected portion of Fannie Mae’s website. Fannie Mae considers the form of the limited retention agreements to be confidential and proprietary information, and servicers must treat the forms consistent with this classification.

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### **The Use of Special Counsel**

From time to time, servicers retain counsel at their own expense to represent Fannie Mae and/or the servicer pursuant to their indemnification obligations to Fannie Mae (Special Counsel). Special Counsel retained and paid by servicers pursuant to their indemnification obligations to Fannie Mae do not have to be selected and retained pursuant to the guidelines described in A4-2.2-01, Selecting and Retaining Law Firms. The following table describes the requirements of the servicer if it retains Special Counsel.

✓	The servicer must...
	Notify Fannie Mae of the retention of Special Counsel.
	Ensure that its Special Counsel keeps Fannie Mae updated on the progress of the matters handled by the law firm.
	Ensure that it or the Special Counsel periodically updates the law firm to which the foreclosure, bankruptcy, or eviction matter was originally referred regarding the status of the matter for which the Special Counsel was retained.

Once any issues for which Special Counsel was retained are resolved, the servicer must transition the foreclosure, bankruptcy, or eviction matter back to the law firm to which it was originally referred for any required further proceedings.

Refer to Indemnification for Losses in A1-1-03, Nature of the Contractual Relationship.



## **A4-2.2-02, Law Firm Management and Oversight (11/12/2014)**

### **Introduction**

This topic contains the following:

- Overview of Law Firm Management and Oversight
- Establishing Written Policies and Procedures Related to Law Firm Oversight and Compliance
- Conducting Law Firm Compliance Reviews and Training
- Reporting Law Firm Performance to Fannie Mae
- Escalations of Law Firm and Servicer Issues and Government and Media Inquiries

### **Overview of Law Firm Management and Oversight**

The servicer is fully responsible for managing and overseeing all aspects of the performance and compliance of any law firm to which it makes a referral, including foreclosure prevention activities and timeline performance. The servicer must interact with the law firm as necessary throughout the course of the foreclosure or bankruptcy proceedings in order to ensure that the matters are completed in a timely manner, in accordance with applicable law, and in accordance



with the requirements of the *Servicing Guide*, including the requirement that the servicer timely deliver good and marketable title to Fannie Mae following a foreclosure. The servicer must obtain, review, and analyze data and reports from the law firms and take appropriate action as necessary. The servicer is accountable and responsible to Fannie Mae for any delays or losses resulting from deficiencies in the law firm’s performance. The servicer must reimburse Fannie Mae for any losses suffered because a law firm did not meet its responsibilities.

The following table lists the servicer's ongoing responsibilities following referral to a law firm.

✓	<b>After referral, the servicer must...</b>
	Continue pursuing foreclosure prevention efforts.
	Keep the law firm apprised about the status of any workout proposals, bankruptcy filings, or other events that affect the matter.
	Provide any additional documentation, information, or signatures to the law firm, as needed.
	Advance funds to pay attorney fees and costs.
	Provide bidding instructions.
	File applicable IRS forms related to paying attorney fees.
	Monitor timeline performance.
	Obtain and review data and reports from law firms and take appropriate actions as necessary.
	Fulfill all of its other servicing obligations.

The servicer must also ensure that the law firm is able to

- process foreclosures and bankruptcies in a timely and efficient manner,
- recognize and facilitate foreclosure prevention whenever possible, and
- quickly obtain relief from the bankruptcy so that foreclosure proceedings may be initiated or continued, when appropriate.

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### **Establishing Written Policies and Procedures Related to Law Firm Oversight and Compliance**

The servicer must develop and have in place policies and procedures regarding oversight and compliance relating to law firms handling Fannie Mae default-related matters. The servicer must have policies and procedures reasonably designed to ensure that the law firms handling of Fannie

Mae default-related matters are in compliance with the Mortgage Default Counsel Retention Agreement with Fannie Mae, the applicable provisions of the *Servicing Guide*, and applicable law.

### Conducting Law Firm Compliance Reviews and Training

The servicer must conduct periodic law firm compliance reviews and training as appropriate. In determining the frequency of firm compliance reviews, the servicer must consider the overall risk posed by the firm (legal, reputational, and financial), firm volume, performance, any changes in staffing ratios or levels, any litigation against the firm alleging systemic issues, any media coverage regarding the firm, and the prior results of any firm compliance reviews.

**Compliance Reviews:** The servicer's ongoing compliance monitoring must address the following minimum elements.

✓	<b>Elements of the servicer's ongoing compliance monitoring that must be maintained</b>
	Ongoing eligibility under Fannie Mae minimum requirements.
	Compliance with the limited retention agreement with Fannie Mae, including the fee and cost guidelines.
	Compliance with the applicable provisions of the <i>Servicing Guide</i> .
	Compliance with applicable law.
	Law firm capacity.
	Reputational risk issues, for example, complaints against the law firm, bar complaints, sanction proceedings, or investigations by regulatory or law enforcement authorities.
	Verification that the law firm has effective controls in place related to information security, data management, and fraud prevention.
	Document custody practices.
	Business continuity.
	Maintenance of appropriate errors and omissions coverage.
	Financial viability.
	Adequacy of staffing.
	Applicable ratios (attorney to staff; attorney to file, and staff to file) and the law firm's management of the ratios.
	Training.
	Quality of work.

The servicer must make available to Fannie Mae upon request the materials relating to its performance and compliance monitoring of law firms providing default-related legal services, including

- information regarding the servicer's compliance monitoring, including scope and methodology,
- the schedule of law firm compliance reviews conducted,
- the identity of any vendors used in the law firm compliance reviews,
- any documentation from the law firm compliance reviews, and
- any findings, reports or remediation plans resulting from the law firm compliance reviews.

Fannie Mae reserves the right to review and require changes to the servicer's compliance process, as well as to require the servicer to conduct additional compliance activities related to law firms handling its default matters. In addition, Fannie Mae may require the servicer to change the scope of its compliance process in connection with Fannie Mae mortgage loans. Fannie Mae also reserves the right to directly conduct law firm audits and law firm on-site visits as deemed necessary.

**Ongoing Training:** The servicer must ensure that law firms receive any necessary training, including information regarding Fannie Mae requirements, such as Servicing Guide Announcements that may affect the law firms. Although Fannie Mae may conduct mandatory law firm training from time to time, the servicer is responsible for ensuring that law firms are aware of Fannie Mae's requirements.

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### **Reporting Law Firm Performance to Fannie Mae**

The servicer must generate and provide in a timely manner data and reports requested by Fannie Mae related to, among other things, servicer performance in managing the foreclosure and bankruptcy processes and oversight of law firm performance and compliance. The servicer must provide Fannie Mae access, as requested, to data in its servicing systems regarding Fannie Mae mortgage loans. Fannie Mae will periodically specify the required data and reports on Fannie Mae's website.

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### **Escalations of Law Firm and Servicer Issues and Government and Media Inquiries**

Within two business days of discovery, or sooner if circumstances warrant, the servicer must notify Fannie Mae of matters requiring Fannie Mae's attention, including the following:

- any information regarding a law firm that might warrant a suspension of referrals, the transfer of matters to another law firm, and/or termination of the law firm;

- information suggesting legal or reputational risk posed by a law firm, e.g., bar complaints, sanction proceedings, or litigation asserting systemic issues with the law firm or its practices;
- any actual or suspected data security breach involving the law firm;
- any actual or alleged fraud on the part of a law firm;
- federal, state, or local governmental inquiries, including Congressional inquiries, that involve a significant legal or reputational risk issue related to a law firm selected and retained to perform default-related legal services on Fannie Mae mortgage loans or that involve a significant legal or reputational risk issue related to default-related practices of the servicer on Fannie Mae mortgage loans;
- media inquiries related to a law firm selected and retained to perform default-related legal services on Fannie Mae mortgage loans or default-related practices of the servicer on Fannie Mae mortgage loans;
- volume or capacity issues with a law firm;
- a breach of the limited retention agreement between Fannie Mae and a law firm;
- any systemic issues with a law firm;
- significant issues with the servicer's process for handling delinquent mortgage loans, e.g., an issue that causes widespread foreclosure delays or an issue that requires remediation efforts be taken with respect to mortgage loans in one or more jurisdictions; or
- any material change in the ownership, partnership, or organization of the law firm after executing the limited retention agreement, including instances where a named partner leaves the law firm or a practice group separates from the law firm.

Fannie Mae reserves the right to issue direction to servicers and law firms regarding escalated matters.

**Escalation Process:** Escalated matters must be reported to Fannie Mae’s Legal department via email (see F-4-03, List of Contacts).

The following table provides additional instructions for escalating matters to Fannie Mae.

✓	<b>When the servicer provides Fannie Mae notice of a matter requiring Fannie Mae’s attention, the servicer must...</b>
	Designate in its email one or more points of contact.
	Promptly obtain and provide Fannie Mae with any additional information requested from the law firm.

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 **A4-2.2-03, Prohibition Against Servicer-Specified Vendors for Fannie Mae Referrals, Use of Vendors, and Outsourcing Companies (11/12/2014)**

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The servicer cannot directly or indirectly require or encourage law firms to use specified vendors in connection with Fannie Mae referrals, including, but not limited to

- title companies,
- posting and publication vendors, and
- service of process vendors.

The law firm must be allowed to select vendors of its choice based on its assessment of factors such as the cost efficiency, quality, reliability, and timeliness of the services provided by the vendor.

Arrangements with vendors and other service providers, particularly affiliates, must not be influenced by an actual or perceived conflict of interest. The servicer and law firm must use the most cost-efficient and effective vendors to assist in processing foreclosures and bankruptcy cases without regard to arrangements that could provide a financial benefit directly or indirectly to the servicer.

The law firm must obtain Fannie Mae's prior written approval if it wishes to use a vendor that is the servicer itself, an outsourcing company, or other third-party vendor utilized by the servicer to assist in servicing defaulted mortgage loans, or an affiliate of the servicer, outsourcing company, or third-party vendor. Requests for approval must be directed to Fannie Mae's Legal Department via email (see F-4-03, List of Contacts).

The servicer must not enter into or participate in any arrangements with an outsourcing company or third-party vendor pursuant to which the servicer receives a direct or indirect benefit of any kind (such as a lower charge for services or a payment) for referring a foreclosure or bankruptcy matter relating to a Fannie Mae mortgage loan to a particular law firm.

Outsourcing companies or third-party vendors must not be permitted to directly or indirectly select, or influence the selection of, the law firms to be used on Fannie Mae mortgage loans.

The servicer, its agents, or any outsourcing firm it employs may not charge either directly or indirectly any outsourcing fee, referral fee, packaging fee, or similar fee in connection with any Fannie Mae mortgage loan. This requirement is in place, in part, to deter actual and potential

conflicts of interest that may arise and compromise the overall effectiveness of service provided to Fannie Mae.

To help ensure compliance with this requirement, Fannie Mae explicitly prohibits the following parties from directly or indirectly charging any amounts to (or receiving any payments or any benefits from) law firms or their affiliates in connection with any Fannie Mae mortgage loan or service provided directly or indirectly with respect to any Fannie Mae mortgage loan except as Fannie Mae may expressly permit

- the servicer,
- any outsourcing company or other third-party vendor utilized by the servicer to assist in servicing defaulted mortgage loans (for example, referring loans to foreclosure or bankruptcy, monitoring law firm performance, or providing administrative support services), and
- any affiliate of the servicer, outsourcing company, or third-party vendor.

Fannie Mae does expressly permit the benefit that servicers may receive from law firms having access to and utilizing data obtained from the servicer's systems through "direct sourcing" arrangements.

Any other charges, payments, or benefits from law firms or their affiliates in connection with Fannie Mae mortgage loans will require Fannie Mae's prior written approval.

The servicer is responsible for ensuring compliance with these requirements. The servicer must diligently monitor and manage any outsourcing company or vendor it utilizes to assist with the servicing of defaulted mortgage loans to ensure all Fannie Mae servicing guidelines are fully met in a timely and cost-effective manner.



## **A4-2.2-04, Law Firm Suspensions, Matter Transfers, and Terminations (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Servicer-Directed Suspensions
- Fannie Mae-Directed Suspensions
- Implementation of Suspensions

### Servicer-Directed Suspensions

The following table provides instructions for servicers regarding the suspension of referrals, matter transfers, and termination of law firms.

If...	Then the servicer must...
a servicer becomes aware of information regarding a law firm handling Fannie Mae default-related matters that might warrant a suspension of referrals, the transfer of matters to another law firm, and/or the termination of the law firm (for example, due to legal, reputational, or operational risk)	<ul style="list-style-type: none"> <li>• notify Fannie Mae within two business days or sooner if circumstances warrant as set forth in Escalations of Law Firm and Servicer Issues and Government and Media Inquiries in A4-2.2-02, Law Firm Management and Oversight, and</li> <li>• conduct due diligence with respect to the issue.</li> </ul>
the servicer intends to suspend referrals, transfer matters, and/or terminate a law firm	<ul style="list-style-type: none"> <li>• provide Fannie Mae with prior notice at least five business days before implementing the decision,</li> <li>• provide Fannie Mae with the implementation plan for the course of action chosen by the servicer,</li> <li>• inform the law firm of the decision, and</li> <li>• keep Fannie Mae periodically updated with respect to the status of implementation of the decision.</li> </ul>

The servicer must retain all information relating to

- its due diligence review,
- its decision, and
- all other information supporting its decision for the longer of any retention period applicable to the servicer or seven years after the decision.

The servicer must make such information available to Fannie Mae upon request.

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## **Fannie Mae-Directed Suspensions**

Fannie Mae reserves the right to direct the servicer to initiate an investigation of a law firm if it becomes aware of information that might warrant a suspension of referrals, the transfer of matters, or termination of the law firm. Fannie Mae may itself conduct due diligence and investigations as necessary, and may instruct servicers to suspend some or all new referrals, to transfer some or all of its matters, or to terminate law firms.

In the event of a decision by Fannie Mae to suspend new referrals, transfer matters, or terminate a law firm, Fannie Mae will inform the servicer of the decision and provide direction regarding required servicer actions.

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## **Implementation of Suspensions**

The servicer is responsible for implementing any suspension, transfer of matters, and/or termination unless otherwise directed by Fannie Mae.

The servicer must consider all pertinent factors when determining the proper implementation strategy for any suspension, matter transfers, and/or termination, including

- the capacity of other eligible law firms in the jurisdiction to handle additional capacity and/or transferred matters,
- the proration of fees between the transferor and transferee law firms,
- avoiding duplicative fees and costs as a result of any transfer, and
- the continuing availability of adequate errors and omissions coverage for a law firm as to which some matters are left for resolution following a suspension of referrals or partial transfer of matters.

With respect to any required matter transfer, the servicer must take all required steps to effectuate, manage, and monitor the transfer and report periodically to Fannie Mae regarding

- the identity of each transferee law firm,
- the identification and quantification of the matters transferred to each transferee law firm, and
- the timing and status of the matter transfer.

The servicer must not charge Fannie Mae or the borrower for any fees or costs associated with transferring matters, and such amounts must not be added to the borrower's total indebtedness.



Fannie Mae reserves the right to manage any suspension, transfer of matters, and/or termination if it concludes that Fannie Mae's management is necessary to manage legal, reputational, or operational risks. Servicers must follow all reasonable instructions given by Fannie Mae.

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# Part B, Escrow, Taxes, Assessments, and Insurance



## Escrow, Taxes, Assessments, and Insurance

### Introduction

This part describes how to administer an escrow account to manage taxes, assessments, and insurance requirements.

### In This Part

This part contains the following chapters:

B-1, Escrow Account Administration . . . . .	261
B-2, Property (Hazard) Insurance Requirements . . . . .	267
B-3, Flood Insurance Requirements . . . . .	279
B-4, Additional or Optional Insurance Coverage . . . . .	286
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B-6, Lender-Placed Insurance . . . . .	296
B-7, Liability and Fidelity/Crime Insurance Requirements for Project Developments . . . . .	298
B-8, Mortgage Insurance . . . . .	301

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# Chapter B-1, Escrow Account Administration



## Escrow Account Administration

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### Introduction

This chapter describes escrow account administration.

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### In This Chapter

This chapter contains information on the following topic:

B-1-01, Administering an Escrow Account and Paying Expenses (11/12/2014) . . . . .	262
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## **B-1-01, Administering an Escrow Account and Paying Expenses (11/12/2014)**

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### **Introduction**

Without regard to whether the mortgage loan has an escrow account, the servicer must protect Fannie Mae's lien and the property securing the mortgage loan by

- maintaining accurate records on the status of property (hazard) insurance, flood insurance, borrower-purchased mortgage insurance, real estate taxes, ground rents, other assessments, and related expenses; and
- ensuring the timely payment of taxes, insurance premiums, and related charges.

Unless otherwise noted, the following requirements apply whether the mortgage loan is a first lien mortgage loan that has an escrow account or a second lien mortgage loan where the servicer chooses to require an escrow account.

When an escrow account is established by the servicer, it must

- assume full responsibility for administering the escrow account in compliance with the mortgage loan documents and all applicable laws and government regulations, and
- make payments for escrow—related expenses early enough to take advantage of any discount period to obtain the maximum discounts allowed whenever funds are available in the escrow account.

This topic contains the following:

- Paying Interest on an Escrow Account
- Waiving Escrow Account Requirements
- Administering an Escrow Account in Connection With a Mortgage Loan Modification
- Manufactured Home Tax Requirements
- Paying a Special Assessment
- Advancing Funds to Cover Expenses

### Paying Interest on an Escrow Account

Fannie Mae will not reimburse the servicer when the servicer pays interest on an escrow account, whether required by law or voluntary.

### Waiving Escrow Account Requirements

The following table outlines requirements to evaluate a request to waive an escrow account.

✓	<b>The servicer must...</b>
	Evaluate whether it is appropriate to waive the escrow account requirement based on the following: <ul style="list-style-type: none"> <li>• the mortgage loan documents and applicable law,</li> <li>• the borrower’s prior mortgage loan payment history,</li> <li>• the borrower’s overall credit history,</li> <li>• the LTV ratio of the mortgage loan, and</li> <li>• the borrower’s financial ability to handle the lump-sum T&amp;I payments.</li> </ul>
	Deny a request to discontinue escrow requirements for a mortgage loan if the borrower has <ul style="list-style-type: none"> <li>• previously defaulted on the mortgage loan,</li> <li>• a blemished credit history on other credit obligations, or</li> <li>• limited cash reserves.</li> </ul>
	Maintain the following information in the mortgage loan servicing file and make it available to Fannie Mae upon request: <ul style="list-style-type: none"> <li>• the borrower’s written request;</li> <li>• the servicer’s basis for the waiver decision; and</li> <li>• the waiver of escrow deposits disclosure provided to the borrower, if applicable.</li> </ul>

The servicer must not waive the individual escrow requirement for

- mortgage insurance premiums for a conventional mortgage loan when premiums are paid monthly.
- builder’s risk/construction site insurance, taxes, or mortgage insurance for a construction-to-permanent mortgage loan originated under Fannie Mae’s Native American housing initiative.

### Administering an Escrow Account in Connection With a Mortgage Loan Modification

The following table outlines the escrow requirements when a servicer enters a mortgage loan modification.

✓	<b>The servicer must...</b>
	Revoke any escrow deposit account waiver and establish an escrow deposit account in accordance with Fannie Mae’s requirements, unless the mortgage loan modification is a Streamlined Modification Post Disaster Forbearance (see D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance for additional information) or a Cap and Extend Modification for Disaster Relief (see D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief for additional information) and the borrower is current on the payments for taxes, special assessments, property (hazard) and flood insurance premiums, premiums for borrower-purchased mortgage insurance, ground rents, and similar items.
	Analyze an existing escrow account to estimate the periodic escrow deposit required to ensure that adequate funds are available to pay future charges, taking into consideration T&I premiums that may come due during any trial period. In the event the initial escrow analysis identifies a shortage, collect such funds from the borrower over a 60-month period unless the borrower decides to pay the shortage upfront. When the servicer calculates the repayment of the escrow shortage over a 60-month period, any subsequent shortage that may be identified in the next annual analysis cycle must be spread out over the remaining term of the initial 60-month period.
	Ensure the borrower’s monthly mortgage loan payments, including trial period payments, include an escrow payment. See the applicable mortgage loan modification program in <i>Section D2–3.2, Home Retention Workout Options</i> for additional information.

### Manufactured Home Tax Requirements

When the property securing the mortgage loan is a manufactured home, the servicer must ensure the manufactured home and land are taxed as real property and a single tax bill is issued.

If this is not possible, the dwelling must be taxed separately as personal property and the servicer must adjust its system to escrow for both real and personal property taxes. Fannie Mae's requirements for real estate taxes apply equally to personal property taxes applicable to the dwelling.

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### **Paying a Special Assessment**

When a special assessment is imposed on a property, including by a HOA of a PUD or condo, the servicer must

- maintain accurate records on the status of a special assessment that could become a lien against a property.
- advance its own funds to pay the special assessment to protect the priority of Fannie Mae's mortgage lien when the HOA notifies the servicer that the borrower is 60 days delinquent in the payment of the special assessment or charges levied by the association.

When pursuing foreclosure on a property in a PUD or condo project, the servicer must

- determine the amount to clear an HOA's claim of lien and preserve the priority of the mortgage lien and pay the minimum amount necessary no later than 30 days after the foreclosure sale date or acceptance of a Mortgage Release, and
- notify Fannie Mae's Legal department by submitting a *Non-Routine Litigation Form* (**Form 20**) if the HOA refuses to release its claim of lien against a property after reasonable efforts to reach an agreement.

The servicer must follow the procedures in *General Expense Reimbursement Requirements* in F-1-06, Expense Reimbursement to determine the timing and amount of advances, if any, that Fannie Mae will reimburse.

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### **Advancing Funds to Cover Expenses**

The servicer must promptly advance the funds to cover an expense when an escrow account has insufficient funds to pay the expense in a timely manner. The servicer must require the borrower to reimburse it for advances because the escrow deposit account did not have sufficient funds to cover an expense or emergency repairs to the property. Any funds the servicer advances must stay in the T&I custodial account if and until the borrower remits funds sufficient to cure the deficit.

The following table outlines the requirements when the servicer waives the escrow account requirement and the borrower fails to pay the insurance premiums, taxes, or other related charges.



✓	<b>The servicer must...</b>
	Advance the payment, including any late payment penalties, from its own funds.
	Revoke any escrow waiver and establish an escrow account in accordance with Fannie Mae's requirements to collect funds to repay the advances and pay future bills.

The servicer must follow the procedures in *General Expense Reimbursement Requirements* in F-1-06, Expense Reimbursement to determine how to obtain reimbursement from future payments, and how to obtain reimbursement from Fannie Mae.

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# Chapter B-2, Property (Hazard) Insurance Requirements



## Property (Hazard) Insurance Requirements

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### Introduction

This chapter describes requirements relating to property (hazard) insurance.

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### In This Chapter

This chapter contains information on the following topics:

B-2-01, Property (Hazard) Insurance Requirements Applicable to All Property Types (11/12/2014) .....	267
B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One-to Four-Unit Property (11/12/2014) .....	271
B-2-03, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op (11/12/2014) .....	273

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## B-2-01, Property (Hazard) Insurance Requirements Applicable to All Property Types (11/12/2014)

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### Introduction

This topic contains the following:

- Servicer Responsibilities Related to Property (Hazard) Insurance
- Property (Hazard) Insurance Policy and Coverage Requirements
- Property (Hazard) Insurance Carrier Rating Requirements
- Exceptions to Property (Hazard) Insurance Carrier Rating Requirements
- Evidencing Acceptable Property (Hazard) Insurance

### Servicer Responsibilities Related to Property (Hazard) Insurance

The servicer must ensure that at all times any required property (hazard) insurance coverage is maintained to protect Fannie Mae’s interest in the mortgage loan. The following table lists the servicer’s responsibilities applicable to all mortgage loans owned or securitized by Fannie Mae unless otherwise noted.

✓	<b>The servicer must...</b>
	Verify the selected insurance carrier, policy amount and type of coverage meet Fannie Mae’s requirements.  <b>Note:</b> The servicer of a second lien mortgage loan must review a copy of the first lien mortgage loan insurance policy to determine if there is sufficient coverage to protect the security of both the first and second lien mortgage loans.
	Ensure requirements contained in any negotiated contract are met.
	Ensure property (hazard) insurance premiums are paid. See B-1-01, Administering an Escrow Account and Paying Expenses for additional information.
	Immediately obtain new coverage to meet Fannie Mae’s requirements if the borrower allows the insurance coverage to lapse. See B-6-01, Lender-Placed Insurance Requirements for additional information.
	Contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to determine if additional coverage is needed if the insurable improvements of the property securing a mortgage loan are exposed to hazards that a fire and extended coverage policy does not protect against.
	Change the insurance coverage for a mortgage loan when it is inadequate to protect Fannie Mae’s interests or, in the instance of lender-placed insurance, causes Fannie Mae to be overinsured. Examples include properties that become vacant and home renovation or construction mortgage loans where the renovation or construction work is completed or the borrower occupies the property. Also, see B-4-02, Builder’s Risk/Construction Site Insurance for additional information.

### Property (Hazard) Insurance Policy and Coverage Requirements

The requirements of a property (hazard) insurance policy for the insurable improvements of the property securing a mortgage loan are as follows:

- The coverage must protect against loss or damage from fire, windstorm, hurricane, hail, and other hazards covered by the standard extended coverage endorsement.
- If the property (hazard) insurance policy includes such limitations and exclusions, the borrower must obtain a separate policy or endorsement from another insurer that provides adequate coverage for the limited or excluded peril.
- The coverage must provide for claims to be settled on a replacement cost basis.

Also see B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property and B-2-03, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op for additional information.

### Property (Hazard) Insurance Carrier Rating Requirements

The property (hazard) insurance policy for the insurable improvements of the property securing any first lien mortgage loan must be written by a carrier that meets one of the following rating requirements, even if it is rated by more than one of the rating agencies.

Rating Agency	Rating Category
A.M. Best Company, Inc.	<p>Either a “B” or better Financial Strength Rating in <i>Best’s Insurance Reports</i>, or an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in <i>Best’s Insurance Reports Non-US Edition</i>.</p> <p>Carriers providing coverage for co-op projects must have a general policyholder’s rating of “A” and a Financial Size Category of “V” in <i>Best’s Insurance Reports</i>.</p>
Demotech, Inc.	“A” or better rating in <i>Demotech’s Hazard Insurance Financial Stability Ratings</i> .
Standard & Poor’s	“BBB” or better Insurer Financial Strength Rating in <i>Standard &amp; Poor’s Ratings Direct Insurance Service</i> .

### Exceptions to Property (Hazard) Insurance Carrier Rating Requirements

Fannie Mae continues to accept property (hazard) insurance policies from State Farm Florida Insurance Company although the company’s A.M. Best Company, Inc. financial strength rating does not meet Fannie Mae’s rating requirements.

Fannie Mae accepts the following types of property (hazard) insurance policies if it is the only coverage that the borrower can obtain:

- Policies underwritten by a state’s FAIR plan, and
- Policies obtained through state or territory insurance plans.

The following are exceptions to Fannie Mae’s rating requirements:

- Mortgage Impairment (or Mortgagee Interest) Insurance - If the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy, and the issuer meets either the A.M. Best Financial Strength Rating or Standard & Poor’s Insurer Financial Strength Rating, Fannie Mae does not require the servicer to confirm that the borrower’s property (hazard) insurance coverage is with a firm that meets Fannie Mae’s rating requirements.
- Reinsurance Arrangements - The policies of an insurer that does not meet Fannie Mae’s rating requirements will be accepted provided all conditions outlined in the following table are met.

✓	<b>Conditions for acceptable reinsurance arrangements</b>
	The insurer is covered by reinsurance with a company that meets either one of the A.M. Best Financial Strength Ratings or Standard & Poor’s Insurer Financial Strength Rating, as listed in Property (Hazard) Insurance Carrier Rating Requirements.
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a “cut-through” endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event that the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an <i>Assumption of Liability Endorsement (Form 858)</i> , or any equivalent endorsement that provides for 100% reinsurance of the primary insurer’s policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement.  <b>Note:</b> <a href="#">Form 858</a> (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement, unless the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy.
	The reinsurance agreement does not allow contributions or assessments either to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae’s lien.

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## Evidencing Acceptable Property (Hazard) Insurance

The following is acceptable evidence of property (hazard) insurance:

- the original insurance policy or a short form certificate of insurance showing all of the necessary information and signed by the insurer, or
- data files including sufficient information about the insurance policy, the property, and the borrower, provided the following requirements are met:
  - The data file is equivalent to a printed policy and includes sufficient information to evidence compliance with Fannie Mae’s requirements.
  - The servicer’s errors and omissions insurance policy acknowledges electronic data transfers and fully protects the servicer and Fannie Mae against losses resulting from erroneous data files or transfers.
  - The servicer can produce legible hard copies of the insurance policies and proof of premium payments to Fannie Mae upon request.



## **B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property (11/12/2014)**

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### Introduction

This topic contains the following:

- Determining Minimum Coverage Amounts
- Maximum Allowable Deductible Requirements
- Named Insured and Mortgagee Clause Requirements

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### Determining Minimum Coverage Amounts

Coverage must equal the lesser of

- 100% of the insurable value of the improvements, as established by the property insurer; or

- the UPB of the mortgage loan (or, if the mortgage loan is a second lien mortgage loan, the combined UPB of the first lien and second lien mortgage loans), as long as the UPB of the mortgage loan (or the combined UPBs) equals at least the minimum amount required to compensate for damage or loss on a replacement cost basis, which is usually 80% of the insurable value of the improvements.

The servicer must follow the procedures in *Determining Property (Hazard) Insurance Coverage Amounts* in F-1-02, Escrow, Taxes, Assessments, and Insurance for detailed steps to determine the amount of insurance Fannie Mae requires.

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### Maximum Allowable Deductible Requirements

The maximum allowable deductible is 5% of the face amount of the policy.

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### Named Insured and Mortgagee Clause Requirements

In all cases, the insurer must be instructed to send all correspondence, policies, bills, and other information to the servicer (or to both the first and second lien mortgage loan servicers).

The servicer must name Fannie Mae in the mortgagee clause if coverage or Fannie Mae’s interest would be impaired by not being named. Otherwise, the mortgagee clause is based on the mortgagee of record and the mortgage loan type as described in the following tables.

<b>If the mortgagee is...</b>	<b>Then...</b>
Fannie Mae	the mortgagee clause must read “Fannie Mae, in care of [insert servicer’s name and address here].”
the servicer	the servicer’s name, followed by the phrase “its successors and assigns,” must be shown as the mortgagee.
MERS	the mortgagee clause must name the servicer unless Fannie Mae must be named because the coverage or its interest would be impaired by its not being named.

<b>Type of Mortgage Loan</b>	<b>Mortgage Clause Requirements</b>
First lien mortgage loan	The policy must include (or have attached) a “standard” or “union” mortgagee clause (without contribution) in the form customarily

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Type of Mortgage Loan	Mortgage Clause Requirements
	used in the area in which the property is located.
Second lien mortgage loan	The mortgagee clause in the property (hazard) insurance policy for the first lien mortgage loan must be amended to recognize the second lien mortgage loan and to clearly set out Fannie Mae's interest in the policy coverage.

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## **B-2-03, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Determining Minimum Coverage Amounts
  - Maximum Allowable Deductible Requirements
  - Endorsement Requirements
  - Named Insured and Mortgagee Clause Requirements
  - Acceptable Evidence of Master or Blanket Insurance Policies
  - Notification Requirements for Policy Changes or Cancellation for Condo or Co-op Projects
- 

### **Determining Minimum Coverage Amounts**

The following requirements apply to PUDs, condos, and co-ops.

Insurance must cover 100% of the insurable replacement cost of project improvements, including the individual units for condo and co-op projects. Extended Replacement Cost coverage, under which the insurer agrees to pay more than the property's insurable replacement cost, is acceptable. An insurance policy that includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- a *Guaranteed Replacement Cost Endorsement* and, if the policy includes a coinsurance clause, an *Agreed Value Option or Agreed Amount Endorsement*; or
- a *Replacement Cost Endorsement* and, if the policy includes a coinsurance clause, an *Agreed Value Option or Agreed Amount Endorsement*.

If a policy includes a coinsurance clause, and includes an Agreed Amount Endorsement or selection of the Agreed Value Option which waives the requirement for coinsurance, the policy coverage will be considered acceptable evidence that the 100% insurable replacement cost of the project improvements requirement has been met. In addition, when a policy includes a coinsurance clause, but the coinsurance provision is not waived, the policy is still eligible if evidence acceptable to the servicer confirms that the amount of coverage is at least equal to 100% of the insurable replacement cost of the project improvements.

The policy must protect against the perils customarily covered for similar projects, including those covered by the standard “all risk” or “special form coverage” endorsement or the “broad form” covered causes of loss.

The HOA or the co-op corporation must maintain a policy of property insurance with premiums being paid as a common expense. The following table provides additional requirements depending on the project type.

Project Type	Requirements
PUD	<p>Fannie Mae requires individual insurance policies for each mortgage loan it purchases or securitizes in a PUD project. See B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property for the required amount of coverage. The servicer must also have in its possession a copy of any insurance policy covering the common areas of the PUD project.</p> <p>Fannie Mae will accept a blanket insurance policy in satisfaction of its insurance requirements for the units if the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements.</p> <p>The policy must cover all of the common elements belonging to the HOA, including</p>



Project Type	Requirements
	<p>fixtures, building service equipment, and common personal property and supplies.</p>
<p>Condo</p>	<p>The servicer must verify property (hazard) insurance, including wind and flood insurance if applicable, coverage at the project level as part of its review of a project and ensure that each condo association is covered by an individual policy.</p> <p>If the master or blanket insurance policy maintained by an HOA for a condo project does not cover either the interior of the condo unit or the improvements made by the borrower to the interior of the condo unit, the servicer must ensure the condo unit has an HO-6 policy.</p> <p>If an HO-6 policy is required, the insurance policy must provide coverage, as determined by the insurer, sufficient to repair the condo unit to at least its condition prior to a loss claim event.</p> <p>Acceptable types of HOA master or blanket insurance policies include:</p> <ul style="list-style-type: none"> <li>• “Single Entity”,</li> <li>• “All-in”, and</li> <li>• “Bare walls”.</li> </ul> <p>The policy must cover all of the general and limited common elements that are normally included in coverage, including fixtures, building service equipment, and common personal property and supplies belonging to the HOA.</p> <p>Additionally, the policy must provide that</p>

Project Type	Requirements
	<ul style="list-style-type: none"> <li>• any Insurance Trust Agreement is recognized;</li> <li>• the right of subrogation against unit owners is waived;</li> <li>• the insurance is not prejudiced by any acts or omissions of individual unit owners not under the control of the HOA; and</li> <li>• the policy is primary, even if a unit owner has other insurance covering the same loss.</li> </ul>
Co-op	The policy must cover the entire project, including the units.

### Maximum Allowable Deductible Requirements

The maximum allowable deductible is as follows:

- For policies covering the common elements in a PUD project, a PUD unit mortgage loan, condo projects, or co-op projects, 5% of the face amount of the policy.
- For blanket insurance policies covering the individual units and the common elements, 5% of the replacement cost of the unit.

### Endorsement Requirements

The required special endorsements for PUD, condo, and co-op projects are as follows:

- An *Inflation Guard Endorsement*, when it can be obtained.
- A *Building Ordinance or Law Endorsement* if the enforcement of any building, zoning, or land-use law will result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.

**Note:** Fannie Mae will not require a *Building Ordinance or Law Endorsement* if it is not obtainable in the insurance market available to the association.

- A *Steam Boiler and Machinery/Equipment Breakdown Coverage Endorsement* if the project has central heating or cooling. An endorsement or separate stand-alone boiler and machinery policy must provide for the insurer’s minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.

### Named Insured and Mortgagee Clause Requirements

The insurance policy must include the standard mortgagee clause. When the servicer is named as the mortgagee, its name must be followed by the phrase “its successors and assigns.”

The following table provides the requirements regarding the name of the insured entity.

Coverage Type	Requirements for Named Insured
Condo Projects	<p>The policy must either show the HOA or, if the condo’s legal documents permit it, an authorized representative of the HOA, including its insurance trustee, as the named insured.</p> <p>The “loss payable” clause must show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit’s mortgage loan.</p>
PUD Common Areas	The policy must show the HOA as the named insured.
Co-op Project Common Areas	The policy must show the co-op corporation as the named insured.

### Acceptable Evidence of Master or Blanket Insurance Policies

If a unit in a PUD, condo, or co-op project is covered by a master or blanket policy instead of an individual policy, the servicer must maintain

- either a copy of the current master or blanket policy and any endorsements, and a certificate of insurance showing that the individual unit securing the mortgage loan is covered under the policy, or
- individual evidence of insurance for each unit.

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### Notification Requirements for Policy Changes or Cancellation for Condo or Co-op Projects

The following table provides the requirements for notification of policy changes or cancellations.

Project Type	Requirements
Condo	The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first lien mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.
Co-op	The policy must require the insurer to notify in writing the co-op corporation (or insurance trustee) and each first lien mortgage loan holder named in the mortgagee clause at least 30 days before it cancels or substantially changes coverage.

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# Chapter B-3, Flood Insurance Requirements



## Flood Insurance Requirements

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### Introduction

This chapter describes requirements for flood insurance.

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### In This Chapter

This chapter contains information on the following topics:

B-3-01, Flood Insurance Requirements Applicable to All Property Types (11/12/2014) . . . .	279
B-3-02, Flood Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property (11/12/2014) . . . . .	282
B-3-03, Flood Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op (11/12/2014) . . . . .	283

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## B-3-01, Flood Insurance Requirements Applicable to All Property Types (11/12/2014)

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### Introduction

This topic contains the following:

- Servicer Responsibilities Related to Flood Insurance
- Determining If a Property Requires Flood Insurance
- Properties Located in the Coastal Barrier Resources System or Otherwise Protected Area
- Requirements When a Property's Flood Zone Status Changes
- Acceptable Flood Insurance Policies
- Maximum Allowable Deductible Requirements

### Servicer Responsibilities Related to Flood Insurance

The following table outlines the servicer’s responsibilities for the maintenance of flood insurance.

✓	<b>The servicer must...</b>
	Ensure the property securing the mortgage loan is adequately protected by flood insurance when required, with no lapses of coverage.
	Ensure the flood insurance premiums are paid. See B-1-01, Administering an Escrow Account and Paying Expenses for additional information.
	Actively monitor all flood maps and community status changes and take appropriate action as changes occur. If a property is remapped into a SFHA, see <i>When a Property’s Flood Zone Status Changes</i> for additional information.
	Provide evidence of flood insurance coverage to Fannie Mae within 10 business days of the date of Fannie Mae’s request.
	Increase the coverage for home renovation or construction mortgage loans, if necessary, when the renovation or construction work is completed or the borrower occupies the property. Also see B-4-02, Builder’s Risk/Construction Site Insurance for additional information.

### Determining If a Property Requires Flood Insurance

Flood insurance coverage is required when a mortgage loan is secured by a property located in an SFHA. The following table describes how to evaluate a property to determine if flood insurance is required.

<b>If...</b>	<b>Then flood insurance...</b>
any part of the principal structure on a property securing the mortgage loan is located in an SFHA	is required.
the principal structure on a property securing the mortgage loan is not located in an SFHA, but a detached structure attached to the land that does not serve as part of the security for the mortgage loan is located within the SFHA	is not required.
the principal structure on a property securing the mortgage loan is not located in an SFHA,	is required for the detached structure unless the servicer

If...	Then flood insurance...
but a detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	<ul style="list-style-type: none"> <li>• determines that the principal structure represents sufficient security for the mortgage loan, and</li> <li>• releases the detached dwelling from the security.</li> </ul>

### Properties Located in the Coastal Barrier Resources System or Otherwise Protected Area

If a property securing a mortgage loan is located within the Coastal Barrier Resource System or is within an Otherwise Protected Area and the property is not eligible for federal flood insurance, private flood insurance is acceptable.

The flood insurance carrier must meet Fannie Mae’s minimum rating requirements as specified in *Property (Hazard) Insurance Carrier Rating Requirements* in B-2-01, Property (Hazard) Insurance Requirements Applicable to All Property Types. The amount of the flood insurance required and the deductible amount must adhere to Fannie Mae’s flood insurance requirements based on the property type.

### Requirements When a Property’s Flood Zone Status Changes

When a property is remapped into an SFHA, the servicer must take the action described in the following table.

If the property is located in a...	Then the servicer must...
participating community under the NFIP	obtain the required coverage within 120 days after the effective date of the remapping even if the borrower refuses to obtain the required coverage or to pay a disputed premium.
non-participating community under the NFIP	work with the borrower to locate a private insurance carrier and obtain the required coverage within 120 days after the effective date of the remapping.

The servicer must follow the procedures in *General Expense Reimbursement Requirements* in F-1-06, Expense Reimbursement for information related to flood insurance premium reimbursement.

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## Acceptable Flood Insurance Policies

Flood insurance must be in one of the following forms:

- a standard policy issued under the NFIP,
- a policy that meets NFIP requirements, such as those issued by licensed property and casualty insurance companies authorized to participate in the NFIP’s “Write Your Own” program; or
- a policy issued by a private insurer as long as
  - the terms and amount of coverage are at least equal to that provided under an NFIP policy, and
  - the insurer meets Fannie Mae’s rating requirements as specified in *Property (Hazard) Insurance Carrier Rating Requirements* in B-2-01, Property (Hazard) Insurance Requirements Applicable to All Property Types.

A Policy Declaration page is acceptable evidence of flood insurance.

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## Maximum Allowable Deductible Requirements

The deductible must be no greater than the NFIP maximums based on the property type.



## **B-3-02, Flood Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property (11/12/2014)**

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### Introduction

This topic contains the following:

- Determining Minimum Coverage Amounts
- Named Insured and Mortgagee Clause Requirements

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### Determining Minimum Coverage Amounts

The minimum amount of flood insurance required is the lower of



- 
- 100% of the replacement cost of the insurable value of the improvements,
  - the maximum insurance available from the NFIP, or
  - the UPB of the mortgage loan (or, if a second lien mortgage loan, the combined UPB of the first lien and second lien mortgage loans).

If Fannie Mae does not have an interest in the first lien mortgage loan and the property securing a second lien mortgage loan is not covered by a flood insurance policy because the holder of the first lien mortgage loan did not require flood insurance coverage, the servicer must require the borrower to obtain a flood insurance policy with coverage in the amount of the lower of

- the UPB of the second lien mortgage loan, or
- the maximum coverage available under the NFIP.

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### Named Insured and Mortgagee Clause Requirements

Refer to *Named Insured and Mortgagee Clause Requirements* in B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property for information on the required mortgagee clauses for flood insurance.



## **B-3-03, Flood Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op (11/12/2014)**

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### Introduction

This topic contains the following:

- Determining Minimum Coverage Amounts
- Named Insured and Mortgagee Clause Requirements

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### Determining Minimum Coverage Amounts

When a mortgage loan is secured by a unit in a PUD, condo, or co-op project and any part of the improvements are in an SFHA, the servicer must verify that the HOA or co-op corporation is

maintaining a master or blanket policy of flood insurance and providing for premiums to be paid as a common expense.

The following table provides additional requirements depending on the project type.

Project Type	Coverage Requirements
PUD	<p>The same flood insurance required for other one- to four-unit properties is required for individual PUD units. See <i>Determining Minimum Coverage Amounts</i> in B-3-02, Flood Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property for the required amount of coverage.</p> <p>The policy for a PUD project must cover any common element buildings and any other common property located in an SFHA. Flood insurance coverage must be at least equal to the lesser of</p> <ul style="list-style-type: none"> <li>• 100% of the insurable value of the facilities, or</li> <li>• the maximum coverage available under the NFIP.</li> </ul>
Condo	<p>The HOA must obtain a Residential Condominium Building Association Policy for each building located in an SFHA, which must consist of the following three components:</p> <ol style="list-style-type: none"> <li>1. Building coverage, which must equal 100% of the insurable value of the common elements and property, including machinery and equipment that are part of the building;</li> <li>2. Contents coverage, which must equal 100% of the insurable value of all contents, including machinery and equipment that are not part of the building, owned in common by the association members; and</li> <li>3. Coverage for each unit, which must be the lesser of                     <ul style="list-style-type: none"> <li>• \$250,000, or</li> <li>• the replacement cost.</li> </ul> </li> </ol>

Project Type	Coverage Requirements
	<p>If the total required coverage exceeds the maximum coverage available for condo projects under the NFIP, coverage equal to the maximum amount available is acceptable.</p> <p>If an HOA refuses to obtain the required coverage for the condo project, a separate policy must be obtained for each unit. The coverage required for the individual unit must be based on the coverage requirement for mortgage loans secured by one- to four-unit properties, as described in <i>Determining Minimum Coverage Amounts</i> in B-3-02, Flood Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property.</p>
Co-op	<p>The co-op corporation must have a separate flood insurance policy for each building located in an SFHA. The policy must cover the building and any common elements and property, including machinery and equipment owned in common by the shareholders of the co-op corporation.</p> <p>The coverage amount must be at least equal to the lesser of</p> <ul style="list-style-type: none"> <li>• 100% of the insurable value of each insured building, including all common elements and property; or</li> <li>• the maximum coverage available under the NFIP.</li> </ul>

**Named Insured and Mortgagee Clause Requirements**

See *Named Insured and Mortgagee Clause Requirements* in B-2-03, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a Unit in a PUD, Condo, or Co-op for information on the required mortgagee clauses which are the same for flood insurance.

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# Chapter B-4, Additional or Optional Insurance Coverage



## Additional or Optional Insurance Coverage

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### Introduction

This chapter describes requirements relating to additional and optional insurance coverages.

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### In This Chapter

This chapter contains information on the following topics:

B-4-01, Earthquake or Typhoon Insurance (11/12/2014) . . . . .	286
B-4-02, Builder's Risk/Construction Site Insurance (11/12/2014) . . . . .	287
B-4-03, Mortgage Loan or Credit Life Insurance (11/12/2014) . . . . .	287

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## B-4-01, Earthquake or Typhoon Insurance (11/12/2014)

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Earthquake insurance is required for

- insurable improvements of any property securing a mortgage loan in Puerto Rico.
- insurable improvements of masonry construction on any property securing a mortgage loan in Guam.

A typhoon endorsement is required for any property securing a mortgage loan in Guam.

See *Chapter B-2, Property (Hazard) Insurance Requirements* for requirements related to the amount of coverage and maximum allowable deductible.

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## **B-4-02, Builder's Risk/Construction Site Insurance (11/12/2014)**

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When Fannie Mae purchases a mortgage loan that combines construction and permanent financing into a single transaction before the construction of the property improvements is completed, builder's risk/construction site insurance equal to the original mortgage loan amount must be obtained.

Once the improvements are complete or the borrower occupies the property, whichever occurs first, Fannie Mae's standard applicable insurance requirements apply. See *Chapter B-2, Property (Hazard) Insurance Requirements* and *Chapter B-3, Flood Insurance Requirements* for additional information.

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## **B-4-03, Mortgage Loan or Credit Life Insurance (11/12/2014)**

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If the servicer acts as a broker or agent in the sale of mortgage loan (or credit) life insurance, or similar types of insurance, to the borrower, the following apply:

- A credit life insurance policy must require separately identified premium payments on a monthly or annual basis.
  - The servicer must agree to reimburse Fannie Mae for attorney's fees or any costs that Fannie Mae incurs if it brings an action on a defaulted mortgage loan and
    - the borrower defends against Fannie Mae's foreclosure or acts to enjoin Fannie Mae from liquidating the mortgage loan, and
    - the defense or the action for injunction is based on an obligation of the servicer (as broker or agent) or the insurance carrier.
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# Chapter B-5, Property (Hazard) and Flood Insurance Loss Events and Claim Settlements



## Property (Hazard) and Flood Insurance Loss Events and Claim Settlements

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### Introduction

This chapter describes requirements relating to property (hazard) and flood insurance loss events and claim settlements.

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### In This Chapter

This chapter contains information on the following topics:

B-5-01, Insured Loss Events (03/18/2015) . . . . .	288
B-5-02, Uninsured Loss Events (11/12/2014) . . . . .	295

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## B-5-01, Insured Loss Events (03/18/2015)

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### Introduction

This topic contains the following:

- Servicer Responsibilities
- Disbursing Insurance Loss Proceeds
- Requirements for Using a Contractor
- Applying Insurance Loss Proceeds
- Depositing the Insurance Loss Proceeds
- Submitting a Report of Property (Hazard) Insurance Loss Form to Fannie Mae

## Servicer Responsibilities

When a property securing a mortgage loan experiences an insured loss, the servicer’s action depends upon whether the property can be legally rebuilt, as described in the following table.

If...	Then the servicer must...
the property can be legally rebuilt	determine the appropriate actions based on the status of the mortgage loan at the time the servicer receives notification of damages, as described below.
the property cannot be legally rebuilt	use any insurance loss proceeds to reduce the outstanding mortgage loan debt.

The following table provides a list of the servicer’s responsibilities when there is an insurable loss on a property securing a mortgage loan.

✓	The servicer must...
	Obtain complete details on the damage to the property and determine the needed repairs.
	Ensure the proof of loss claim is filed within the time period specified in the insurance policy and monitor the disbursement of insurance loss proceeds (see <i>Disbursing Insurance Loss Proceeds</i> for additional information).  <b>Note:</b> If the servicer is unable to establish contact with the borrower, the servicer must contact the insurance carrier to determine whether the borrower has filed the proof of loss claim. If the borrower has not filed the claim, the servicer must file a proof of loss claim under the standard mortgagee clause and collect the insurance loss proceeds on Fannie Mae’s behalf.
	Deposit the non-disbursed funds into an interest-bearing account (see <i>Depositing the Insurance Loss Proceeds</i> for additional information).
	Discuss with the borrower any plans for repairing the property.  <b>Note:</b> If the servicer is unable to establish contact with the borrower or the property is abandoned, the servicer must ensure the property is maintained and secured by complying with the requirements in E-3.2-12, Performing Property Preservation During Foreclosure Proceedings and the <i>Property Maintenance and Management: Property Preservation Matrix and Reference Guide</i> to ensure the property is maintained and preserved.

✓	<b>The servicer must...</b>
	Review and approve the final plans for repair, including obtaining the necessary bids to repair the property.
	Monitor and inspect repairs as completed to verify the repairs comply with the final repair plan.  <b>Note:</b> The servicer must ensure the property inspection report accurately assesses the condition of the property, is dated, and identifies the mortgagor(s) and the property address.
	Conduct a final inspection to ensure all repairs are completed.  <b>Note:</b> If the mortgage loan is current at the time of the loss event and the insurance loss proceeds are less than or equal to \$10,000, a final inspection is not required.
	Obtain the proper lien releases, if applicable.

If a property inspection reveals an insurable loss event and the proof of loss claim is not filed, is denied, or is curtailed due to the servicer's failure to file a timely claim, the servicer must make Fannie Mae whole for any losses relating to the property damage expenses or fees Fannie Mae incurs.

### **Disbursing Insurance Loss Proceeds**

If the insurance loss proceeds exceed the sum of the UPB, accrued interest, and advances, then the servicer must issue the borrower a check for the amount by which the insurance loss proceeds exceed the UPB, accrued interest, and advances.

If the borrower wants to repair or restore the property, then the servicer must disburse the insurance loss proceeds in the manner described in the following table for all mortgage loans where

- a foreclosure sale date has not been scheduled, and
- the property securing the mortgage loan is not abandoned.



<b>If, at the time the servicer receives notification of damages, the mortgage loan is...</b>	<b>Then the servicer is authorized to...</b>	<b>And the servicer must...</b>
current or less than 31 days delinquent	release an initial disbursement of insurance loss proceeds up to the greater of \$40,000 or 10% of the UPB	disburse the remaining funds based on periodic inspections of the progress of the repair work.
31 days or more delinquent	release an initial disbursement of insurance loss proceeds up to the greater of \$10,000 or 25% of the insurance loss proceeds  <b>Note:</b> If the insurance loss proceeds are less than or equal to \$2,500, the servicer is authorized to make the disbursement in one payment.	disburse the remaining funds in increments not to exceed 25% of the insurance loss proceeds following inspection of the repairs.

If the borrower wants to repair or restore the property, then the servicer must take the actions described in the following table when the servicer receives notification of damages and

- a foreclosure sale date has been scheduled, or
- the property securing the mortgage loan is abandoned.

<b>✓</b>	<b>The servicer must...</b>
	Evaluate the borrower for a workout option in accordance with <i>Chapter D2–3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> .
	Follow the requirements in E-3.2-12, Performing Property Preservation During Foreclosure Proceedings and the <i>Property Maintenance and Management: Property Preservation Matrix and Reference Guide</i> to ensure the property is maintained and preserved.
	Submit a <i>Report of Property (Hazard) Insurance Loss (Form 176)</i> to Fannie Mae.

**Note:** There may be circumstances in which the servicer receives an insurance claim check that includes payments for contents (for example, personal property) or living expenses. The servicer must immediately release the amount of the insurance claim check attributable to these items to the borrower.

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### Requirements for Using a Contractor

The servicer must determine if a licensed contractor is required based on the status of the mortgage loan when the servicer receives notification of damage to the property and the amount of the insurance loss proceeds.

#### Mortgage Loans Current or Less Than 31 Days Delinquent:

The servicer must follow the requirements described in the following table for a mortgage loan that is current or less than 31 days delinquent at the time the servicer receives notification of damage to the property.

<b>If the insurance loss proceeds are...</b>	<b>Then the servicer...</b>
less than \$40,000	is authorized to determine if a licensed contractor is required to restore or repair the property.
equal to or greater than \$40,000	must ensure a licensed contractor is used to restore or repair the property.

The following table provides the requirements for releasing the insurance loss proceeds.

<b>If the insurance loss proceeds are...</b>	<b>Then the servicer must release the insurance loss proceeds payable to...</b>
less than or equal to \$20,000	only the borrower.
greater than \$20,000	the borrower and the contractor.

**Note:** If the borrower has made advance payments to the contractor, then the servicer may reimburse the borrower by releasing insurance loss proceeds in excess of \$20,000 payable to the borrower only. The servicer must obtain receipts/invoices from the borrower that confirm the advance payments were made.

#### Mortgage Loans 31 Days or More Delinquent:

The servicer must take the actions described in the following table for a mortgage loan that is 31 days or more delinquent at the time the servicer receives notification of damages.

✓	<b>The servicer must...</b>
	Ensure a licensed contractor is used to restore or repair the property.
	Release insurance loss proceeds payable to the borrower and the contractor.  <b>Note:</b> If the borrower has made advance payments to the contractor, then the servicer may release the insurance loss proceeds payable to the borrower only if the borrower provides the servicer with invoices demonstrating the advance payments and that the work has been completed.
	Evaluate the borrower for a workout option in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

### Applying Insurance Loss Proceeds

If a borrower does not want to repair or restore the property, the servicer must

- follow the requirements in E-3.2-12, Performing Property Preservation During Foreclosure Proceedings and the *Property Maintenance and Management: Property Preservation Matrix and Reference Guide* to ensure the property is maintained and preserved, and
- submit a [Form 176](#) to Fannie Mae.

If the borrower is eligible for a workout option in accordance with *Chapter D2–3, Fannie Mae’s Home Retention and Liquidation Workout Options*, the servicer must ensure the borrower has assigned any insurance loss proceeds to Fannie Mae, if required.

If the borrower is not eligible for a workout option in accordance with *Chapter D2–3, Fannie Mae’s Home Retention and Liquidation Workout Options*, but the servicer has determined that a workout option is appropriate, it must submit the case to Fannie Mae for review through HSSN.

If the mortgage loan progresses to foreclosure sale, the servicer must follow the requirements in E-3.3-04, Issuing Bidding Instructions for determining the foreclosure sale bid amount. After the foreclosure sale, the servicer must remit the insurance loss proceeds through the Case Remittance System, using remittance code 332, after the foreclosure sale.

### Depositing the Insurance Loss Proceeds

The servicer must deposit the insurance loss proceeds not disbursed to the borrower in an interest-bearing account. The following table provides a list of account requirements.

✓	<b>The interest-bearing account must...</b>
	Be for the borrower's benefit.
	Yield interest equivalent to the interest the borrower could expect to obtain from a savings or money market account.
	Be in a depository institution that meets Fannie Mae's eligibility criteria for custodial depositories (see A4-1-02, Establishing Custodial Bank Accounts for additional information).

The servicer must pay the accumulated interest to the borrower once the repairs to the property have been completed, unless the borrower requests an earlier disbursement of the interest.

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### Submitting a Report of Property (Hazard) Insurance Loss Form to Fannie Mae

The servicer must submit [Form 176](#) to Fannie Mae with the servicer's recommendation for the property and insurance loss proceeds if

- the borrower wants to repair or restore the property, but the foreclosure sale date has been scheduled or the property has been abandoned; or
- the borrower does not want to repair or restore the property.

The servicer must follow the procedures in *Submitting a Report of Property (Hazard) or Flood Insurance Loss* in F-1-02, Escrow, Taxes, Assessments, and Insurance for detailed requirements.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2014-21</a>	December 10, 2014
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## **B-5-02, Uninsured Loss Events (11/12/2014)**

When a natural disaster or other event results in an uninsured loss to the property, the servicer must take the steps listed in the following table.

<b>Step</b>	<b>Servicer Action</b>
1	Determine the damage.
2	If the property is abandoned, secure it.
3	Develop plans to repair the property.
4	Send a complete report of the damage to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).
5	Assist the borrower in filing for any disaster relief that may be available.
6	If the damage is extensive, offer the borrower any reasonable forbearance plan or mortgage loan modification agreement that the borrower requests in accordance with <i>Section D2-3.2, Home Retention Workout Options</i> .

## Chapter B-6, Lender-Placed Insurance



### Lender-Placed Insurance

#### Introduction

This chapter describes the requirements related to lender-placed insurance.

#### In This Chapter

This chapter contains the following topic:

B-6-01, Lender-Placed Insurance Requirements (11/12/2014) . . . . . 296



### B-6-01, Lender-Placed Insurance Requirements (11/12/2014)

If the servicer cannot obtain evidence of acceptable property (hazard) or flood insurance for a property securing a mortgage loan, the servicer must obtain lender-placed insurance in compliance with Fannie Mae's insurance requirements. The following table provides the servicer's responsibilities related to lender-placed insurance.

✓	The servicer must...
	Only issue lender-placed insurance coverage after it makes unsuccessful attempts to obtain evidence of insurance in accordance with applicable law.
	Not use a lender-placed insurance carrier that is an affiliated entity, as defined below, for a lender-placed insurance policy, including any captive insurance or reinsurance arrangements with an affiliated entity.
	Exclude any lender-placed insurance commissions or payments (including any incentive-based compensation regardless of its designation as commission, bonus, fees, or other types of payments from the servicer's lender-placed insurance carrier; for example, underwriting bonuses or other payments based on insurance loss ratios) earned on a

✓	<b>The servicer must...</b>
	lender-placed insurance policy by the servicer, broker, or any affiliated entity, as defined below, from the lender-placed insurance premiums charged to the borrower or submitted for reimbursement from Fannie Mae.
	Provide copies of its lender-placed insurance policy, including any other contractual arrangements between the servicer and a lender-placed insurance carrier, upon Fannie Mae's request.
	Provide any documentation or data relating to its lender-placed insurance activities and lender-placed insurance coverage requested by Fannie Mae within 30 days of Fannie Mae's request.
	In compliance with applicable law: <ul style="list-style-type: none"> <li>• terminate any lender-placed insurance, and</li> <li>• refund all lender-placed insurance premiums and fees charged during any period of coverage overlap.</li> </ul>

For purposes of lender-placed insurance, an affiliated entity is defined as

- an entity owned or controlled, in whole or in part, by the servicer including, but not limited to, a subsidiary or joint venture of the servicer;
- an entity that owns or controls, in whole or in part, the servicer (for example, the parent company of the servicer); or
- an entity that is under common ownership or control with the servicer (for example, two subsidiaries of the same parent company).

An affiliated entity does not include a publicly traded company where the servicer owns less than 5% of its stock.

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# Chapter B-7, Liability and Fidelity/Crime Insurance Requirements for Project Developments



## Liability and Fidelity/Crime Insurance Requirements for Project Developments

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### Introduction

This chapter describes the requirements relating to liability and fidelity/crime insurance for project developments.

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### In This Chapter

This chapter contains the following topics:

B-7-01, Liability Insurance Requirements for Project Developments (11/12/2014) . . . . .	298
B-7-02, Fidelity/Crime Insurance Requirements for Project Developments (11/12/2014) . . .	299

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### B-7-01, Liability Insurance Requirements for Project Developments (11/12/2014)

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The HOA or co-op corporation for a PUD, condo, or co-op project must maintain a comprehensive general liability insurance policy covering the entire project, including

- commercial spaces owned by the HOA or co-op corporation, even if the spaces are leased to others; and
- bodily injury and property damage resulting from the operation, maintenance, or use of the project's common areas and elements.



Additionally, for PUD or condo projects, the policy must also cover all common areas and elements, public ways, and any other areas under the HOA's supervision.

The minimum general liability coverage required is \$1 million for bodily injury and property damage for any single occurrence.

If the policy does not include "severability of interest/separation of insureds" in its terms, the policy must contain a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA or co-op corporation or of other unit owners.

The policy must provide at least 10 days written notice to the HOA or co-op corporation before the insurer can cancel or substantially modify the policy. For condo and co-op projects, similar notice also must be given to each holder of a first lien mortgage loan on an individual unit in the project.



## **B-7-02, Fidelity/Crime Insurance Requirements for Project Developments (11/12/2014)**

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Fannie Mae requires fidelity/crime insurance coverage for all PUD, co-op, or condo projects with the following exceptions:

- Type A condo projects;
- Type E established PUD projects;
- Type F new PUD projects that consist of detached dwellings only, or those that consist of both attached and detached dwellings if the mortgage loan Fannie Mae holds is secured by a detached dwelling; or
- any other PUD, condo, or co-op project consisting of 20 or fewer units.

The HOA or co-op corporation must have blanket fidelity/crime insurance coverage for anyone who handles or is responsible for funds held or administered by the HOA or co-op corporation. A management agent that handles funds for the HOA or co-op corporation should be covered by its own fidelity/crime insurance policy, which should provide the same coverage required of the HOA or co-op corporation.

The policy must cover the maximum funds in the custody of the HOA or co-op corporation or its management agent at any time while the policy is in force. Fidelity/crime insurance is not required if the maximum funds are less than or equal to \$5,000.

If the project's legal documents require, or another source acceptable to the servicer verifies, that the HOA or co-op corporation and any management company adhere to certain financial controls, coverage must at least equal the sum of three months of assessments on all units in the project, unless this calculated amount is less than or equal to \$5,000, in which case fidelity/crime insurance is not required. In states with statutory fidelity/crime insurance requirements, Fannie Mae will accept the state fidelity/crime insurance requirements.

If reduced coverage is allowed, the financial controls must take one or more of the following forms:

- the HOA or co-op corporation or the management company must maintain separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited must send copies of the monthly bank statements directly to the HOA or co-op corporation;
- the management company must maintain separate records and bank accounts for each HOA or co-op corporation that uses its services and the management company must not have the authority to draw checks on, or to transfer funds from, the HOA's or co-op corporation's reserve account; or
- two members of the Board of Directors must sign all checks written on the reserve account. The insurance policy must name the HOA or co-op corporation as the insured and the premiums must be paid as a common expense by the HOA or co-op corporation. The policy for a condo or co-op project must provide for at least ten days' written notice to the HOA or its insurance trustee before the insurer can cancel or substantially modify the policy. This same notice must be given to each servicer that services a Fannie Mae-owned mortgage loan in the condo project.

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# Chapter B-8, Mortgage Insurance



## Mortgage Insurance

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### Introduction

This chapter describes requirements relating to mortgage insurance.

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### In This Chapter

This chapter contains the following sections:

B0-8.1, Conventional Mortgage Insurance Requirements .....	302
B0-8.2, FHA Mortgage Insurance Requirements .....	313

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## Section B0-8.1, Conventional Mortgage Insurance Requirements

### B-8.1-01, Conventional Mortgage Insurance Servicer Responsibilities (11/12/2014)

The following table outlines the servicer’s responsibilities for maintaining mortgage insurance coverage.

✓	<b>The servicer must...</b>
	Obtain mortgage insurance from companies that Fannie Mae deems qualified mortgage insurers, as listed in <i>Approved Mortgage Insurers and Related Identifiers</i> .
	Ensure that the mortgage insurance coverage Fannie Mae requires when it purchases or securitizes a mortgage loan remains in effect for as long as required by Fannie Mae.
	Consult with mortgage insurance providers for specific processes related to obtaining approvals, reporting, and other operational matters in connection with a workout option, if applicable.
	Pay all renewal premiums promptly.
	Comply with all requirements under the Homeowners Protection Act of 1998 or other applicable law.
	<p>Provide mortgage insurers instructions that must</p> <ul style="list-style-type: none"> <li>• apply to all mortgage loans insured, or may be insured, by the mortgage insurer and serviced on behalf of Fannie Mae now or in the future, and</li> <li>• instruct each mortgage insurer to provide to Fannie Mae any information, data, and materials requested by Fannie Mae.</li> </ul> <p>The servicer must follow the procedures in <i>Instructing Mortgage Insurers to Release Data</i> in F-1-02, Escrow, Taxes, Assessments, and Insurance for details on Fannie Mae’s requirements.</p>
	Maintain the borrower-purchased conventional mortgage insurance that was in effect when Fannie Mae acquired the mortgage loan unless the conditions Fannie Mae

✓	The servicer must...
	<p>imposes for replacing or cancelling the coverage are met. See B-8.1-03, Replacing Conventional Mortgage Insurance Policies and B-8.1-04, Termination of Conventional Mortgage Insurance for additional information.</p> <p>Lender-purchased mortgage insurance for conventional mortgage loans must be kept in effect until the mortgage loan is paid in full.</p>
	<p>Report rescissions, mortgage insurer-initiated cancellations, and claim denials to Fannie Mae no more than 30 days from the date of notification of the mortgage insurance company's determination to effect a rescission, mortgage insurer-initiated cancellation, or claim denial.</p> <p>The servicer must follow the procedures in <i>Notifying Fannie Mae of Mortgage Insurance Rescissions, Claim Denials, or Cancellations</i> in F-1-02, Escrow, Taxes, Assessments, and Insurance for details on Fannie Mae's requirements.</p>

Without Fannie Mae's prior written approval, the servicer must not enter into any agreement that

- modifies the terms of an approved mortgage insurance master policy on mortgage loans delivered to Fannie Mae, or
- allows for loss sharing, indemnification, settlement, or similar agreements of any kind between the servicer and mortgage insurance company that affect Fannie Mae's interest in its mortgage loans.

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## **B-8.1-02, Paying Conventional Mortgage Insurance Premiums (11/12/2014)**

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For conventional mortgage loans with borrower-purchased mortgage insurance, the servicer must pay the renewal premium either monthly or annually as required. See B-1-01, Administering an Escrow Account and Paying Expenses for additional information.

Payment of the renewal premium for a lender-purchased mortgage insurance policy is the servicer's corporate responsibility and must be paid from the servicer's own funds. The servicer must not deposit these funds in a Fannie Mae custodial account unless Fannie Mae authorizes the use of a custodial account for this purpose.

After a mortgage loan is modified, the servicer must not

- include a factor in the servicing fee for lender-purchased mortgage insurance coverage paid through annual or monthly renewal premiums, or
- allow an excess servicing fee.

With the exception of a mortgage loan modified under a Fannie Mae HAMP modification (see D2-3.2-07, Fannie Mae HAMP Modification for additional information), the servicer has the option of funding the payment of renewal premiums from its own corporate funds or from the borrower's escrow account.



### **B-8.1-03, Replacing Conventional Mortgage Insurance Policies (11/12/2014)**

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The servicer must not replace existing mortgage insurance policies with policies from a different mortgage insurer or with different policies from the same mortgage insurer, unless the circumstances of the borrower, the property, or the mortgage loan have changed in a way that warrants a change in the mortgage insurance coverage. See [Approved Mortgage Insurers and Related Identifiers](#) for the list of acceptable conventional mortgage insurers and the associated mortgage insurance codes. Fannie Mae will advise the servicer in the case where the servicer would otherwise seek to replace a mortgage insurance policy where the existing mortgage insurer stops issuing renewal policies or when Fannie Mae removes an insurer from its list of approved mortgage insurers.

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## **B-8.1-04, Termination of Conventional Mortgage Insurance (11/12/2014)**

### **Introduction**

This topic contains the following:

- Automatic Termination of Conventional Mortgage Insurance
- Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Property Value
- Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Property Value
- Terminating the Conventional Mortgage Insurance for a Modified Mortgage Loan
- Finalizing and Reporting the Mortgage Insurance Termination
- Performing an Escrow Analysis Upon Termination of Mortgage Insurance

### **Automatic Termination of Conventional Mortgage Insurance**

The servicer must not charge the borrower a fee for processing an automatic termination.

The servicer must take the following steps to terminate the mortgage insurance, as applicable:

#### **1. Determine when the mortgage insurance is due to automatically terminate.**

The servicer's review must determine whether

- a mortgage loan is eligible for automatic termination of mortgage insurance based on the scheduled termination date (or the mid-point of the amortization period, as applicable), and
- the borrower's payments are current on that date.

The following table describes the timing of the automatic termination.

<b>If the mortgage loan closed...</b>	<b>Then the mortgage insurance is eligible to be terminated...</b>
on or after July 29, 1999 and is secured by a one-unit principal residence or second home	on the applicable termination date, provided the borrower's payments are current on the termination date.

<b>If the mortgage loan closed...</b>	<b>Then the mortgage insurance is eligible to be terminated...</b>
	The applicable termination date is <ul style="list-style-type: none"> <li>• the date the principal balance of the mortgage loan is first scheduled to reach 78% of the original value of the property, or</li> <li>• the first day of the month following the date the mid-point of the mortgage loan amortization period is reached, if the scheduled LTV ratio for the mortgage loan does not reach 78% before the mid-point.</li> </ul>
before July 29, 1999, regardless of the property type; or  on or after July 29, 1999 and is secured by a one- to four- unit investment property or a two- to four-unit principal residence	on the first day of the month after the date that is the mid-point of the original amortization period, provided the borrower's payments are current on that date.

**2. Verify that the borrower's payments are considered current.**

The borrower's payments are considered current if the payment due in the month preceding the scheduled termination date, or the mid-point of the amortization period, as applicable, and all outstanding late charges were paid by the end of the month in which the payment was due.

The following table describes the action the servicer must take depending upon the status of the borrower's payments.

<b>If the borrower's payments are...</b>	<b>Then the servicer...</b>
current and the mortgage loan is eligible for automatic termination based on its scheduled amortization	must terminate the mortgage insurance immediately.
current and the mortgage loan is eligible for automatic termination based on the mid-point of the amortization period	must terminate the mortgage insurance no later than the first day of the month following the mid-point date.
not current	must not terminate the mortgage insurance, even if the other eligibility criteria for automatic termination are met.  The servicer must



If the borrower's payments are...	Then the servicer...
	<ul style="list-style-type: none"> <li>• notify the borrower within 30 days after the termination date that the mortgage insurance was not automatically terminated because the payments were not current, and</li> <li>• terminate the mortgage insurance immediately if the borrower's payments are current at the time of a subsequent review.</li> </ul>

### **Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Property Value**

If the borrower's written request for termination includes all of the information necessary to reach a decision, the servicer must take the following steps to evaluate the request:

#### **1. Verify that the LTV ratio, or CLTV ratio if applicable, of the mortgage loan meets Fannie Mae's eligibility criteria.**

The following table describes the LTV ratio, or CLTV ratio if applicable, eligibility criteria.

If the mortgage loan is...	Then...
a first lien mortgage loan closed on or after July 29, 1999 and is secured by a one-unit principal residence or second home	the LTV ratio eligibility criterion is met on the date the mortgage loan balance is first scheduled to reach 80% (or actually reaches 80%) of the original value of the property.
a first lien mortgage loan closed before July 29, 1999 and is secured by a one-unit principal residence or second home delivered under a negotiated contract that prohibits the cancellation of mortgage insurance until a specified term has elapsed	the LTV ratio eligibility criterion is met on the date that the mortgage loan balance actually reaches 75% of the original value of the property, if the mortgage loan is seasoned for two or more years, even if the original specified term has not elapsed.
any other first lien mortgage loan	the LTV ratio eligibility criterion is met on the date the outstanding principal balance of the mortgage loan reaches the applicable percentage of the original value of the property, which is as follows: <ul style="list-style-type: none"> <li>• 80% for a mortgage loan secured by a one-unit principal residence or second home.</li> </ul>

If the mortgage loan is...	Then...
	<ul style="list-style-type: none"> <li>70% for a mortgage loan secured by a one- to four-unit investment property or a two- to four-unit principal residence.</li> </ul>
a second lien mortgage loan	the CLTV eligibility criterion is met on the date the sum of the outstanding principal balances of all mortgage loans secured by the property reaches 70% of the value of the property at the time the second lien mortgage loan was originated.

**2. Verify that the borrower has an acceptable payment record.**

An acceptable payment record is achieved when the mortgage loan

- is current when the termination is requested, which means that the mortgage loan payment for the month preceding the date of the termination request and all outstanding late charges are paid;
- has no payment 30 or more days past due in the last 12 months; and
- has no payment 60 or more days past due in the last 24 months.

The 12- and 24-month payment histories must be measured backward from the date indicated as follows:

- For mortgage loans secured by one-unit principal residences or second homes originated on or after July 29, 1999, the date is the later of
  - the date the balance is first scheduled to reach, or actually reaches, 80% of the original property value, or
  - the date the borrower actually requests termination.
- For all other mortgage loans, the date on which the mortgage insurance terminates.

**3. Verify that the value of the property is not less than its value at origination.**

The servicer must warrant that the current property value is at least equal to the original property value. The servicer may choose to order a BPO, a certification of value, or a new appraisal to verify the current property value, in which case it must select the broker or appraiser, order the valuation, and receive the results directly.

The servicer must follow the procedures in *Verifying Property Value for MI Termination* in F-1-02, Escrow, Taxes, Assessments, and Insurance for details on Fannie Mae’s requirements.

The servicer's action depends on the current property value as described in the following table.

<b>If the current value of the property is...</b>	<b>Then the servicer...</b>
at least equal to the original property value	must terminate the mortgage insurance and notify the borrower.
less than the original property value	must deny the borrower's request for termination unless the property value is based on a new appraisal and the borrower pays down the mortgage loan balance to the point that it satisfies Fannie Mae's applicable LTV or CLTV ratio eligibility criterion.

The servicer must notify the borrower if the request for termination is denied and provide the grounds for denial, including the results of any BPO, certification of value, or appraisal that the servicer ordered. This notice must be sent within 30 days of the date that

- the servicer received the borrower's request for termination; or
- the servicer received the BPO, certification of value, or new appraisal, if applicable.

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### **Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Property Value**

If the borrower's written request for termination includes the information necessary to reach a decision, the servicer must evaluate the request based on the following:

#### **1. Verify the LTV ratio, or CLTV ratio if applicable, of the mortgage loan meets Fannie Mae's eligibility criteria.**

Satisfaction that the mortgage loan meets the applicable LTV ratio or CLTV ratio eligibility criterion must be evidenced by a new appraisal based on an inspection of both the interior and exterior of the property and prepared in accordance with Fannie Mae's appraisal standards for new mortgage loan originations. The servicer must select an appraiser, order the appraisal, receive the results directly, and send a copy of the appraisal to the borrower.

The following table describes the LTV ratio, or CLTV ratio if applicable, eligibility criteria.

<b>If the mortgage loan is...</b>	<b>Then...</b>
a first lien mortgage loan secured by a one-unit principal residence or second home	the LTV ratio must be

If the mortgage loan is...	Then...
	<ul style="list-style-type: none"> <li>• 75% or less, if the seasoning of the mortgage loan is between two and five years.</li> <li>• 80% or less, if the seasoning of the mortgage loan is greater than five years.</li> </ul> <p>If Fannie Mae’s minimum two-year seasoning requirement is waived because the property improvements made by the borrower increased the property value, the LTV ratio for the first lien mortgage loan must be 75% or less.</p>
a first lien mortgage loan secured by a one- to four-unit investment property or a two- to four-unit principal residence	the LTV ratio must be 70% or less, regardless of the seasoning of the mortgage loan.
a second lien mortgage loan	the CLTV ratio must be 70% or less, regardless of the seasoning of the mortgage loan.

**2. Verify the borrower has an acceptable payment record.**

An acceptable payment record is achieved when the mortgage loan

- is current when the termination is requested, which means that the mortgage loan payment for the month preceding the date of the termination request and all outstanding late charges are paid;
- has no payment 30 or more days past due in the last 12 months; and
- has no payment 60 or more days past due in the last 24 months.

If a mortgage loan has been assumed, the servicer must not agree to the termination unless the current borrower has a 24-month payment history for the mortgage loan.

The servicer must notify the borrower if the request for termination is denied and provide the reasons for denial, including the results of the appraisal the servicer ordered. This notice must be sent within 30 days after the later of

- the date the servicer received the borrower’s request for termination, or
- the date the servicer received the appraisal.

### Terminating the Conventional Mortgage Insurance for a Modified Mortgage Loan

The mortgage insurance termination eligibility criteria must be based on the terms and conditions of the modified mortgage loan. The servicer must

- use the amortization schedule of the modified mortgage loan and the property value at the time of the mortgage loan modification, and
- adhere to applicable state law related to the type of valuation to use to determine the property value at the time of the mortgage loan modification. A BPO or a new appraisal may be used, or an AVM as long as the AVM provides a reliable confidence score.

### Finalizing and Reporting the Mortgage Insurance Termination

The servicer must automatically terminate the mortgage insurance on the applicable termination date and must approve a borrower-initiated request for termination if the previously stated requirements for the applicable type of mortgage insurance termination are met.

The servicer must not collect mortgage insurance premiums as part of the borrower's mortgage loan payment more than 30 days after the later of

- the date the servicer received the borrower's request for termination (or the scheduled termination date or the mid-point of the amortization period, as applicable, for an automatic termination), or
- the date all eligibility criteria for termination were satisfied.

The following table provides the requirements for finalizing and reporting the termination of the mortgage insurance.

✓	<b>The servicer must...</b>
	Reduce the borrower's mortgage loan payment by the amount that was being collected to pay the mortgage insurance premium within the required time frame, unless the mortgage insurance premium was financed as part of the mortgage loan amount.
	Notify the borrower within 30 days after termination that the mortgage insurance has been terminated and, if applicable, indicate that no further escrow deposits for mortgage insurance will be due from the borrower.
	Forward any unearned mortgage insurance premium refund to the borrower as soon as it is received from the mortgage insurer, but no later than 45 days after the mortgage insurance termination date.

✓	<b>The servicer must...</b>
	Report the termination of mortgage insurance to Fannie Mae with the next Fannie Mae investor reporting system reports that it submits after the termination date. See <i>Reporting Discontinuance of Mortgage Insurance</i> in the <i>Investor Reporting Manual</i> for additional information.

### Performing an Escrow Analysis Upon Termination of Mortgage Insurance

The following table outlines the actions that the servicer must take depending on whether it performs a new escrow analysis at the time the mortgage insurance is terminated.

<b>If the servicer...</b>	<b>Then...</b>
does not perform a new escrow analysis	the servicer must advise the borrower that escrow deposits accumulated to pay off the next mortgage insurance premium will be considered in the borrower's next escrow account analysis.
performs a new escrow analysis	the resulting change in the mortgage loan payment must not equal the amount previously escrowed for the mortgage insurance premium, should other escrow items need to be adjusted.

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## Section B0-8.2, FHA Mortgage Insurance Requirements



### **B-8.2-01, FHA Mortgage Insurance Coverage Requirements (11/12/2014)**

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The servicer must maintain the FHA mortgage insurance that was in effect when Fannie Mae acquired the mortgage loan, unless the conditions that Fannie Mae or FHA imposes for cancelling the coverage are met. See B-8.2-03, Termination or Cancellation of FHA Mortgage Insurance and FHA Mortgage Insurance Premium for additional information.

When the servicer agrees to cancel the annual FHA MIP, it must reduce the borrower's monthly mortgage loan payment by any monthly escrow deposit that was being collected to pay the MIP.

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### **B-8.2-02, Conversion of FHA Coinsured Mortgage Loans to Full Insurance (11/12/2014)**


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If a current FHA coinsured mortgage loan is not automatically converted to full insurance when the 60th monthly payment is made, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

If the servicer cannot continue its coinsurance obligations because of its dissolution or bankruptcy, it must notify FHA and provide a list of all coinsured mortgage loans in its Fannie Mae portfolio. The servicer must send Fannie Mae the list of mortgage loans and a copy of FHA's acknowledgement that the mortgage loans will be converted to full insurance.

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### **B-8.2-03, Termination or Cancellation of FHA Mortgage Insurance and FHA Mortgage Insurance Premium (11/12/2014)**

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For automatic cancellation of the FHA mortgage insurance premium or for borrower-initiated cancellation of the FHA mortgage insurance premium based on a partial prepayment, the servicer must execute the cancellation of FHA mortgage insurance in accordance with applicable FHA guidelines.

Upon receipt of a borrower's written request to cancel the FHA mortgage insurance based on the current property value, the servicer must evaluate the request in accordance with Fannie Mae's provisions to terminate conventional mortgage insurance based on the current property value, as described in *Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Property Value* in B-8.1-04, Termination of Conventional Mortgage Insurance.

The servicer must not cancel FHA mortgage insurance for any FHA-insured mortgage loan in an MBS or other Fannie Mae-issued mortgage security pool.

The following table outlines the servicer's responsibilities if the criteria for canceling FHA mortgage insurance are satisfied.

✓	The servicer must...
	Notify FHA to cancel the FHA mortgage insurance.
	Notify Fannie Mae of the cancellation in accordance with <i>Reporting Discontinuance of Mortgage Insurance</i> in the <a href="#">Investor Reporting Manual</a> for detailed reporting requirements.
	Retain supporting documentation in the mortgage loan servicing file.

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# Part C, Mortgage Loan Payment Processing, Remitting, Accounting, and Reporting



## Mortgage Loan Payment Processing, Remitting, Accounting, and Reporting

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### Introduction

This part contains information on mortgage loan payment processing, remitting, accounting and reporting.

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### In This Part

This part contains the following chapters:

C-1, Processing Mortgage Loan Payments .....	316
C-2, Servicing ARM Loans .....	327
C-3, Remitting and Accounting .....	338
C-4, Reporting .....	342

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# Chapter C-1, Processing Mortgage Loan Payments



## Processing Mortgage Loan Payments

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### Introduction

This chapter contains information on processing mortgage loan payments.

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### In This Chapter

This chapter contains the following sections:

C0-1.1, Processing Scheduled Mortgage Loan Payments . . . . .	317
C0-1.2, Processing Unscheduled Mortgage Loan Payments . . . . .	322

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## Section C0-1.1, Processing Scheduled Mortgage Loan Payments

### C-1.1-01, Servicer Responsibilities for Processing Mortgage Loan Payments (11/12/2014)

The following table outlines the servicer’s responsibilities for processing payments for any mortgage loan that Fannie Mae owns or securitizes.

✓	<b>The servicer must...</b>
	Notify the borrower of upcoming payment changes in accordance with the mortgage loan documents, applicable law or as specifically required by this <i>Servicing Guide</i> .
	Apply scheduled payments, including late charges (if applicable) in the order specified in the security instrument.  <b>Note:</b> When multiple payments are received, each payment must be applied separately.
	Ensure payments for all mortgage loans are credited upon receipt and that each portion of the payment is accounted for in its records.
	Apply all funds as intended by the borrower, when applicable.  <b>Note:</b> Funds intended by the borrower for first lien mortgage loans must not be reallocated as payment towards any subordinate lien.
	Deposit all funds into a custodial account in a financial institution that meets Fannie Mae’s rating requirements for custodial depositories (or within its own institution if it qualifies) within 24 hours of receipt.
	Follow any specific requirements of FHA, FHA, or VA, when applicable.
	Follow any specific requirements of the SCRA, when applicable. The servicer must follow the procedures in F-1-30, Processing Military Indulgence .

For all mortgage loan modifications with a step interest rate adjustment, the servicer must send the borrower a notification of the mortgage loan interest rate adjustment. All payment change

notifications for mortgage loan modifications with a step interest rate adjustment must include the information shown in the following table.

✓	<b>Notice Requirements</b>
	The amount and effective date of the interest rate increase.
	The amount and due date of the borrower’s new monthly payment.
	An explanation pursuant to the terms of the modification agreement, that at the end of the initial fixed-rate term, the interest rate will increase according to the schedule in the modification agreement until it reaches the interest rate cap. Furthermore, the explanation should, as applicable, include statements regarding the following: <ul style="list-style-type: none"> <li>• how the interest rate cap was set; and</li> <li>• notification that once the interest rate reaches the interest rate cap, it will be fixed for the remaining life of the mortgage loan.</li> </ul>
	A payment schedule table, similar to the one included in the modification agreement, that outlines the future interest rates and monthly payment amounts (identifying principal and interest, and estimated escrows) and the effective dates for such amounts; or the servicer may explain these terms, dates, and amounts.
	An explanation that the monthly payment includes an escrow for property taxes, applicable property insurance, and the other escrowed expenses, which, if changed, will change the monthly payment.
	An explanation of how the new monthly payment was determined.
	Servicer contact information and instructions to the borrower to contact the servicer if the borrower has questions or concerns about the new monthly payment.
	The Homeowner’s HOPE™ Hotline Number (1–888–995–HOPE) with an explanation that the borrower can ask for MHA help.
	An explanation that the borrower can seek assistance with household budgeting at no charge from HUD-approved housing counseling agencies that can be found on HUD.gov.
	Information regarding the availability of additional educational resources at Fannie Mae’s Know Your Options™ website.

The servicer must send notifications for all mortgage loans with step interest rate adjustments in compliance with the timing requirements provided in the following table.

Type of Interest Rate Adjustment	Days Prior to Change	At a minimum, the servicer must send...
Mortgage Loan Modification Initial Step Interest Rate Adjustment	150 to 90	the first written notification detailing the pending change.
	75 to 60	the second written notification detailing the pending change.
Mortgage Loan Modification Subsequent Year Step Interest Rate Adjustments	120 to 60	notification detailing the pending change.

The servicer must follow the procedures in *Applying a Mortgage Loan Payment* in F-1-12, Processing Mortgage Loan Payments and Payoffs for specific instructions related to this topic.



## **C-1.1-02, Processing Payment Shortages or Funds Received When a Mortgage Loan Modification Is Pending (11/12/2014)**

### **Introduction**

This topic contains the following:

- Processing and Applying Payments Using Buydown Funds
- Processing and Applying Payment Shortages
- Processing Funds Received When a Mortgage Loan Modification Is Pending

### **Processing and Applying Payments Using Buydown Funds**

The servicer must send notification detailing the pending rate increase to the borrower 90 days prior to the payment change. As long as a mortgage loan is under an interest rate buydown plan, the servicer must treat the portion of the payment received from the borrower in accordance with the plan as a full installment.

## Processing and Applying Payment Shortages

The servicer of a first lien mortgage loan — and a second lien mortgage loan, provided the first lien mortgage loan is current — must accept a partial payment and hold it as “unapplied funds” in a T&I custodial account if all of the requirements in the following table are met.

✓	<b>The servicer must accept a partial payment if all of the following conditions are met...</b>
	The borrower has a commitment toward repayment of the mortgage loan obligation.
	The borrower is not habitually delinquent.
	The borrower does not have a history of remitting checks that are returned for insufficient funds.
	The borrower commits to paying the balance of the payment within the next 30 days.

The servicer must accept and apply any borrower payment that includes the full amount for

- principal,
- interest,
- taxes, and
- insurance.

The servicer must accept and apply these funds even though the amount excludes any applicable late charges, if permitted by applicable law and to the extent that acceptance would not jeopardize the servicer’s position in legal proceedings; such as foreclosure.

If the interest rate of a mortgage loan has been reduced in accordance with D2-3.4-01, Military Indulgence, the servicer must waive the collection of late charges during the period for which the reduced interest rate remains in effect. Also, see *D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options* for requirements related to waiving late charges for specific workout options.

## Processing Funds Received When a Mortgage Loan Modification Is Pending

During any Trial Period Plan, and if permitted by the applicable loan documents, the servicer must accept and hold (as unapplied funds in a custodial account) trial period payments received which do not constitute a full monthly contractual payment. When the total of the reduced

payments held as unapplied funds is equal to a full PITI payment, the servicer must apply all full payments to the mortgage loan.

When the servicer receives funds from a third party, such as a HFA or similar entity that is assisting the borrower in qualifying for a mortgage loan modification, the servicer must accept such funds contingent upon the following:

- neither the servicer nor Fannie Mae will be required to match any assistance provided by the third party or HFA;
- the third party or HFA will pay the servicer the full amount of the agreed upon assistance in one lump-sum payment; and
- if after the delinquency is cured, the servicer applies the funds as an additional principal payment, the funds must be applied to the interest-bearing unpaid principal balance.

Any unapplied funds remaining at the end of the Trial Period Plan which do not constitute a monthly, contractual PITI payment must be applied to reduce any amounts that would otherwise be capitalized onto the principal balance.

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### **C-1.1-03, Automatically Drafting Payments from the Borrower's Bank Account (11/12/2014)**

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When automatically drafting a mortgage loan payment from a borrower's designated bank account, the servicer must draft each payment no later than the date the servicer would accept a mortgage loan payment by other payment methods without penalty.

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### **C-1.1-04, Accepting Biweekly Payments from Third-Party Payment Contractors (11/12/2014)**

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If a borrower arranges with a third party to make biweekly payments, the servicer must accept payments made on time and in a sufficient amount.

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## Section C0-1.2, Processing Unscheduled Mortgage Loan Payments



### C-1.2-01, Processing Additional Principal Payments (11/12/2014)

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#### Introduction

This topic contains the following:

- Processing Additional Principal Payments for Current Mortgage Loans
- Reapplying Principal Payments to Cure a Delinquency
- Processing Additional Principal Payments at Fannie Mae's Request

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#### Processing Additional Principal Payments for Current Mortgage Loans

The servicer must immediately accept and apply an additional principal payment (referred to as a curtailment) identified by the borrower as such for a current mortgage loan.

If, after making a substantial curtailment, the borrower requests that the mortgage loan balance be re-amortized to reduce the mortgage loan payment, the servicer must

- treat the request as a request for a formal mortgage loan modification, and
- require the borrower to complete an *Agreement for Modification or Extension of Mortgage* (Form 181).

For additional contractual information as it pertains to curtailments, see Fannie Mae's *Selling Guide Topic B2-1.4-05: Principal Curtailments*.

The servicer must follow the procedures in *Processing a Curtailment* in F-1-12, Processing Mortgage Loan Payments and Payoffs for detailed instructions related to applying a curtailment for a current mortgage loan.



If a curtailment is received on a modified mortgage loan that has a principal forbearance; the servicer must first apply the curtailment to the interest-bearing UPB, then to the principal forbearance. If the curtailment amount is greater than or equal to the interest-bearing UPB, the curtailment must first be applied to the principal forbearance portion, then to the interest-bearing UPB.

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### **Reapplying Principal Payments to Cure a Delinquency**

At the borrower's request, the servicer is authorized to reapply principal prepayments to cure a delinquency if the mortgage loan is either

- a portfolio mortgage loan; or
  - a participation pool mortgage loan (which is not a mortgage loan that has been pooled to back an MBS issue, including PFP mortgage loans); and as long as all of the following conditions apply:
    - the borrower submits a written request;
    - the reapplication of the principal prepayment does not result in the mortgage loan balance being higher than it would have been had the original amortization schedule for the mortgage loan been followed;
    - the borrower has not previously received modification assistance program funds from an HFA. See D2-3.1-05, *Interacting with Housing Finance Agencies and Hardest-Hit Fund Programs* for additional information; and
    - the borrower agrees to submit any additional funds that are needed to supplement the prepayment so that the total delinquency can be cured. If the borrower cannot raise the additional funds, the servicer is authorized to combine the reapplication of a principal prepayment with a workout option. See D2-3, *Fannie Mae's Home Retention and Liquidation Workout Options* for additional information.
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### **Processing Additional Principal Payments at Fannie Mae's Request**

Upon receipt of Fannie Mae's request to reduce the UPB of a mortgage loan for a partial release of security, a condemnation award, or insurance proceeds sent to the servicer, the servicer must process the funds as an additional principal payment.

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## C-1.2-02, Processing Short Sale Proceeds (11/12/2014)

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The servicer must follow the procedures in *Remitting Short Sale Proceeds* in F-1-31, Remitting and Accounting to Fannie Mae to ensure that the short sale proceeds are remitted timely and accurately.

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## C-1.2-03, Processing Payments in Full (11/12/2014)

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### Introduction

The servicer must provide payoff statements to the borrower or his or her agent, when requested. The servicer must also collect and remit sufficient funds to Fannie Mae to satisfy the debt and ensure the proper accounting and reporting of the mortgage loan payoff, once received.

The servicer must follow the procedures in *Satisfying the Mortgage Loan and Releasing the Lien* in F-1-12, Processing Mortgage Loan Payments and Payoffs for additional instructions related to payoff processing.

This topic contains the following:

- Applying Funds Remaining in an Interest Rate Buydown Plan Account
  - Collecting and Accounting for HomeSaver Advance Notes
- 

### Applying Funds Remaining in an Interest Rate Buydown Plan Account

The servicer must apply any funds remaining after payoff in an interest rate buydown plan account in accordance with the applicable mortgage loan agreement. If the servicer is holding the remaining buydown funds, it must include them with its remittance of the payoff proceeds. The servicer must follow the procedures in *Applying Funds Remaining After Payoff in an Interest Rate Buydown Account* in F-1-12, Processing Mortgage Loan Payments and Payoffs for specific instructions for applying buydown funds after payoff of the mortgage loan.

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### Collecting and Accounting for HomeSaver Advance Notes

The servicer must be able to identify whether the borrower on a first lien mortgage loan currently has an HSA note, and reference it in any payoff statement it issues for the first lien mortgage loan.

In the event of a sale or transfer of the property, this reference must remind the borrower that the HSA note is due and payable in full.

In the event of a refinance, this reference must clearly

- remind the borrower that the HSA note must continue to be paid, and
- state that payoff of the HSA note is not required to release the first lien mortgage loan.

If the borrower or servicer of the first lien mortgage loan needs information related to an HSA note (such as where to send a payment), the servicer may send a request for information to Fannie Mae's NSO (see F-4-03, List of Contacts). The servicer must be able to promptly redirect any HSA note payments received to the party designated by Fannie Mae.



## **C-1.2-04, Satisfying the Mortgage Loan and Releasing the Lien (11/12/2014)**

### **Introduction**

Once payoff funds are received, the servicer must take all actions necessary to satisfy a mortgage loan and release the lien in a timely manner.

In addition, the servicer must determine and execute the appropriate satisfaction documents for the payoff of an electronic mortgage loan, based on the requirements of the state in which the security property is located.

For specific instructions, the servicer must follow the procedure *Satisfying the Mortgage Loan and Releasing the Lien* in F-1-12, Processing Mortgage Loan Payments and Payoffs.

This topic contains the following:

- Satisfying the Mortgage Loan When Fannie Mae Is the Mortgagee of Record
- Satisfying the Mortgage Loan When Fannie Mae Is Not the Mortgagee of Record

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### **Satisfying the Mortgage Loan When Fannie Mae Is the Mortgagee of Record**

The servicer that does not have a limited power of attorney (or that has a power of attorney that does not cover release and satisfaction documents) must send any required release or satisfaction

documents to Fannie Mae for execution, whether or not Fannie Mae is holding the custody documents.

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### Satisfying the Mortgage Loan When Fannie Mae Is Not the Mortgagee of Record

If Fannie Mae is not the mortgagee of record for a mortgage loan, the servicer must execute any required satisfaction documents in its own name (or in MERS' name, if applicable for a MERS-registered mortgage loan).



### C-1.2-05, Charging for a Release of Lien (11/12/2014)

The servicer must not charge the borrower a fee for releasing, reconveying, or discharging Fannie Mae's lien against the property, unless all of the conditions listed in the following table apply.

✓	Conditions under which a release of lien fee may be charged
	The fee is paid to a third party for services rendered. For example, fees paid to a recorder of deeds, a notary public, or a trustee under a deed of trust (even if the trustee is the servicer's affiliate or subsidiary).
	Such fees are not prohibited by the mortgage loan instrument, or the mortgage insurer or guarantor.
	The amount of the fee is consistent with other fees permitted by the mortgage insurer or guarantor, if applicable.

The servicer must follow the procedures in *Requesting Reimbursement for Recordation Fees* in F-1-06, Expense Reimbursement in order to seek reimbursement from Fannie Mae.

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# Chapter C-2, Servicing ARM Loans



## Servicing ARM Loans

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### Introduction

This chapter describes servicing of ARM loans.

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### In This Chapter

This chapter contains the following sections:

C0-2.1, Processing ARM Loan Payments .....	328
C0-2.2, Processing Corrections to Errors .....	332
C0-2.3, Processing ARM Loan Conversions .....	335

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## Section C0-2.1, Processing ARM Loan Payments

### C-2.1-01, Responsibilities for ARM Loan Servicing (11/12/2014)

The following table provides a list of the servicer's responsibilities related to servicing ARM loans.

✓	The servicer must...
	Enforce each ARM loan according to the terms specifically described in its mortgage loan instrument. These may be modified or supplemented by any additional terms specified in a negotiated contract issued in connection with Fannie Mae's purchase or securitization of the mortgage loan. See also Fannie Mae's <i>Balloon Mortgage Loan Servicing Manual</i> .
	Use its own funds to satisfy any shortage resulting from untimely interest rate or payment adjustments.
	Reimburse Fannie Mae if the servicer makes an error that causes the amount of negative amortization to exceed the maximum allowed and Fannie Mae is adversely affected by this breach of the mortgage loan terms.



## C-2.1-02, Notifying the Borrower Regarding Interest Rate and/or Payment Changes (11/12/2014)

### Introduction

This topic contains the following:

- General Requirements for All ARM Change Notices
- Additional Notice Requirements Specific to Plans with Payment Caps
- When the Interest Rate Changes More Frequently Than the Payment
- When the Payment Changes More Frequently Than the Interest Rate

### General Requirements for All ARM Change Notices

The servicer of an ARM loan must notify the borrower before the effective date of any change to the mortgage loan interest rate or monthly payment in accordance with applicable law and the mortgage loan security instrument. When the interest rate and the monthly payment change at different intervals, separate notices are required for each change.

All ARM notices must comply with the disclosure requirements set forth in the TILA and the individual mortgage loan documents.

### Additional Notice Requirements Specific to Plans with Payment Caps

In addition to the information noted in *General Requirements for All ARM Change Notices*, notices for ARM plans that have payment change limitations must also include all of the information listed in the following table.

✓	Notice Requirements
	The monthly payment required to fully amortize the mortgage loan, if different from the new monthly payment amount.
	The difference between a full payment amount and a limited-payment amount.
	The borrower's option to choose the limited-payment amount, and if applicable: <ul style="list-style-type: none"><li>• any limitations on his or her right to exercise this option;</li></ul>

✓	<b>Notice Requirements</b>
	<ul style="list-style-type: none"> <li>• the effect that his or her failure to exercise this option will have on future options; and</li> <li>• the amount of negative amortization that will occur if the option is exercised.</li> </ul>
	The date by which the borrower must notify the servicer if he or she chooses to pay the limited-payment amount.

**Note:** Notices for mortgage loans that have an option to convert to a fixed rate mortgage loan must also include an explanation of this option and the requirements for its execution.

### When the Interest Rate Changes More Frequently Than the Payment

The following table provides a list of additional information that must be included in the notice for an interest rate change for ARM plans in which the interest rate changes more frequently than the payment.

✓	<b>Notice Requirements</b>
	The method used to determine the full payment amount and why the monthly payment will not be changed to that amount (if applicable).
	The amount of any negative amortization that will occur until the next interest change date when the monthly payment is not being changed to keep pace with the mortgage loan interest rate.

If the servicer gives the borrower an option of limiting the payment increase, the notice must also include all of the details listed in the following table.

✓	<b>Notice of the option to limit the payment increase</b>
	An explanation of why the offer is being made.
	The method used to determine the limited payment amount.
	The amount of negative amortization that will occur if the borrower chooses to limit the payment increase.
	The limited payment amount and the date on which it will become effective.
	The date by which the borrower must notify the servicer if he or she chooses to pay the limited payment amount.



✓	<b>Notice of the option to limit the payment increase</b>
	A request that the borrower indicate his or her acceptance of the offer by signing and returning the notice to the servicer for inclusion in its permanent records.
	The date the next payment change will occur if the borrower chooses the limited payment amount.

### When the Payment Changes More Frequently Than the Interest Rate

The following table provides a list of additional information that must be included in the notice for a payment change when the monthly payment changes more frequently than the interest rate.

✓	<b>Notice Requirements</b>
	The amount of any negative amortization that will occur (when the monthly payment is not sufficient to fully amortize the mortgage loan), until the next payment change date.
	The date the monthly payment will change if the negative amortization limit will be reached before the next scheduled payment change.

When the notice also serves as notification of an interest rate change, it must also explain the additional details noted in the following table.

✓	<b>Notice of interest rate change</b>
	The difference between a full payment amount and a graduated-payment amount.
	The borrower's option to choose the graduated-payment amount if the full payment amount represents more than a 7.5% increase over the previous monthly payment amount.
	The amount of negative amortization that will occur if the borrower requests a subsequent graduated-payment period.

**Note:** Notices for mortgage loans that have an option to convert to a fixed rate mortgage loan must also include an explanation of this option and the requirements for its execution.

## Section C0-2.2, Processing Corrections to Errors



### C-2.2-01, Identifying and Disclosing Adjustment Errors (11/12/2014)

#### Introduction

The servicer must verify all previous interest rate and payment adjustments were correctly handled for a mortgage loan before it corrects an identified adjustment error.

When the servicer confirms either an individual ARM adjustment error, or the cumulative effect of several ARM adjustment errors; the servicer must make arrangements within 60 days to

- correct the error(s) in its and Fannie Mae's records,
- adjust the borrower's current interest rate and/or monthly payment without waiting for the next scheduled interest rate and/or monthly payment adjustment date (taking into consideration Fannie Mae's policy on the applicability of any interest rate or payment caps specified in the mortgage loan documents), and
- notify the borrower about the effect of the correction.

If the servicer is unable to resolve an ARM adjustment error within 20 days of having received a borrower inquiry concerning the matter, it must send the borrower an interim response.

The servicer must not report the correction of an ARM adjustment error or make an effort to correct an erroneous remittance until it has discussed the specifics of the correction with its Fannie Mae Investor Reporting Representative, (see F-4-03, List of Contacts).

The servicer must follow all applicable procedures in *Correcting ARM Adjustment Errors* in F-1-01, Servicing ARM Loans.

This topic contains the following:

- Re-Amortizing the Mortgage Loan
- Calculating the New, Correct Monthly Payments

### **Re-Amortizing the Mortgage Loan**

Once the servicer verifies the correct interest rate or monthly payment for each adjustment date that has occurred, it must re-amortize the mortgage loan to determine whether the borrower has been overcharged or undercharged.

The mortgage loan must be re-amortized from the date of the first erroneous adjustment through the date the LPI was applied.

The servicer must follow the procedures in *Re-amortizing the Mortgage Loan* in F-1-01, Servicing ARM Loans to complete the re-amortization.

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### **Calculating the New, Correct Monthly Payments**

The servicer must determine whether the borrower's monthly payment needs to be changed as a result of any ARM adjustment error. If the net effect of correcting an adjustment error is an undercharge, it cannot be collected from the borrower, nor can the UPB of the mortgage loan be changed to offset it.

The servicer must follow the procedures in *Calculating the New Monthly Payment After an Adjustment Error* and *Determining the Amount of an Under- or Overcharge Related to an Adjustment Error* in F-1-01, Servicing ARM Loans to calculate the correct monthly payment.

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### **C-2.2-02, Assuming Responsibility for Conversion Notice Errors (11/12/2014)**

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If a borrower questions why the servicer did not provide notification of an upcoming opportunity to exercise a conversion to a fixed rate mortgage loan option and the borrower was entitled to such notification under Fannie Mae's policy, the servicer must immediately offer the borrower the option of converting, provided that the borrower met the eligibility criteria on the option date.

The servicer must follow the procedures in *Correcting Conversion Notice Errors* in F-1-01, Servicing ARM Loans to verify the correct interest rate.

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### **C-2.2-03, Determining Whether to Provide a Refund or Credit for Overcharges (11/12/2014)**

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The servicer must credit the borrower's account for any net overcharge by reallocating the borrower's actual monthly payments between principal and interest, or by reducing the UPB of the mortgage loan when the overcharge is related to an incorrect interest rate only.

When the overcharge is related to an incorrect monthly payment, credits may be used instead of cash refunds when

- the servicer has advanced funds to cure an escrow overdraft,
- the mortgage loan is delinquent,
- the adjustment error is an interest rate change error only, or
- the adjustment error is a payment change error only.

The servicer must establish its own procedures to ensure compliance with all of Fannie Mae's policies regarding the correction of adjustment errors for all mortgage loans it services for Fannie Mae, regardless of whether they were originated under standard or negotiated ARM plans.

The servicer must follow the applicable procedures in either *Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment and an Incorrect Interest Rate*, or *Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment* in F-1-01, Servicing ARM Loans.

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## Section C0-2.3, Processing ARM Loan Conversions



### C-2.3-01, Processing ARM Conversions to Fixed Rate Mortgage Loans (11/12/2014)

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#### Introduction

This topic provides requirements for processing ARM loan conversions to fixed rate mortgage loans.

The servicer must also follow the procedures in F-1-01, Servicing ARM Loans in order to complete the conversion of an ARM loan to a fixed rate mortgage loan.

This topic contains the following:

- Determining Eligibility Criteria for Converting a First Lien ARM to a Fixed Rate Mortgage Loan
  - Completing the Conversion
- 

#### Determining Eligibility Criteria for Converting a First Lien ARM to a Fixed Rate Mortgage Loan

To be eligible for conversion to a fixed rate mortgage loan, the servicer must confirm that an ARM loan

- is current (or must be brought current by the conversion date),
- has an LTV ratio of 95% or less, and
- satisfies any other conditions specified under a negotiated contract.

If the mortgage loan has negatively amortized, the servicer must obtain a new appraisal to determine

- the current LTV of the property, and
- whether the borrower will have to pay any funds to reduce the UPB to the amount required to achieve an LTV ratio equal to 95% of the current value of the property.

### Completing the Conversion

The following table provides a list of all items required before the servicer can complete the conversion of an ARM to a fixed rate mortgage loan.

✓	<b>The servicer must have...</b>
	Received any required appraisal report.
	Received from the borrower <ul style="list-style-type: none"> <li>• any amount required to reduce the UPB, if applicable;</li> <li>• any other items as specified in a negotiated contract; and</li> <li>• a signed agreement acknowledging the changes to the mortgage note necessary to provide for the new fixed interest rate.</li> </ul>
	Sent Fannie Mae's DDC the original agreement, if Fannie Mae is holding the original note as a custody document.
	Performed any other actions as specified in the negotiated contract.

### C-2.3-02, Notifying Fannie Mae of Conversions for Portfolio Mortgage Loans (11/12/2014)

The servicer must provide information about an ARM loan conversion when it submits its monthly investor reporting system reports to Fannie Mae. The servicer must report this information in compliance with the reporting time frames provided in the *Investor Reporting Manual*.

Fannie Mae may charge a compensatory fee to servicers who fail to report an ARM conversion in a timely manner. See also A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process.

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### **C-2.3-03, Repurchasing Converted MBS Mortgage Loans and Redelivering Them to Fannie Mae (11/12/2014)**

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If the borrower exercises the conversion option for an ARM that is in an MBS pool, the servicer must repurchase the mortgage loan from the pool in the month preceding the month the mortgage loan begins to accrue interest at the new fixed rate. The servicer must have received all executed conversion documents before it repurchases the mortgage loan.

After the servicer repurchases the converted mortgage loan from the MBS pool, it must determine whether it is able to redeliver the converted mortgage loan to Fannie Mae using the post-conversion disposition option specified in the original MBS contract.

The servicer must follow the procedures in *Repurchasing Converted MBS Mortgage Loans and Redelivering Them to Fannie Mae* in F-1-01, Servicing ARM Loans for detailed instructions.

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# Chapter C-3, Remitting and Accounting



## Remitting and Accounting

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### Introduction

This chapter describes requirements related to remitting and accounting.

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### In This Chapter

This chapter contains the following topics:

C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae (11/12/2014) . . . . .	339
C-3-02, Remitting Payoff Proceeds (11/12/2014) . . . . .	341

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## **C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae (11/12/2014)**

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### **Introduction**

The servicer must remit all funds that are due to Fannie Mae for that month under the schedule established for each remittance type and, if applicable, remittance cycle. If the servicer does not remit funds due to Fannie Mae on or before the remittance due date, Fannie Mae may impose a compensatory fee.

The servicer must follow the procedures in F-1-31, Remitting and Accounting to Fannie Mae and Fannie Mae's *Investor Reporting Manual* for detailed instructions.

This topic contains the following:

- Remitting to Fannie Mae for Delinquent MBS Mortgage Loans
  - Remitting to Fannie Mae for Delinquent Portfolio Mortgage Loans
  - Remitting to Fannie Mae for Biweekly Payments
  - Remitting to Fannie Mae for Mortgage Loans with Interest Rate Buydowns
  - Processing Over-Remittances
- 

### **Remitting to Fannie Mae for Delinquent MBS Mortgage Loans**

The servicer must remit interest to Fannie Mae on scheduled/actual remittance type mortgage loans and must remit principal and interest on scheduled/scheduled remittance type mortgage loans regardless of whether it actually receives payments from the borrower. For a delinquent mortgage loan, the servicer must advance the remittance until the delinquent mortgage loan is reclassified as actual/actual remittance or removed from the MBS pool.

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### **Remitting to Fannie Mae for Delinquent Portfolio Mortgage Loans**

The servicer of portfolio mortgage loans and most participation pool mortgage loans that Fannie Mae holds in its portfolio must advance interest on delinquent mortgage loans only through the third month of delinquency.

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### **Remitting to Fannie Mae for Biweekly Payments**

Actual/actual biweekly loan activity must be reported to Fannie Mae daily as received. For MBS pools that consist of biweekly payment mortgage loans, the servicer must deposit the difference between the interest collected from the borrowers and the interest due on the pool into its designated draft account.

The servicer must remit funds to Fannie Mae for a mortgage loan with biweekly payments when

- a full installment of P&I has accumulated for a mortgage loan that has an actual/actual remittance type, or
- the biweekly payment is scheduled to be remitted (whether or not it was collected from the borrower) for a mortgage loan that has a scheduled/actual or scheduled/scheduled remittance type.

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### **Remitting to Fannie Mae for Mortgage Loans with Interest Rate Buydowns**

If the servicer holds the buydown funds, the servicer must remit to Fannie Mae the interest buydown funds along with the payment received from the borrower as a full contractual payment each month.

If Fannie Mae holds the buydown funds for a first lien mortgage loan that it purchased for its portfolio, Fannie Mae will automatically apply funds that it holds toward the interest due each month; therefore, the servicer must adjust its individual mortgage loan records to reflect the application of Fannie Mae's portion of the payment.

The servicer must return any money it has held in association with an interest buydown to Fannie Mae, when either

- the buydown term ends, or
- the mortgage loan is liquidated, whichever occurs first.

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### **Processing Over-Remittances**

The servicer must exercise due diligence to ensure that it discovers over-remittances as soon as possible. Once the servicer discovers an over-remittance, it should promptly notify Fannie Mae by submitting a documented claim for a refund.

Over-remittances for MBS mortgage loans must be appropriately adjusted from subsequent remittances for the same MBS pool.



## **C-3-02, Remitting Payoff Proceeds (11/12/2014)**

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The servicer must determine the appropriate schedule and the correct amount of funds due to Fannie Mae based on the mortgage loan's remittance type and remittance cycle.

The servicer must follow the applicable procedures in F-1-31, Remitting and Accounting to Fannie Mae.

Funds to pay off a balloon mortgage loan must be remitted to Fannie Mae under the standard procedures for remitting payoffs for mortgage loans that have the same remittance type as the balloon mortgage loan. See also Fannie Mae's *Balloon Mortgage Loan Servicing Manual* for additional information.

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# Chapter C-4, Reporting

## Reporting

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### Introduction

This chapter describes requirements related to reporting.

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### In This Chapter

This chapter contains the following sections:

C0-4.1, Credit Bureau Reporting Requirements . . . . .	343
C0-4.2, IRS Reporting Requirements . . . . .	345
C0-4.3, Investor Reporting Requirements . . . . .	348

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## Section C0-4.1, Credit Bureau Reporting Requirements



### C-4.1-01, Notifying Credit Repositories (11/12/2014)

The following table outlines the servicer’s responsibilities related to credit bureau reporting for mortgage loans that Fannie Mae holds in its portfolio or in an MBS.

✓	<b>The servicer must...</b>
	<p>Provide a complete and accurate “full-file” status report for all mortgage loans to each of the four major credit repositories describing the exact status of each mortgage loan as of the last day of each month in accordance with credit bureau requirements as provided by the Consumer Data Industry Association.</p> <p>Statuses that must be reported include the following:</p> <ul style="list-style-type: none"> <li>• new originations;</li> <li>• current mortgage loans;</li> <li>• delinquent mortgage loans, including 30–, 60–, 90+ day delinquencies, forbearances, modifications; and</li> <li>• liquidated mortgage loans, including short sales, Mortgage Releases, foreclosures, law enforcement property seizures and forfeitures under applicable state or federal law, and charge offs.</li> </ul>
	<p>Verify the appropriate codes for full-file reporting with each of the four major credit repositories since each repository may use different codes for identifying the same mortgage loan statuses.</p>

The servicer must follow all procedures in *Reporting to Credit Repositories* in F-1-34, Reporting to Third Parties as well as “CDIA Mortgage and Home Equity Reporting Guidelines in Response to Current Financial Conditions” for further information and instructions.



## **C-4.1-02, Suspending Credit Bureau Reporting (11/12/2014)**

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The servicer must suspend reporting the status of a mortgage loan to credit bureaus even though payments are past due as long as the delinquency is directly attributable to an extensive natural disaster and occurs during an active forbearance, repayment plan, or Trial Period Plan where the borrower is making the required payments as agreed.

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## Section C0-4.2, IRS Reporting Requirements



### C-4.2-01, Filing IRS Forms 1099-A, 1099-C and 1099-MISC (11/12/2014)

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#### Introduction

This topic provides information related to filing reports with the IRS.

The servicer must also follow all procedures in *Reporting to the IRS* in F-1-34, Reporting to Third Parties for specific instructions pertaining to this topic.

This topic contains the following:

- Servicer Responsibilities
  - Reporting via Magnetic Media
  - Fannie Mae Exceptions to IRS Form 1099-C Reporting
- 

#### Servicer Responsibilities

The IRS requires that information returns be filed when Fannie Mae (or a third party) acquires an interest in a property in full or partial satisfaction of the secured debt, or when Fannie Mae has reason to know that a property has been abandoned. The servicer must file IRS Forms 1099-A and 1099-C in accordance with IRS requirements on Fannie Mae's behalf for

- portfolio mortgage loans (including participation pool mortgage loans if Fannie Mae's percentage ownership is 50% or greater) that Fannie Mae holds in its portfolio, and
- MBS mortgage loans (including mortgage participations if the securitized portion of the whole mortgage loan is 50% or greater) that are not serviced under the regular servicing option.

The servicer must satisfy the reporting requirements for the "owner of record" (instead of on Fannie Mae's behalf) for

- participation pool mortgage loans held in Fannie Mae's portfolio if Fannie Mae's ownership interest is less than 50%,

- mortgage participations in MBS pools if the securitized portion of the whole mortgage loan is less than 50%, and
- most MBS mortgage loans serviced under the regular servicing option.

However, if the servicer did not perform its regular servicing obligation to purchase a delinquent MBS mortgage loan before the property was acquired, the servicer must file the information return on Fannie Mae's behalf.

For purposes of filing these reports:

- Fannie Mae (or the "owner of record") acquires an interest in the property when any redemption period that follows a foreclosure sale ends without redemption rights being exercised (or when Fannie Mae accepts a Mortgage Release);
- a third party — including the servicer of a first lien mortgage loan secured by a property that also has a subordinate lien, if the servicer bids an amount that is less than that required to satisfy both the first and second lien mortgage debts — acquires an interest in the property at the foreclosure sale; and
- abandonment occurs when the servicer has "reason to know" from "all facts and circumstances concerning the status of the property" that the borrower intended to discard or has permanently discarded the property from use.

The servicer will have an additional three months before its reporting obligation arises if it expects to begin foreclosure proceedings within the three months after it determines that abandonment has occurred.

If the IRS penalizes Fannie Mae because a servicer failed to file a required form—or filed an incorrect or late form—the servicer must reimburse Fannie Mae for any penalty fees the IRS assesses (unless it can document that it met the filing requirements).

When a form is filed on Fannie Mae's behalf, the servicer must show Fannie Mae's name, address, federal identification number (52-0883107), and include a legend stating that the information is being reported to the IRS.

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### Reporting via Magnetic Media

The servicer that is able to report IRS Forms 1099-A information on magnetic media must do so on Fannie Mae's behalf. However, a servicer must file the 1099-C electronically on Fannie Mae's behalf.



### **Fannie Mae Exceptions to IRS Form 1099-C Reporting**

The servicer must not file an IRS Form 1099-C for mortgage loans that Fannie Mae has assigned (or will assign) to vendors for collection. Fannie Mae will provide a list of accounts to servicers via email for which they must not send the IRS Form 1099-C. Notification will take place no later than January 5th of the year following the calendar year in which the foreclosure sale occurs.

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## Section C0-4.3, Investor Reporting Requirements

### C-4.3-01, Servicer Responsibilities Related to Investor Reporting (11/12/2014)

The following table outlines the servicer responsibilities related to reporting to Fannie Mae.

✓	<b>The servicer must...</b>
	Use an automated format to report all loan-level transactions on its entire mortgage loan portfolio following the end of each monthly reporting period using Fannie Mae's investor reporting system.
	Ensure the transactions are reported in sufficient time for Fannie Mae to receive the notifications <ul style="list-style-type: none"> <li>• by the second business day of the month following the cut-off date for the reporting period in which the activity occurred for removal transactions, or</li> <li>• by 5 p.m. eastern time on the third business day of the month following the cut-off date for the reporting period for all other transactions.</li> </ul> <p><b>Note:</b> Failure to comply with this deadline may result in compensatory fees or other actions. See A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process.</p>
	Reconcile the investor reporting system reports it receives from Fannie Mae to its internal records and make available to Fannie Mae upon request.
	Reconcile the actual mortgage loan balances for all scheduled/scheduled remittance type mortgage loans that are in any given MBS pool to the aggregate security balance for that pool (or, if the mortgage loans are in a Fannie Majors® multiple pool, for the servicer's portion of the multiple pool).
	Perform a thorough review and correct all transactional errors and data discrepancies, if applicable.



The servicer must see Fannie Mae's *Investor Reporting Manual* for additional reporting instructions, an explanation of proper reporting codes, and for the correct use of formulas and calculations.

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# Part D, Providing Solutions to a Borrower



## Providing Solutions to a Borrower

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### Introduction

This part contains information on providing solutions to borrowers.

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### In This Part

This part contains the following subparts:

Subpart D1, Assisting the Borrower with Property-Related Issues and Legal Actions . . . . .	351
Subpart D2, Assisting a Borrower Who is Facing Default or in Default . . . . .	398

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# Subpart D1, Assisting the Borrower with Property-Related Issues and Legal Actions



## Assisting the Borrower with Property-Related Issues and Legal Actions

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### Introduction

This subpart contains information on assisting the borrower with property-related issues and legal actions.

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### In This Subpart

D1-1, Requests for the Release, or Partial Release, of Property Securing a Mortgage Loan	352
D1-2, Servicing Rehabilitation or Renovation Mortgage Loans	363
D1-3, Providing Assistance to a Borrower Impacted by a Disaster	369
D1-4, Transfers of Ownership	374
D1-5, Call Provision Enforcement	391
D1-6, Addressing Notices of Liens, Legal Action, Property Forfeitures or Seizures, or Other Actions	394

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# Chapter D1-1, Requests for the Release, or Partial Release, of Property Securing a Mortgage Loan



## Requests for the Release, or Partial Release, of Property Securing a Mortgage Loan

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### Introduction

This chapter contains information on requests for the release, or partial release, of property securing a mortgage loan.

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### In This Chapter

This chapter contains the following topic:

D1-1-01, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan (11/12/2014) .....	353
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## D1-1-01, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan (11/12/2014)

### Introduction

This topic provides information related to evaluating a request for the release, or partial release of property securing a mortgage loan.

The servicer must also follow the procedures in *Processing a Request for the Release of Property Securing a Mortgage Loan* in F-1-04, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan for detailed requirements related to processing a request for the release of property securing a mortgage loan. The requirements for the various types of releases of property securing a mortgage loan are described as follows.

This topic contains the following:

- Evaluating a Request for the Release of a Beneficial Easement or the Grant of a Burdensome Easement
- Evaluating a Request for the Lease of Oil, Gas, or Mineral Rights
- Evaluating a Request for the Partial Release of Real Property
- Evaluating a Request for the Partition of Real Property
- Evaluating a Request for the Substitution of Property Securing a Mortgage Loan
- Evaluating a Request for the Partial or Total Taking of Property Securing a Mortgage Loan by Condemnation or Eminent Domain

### Evaluating a Request for the Release of a Beneficial Easement or the Grant of a Burdensome Easement

When a borrower requests a release or grant of an easement, the servicer must ensure that the borrower submits all of the information listed in the following table with the *Application for Release of Security* (Form 236).

✓	Information that must accompany Form 236
	The purpose for granting the easement or the justification for releasing the easement.

✓	<b>Information that must accompany Form 236</b>
	The intended use of the easement, if the request is for the granting of an easement.
	The anticipated effect(s) of granting or releasing the easement.
	A survey or plat showing the location of the easement that is being proposed or released.
	The amount of any cash consideration to be paid for granting or releasing the easement.
	Whether the subordination of Fannie Mae’s mortgage lien to an easement is being requested.

**Request for the Release of a Beneficial Easement:** The servicer must evaluate the request for the release of a beneficial easement based on whether or not the release will have a detrimental effect on the value of the property securing a mortgage loan. The following table describes the servicer's action based upon the impact to the property securing a mortgage loan.

<b>If the servicer has determined that releasing a beneficial easement...</b>	<b>Then the servicer...</b>
will not have a detrimental effect on the value of the property securing a mortgage loan and will not restrict the borrower's use of the property securing a mortgage loan	is authorized to approve the request to release the easement on Fannie Mae's behalf.
will have a detrimental effect on the value of the property securing a mortgage loan	must approve the request to release the easement if the borrower agrees to apply <ul style="list-style-type: none"> <li>• part of the cash consideration to make any past due mortgage loan payments, if applicable; and</li> <li>• any additional amount required to reduce the mortgage loan balance to an amount that results in the mortgage loan retaining its current LTV ratio.</li> </ul>
has potential long-term negative implications that could affect the value of the property securing a mortgage loan at a later date	must decline the request to release the easement. <p style="text-align: center;"><b>Note:</b> The servicer may contact Fannie Mae’s NSO (see F-4-03, List of Contacts) if it prefers to discuss</p>



<b>If the servicer has determined that releasing a beneficial easement...</b>	<b>Then the servicer...</b>
	the situation with Fannie Mae before making a final decision or if it has information that there are mitigating circumstances that suggest that the easement should be released.

**Request for the Grant of a Burdensome Easement:** The servicer must evaluate the request for the granting of a burdensome easement based on the extent to which granting a burdensome easement interferes with either the use or value of the property securing a mortgage loan, which depends on the following:

- the degree and quantity of rights that are released with the easement;
- the community’s customs, attitudes, and prevalent practices regarding such easements; and
- the manner and extent of the use of the easement.

The servicer is authorized to approve any request for a customary public utility easement as long as

- A subsurface utility easement does not extend under the house or other improvements to the property.
- An above-surface utility easement for distribution purposes that runs along any of the property lines or easements for drainage purposes that run along the rear property line if the easements do not extend more than 12 feet from the property line, do not interfere with any of the improvements or use of the property, and do not present a health or safety hazard.

The servicer must evaluate requests for other types of easements based on the specific circumstance of the request, as described in the following table.

<b>If the servicer has determined that granting a burdensome easement...</b>	<b>Then the servicer...</b>
will not adversely affect the value of the property securing a mortgage loan	is authorized to approve the request to grant the easement on Fannie Mae's behalf.
will adversely affect the value of the property securing a mortgage loan	must only approve the request to grant the easement if any cash consideration is applied to the outstanding mortgage loan debt.
has potential long-term negative implications that could affect the value of the property	must decline the request to grant the easement.

If the servicer has determined that granting a burdensome easement...	Then the servicer...
securing a mortgage loan or impact Fannie Mae's ability to foreclose on the mortgage loan	<p><b>Note:</b> The servicer may contact Fannie Mae's NSO (see F-4-03, List of Contacts) if it prefers to discuss the situation with Fannie Mae before making a final decision or if it has information that there are mitigating circumstances that suggest that the easement should be granted.</p>

If a request to grant a burdensome easement includes subordinating the mortgage lien to the easement, the servicer is authorized to agree on Fannie Mae's behalf to subordinate the mortgage lien to the easement if

- the easement is the type that is customary in the area and does not interfere with the property owner's use or enjoyment of the property, and
- any cash consideration is applied to the outstanding mortgage loan debt in accordance with the mortgage loan documents.

### Evaluating a Request for the Lease of Oil, Gas, or Mineral Rights

When a borrower wants to lease oil, gas, or mineral rights to the property, the servicer must ensure that the borrower submits a copy of the proposed lease agreement with [Form 236](#).

Before agreeing to a lease of oil, gas, or mineral rights, the servicer must consider the extent to which the subject property and neighboring properties may be affected by the exercise of the rights covered in the lease. In particular, the following should be taken into consideration:

- The extent to which the rights granted by the lease infringe on the property owner's rights. For example, if the lease permits removal of deposits by directional exploration from an area outside of the property, there may be little or no adverse effect, depending on the location of the exploration area and the attitude of the community. On the other hand, if the lease allows for complete ingress and egress to explore any part of the property or to store or install equipment on it, the property may no longer have any real value as a residential property.
- Any hazards, nuisances, or damages that may result from the exercise of the rights granted by the lease. In mineral areas where subsidence from directional mining may be a problem, the potential extent of a hazard or nuisance can be determined by reviewing the past history of such operations in the locality and taking into consideration the property's subsurface soil

structure and the extent and depth of the proposed mining. In oil-producing areas, hazards, nuisances, and damages can result from drilling operation, ingress and egress, storage, pipeline transportation, fire, explosion, or gusher wells. The effect of these potential hazards or nuisances on the value of the property would depend on their intensity and closeness and the community’s attitude toward such hazards or nuisances. For example, in areas in which oil exploration is a major part of the economy, the risk may be considered acceptable, whereas it might be unacceptable in areas in which such exploration has a minor effect on the economy.

The servicer must determine whether the leasing of oil, gas, or mineral rights meets the following conditions:

- granting of oil, gas, or mineral leases is customary in the area;
- exercise of the lease does not have a material impact on the value of the property securing a mortgage loan;
- exercise of the lease does not prevent use of the property as a residence; and
- exercise of the lease does not expose the residents to health or safety hazards.

The following table describes the servicer’s action based upon whether or not granting of the lease meets these conditions.

If the leasing of oil, gas, or mineral rights...	Then the servicer...
meets all of the conditions	is authorized to approve the lease on Fannie Mae’s behalf and waive Fannie Mae’s interest in any royalties under the current terms of the lease.
meets at least one, but not all of the conditions	must submit the following to Fannie Mae’s NSO (see F-4-03, List of Contacts): <ul style="list-style-type: none"> <li>• <a href="#">Form 236</a>,</li> <li>• a copy of the proposed lease agreement, and</li> <li>• its recommendation.</li> </ul>
does not meet any of the conditions	must deny the request. <p style="text-align: center;"><b>Note:</b> The servicer may contact Fannie Mae’s NSO (see F-4-03, List of Contacts) if it prefers to discuss</p>

If the leasing of oil, gas, or mineral rights...	Then the servicer...
	the situation with Fannie Mae before making a final decision.

### Evaluating a Request for the Partial Release of Real Property

The servicer is authorized to approve partial releases of security on Fannie Mae’s behalf if all of the conditions in the following table are satisfied.

✓	Conditions required to approve a partial release of security
	The mortgage loan must be current.
	The mortgage loan must not have been <ul style="list-style-type: none"> <li>• greater than 30 days past due more than once in the most recent 12-month period, or</li> <li>• otherwise in default under the terms of the mortgage loan over the most recent 12-month period.</li> </ul>
	The priority of Fannie Mae’s mortgage lien must not be impacted by any claims of subordinate lienholders.
	The reduction in the value of the remaining property must not be greater than the amount of any cash consideration. <p><b>Note:</b> Requests for partial release that involve no cash consideration are acceptable as long as the value of the remaining property is enhanced, or is at least not diminished, by the release. A BPO or the servicer’s own estimate of the value of the property to be released is acceptable unless the estimated value of the property to be released is \$10,000 or more, in which case the servicer must obtain an appraisal that shows the value of the property securing a mortgage loan before and after the release.</p> <p><b>Note:</b> Fannie Mae will not reimburse the servicer for the cost of the property valuation.</p>
	Any cash consideration paid for the release, less the expense of obtaining the release, must either be <ul style="list-style-type: none"> <li>• applied to the outstanding mortgage loan debt, if required to satisfy Fannie Mae’s LTV ratio requirements (see below); or</li> </ul>

✓	<b>Conditions required to approve a partial release of security</b>
	<ul style="list-style-type: none"> <li>used for proposed property improvements after the release.</li> </ul>
	The ratio of the UPB, as reduced by any available cash consideration, to the value of the property securing a mortgage loan after the release must not be higher than the LTV ratio of the mortgage loan immediately before the release.

If the servicer is uncertain about whether all of the conditions have been met or if it has information that there are mitigating circumstances for permitting the release even though all of the conditions have not been met, the servicer may contact Fannie Mae’s NSO (see F-4-03, List of Contacts).

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### Evaluating a Request for the Partition of Real Property

The servicer has the authority to approve a partition of real property on Fannie Mae’s behalf if all of the conditions in the following table are satisfied.

✓	<b>Conditions required to approve a release in connection with a partition of real property</b>
	The mortgage loan must be current.
	The mortgage loan must not have been <ul style="list-style-type: none"> <li>greater than 30 days past due more than once in the most recent 12-month period, or</li> <li>otherwise in default under the terms of the mortgage loan over the most recent 12-month period.</li> </ul>
	The priority of Fannie Mae’s mortgage lien must not be impacted by any claims of subordinate lienholders or any encumbrances or title.
	The ratio of the UPB of the mortgage loan to the new value of the property securing a mortgage loan must not be higher than the original LTV ratio of the mortgage loan.
	The partition of the property satisfies the subdivision laws of the county or jurisdiction, if applicable, and complies with all zoning requirements or codes.

If the servicer is uncertain about whether all of the conditions have been met or if it has information that there are mitigating circumstances for permitting the release even though all of the conditions have not been met, the servicer may contact Fannie Mae’s NSO (see F-4-03, List of Contacts).

If the mortgage loan consists of multiple borrowers and the request for the partition of real property includes a request to release the borrower who has possession of the partitioned property from liability under the mortgage loan, the servicer is authorized to approve the request if the borrower who retains possession of the property securing a mortgage loan has the financial ability to make the mortgage loan payments.

### Evaluating a Request for the Substitution of Property Securing a Mortgage Loan

The servicer must submit all requests for the substitution of property securing a mortgage loan, along with its recommendation, to Fannie Mae’s NSO (see F-4-03, List of Contacts). Prior to submitting the request to Fannie Mae, the servicer must take the actions listed in the following table.

✓	<b>Actions the servicer must take prior to submitting the request to Fannie Mae</b>
	Ensure that the borrower submits a plat map with <a href="#">Form 236</a> showing the proposed location of the improvements, walks, driveways, utilities, as well as footings, foundations, and slab details, after the relocation.
	Determine that the release and substitution of property securing a mortgage loan satisfies the subdivision laws of the county or jurisdiction, if applicable, and complies with all zoning requirements or codes.
	Obtain an appraisal for the property securing the mortgage loan as it will exist following completion of the move of the improvements to the new location, which must be based on the assumption that all requirements of the move have been met.

If Fannie Mae approves the substitution of property securing a mortgage loan, the servicer must take the actions described in the following table.

✓	<b>If Fannie Mae agrees to the substitution of property securing a mortgage loan, the servicer must...</b>
	Advise the borrower that he or she <ul style="list-style-type: none"> <li>• is solely responsible for financing the costs of the relocation, unless Fannie Mae agrees to absorb some of the costs;</li> <li>• bears all risks of damage to the house or failure to complete the move; and</li> <li>• must obtain flood insurance coverage, if the new lot or location is in a Special Flood Hazard Area for which Fannie Mae requires flood insurance.</li> </ul>

✓	<b>If Fannie Mae agrees to the substitution of property securing a mortgage loan, the servicer must...</b>
	See <i>Chapter B-3, Flood Insurance Requirements</i> for Fannie Mae’s flood insurance requirements.
	Verify that all building code and zoning requirements are met in connection with the relocation.
	Ensure that Fannie Mae’s mortgage lien <ul style="list-style-type: none"> <li>• remains a good and valid lien of the same priority during and after the move to a new lot,</li> <li>• is extended to cover the new lot before the move and is a good and valid lien of the same priority on the new lot, and</li> <li>• is released from the old lot after the move.</li> </ul>

### **Evaluating a Request for the Partial or Total Taking of Property Securing a Mortgage Loan by Condemnation or Eminent Domain**

The servicer must do and pay for whatever is necessary to protect Fannie Mae’s interest in the property securing the mortgage loan when there is a legal proceeding that may significantly impact Fannie Mae’s interest. The servicer must follow the procedures in *Protecting Fannie Mae’s Rights Regarding Taking of Property by Condemnation or Eminent Domain* in F-1-04, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan to protect Fannie Mae’s interest in the property and Fannie Mae’s rights under the security instrument.

The servicer must refer to the terms of the security instrument to determine how compensation awards are to be distributed in the event of either a partial taking or total taking of a property securing a mortgage loan. However, the terms of the security instrument permit some flexibility in determining how the proceeds should be applied if the borrower has abandoned the property or does not acknowledge a specific offer to award compensation or settle a claim.

The servicer is authorized to agree to a [Form 236](#) related to a partial or full taking of the property if the compensation award is sufficient to fully satisfy the mortgage debt. However, if the mortgage loan debt will not be fully satisfied in connection with a full taking of the property, the servicer should contact Fannie Mae’s NSO (see F-4-03, List of Contacts) to determine the action Fannie Mae wants it to take. If the borrower has abandoned the property or fails to respond within 30 days to the servicer’s notification that the government has offered to pay a compensation award or settle a claim for damages in connection with a condemnation or taking

by eminent domain, the servicer may disburse the proceeds without contacting the borrower. Generally, the servicer must apply the proceeds to reduce the mortgage loan debt unless there is only a partial taking of the property securing a mortgage loan and foreclosure proceedings have been initiated. In such cases, the servicer must contact Fannie Mae's NSO (see F-4-03, List of Contacts) to determine how to apply the proceeds, as Fannie Mae may prefer to use the proceeds to restore or repair the property.

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# Chapter D1-2, Servicing Rehabilitation or Renovation Mortgage Loans



## Servicing Rehabilitation or Renovation Mortgage Loans

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### Introduction

This chapter contains information on servicing rehabilitation or renovation mortgage loans.

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### In This Chapter

This chapter contains the following topic:

D1-2-01, Rehabilitation or Renovation Mortgage Loans (11/12/2014) . . . . . 363

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## D1-2-01, Rehabilitation or Renovation Mortgage Loans (11/12/2014)

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### Introduction

This topic contains the following:

- Servicer's Responsibilities for Rehabilitation or Renovation Mortgage Loans
  - Administering Accounts for Rehabilitation or Renovation Mortgage Loans
  - Servicer's Responsibilities upon Completion of Rehabilitation or Renovation Work
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### Servicer's Responsibilities for Rehabilitation or Renovation Mortgage Loans

The following table lists the servicer's responsibilities when Fannie Mae purchases a rehabilitation or renovation mortgage loan before completion of the home improvements or repair work.

✓	<b>The servicer must...</b>
	Exercise all approval and oversight responsibilities that are customary to ensure that clear title to the property is maintained.
	Administer the rehabilitation or renovation account, as described in greater detail below.
	Ensure that the rehabilitation or renovation work is completed in a timely manner.
	<p>Ensure that the rehabilitation or renovation work is completed in accordance with the plans, specifications, and the contractor’s estimated bids. The three key documents used to document the terms of the rehabilitation work are as follows:</p> <ul style="list-style-type: none"> <li>• The plans and specifications, which fully describe all of the work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and completion dates).</li> <li>• The rehabilitation or construction contract between the borrower and the contractor which sets out the specific work the contractor agrees to perform, states the agreed-upon costs of the rehabilitation or renovation work, identifies all subcontractors and suppliers, and includes an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to the contractor. It also provides the contractor's agreement to complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions) and to obtain the necessary building permits (including a certificate of occupancy, if required).</li> <li>• The rehabilitation or construction loan agreement between the borrower and the lender which states the terms and conditions of the loan prior to the completion of the work. It also includes the details about the timetable for completing the rehabilitation or construction work; details about the use of proceeds of the rehabilitation or renovation loan (and any amount the borrower has to provide from his or her own funds), the method and timetable for payment of the funds to the contractor and the borrower; procedures for documenting requests for disbursements, establishing and maintaining contingency reserves, and processing change orders; and details about conditions that apply to repayment of the loan, completion requirements, and resolution of disputes.</li> </ul>
	Require the borrower to submit a <i>HomeStyle Change Order Request</i> ( <a href="#">Form 1200</a> ), or a similar form, to provide a detailed description of the change(s), the

✓	<b>The servicer must...</b>
	cost of the change(s), and the estimated completion date(s) before approving any change a borrower wants to make to the original plans and specifications.
	Ensure that all rehabilitation or renovation work is performed by licensed contractors.
	Manage the release of funds to pay for the completed work.
	Refer to the HUD guidelines for specific requirements for government-insured rehabilitation or renovation mortgage loans, if applicable.

If the servicer’s action or lack of action affects Fannie Mae’s ability to acquire clear title to the property, Fannie Mae may require the servicer to repurchase the mortgage loan.

### Administering Accounts for Rehabilitation or Renovation Mortgage Loans

The following table describes the funds that the servicer must ensure are included in the rehabilitation or renovation account, as applicable.

<b>Types of funds held in a rehabilitation or renovation account</b>	<b>Description</b>
A Contingency Reserve	An amount equal to 10% of the total costs for the rehabilitation or renovation work, which the servicer must only release to cover required, necessary, and unforeseen repairs or deficiencies that are discovered during the rehabilitation or renovation.
Construction Related Costs	Documented charges that may be considered part of the rehabilitation or renovation work include, but are not limited to, the following: <ul style="list-style-type: none"> <li>• property inspection fees,</li> <li>• fees for the title update,</li> <li>• architectural and engineering fees,</li> <li>• independent consultant fees,</li> <li>• costs for required permits,</li> <li>• fees for review of rehabilitation or renovation plans,</li> </ul>

Types of funds held in a rehabilitation or renovation account	Description
	<ul style="list-style-type: none"> <li>• appraisal fees, and</li> <li>• fees charged for processing construction draws.</li> </ul>
Mortgage Loan Payments	<p>If the property is a principal residence that cannot be occupied during the rehabilitation or renovation period, the servicer must use this amount to fund mortgage loan payments that become due during the rehabilitation or renovation construction period.</p> <p><b>Note:</b> The servicer must ensure that this represents only those payments that come due during the period that the property cannot be occupied and that the amount funded does not exceed six full mortgage loan payments of PITIA.</p>

The following table lists the servicer’s responsibilities for administering accounts for rehabilitation or renovation mortgage loans.

✓	The servicer must...
	<p>Deposit all of the applicable rehabilitation or renovation costs into an interest-bearing rehabilitation or renovation account at the time that the mortgage loan closes. The servicer may commingle the rehabilitation or renovation escrow accounts for different borrowers in the same custodial account.</p> <p><b>Note:</b> If there is an increase in costs during the rehabilitation or renovation period, the borrower or the servicer must fund the amount of the increase. The servicer must ensure that the borrower obtains the additional funds in a manner that will not affect the priority of Fannie Mae’s lien.</p>
	<p>Ensure that the rehabilitation or renovation account</p> <ul style="list-style-type: none"> <li>• is a custodial account that satisfies Fannie Mae’s criteria for custodial accounts and depositories as outlined in A4-1-02, Establishing Custodial Bank Accounts, and</li> <li>• includes all required funds previously described to pay for the rehabilitation or renovation.</li> </ul>

✓	<b>The servicer must...</b>
	Pay or credit all interest earned on the rehabilitation or renovation account, less any administrative expenses involved in maintaining the account, to the borrower.
	Release funds from the rehabilitation or renovation account to the contractor and the borrower only when <ul style="list-style-type: none"> <li>• any rehabilitation or renovation work has been completed, and in accordance with the agreed upon schedule; and</li> <li>• after receipt of a specific request.</li> </ul>

### Servicer’s Responsibilities upon Completion of Rehabilitation or Renovation Work

The following table provides the servicer’s responsibilities upon completion of the rehabilitation or renovation work.

✓	<b>Following completion of the rehabilitation or renovation work, the servicer must...</b>
	Obtain a <i>HomeStyle Completion Certificate (Form 1036)</i> , or a similar certification of completion, from a rehabilitation or renovation consultant, architect, or appraiser to confirm that the rehabilitation or renovation was completed in accordance with the plans and specifications.
	Obtain an endorsement to the title insurance policy, concurrent with the date of the last disbursement of funds, to extend its effective date through the date the rehabilitation or renovation was completed, ensuring the continuance of Fannie Mae’s first-lien priority. <p style="margin-left: 40px;"><b>Note:</b> When the property is in a state in which contractors’, subcontractors’, or materialmen’s liens have priority over mortgage liens, the servicer must obtain all necessary lien releases or take any other action that may be required to ensure that the title to the property is clear of all liens and encumbrances.</p>
	Obtain a certification regarding the property insurance to confirm that the coverage has been increased, if necessary, to comply with Fannie Mae’s standard property (hazard) and flood insurance requirements. See <i>Chapter B-2, Property (Hazard) Insurance Requirements</i> and <i>Chapter B-3, Flood Insurance Requirements</i> for Fannie Mae’s applicable property insurance coverage requirements.

✓	<b>Following completion of the rehabilitation or renovation work, the servicer must...</b>
	Use all funds remaining in the rehabilitation or renovation account that were not deposited separately by the borrowers to reduce the UPB of the mortgage loan. However, in some cases, unused contingency funds can be used to make additional improvements or repairs to the property.

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# Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster



## Providing Assistance to a Borrower Impacted by a Disaster

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### Introduction

This chapter contains information on providing assistance to borrowers impacted by a disaster.

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### In This Chapter

This chapter contains the following topics:

D1-3-01, Evaluating the Damage Caused by a Disaster (11/12/2014) . . . . .	369
D1-3-02, Providing Relief to a Borrower Who Is Affected by a Disaster (11/12/2014) . . . . .	370

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## D1-3-01, Evaluating the Damage Caused by a Disaster (11/12/2014)

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### Introduction

This topic contains information on evaluating damage caused by a disaster.

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Disasters caused by earthquakes, floods, hurricanes, or other catastrophes caused by a person or event beyond the borrower's control result in devastation in terms of property damage and destruction.

The following table describes the servicer's requirements when it becomes aware that a property has incurred damage as the result of a disaster.

✓	<b>The servicer must...</b>
	Determine the extent and nature of the damage and its effect on the borrower’s ability to continue making his or her monthly payments.
	Determine whether the property is adequately insured against the damage.
	Counsel the borrower on the availability of appropriate workout options and federal disaster relief that might be available through FEMA. See <i>Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> for additional information on available workout options.
	Ensure that any applicable property insurance claims are filed and settled promptly, and that the property is repaired fully.



## **D1-3-02, Providing Relief to a Borrower Who Is Affected by a Disaster (11/12/2014)**

### **Introduction**

This topic contains the following:

- Servicer’s Responsibilities When Granting Disaster Relief
- Granting Disaster Relief
- Offering a Forbearance Plan and Determining a Subsequent Workout Option After a Disaster Event
- Initiating or Suspending Legal Proceedings

### **Servicer’s Responsibilities When Granting Disaster Relief**

The following table describes the servicer’s requirements when providing relief to borrowers affected by a disaster.

✓	<b>The servicer must...</b>
	Evaluate each mortgage loan that is or becomes delinquent as a result of the borrower incurring damages or expenses related to the disaster on a case-by-case basis.
	Waive any late charges if the borrower’s payment is late because he or she <ul style="list-style-type: none"> <li>• incurred additional expenses or loss of income due to the disaster, or</li> </ul>



✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• needs additional time to receive a pending insurance settlement.</li> </ul>
	Temporarily suspend the reporting of delinquencies to the credit bureaus if it is aware that the delinquency is attributable to a hardship as a result of the disaster. See C-4.1-02, Suspending Credit Bureau Reporting for additional information.
	Ensure that the specific action that it takes does not jeopardize Fannie Mae’s ability to recover damages under any applicable property insurance policy.
	Contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) if it needs assistance in determining how a policy should be applied or if it has determined that a departure from Fannie Mae’s policies is warranted.
	Refer to FHA, VA, or RD guidelines to determine appropriate procedures for extending relief to a borrower who has a government-insured or government-guaranteed mortgage loan.

### **Granting Disaster Relief**

The servicer must grant disaster relief when

- the servicer is unable to contact a borrower who may have been impacted by a catastrophe that was caused by nature or a person other than the borrower, and
- the servicer has determined that such an event may adversely affect either
  - the value or habitability of a property securing a mortgage loan, or
  - the borrower’s ability to make further payments or payment in full on a mortgage loan.

The servicer must receive Fannie Mae’s approval before granting disaster relief that exceeds 90 days.

The servicer must follow the procedures in F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network for reporting a mortgage loan receiving disaster relief to Fannie Mae.

### **Offering a Forbearance Plan and Determining a Subsequent Workout Option After a Disaster Event**

When the servicer’s review of the facts and circumstances indicates that the borrower’s employment or income is seriously affected by a disaster event, the servicer is authorized to offer a forbearance plan in accordance with the following table.

If, when the disaster occurred, the mortgage loan was...	And, during the disaster relief period, the servicer...	Then the servicer is authorized to offer a forbearance plan term of up to...
current, less than or equal to 90 days delinquent, or performing on an active Trial Period Plan	achieved QRPC	6 months.  <b>Note:</b> If the borrower is unable to provide a complete BRP at the end of the initial 6 months of forbearance, the servicer may offer a successive forbearance up to six months in length, but not to exceed 12 months, without obtaining a complete BRP.
	did not achieve QRPC	3 months.
greater than 90 days delinquent	achieved QRPC	6 months.
	did not achieve QRPC	3 months.

The servicer must use its discretion to determine the appropriate duration of the forbearance plan based on the extent of damage to the property and/or the financial impact to the borrower. The servicer must obtain Fannie Mae’s prior written approval to offer a forbearance plan term that exceeds those outlined in the table. The forbearance plan must otherwise adhere to the terms as described in *Standard Forbearance Plan Terms* in D2-3.2-01, Standard Forbearance Plan.

After a forbearance plan is granted, the servicer must continue to work with the borrower to determine what additional steps can be taken (for example, application of insurance claim settlements to repair the property). The servicer must evaluate the mortgage loan for a workout option prior to the expiration of the forbearance plan (see *Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options* for additional information on available workout options.)

If the borrower converts from an active Trial Period Plan to a forbearance plan, the borrower may subsequently be eligible for a Fannie Mae workout option upon completion of the

forbearance plan. If the borrower is eligible for a mortgage loan modification, the servicer must commence a new Trial Period Plan.

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### Initiating or Suspending Legal Proceedings

If the servicer has any doubt about the effect of the disaster on the condition of a property or the borrower's employment or income status, it must suspend any legal proceedings already in process until it can determine the accurate status, and make its final decision on the appropriate course of action based upon its findings. The servicer must receive Fannie Mae's approval before granting disaster relief that exceeds 90 days.

The servicer must not initiate or complete foreclosure proceedings related to a property that has been destroyed until it evaluates the economic feasibility of pursuing the foreclosure.

If, as the result of the disaster, comparable alternative housing at reasonable rates is not available in the immediate vicinity of the borrower's current residence, the servicer must take the actions outlined in the following table.

Step	Servicer Action
1	Contact the designated eviction attorney to discuss whether or not to begin or complete eviction proceedings.
2	If Fannie Mae and the eviction attorney agree not to pursue eviction proceedings, offer the borrower a month-to-month lease, at whatever rent the borrower can reasonably afford, to enable the borrower to remain in a property that Fannie Mae has acquired by foreclosure or a deed-in-lieu of foreclosure.
3	Execute a lease agreement with the borrower that <ul style="list-style-type: none"><li>• stipulates that all legal rights to the property are vested in Fannie Mae, and</li><li>• waives his or her right to an advance notice of eviction, if state law allows the borrower to grant such a waiver.</li></ul> <p><b>Note:</b> The servicer should work with the eviction attorney, as well as with a local attorney, to ensure that the language and form of the lease agreement comply with the requirements of the jurisdiction.</p>

# Chapter D1-4, Transfers of Ownership



## Transfers of Ownership

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### Introduction

This chapter contains information on transfers of ownership.

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### In This Chapter

This chapter contains the following sections:

D1-4.1, Information Relating to Transfers of Ownership Applicable to All Mortgage Loans	375
D1-4.2, Information Relating to Transfers of Ownership on Conventional Mortgage Loans	383
D1-4.3, Information Relating to Transfers of Ownership on Government Mortgage Loans.	389

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## Section D1-4.1, Information Relating to Transfers of Ownership Applicable to All Mortgage Loans

### D1-4.1-01, Determining Whether a Transfer of Ownership Is Permitted (11/12/2014)

#### Introduction

This topic contains information on determining whether a transfer of ownership is permitted.

For purposes of enforcing the due-on-sale (or due-on-transfer) provision, if any, in the security instrument, the servicer must consider all of the following situations to be a transfer of ownership:

- the purchase of a property “subject to” the mortgage loan,
- the assumption of the mortgage loan debt by the property purchaser,
- any exchange of possession of property under a land sales contract or any other land trust device, and
- in cases in which an *inter vivos* revocable trust is the borrower, any transfer of a beneficial interest in the trust.

When the servicer receives a request for a statement of account in connection with a possible transfer of ownership of a property, or if the servicer learns after the fact that a transfer has occurred, the servicer must take the actions listed in the following table.

✓	The servicer must...
	Review the mortgage loan instruments to determine whether the mortgage loan is subject to enforcement of the due-on-sale (or due-on-transfer) provision.
	Investigate any questionable changes to determine whether a transfer of ownership has occurred.

✓	<b>The servicer must...</b>
	Determine whether any action needs to be taken to enforce the due-on-sale (or due-on-transfer) provision.

The statement of account that the servicer issues in connection with a possible transfer must clearly state the items listed in the following table.

✓	<b>The statement of account must clearly...</b>
	State Fannie Mae's right to enforce the due-on-sale (or due-on-transfer) provision, if applicable.
	Describe Fannie Mae's policy regarding enforcement of due-on-sale (or due-on-transfer) provisions.
	Describe any exceptions or limiting conditions to the policy.

## **D1-4.1-02, Allowable Exemptions Due to the Type of Transfer (11/12/2014)**

### **Introduction**

This topic contains information on allowable exemptions due to the type of transfer.

Unless the previous borrower requests a release of liability, the servicer must process the following exempt transactions without reviewing or approving the terms of the transfer:

- A transfer of the property to
  - the surviving party in the event of the death of a joint tenant or a tenant by the entirety;
  - a junior lienholder as a result of a foreclosure or acceptance of a deed-in-lieu of foreclosure for the subordinate mortgage loan;
  - one of the borrowers if the property is jointly owned by unrelated co-borrowers, as long as the borrower who is gaining full ownership of the property continues to occupy it and the transfer occurs after at least 12 months have elapsed since the mortgage loan was closed;
  - a related or unrelated natural person, provided the transferee acknowledges in writing that he or she

- is assuming all of the obligations under, and will be bound by the note and the security interest; and
- will occupy the property with the transferor as his or her principal residence.
- A transfer of the property (or, if the borrower is an *inter vivos* revocable trust, a transfer of a beneficial interest in the trust) to
  - a relative of the deceased borrower (or, in the case of an *inter vivos* revocable trust borrower, to a relative of the individual who established the trust), as long as the transferee occupies the property;
  - the spouse, child(ren), parent(s), brother(s) or sister(s), grandparent(s), or grandchild(ren) of the borrower (or, in the case of an *inter vivos* revocable trust borrower, of the individual who established the trust), as long as the transferee occupies the property;
  - a spouse of the borrower (or, in the case of an *inter vivos* revocable trust borrower, of the individual who established the trust) under a divorce decree or legal separation agreement or from an incidental property settlement agreement, as long as the transferee will occupy the property;
  - an *inter vivos* trust (or, if the borrower is an *inter vivos* revocable trust, into a new trust) as long as the borrower (or the individual who established the original *inter vivos* revocable trust) will be the beneficiary of the trust and the occupant of the property.
- The granting of a leasehold interest that has a term of three or fewer years and does not provide an option to purchase the property. If the lease has a renewal option that would allow the term to extend beyond three years, this exemption does not apply.
- The creation of a subordinate lien, as long as it does not relate to a transfer of occupancy rights.
- The creation of a purchase money security interest for household appliances.

The servicer must determine that the transferee’s credit and financial capacity is acceptable under current Fannie Mae underwriting guidelines (see the *Selling Guide* for additional information) if the previous borrower requests a release of liability. The following table provides the servicer’s requirements for evaluating a request for a release of liability.

If the servicer...	Then the servicer...
has determined that the transferee is capable of assuming the mortgage loan obligation and the mortgage loan	is authorized to approve the release of liability.

If the servicer...	Then the servicer...
<ul style="list-style-type: none"> <li>• does not have mortgage insurance, or</li> <li>• has mortgage insurance and the mortgage insurer agrees to the release</li> </ul>	
<p>has determined that the transferee is capable of assuming the mortgage loan obligation but the mortgage loan has mortgage insurance and the mortgage insurer does not agree to the release</p>	<p>must deny the request for the release of liability, although the transfer may still be processed without a release of liability.</p> <p style="text-align: center;"><b>Note:</b> The denial must state the mortgage insurer’s decision as its reason for not approving the request.</p>
<p>has determined that the transferee is not capable of assuming the mortgage obligation</p>	<p>must deny the request for release of liability, although the transfer may still be processed without a release of liability.</p>

The servicer must follow the procedures in *Obtaining MI Approval for a Conventional Mortgage Loan* in F-1-28, Processing a Transfer of Ownership for information on obtaining mortgage insurer approval and in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing the assumption (or assumption and release) agreement.

The servicer must notify the applicable property insurance companies, tax authorities, the mortgage insurer, and any other interested parties when it processes a transfer of ownership.

If the mortgage loan is delinquent and the new property owner is unable to bring the mortgage loan current, the servicer must evaluate him or her for all available workout options in accordance with *Chapter D2–2, Requirements for Contacting a Borrower* and *Chapter D2–3, Fannie Mae’s Home Retention and Liquidation Workout Options*. If the servicer determines that a workout option is appropriate, it must submit its recommendation to Fannie Mae via HSSN for written approval. The servicer must follow the procedures in *Requesting Approval for a Workout Option for a New Property Owner* in F-1-35, Requesting Fannie Mae’s Approval via HomeSaver Solutions for requesting Fannie Mae’s prior approval via HSSN.



## **D1-4.1-03, Allowable Exceptions Due to State Law Restrictions (“Window-Period” Mortgage Loans) (11/12/2014)**

### **Introduction**

This topic contains information on allowable exceptions due to state law restrictions (“window-period” mortgage loans).

The Garn-St. Germain Depository Institutions Act of 1982, which authorized enforcement of due-on-sale (or due-on-transfer) provisions, exempted certain mortgage loans that were already subject to state law restrictions on due-on-sale (or due-on-transfer) enforcement. Mortgage loans originated or assumed between the time the state enacted its restrictions and the date the Garn-St. Germain Depository Institutions Act went into effect are “window-period” mortgage loans. A list of the states having window-period mortgage loans, the term of the exemption, and Fannie Mae’s specific enforcement policy related to a fixed-rate first lien mortgage loan or a second lien mortgage loan secured by a property located in one of these states are shown below:

- Michigan: Mortgage loan may be assumed at a blended rate, in accordance with state law. Window period runs from January 5, 1977, to October 15, 1982. Restrictions are in effect for the full term of the mortgage loan.
- New Mexico: Mortgage loan may be assumed with a 2% increase in the existing interest rate, subject to any maximum limitation specified in the state law. Window period runs from March 15, 1979, to October 15, 1982. Restrictions are in effect for the full term of the mortgage loan.
- Utah: Mortgage loan may be assumed with a 1% increase in the existing interest rate and an additional 1% increase five years later. Window period runs from May 12, 1981 to October 15, 1982. Restrictions are in effect for the full term of the mortgage loan.

The servicer must verify whether a mortgage loan is a “window-period” mortgage loan. If the mortgage loan is a “window-period” mortgage loan, the servicer is authorized to approve a transfer of ownership as long as the criteria listed in the following table are satisfied.

✓	<b>Criteria required to approve a transfer of ownership on window-period mortgage loans</b>
	The purchaser’s credit and financial capacity are acceptable under Fannie Mae’s current underwriting guidelines. See the <i>Selling Guide</i> for additional information.

✓	<b>Criteria required to approve a transfer of ownership on window-period mortgage loans</b>
	The mortgage insurer approves the transfer and the mortgage insurer's specified conditions are satisfied, if applicable. The servicer must follow the procedures in <i>Obtaining MI Approval for a Conventional Mortgage Loan</i> in F-1-28, Processing a Transfer of Ownership for information on obtaining mortgage insurer approval.

**Note:** If the mortgage insurer denies the transfer or imposes conditions for approval, the servicer must inform the parties involved in the transaction of the mortgage insurer's decision as its reason for not approving the request or the imposition of conditions for approval.

When the state law allows an increase in the mortgage loan interest rate, the servicer should determine the new rate for a whole mortgage loan or a participation pool mortgage loan by adding the allowable increase to the existing mortgage loan interest rate, unless the state law requires a different method. That new interest rate for the mortgage loan should be used to evaluate the purchaser's financial ability. The servicer must not change the interest rate if the mortgage loan is in an MBS pool, even though the state law would permit an increase.

If the transfer of ownership is not approved or the required eligibility criteria are not satisfied and the transfer of ownership occurs, the servicer must take all steps necessary to enforce the due-on-sale (or due-on-transfer) provision. If the funds required to satisfy the mortgage loan debt are not received after the mortgage loan is accelerated, the servicer must initiate foreclosure proceedings.

The servicer must follow the procedures in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing an assumption (or assumption and release) agreement.

The servicer must notify the applicable property insurance companies, tax authorities, and any other interested parties. If the purchaser did not provide a new property insurance policy, the servicer must obtain an endorsement to the existing property insurance policy.



## **D1-4.1-04, Transfers of Ownership by Grant Deed (11/12/2014)**

### **Introduction**

This topic contains information on transfers of ownership by grant deed.

The servicer must not consent to any transfer of ownership by a grant deed involving a party that indicates its services will relieve the borrower of his or her mortgage loan debt. The following table lists the servicer’s responsibilities if it learns that the borrower has been contacted by such a party proposing the execution of a grant deed.

✓	The servicer must...
	Explain to the borrower that the transfer of ownership will not be acknowledged, that the borrower will not be relieved of the mortgage obligation, and that foreclosure proceedings may be initiated if the property is transferred.
	Work with a borrower who has experienced a hardship to determine whether any workout options are appropriate. See <i>Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> for additional information.

The servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) if it is contacted by a party about accepting a short payoff for a property that it obtained through the borrower’s execution of a grant deed. Under no circumstances should the servicer negotiate the short payoff. Fannie Mae generally will advise the servicer either to accept a Mortgage Release or to initiate foreclosure proceedings.

The servicer must follow the procedures in *Responding to a Title Transferred via Grant Deed* in F-1-28, Processing a Transfer of Ownership for transfers of ownership by a grant deed.

## **D1-4.1-05, Enforcing the Due-on-Sale (or Due-on-Transfer) Provision (11/12/2014)**

### **Introduction**

This topic contains information on enforcing the due-on-sale (or due-on-transfer) provision.

Unless the transfer of ownership is an exempt transaction or involves a property that secures a “window-period” mortgage loan, the servicer must accelerate the debt.

The servicer must send any notices required under the terms of the mortgage loan before it accelerates the debt. If the funds required to satisfy the debt are not received, the servicer should then begin foreclosure proceedings.

When the servicer learns that a transfer of ownership has occurred, it should notify the property purchaser that the mortgage loan is due and payable. For a whole mortgage loan or a participation pool mortgage loan held in Fannie Mae's portfolio, the servicer should provide 30 days notice to the purchaser to pay the mortgage loan balance in full or to apply and qualify for a new mortgage loan. If neither is received within 30 days, the servicer should institute foreclosure proceedings. Under certain circumstances, Fannie Mae may consider the following alternatives:

- Waiver for mortgage loans in default. See *Allowing a Delinquent Mortgage Loan to Be Assumed* in D1-4.2-02, Conventional Mortgage Loans That Include a Due-on-Sale (or Due-on-Transfer) Provision for information on mortgage loan assumptions.
- Optional repurchase of certain mortgage loans. See A1-3-01, Requirements for Voluntary Repurchase for additional information.
- Potential litigation. If the legality of the due-on-sale (or due-on-transfer) provision is questioned or litigated, see D1-6-02, Handling Notices of Liens, Legal Action, Other Actions Impacting Fannie Mae's Interest for Fannie Mae's requirements for handling the action.



## **D1-4.1-06, Charging Fees for Transfers of Ownership (11/12/2014)**

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### **Introduction**

This topic contains information on charging fees for transfers of ownership.

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The servicer's fee for processing a transfer of ownership for a conventional mortgage loan should be \$100 unless the property seller requests a release of liability or the property purchaser's credit must be evaluated for a mortgage loan that includes a due-on-sale (or due-on-transfer) provision that permits an assumption under certain conditions. In these instances, the servicer may charge a fee equal to 1% of the UPB of the mortgage loan, subject to a minimum of \$400 and a maximum of \$900, as long as its costs warrant such fees.

The servicer must advise Fannie Mae of any fees it collects for a transfer of ownership as part of the monthly activity information it provides through the Fannie Mae investor reporting system.

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## Section D1-4.2, Information Relating to Transfers of Ownership on Conventional Mortgage Loans

### D1-4.2-01, Conventional Mortgage Loans that Do Not Include a Due-on-Sale (or Due-on-Transfer) Provision (11/12/2014)

#### Introduction

This topic contains information on conventional mortgage loans that do not include a due-on-sale (or due-on-transfer) provision.

If a mortgage loan not subject to a due-on-sale (or due-on-transfer) provision is modified under the HAMP, the servicer must obtain the borrower's agreement that the HAMP modification will cancel the assumability feature of that mortgage loan. See D1-4.2-02, Conventional Mortgage Loans That Include a Due-on-Sale (or Due-on-Transfer) Provision for additional information.

For all other mortgage loans that are not subject to a due-on-sale (or due-on-transfer) provision, there are no restrictions on the transfer of ownership. However, the servicer must determine that the purchaser's credit and financial capacity is acceptable under current Fannie Mae underwriting guidelines if the previous borrower requests a release of liability. The following table provides the servicer's requirements for evaluating a request for a release of liability.

<b>If the servicer...</b>	<b>Then the servicer...</b>
has determined that the purchaser is capable of assuming the mortgage loan obligation and the mortgage loan <ul style="list-style-type: none"><li>• does not have mortgage insurance, or</li><li>• has mortgage insurance and the mortgage insurer agrees to the release</li></ul>	is authorized to approve the release of liability.

If the servicer...	Then the servicer...
has determined that the purchaser is capable of assuming the mortgage loan obligation but the mortgage loan has mortgage insurance and the mortgage insurer does not agree to the release	must deny the request for the release of liability, although the transfer may still be processed without a release of liability.  <p style="text-align: center;"><b>Note:</b> The denial must state the mortgage insurer’s decision as its reason for not approving the request.</p>
has determined that the purchaser is not capable of assuming the mortgage obligation	must deny the request for release of liability, although the transfer may still be processed without a release of liability.

The servicer must follow the as in *Obtaining MI Approval for a Conventional Mortgage Loan* in F-1-28, Processing a Transfer of Ownership for information on obtaining mortgage insurer approval and in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing the assumption (or assumption and release) agreement.

The servicer must notify the applicable property insurance companies, tax authorities, the mortgage insurer, and any other interested parties. If the purchaser did not provide a new property insurance policy, the servicer must request the insurer to prepare an endorsement to the existing property insurance policy to name the new borrower. The servicer must also obtain a new mortgage insurance policy for an insured mortgage loan or an agreement that extends the previous coverage to the new borrower.

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 **D1-4.2-02, Conventional Mortgage Loans That Include a Due- on-Sale (or Due-on-Transfer) Provision (11/12/2014)**

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**Introduction**

This topic contains the following:

- Determining When to Refer to the Participating Lender’s Policy
- Non-Exempt Transactions: Exceptions for Certain Loan Types if the Purchaser is Creditworthy
- Allowing a Delinquent Mortgage Loan to Be Assumed

---

### Determining When to Refer to the Participating Lender's Policy

The servicer must refer to the participating lender's policies for the following mortgage loans as Fannie Mae's policies do not apply:

- Participation pool mortgage loans held in portfolio that were purchased from a supervised lender under commitments dated before August 1, 1983.
- Concurrent sales participation pool mortgage loans in which it holds a majority interest.

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### Non-Exempt Transactions: Exceptions for Certain Loan Types if the Purchaser is Creditworthy

The servicer is authorized to allow transfers of ownership for the following first lien mortgage loans if all of the criteria listed below are satisfied:

- All ARMs and GPARMs, except for the following:
  - those closed under ARM Plans 975, 1029, and 1103;
  - those that have extended fixed-rate periods (ARM Plans 659, 660, 661, 750, 751, 1423, 1437, 2724, 2725, 2726, 2727, 2728, 2729, 3223, 3224, 3225, 3226, 3227, 3228, 3252 (except as limited for those plans that may be used for Texas Section 50(a)(6) mortgage loans), if the transfer would take place during the fixed-rate period); and
  - those that have been converted to fixed-rate mortgage loans.
- Fixed-rate portfolio mortgage loans that Fannie Mae purchased under commitment contracts dated before November 10, 1980 unless
  - the purchase of the property is financed directly or indirectly with wraparound or secondary financing from an institutional lender, or
  - Fannie Mae has pooled a mortgage loan originally held as a portfolio mortgage loan to back an MBS. Fannie Mae will notify the servicer when it does this.

The servicer must determine that all of the criteria listed in the following table are satisfied to approve a transfer of ownership.

✓	<b>Criteria required to approve a transfer of ownership to a creditworthy purchaser</b>
	The purchaser's credit and financial capacity are acceptable under Fannie Mae's current underwriting guidelines. See the <i>Selling Guide</i> for additional information.

✓	<b>Criteria required to approve a transfer of ownership to a creditworthy purchaser</b>
	The mortgage insurer approves the transfer and the mortgage insurer’s specified conditions are satisfied, if applicable. The servicer must follow the procedures in <i>Obtaining MI Approval for a Conventional Mortgage Loan</i> in F-1-28, Processing a Transfer of Ownership for information on obtaining mortgage insurer approval.

**Note:** If the mortgage insurer denies the transfer or imposes conditions for approval, the servicer must inform the parties involved in the transaction of the mortgage insurer’s decision as its reason for not approving the request or the imposition of conditions for approval.

Before approving a transfer of ownership for a pledged-asset mortgage loan, the servicer must determine that the pledged asset will remain in place through the assignment of the original pledged asset or the substitution of a new asset of equivalent value. The servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to discuss the acceptability of a substitute asset or any other alternative the purchaser proposes.

As second lien mortgage loans are not assumable under the existing terms, if the servicer of a second lien mortgage loan is notified that a prospective purchaser wishes to assume a second lien mortgage loan, it must advise the servicer of the first lien mortgage loan, the borrower, and the proposed property purchaser that the second lien mortgage loan debt will be accelerated if the transfer takes place. This is true even if Fannie Mae holds the first lien mortgage loan and allows it to be assumed under its existing terms. If the servicer learns of the transfer after the fact, it should notify all parties that the second lien mortgage loan is in default and that steps will be taken to accelerate the debt. The servicer must then contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) for approval of the acceleration.

If the transfer of ownership is not approved or the required eligibility criteria are not satisfied and the transfer of ownership occurs, the servicer must take all steps necessary to enforce the due-on-sale (or due-on-transfer) provision. If the funds required to satisfy the mortgage loan debt are not received after the mortgage loan is accelerated, the servicer must initiate foreclosure proceedings.

The servicer must follow the procedures in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing the assumption (or assumption and release) agreement.

The servicer must notify the applicable property insurance companies, tax authorities, and any other interested parties. If the purchaser did not provide a new property insurance policy, the servicer must request the insurer to prepare an endorsement to the existing property insurance policy to name the new borrower.



### Allowing a Delinquent Mortgage Loan to Be Assumed

If someone is interested in purchasing a property that secures a delinquent mortgage loan with an enforceable due-on-sale (or due-on-transfer) provision, the servicer must take the actions listed in the following table.

✓	The servicer must...
	Obtain a complete BRP from the existing borrower to determine his or her inability to continue making payments on the mortgage loan. See F-1-25, Processing a Forbearance Plan for information on obtaining a complete BRP.
	Ensure that the property purchaser qualifies for the mortgage loan in accordance with Fannie Mae's underwriting guidelines in place at the time of qualification. See the <i>Selling Guide</i> for additional information.
	Order an appraisal or an interior BPO for the subject property. Also see D1-4.1-05, Enforcing the Due-on-Sale (or Due-on-Transfer) Provision for additional information.
	Obtain the mortgage insurer's written approval, if applicable. The servicer must follow the procedures in <i>Obtaining MI Approval for a Conventional Mortgage Loan</i> in F-1-28, Processing a Transfer of Ownership for information on obtaining mortgage insurer approval.
	Follow the procedures in <i>Requesting Approval for the Assumption of a Delinquent Conventional Mortgage Loan</i> in F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions to determine whether Fannie Mae is willing to forego enforcement of the due-on-sale (due-on-transfer) provision.
	Repurchase an MBS mortgage loan from the MBS pool before the assumption is finalized, if applicable.

If approved by Fannie Mae, the servicer must document each approved assumption with an assumption agreement, or by an assumption and release agreement if a release of liability was agreed to, and record the agreement if required by state law. The servicer must follow the procedures in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing the assumption (or assumption and release) agreement.

As a condition of approving the assumption, the servicer may charge the property purchaser an assumption fee equal to 1% of the UPB of the mortgage loan (as long as that amount falls within a range from \$400 to \$900). If the servicer knows that the property purchaser has the financial means to pay the servicer's out-of-pocket expenses related to the assumption, it may pass these costs on to the purchaser.



## Section D1-4.3, Information Relating to Transfers of Ownership on Government Mortgage Loans



### D1-4.3-01, Transfers of Ownership on FHA and VA Mortgage Loans (11/12/2014)

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#### Introduction

This topic contains information on transfers of ownership on FHA and VA mortgage loans.

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The servicer must evaluate and process the transfer of ownership for an FHA or VA mortgage loan in compliance with applicable regulations and procedures. When a transfer of ownership occurs for an FHA or VA mortgage loan that is not subject to a due-on-sale provision, the servicer must notify the applicable property insurance companies, tax authorities, FHA or VA (as applicable), and any other interested parties. If the new borrower does not provide his or her own property insurance policy, the servicer must request the insurer to prepare an endorsement to the existing property insurance policy to name the new borrower.

The servicer does not need to notify Fannie Mae when ownership of a property is transferred unless

- the mortgage loan is a portfolio mortgage loan that is subject to an FHA Escrow Commitment and the transfer of ownership occurs during the first 18 months of the mortgage loan term, or

**Note:** Fannie Mae will return any escrow funds it is holding to the servicer to forward to the original borrower.

- the previous borrower requests a release from personal liability.

The servicer must follow the procedures in *Completing a Transfer of Ownership* in F-1-28, Processing a Transfer of Ownership for detailed requirements related to executing the assumption (or assumption and release) agreement.



## **D1-4.3-02, Transfers of Ownership on RD Mortgage Loans (11/12/2014)**

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### **Introduction**

This topic contains information on transfers of ownership on RD mortgage loans.

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The servicer must service RD mortgage loans in accordance with the mortgage loan instruments. If an RD mortgage loan has the due-on-sale (or due-on-transfer) provision of Fannie Mae's conventional mortgage instruments, the servicer must enforce the provision unless the transfer is one of the exempt transactions described in D1-4.1-02, Allowable Exemptions Due to the Type of Transfer.

The servicer must adhere to the requirements described in D1-4.1-05, Enforcing the Due-on-Sale (or Due-on-Transfer) Provision for accelerating the debt for an RD mortgage loan.

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## Chapter D1-5, Call Provision Enforcement



### Call Provision Enforcement

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#### Introduction

This chapter contains information on call options and cross-default provisions.

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#### In This Chapter

D1-5-01, Call Options and Cross-Default Provisions (11/12/2014) . . . . . 391

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### D1-5-01, Call Options and Cross-Default Provisions (11/12/2014)

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#### Introduction

The servicer must maintain the integrity of Fannie Mae's rights under the mortgage loan by the appropriate enforcement of call options and cross-default provisions in the security instrument.

This topic contains the following:

- Call Options
  - Cross-Default Provision
- 

#### Call Options

When a conventional mortgage loan includes a call option provision, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) 90 days before the call date to obtain Fannie Mae's decision on whether it intends to exercise its option and, if so, whether the mortgage loan must be paid in full or whether Fannie Mae is willing to refinance it.

Whenever possible, Fannie Mae will refinance the mortgage loan. If Fannie Mae decides to call a participation pool mortgage loan, the participating lender has the right to repurchase it, rather than exercise the call.

### Cross-Default Provision

When a conventional first lien mortgage loan that involves a leasehold estate contains a cross-default provision and the borrower is delinquent on his or her lease payments, the servicer's action depends on the status of the mortgage loan, as described in the following table.

If the lease payment is delinquent and the mortgage loan is...	Then the servicer must...
current	either <ul style="list-style-type: none"> <li>• advance its own funds to cure the lease default, or</li> </ul> <p style="margin-left: 40px;"><b>Note:</b> The servicer may then bill the borrower for the funds it advanced. If the borrower does not repay the advance, the servicer may apply future mortgage loan payments toward the advance if the mortgage loan documents, local law, and government regulations do not prohibit it.</p> <ul style="list-style-type: none"> <li>• contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) if it has determined that the cross-default provision should be exercised.</li> </ul>
delinquent and the servicer has determined that the default cannot be cured	contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) and recommend an appropriate action.

In reaching its recommendation, the servicer should consider the amount of Fannie Mae's investment in the property, the current value of the property, the nature of the real estate market in the area, and the type of mortgage insurance coverage in effect. The servicer may recommend any of the following:

- purchase of the land from the leaseholder – at the purchase price stipulated in the lease (This will enable Fannie Mae to acquire both the land and the improvements through foreclosure proceedings),
  - assumption of the borrower’s interest in the lease estate – as long as the lease is assumable by the mortgagee without the leaseholder’s consent (Fannie Mae can then acquire the improvements by foreclosing on the mortgage loan and sell the acquired property subject to assumption of the lease), or
  - forfeiture of Fannie Mae’s interest in the improvements to the leaseholder – as long as Fannie Mae would not incur any penalty or liability.
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# Chapter D1-6, Addressing Notices of Liens, Legal Action, Property Forfeitures or Seizures, or Other Actions



## Addressing Notices of Liens, Legal Action, Property Forfeitures or Seizures, or Other Actions

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### Introduction

This chapter contains information on addressing notices of liens, legal action, property forfeitures or seizures, or other actions.

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### In This Chapter

D1-6-01, Requesting to Waive Certain Rights under the Mortgage Loan (11/12/2014) . . . . .	394
D1-6-02, Handling Notices of Liens, Legal Action, Other Actions Impacting Fannie Mae's Interest (11/12/2014) . . . . .	395
D1-6-03, Handling Property Forfeitures and Seizures (11/12/2014) . . . . .	397



## D1-6-01, Requesting to Waive Certain Rights under the Mortgage Loan (11/12/2014)

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### Introduction

This topic contains information on requesting to waive certain rights under the mortgage loan.

The servicer must not approve any requests that waive, release, or would result in any changes to



- the covenants or restrictions in the security instrument,
- any obligation that the borrower has under the note or security instrument,
- any of the noteholder’s rights to receive certain notifications, or
- the provisions of the legal documents for a condo, PUD, or co-op project.

The servicer must refer all such requests to Fannie Mae’s NSO (see F-4-03, List of Contacts).



## **D1-6-02, Handling Notices of Liens, Legal Action, Other Actions Impacting Fannie Mae’s Interest (11/12/2014)**

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### **Introduction**

This topic contains information on handling notices of liens, legal action, other actions impacting Fannie Mae’s interest.

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Fannie Mae reserves the right to direct and control all litigation involving a Fannie Mae mortgage loan, and the servicer and any law firm handling the litigation must cooperate fully with Fannie Mae in the prosecution, defense, or handling of the matter. The servicer must describe Fannie Mae as “Federal National Mortgage Association (“Fannie Mae”), a corporation organized and existing under the laws of the United States of America” in legal proceedings. Fannie Mae may not be referred to as a government agency.

The servicer must not initiate legal proceedings or intervene in legal proceedings on Fannie Mae’s behalf without Fannie Mae’s prior written approval, with the exception of routine foreclosures, bankruptcy matters, and possessory actions for certain mortgage loans.

The servicer must take all reasonable actions to prevent new liens that would be superior to Fannie Mae’s mortgage lien from being attached against the property.

From time to time, servicers may be served with a summons and complaint relating to a Fannie Mae mortgage loan (e.g., a condemnation action, a probate proceeding, a partition action, a quiet title action, a code violation notice, a tax sale, or a subordinate loan foreclosure). The servicer is responsible for handling these types of legal actions, including retaining any legal

counsel necessary to represent Fannie Mae’s interests. The following table outlines the servicer’s responsibilities upon receipt of notice of a legal action impacting Fannie Mae’s interest.

✓	<b>The servicer must...</b>
	Notify Fannie Mae’s Single Family Legal department immediately of any non-routine litigation and certain matters requiring escalation as required in accordance with this Guide by submitting a <i>Non-Routine Litigation Form</i> (Form 20). See E-1.3-02, Reporting Non-Routine Litigation to Fannie Mae for additional information.
	Use counsel selected and engaged pursuant to Fannie Mae’s requirements. See A4-2.2-01, Selecting and Retaining Law Firms for additional information.  <b>Note:</b> If a legal proceeding involves allegations that would trigger Fannie Mae’s right to indemnification from the servicer (e.g., allegations of origination issues or servicing errors), the servicer is authorized to retain any counsel of its choice.
	Obtain excess fee approval from its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) if the legal proceeding does not involve allegations that would trigger Fannie Mae’s right to indemnification from the servicer.
	Instruct counsel to <ul style="list-style-type: none"> <li>• notify the borrower about his or her responsibility for expenses when the deed of trust or mortgage loan provides for the borrower to reimburse any legal fees or costs incurred by the servicer, and</li> <li>• handle such matters by stipulation or any other expeditious matter that will reduce fees and costs.</li> </ul>

**MERS Notices:** If the servicer receives an electronic notice from MERS related to a mortgage loan that it services for Fannie Mae, it must take the actions listed in the following table.

✓	<b>The servicer must...</b>
	Take appropriate and timely action based on the notice.
	Advise MERS that it is the servicer for any notice in which the servicer is unidentified but becomes aware by checking all electronic messages on a daily basis.

The servicer of a co-op share loan must protect Fannie Mae’s interest in the share loan under the terms of any recognition agreement.



## **D1-6-03, Handling Property Forfeitures and Seizures (11/12/2014)**

### **Introduction**

This topic contains information on handling property forfeitures and seizures.

With respect to property forfeitures and seizures, the servicer must take the actions described in the following table.

<b>✓</b>	<b>The servicer must...</b>
	Control and monitor all proceedings and actions related to property forfeitures and seizures.
	Maintain a detailed record of all contacts, requests, and actions taken with respect to each property.
	Ensure that all information regarding any forfeiture contacts are kept confidential and limit the number of persons having access to the information.
	Keep its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) informed about the status of the mortgage loan and the property by reporting, at a minimum, the following items: <ul style="list-style-type: none"><li>• the source of any mortgage loan payments,</li><li>• any default under the payment terms of the mortgage loan,</li><li>• a sale or other disposition of the property, and</li><li>• the amount of any property disposition proceeds.</li></ul>

The servicer must follow the procedures in F-1-08, Handling Property Forfeitures and Seizures for responding when contacted in regards to a property forfeiture or seizure depending on the timing of the contact.

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# Subpart D2, Assisting a Borrower Who is Facing Default or in Default



## Assisting a Borrower Who is Facing Default or in Default

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### Introduction

This subpart contains information on assisting a borrower who is facing default or in default.

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### In This Subpart

This subpart contains the following chapters:

D2-1, Working with a Borrower Who is Facing Default . . . . .	399
D2-2, Requirements for Contacting a Borrower . . . . .	403
D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options . . . . .	428
D2-4, Reporting Delinquent Mortgage Loans and Workout Options . . . . .	553

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# Chapter D2-1, Working with a Borrower Who is Facing Default



## Working with a Borrower Who is Facing Default

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### Introduction

This chapter contains information on working with a borrower who is facing default.

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### In This Chapter

This chapter contains the following topics:

D2-1-01, Evaluating a Borrower Whose Mortgage Payment is in Imminent Default (11/12/2014) .....	399
D2-1-02, Using Freddie Mac’s Imminent Default Indicator (03/18/2015) .....	400

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## D2-1-01, Evaluating a Borrower Whose Mortgage Payment is in Imminent Default (11/12/2014)

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### Introduction

This topic contains information on evaluating a borrower whose monthly payment is in imminent default.

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The servicer must consider available workout options when the servicer is notified or otherwise becomes aware of events or factors that are expected to cause the borrower’s monthly payment to be in default within the next 90 days (“imminent default”). In determining whether a borrower’s monthly payment is in imminent default, the servicer must take the actions described in the following table.

✓	<b>The servicer must...</b>
	Evaluate the borrower’s financial condition. See D2-2-05, Receiving a Borrower Response Package for information on evaluating the borrower for workout options.
	Evaluate the condition of and the circumstances affecting the property securing the mortgage loan by consulting with the borrower.

Also, see D2-1-02, Using Freddie Mac’s Imminent Default Indicator for additional requirements that apply when evaluating a borrower who is facing default for workout options.

If the servicer determines that a borrower whose mortgage loan was less than 60 days delinquent did not qualify for any workout options, and the borrower’s mortgage loan subsequently becomes 60 or more days delinquent, the servicer must continue its solicitation and collection efforts with the borrower in accordance with *Chapter D2-2, Requirements for Contacting a Borrower*.



## **D2-1-02, Using Freddie Mac’s Imminent Default Indicator (03/18/2015)**

### **Introduction**

This topic contains information on using Freddie Mac’s imminent default indicator.

The servicer must evaluate the borrower for imminent default using Freddie Mac’s IDI™ if all of the criteria in the following table are satisfied.

✓	<b>The servicer must evaluate the borrower using IDI if all of the following criteria are satisfied...</b>
	The mortgage loan is current or less than 60 days delinquent.
	The property is the borrower’s principal residence.
	The borrower contacts the servicer or provides a BRP and may be eligible for a conventional mortgage loan modification.
	The borrower’s cash reserves are less than \$25,000.
	The borrower has an eligible hardship. See D2-2-05, Receiving a Borrower Response Package for eligible hardships and the documentation required to verify an eligible hardship.



✓	<b>The servicer must evaluate the borrower using IDI if all of the following criteria are satisfied...</b>
	<b>Note:</b> An increased monthly P&I payment that has occurred as result of an interest rate adjustment within the last 12 months for a previously modified mortgage loan with a step-rate feature is an eligible hardship.

The servicer makes the following representations and warranties in connection with its use of IDI:

- The servicer must use IDI solely in connection with its evaluation of a borrower for imminent default for a conventional mortgage loan modification in accordance with this Guide.
- The servicer must submit all mortgage loan information related to the evaluation to IDI through the File Transfer Portal link in HSSN.
- The servicer must not base any decision to modify the terms of a mortgage loan solely upon the IDI evaluation.

The servicer must follow the procedures in *Evaluating the Borrower Using Imminent Default Indicator* in F-1-15, Preparing to Implement a Workout Option to evaluate the borrower using IDI.

The servicer must not solicit borrowers who are current or less than 30 days delinquent for a workout option.

If Fannie Mae declines the borrower’s request for a mortgage loan modification through HSSN and the mortgage loan is current (i.e., not delinquent or in default), the servicer must send an *Adverse Action Notice* ([Form 182](#)) to the borrower within 30 days of receipt of Fannie Mae’s decision, unless the servicer offers the borrower another retention workout option and the borrower accepts the counteroffer within the 30-day period. If the servicer uses its own Adverse Action Notice, the content must be the same in form and substance as Fannie Mae’s [Form 182](#).

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue date
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[Announcement SVC-2015-04](#)

March 18, 2015



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# Chapter D2-2, Requirements for Contacting a Borrower



## Requirements for Contacting a Borrower

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### Introduction

This chapter contains information on requirements for contacting a borrower.

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### In This Chapter

This chapter contains the following topics:

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## D2-2-01, Achieving Quality Right Party Contact with a Borrower (11/12/2014)

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### Introduction

This topic contains information on achieving quality right party contact with a borrower.

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QRPC is a uniform standard for communicating with the borrower, co-borrower, or a trusted advisor (collectively referred to as “borrower”) about resolution of the mortgage loan delinquency. The servicer must make every attempt to achieve QRPC by taking the actions outlined in the following table.

✓	The servicer must...
	Establish a rapport with the borrower, express empathy, and communicate a desire to help.
	Determine the reason for the delinquency and whether it is temporary or permanent in nature.
	Determine whether the borrower has vacated or plans to vacate the property.
	Determine the borrower’s current perception of their financial circumstances and ability to repay the mortgage loan debt.
	Set payment expectations and educate the borrower on the availability of workout options, as appropriate.
	Obtain a commitment from the borrower to resolve the delinquency.

Acceptable communication methods for achieving QRPC include telephone, mail, email, servicer Web portal, and face-to-face discussions.

Servicers may be contacted by Fannie Mae and required to achieve a QRPC benchmark, which requires the servicer to obtain QRPC on at least 60% of mortgage loans that have reached the 120th day of delinquency.



## **D2-2-02, Outbound Call Attempt Requirements (11/12/2014)**

### **Introduction**

This topic contains information on outbound call attempt requirements.

The purpose of outbound call attempts is to achieve QRPC as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower. When talking to the borrower, the servicer must emphasize the importance of making payments on or prior to their due dates.

The following table provides specific requirements for outbound call attempts.

<b>Type of outbound call attempt</b>	<b>Outbound call attempt requirements</b>
<p>Foreclosure prevention calls days 3 to 36 of delinquency</p>	<p>For mortgage loans set up on a monthly automatic withdrawal, the servicer must begin call attempts after the automatic withdrawal payment is missed.</p> <p>For mortgage loans determined to be high risk based upon the servicer’s methodology or a Behavioral Model Tool, the servicer should begin call attempts once a mortgage loan becomes three days delinquent.</p> <p>For all other mortgage loans, the servicer must begin call attempts by the 16th day of delinquency.</p> <p>All calls between days 3 to 36 of delinquency must continue at least every 3 days until one of the following outcomes is attained:</p> <ul style="list-style-type: none"> <li>• QRPC is achieved and/or the borrower adheres to any agreement made with the servicer, including, but not limited to, entering into a Trial Period Plan, forbearance plan, or repayment plan;</li> <li>• the delinquency is resolved;</li> <li>• a complete BRP is received (see D2-2-05, Receiving a Borrower Response Package for information on the requirements for a complete BRP); or</li> <li>• QRPC is achieved and the borrower indicates that he or she is not interested in a workout option.</li> </ul> <p>If a mortgage loan has been modified, the servicer must begin calling the borrower in a specialized post-modification campaign between three to five days after the due date if the modified monthly payment has not been received and the monthly payment is not set up on a monthly automatic withdrawal. The servicer must continue such specialized post-modification calls until the borrower has established 12 months of current payments.</p>
<p>Borrower solicitation package follow-up calls</p>	<p>Call attempts to follow up on the Borrower Solicitation Package must begin no later than the day after the servicer sends the Borrower Solicitation Package. The purpose of the first call is to inform the borrower that the Borrower Solicitation Package has been sent. Call</p>

Type of outbound call attempt	Outbound call attempt requirements
	<p>attempts must occur at least every three days until one of the following outcomes is attained:</p> <ul style="list-style-type: none"> <li>• QRPC is achieved and/or the borrower adheres to any agreement made with the servicer, including, but not limited to, entering into a Trial Period Plan, forbearance plan, or repayment plan;</li> <li>• the delinquency is resolved;</li> <li>• a complete BRP is received; or</li> <li>• QRPC is achieved and the borrower indicates that he or she is not interested in a workout option.</li> </ul> <p>See D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option for additional information on the requirements for sending the Borrower Solicitation Package.</p>
<p>No response to an <i>Evaluation Notice</i> offering a workout option</p>	<p>If the borrower has not communicated acceptance or declination of the offer by the third day from the date that the <i>Evaluation Notice</i> was sent, the servicer must make a follow-up call at least every three days until the borrower</p> <ul style="list-style-type: none"> <li>• acknowledges acceptance;</li> <li>• enters into a repayment plan, forbearance plan, or Trial Period Plan;</li> <li>• submits the required documentation to pursue a short sale or Mortgage Release; or</li> <li>• indicates that he or she is no longer interested in pursuing a workout option.</li> </ul>
<p>Trial Period Plan</p>	<p>If the borrower misses a Trial Period Plan payment, the servicer must make a minimum of two calls per week, and if necessary, send a letter reminding the borrower about the payment until the monthly Trial Period Plan payment is received.</p> <p>If the borrower is unresponsive after missing a Trial Period Plan payment, the servicer must proceed with other workout options and foreclosure proceedings, if applicable.</p>

Type of outbound call attempt	Outbound call attempt requirements
Collection calls during foreclosure proceedings	<p>Attempts to contact delinquent borrowers must continue throughout the foreclosure process and up to 60 days prior to the judicial foreclosure sale date, or 30 days prior to a non-judicial foreclosure sale date.</p> <p>These calls must occur at least every three days until one of the following outcomes is attained:</p> <ul style="list-style-type: none"> <li>• QRPC is achieved and/or the borrower adheres to any agreement made with the servicer, including, but not limited to, entering into a Trial Period Plan, forbearance plan, or repayment plan;</li> <li>• the delinquency is resolved;</li> <li>• a complete BRP is received; or</li> <li>• QRPC is achieved and the borrower indicates that he or she is not interested in a workout option.</li> </ul>



## D2-2-03, Sending a Payment Reminder Notice (11/12/2014)

### Introduction

This topic contains information on sending a payment reminder notice.

Unless the mortgage loan is a community lending mortgage loan or a second lien mortgage loan, the servicer must send a payment reminder notice to the borrower no later than the 17th day of delinquency if the payment has not been received. The following table outlines the requirements for a payment reminder notice.

✓	Requirements for a payment reminder notice
	Address the borrower by name.
	State a desire to work with the borrower to preserve homeownership.
	State the amount of late charges that are due, if applicable.



## **D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option (03/18/2015)**

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### **Introduction**

This topic contains the following:

- Soliciting a Borrower Prior to Referral to Foreclosure
  - Soliciting a Borrower after Referral to Foreclosure
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### **Soliciting a Borrower Prior to Referral to Foreclosure**

For a delinquent mortgage loan, the servicer must send the borrower a Borrower Solicitation Package, which consists of the following documents:

- One of the following solicitation letters depending upon the number of days the mortgage loan is delinquent:
  - *Borrower Solicitation Letter – 31 Days Delinquent (Form 731)*, or equivalent, must be sent between the 31st and 35th day of delinquency.
  - *Borrower Solicitation Letter – 61 Days Delinquent (Form 761)*, or equivalent, must be sent between the 61st and 65th day of delinquency, unless:
    - the servicer has achieved QRPC and obtained the borrower's promise to pay the delinquent amount by a specific date, which must not exceed 30 days; or
    - all of the following conditions apply:
      - the mortgage loan was previously modified into a mortgage loan with a step-rate feature;
      - an interest rate adjustment occurred within the last 12 months;
      - the mortgage loan became 60 or more days delinquent after the interest rate adjustment; and
      - the servicer has sent, or will send, a solicitation offer for a Fannie Mae Streamlined Modification in accordance with D2-3.2-08, Fannie Mae Streamlined Modification.

**Note:** If the borrower does not pay the delinquent amount or respond to the Trial Period Plan offer by the date specified, the servicer must resume solicitation efforts.

**Note:** If the servicer customizes [Form 731](#) or [Form 761](#), it must make the letter available to Fannie Mae upon request.

- And all of the following documents:
  - *Uniform Borrower Assistance Form* ([Form 710](#)), or equivalent, provided that the equivalent form requests the same financial information and documentation, hardship affidavit, and attestations from the borrower.
  - *HAMP Government Monitoring Data Form* ([Form 710A](#)), only if the borrower is HAMP-eligible. If any borrower chooses not to provide the Government Monitoring Data, the servicer must note that fact in the space provided and note the method by which [Form 710A](#) was taken.
  - *IRS Short Form Request for Individual Tax Return Transcript* ([IRS Form 4506T-EZ](#)) or, if the servicer is aware that the borrower is self-employed or files IRS Form 1040 on a fiscal tax year, *IRS Request for Transcript of Tax Return* ([IRS Form 4506-T](#)).

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### Soliciting a Borrower after Referral to Foreclosure

The servicer must instruct the law firm conducting foreclosure proceedings to send a written communication to the borrower within five business days after the mortgage loan is referred to foreclosure or at a later date if necessary to comply with law, which must include all of the items listed in the following table.

✓	<b>The written communication must include clear language communicating...</b>
	That the servicer may have sent the borrower one or more Borrower Solicitation Packages.
	That the borrower can still be evaluated for workout options even if he or she had previously shown no interest.
	That the borrower should contact the servicer to obtain information on all available workout options.
	The servicer's contact information, including the servicer's toll-free telephone number.

While Fannie Mae's prior approval of the letter is not required, the servicer must make the letter available to Fannie Mae upon request.

In jurisdictions where borrowers must receive state, local, or court required letter or notices after a referral to the attorney or trustee regarding foreclosure prevention alternatives such as settlement conferences or mediation, the solicitation letter may be waived at the attorney's discretion.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## **D2-2-05, Receiving a Borrower Response Package (11/12/2014)**

### Introduction

This topic contains the following:

- Determining Whether a Borrower Response Package is Complete
- Acknowledging Receipt of a Borrower Response Package
- Sending a Notice of Incomplete Information
- Sending a Notice of Decision on a Workout Option
- Receipt of a Borrower Response Package after Referral to Foreclosure

### Determining Whether a Borrower Response Package is Complete

Unless a borrower or co-borrower is deceased or divorced, all parties whose income was used to qualify for the original mortgage loan and who signed the mortgage loan note must submit the



items required for a complete BRP. The following table lists the documentation that the servicer must obtain for a BRP to be complete, as required in *Uniform Borrower Assistance Form (Form 710)*.

✓	<b>Items required for a complete BRP</b>
	<p><a href="#">Form 710</a>, or equivalent, that is completed in its entirety.</p>
	<p>Income documentation as outlined in <a href="#">Form 710</a> based on income type. Income documentation must be no more than 90 days old as of the date the servicer first determines that the borrower submitted a complete BRP or at the time of a subsequent evaluation for another workout option.</p> <p><b>Non-borrower income:</b> The servicer may include income of a non-borrower who contributes to the mortgage loan payment in monthly gross income if the income is voluntarily provided by the borrower, is documented and verified by the servicer using the same standards used for verifying a borrower’s income, and if</p> <ul style="list-style-type: none"> <li>• the non-borrower is a relative, spouse, domestic partner, or fiancé/fiancée;</li> <li>• the servicer verifies that the non-borrower occupies the subject property as a principal residence based on a review of the credit report or any other available document; and</li> <li>• there is documentary evidence to support that the income has been, and reasonably can continue to be, relied upon to support the mortgage loan payment.</li> </ul> <p>The servicer must not consider the expenses of a non-borrower household member and may only consider the amount of the non-borrower’s income that he or she routinely contributes to the household.</p> <p><b>Non-taxable income:</b> When the borrower’s income is non-taxable, and the income and its tax-exempt status are likely to continue, the servicer must develop an “adjusted gross income” by adding an amount equivalent to 25% of the non-taxable income to the borrower’s income. If the servicer can determine that the actual amount of federal and state taxes is more than 25% of the borrower’s non-taxable income, the servicer is authorized to use that amount to develop the adjusted gross income.</p> <p><b>Note:</b> If a borrower has been impacted by a disaster (see <i>Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster</i>), income documentation must be equal to or less than 180 days old at the time of the post-disaster evaluation for a workout option, and the evaluation must occur prior to the expiration of any forbearance period granted to the borrower affected by a disaster.</p>

✓	<b>Items required for a complete BRP</b>
	Hardship documentation as outlined in <a href="#">Form 710</a> based on hardship type.
	<p><i>IRS Short Form Request for Individual Tax Return Transcript (IRS Form 4506T-EZ)</i> or <i>IRS Request for Transcript of Tax Return (IRS Form 4506-T)</i> signed by the borrower. The servicer must follow the procedures in <i>Processing the IRS Form 4506T-EZ or IRS Form 4506-T</i> in F-1-15, Preparing to Implement a Workout Option for processing the <a href="#">IRS Form 4506T-EZ</a> or <a href="#">IRS Form 4506-T</a>.</p> <p><b>Note:</b> If the borrower is either self-employed or files IRS Form 1040 based on a fiscal tax year (other than a calendar year), the servicer must obtain an executed <a href="#">IRS Form 4506-T</a>. The servicer must accept <a href="#">IRS Form 4506-T</a> in lieu of <a href="#">IRS Form 4506T-EZ</a> if the borrower submits it as part of the BRP.</p>

If the servicer determines that any special documentation is required to support information provided by the borrower, it must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

A BRP is not considered complete if the borrower submits a [Form 710](#), or equivalent, that is

- only partially completed,
- not accompanied by all required income and hardship documentation, or
- not accompanied by an executed [IRS Form 4506T-EZ](#) or [IRS Form 4506-T](#).

When a borrower is in an active Chapter 7 or Chapter 13 bankruptcy, the servicer is authorized to

- accept a copy of the bankruptcy schedule(s) in lieu of [Form 710](#), provided that the schedule(s) is not more than 90 days old on the date the servicer receives the schedule(s);
- accept tax returns, if returns are required to be filed, in lieu of [IRS Form 4506T-EZ](#) or [IRS Form 4506-T](#); and
- use this information, along with any required income and hardship documentation as specified in [Form 710](#), to determine borrower eligibility for workout options.

### **Acknowledging Receipt of a Borrower Response Package**

Within five business days, the servicer must acknowledge its receipt of a BRP to the borrower in writing. The acknowledgement must include the items listed in the following table.

✓	<b>The acknowledgement must include...</b>
	The servicer's evaluation process and response time frame.
	An explanation of the foreclosure process, including that <ul style="list-style-type: none"> <li>• the foreclosure process may continue, and</li> <li>• foreclosure referral will not occur if the servicer is reviewing a complete BRP or if the servicer extends an offer for a home retention workout option and the borrower's response time for acceptance has not expired.</li> </ul>

In addition, for borrowers who submit a complete BRP 37 days or less prior to a scheduled foreclosure sale, the servicer must submit an explanation of the servicer's plans for evaluating the borrower for a workout option and suspending the foreclosure sale, if appropriate.

### **Sending a Notice of Incomplete Information**

The servicer must send an Incomplete Information Notice including the items listed in the following table to the borrower no later than 5 business days from receipt of documentation from the borrower if the servicer determines that documentation is missing.

✓	<b>The Incomplete Information Notice must include...</b>
	A list of missing documents or information needed to begin an evaluation of the borrower for a workout option.
	A toll-free number for the borrower to contact the servicer if the borrower has any questions.
	A reference to the HUD website for HUD-approved counselors as a resource available to help the borrower complete the package.
	A reminder that failure to submit all the required documentation or information may result in ineligibility for a workout option and the foreclosure proceedings will continue, including referral to foreclosure if the mortgage loan was not previously referred.
	A statement that depending on the timing of when the necessary information or documentation is received, there is no guarantee of an evaluation for a workout option and suspension of foreclosure proceedings.

If the BRP is incomplete, the servicer is authorized to combine the Incomplete Information Notice with the acknowledgement of its receipt of the BRP.

The servicer is authorized, but not required, to send an Incomplete Information Notice to a borrower who submits incomplete documentation 37 days or less prior to a scheduled foreclosure

sale. The servicer is strongly encouraged to work with borrowers who submit incomplete documentation 37 days or less prior to a scheduled foreclosure sale to obtain a complete BRP and expedite a decision.

The servicer must continue to attempt to obtain missing documentation through solicitation follow-up calls as described in D2-2-02, Outbound Call Attempt Requirements.

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### **Sending a Notice of Decision on a Workout Option**

The servicer must review and evaluate a complete BRP and communicate a decision to the borrower by sending an *Evaluation Notice* within five days after making the decision, but no later than 30 days following the receipt of a BRP. See E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for evaluation requirements during foreclosure proceedings.

While use of the *Evaluation Notices* is optional, they reflect a minimum level of information that the servicer must communicate and illustrate a level of specificity that complies with the requirements of this Guide. The following table provides the requirements for the *Evaluation Notice*.

✓	<b>The <i>Evaluation Notice</i> must...</b>
	Be written in clear, concise language.
	Identify whether the borrower is receiving an offer of a workout option and, if so, the decision for the workout option that is being offered to the borrower.
	Provide the steps the borrower must take to participate in or accept any offer.
	Provide a 14-day time frame for the borrower to accept or decline the workout option or inform the servicer of the borrower's intent to accept the workout option, if applicable.

An acceptance by the borrower of a workout option may be in the form of verbal or written communication, or receipt of a payment, if applicable. The type of acceptance may vary based on the status of the foreclosure action of the mortgage loan.

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### **Receipt of a Borrower Response Package after Referral to Foreclosure**

If a mortgage loan has been referred to foreclosure prior to receipt of a complete BRP and a BRP is subsequently received, see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for reviewing and evaluating a BRP.



## **D2-2-06, Sending a Breach or Acceleration Letter (11/12/2014)**

### **Introduction**

This topic contains the following:

- Requirements for Conventional Mortgage Loans
- Requirements for Government Mortgage Loans

### **Requirements for Conventional Mortgage Loans**

The servicer must issue the breach or acceleration letter as described in the following table.

<b>If the property securing a first lien mortgage loan is...</b>	<b>Then the servicer must issue the breach or acceleration letter...</b>
not vacant or abandoned	no later than the 60th day of delinquency.
vacant or abandoned and the mortgage loan is greater than 30 days delinquent	within 10 days from the determination of vacancy and no later than the 60th day of delinquency.

Unless the servicer is able to contact the delinquent borrower and is discussing some type of workout option, the servicer must refer the mortgage loan to foreclosure upon expiration of the breach or acceleration letter. See E-1.2-02, Timing of the Foreclosure Referral for Mortgage Loans Generally for the timing and requirements for referring the mortgage loan to foreclosure.

The following table lists the requirements for the content of the breach or acceleration letter.

<b>✓</b>	<b>The breach or acceleration letter must clearly explain...</b>
	The exact nature of the breach (for example, a default in payments).
	The action required to cure the breach.
	The date by which the breach must be cured.
	The approximate date that foreclosure proceedings will begin if the borrower does not cure the breach by the specified date.
	The possibility that a deficiency judgment might be pursued if the foreclosure proceedings are undertaken, if applicable.

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## Requirements for Government Mortgage Loans

For FHA and VA mortgage loans, the servicer must follow applicable FHA and VA guidelines.

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### D2-2-07, Resolving an Appeal of a Mortgage Loan Modification Trial Period Plan Denial (11/12/2014)

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#### Introduction

This topic contains information on resolving an appeal of a mortgage loan modification Trial Period Plan denial.

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For information on identifying an appeal of the denial of a mortgage loan modification Trial Period Plan, see *Establishing Written Policies or Procedures* in A4-1-01, Staffing, Training, Procedures, and Quality Control Requirements. The servicer must confirm that an appeal in connection with a BRP that satisfies these requirements is a written request for an appeal that includes the following:

- borrower's name,
- property address, and
- mortgage loan number.

The servicer must inform the borrower that he or she may submit any supporting documentation and specific appeal reason at the time the servicer is notified of the appeal.

The servicer must provide written notice of the appeal decision within 30 days of receipt of the borrower's appeal. The following table describes the servicer's requirements for handling an appeal depending upon when the appeal is received.

If the servicer receives...	Then the servicer...
the borrower's appeal within the 14-day appeal period and any new information	must evaluate the appeal and accept any new information submitted by the borrower within this time frame as part of the independent appeal review.
the borrower's appeal within the 14-day appeal period, but the servicer receives any new	is authorized to

If the servicer receives...	Then the servicer...
information or documentation after the 14-day appeal period but before the appeal decision is issued	<ul style="list-style-type: none"> <li>complete the review with any new information or documentation provided by the borrower as part of the appeals process; or</li> </ul>
the borrower's appeal after the 14-day appeal period	<ul style="list-style-type: none"> <li>treat the request along with any additional information as part of a new BRP and review the BRP in accordance with <i>Chapter D2-2, Requirements for Contacting a Borrower</i> and <i>Chapter E-3, Managing Foreclosure Proceedings</i>.</li> </ul>

The servicer must not require that the borrower accept any initial offer for a workout option prior to resolution of the appeal.

The following table describes the servicer's requirements after review of an appeal if the servicer determines that the borrower was eligible for a mortgage loan modification Trial Period Plan for which the borrower was previously denied.

✓	The servicer must...
	Send the borrower an offer for such a Trial Period Plan for which the borrower was initially denied.
	Provide the borrower 14 days from the date of the servicer's appeal decision notice to indicate his or her intent to accept either the new offer or the initial offer, provided that the borrower continues to be eligible for the initial offer, in accordance with <i>Sending a Notice of Decision on a Workout Option</i> in D2-2-05, <i>Receiving a Borrower Response Package</i> .

If the borrower waits to accept the initial offer until after receiving the appeal decision, the servicer must take the actions in the following table.

✓	The servicer must...
	Determine whether the borrower continues to be eligible for the initial offer without considering any accrued amounts.
	Adjust the due dates of the initial offer, as applicable, accordingly.

The servicer must adjust the payment amount in instances where additional amounts have accrued and/or the due dates of the initial offer have changed because the borrower was awaiting the outcome of the appeal decision by taking the actions in the following table.

✓	<b>The servicer must...</b>
	Adjust the payment amount of the initial offer.  <b>Note:</b> For Trial Period Plans, the servicer is authorized to adjust the payment amount at the beginning of the Trial Period Plan or after the borrower's successful completion of the Trial Period Plan.
	Use the same approach to adjusting the payment amount consistently on all mortgage loans it services for Fannie Mae.
	Reissue the initial offer to reflect any adjusted dates and/or payment amounts.

If the borrower waits to accept the initial offer until after receiving the appeal decision, the first payment due date of any resulting mortgage loan modification Trial Period Plan offer, and the revised first payment due date for the initial offer, as applicable, is based on when the appeals decision is sent by the servicer to the borrower, as described in the following table.

<b>If the servicer sends the appeal decision...</b>	<b>Then the Trial Period Plan effective date and the due date of the first Trial Period Plan payment is...</b>
on or before the 15th of the month	the first day of the next month.
after the 15th of the month	the first day of the month after the next month.

The servicer's appeal decision is final and not subject to further appeal. The servicer must make information related to the appeals process available to Fannie Mae upon request.



## **D2-2-08, Interviewing Face-to-Face with a Borrower for Certain FHA and HUD Mortgage Loans (11/12/2014)**

### **Introduction**

This topic contains information on interviewing face-to-face with a borrower for certain FHA and HUD mortgage loans.

The servicer must schedule, or attempt to schedule, a face-to-face interview with the borrower in accordance with applicable HUD servicing guidelines for the following types of mortgage loans:



- FHA Section 248 first lien mortgage loans, and
- HUD-guaranteed Section 184 mortgage loans.



## **D2-2-09, Collection Requirements for a Borrower Who Has a Community Lending Mortgage Loan (11/12/2014)**

### **Introduction**

This topic contains the following:

- Contacting a Borrower and Offering Early Delinquency Counseling
- Choosing the Early Delinquency Counselor

### **Contacting a Borrower and Offering Early Delinquency Counseling**

The servicer must offer early delinquency counseling to borrowers who have mortgage loans that were closed as community lending mortgage loans during the seven years following the date the mortgage loan was originated.

The following table lists the servicing requirements for contacting the borrower.

✓	<b>The servicer must...</b>
	<p>Shortly after closing and before the first monthly payment is due, send the borrower a letter including the following:</p> <ul style="list-style-type: none"><li>• stress the importance of making payments on time and immediately communicating with the servicer should a problem arise,</li><li>• the servicer’s business hours,</li><li>• a toll-free telephone number that the borrower may call to discuss any matters related to the mortgage loan, and</li><li>• instructions that the borrower must immediately call or write the servicer if he or she is unable to make a monthly payment and provide the following information:<ul style="list-style-type: none"><li>– the borrower’s name,</li></ul></li></ul>

✓	The servicer must...
	<ul style="list-style-type: none"> <li>– the mortgage loan account number,</li> <li>– the property address,</li> <li>– a telephone number at which the borrower may be contacted and the hours he or she may be reached at that number, and</li> <li>– a brief explanation of why the borrower is unable to make the payment.</li> </ul> <p>This letter may be sent as a separate letter or the points that Fannie Mae wants addressed may be incorporated in the welcome letter that the service generally sends to a borrower after loan closing.</p>
	<p>Send a F-2-01, Borrower's Authorization for Counseling form to the borrower the first time the mortgage loan becomes delinquent if there is not an executed form in the mortgage loan servicing file or the counseling will be provided by a third-party counselor. If the borrower does not execute and return the F-2-01, Borrower's Authorization for Counseling form, the servicer is not required to offer early delinquency counseling in connection with this delinquency or any subsequent delinquency.</p>
	<p>Mail a payment reminder notice to the borrower no later than the 10th day of delinquency if the payment has not been received. See D2-2-03, Sending a Payment Reminder Notice for the notice requirements.</p>
	<p>Mail <i>Borrower Solicitation Letter – 31 Days Delinquent</i> (<a href="#">Form 731</a>), or equivalent, no later than the 17th day of delinquency. See D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option for the requirements for sending <a href="#">Form 731</a>.</p> <p><b>Note:</b> The servicer must revise the first sentence of <a href="#">Form 731</a> to accurately reflect the number of days that the mortgage loan is delinquent.</p>
	<p>Schedule the initial counseling session by no later than the 45th day of delinquency if the borrower accepts the servicer's offer for early delinquency counseling. The counselor must document QRPC as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower.</p>

See *Chapter D2-2, Requirements for Contacting a Borrower* for information about the timing of the other collection efforts.

Based on this information, the counselor should be able to evaluate the borrower's ability to make future monthly payments, help the borrower understand and decide what opportunities are

available, and formulate a recommendation for a plan of action that will resolve the delinquency and reduce the borrower's overall debts.

The counselor's recommended plan of action should include the development of a budget and the most appropriate workout option. Once the counselor has formulated a proposed plan of action for addressing the borrower's problems, he or she should present a recommendation for resolving the delinquency to the appropriate person in the servicer's office so the servicer can make a decision about how to proceed.

Counseling should not be used if the borrower demonstrates an unwillingness to fulfill the mortgage loan obligation or it does not appear that the delinquency is curable. The servicer must pursue a workout option or foreclosure.

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### **Choosing the Early Delinquency Counselor**

The servicer must determine whether to address the borrower's broader financial issues itself or to use the services of a delinquency counseling agency or any other type of organization that provides the type of delinquency counseling services that Fannie Mae requires.

If the servicer uses a third-party to provide early delinquency counseling, it must

- Ensure that the counselors are aware of Fannie Mae's workout options.
- Be fully aware of the status or outcome of all counseling efforts the agency takes for a specific case. Each month, the servicer must prepare a status report of the actions taken by its third-party counselors unless the third-party counselor sends the servicer a written status report that includes sufficient detail.



## **D2-2-10, Additional Borrower Contact Requirements for the Servicer of a Second Lien Mortgage Loan (11/12/2014)**

### **Introduction**

This topic contains the following:

- Sending a Payment Reminder Notice
- Contacting the Servicer of the First Lien Mortgage Loan
- Sending a Breach or Acceleration Letter

---

### **Sending a Payment Reminder Notice**

The servicer of a second lien mortgage loan must mail a payment reminder notice immediately after the due date of the first unpaid installment to inform the borrower that a late charge will be assessed if the payment is not received by a specified date. If the payment is not received by the date specified, the servicer must send the borrower *Borrower Solicitation Letter – 31 Days Delinquent* (Form 731), or equivalent, stating the amount of late charges due.

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### **Contacting the Servicer of the First Lien Mortgage Loan**

The servicer of a second lien mortgage loan must contact the servicer of the first lien mortgage loan if it has not heard from the borrower by the 17th day of delinquency to determine

- the status of the first lien mortgage loan, and
- any action that the first lien mortgage loan servicer is contemplating.

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### **Sending a Breach or Acceleration Letter**

The servicer of a conventional second lien mortgage loan must send the borrower a breach or acceleration letter at least 30 days before foreclosure proceedings begin.

When the servicer has information that the property has been abandoned or that the borrower has displayed an obvious lack of concern for the mortgage loan obligation, the breach or acceleration letter must be sent at the earliest possible date, but no later than the 45th day of delinquency.



## D2-2-11, Requirements for Performing Property Inspections (11/12/2014)

### Introduction

The servicer must use a *Property Inspection Report* ([Form 30](#)) or its own form that provides equivalent information to document the property inspection. Unless otherwise stated, the property inspection is exterior only.

See A4-2.1-02, Property Inspection Vendor Management and Oversight for information on property inspection vendor management.

The servicer must follow the procedures in *Requesting Reimbursement for Preforeclosure Property Inspections* in F-1-06, Expense Reimbursement for requesting reimbursement of property inspection fees.

This topic contains the following:

- Inspecting a Property Securing a Delinquent Mortgage Loan
- Inspecting and Repairing a Property in Disrepair
- Inspecting and Protecting a Vacant or Abandoned Property
- Inspecting a Property upon Default on a Repayment Plan

### Inspecting a Property Securing a Delinquent Mortgage Loan

If QRPC, as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower, has not been achieved, a full payment has not been received within the last 30 days, or the borrower is not performing under the applicable bankruptcy plan, the servicer of a first lien mortgage loan must take the actions listed in the following table.

✓	The servicer must...
	Order the property inspection by the 45th day of delinquency.
	Complete the property inspection no later than the 60th day of delinquency.
	Obtain property inspections every 30 days until it establishes QRPC as long as the mortgage loan remains 45 days or more delinquent.
	Perform a property inspection every 30 days as long as the mortgage loan remains 45 or more days delinquent without regard to whether QRPC has been established or a

✓	<b>The servicer must...</b>
	workout option has been approved if the property securing the mortgage loan is tenant-occupied.

The servicer of a second lien mortgage loan must take the actions listed in the following table.

✓	<b>The servicer must...</b>
	Complete a property inspection of the property securing the mortgage loan by the earlier of the following dates: <ul style="list-style-type: none"> <li>• the date that it initiates foreclosure proceedings, or</li> <li>• the 45th day of delinquency.</li> </ul>
	Schedule subsequent property inspections as often as necessary to protect Fannie Mae's interests. If the servicer initiates foreclosure proceedings, it must continue to obtain property inspections every 30 days until it conducts the required comprehensive property inspection prior to the foreclosure sale.

### Inspecting and Repairing a Property in Disrepair

The servicer of a first lien mortgage loan must inspect the property immediately if it has information that the value of a property may be in jeopardy because of its condition. When an inspection discloses any condition detrimental to the value of the property or the need for urgent repairs, the servicer must remind the borrower of his or her obligation to maintain the property and take the action described in the following table depending on the borrower's action.

<b>If the borrower...</b>	<b>Then the servicer...</b>
agrees to arrange for the necessary repairs	must follow up until the repairs have been completed.
is willing to make the repairs, but is unable to do so	may ask Fannie Mae to advance the necessary funds by requesting for expense reimbursement if the mortgage loan is a whole mortgage loan, a participation pool mortgage loan, or an MBS mortgage loan serviced under the special servicing options.  <b>Note:</b> Appropriate arrangements should be made for the borrower to repay the advance.

<b>If the borrower...</b>	<b>Then the servicer...</b>
refuses to make repairs of an emergency nature	must arrange to have the repairs performed and advance the funds to make the necessary repairs.

Before the servicer of a second lien mortgage loan conducts a property inspection, it must contact the first lien mortgage loan servicer to determine when the property was last inspected to avoid a potential duplication of effort. If the servicer conducts a property inspection, it must notify the first lien mortgage loan servicer of the results of the property inspection and the borrower’s plans regarding any needed repairs. The following table describes the action that the servicer of a second lien mortgage loan must take depending on the borrower’s action.

<b>If the borrower...</b>	<b>Then the servicer...</b>
agrees to arrange for the necessary repairs	must follow up until the repairs have been completed.
refuses to make the necessary repairs	must determine what action the first lien mortgage loan servicer intends to take. If the first lien mortgage loan servicer does not intend to take any action to repair the property, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

The servicer must follow the procedures in *General Expense Reimbursement Requirements* in F-1-06, Expense Reimbursement for advancing funds to make repairs and requesting reimbursement.

### **Inspecting and Protecting a Vacant or Abandoned Property**

The servicer must inspect a property as soon as possible after it becomes aware of the possibility that the property may be vacant or abandoned.

When the property inspection confirms that the property is vacant, the servicer must take the actions listed in the following table.

<b>✓</b>	<b>The servicer must...</b>
	Make immediate arrangements to protect the property from vandalism and the elements to the extent that local laws allow such action. See <i>Overview of General Servicer Duties and Responsibilities</i> in A2-1-01, General Servicer Duties and Responsibilities

✓	<b>The servicer must...</b>
	and the <i>Property Maintenance and Management: Property Preservation Matrix and Reference Guide</i> for additional information.
	Attempt to locate the borrower to determine the reason for the vacancy.
	Contact any other lienholders to determine if any action has been taken and their intentions.
	Notify the property (hazard) insurance carrier about the vacancy to ensure that appropriate insurance coverage is being maintained.

The following table describes the servicer’s next steps depending on the mortgage loan status if the property inspection confirms that the property is vacant.

<b>If the property inspection confirms that the property is vacant and the mortgage loan is...</b>	<b>Then the servicer must...</b>
delinquent	perform a property inspection every 30 days as long as the mortgage loan remains 45 or more days delinquent without regard to whether QRPC, as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower, has been established or a workout option has been approved.
not delinquent	summarize its attempts to locate the borrower and its discussions with any other lienholders and submit a recommendation for further action to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

The servicer must obtain a signed copy of the inspection report that first reported the vacancy, in which the person who performed the inspection certifies that he or she personally went to the property location and that the property is vacant. The servicer must make any checklists or other documentation relied upon to determine that a property is vacant available to Fannie Mae upon request. Fannie Mae reserves the right to require

- revisions to the checklists,
- the use of a prescribed form or checklist, or
- affidavits of vacancy where necessary or appropriate to evidence the vacancy status.



If a property is subsequently inspected and remains vacant, the continued vacancy status must be documented on the checklist or other document evidencing notes of the inspection, but no additional signature is required. If a property previously reported to be vacant becomes occupied, a new signed inspection report is required if the property becomes vacant.

With regard to abandoned properties, the servicer must perform an interior inspection upon confirmation of abandonment and another interior inspection within 30 days of a scheduled foreclosure sale date. Interior inspections may be conducted simultaneously with other required property inspections.

The servicer must schedule subsequent property inspections more frequently if it is aware of a local ordinance that imposes a duty to maintain the property during any part of the foreclosure process or that could significantly increase costs or Fannie Mae's risk of loss.

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### **Inspecting a Property upon Default on a Repayment Plan**

As soon as the servicer becomes aware that a borrower has defaulted on a repayment plan, the servicer must immediately conduct a property inspection and continue the property inspections every 30 days until one of the following occur:

- the mortgage loan becomes current, or
- the servicer conducts the required comprehensive property inspection prior to the foreclosure sale or the execution of a Mortgage Release.

If an inspection reveals evidence of vandalism or major damage to the property or vandalism in the vicinity of the property, the servicer must schedule more frequent property inspections.

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# Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options



## Fannie Mae’s Home Retention and Liquidation Workout Options

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### Introduction

This chapter contains information on Fannie Mae’s home retention and liquidation workout options.

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### In This Chapter

This chapter contains the following sections:

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## Section D2-3.1, Preparing to Implement a Home Retention or Liquidation Workout Option



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

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#### Introduction

This topic contains the following:

- Evaluating the Mortgage Loan for Workout Options
- Evaluating a Borrower for Workout Options
- Considering Refinancing a First and Second Lien Mortgage Loan

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#### Evaluating the Mortgage Loan for Workout Options

The servicer must be familiar with the terms and eligibility requirements of each of the workout options available to help borrowers when the mortgage loan becomes delinquent or when the borrower's monthly payment is in imminent default, as they may differ depending on whether the mortgage loan is in an MBS pool, including PFP mortgage loans, or in Fannie Mae's portfolio.

The servicer must consider Fannie Mae's workout options for the following conventional mortgage loans:

- those held in Fannie Mae's portfolio,
- those purchased for Fannie Mae's portfolio but that are subsequently sold to back an MBS pool PFP, and
- those originally delivered as part of an MBS pool serviced under the special servicing option or shared-risk special servicing option MBS mortgage loans for which Fannie Mae markets the acquired property.

When the servicer uses Fannie Mae’s workout options for any mortgage loan other than those described previously, Fannie Mae will not be responsible for any losses or expenses the servicer incurs and will not pay the incentive fees it usually pays for certain workout options.

For government mortgage loans, the servicer must offer the specific workout options that the mortgage insurer or guarantor makes available, including, but not limited to, FHA-HAMP.

The servicer must see the F-2-03, Incentive Fees for Workout Options for information on the applicable incentive fees associated with a workout option, and must follow the procedures in F-1-29, Processing a Workout Incentive Fee for processing incentive fees.

If the eligibility criteria for a particular workout option are not satisfied but the servicer determines that there are acceptable mitigating circumstances, it must submit a request to Fannie Mae for review.

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### Evaluating a Borrower for Workout Options

See *Fannie Mae’s Workout Hierarchy* for 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 this Guide. See D2-2-05, Receiving a Borrower Response Package for information on evaluating the borrower for workout options.

The following table provides the requirements if the servicer has information that the borrower should be evaluated for workout options.

✓	<b>The servicer must...</b>
	Explain to the borrower Fannie Mae’s workout options and the borrower’s responsibilities under each.
	Obtain a complete BRP, unless stated otherwise in this Guide, to determine the most appropriate workout option.  See D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option and D2-2-05, Receiving a Borrower Response Package for the requirements for sending a Borrower Solicitation Package and evaluating the borrower for workout options.
	Stress the consequences of not meeting the terms of a workout option.

The servicer must not require the borrower to make an upfront cash contribution to be considered for a workout option.

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## Considering Refinancing a First and Second Lien Mortgage Loan

When Fannie Mae's mortgage loan is in the second lien position and both the first and second lien mortgage loans need to be modified, it may be more appropriate to consider consolidating and refinancing the total debt. The servicer must submit to Fannie Mae for prior approval any proposals to consolidate and refinance the existing debt in lieu of modifying the outstanding mortgage loans.



## D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options (11/12/2014)

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### Introduction

This topic contains the following:

- Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan
- Determining the Allowable Repayment Plan Term for an MBS Mortgage Loan
- Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan

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### Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan

The servicer must not allow a forbearance plan to extend beyond the last scheduled payment date of the mortgage loan.

Unless the criteria in the following sentence is satisfied, the servicer must remove a mortgage loan from an MBS pool after six consecutive months of forbearance. For a mortgage loan to remain in an MBS pool after six consecutive months of forbearance, the servicer must report

- that the mortgage loan became current, or
- a delinquency status code to indicate that the mortgage loan status changed during or at the end of the six-month forbearance plan period.

The servicer must follow the procedures in *Reclassifying an MBS Mortgage Loan for Forbearance* in F-1-36, *Reclassifying an MBS Mortgage Loan for reporting mortgage loans in a forbearance plan*.

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### Determining the Allowable Repayment Plan Term for an MBS Mortgage Loan

The following table provides the requirements based on the MBS pool issue date to which the servicer must adhere when determining the repayment plan term.

MBS Pool Issue Date	Maximum term of repayment plan based on aggregated number of months in a repayment plan without a full cure of the delinquency
June 1, 2007 through December 1, 2008	18 months from the first day of the month in which the plan commences (its inception).
Up to and including May 1, 2007	The servicer is authorized to offer a repayment plan for a period longer than 18 months from inception. See D2-3.2-04, Repayment Plan for additional information on this workout option.
January 1, 2009 and beyond	

The servicer must follow the procedures in *Reclassifying an MBS Mortgage Loan for a Repayment Plan* in F-1-36, *Reclassifying an MBS Mortgage Loan for reporting mortgage loans in a repayment plan*.

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### Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan

Performing MBS mortgage loans are ineligible for purchase from the related MBS pool for the purpose of modifying the mortgage loan. However, if the mortgage loan has been in a continuous state of delinquency for four consecutive monthly payment due dates (or at least eight consecutive payment due dates in the case of a biweekly mortgage loan) without a full cure of the delinquency during that period, then the mortgage loan may be modified after it is removed from the MBS pool.

The servicer must ensure that the mortgage loan modification is not implemented if the required Trial Period Plan payments are not made in accordance with the applicable mortgage loan modification workout option, since the preconditions to make the mortgage loan modification effective have not been satisfied. The servicer must ensure that a mortgage loan modification does not become effective while it remains in an MBS pool.

The mortgage loan modification agreement must be executed 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 the servicer's execution.

The following table describes the requirements for removal of a mortgage loan from an MBS pool for the purpose of modifying the mortgage loan once the preconditions to make the mortgage loan modification effective have been satisfied.

If the mortgage loan is...	Then the mortgage loan must be...
a regular servicing option mortgage loan or a shared-risk special servicing option mortgage loan for which the servicer’s shared risk liability has not expired	purchased by the servicer from the MBS pool.
a special servicing option mortgage loan or a shared-risk special servicing option mortgage loan for which Fannie Mae markets the acquired property	reclassified through Fannie Mae’s standard reclassification process. The servicer must follow the procedures in <i>Reclassifying an MBS Mortgage Loan for a Mortgage Loan Modification</i> in F-1-36, <i>Reclassifying an MBS Mortgage Loan</i> for reclassifying the mortgage loan.  <b>Note:</b> For an MBS mortgage loan that is not subject to Fannie Mae’s automatic reclassification process, the servicer must request reclassification through HSSN.

If the servicer determines that a mortgage loan modification is the appropriate workout option for an MBS mortgage loan with a pool issue date on or after January 1, 2009, and that the extraordinary circumstances relating to the mortgage loan justify the earlier removal of the mortgage loan from the MBS pool, it must request Fannie Mae’s prior written approval to remove a mortgage loan that has only one monthly payment delinquent if the delinquency has not been fully cured on or before the next payment date.

See A1-3-07, Automatic Reclassification of MBS Mortgage Loans for additional information on the reclassification and removal of MBS mortgage loans.

## **D2-3.1-03, Working with a Borrower that has a Group Home Mortgage Loan (11/12/2014)**

### **Introduction**

This topic contains information on working with a borrower that has a group home mortgage loan.

The servicer of a mortgage loan where the property securing the mortgage loan serves as a group home must

- work with the borrower and the funding agency to resolve a serious delinquency; and
- devote additional resources to foreclosure prevention efforts when the group home that secures a delinquent mortgage loan is still being occupied by disabled tenants and, if appropriate, delay the initiation of foreclosure.

## **D2-3.1-04, Offering a Workout Option When Also Servicing a Subordinate Lien Mortgage Loan (11/12/2014)**

### **Introduction**

This topic contains information on offering a workout option when also servicing a subordinate lien mortgage loan.

If the servicer of a first lien mortgage loan owned or securitized by Fannie Mae also services a subordinate lien mortgage loan for the same property, either for themselves or another investor, and the servicer determines that the borrower is eligible for a workout option relating to the first lien mortgage loan, the offer to accept the workout option must not be contingent upon the borrower making payments on or bringing current the subordinate lien mortgage loan.

Fannie Mae recognizes that it may be necessary for the servicer to make a payment to a subordinate lienholder in certain instances. The servicer must obtain Fannie Mae's prior



written approval to make payment to a subordinate lienholder when the servicer determines that a mortgage loan modification is the appropriate workout option for a borrower. See *Allowable Payments to Subordinate Lienholders* in D2-3.3-01, Fannie Mae Short Sale and in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure) for additional information on payments to subordinate lienholders for short sales and Mortgage Releases.

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## **D2-3.1-05, Interacting with Housing Finance Agencies and Hardest-Hit Fund Programs (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Programs to Assist an Unemployed Borrower
- Programs to Assist with Reinstatement
- Programs to Assist with a Mortgage Loan Modification
- Programs to Assist with Transition
- Requirements for Collection and Solicitation Actions
- Reporting Mortgage Loans That Have Received HFA Assistance to Fannie Mae

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### **Programs to Assist an Unemployed Borrower**

The following table describes the required servicer actions when notified that a borrower is accepted into an HFA-HHF unemployment assistance program while in a workout option.

<b>If the borrower is currently participating in a...</b>	<b>And the borrower is accepted into an unemployment assistance program, the servicer must...</b>
Forbearance Plan	cancel the forbearance plan and accept funds from the HFA, or its third-party vendor, per the unemployment assistance program.
Fannie Mae HAMP Trial Period Plan	terminate the Trial Period Plan.

<b>If the borrower is currently participating in a...</b>	<b>And the borrower is accepted into an unemployment assistance program, the servicer must...</b>
	If after the period of assistance provided by the HFA the borrower becomes eligible for a HAMP modification, the servicer must evaluate the borrower for a new HAMP Trial Period Plan.

The servicer must follow the procedures in F-1-33, Reporting a Workout Option via HomeSaver Solutions Network to report the action to Fannie Mae.

### Programs to Assist with Reinstatement

The servicer must accept funds from an HHF reinstatement program to cure or reduce a borrower's delinquency. If a borrower receives both reinstatement and unemployment mortgage assistance, reinstatement may occur either before or after the period of HFA unemployment assistance.

### Programs to Assist with a Mortgage Loan Modification

**Mortgage Loan Recast or Reamortization-only:** When a mortgage loan recast is approved, the servicer must take the actions listed in the following table.

✓	The servicer must...
	Document the mortgage loan recast by both the borrower and the servicer executing an <i>Agreement for Modification of a Mortgage– Reamortization Only (HFA Modification Assistance)</i> (Form 181HFA).
	Accept the funds submitted by the HFA.
	Apply the funds in accordance with C-1.2-01, Processing Additional Principal Payments.

The servicer must not consider a mortgage loan recast to be a mortgage loan modification for the purpose of determining eligibility for a subsequent mortgage loan modification in accordance with this Guide.

**Mortgage Loan Modification When the Terms of the Mortgage Loan Change:** When a mortgage loan is modified using modification assistance program funds while also changing the terms of the mortgage loan, the funds must be applied once the borrower has successfully

completed a Trial Period Plan and after any MBS mortgage loan reclassification, but before the modification effective date. The servicer must apply these funds in accordance with C-1.2-01, Processing Additional Principal Payments.

If the servicer does not receive the funds from the HFA prior to the first payment due date of the permanently modified mortgage loan, the servicer must re-evaluate the borrower to determine eligibility for a mortgage loan modification in accordance with this Guide. If the servicer determines that the borrower qualifies for a mortgage loan modification, it must not require the borrower to complete a new Trial Period Plan, even if the modified monthly payment will be higher than the current Trial Period Plan payment. If the borrower no longer qualifies for a mortgage loan modification, the servicer must submit the case to Fannie Mae for decision.

If a borrower who has received modification assistance program funds subsequently requests reapplication of principal prepayments as described in *Reapplying Principal Prepayments to Cure a Delinquency* in C-1.2-01, Processing Additional Principal Payments, the servicer must not approve the borrower's request.

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### **Programs to Assist with Transition**

The servicer must work closely with the HFA and the eligible borrower to provide the necessary information for participation in the transition assistance program.

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### **Requirements for Collection and Solicitation Actions**

If an HFA notifies the servicer that a borrower is conditionally approved for HHF unemployment, modification, or reinstatement assistance, the servicer is authorized to cease collection and solicitation activities. If the servicer receives notice that a borrower's approval status has changed, it must resume collection and solicitation activities as described in *Chapter D2-2, Requirements for Contacting a Borrower*.

---

### **Reporting Mortgage Loans That Have Received HFA Assistance to Fannie Mae**

The servicer must be able to

- readily identify on its servicing system any borrower who is participating in an HHF program, and
- provide this information to Fannie Mae upon request.

The servicer must follow the procedures in F-1-33, Reporting a Workout Option via HomeSaver Solutions Network to report the action to Fannie Mae.



## **D2-3.1-06, Notifying Fannie Mae of Lead-Based Paint Citations (11/12/2014)**

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For any mortgage loan secured by a one-unit investment property or a two- to four-unit property for which the servicer is considering a workout option, the servicer must notify Fannie Mae if it

- learns of the issuance of a lead-based paint citation,
- obtains other evidence of lead-based paint law violations, or
- becomes aware of threatened or pending lead-based paint litigation.

If the security property is located in Massachusetts, the servicer must conduct an actual search to determine whether there are any outstanding lead-based paint citations against the property or the property owner.

The servicer must follow the procedures in *Notifying Fannie Mae of Lead-Based Paint Citations* in F-1-15, Preparing to Implement a Workout Option to report the action to Fannie Mae.

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## Section D2-3.2, Home Retention Workout Options



### D2-3.2-01, Standard Forbearance Plan (11/12/2014)

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#### Introduction

This topic contains the following:

- Determining Eligibility for a Standard Forbearance Plan
- Standard Forbearance Plan Terms
- Handling Late Charges in Connection with a Standard Forbearance Plan

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#### Determining Eligibility for a Standard Forbearance Plan

The servicer is authorized to evaluate the borrower for a forbearance plan with a term of up to six months without receiving a BRP. However, if the borrower submitted a BRP, the servicer must evaluate the borrower in accordance with Fannie Mae's evaluation requirements as indicated in D2-2-05, Receiving a Borrower Response Package.

A forbearance plan must be offered when the borrower has demonstrated one of the following hardships and needs additional time to resolve the temporary hardship:

- a natural disaster (see *Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster* for additional information),
- the death of a borrower or co-borrower,
- the death of a family member who contributed to the monthly payment,
- a divorce or separation that will result in the borrower being legally awarded the property,
- the inability to pay due to the pending settlement of a disability or major medical claim,
- a unique hardship (see D2-3.2-03, Forbearance Plan for a Unique Hardship for information on forbearance plans for unique hardships),

- a borrower becomes unemployed (see D2-3.2-02, Forbearance Plan for an Unemployed Borrower for information on forbearance plans for an unemployed borrower),
- a substantial reduction in income that could not be prevented,
- an involuntary distant employment transfer that will result in a hardship attributed to the borrower being transferred or relocated to a distant job location, or
- some other unusual circumstance that warrants the use of a forbearance.

Once the forbearance plan is complete, one of the following must occur:

- the mortgage loan must be brought current via a reinstatement,
- the borrower is approved for another workout option,
- the mortgage loan is paid in full, or
- the servicer refers the mortgage loan to foreclosure.

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### Standard Forbearance Plan Terms

The following requirements apply to forbearance plans:

- For an MBS mortgage loan, the servicer must identify and distinguish the pool issue date and be familiar with the servicing requirements. See *Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options for additional information.
- The servicer must obtain and evaluate a complete BRP in order to
  - offer a forbearance plan with a term greater than six months, or
  - extend a forbearance plan beyond six months (as measured from the start of the initial forbearance plan to the projected end of the forbearance plan).
- Any forbearance plan that extends greater than six months must receive prior written approval from Fannie Mae and in such instances, the servicer must either
  - enter into a written agreement with the borrower that is executed by both parties; or
  - provide the borrower with a written agreement or *Evaluation Notice* (which may not be signed by the borrower) confirming the terms of the agreement and referencing the meeting or conversation(s) during which the agreement was reached, if permitted and enforceable under applicable law. For additional information on the requirements for an *Evaluation*

*Notice*, see *Sending a Notice of Decision on a Workout Option* in D2-2-05, *Receiving a Borrower Response Package*.

- When a borrower's monthly payment is in imminent default and the servicer initially offers an arrangement that includes a combination of both forbearance and a repayment plan, the combined period must not exceed 36 months.
- When the forbearance plan requires the borrower to make reduced payments, the payment must be received on or before the last day of the month in which it is due, unless the servicer determines that acceptable mitigating circumstances caused the payment to be late. The servicer must terminate the forbearance plan if it determines that the borrower failed to make timely payments.

The servicer must follow the procedures in *Requesting an Extension of a Standard Forbearance Plan* for requesting Fannie Mae's prior written approval and in *Preparing a Written Agreement or Evaluation Notice for a Standard Forbearance Plan* for preparing the written agreement or *Evaluation Notice* in F-1-25, *Processing a Forbearance Plan*.

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### **Handling Late Charges in Connection with a Standard Forbearance Plan**

While late charges may accrue when the servicer is determining borrower eligibility for a forbearance plan and during the forbearance plan, the servicer must not assess late charges to the borrower during the forbearance plan and must waive all accrued and unpaid late charges if the borrower receives a workout option.



## **D2-3.2-02, Forbearance Plan for an Unemployed Borrower (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Determining Eligibility for an Unemployment Forbearance Plan
- Unemployment Forbearance Plan Terms
- Contacting a Borrower that Receives an Unemployment Forbearance Plan
- Determining if the Unemployment Forbearance Plan Should Be Extended
- Handling Late Charges in Connection with an Unemployment Forbearance Plan

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## Determining Eligibility for an Unemployment Forbearance Plan

The following table provides the eligibility criteria for an Unemployment Forbearance plan at the time of evaluation.

✓	Eligibility criteria for an Unemployment Forbearance plan
	The borrower must have a hardship due to unemployment.
	The servicer has determined that the borrower's monthly payment is in imminent default (see D2-1-01, Evaluating a Borrower Whose Mortgage Payment is in Imminent Default) or the mortgage loan is less than or equal to 12 months delinquent.
	The property securing the mortgage loan must be a principal residence.
	The property securing the mortgage loan must not be vacant, condemned, or abandoned.
	The mortgage loan must not be a FHA, VA, or RD mortgage loan.

The servicer is authorized to evaluate the borrower for an initial Unemployment Forbearance plan without receiving a BRP. However, if the borrower submitted a BRP, the servicer must evaluate the borrower for the initial Unemployment Forbearance plan in accordance with Fannie Mae's evaluation requirements as indicated in D2-2-05, Receiving a Borrower Response Package.

A borrower that is offered and declines an Unemployment Forbearance plan is not eligible for another Fannie Mae forbearance plan.

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## Unemployment Forbearance Plan Terms

The following requirements apply to Unemployment Forbearance plans:

- For an MBS mortgage loan, the servicer must identify and distinguish the pool issue date and be familiar with the servicing requirements. See *Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options for additional information.
- The servicer must communicate all Unemployment Forbearance plans to the borrower in writing in accordance with *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package.
- The initial Unemployment Forbearance plan must be the lesser of six months or upon notification from the borrower of re-employment.
- If there is a monthly payment due under the Unemployment Forbearance plan, it must be less than the amount of the borrower's scheduled monthly payment.



- If there is a monthly payment due under the Unemployment Forbearance plan, the payment must be received on or before the last day of the month in which it is due, unless the servicer determines that acceptable mitigating circumstances caused the payment to be late.
- The servicer must not extend an Unemployment Forbearance plan past the last scheduled payment date of the mortgage loan.
- The servicer must evaluate the borrower for all workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option at the earlier of
  - notice of re-employment, or
  - 30 calendar days prior to the expiration of the Unemployment Forbearance plan.
- The servicer must evaluate the borrower for an extension of the Unemployment Forbearance plan if the borrower remains unemployed during the final month of the Unemployment Forbearance plan.
- The servicer must terminate the Unemployment Forbearance plan if
  - any of the eligibility criteria or terms stated previously are no longer met;
  - the borrower advises the servicer that he or she has become employed or is no longer actively seeking employment; or
  - the servicer determines that the borrower failed to make timely payments, if applicable.
- The servicer must receive written approval from Fannie Mae prior to offering an Unemployment Forbearance plan with an initial term longer than six months.

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### Contacting a Borrower that Receives an Unemployment Forbearance Plan

If the borrower is granted an initial Unemployment Forbearance plan, the servicer must adhere to the outreach requirements listed in the following table, which must be performed in accordance with the applicable requirements described in *Chapter D2-2, Requirements for Contacting a Borrower*.

<b>Borrower outreach requirements during an initial Unemployment Forbearance Plan</b>	
<b>Time Frame</b>	<b>Requirement</b>
Between days 120 to 135 of the initial Unemployment Forbearance plan	Attempt to contact the borrower to determine his or her employment status until QRPC is achieved.

<b>Borrower outreach requirements during an initial Unemployment Forbearance Plan</b>	
<b>Time Frame</b>	<b>Requirement</b>
By day 125 of the initial Unemployment Forbearance plan or re-employment, whichever is earlier	Send a Borrower Solicitation Package to the borrower, unless the borrower has already submitted a BRP.  <b>Note:</b> If the servicer previously received a BRP, it may update the BRP based on verbal information.

If the borrower is granted an extension of the Unemployment Forbearance plan in accordance with *Determining if the Unemployment Forbearance Plan Should Be Extended*, the servicer must adhere to the outreach requirements listed in the following table.

<b>Borrower outreach requirements during an extension of the Unemployment Forbearance Plan</b>	
<b>Time Frame</b>	<b>Requirement</b>
Monthly	Contact the borrower to determine his or her continued eligibility for Unemployment Forbearance.
Prior to the end of the extended Unemployment Forbearance plan or re-employment, whichever is earlier	Evaluate the borrower for another workout option in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

### **Determining if the Unemployment Forbearance Plan Should Be Extended**

The servicer must make a decision on the extension of the Unemployment Forbearance plan based on an evaluation of the complete BRP, which must be received prior to the end of the initial Unemployment Forbearance plan. The servicer is authorized to approve an extension of the Unemployment Forbearance plan if the additional criteria in the following table are satisfied.

<b>✓</b>	<b>Additional eligibility criteria for an extension of the Unemployment Forbearance Plan</b>
	The borrower must have performed as required on the current forbearance plan, unless the servicer has determined that there are acceptable mitigating circumstances.
	The borrower’s cash reserves must not exceed 12 months of his or her monthly housing expense.

✓	<b>Additional eligibility criteria for an extension of the Unemployment Forbearance Plan</b>
	The borrower's current monthly housing expense-to-income ratio excluding unemployment benefits must be greater than 31%.
	The extension of any Unemployment Forbearance plan must not be for a term that would cause the delinquency to exceed 12 months of the borrower's contractual monthly mortgage loan payment.

If the borrower does not meet the eligibility criteria and the servicer determines that extending the Unemployment Forbearance plan is still the best option for the borrower, the servicer must submit the case to Fannie Mae for review.

The servicer must follow the procedures in *Requesting an Extension of an Unemployment Forbearance Plan* in F-1-25, Processing a Forbearance Plan for evaluating the borrower's eligibility and for submitting its recommendation to Fannie Mae.

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### Handling Late Charges in Connection with an Unemployment Forbearance Plan

While late charges may accrue when the servicer is determining borrower eligibility for an Unemployment Forbearance plan, the servicer must not accrue or assess late charges to the borrower during the Unemployment Forbearance plan and must waive all accrued and unpaid late charges if the borrower receives a permanent Fannie Mae HAMP or Fannie Mae standard modification.

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## **D2-3.2-03, Forbearance Plan for a Unique Hardship (11/12/2014)**

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### Introduction

This topic contains the following:

- Determining Eligibility for a Forbearance Plan for a Unique Hardship
- Forbearance Plan Terms When a Borrower Is Impacted by a Unique Hardship
- Determining If the Forbearance Plan for a Unique Hardship Should Be Extended

### Determining Eligibility for a Forbearance Plan for a Unique Hardship

The following table lists the unique hardships, eligibility requirements, and, in addition to a complete BRP, any additional documentation requirements to support the reason for the hardship. The servicer must not treat any event other than those listed in the table below as a unique hardship without Fannie Mae's prior approval.

Unique Hardship	Requirements
Problem Drywall	<p>The mortgage loan must be secured by a property that contains problem drywall that was new when installed between 2001 and 2008 and the borrower must have incurred a hardship due to costs associated with additional housing expense and remediation.</p> <p>If the mortgage loan is current, the servicer must request documentation from the borrower supporting the installation of new drywall. If the borrower of a current mortgage loan cannot provide supporting documentation or the mortgage loan is delinquent, the servicer must require an interior property inspection to confirm the existence of problem drywall.</p> <p>The servicer must remind the borrower to file an insurance claim or take steps to ensure that a claim is filed. If the borrower is a party to litigation related to problem drywall, the servicer must monitor the proceedings and take any steps necessary to protect Fannie Mae's interests.</p>
U.S. Servicemember Injured while on Active Duty	<p>The borrower must be a U.S. servicemember unable to continue making the monthly payment due to an injury sustained while on active duty.</p> <p>The servicer must receive documentation of the injury sustained while on active duty that is impacting his or her ability to pay the mortgage loan.</p>
Death of a U.S. Servicemember while on Active Duty	<p>The borrower or a non-borrower surviving spouse must be unable to continue making the monthly payment due to the death of a U.S. servicemember while on active duty who was either</p> <ul style="list-style-type: none"> <li>• a borrower, or</li> <li>• a family member of the borrower who significantly contributed to the monthly payment.</li> </ul>

Unique Hardship	Requirements
	The servicer must obtain a death certificate and other documentation indicating that the servicemember's death occurred while on active duty.

### Forbearance Plan Terms When a Borrower Is Impacted by a Unique Hardship

The servicer must consider forbearance when it determines that a unique hardship has affected the borrower's ability to make the monthly payment. The following requirements apply to forbearance plans for unique hardships:

- For an MBS mortgage loan, the servicer must identify and distinguish the pool issue date and be familiar with the servicing requirements. See *Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options for additional information.
- The servicer must adhere to the requirements outlined in Sending a Notice of Decision on a Workout Option in D2-2-05, Receiving a Borrower Response Package for communicating evaluation decisions to the borrower.
- The forbearance plan must not exceed six months.
- If the servicer determines that the borrower cannot remediate the unique hardship, it must continue to work with the borrower to identify another workout option or proceed with foreclosure.
- The servicer must receive written approval from Fannie Mae prior to extending a forbearance plan for a period longer than six months.

**Note:** If the unique hardship is death of a U.S. servicemember while on active duty, the servicer is authorized to grant a forbearance plan for a term of 12 months.

- The servicer must determine the borrower's ability to contribute to the monthly payment and must not automatically suspend payments during the forbearance plan.
- The forbearance plan terms must be communicated to the borrower with an *Evaluation Notice*. For additional information on the requirements for an *Evaluation Notice*, see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package.
- The servicer must periodically contact the borrower to obtain an updated status on the hardship.

- During the forbearance plan, the servicer must actively work toward finding another workout option that will cure the delinquency.
- The servicer must see C-4.1-02, Suspending Credit Bureau Reporting for the requirements for suspending reporting to the credit bureaus.

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### **Determining If the Forbearance Plan for a Unique Hardship Should Be Extended**

If the borrower requests an extension of the forbearance plan, the servicer must re-evaluate the borrower's financial condition, and the progress towards remediating the unique hardship, based on an updated complete BRP after the initial six months of forbearance. The servicer must follow the procedures in *Requesting an Extension of a Unique Hardship Forbearance Plan* in F-1-25, Processing a Forbearance Plan for submitting its recommendation to Fannie Mae.



## **D2-3.2-04, Repayment Plan (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Repayment Plan Terms
- Handling Late Charges with a Repayment Plan

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### **Repayment Plan Terms**

The servicer is authorized to evaluate the borrower for a repayment plan without receiving a BRP. However, if the borrower submitted a BRP, the servicer must evaluate the borrower in accordance with Fannie Mae's evaluation requirements as indicated in D2-2-05, Receiving a Borrower Response Package.

The following requirements apply to repayment plans:

- The servicer must consider a repayment plan when the delinquency resulted from a temporary hardship that no longer appears to be a problem.
- For an MBS mortgage loan, the servicer must identify and distinguish the pool issue date and be familiar with the servicing requirements. See *Determining the Allowable Repayment Plan*

*Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options for additional information.

- The servicer must execute a written agreement when:
  - a repayment plan is greater than six months, or
  - a combination of a forbearance plan and a repayment plan is granted and
    - the combined plan is greater than 12 months, or
    - if either the forbearance plan or repayment plan is greater than six months.
- When a repayment plan must be in writing, the servicer must either
  - enter into a written agreement with the borrower that is executed by both parties; or
  - provide the borrower with a written agreement or *Evaluation Notice* (which may not be signed by the borrower) confirming the terms of the agreement and referencing the meeting or conversation(s) during which the agreement was reached, if permitted and enforceable under applicable law. For additional information on the requirements for an *Evaluation Notice*, see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package.
- The servicer must receive written approval from Fannie Mae prior to offering a repayment plan greater than 36 months.
- When the borrower's monthly payment is in imminent default and the servicer initially offers an arrangement that includes a combination of both forbearance and a repayment plan, the combined period must not exceed 36 months.

The servicer must follow the procedures in *Requesting an Extension of a Repayment Plan* for requesting Fannie Mae's prior written approval and in *Preparing a Written Agreement or Evaluation Notice for a Repayment Plan* for preparing the written agreement or *Evaluation Notice* in F-1-27, Processing a Repayment Plan.

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## Handling Late Charges with a Repayment Plan

The repayment plan may include accrued late charges due when the plan is established between the servicer and the borrower. The servicer must waive late charges accrued during the repayment plan period as long as the terms of the repayment plan are maintained by the borrower.

## **D2-3.2-05, Fannie Mae Standard Modification (03/18/2015)**


### **Introduction**

This topic contains the following:

- Determining Eligibility for a Fannie Mae Standard Modification
- Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan
- Performing an Escrow Analysis
- Determining the Fannie Mae Standard Modification Terms
- Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification
- Processing a Fannie Mae Standard Modification for a Mortgage Loan with Mortgage Insurance
- Handling Fees and Late Charges in Connection with a Fannie Mae Standard Modification

### **Determining Eligibility for a Fannie Mae Standard Modification**

The servicer must use the information from *Uniform Borrower Assistance Form (Form 710)*, or equivalent, to determine the borrower’s total assets and must compare the liabilities listed on *Form 710*, or equivalent, to a recent credit report. In order to be eligible for a Fannie Mae standard modification, all of the criteria in the following table must be met.

	<b>Eligibility criteria for a Fannie Mae standard modification</b>
	A mortgage loan secured by a principal residence must be at least 60 days delinquent or, if the mortgage loan is current or less than 60 days delinquent, the servicer has determined that the borrower’s monthly payment is in imminent default in accordance with D2-1-02, Using Freddie Mac’s Imminent Default Indicator.
	If the mortgage loan is secured by a second home or an investment property, it must be at least 60 days delinquent.
	The mortgage loan must have been originated at least 12 months prior to the evaluation date for the mortgage loan modification.
	The property must not be condemned or abandoned as determined by applicable law.
	The borrower must have an eligible hardship in accordance with <a href="#">Form 710</a> .



✓	<b>Eligibility criteria for a Fannie Mae standard modification</b>
	<p>The borrower must have verified income in accordance with <a href="#">Form 710</a>.</p> <p><b>Note:</b> Unemployment income is not an acceptable source of income.</p>
	<p>The borrower must not have failed a Trial Period Plan under a Fannie Mae standard modification within 12 months of being evaluated for eligibility for a standard modification.</p>
	<p>The mortgage loan must not have been previously modified and become 60 or more days delinquent within the first 12 months of the effective date of the mortgage loan modification without being reinstated.</p> <p><b>Note:</b> This does not apply if the prior mortgage loan modification was</p> <ul style="list-style-type: none"> <li>• a Fannie Mae HAMP modification (or Fannie Mae HAMP Trial Period Plan), or</li> <li>• a Fannie Mae cash flow/surplus income mortgage loan modification.</li> </ul>
	<p>The mortgage loan must not have been modified three or more times previously, regardless of the mortgage loan modification program or dates of prior mortgage loan modifications.</p> <p><b>Note:</b> If the loan is ineligible due to this requirement but is otherwise eligible, the servicer must submit its recommendation to Fannie Mae.</p>

If the borrower converts from a Trial Period Plan to an Unemployment Forbearance plan, the borrower may subsequently be eligible for a Fannie Mae standard modification upon successful completion of the Unemployment Forbearance plan and, if eligible, must be placed in a new Trial Period Plan. The servicer must obtain an updated BRP if the previous documentation submitted is greater than 90 days old, with the exception of an *IRS Short Form Request for Individual Tax Return Transcript (IRS Form 4506T-EZ)* if the servicer has already obtained a tax transcript for the most recent tax year.

**Note:** See D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance and D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief for eligibility for providing assistance to eligible borrowers impacted by a disaster.

### **Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan**

The servicer must obtain Fannie Mae’s prior approval through HSSN for a mortgage loan modification of a Texas Section 50(a)(6) mortgage loan. If the servicer receives a notice from the

borrower pursuant to Texas Section 50(a)(6) that a modification fails to comply with the 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.

✓	<b>The servicer must...</b>
	Provide the borrower notice to Fannie Mae.
	Collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by requirements of Texas Section 50(a)(6).

### Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to offering a Trial Period Plan. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.

Any escrow account deficiency 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 deficiency.

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

### Determining the Fannie Mae Standard Modification Terms

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-22, Processing a Fannie Mae Standard Modification for determining the property value. The following table describes the servicer’s action depending on the current MTMLTV ratio of the mortgage loan.

<b>If the pre-modification MTMLTV ratio is...</b>	<b>Then the servicer must determine the borrower’s new modified mortgage loan terms by taking the following steps in the order provided in compliance with applicable law...</b>
greater than or equal to 80%	<ol style="list-style-type: none"> <li>1. Capitalize arrearages;</li> <li>2. Set the interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>;</li> </ol>

<b>If the pre-modification MTMLTV ratio is...</b>	<b>Then the servicer must determine the borrower’s new modified mortgage loan terms by taking the following steps in the order provided in compliance with applicable law...</b>
	3. Extend the term to 480 months from the modification effective date; and 4. Forbear principal, if applicable.
less than 80%	1. Capitalize arrearages; 2. Set the interest rate to a fixed interest rate that is based on the existing mortgage loan amortization type and interest rate; and 3. Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-22, Processing a Fannie Mae Standard Modification for determining the borrower’s new modified mortgage loan terms.

The following table lists the requirements of the mortgage loan modification.

✓	<b>The Fannie Mae standard modification must result in...</b>	
	A fully amortizing, fixed-rate mortgage loan.	
	A monthly P&I payment as described in the following table.	
	<b>If, at the time of evaluation, the mortgage loan is...</b>	<b>Then the monthly P&amp;I payment must be...</b>
	current	less than the borrower’s pre—modification P&I payment.
	delinquent	less than or equal to the pre- modification P&I payment.
	A post-modification housing expense-to-income ratio that is greater than or equal to 10% and less than or equal to 55%, based on the Trial Period Plan payment. The servicer must follow the procedures in <i>Calculating the Housing Expense-to-Income Ratio</i> in F-1-22, Processing a Fannie Mae Standard Modification for calculating the housing expense-to-income ratio.	

When the servicer submits a request through HSSN for Fannie Mae’s approval of a Fannie Mae standard modification, in accordance with applicable law, it must

- immediately provide the borrower with notice of the right to receive a copy of all appraisals and other valuations developed in connection with the mortgage loan modification, and
- provide the borrower a copy of all appraisals and other valuations developed in connection with the mortgage loan modification.

Prior to granting a permanent mortgage loan modification, the servicer must place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

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### Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the *Loan Modification Agreement* ([Form 3179](#)), and
- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates [Form 3179](#).

The servicer must send an [Evaluation Notice](#) (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the [Evaluation Notice](#)) to document the borrower’s Trial Period Plan, which begins on the date described in the following table.

<b>If the servicer mails the Evaluation Notice to the borrower...</b>	<b>Then the servicer...</b>
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

The following table provides the requirements for the length of the Trial Period Plan, which must not change even if the borrower makes scheduled payments earlier than required.

<b>If the mortgage loan is...</b>	<b>Then the Trial Period Plan must be...</b>
delinquent	three months long.
not delinquent, but the servicer has determined that the borrower’s monthly payment is in imminent default	four months long.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae standard modification.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for suspending foreclosure.

The servicer must use the *Form Modification Cover Letter* to communicate a borrower’s eligibility for a permanent Fannie Mae standard modification, which must be accompanied by a completed [Form 3179](#). [Form 3179](#) must only be revised as authorized in *Summary: Modification Agreement Form 3179*.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for Fannie Mae standard modifications are acceptable as long as the electronic record complies with Fannie Mae’s requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records for Fannie Mae’s requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement*, *Executing and Recording the Loan Modification Agreement*, and *Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification* in F-1-22, Processing a Fannie Mae Standard Modification for preparing, executing, and recording [Form 3179](#) and adjusting the mortgage loan account upon completion of the mortgage loan modification.

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### **Processing a Fannie Mae Standard Modification for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae standard modification without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae's prior written approval, the servicer must request the mortgage insurer's approval, if required, after receiving notification of Fannie Mae's terms and conditions through HSSN.

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### Handling Fees and Late Charges in Connection with a Fannie Mae Standard Modification

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for advancing funds and requesting reimbursement.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## D2-3.2-06, Government Mortgage Loan Modifications (11/12/2014)

### Introduction

This topic contains information on government mortgage loan modifications.

Before recommending a mortgage loan modification or extension for a government mortgage loan to Fannie Mae, the servicer must first obtain the approval of the FHA, HUD, VA, or the RD, as applicable, using any documentation the mortgage insurer or guarantor requires.

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

After the servicer obtains all applicable approvals, it must prepare and fully execute the *Agreement for Modification or Extension of the Mortgage* ([Form 181](#)).

The servicer must follow the procedures in *Executing and Recording Form 181* in F-1-26, Processing a Government Mortgage Loan Modification for executing and recording [Form 181](#).



## **D2-3.2-07, Fannie Mae HAMP Modification (04/08/2015)**

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### **Introduction**

This topic contains the following:

- Determining Eligibility for a Fannie Mae HAMP Modification
- Performing an Escrow Analysis
- Determining the Fannie Mae HAMP Modification Terms
- Communicating with a Borrower Regarding a Fannie Mae HAMP Modification
- Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification
- Processing a Fannie Mae HAMP Modification for a Mortgage Loan with Mortgage Insurance
- Identifying Loss of Good Standing
- Communicating with a Borrower Regarding Eligibility for the Expanded Borrower “Pay for Performance” Incentive for a Fannie Mae HAMP Modification
- Handling Fees and Late Charges in Connection with a Fannie Mae HAMP Modification
- Servicer Duties and Responsibilities
- Authorization to Sign Amendment to Servicer Participation Agreement

### Determining Eligibility for a Fannie Mae HAMP Modification

In order to be eligible for a Fannie Mae HAMP modification, all of the criteria in the following table must be met.

✓	<b>Eligibility criteria for a Fannie Mae HAMP modification</b>
	The mortgage loan must be a first lien conventional mortgage loan originated on or before January 1, 2009.
	The mortgage loan must not have been previously modified under HAMP.
	The mortgage loan must be secured by a one- to four- unit property, one unit of which is the borrower’s principal residence. The servicer must follow the procedures in <i>Verifying Occupancy</i> in F-1-18, Processing a Fannie Mae HAMP Modification for verifying occupancy.
	The mortgage loan must be delinquent or in imminent default. If the mortgage loan is current or less than 60 days delinquent, the servicer must process the modification in accordance with D2-1-02, Using Freddie Mac’s Imminent Default Indicator.
	The property securing the mortgage loan must not be vacant or condemned.
	The BRP must document a hardship and represent that the borrower does not have sufficient liquid assets to make the monthly payment.  <p style="text-align: center;"><b>Note:</b> An unemployed borrower is not eligible for a Fannie Mae HAMP modification. The servicer must consider unemployed borrowers for Unemployment Forbearance. See D2-3.2-02, Forbearance Plan for an Unemployed Borrower for additional information.</p>
	The borrower must currently have a monthly mortgage payment ratio greater than 31%. The servicer must follow the procedures in <i>Calculating the Monthly Mortgage Payment Ratio</i> in F-1-18, Processing a Fannie Mae HAMP Modification for calculating the monthly mortgage payment ratio.
	The borrower must not have previously <ul style="list-style-type: none"> <li>• failed a Fannie Mae HAMP Trial Period Plan as described in <i>Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification</i>, or</li> <li>• received a Fannie Mae HAMP modification and lost good standing as described in <i>Identifying Loss of Good Standing</i>.</li> </ul>

Upon determining that the Fannie Mae HAMP modification eligibility criteria are satisfied, the servicer must evaluate the mortgage loan using a standard NPV test. A mortgage loan with



a negative NPV result is ineligible for modification. The servicer must follow the procedures in *Using a Standard Net Present Value Test* in F-1-18, Processing a Fannie Mae HAMP Modification for evaluating the mortgage loan using a standard NPV test.

In the following instances, the servicer must evaluate a borrower's subsequent request for a Fannie Mae HAMP modification if he or she experienced a change in circumstance:

- The borrower was previously evaluated for a Fannie Mae HAMP modification but did not meet the eligibility criteria described in this Guide.
- The borrower was previously evaluated for a Fannie Mae HAMP modification and met the eligibility criteria but did not qualify for a Fannie Mae HAMP modification by virtue of the following:
  - a negative NPV result,
  - excessive forbearance, or
  - any other financial reason.

If the borrower converts from a Trial Period Plan to an Unemployment Forbearance plan, the borrower may subsequently be eligible for a Fannie Mae HAMP modification upon successful completion of the Unemployment Forbearance plan and, if eligible, must be placed in a new Trial Period Plan. The servicer must obtain an updated BRP if the previous documentation submitted is greater than 90 days old, with the exception of an *IRS Short Form Request for Individual Tax Return Transcript (IRS Form 4506T-EZ)* if the servicer has already obtained a tax transcript for the most recent tax year.

**First Lien Home Equity Loans and Lines of Credit:** The servicer must consider all first lien home equity loans and lines of credit that meet the basic Fannie Mae HAMP modification eligibility criteria for a Fannie Mae HAMP modification if

- the servicer has the capability within its servicing system to clearly identify the mortgage loan as a first lien, and
- the servicer has the ability to establish an escrow account for the mortgage loan.

If, due to system constraints, the servicer establishes the escrow account after the borrower successfully completes the Trial Period Plan, the Trial Period Plan payment must still equal the target monthly mortgage payment ratio.

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### Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to determining the borrower's eligibility for a Fannie Mae HAMP modification. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, *Administering an Escrow Account and Paying Expenses* for additional information.

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.

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### Determining the Fannie Mae HAMP Modification Terms

The servicer must determine the borrower's new modified mortgage loan terms by taking the steps in the following table in the order provided in an effort to achieve a target monthly mortgage payment ratio as close as possible to, without going below, 31%:

Step	Action
1	Capitalize arrearages.
2	Reduce the interest rate.
3	Extend the term up to 480 months from the modification effective date, if necessary.
4	Forbear principal, if necessary.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-18, *Processing a Fannie Mae HAMP Modification* for determining the borrower's new modified mortgage loan terms.

The servicer must request Fannie Mae's prior written approval through HSSN to

- deviate from the prescribed steps for determining the new modified mortgage payment terms, unless a certain step is prohibited by applicable state law;
- reduce the borrower's monthly mortgage payment ratio below 31%; or
- forbear an amount greater than permitted.

When the servicer submits a request through HSSN for Fannie Mae's approval of a Fannie Mae HAMP modification, it must

- immediately provide the borrower with notice of the right to receive a copy of all appraisals and other valuations developed in connection with the mortgage loan modification, and

- provide the borrower a copy of all appraisals and other valuations developed in connection with the mortgage loan modification.

**Note:** A mortgage loan modification for a first lien HELOC must result in a fixed-rate, fully amortizing mortgage loan that does not permit the borrower to draw any further amounts from the line of credit.

Prior to granting a permanent mortgage loan modification, the servicer must place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

### Communicating with a Borrower Regarding a Fannie Mae HAMP Modification

When the servicer is discussing a Fannie Mae HAMP modification with the borrower, it must provide the borrower with the items listed in the following table.

✓	<b>Information the servicer must provide to the borrower in connection with a HAMP modification</b>
	Information designed to help him or her understand the mortgage loan modification terms that are being offered and the mortgage loan modification process.
	Written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable the borrower to make informed decisions.
	Notification that a mortgage loan modification under HAMP will cancel any assumption, variable or step-rate feature, or enhanced payment options in the borrower’s existing mortgage loan at the time the mortgage loan is modified.

The following table lists the notices that must be sent to the borrower, if applicable, after the borrower has been evaluated for HAMP.

Required Notice	Description
Notice of Mortgage Loan Payoff or Reinstatement	If the mortgage loan is paid off or reinstated, the servicer must provide a notice which includes the payoff or reinstatement date. If the mortgage loan was reinstated, the notice must include a statement that the borrower may contact the servicer to request reconsideration for a Fannie Mae HAMP modification if he or she experiences a subsequent hardship.
Notice of Withdrawal of Request or Non-Acceptance of Offer	The servicer must acknowledge that the borrower withdrew the request for consideration for a Fannie Mae HAMP modification, or did not accept either a Trial Period Plan or a Fannie Mae HAMP modification offer.

Required Notice	Description
Notice of Payment Default During the Trial Period Plan	<p>If the borrower defaults on the Trial Period Plan, the notice must</p> <ul style="list-style-type: none"> <li>• inform the borrower that he or she failed to make a Trial Period Plan payment by the end of the month in which it was due and is in default,</li> <li>• describe other workout options for which the borrower may be eligible, and</li> <li>• identify the steps the borrower must take in order to be considered for other workout options.</li> </ul>
HAMP Counseling Letter	<p>If the borrower’s post-modification total monthly debt ratio is 55% or greater, the servicer must send the borrower a HAMP Counseling Letter stating the following:</p> <ul style="list-style-type: none"> <li>• that he or she must work with a HUD-approved housing counselor on a plan to reduce the ratio below 55%, and</li> <li>• the availability and advantages of counseling and directing the borrower to the appropriate HUD website where a list of housing counseling agencies is located.</li> </ul> <p>The servicer must follow the procedures in <i>Calculating the Borrower’s Post-Modification Total Monthly Debt Ratio</i> in F-1-18, Processing a Fannie Mae HAMP Modification for calculating the borrower’s post- modification total monthly debt ratio.</p>

### Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must use a two-step process for a HAMP modification, which involves providing a document outlining the terms of the Trial Period Plan and then providing a document outlining the terms of the permanent mortgage loan modification.

The servicer must send an *Evaluation Notice* (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the

*Evaluation Notice*) to document the borrower’s Trial Period Plan, which begins on the date described in the following table.

<b>If the servicer mails the Evaluation Notice to the borrower..</b>	<b>Then the servicer..</b>
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

For the servicer to offer a Trial Period Plan, the first Trial Period Plan payment due date must be on or before March 1, 2016.

The following table provides the requirements for the length of the Trial Period Plan, which must not change even if the borrower makes scheduled payments earlier than required.

<b>If the mortgage loan is...</b>	<b>Then the Trial Period Plan must be...</b>
delinquent	three months long.
not delinquent, but the servicer has determined that the borrower’s monthly payment is in imminent default	four months long.

For mortgage loans where the servicer has determined that the borrower’s monthly payment is in imminent default, the payment during the Trial Period Plan must be less than the contractual monthly payment in effect prior to the Trial Period Plan.

The servicer must service the mortgage loan during the Trial Period Plan in the same manner as it would service a loan in forbearance.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae HAMP modification, unless the servicer determines that acceptable mitigating circumstances caused the payment to be late.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for suspending foreclosure.

For the servicer to convert the Trial Period Plan to a permanent Fannie Mae HAMP modification, the Modification Effective Date must be on or before September 1, 2016.

The servicer must use the *Home Affordable Modification Agreement (Form 3157)*, which must only be revised as authorized in *Summary: Home Affordable Modification Agreement*, to document the terms of the Fannie Mae HAMP modification.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for HAMP modifications are acceptable as long as the electronic record complies with Fannie Mae’s requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records for Fannie Mae’s requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement and Executing and Recording the Loan Modification Agreement* in F-1-18, Processing a Fannie Mae HAMP Modification for preparing, executing, and recording [Form 3157](#).

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### **Processing a Fannie Mae HAMP Modification for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae HAMP modification without obtaining separate mortgage insurer approval at the company or loan level.

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### **Identifying Loss of Good Standing**

If, following a successful Trial Period Plan, a borrower defaults on a HAMP modification (three monthly payments are due and unpaid on the last day of the third month), the mortgage loan is no longer considered to be in “good standing.” Once lost, good standing cannot be restored even if the borrower subsequently cures the default.

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### **Communicating with a Borrower Regarding Eligibility for the Expanded Borrower “Pay for Performance” Incentive for a Fannie Mae HAMP Modification**

The following table outlines the servicer requirements related to the expanded borrower “pay for performance” incentive.

✓	<b>The servicer must...</b>
	Provide written notice of the potential for receipt of the expanded borrower “pay for performance” incentive to a borrower in good standing prior to the fifth anniversary of the Fannie Mae HAMP modification effective date as described in the following table.

✓	The servicer must...	
	<b>If the fifth anniversary of the Fannie Mae HAMP modification effective date occurs...</b>	<b>Then the servicer must...</b>
	before September 1, 2015	<ul style="list-style-type: none"> <li>• provide at least one written notice on or before June 1, 2015; and</li> <li>• perform at least one follow-up communication to the written notice using any acceptable communication methods as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower.</li> </ul>
	on or after September 1, 2015	provide at least two written notices that are: <ul style="list-style-type: none"> <li>• at least 60 days, but no more than 150 days, prior to the fifth anniversary of the Fannie Mae HAMP modification effective date; and</li> <li>• at least 30 days apart.</li> </ul>
	<p><b>Note:</b> The servicer is authorized to</p> <ul style="list-style-type: none"> <li>• include any notice for the expanded borrower “pay for performance” incentive in other notices sent to the borrower, provided the timing requirements are met;</li> <li>• provide other communications in addition to the required written notices to the borrower of the potential for receipt of the expanded borrower “pay for performance” incentive; and</li> <li>• include information in the notice indicating that the mortgage loan could be re-amortized if eligible on or after the sixth anniversary of the Fannie Mae HAMP modification effective date, provided the borrower receives the expanded borrower “pay for performance” incentive.</li> </ul>	
	Include a copy of the <i>Real Estate Fraud Certification (Form 720)</i> or U.S. Treasury Department’s (Treasury) “Dodd Frank Certification” in the written notice to eligible borrowers, if not already collected.	
	<p><b>Note:</b> The servicer must notify the borrower that the servicer must have received an executed <a href="#">Form 720</a> or Treasury’s “Dodd Frank Certification” from the borrower on or before the sixth anniversary of the Fannie Mae HAMP Trial</p>	

✓	<b>The servicer must...</b>
	<p>Period Plan effective date or September 1, 2015, whichever is later, in order to be eligible for the expanded borrower “pay for performance” incentive. For a Fannie Mae HAMP modification completed on or after April 1, 2015, the servicer is authorized to collect <a href="#">Form 720</a> before the mortgage loan modification is complete. If the servicer elects to collect <a href="#">Form 720</a> before the mortgage loan modification is complete, it must be clearly communicated to the borrower that eligibility for and settlement of the mortgage loan modification is not contingent on the submission of an executed <a href="#">Form 720</a>.</p>

The following table outlines the servicer requirements related to the re-amortization option for a Fannie Mae mortgage loan with a Fannie Mae HAMP modification.

✓	<b>The servicer must ...</b>
	<p>Provide written notice of an option to re-amortize the UPB, excluding deferred principal, over the remaining term of the mortgage loan if at the time of the notice the mortgage loan is in good standing. The written notice must</p> <ul style="list-style-type: none"> <li>• be provided at least 60 days, but no more than 120 days, prior to the sixth anniversary of the Fannie Mae HAMP modification effective date;</li> <li>• give the borrower at least 30 days, but no more than 180 days, from the date of the notice to respond to the re-amortization offer;</li> <li>• notify the borrower of any changes to principal and interest payments as required by applicable law;</li> <li>• specify changes to the payment schedule as a result of the re-amortization and total interest to be paid during the remaining term of the mortgage loan after the sixth anniversary of the Fannie Mae HAMP modification effective date, both with and without the effect of the re-amortization; and</li> <li>• include the contact information of the servicer and instruct the borrower to contact the servicer if the borrower has questions or concerns about the re-amortize offer.</li> </ul> <p><b>Note:</b> The servicer is authorized to include the notice of a re-amortization offer in other notices sent to the borrower, provided the timing requirements are met.</p>
	<p>Apply the same re-amortization conditions to all mortgage loans serviced for Fannie Mae, however, the servicer is authorized to</p> <ul style="list-style-type: none"> <li>• require that the mortgage loan is current at the time of the re-amortization;</li> </ul>



✓	<b>The servicer must ...</b>
	<ul style="list-style-type: none"> <li>• require that the borrower receives the expanded borrower “pay for performance” incentive prior to completing the re-amortization; and</li> <li>• not to send a notification to an eligible borrower of the option to re-amortize the UPB if the mortgage loan was re-amortized within the previous twelve months.</li> </ul>
	Provide the re-amortization at no expense to the borrower once the borrower accepts the re-amortization offer.
	Perform a follow up communication to the initial written notice using any acceptable communication methods as described in D2-2-01, Achieving Quality Right Party Contact with a Borrower.
	Provide estimated amortization schedules upon the borrower’s request.
	Determine, in compliance with applicable law, if a written modification agreement is required to re-amortize the mortgage loan.
	Ensure that the mortgage loan maintains its first lien position and is fully enforceable.

### Handling Fees and Late Charges in Connection with a Fannie Mae HAMP Modification

The servicer must not charge the borrower administrative fees.

The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower’s conversion to a permanent Fannie Mae HAMP modification.

The servicer will not be reimbursed for the cost of the credit report(s).

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-29, Processing a Workout Incentive Fee for advancing funds and requesting reimbursement.

### Servicer Duties and Responsibilities

The following table outlines the servicer’s duties in servicing mortgage loans modified under HAMP.

✓	<b>In performing the duties incident to the servicing of mortgage loans modified under HAMP, the servicer must...</b>
	Collect and record the details of all executed mortgage loan modifications including, but not limited to, the following: <ul style="list-style-type: none"> <li>• the original terms of the modified mortgage loan,</li> </ul>

✓	<p><b>In performing the duties incident to the servicing of mortgage loans modified under HAMP, the servicer must...</b></p> <ul style="list-style-type: none"> <li>• the modified terms of the modified mortgage loan</li> <li>• data supporting the mortgage loan modification decision,</li> <li>• updates to payoff information and the last payment date, and</li> <li>• additional information and data as may periodically be requested by Fannie Mae.</li> </ul> <p>All such data must be compiled and reported to Fannie Mae in the form and manner set forth in this Guide.</p>
	<p>Interpret the terms of this Guide and any related instructions from the Treasury or Fannie Mae in a reasonable manner to serve the purposes and interests of the United States.</p>
	<p>Use any non-public information or assets of the United States or Fannie Mae received or developed in connection with HAMP solely for the purposes of fulfilling its obligations hereunder.</p>
	<p>Comply with all lawful instructions or directions received from the Treasury and Fannie Mae.</p>
	<p>Develop, enforce, and review for effectiveness at least annually, an internal control program designed to ensure effectiveness of duties in connection with HAMP and compliance with this Guide, to monitor and detect mortgage loan modification fraud, and to monitor compliance with applicable consumer protection and fair lending laws.</p> <p>The internal control program must include documentation of the control objectives for HAMP activities, the associated control techniques, and mechanisms for testing and validating the controls.</p>
	<p>Provide Fannie Mae with access to all internal control reviews and reports that relate to duties performed under HAMP by the servicer and/or its independent auditing firm.</p>
	<p>Supervise and manage any contractor that assists in the performance of services in connection with HAMP. The servicer must remove and replace any contractor that fails to perform and ensure that all of its contractors comply with the terms and provisions of this Guide. The servicer shall be responsible for the acts or omissions of its contractors as if the acts or omissions were those of the servicer.</p>
	<p>Ensure compliance with the terms of any program waivers.</p>

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### Authorization to Sign Amendment to Servicer Participation Agreement

Servicers that previously signed a Commitment to Purchase Financial Instrument and Servicer Participation Agreement (SPA) with Treasury are authorized to sign an amendment to the SPA (Amendment) described in Supplemental Directive 2015-01 issued by Treasury.

Once the servicer has executed the Amendment, it is authorized to perform the following services under the SPA for Fannie Mae mortgage loans:

1. Determine which borrowers are in good standing under Fannie Mae HAMP as of the sixth anniversary of their Fannie Mae HAMP Trial Period Plan effective date;
2. Receive [Form 720](#) or Treasury’s “Dodd-Frank Certification” from potentially eligible borrowers in accordance with documentation requirements established by Treasury in order to determine which of those borrowers are eligible to receive the expanded borrower “pay for performance” incentive funded through Treasury’s Troubled Asset Relief Program (TARP);
3. Apply the expanded borrower “pay for performance” incentive funded through TARP to the borrower’s mortgage account and, to the extent such incentive exceeds the outstanding mortgage loan debt, remit any excess to the borrower in accordance with *Incentive Compensation for a HAMP Modification* in F-1-29, Processing a Workout Incentive Fee;
4. Comply with reporting requirements and other requests for information issued by Treasury or its program administrator that are related to the services described in 1-3, in accordance with applicable law; and
5. Comply with any compliance or audit review related requests from Treasury, or any third party that Treasury has designated to perform such reviews, that relate to the services described in 1-3, in accordance with applicable law.

The servicer is not authorized to perform any other services under the SPA with respect to Fannie Mae mortgage loans.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue date
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015



## **D2-3.2-08, Fannie Mae Streamlined Modification (03/18/2015)**

### **Introduction**

This topic contains the following:

- Determining Eligibility for a Fannie Mae Streamlined Modification
- Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan
- Performing an Escrow Analysis
- Determining the Fannie Mae Streamlined Modification Terms
- Soliciting the Borrower for a Fannie Mae Streamlined Modification
- Handling a Borrower Response Package if Received
- Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification
- Processing a Fannie Mae Streamlined Modification for a Mortgage Loan with Mortgage Insurance
- Handling Fees and Late Charges in Connection with a Fannie Mae Streamlined Modification

### **Determining Eligibility for a Fannie Mae Streamlined Modification**

A Fannie Mae Streamlined Modification is a mortgage loan modification that is not based on the evaluation of a BRP. Therefore, the servicer must not require a complete BRP to consider a borrower for a Fannie Mae Streamlined Modification. In order to be eligible for a Fannie Mae Streamlined Modification, all of the criteria in the following table must be met.

✓	<b>Eligibility criteria for a Fannie Mae Streamlined Modification</b>
	The mortgage loan must be a first lien mortgage loan.
	The mortgage loan must not be insured or guaranteed by a federal government agency (e.g., FHA, VA, or Rural Housing).
	The mortgage loan must be at least 90 days delinquent, unless the mortgage loan was previously modified into a mortgage loan with a step-rate feature and an interest rate adjustment occurred within the last 12 months, in which case the mortgage loan must have become 60 days delinquent after the interest rate adjustment.

✓	<b>Eligibility criteria for a Fannie Mae Streamlined Modification</b>
	The mortgage loan must have been originated at least 12 months prior to the evaluation date for the mortgage loan modification.
	The mortgage loan must not have been previously modified in accordance with D2-3.2-05, Fannie Mae Standard Modification and become 60 or more days delinquent within 12 months of the modification effective date without being reinstated.
	The mortgage loan must not have been modified three or more times previously, regardless of the mortgage loan modification program or dates of prior mortgage loan modifications.
	The borrower must not have failed a Trial Period Plan under a Fannie Mae standard modification in accordance with D2-3.2-05, Fannie Mae Standard Modification within 12 months of being evaluated for eligibility for a Streamlined Modification.
	The borrower must not have previously defaulted on a Streamlined Modification Trial Period Plan or a Streamlined Modification.
	<p>The mortgage loan must not be subject to</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• a current offer for another mortgage loan modification or other workout option;</li> <li>• an active and performing Trial Period Plan;</li> <li>• an approved liquidation workout option; or</li> <li>• an active and performing forbearance plan or repayment plan, unless otherwise directed by Fannie Mae.</li> </ul>
	<p>The mortgage loan must not be on Fannie Mae’s most recent Non-Eligible List at the time the servicer evaluates eligibility for solicitation.</p> <p><b>Note:</b> The servicer must check a mortgage loan against Fannie Mae’s most recent Non-Eligible List prior to sending the borrower an initial or any subsequent <i>Streamlined Modification Solicitation Letter</i>. If the mortgage loan is on Fannie Mae’s most recent Non-Eligible List, the servicer must pursue receipt of the BRP to evaluate the borrower for another workout option.</p>

While the borrower remains eligible for a Streamlined Modification if a payment is received following the borrower evaluation or solicitation that results in the mortgage loan subsequently

becoming less than 90 days delinquent, or less than 60 days delinquent if the mortgage loan was previously modified into a mortgage loan with a step-rate feature and an interest rate adjustment occurred within the last 12 months, the servicer must ensure that the mortgage loan is at least 30 days or more delinquent prior to the commencement of the Streamlined Modification Trial Period Plan.

If the borrower converts from a Trial Period Plan to an Unemployment Forbearance plan, the borrower may subsequently be eligible for a Fannie Mae Streamlined Modification upon successful completion of the Unemployment Forbearance plan and, if eligible, must be placed in a new Trial Period Plan.

**Note:** See D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance and D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief for eligibility for providing assistance to eligible borrowers impacted by a disaster.

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### Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan

The servicer must obtain Fannie Mae's prior approval through HSSN for a mortgage loan modification of a Texas Section 50(a)(6) mortgage loan. If the servicer receives a notice from the borrower pursuant to Texas Section 50(a)(6) that a modification fails to comply with the 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...
	Provide the borrower notice to Fannie Mae.
	Collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by requirements of Texas Section 50(a)(6).

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### Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to offering a Trial Period Plan. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.

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 premiums are paid to date.

### Determining the Fannie Mae Streamlined Modification Terms

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-24, Processing a Fannie Mae Streamlined Modification for determining the property value. The following table describes the servicer’s action depending on the current MTMLTV ratio of the mortgage loan.

If the pre-modification MTMLTV ratio is...	Then the servicer must determine the borrower’s new modified mortgage loan terms by taking the following steps in the order provided in compliance with applicable law...
greater than or equal to 80%	1. Capitalize arrearages; 2. Set the interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i> ; 3. Extend the term to 480 months from the modification effective date; and 4. Forbear principal, if applicable.
less than 80%	1. Capitalize arrearages; 2. Set the interest rate to a fixed interest rate that is based on the existing mortgage loan amortization type and interest rate; and 3. Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-24, Processing a Fannie Mae Streamlined Modification for determining the borrower’s new modified mortgage loan terms.

The following table lists the requirements of the mortgage loan modification.

✓	The Fannie Mae Streamlined Modification must result in...
	A fully amortizing, fixed-rate mortgage loan.
	A monthly P&I payment that is less than or equal to the borrower’s current contractual P&I obligation.

Prior to granting a permanent mortgage loan modification, the servicer must solicit the borrower and place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

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### **Soliciting the Borrower for a Fannie Mae Streamlined Modification**

The servicer must mail the borrower a *Streamlined Modification Solicitation Letter* between the 90th and 105th day of delinquency, except as noted below, if the mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae Streamlined Modification* and *Determining the Fannie Mae Streamlined Modification Terms*, and at least one of the following circumstances is met:

- the borrower has not submitted a complete BRP;
- the servicer has received a complete BRP, but has not evaluated the BRP as of the date of the *Streamlined Modification Solicitation Letter*; or
- prior to sending the *Streamlined Modification Solicitation Letter*, the servicer previously conducted an evaluation of the borrower's complete BRP and determined that the borrower was not eligible for a workout option in accordance with this Guide, and the current evaluation is not based on a BRP.

**Note:** If the mortgage loan was previously modified into a mortgage loan with a step-rate feature and an interest rate adjustment occurred within the last 12 months, the servicer must mail the borrower a *Streamlined Modification Solicitation Letter* between the 60th and 75th day of delinquency.

If for any reason the servicer fails to send the *Streamlined Modification Solicitation Letter* within the prescribed time frame, it must send the solicitation as soon as possible thereafter.

While use of the *Streamlined Modification Solicitation Letter* is optional, it reflects a minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of this Guide. The servicer must include in the *Streamlined Modification Solicitation Letter* the date by which the borrower must return a complete BRP to be evaluated for a Fannie Mae HAMP modification, which must be after the scheduled due date for the second Trial Period Plan payment and prior to the date the servicer will send the borrower the Loan Modification Agreement for signature.

The servicer must send the applicable *Streamlined Modification Trial Period Plan Notice Evaluation Notice* to the borrower with the *Streamlined Modification Solicitation Letter*. See *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification* for additional information on the *Evaluation Notice* and Trial Period Plan.



If a borrower whose mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae Streamlined Modification* and *Determining the Fannie Mae Streamlined Modification Terms* inquires about a mortgage loan modification or submits a BRP, the servicer must send a *Streamlined Modification Solicitation Letter* and evaluate the borrower in accordance with this topic.

The servicer is authorized to continue proactive solicitation for a Fannie Mae Streamlined Modification at its discretion.

### Handling a Borrower Response Package if Received

The servicer must acknowledge receipt of the BRP in accordance with *Acknowledging Receipt of a Borrower Response Package* in D2-2-05, Receiving a Borrower Response Package and provide any Incomplete Information Notice, if applicable, in accordance with *Sending a Notice of Incomplete Information* in D2-2-05, Receiving a Borrower Response Package.

The following table provides the servicer’s requirements for processing the BRP depending upon when the servicer receives the complete BRP.

If the servicer receives a complete BRP...	Then the servicer must...
prior to mailing the <i>Streamlined Modification Solicitation Letter</i>	review the BRP in accordance with D2-2-05, Receiving a Borrower Response Package.
after mailing the <i>Streamlined Modification Solicitation Letter</i> and prior to mailing the Loan Modification Agreement to the borrower for signature	either <ul style="list-style-type: none"> <li>• evaluate the borrower for all workout options in accordance with <i>Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> if the borrower has not accepted the Streamlined Modification Solicitation offer, or</li> <li>• evaluate the borrower for a Fannie Mae HAMP modification in accordance with D2-3.2-07, Fannie Mae HAMP Modification if the borrower has accepted the Streamlined Modification Solicitation offer.</li> </ul>

**Note:** If the property securing the mortgage loan is eligible for a Fannie Mae MyCity Modification in accordance with D2-3.2-11, Fannie Mae MyCity Modification and the

servicer receives a complete BRP, the servicer must evaluate the borrower for a Fannie Mae MyCity Modification in lieu of a Fannie Mae HAMP modification. If the mortgage loan is not eligible for a Fannie Mae MyCity Modification, the servicer must follow the requirements for evaluating a Fannie Mae HAMP modification.

The servicer must resume follow-up solicitation for an incomplete BRP in accordance with this Guide and applicable law, if the borrower does not accept the Streamlined Modification Solicitation offer.

The following table provides the servicer’s requirements for offering a Fannie Mae HAMP modification or a Fannie Mae Streamlined Modification upon borrower’s submission of a complete BRP, as described above.

If...	Then the servicer must...
the mortgage loan qualifies for a Fannie Mae HAMP modification with a post-modification monthly P&I payment lower than the monthly P&I payment offered under the Streamlined Modification	send a new offer letter to the borrower indicating that the borrower qualified for a Fannie Mae HAMP modification with a lower monthly P&I payment.  <p><b>Note:</b> The offer letter must indicate that if the borrower accepts the Fannie Mae HAMP modification, he or she will not be required to complete a new Trial Period Plan, but will execute a Loan Modification Agreement under the terms of the Fannie Mae HAMP modification program upon successful completion of the Streamlined Modification Trial Period Plan. See <i>Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification</i> in D2-3.2-07, Fannie Mae HAMP Modification for the requirements for processing the permanent Fannie Mae HAMP modification.</p>
the mortgage loan does not qualify for a Fannie Mae HAMP modification with a post-modification monthly P&I payment lower than	inform the borrower that <ul style="list-style-type: none"> <li>• he or she is not eligible for a Fannie Mae HAMP modification, and the servicer</li> </ul>

If...	Then the servicer must...
the monthly P&I payment offered under the Streamlined Modification	must provide the specific reasons why the borrower is not eligible for a HAMP modification and, as applicable, notice of the right to appeal the HAMP ineligibility determination; <ul style="list-style-type: none"> <li>• he or she continues to be eligible for the Streamlined Modification; and</li> <li>• if he or she makes the Trial Period Plan payments in accordance with the requirements of the Streamlined Modification Trial Period Plan, the mortgage loan will be permanently modified pursuant to the terms of the Streamlined Modification Trial Period Plan.</li> </ul>
the borrower fails to return a complete BRP by the date provided in the <i>Streamlined Modification Solicitation Letter</i>	inform the borrower that <ul style="list-style-type: none"> <li>• he or she is not eligible for a Fannie Mae HAMP modification;</li> <li>• he or she continues to be eligible for the Streamlined Modification; and</li> <li>• if he or she makes the Trial Period Plan payments in accordance with the requirements of the Streamlined Modification Trial Period Plan, the mortgage loan will be permanently modified pursuant to the terms of the Streamlined Modification Trial Period Plan.</li> </ul>

**Note:** If the mortgage loan is eligible for a Fannie Mae MyCity Modification in accordance with D2-3.2-11, Fannie Mae MyCity Modification and qualifies with a post-modification monthly P&I payment lower than the monthly P&I payment offered under the Fannie Mae Streamlined Modification, the servicer must offer the Fannie Mae MyCity Modification to the borrower in lieu of a Fannie Mae HAMP modification as

described in the preceding table. If the mortgage loan is eligible for a Fannie Mae MyCity Modification but does not qualify with a post-modification monthly P&I payment lower than the monthly P&I payment offered under the Fannie Mae Streamlined Modification, the servicer must not determine whether the mortgage loan is eligible for a Fannie Mae HAMP modification, but must inform the borrower of his or her ineligibility for the Fannie Mae MyCity Modification as described for a Fannie Mae HAMP modification in the preceding table. If the mortgage loan is not eligible for a Fannie Mae MyCity Modification, the servicer must follow the requirements for offering a Fannie Mae HAMP modification as described in the preceding table.

### Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the *Loan Modification Agreement* ([Form 3179](#)), and
- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates [Form 3179](#).

The servicer must send an [Evaluation Notice](#) (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the [Evaluation Notice](#)) to document the borrower’s Trial Period Plan, which begins on the date described in the following table.

If the servicer mails the Evaluation Notice to the borrower...	Then the servicer...
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

For the servicer to offer a Streamlined Modification Trial Period Plan, the first Trial Period Plan payment due date must be on or before December 1, 2015. The Streamlined Modification Trial Period Plan must be three months long.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae Streamlined Modification.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for suspending foreclosure.

The servicer must use the *Form Modification Cover Letter* to communicate a borrower's eligibility for a permanent Fannie Mae Streamlined Modification, which must be accompanied by a completed *Form 3179*. *Form 3179* must only be revised as authorized in *Summary: Modification Agreement Form 3179*.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for Fannie Mae Streamlined Modifications are acceptable as long as the electronic record complies with Fannie Mae's requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records for Fannie Mae's requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement*, *Executing and Recording the Loan Modification Agreement*, and *Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification* in F-1-24, Processing a Fannie Mae Streamlined Modification for preparing, executing, and recording *Form 3179* and adjusting the mortgage loan account upon completion of the mortgage loan modification.

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### **Processing a Fannie Mae Streamlined Modification for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae Streamlined Modification without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae's prior written approval, the servicer must request the mortgage insurer's approval, if required, after receiving notification of Fannie Mae's terms and conditions through HSSN.

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## Handling Fees and Late Charges in Connection with a Fannie Mae Streamlined Modification

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for advancing funds and requesting reimbursement.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## **D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance (03/18/2015)**

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### **Introduction**

This topic contains the following:

- Determining Eligibility for a Fannie Mae Streamlined Modification Post Disaster Forbearance
- Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan
- Performing an Escrow Analysis
- Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms
- Soliciting the Borrower for a Fannie Mae Streamlined Modification Post Disaster Forbearance
- Handling a Borrower Response Package if Received
- Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance
- Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance for a Mortgage Loan with Mortgage Insurance
- Handling Fees and Late Charges in Connection with a Fannie Mae Streamlined Modification Post Disaster Forbearance

See *Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster* for the requirements for assisting a borrower impacted by a disaster.

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### **Determining Eligibility for a Fannie Mae Streamlined Modification Post Disaster Forbearance**

The servicer must not require a complete BRP to consider a borrower for a Fannie Mae Streamlined Modification Post Disaster Forbearance and is not required to have previously solicited the borrower for a workout option prior to offering a Fannie Mae Streamlined Modification Post Disaster Forbearance. However, prior to offering a Streamlined Modification Post Disaster Forbearance, the servicer must attempt to establish QRPC with the borrower during the forbearance period to determine the borrower's financial circumstances and the appropriate

workout option. In order to be eligible for a Fannie Mae Streamlined Modification Post Disaster Forbearance, all of the criteria in the following table must be met.

✓	<b>Eligibility criteria for a Streamlined Modification Post Disaster Forbearance</b>
	The property securing the mortgage loan must be located in a FEMA Declared Disaster Area eligible for Individual Assistance.
	The mortgage loan must be a first lien mortgage loan.
	The mortgage loan must <ul style="list-style-type: none"> <li>• have been current or less than 31 days delinquent when the disaster occurred, and</li> <li>• be at least 90 days delinquent upon completion of the forbearance plan.</li> </ul>
	The mortgage loan must not be insured or guaranteed by a federal government agency (e.g. FHA, VA, or RD).
	The mortgage loan must not be subject to <ul style="list-style-type: none"> <li>• 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,</li> <li>• a current offer for another mortgage loan modification or other workout option,</li> <li>• an approved liquidation workout option, or</li> <li>• an active and performing repayment plan or other non-disaster related forbearance plan.</li> </ul>

### **Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan**

The servicer must obtain Fannie Mae’s prior approval through HSSN for a mortgage loan modification of a Texas Section 50(a)(6) mortgage loan. If the servicer receives a notice from the borrower pursuant to Texas Section 50(a)(6) that a modification fails to comply with the 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.

✓	<b>The servicer must...</b>
	Provide the borrower notice to Fannie Mae.
	Collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by requirements of Texas Section 50(a)(6).



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## Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to offering a Trial Period Plan. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, *Administering an Escrow Account and Paying Expenses* for additional information.

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 premiums are paid to date.

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## Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-23, *Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance* for determining the property value. The following table describes the servicer's action depending on the current MTMLTV ratio of the mortgage loan.

<b>If the pre-modification MTMLTV ratio is...</b>	<b>Then the servicer must determine the borrower's new modified mortgage loan terms by taking the following steps in the order provided in compliance with applicable law...</b>
greater than or equal to 80%	<ol style="list-style-type: none"><li>1. Capitalize arrearages;</li><li>2. Set the interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>;</li><li>3. Extend the term to 480 months from the modification effective date; and</li><li>4. Forbear principal, if applicable.</li></ol>
less than 80%	<ol style="list-style-type: none"><li>1. Capitalize arrearages;</li><li>2. Set the interest rate to a fixed interest rate that is based on the existing mortgage loan amortization type and interest rate; and</li></ol>

<b>If the pre-modification MTMLTV ratio is...</b>	<b>Then the servicer must determine the borrower’s new modified mortgage loan terms by taking the following steps in the order provided in compliance with applicable law...</b>
	3. Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-23, Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance for determining the borrower’s new modified mortgage loan terms.

The following table lists the requirements of the mortgage loan modification.

✓	<b>The Fannie Mae Streamlined Modification Post Disaster Forbearance must result in...</b>
	A fully amortizing, fixed-rate mortgage loan.
	A monthly P&I payment that is less than or equal to the borrower’s current contractual P&I obligation.

Prior to granting a permanent mortgage loan modification, the servicer must solicit the borrower and place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

### **Soliciting the Borrower for a Fannie Mae Streamlined Modification Post Disaster Forbearance**

The servicer must mail the borrower a *Streamlined Modification Post Disaster Forbearance Solicitation Letter* prior to the completion of the forbearance plan if the mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae Streamlined Modification Post Disaster Forbearance* and *Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms*.

While use of the *Streamlined Modification Post Disaster Forbearance Solicitation Letter* is optional, it reflects a minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of this Guide.

The servicer must include in the *Streamlined Modification Post Disaster Forbearance Solicitation Letter* the date by which the borrower must return a complete BRP to be evaluated for a Fannie Mae HAMP modification, which must be after the scheduled due date for the second Trial Period Plan payment and prior to the date the servicer will send the borrower the Loan Modification Agreement for signature.

The servicer must send the *Streamlined Modification Post-Disaster Forbearance Trial Period Plan Notice Evaluation Notice* to the borrower with the *Streamlined Modification Post Disaster Forbearance Solicitation Letter*. See *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance* for additional information on the *Evaluation Notice* and Trial Period Plan.

If a borrower whose mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae Streamlined Modification Post Disaster Forbearance* and *Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms* inquires about a mortgage loan modification or submits a BRP, the servicer must send a *Streamlined Modification Post Disaster Forbearance Solicitation Letter* and a *Streamlined Modification Post-Disaster Forbearance Trial Period Plan Notice Evaluation Notice* and evaluate the borrower in accordance with this topic.

The servicer must offer the borrower the option of accepting a Cap and Extend Modification for Disaster Relief (see D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief for additional information) in lieu of the Streamlined Modification Post Disaster Forbearance in the *Streamlined Modification Post Disaster Forbearance Solicitation Letter* and the *Streamlined Modification Post-Disaster Forbearance Trial Period Plan Notice Evaluation Notice* when the borrower has indicated to the servicer that

- he or she has the ability to continue to make the current contractual PITI payment on the mortgage loan, and
- he or she does not want to modify the mortgage loan in accordance with the terms of the Streamlined Modification Post Disaster Forbearance.

If the borrower elects a Cap and Extend Modification for Disaster Relief in lieu of the Streamlined Modification Post Disaster Forbearance, the servicer must send a *Streamlined Modification Trial Period Plan Notice Evaluation Notice* to the borrower within five days of such communication by the borrower to the servicer, which must be revised to reflect the terms for a Cap and Extend Modification for Disaster Relief as described in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

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### Handling a Borrower Response Package if Received

The servicer must acknowledge receipt of the BRP in accordance with *Acknowledging Receipt of a Borrower Response Package* in D2-2-05, Receiving a Borrower Response Package and provide any Incomplete Information Notice, if applicable, in accordance with *Sending a Notice of Incomplete Information* in D2-2-05, Receiving a Borrower Response Package.

The following table provides the servicer's requirements for processing the BRP depending upon when the servicer receives the complete BRP.

If the servicer receives a complete BRP...	Then the servicer must...
prior to mailing the <i>Streamlined Modification Post Disaster Forbearance Solicitation Letter</i>	review the BRP in accordance with D2-2-05, Receiving a Borrower Response Package.
after mailing the <i>Streamlined Modification Post Disaster Forbearance Solicitation Letter</i> and prior to mailing the Loan Modification Agreement to the borrower for signature	either <ul style="list-style-type: none"> <li>• evaluate the borrower for all workout options in accordance with <i>Chapter D2–3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> if the borrower has not accepted the Streamlined Modification Post Disaster Relief Solicitation offer, or</li> <li>• evaluate the borrower for a Fannie Mae HAMP modification in accordance with D2-3.2-07, Fannie Mae HAMP Modification if the borrower has accepted the Streamlined Modification Post Disaster Forbearance Solicitation offer.</li> </ul>

The servicer must resume follow-up solicitation for an incomplete BRP in accordance with this Guide and applicable law, if the borrower does not accept the Streamlined Modification Post Disaster Forbearance Solicitation offer.

The following table provides the servicer’s requirements for offering a Fannie Mae HAMP modification or a Fannie Mae Streamlined Modification Post Disaster Forbearance.

If the borrower...	Then the servicer must...
qualifies for a Fannie Mae HAMP modification with a post-modification monthly P&I payment lower than the monthly P&I payment offered under the Streamlined Modification Post Disaster Forbearance	send a new offer letter to the borrower indicating that the borrower qualified for a Fannie Mae HAMP modification with a lower monthly P&I payment. <p><b>Note:</b> The offer letter must indicate that if the borrower accepts the Fannie Mae HAMP modification, he or she will not be required to complete a new Trial Period Plan, but will execute a Loan Modification Agreement under the terms of the Fannie Mae HAMP modification program upon successful</p>

If the borrower...	Then the servicer must...
	completion of the Streamlined Modification Post Disaster Forbearance Trial Period Plan. See <i>Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification</i> in D2-3.2-05, Fannie Mae Standard Modification for the requirements for processing the permanent Fannie Mae HAMP modification.
does not qualify for a Fannie Mae HAMP modification with a post-modification monthly P&I payment lower than the monthly P&I payment offered under the Streamlined Modification Post Disaster Forbearance	inform the borrower that: <ul style="list-style-type: none"> <li>• he or she is not eligible for a Fannie Mae HAMP modification, and the servicer must provide specific reasons why the borrower is not eligible for a HAMP modification and, as applicable, notice of the right to appeal the HAMP ineligibility determination;</li> <li>• he or she continues to be eligible for the Streamlined Modification Post Disaster Forbearance; and</li> <li>• if he or she makes the Trial Period Plan payments in accordance with the requirements of the Streamlined Modification Post Disaster Forbearance Trial Period Plan, the mortgage loan will be permanently modified pursuant to the terms of the Streamlined Modification Post Disaster Forbearance Trial Period Plan.</li> </ul>
fails to return a complete BRP by the date provided in the <i>Streamlined Modification Post Disaster Forbearance Solicitation Letter</i>	inform the borrower that: <ul style="list-style-type: none"> <li>• he or she is not eligible for a Fannie Mae HAMP modification;</li> <li>• he or she continues to be eligible for the Streamlined Modification Post Disaster Forbearance; and</li> </ul>

If the borrower...	Then the servicer must...
	<ul style="list-style-type: none"> <li>if he or she makes the Trial Period Plan payments in accordance with the requirements of the Streamlined Modification Post Disaster Forbearance Trial Period Plan, the mortgage loan will be permanently modified pursuant to the terms of the Streamlined Modification Post Disaster Forbearance Trial Period Plan.</li> </ul>

**Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance**

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the *Loan Modification Agreement* (Form 3179), and
- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates Form 3179.

The servicer must send an *Evaluation Notice* (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the *Evaluation Notice*) to document the borrower’s Trial Period Plan, which begins on the date described in the following table.

If the servicer mails the Evaluation Notice to the borrower...	Then the servicer...
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

The Streamlined Modification Post Disaster Forbearance Trial Period Plan must be three months long.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae Streamlined Modification Post Disaster Forbearance.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for suspending foreclosure.

The servicer must use the *Form Modification Cover Letter* to communicate a borrower's eligibility for a permanent Fannie Mae Streamlined Modification Post Disaster Forbearance, which must be accompanied by a completed *Form 3179*. *Form 3179* must only be revised as authorized in *Summary: Modification Agreement Form 3179*.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for Fannie Mae Streamlined Modifications Post Disaster Forbearance are acceptable as long as the electronic record complies with Fannie Mae's requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records for Fannie Mae's requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement*, *Executing and Recording the Loan Modification Agreement*, and *Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification* in F-1-23, Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance for preparing, executing, and recording *Form 3179* and adjusting the mortgage loan account upon completion of the mortgage loan modification.

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### **Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae Streamlined Modification Post Disaster Forbearance without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae's prior written approval, the servicer must request the mortgage insurer's approval, if required, after receiving notification of Fannie Mae's terms and conditions through HSSN.

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### **Handling Fees and Late Charges in Connection with a Fannie Mae Streamlined Modification Post Disaster Forbearance**

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-23, Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance for advancing funds and requesting reimbursement.

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015





## **D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief (03/18/2015)**

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### **Introduction**

This topic contains the following:

- Determining Eligibility for a Fannie Mae Cap and Extend Modification for Disaster Relief
- Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan
- Performing an Escrow Analysis
- Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms
- Soliciting a Borrower for a Cap and Extend Modification for Disaster Relief
- Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief
- Processing a Fannie Mae Cap and Extend Modification for Disaster Relief for a Mortgage Loan with Mortgage Insurance
- Handling Fees and Late Charges in Connection with a Fannie Mae Cap and Extend Modification for Disaster Relief

See *Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster* for the requirements for assisting a borrower impacted by a disaster.

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### **Determining Eligibility for a Fannie Mae Cap and Extend Modification for Disaster Relief**

The servicer must not require a complete BRP to evaluate the borrower for a Fannie Mae Cap and Extend Modification for Disaster Relief and is not required to have previously solicited the borrower for a workout option prior to offering a Fannie Mae Cap and Extend Modification for Disaster Relief. However, the servicer must establish QRPC with the borrower during the disaster related forbearance plan and must determine whether the borrower is capable of maintaining the current contractual monthly PITI payment, including escrows, and desires a Cap and Extend Modification for Disaster Relief in lieu of a Streamlined Modification Post Disaster

Forbearance. In order to be eligible for a Fannie Mae Cap and Extend Modification for Disaster Relief, all of the criteria in the following table must be met.

✓	<b>Eligibility criteria for a Fannie Mae Cap and Extend Modification for Disaster Relief</b>
	The property securing the mortgage loan must be located in a FEMA Declared Disaster Area eligible for Individual Assistance.
	The mortgage loan must be a first lien mortgage loan.
	The mortgage loan must <ul style="list-style-type: none"> <li>• have been current or less than 31 days delinquent when the disaster occurred, and</li> <li>• be at least 60 days delinquent but less than 360 days delinquent upon completion of the disaster related forbearance plan.</li> </ul>
	The mortgage loan must not be insured or guaranteed by a federal government agency (e.g. FHA, VA, or RD).
	The mortgage loan must not be subject to <ul style="list-style-type: none"> <li>• 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;</li> <li>• a current offer for another workout option, with the exception of a Streamlined Modification Post Disaster Forbearance;</li> <li>• an approved liquidation workout option; or</li> <li>• an active and performing repayment plan or other non-disaster related forbearance plan.</li> </ul>

### Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan

The servicer must obtain Fannie Mae’s prior approval through HSSN for a mortgage loan modification of a Texas Section 50(a)(6) mortgage loan. If the servicer receives a notice from the borrower pursuant to Texas Section 50(a)(6) that a modification fails to comply with the 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.

✓	<b>The servicer must...</b>
	Provide the borrower notice to Fannie Mae.

✓	<b>The servicer must...</b>
	Collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by requirements of Texas Section 50(a)(6).

### Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to offering a Trial Period Plan. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.

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 premiums are paid to date.

### Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-17, Processing a Fannie Mae Cap and Extend Modification for Disaster Relief for determining the property value.

The servicer must determine the borrower’s new modified mortgage loan terms by taking the steps in the following table in the order provided in compliance with applicable law.

Step	Action
1	Capitalize arrearages.
2	Set the interest rate to a fixed interest rate that is based on the existing mortgage loan amortization type and interest rate.
3	Extend the term in monthly increments up to a maximum of 480 months from the modification effective date.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-17, Processing a Fannie Mae Cap and Extend Modification for Disaster Relief for determining the borrower’s new modified mortgage loan terms.

The Fannie Mae Cap and Extend Modification for Disaster Relief must result in a fully amortizing, fixed rate mortgage loan.

Prior to granting a permanent mortgage loan modification, the servicer must solicit the borrower and place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

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### **Soliciting a Borrower for a Cap and Extend Modification for Disaster Relief**

The servicer must mail the borrower a *Streamlined Modification Trial Period Plan Notice Evaluation Notice* within five days of the servicer's decision to offer a Cap and Extend Modification for Disaster Relief if the mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae Cap and Extend Modification for Disaster Relief* and *Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms*. The servicer must make appropriate changes to the *Evaluation Notice*, including the FAQs, to reflect a Cap and Extend Modification for Disaster Relief. See *Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief* for additional information on the *Evaluation Notice* and Trial Period Plan.

If a borrower accepts a Streamlined Modification Post Disaster Forbearance Trial Period Plan by submitting the first Trial Period Plan payment, and during the Trial Period Plan contacts the servicer to obtain a Cap and Extend Modification for Disaster Relief in lieu of a Streamlined Modification Post Disaster Forbearance, the borrower must restart a Trial Period Plan and the servicer must send a *Streamlined Modification Trial Period Plan Notice Evaluation Notice* based on the borrower's monthly principal and interest payment obligation as described in *Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms*.

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### **Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief**

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the *Loan Modification Agreement* ([Form 3179](#)), and

- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates [Form 3179](#).

The servicer must send an *Evaluation Notice* (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, *Receiving a Borrower Response Package* for the requirements of the *Evaluation Notice*) to document the borrower's Trial Period Plan, which begins on the date described in the following table.

<b>If the servicer mails the Evaluation Notice to the borrower...</b>	<b>Then the servicer...</b>
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

The Cap and Extend Modification for Disaster Relief must be three months long.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae Cap and Extend Modification for Disaster Relief.

The servicer must see E-3.4-01, *Suspending Foreclosure Proceedings for Workout Negotiations* for the requirements for suspending foreclosure.

The servicer must use the *Form Modification Cover Letter* to communicate a borrower's eligibility for a permanent Fannie Mae Cap and Extend Modification for Disaster Relief, which must be accompanied by a completed [Form 3179](#). [Form 3179](#) must only be revised as authorized in *Summary: Modification Agreement Form 3179*.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for Fannie Mae Cap and Extend Modifications for Disaster Relief are acceptable as long as the electronic record complies with Fannie Mae's requirements. See A2-5.2-01, *Storage of Individual Mortgage Loan Files and Records* for Fannie Mae's requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement*, *Executing and Recording the Loan Modification Agreement*, and *Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification* in F-1-17, *Processing a Fannie Mae Cap and*

Extend Modification for Disaster Relief for preparing, executing, and recording [Form 3179](#) and adjusting the mortgage loan account upon completion of the mortgage loan modification.

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### **Processing a Fannie Mae Cap and Extend Modification for Disaster Relief for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae Cap and Extend Modification for Disaster Relief without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae's prior written approval, the servicer must request the mortgage insurer's approval, if required, after receiving notification of Fannie Mae's terms and conditions through HSSN.

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### **Handling Fees and Late Charges in Connection with a Fannie Mae Cap and Extend Modification for Disaster Relief**

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for advancing funds and requesting reimbursement.

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## D2-3.2-11, Fannie Mae MyCity Modification (03/18/2015)

### Introduction

This topic contains the following:

- Determining Eligibility for a Fannie Mae MyCity Modification
- Performing an Escrow Analysis
- Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 90 Days Delinquent
- Evaluating a Borrower Whose Mortgage Loan Is Equal to or Greater Than 90 Days Delinquent
- Determining the Fannie Mae MyCity Modification Terms
- Soliciting a Borrower Whose Mortgage Loan is Equal to or Greater Than 90 Days Delinquent
- Offering a Trial Period Plan and Completing a Fannie Mae MyCity Modification
- Processing a Fannie Mae MyCity Modification for a Mortgage Loan with Mortgage Insurance
- Handling Fees and Late Charges in Connection with a Fannie Mae MyCity Modification

### Determining Eligibility for a Fannie Mae MyCity Modification

In order to be eligible for a Fannie Mae MyCity Modification, all of the criteria in the following table must be met.

✓	Eligibility Criteria for a Fannie Mae MyCity Modification
	The property securing the mortgage loan must have an address within <ul style="list-style-type: none"><li>• the City of Detroit, Michigan; or</li><li>• Cook County, Illinois.</li></ul>

✓	<b>Eligibility Criteria for a Fannie Mae MyCity Modification</b>
	<p>For properties in Cook County, Illinois, the property value must be less than or equal to \$250,000.</p> <p><b>Note:</b> The servicer is authorized to submit a request to Fannie Mae through HSSN if the servicer determines that a Fannie Mae MyCity Modification is an appropriate solution for a two- to four-unit property located in Cook County, Illinois with a property value greater than \$250,000.</p>
	The property securing the mortgage loan must not be abandoned.
	The mortgage loan must be a first lien mortgage loan.
	The mortgage loan must be a conventional mortgage loan.
	<p>The mortgage loan must not have been originated less than 12 months prior to the evaluation date.</p> <p><b>Note:</b> The servicer is authorized to submit a request to Fannie Mae through HSSN if the servicer believes that a Fannie Mae MyCity Modification is an appropriate solution for a mortgage loan originated less than 12 months prior to the evaluation date.</p>
	<p>The mortgage loan must not be subject to</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• a current offer for another mortgage loan modification, with the exception of a Fannie Mae Streamlined Modification;</li> <li>• a Fannie Mae approved liquidation workout option;</li> <li>• an active and performing Trial Period Plan; or</li> <li>• a previously failed Fannie Mae MyCity Modification Trial Period Plan or permanent Fannie Mae MyCity Modification.</li> </ul>

Except as otherwise described, the servicer is not required to obtain a complete BRP if the mortgage loan is 90 days or more delinquent and the mortgage loan is otherwise eligible.

The servicer must obtain a complete BRP if all of the eligibility criteria in the preceding table are satisfied and the mortgage loan



- is less than 90 days delinquent as of the evaluation date,
- was originated less than 12 months prior to the evaluation date, or
- is on Fannie Mae's most recent Non-Eligible List at the time of the servicer's evaluation.

When a complete BRP is required, the servicer must first evaluate the borrower for a Fannie Mae MyCity Modification in accordance with *Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 90 Days Delinquent for a Fannie Mae MyCity Modification*. The servicer must evaluate a borrower whose mortgage loan is current or less than 60 days delinquent in accordance with *Chapter D2-1, Working with a Borrower Who is Facing Default*.

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-20, Processing a Fannie Mae MyCity Modification, to determine the property value for all eligible mortgage loans. If a foreclosure sale date has been scheduled, the servicer must order a property value in accordance with *Bidding Instructions for Conventional Mortgage Loans* in E-3.3-04, Issuing Bidding Instructions.

For an MBS mortgage loan, the servicer must also comply with *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

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### **Performing an Escrow Analysis**

The servicer must perform an escrow analysis prior to offering a Trial Period Plan. See *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.

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 as required in *Administering an Escrow Account in Connection with a Mortgage Loan Modification* in B-1-01, Administering an Escrow Account and Paying Expenses, the servicer must ensure that the T&I premiums are paid to date.

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### **Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 90 Days Delinquent**

The following table provides the required servicer actions upon receipt of a BRP.

✓	<b>The servicer must...</b>
	Acknowledge receipt of the BRP and provide an Incomplete Information Notice, as applicable, in accordance with D2-2-05, Receiving a Borrower Response Package.
	Evaluate the borrower for a Fannie Mae MyCity Modification once the borrower submits a complete BRP. If the borrower is not eligible for a Fannie Mae MyCity Modification, the servicer must evaluate the borrower for all workout options in accordance with <i>Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options</i> .
	Send the borrower an <i>Evaluation Notice</i> to communicate a decision after review of a complete BRP (see <i>Sending a Notice of Decision on a Workout Option</i> in D2-2-05, Receiving a Borrower Response Package for the requirements of the <i>Evaluation Notice</i> ).

### Evaluating a Borrower Whose Mortgage Loan Is Equal to or Greater Than 90 Days Delinquent

The following table provides the required servicer actions when evaluating a borrower whose mortgage loan is equal to or greater than 90 days delinquent for a Fannie Mae MyCity Modification.

<b>If...</b>	<b>Then the servicer must...</b>
the borrower submits a complete BRP prior to the servicer’s evaluation for Fannie Mae MyCity Modification	evaluate the borrower in accordance with <i>Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 90 Days Delinquent</i> .
the borrower does not submit a complete BRP and is not otherwise required to submit a complete BRP	solicit an eligible borrower for a Fannie Mae MyCity Modification in accordance with <i>Soliciting a Borrower Whose Mortgage Loan is Equal to or Greater Than 90 Days Delinquent</i> .

If the borrower does not accept the Fannie Mae MyCity Modification offer or cannot afford the Fannie Mae MyCity Modification payment, the servicer must offer the borrower a workout option in accordance with *Chapter D2-3, Fannie Mae’s Home Retention and Liquidation Workout Options*.

The following table reflects the servicer requirements when the servicer receives a BRP from a borrower whose mortgage loan is equal to or greater than 90 days delinquent, depending upon the time frame in which the servicer receives the BRP.

<b>If the servicer receives...</b>	<b>Then the servicer must...</b>
an incomplete BRP before or after it mails the <i>Evaluation</i>	provide an Incomplete Information Notice in accordance with D2-2-05, Receiving a Borrower Response Package.

If the servicer receives...	Then the servicer must...	
<i>Notice</i> for the Fannie Mae MyCity Modification		
a complete BRP before it mails the <i>Evaluation Notice</i> for the Fannie Mae MyCity Modification	evaluate the borrower in accordance with <i>Evaluating a Borrower Whose Mortgage Loan is Current or Less Than 90 Days Delinquent</i> .	
a complete BRP after it mails the <i>Evaluation Notice</i> for the Fannie Mae MyCity Modification and prior to the date it mails the Modification Agreement for the Fannie Mae MyCity Modification to the borrower for signature	evaluate the borrower in accordance with the following table.	
	If the borrower...	Then the servicer must...
	has not accepted the Fannie Mae MyCity Modification offer	evaluate the borrower in accordance with <i>Evaluating a Borrower Whose Mortgage Loan is Current or Less Than 90 Days Delinquent</i> .
has accepted the Fannie Mae MyCity Modification offer	communicate to the borrower that because the borrower accepted the Fannie Mae MyCity Modification, the servicer is not reviewing the borrower for other workout options at this time, unless the borrower indicates that he or she is not interested in a mortgage loan modification.	

If the borrower does not accept the Fannie Mae MyCity Modification offer, the servicer must resume follow-up solicitation for an incomplete BRP in accordance with this Guide and applicable law.

### Determining the Fannie Mae MyCity Modification Terms

The servicer must determine the borrower’s new modified mortgage loan terms by taking the steps in the following table in the order provided in an effort to achieve a target reduction in the P&I payment of as close to, but not exceeding, 60%.

Step	Action
1	Capitalize arrearages.

Step	Action
2	Reduce the interest rate.
3	Extend the term up to 480 months from the modification effective date.
4	Forbear principal up to 30% of the post-capitalized UPB, if applicable.

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-20, Processing a Fannie Mae MyCity Modification for more detailed requirements to determine the borrower’s new modified mortgage loan terms.

The following table lists the requirements of the mortgage loan modification.

✓	The Fannie Mae MyCity Modification must result in...
	A fully amortizing fixed-rate mortgage loan.
	A monthly P&I payment that is less than or equal to the borrower’s current contractual P&I payment.  <b>Note:</b> For a current mortgage loan evaluated by the servicer based on a complete BRP and when the servicer has determined that the borrower’s monthly payment is in imminent default, the mortgage loan modification must result in a P&I payment that is less than the borrower’s current P&I payment.

### Soliciting a Borrower Whose Mortgage Loan is Equal to or Greater Than 90 Days Delinquent

The servicer must mail the borrower an *Evaluation Notice* between the 90th and 105th day of delinquency if the mortgage loan satisfies the requirements described in *Determining Eligibility for a Fannie Mae MyCity Modification* and *Determining the Fannie Mae MyCity Modification Terms*, and at least one of the following circumstances is met:

- the borrower has not submitted a complete BRP, or
- the servicer has received a complete BRP but has not evaluated the BRP as of the date of the *Evaluation Notice*.

If for any reason the servicer fails to send the *Evaluation Notice* within the prescribed time frame, it must send the solicitation to an eligible borrower as soon as possible thereafter. If the eligible borrower’s mortgage loan is greater than 90 days delinquent as of the date of the

servicer’s evaluation, the servicer must send at least one solicitation for a Fannie Mae MyCity Modification Trial Period Plan no later than 15 days after the eligibility evaluation.

If a borrower whose mortgage loan is equal to or greater than 90 days delinquent and satisfies the requirements described in *Determining Eligibility for a Fannie Mae MyCity Modification* and *Determining the Fannie Mae MyCity Modification Terms* inquires about a mortgage loan modification or submits a BRP, the servicer must send an *Evaluation Notice* and evaluate the borrower in accordance with this topic.

The servicer must continue to pursue workout options in accordance with E-3.2-06, Conducting Borrower Outreach During Foreclosure, but is authorized to continue proactive solicitation for a Fannie Mae MyCity Modification at its discretion.

### Offering a Trial Period Plan and Completing a Fannie Mae MyCity Modification

The servicer must send an *Evaluation Notice* (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the *Evaluation Notice*) to document the borrower’s Trial Period Plan, which begins on the date described in the following table.

<b>If the servicer mails the Evaluation Notice to the borrower...</b>	<b>Then the servicer...</b>
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

The following table provides the requirements for the length of the Trial Period Plan, which must not change even if the borrower makes scheduled payments earlier than required.

<b>If the mortgage loan is...</b>	<b>Then the Trial Period Plan must be...</b>
delinquent	three months long.
not delinquent, but the servicer has determined that the borrower’s monthly payment is in imminent default	four months long.

The following table provides the requirements for the *Evaluation Notice* for a Fannie Mae MyCity Modification depending on the number of days the mortgage loan is delinquent.

If the mortgage loan is...	Then the servicer is authorized to document the Fannie Mae MyCity Modification Trial Period Plan using...
less than 90 days delinquent as of the servicer’s evaluation date or a complete BRP is required	the <i>Standard Modification Trial Period Plan Notice</i> - based on MTMLTV ratio greater than or equal to 80% <i>Evaluation Notice</i> .
equal to or greater than 90 days delinquent as of the servicer’s evaluation date	the <i>Streamlined Modification Trial Period Plan Notice</i> - based on MTMLTV ratio greater than or equal to 80% <i>Evaluation Notice</i> .  <b>Note:</b> The servicer must revise the document to include the Fannie Mae MyCity Modification terms and delete provisions related to the borrower’s ability to be evaluated for a HAMP modification.

For the servicer to offer a Fannie Mae MyCity Modification Trial Period Plan, the first Trial Period Plan payment due date must be on or before December 1, 2016.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the *Loan Modification Agreement* ([Form 3179](#)), and
- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates [Form 3179](#).

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae MyCity Modification.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for the requirements for suspending foreclosure.

The servicer must use the [Form Modification Cover Letter](#) to communicate a borrower’s eligibility for a permanent Fannie Mae MyCity Modification, which must be accompanied by a

completed [Form 3179](#). [Form 3179](#) must only be revised as authorized in [Summary: Modification Agreement Form 3179](#).

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents and signatures for a Fannie Mae MyCity Modification are acceptable as long as the electronic record complies with Fannie Mae's requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records for Fannie Mae's requirements for electronic records.

The servicer must follow the procedures in *Preparing the Loan Modification Agreement*, *Executing and Recording the Loan Modification Agreement*, and *Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification* in F-1-20, Processing a Fannie Mae MyCity Modification for preparing, executing, and recording [Form 3179](#) and adjusting the mortgage loan account upon completion of the mortgage loan modification.

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### **Processing a Fannie Mae MyCity Modification for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae MyCity Modification without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae's prior written approval, the servicer must request the mortgage insurer's approval, if required, after receiving notification of Fannie Mae's terms and conditions through HSSN.

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### **Handling Fees and Late Charges in Connection with a Fannie Mae MyCity Modification**

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for advancing funds and requesting reimbursement.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-01</a>	January 14, 2015
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## D2-3.2-12, Fannie Mae 2MP Modification (11/12/2014)

### Introduction

2MP works in tandem with HAMP. If the first lien mortgage loan is permanently modified under HAMP and there is a second lien mortgage loan on the same property, 2MP helps eligible borrowers achieve greater affordability by lowering payments on their second lien mortgage loans as well.

This topic contains the following:

- General Requirements for Fannie Mae 2MP Modifications
- Determining Eligibility for a Fannie Mae 2MP Modification
- Processing a Fannie Mae 2MP Modification
- Determining the 2MP Modification Terms
- Communicating with a Borrower Regarding a Fannie Mae 2MP Modification
- Offering a Trial Period Plan and Completing a 2MP Modification
- Processing a Fannie Mae 2MP Modification for a Mortgage Loan with Mortgage Insurance
- Servicer Duties and Responsibilities
- Handling Fees and Late Charges in Connection with a Fannie Mae 2MP Modification



## General Requirements for Fannie Mae 2MP Modifications

The following table describes the servicer’s responsibilities for Fannie Mae 2MP modifications.

✓	<b>The servicer must...</b>
	Participate in Fannie Mae’s 2MP program for all eligible second lien mortgage loans.
	Enter into a contract directly with LPS to facilitate the communication of information necessary to match the first and second lien mortgage loans for this program. The servicer must follow the procedures in <i>Working With Lender Processing Services</i> in F-1-16, Processing a Fannie Mae 2MP Modification for facilitating the communication of the necessary information.
	Resubordinate junior liens within its servicing portfolio to facilitate the mortgage loan modification of a first lien mortgage loan under HAMP to ensure alignment of all programs within the MHA program.

## Determining Eligibility for a Fannie Mae 2MP Modification

In order to be eligible for a Fannie Mae 2MP modification, all of the criteria in the following table must be met.

✓	<b>Eligibility criteria for a Fannie Mae 2MP modification</b>
	The corresponding first lien mortgage loan must have been modified under HAMP, which the servicer may reasonably conclude has been satisfied when a first lien mortgage loan appears on the LPS match file as permanently modified.
	The second lien mortgage loan must have been originated on or before January 1, 2009.
	The second lien mortgage loan must have a UPB of \$5,000 or greater at the time of initial consideration for a Fannie Mae 2MP.
	The second lien mortgage loan must have a pre-modification scheduled monthly payment of \$100 or greater at the time of initial consideration for a Fannie Mae 2MP.
	The second lien mortgage loan must not have been previously modified under a Fannie Mae 2MP modification.
	The mortgage lien must be in second-lien position unless it is not in second-lien position due to a tax lien, a mechanic’s lien, or other non-mortgage-related lien having priority.  <p style="text-align: center;"><b>Note:</b> A home equity loan that is in first-lien position is not eligible under 2MP and should be evaluated for mortgage loan modification under HAMP.</p>

✓	<b>Eligibility criteria for a Fannie Mae 2MP modification</b>
	The second lien mortgage loan must not be a mortgage loan in which no interest is charged and no payments are due until the first lien mortgage loan is paid in full.

### Processing a Fannie Mae 2MP Modification

Immediately upon receiving notification that the first lien mortgage loan is entering a HAMP Trial Period Plan or has been modified under HAMP, the servicer must terminate the borrower’s ability to draw additional amounts on open-end lines of credit.

The servicer of a Fannie Mae second lien mortgage loan must take the following actions when a borrower’s first lien mortgage loan is modified under HAMP:

- offer to modify the borrower’s second lien mortgage loan, unless the borrower is under bankruptcy protection (see E-2.1-09, Identifying Workout Opportunities for more information on mortgage loans under bankruptcy protection); and
- dismiss any outstanding foreclosure action on the borrower’s second lien mortgage loan.

### Determining the 2MP Modification Terms

The servicer must follow the procedures in *Determining the New Modified Mortgage Loan Terms* in F-1-16, Processing a Fannie Mae 2MP Modification for greater detail about determining the borrower’s new modified mortgage loan terms. The servicer must determine the borrower’s new modified mortgage loan terms by taking the steps in the following table in the order provided.

Step	Action
1	Capitalize arrearages.
2	Reduce the interest rate.
3	Extend the term, if applicable.
4	Forbear principal, if applicable.

The servicer must not

- fully or partially extinguish principal, or
- defer or waive accrued interest.

The Fannie Mae 2MP modification must result in a closed-end second lien mortgage loan.

Prior to receiving a permanent mortgage loan modification, the servicer must place the borrower in a Trial Period Plan using the new modified mortgage loan terms.

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### Communicating with a Borrower Regarding a Fannie Mae 2MP Modification

When the servicer is discussing a Fannie Mae 2MP modification with the borrower, it must provide the borrower with the items listed in the following table.

✓	<b>Information that must be provided to the borrower in connection with a Fannie Mae 2MP modification</b>
	Information designed to help him or her understand the mortgage loan modification terms that are being offered and the mortgage loan modification process.
	Clear, understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable the borrower to make informed decisions.
	Notification that a mortgage loan modification under 2MP will cancel any assumption, variable or step-rate feature, or enhanced payment options in the borrower's existing mortgage loan at the time the mortgage loan is modified.

If the servicer determines that a Fannie Mae 2MP modification will not be offered or withdraws the offer because the first Trial Period Plan payment was not received by the last day of the month in which the first Trial Period Plan payment is due, it must send a notice written in clear, non-technical language to the borrower no later than ten days following the date of the servicer's decision.

The servicer must provide the borrower with the applicable disclosures when terminating the borrower's ability to draw additional amounts on an open-end line of credit.

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### Offering a Trial Period Plan and Completing a 2MP Modification

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must offer a 2MP Trial Period Plan to eligible borrowers within 120 days of the date the servicer receives the first lien and second lien mortgage loan matching information from LPS. In most cases, the effective date of the Trial Period Plan is the first day of the month following the servicer's mailing of the offer for the Trial Period Plan. The Trial Period Plan must set forth the effective date.

The following table provides the requirements for the length of the Trial Period Plan, which must not change even if the borrower makes scheduled payments earlier than required.

<b>If the mortgage loan is...</b>	<b>Then the Trial Period Plan must be...</b>
delinquent	three months long.
not delinquent, but the servicer has determined that the borrower’s monthly payment is in imminent default	four months long.

Timely payment, which is no later than 30 days from the date in which the payment is due, by the borrower of the first 2MP Trial Period Plan payment is evidence of the borrower’s acceptance of the terms of the 2MP Trial Period Plan. If the borrower fails to make a Trial Period Plan payment no later than 30 days from the date in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Fannie Mae 2MP modification, unless the servicer, exercising its business judgment, determines that acceptable mitigating circumstances caused the payment to be late.

The servicer must service the mortgage loan during the Trial Period Plan in the same manner as it would service a loan in forbearance. When a borrower performing on a Trial Period Plan files for bankruptcy, the servicer must not deny the borrower a permanent 2MP modification and must work with the borrower or borrower’s counsel to obtain any court or trustee approvals required.

The modification of the second lien mortgage loan must not become effective unless and until

- the borrower has made all required 2MP Trial Period Plan payments, and
- the mortgage loan modification of the corresponding first lien mortgage loan becomes effective under HAMP and remains in good standing.

**Note:** If the HAMP-modified first lien mortgage loan loses good standing (i.e., becomes delinquent and results in three monthly payments due and unpaid on the last day of the third month) while the second lien is in a Trial Period Plan, the servicer is not required to offer a 2MP mortgage loan modification to the borrower. Additionally, if the servicer has information that the borrower does not meet all of the eligibility criteria for a HAMP modification, the servicer must explore other workout options prior to resuming or initiating foreclosure.

If the borrower complies with the terms and conditions of the Trial Period Plan, the 2MP modification will become effective on the first day of the calendar month following the Trial Period Plan as specified in the Trial Period Plan and the mortgage loan modification agreement.

For the servicer to convert the Trial Period Plan to a permanent Fannie Mae 2MP modification, the modification effective date must be on or before September 1, 2016.

The servicer should use existing second lien mortgage loan modification documents, which must be revised as necessary to include 2MP program requirements and the items listed in the following table.

✓	<b>Information that must be in the 2MP modification documents</b>
	A representation by the borrower that, under penalty of perjury, all documents and information provided by him or her are true and correct.
	<p>The following statements from the borrower:</p> <ul style="list-style-type: none"> <li>• that the mortgage loan modification documents supersede the terms of any mortgage loan modification, forbearance, Trial Period Plan, or workout plan previously entered into in connection with the borrower’s second lien mortgage loan;</li> <li>• that he or she will comply with, and is bound by, all covenants, agreements, and requirements of his or her loan documents, except to the extent that such loan documents are modified by the mortgage loan modification agreement;</li> <li>• that the loan documents are composed of duly valid, binding agreements, enforceable in accordance with their terms;</li> <li>• that nothing in the mortgage loan modification agreement shall be understood or construed to be a satisfaction or release, in whole or in part, from the obligations contained in the mortgage loan documents as modified by the mortgage loan modification agreement;</li> <li>• that if the second lien mortgage loan is an open-end line of credit, he or she consents to the termination of his or her ability to draw additional amounts on the line;</li> <li>• that the borrower agrees that the mortgage loan modification agreement will be null and void if the servicer does not receive all necessary title endorsement(s), title insurance product(s), and/or subordination agreement(s); and</li> <li>• that the borrower agrees to execute any documents, including corrected documents and replacements for lost documents, necessary to consummate the transactions contemplated in the mortgage loan modification agreement.</li> </ul>
	<p>A statement in which the borrower consents to the disclosure of his or her personal information, including the terms of the mortgage loan modification, to</p> <ul style="list-style-type: none"> <li>• Treasury for purposes related to HAMP and 2MP;</li> </ul>

✓	<b>Information that must be in the 2MP modification documents</b>
	<ul style="list-style-type: none"> <li>• any investor, insurer, or guarantor that owns, insures, or guarantees his or her mortgage;</li> <li>• the servicer of his or her first lien mortgage loan;</li> <li>• Fannie Mae and Freddie Mac as necessary for either entity to perform its respective obligations as financial agents of Treasury in connection with HAMP and 2MP; and</li> <li>• companies that perform support services for HAMP and 2MP, including marketing HAMP or 2MP, conducting surveys, or providing marketing research or other borrower outreach, data processing and technical systems consulting.</li> </ul>
	A due-on-sale (or due-on-transfer) provision, to the extent enforceable under federal law.
	A statement that prohibits any subsequent assumption of the mortgage loan after the mortgage loan modification.
	A statement that declares any provision providing for a penalty for full or partial prepayment of the modified principal balance null and void.

If the original second lien mortgage loan was registered with MERS and the originator elected to name MERS as the original mortgagee of record, solely as nominee for the lender named in the security instrument and the note, the servicer must make the changes listed in the following table to the mortgage loan modification agreement.

✓	<b>Required changes to the mortgage loan modification agreement if the second lien mortgage loan was registered with MERS, and MERS was named as the original mortgagee of record (as nominee for the lender)</b>
	<p>Insert a new definition under the “Property Address” definition on page 1, which reads as follows:</p> <p>“MERS” is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for lender and lender’s successors and assigns. MERS is the mortgagee under the Mortgage. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501–2026, (888) 679-MERS.</p>
	<p>Add the following as section 4.I:</p> <p>That MERS holds only legal title to the interests granted by the borrower in the mortgage, but, if necessary to comply with law or custom, MERS (as nominee for lender and lender’s successors and assigns) has the right: to exercise any or all of those</p>

✓	<b>Required changes to the mortgage loan modification agreement if the second lien mortgage loan was registered with MERS, and MERS was named as the original mortgagee of record (as nominee for the lender)</b>
	interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of lender including, but not limited to, releasing and canceling the mortgage loan.
	Add MERS to the signature lines at the end of the mortgage loan modification agreement, as follows:  <hr style="width: 25%; margin-left: 0;"/> Mortgage Electronic Registration Systems, Inc. – Nominee for Lender

The servicer may execute the mortgage loan modification agreement on behalf of MERS and, if applicable, submit it for recordation.

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### Processing a Fannie Mae 2MP Modification for a Mortgage Loan with Mortgage Insurance

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae 2MP modification without obtaining separate mortgage insurer approval at the company or loan level.

If the terms of the mortgage loan modification require Fannie Mae’s prior written approval, the servicer must request the mortgage insurer’s approval, if required, after receiving notification of Fannie Mae’s terms and conditions through HSSN.

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### Servicer Duties and Responsibilities

The servicer’s duties and responsibilities as related to Fannie Mae 2MP modifications are listed in the following table.

✓	<b>The servicer must...</b>
	Document all aspects of the execution of <ul style="list-style-type: none"> <li>• loan evaluation,</li> <li>• mortgage loan modification, and</li> <li>• accounting processes.</li> </ul>

✓	The servicer must...
	Develop and execute a quality assurance program, similar to that established for HAMP, which includes either a statistically based (with a 95% confidence level) or a 10% stratified sample of loans modified. The sample must be drawn within 30 to 45 days of mortgage loan modification, and reported on within 30 to 45 days of review.
	Perform a trending analysis of the results of the servicer's quality assurance program on a rolling 12-month basis.

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### Handling Fees and Late Charges in Connection with a Fannie Mae 2MP Modification

The servicer must not charge the borrower administrative fees.

The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon successful completion of the Trial Period Plan.

The servicer will not be reimbursed for the cost of the credit report(s).

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for advancing funds and requesting reimbursement.

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## Section D2-3.3, Home Liquidation Workout Options



### D2-3.3-01, Fannie Mae Short Sale (11/12/2014)

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#### Introduction

This topic contains the following:

- General Requirements When Processing a Fannie Mae Short Sale
- Communicating with a Borrower Regarding a Fannie Mae Short Sale
- Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent
- Determining if a Borrower Qualifies for Streamlined Documentation
- Evaluating a Borrower Whose Mortgage Loan Is Greater than 30 Days Delinquent
- Evaluating a Borrower's Ability to Make a Contribution
- Evaluating the Credit Report for New Mortgage Loans Obtained
- Obtaining a Property Valuation
- Determining Allowable Short Sale Transaction Costs
- Listing the Property and Evaluating a Short Sale Offer
- Allowable Payments to Subordinate Lienholders
- Incentive Payments to Assist a Borrower with Relocation Expenses
- Providing a Deficiency Waiver for Certain Mortgage Loans
- Servicer Responsibility for Anti-Fraud Measures
- Processing a Fannie Mae Short Sale for a Mortgage Loan with Mortgage Insurance

### General Requirements When Processing a Fannie Mae Short Sale

The following table provides some of the servicer’s responsibilities in connection with processing a Fannie Mae short sale.

✓	<b>The servicer must...</b>
	Evaluate the borrower’s eligibility and contribution requirements, if any, based on the status of the mortgage loan at the time of the respective evaluation.
	Advise the borrower of the advantages and disadvantages of agreeing to a short sale.
	Adhere to the time frames for evaluating short sale offers and closing the short sale transaction.
	Oversee the sale of the mortgaged property by communicating with and providing instruction to the listing agent.
	Review each sales contract in detail to verify that the contract sales price and terms comply with this Guide.
	Obtain a property valuation if there’s reason to believe the borrower meets the eligibility requirements and the borrower expresses an interest in a short sale.
	Review the HUD-1 Settlement Statement prior to the short sale closing for proper transfer of title.
	Work with the title company to resolve any issues that may delay the closing, including assisting in subordinate lien releases.
	Provide instructions to the title company regarding closing of the transaction in compliance with this Guide.
	Ensure that the borrower has waived reimbursement of any escrow, buydown funds, or prepaid items and assigned any insurance proceeds to Fannie Mae, if applicable.
	Ensure the sales proceeds are received on a timely basis.
	Report short sales to Fannie Mae. See D2-4-02, Reporting a Workout Option to Fannie Mae and the <i>Investor Reporting Manual</i> .
	Appropriately manage liquidation workout options that involve the borrower’s relinquishing ownership of the property to ensure that the borrower’s rights are appropriately protected.
	Provide evidence of the borrower’s indication of intent to pursue a short sale to Fannie Mae upon request.

If the servicer is responding to an unsolicited short sale request from a borrower, it is authorized to proceed directly with evaluating the borrower for a Fannie Mae short sale without first conducting an evaluation for a HAMP modification.

Fannie Mae also will agree to short sales for FHA, VA, or RD mortgage loans if they comply with all of the insurer’s or guarantor’s guidelines and do not result in a loss to Fannie Mae.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for requesting reimbursement of allowable fees.

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### Communicating with a Borrower Regarding a Fannie Mae Short Sale

The following table provides the servicer’s responsibilities when communicating, either verbally or in writing, about a short sale with the borrower.

✓	<b>The servicer must advise the borrower of the following...</b>
	Listing the property for sale may not delay the initiation of foreclosure proceedings, in the event that the foreclosure process has not yet started.
	He or she will remain responsible for maintenance of the property until it is sold and the settlement has occurred.
	If the sales proceeds are not sufficient to satisfy the mortgage loan debt, the mortgage loan holder may require him or her to contribute funds to reduce its loss. See <i>Evaluating the Borrower’s Ability to Make a Contribution</i> for additional information on evaluating a borrower’s ability to make a contribution.
	There may be possible tax consequences if any portion of the outstanding debt is forgiven, and refer the borrower to IRS Publication 544, Sales and Other Dispositions of Assets, particularly the section captioned “Foreclosure, Repossession, or Abandonment.”
	He or she must execute all documents that are necessary to sell the property, even though the documents will indicate that the sales proceeds must be paid to the mortgage holder.
	All sales contracts that will not fully satisfy the outstanding debt must include a contingency clause making the sale of the property “contingent on the mortgage holder’s and the mortgage insurer’s, if applicable, agreement to the sale.”
	The following cancellation clause must be included in the sales contract:  “The seller’s obligation to perform on this contact is subject to the rights of the mortgage insurer (if any) and the mortgage holder relating to the conveyance of the property”.

## Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent

The following table lists the requirements that must be satisfied for the servicer to approve a Fannie Mae short sale when the mortgage loan is current or less than 31 days delinquent.

✓	<p><b>Eligibility requirements for a Fannie Mae short sale when the mortgage loan is current or less than 31 days delinquent</b></p>
	<p>The property securing the mortgage loan must be the borrower’s principal residence.</p>
	<p>The borrower must document one of the following hardships in accordance with <i>Determining Whether a Borrower Response Package is Complete</i> in D2-2-05, Receiving a Borrower Response Package:</p> <ul style="list-style-type: none"> <li>• death of a borrower or co-borrower;</li> <li>• long-term or permanent illness or disability of a borrower, co-borrower, or dependent family member;</li> <li>• divorce or legal separation of a borrower or co-borrower; or</li> <li>• distant employment transfer/relocation, including a PCS order, greater than 50 miles one way from the borrower’s current principal residence to be closer to employment.</li> </ul> <p><b>Note:</b> If the borrower is facing a hardship other than those listed above, the servicer must still review the complete BRP. If the servicer determines that the short sale request is reasonable, it must submit its recommendation to Fannie Mae to receive prior written approval.</p>
	<p>The borrower’s current monthly debt-to-income ratio must be greater than 55%. The servicer must follow the procedures in <i>Calculating the Borrower’s Current Monthly Debt-to-Income Ratio When the Mortgage Loan Is Current or Less Than 31 Days Delinquent</i> in F-1-21, Processing a Fannie Mae Short Sale for calculating the borrower’s current monthly debt-to-income ratio.</p> <p><b>Note:</b> Active duty military servicemembers of the U.S. Armed Forces with PCS orders relocating from a principal residence, whether or not the servicemember currently occupies the property, purchased on or before June 30, 2012 are exempt from the current monthly debt-to-income ratio requirement.</p>

The servicer must not approve a short sale when the borrower has non-retirement liquid assets greater than \$50,000. In such cases, the servicer must submit a recommendation to Fannie Mae for review.

The servicer must follow the procedures in *Requesting Approval for a Non-Delegated Short Sale Case* in F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions for requesting Fannie Mae's approval.

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### **Determining if a Borrower Qualifies for Streamlined Documentation**

The servicer must evaluate the borrower for a short sale without receiving a BRP or verifying the borrower's hardship if

- the mortgage loan is 90 days or more delinquent as of the date of the servicer evaluation;
- the mortgage loan is not secured by an investment property, as identified at origination; and
- one of the following criteria is met:
  - the borrower's classic FICO credit score, which must be no more than 90 days old as of the date of evaluation, is less than 620. The servicer must follow the procedures in *Obtaining and Reviewing the Borrower's Credit Score* in F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions for obtaining and reviewing the FICO credit score; or
  - the borrower's debt has been discharged pursuant to Chapter 7 of the U.S. Bankruptcy Code. The servicer must obtain proof that the mortgage loan was included in the borrower's Chapter 7 bankruptcy filing, such as notification from the court or a copy of the order of discharge showing the mortgage loan as discharged.

The servicer must screen the mortgage loan against Fannie Mae's most recent Non-Eligible List. Any mortgage loans that are found on this list are not eligible for streamlined documentation.

If the borrower fully reinstates the mortgage loan, bringing the mortgage loan current, after the initial short sale qualification, the borrower is no longer eligible for a short sale without the servicer receiving and evaluating a BRP and verifying the borrower's hardship in accordance with D2-3.3-01, Fannie Mae Short Sale.

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### **Evaluating a Borrower Whose Mortgage Loan Is Greater than 30 Days Delinquent**

The following table lists the requirements that must be satisfied for the servicer to approve a Fannie Mae short sale when the mortgage loan is greater than 30 days delinquent.

✓	<b>Eligibility requirements for a Fannie Mae short sale when the mortgage loan is greater than 30 days delinquent</b>
	The property securing the mortgage loan must not be condemned.
	The borrower must document one of the hardships listed on the <i>Uniform Borrower Assistance Form (Form 710)</i> , or equivalent, in accordance with <i>Determining Whether a Borrower Response Package is Complete</i> in D2-2-05, <i>Receiving a Borrower Response Package</i> .  <b>Note:</b> The servicer must develop written procedures for reviewing the written explanation and relevant documentation evidencing the hardship and determining when it is appropriate to approve a short sale request when the borrower selects “Other” as the hardship on the <a href="#">Form 710</a> .

The servicer must not approve a short sale when the borrower has non-retirement liquid assets greater than \$50,000. In such cases, the servicer must submit a recommendation to Fannie Mae for review. The servicer must follow the procedures in *Requesting Approval for a Non-Delegated Short Sale Case* in F-1-35, *Requesting Fannie Mae’s Approval via HomeSaver Solutions* for requesting Fannie Mae’s approval.

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### Evaluating a Borrower’s Ability to Make a Contribution

The servicer must not evaluate the borrower for a cash and/or promissory note contribution if

- prohibited by applicable law;
- the servicer determined the borrower is eligible for Streamlined Documentation in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation*; or
- the borrower is an active duty military servicemember of the U.S. armed forces with PCS orders relocating the servicemember from the subject property, which is a principal residence, whether or not the servicemember currently occupies the property, purchased by the borrower on or before June 30, 2012.

In all other instances, the servicer must evaluate the borrower’s ability to make a contribution based on the status of the mortgage loan at the time that the short sale offer is received.

The servicer must not request updated documentation from the borrower when evaluating the borrower’s ability to make a contribution and the BRP is greater than 90 days old. However, if the borrower’s credit report is greater than 90 days old when the servicer evaluates the borrower’s ability to make a contribution, the servicer must obtain a new credit report.

**Note:** Updated documentation requirements do not apply if the servicer determined the borrower is eligible for Streamlined Documentation in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation*.

The following table describes how the servicer must evaluate the borrower for a contribution depending on the status of the mortgage loan at the time that the short sale offer is received.

If the mortgage loan is...	Then the servicer must...
current or less than 31 days delinquent	evaluate the borrower’s ability to make a cash contribution using the Borrower Cash Contribution Test.
greater than 30 days delinquent	evaluate the borrower’s ability to make a cash and/or promissory note contribution using the Borrower Cash Contribution Test and the Promissory Note Test.

The servicer must follow the procedures in *Evaluating the Borrower’s Ability to Make a Contribution* in F-1-21, Processing a Fannie Mae Short Sale for evaluating the borrower’s ability to make a contribution using the Borrower Cash Contribution Test and the Promissory Note Test.

The borrower’s total cash and/or promissory note contribution must not exceed the total amount of the deficiency.

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### Evaluating the Credit Report for New Mortgage Loans Obtained

For all short sale cases except those that are eligible in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation*, the servicer must review each borrower’s credit report to determine

- if the borrower(s) obtained a new mortgage loan in the six months preceding the delinquency on the mortgage loan secured by the subject property; or
- in the case of a current mortgage loan, in the six months preceding the evaluation for a short sale.

If the servicer determines that the borrower obtained a new mortgage loan in the six months preceding the delinquency, or preceding the evaluation for a short sale, as applicable, the servicer is authorized to approve the case only if the hardship was due to

- a distant employment transfer,
- new employment, or

- receipt of PCS orders.

If the borrower has a hardship other than these, the servicer must submit the case to Fannie Mae for written approval.

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### **Obtaining a Property Valuation**

If the borrower expresses interest in a short sale and the servicer determines that the borrower meets the eligibility criteria for a Fannie Mae short sale as stated above, it must place a property valuation order directly with Fannie Mae to determine the market value of the property securing the mortgage loan.

The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-21, Processing a Fannie Mae Short Sale for obtaining a property valuation.

Also, see *Processing a Fannie Mae Short Sale for a Mortgage Loan With Mortgage Insurance* for additional requirements.

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### **Determining Allowable Short Sale Transaction Costs**

The following are the types of short sale transaction costs that may be deducted from the contract sales price:

- real estate sales commission customary for the market, which must not exceed 6% of the sales price of the property. The servicer must not condition the short sale approval upon a reduction of the total commission to be paid to real estate agents to a level below what was negotiated by the listing agent with the borrower, unless the fee exceeds 6% of the sales price of the property in aggregate;
- real estate taxes and other assessments prorated to the date of closing;
- typical and customary local and state transfer taxes and stamps;
- title and settlement charges typically paid by the seller;
- seller's attorney fees for settlement services typically provided by a title or escrow company;
- wood-destroying pest inspections and treatment, when required by local law or custom;
- HOA fees that are past due, if applicable;
- buyer closing costs typically paid by the seller that are usual and customary for the local market; and
- any other amounts if authorized by Fannie Mae.



Fannie Mae prohibits the following transaction costs:

- any outsourcing fees, short sale negotiation fees, or non-customary third party fees;
- real estate sales commission paid to the borrower or the purchaser;
- buyer’s discount points or mortgage loan origination costs; or
- fees that are not usual or customary for the local market.

### Listing the Property and Evaluating a Short Sale Offer

**Listing the Property:** The following table provides the servicing requirements for initial engagement with a real estate agent depending on whether or not the property is already listed.

If the property...	Then the servicer...
is already listed with a real estate agent	<ul style="list-style-type: none"> <li>• must ask the borrower to provide the real estate agent’s name, address, and telephone number; and</li> <li>• must contact the agent to explain the requirements related to the short sale and provide list price guidance.</li> </ul>
has not yet been listed for sale	is authorized to assist the borrower in finding an agent to handle the listing, as long as the servicer explains to the borrower that he or she may select a different agent and provide list price guidance.

**Note:** The property must be listed with a licensed real estate agent who is not a borrower on the mortgage loan.

Once the servicer accesses the MNR proceeds, list price guidance, and the date through which the values are applicable on Fannie Mae’s AMN application, the servicer must provide in writing to the borrower and/or the borrower’s real estate agent the information listed in the following table.

✓	Information that must be provided in the written correspondence to the borrower and/or the borrower’s real estate agent
	The suggested list price.
	A statement that the suggested list price is provided only as guidance, and not as the required list price.

✓	<b>Information that must be provided in the written correspondence to the borrower and/or the borrower’s real estate agent</b>
	A statement that an offer at or above Fannie Mae’s suggested list price may not automatically result in acceptable MNR proceeds.  <b>Note:</b> The MNR proceeds must be kept confidential and must not be shared with interested parties to the transaction.
	The types of transaction costs that Fannie Mae allows to be deducted from the contract sales price, as listed previously.

The property must be listed with an active status on an MLS for a minimum of five consecutive calendar days, including a Saturday and a Sunday, prior to the servicer taking the following actions:

- submitting the short sale recommendation to Fannie Mae for approval, or
- approving the short sale.

**Note:** The property must be listed on the applicable MLS which covers the geographic area in which the property is located. If a property is located in an area that is not covered by an MLS, the property must be advertised in a manner customary for that real estate market for at least five consecutive calendar days, including a Saturday and a Sunday.

**Evaluating a Short Sale Offer:** The following table provides the required time frames for the servicer to evaluate short sale offers and close the short sale transaction.

<b>Time Frame</b>	<b>Requirements</b>
Within three business days of receipt of an initial short sale offer	Acknowledge receipt of the short sale offer.
Within five business days of receipt of an initial short sale offer	Provide the borrower with a checklist of required documentation, including any documentation required for a complete BRP, if necessary, if the borrower does not qualify in accordance with <i>Determining if a Borrower Qualifies for Streamlined Documentation</i> , if the short sale offer is submitted with incomplete information.
Within 30 calendar days of receipt of a complete BRP, if required, and an initial short sale offer	Respond with one of the following: <ul style="list-style-type: none"> <li>• approve,</li> </ul>

Time Frame	Requirements
	<ul style="list-style-type: none"> <li>• counteroffer requesting a response from the borrower within five business days, or</li> </ul> <p style="text-align: center;"><b>Note:</b> If the servicer is responding to the first complete BRP submitted, see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations.</p> <ul style="list-style-type: none"> <li>• decline.</li> </ul>
Within ten business days of receipt of any revised short sales offer	Communicate a decision to the borrower on the revised short sale offer.
Within 60 calendar days of the servicer’s approval of a short sale offer	The short sale transaction must close unless the servicer requests written approval from Fannie Mae to extend this time frame.

The servicer must follow the procedures in *Determining if a Short Sale Offer Meets or Exceeds the MNR Proceeds* in F-1-21, Processing a Fannie Mae Short Sale for determining if a short sale offer meets or exceeds the MNR proceeds.

Within 24 hours of receipt of the offer, the servicer must obtain Fannie Mae’s written approval if the servicer would otherwise approve the short sale but either

- the transaction costs are excessive, or
- the short sale offer does not result in acceptable MNR proceeds.

The servicer must follow the procedures in *Requesting Approval for a Non-Delegated Short Sale Case* in F-1-35, Requesting Fannie Mae’s Approval via HomeSaver Solutions for requesting approval of a short sale offer when Fannie Mae’s approval is required.

### Allowable Payments to Subordinate Lienholders

The following table provides the requirements that apply to allowable payments to subordinate lienholders for a Fannie Mae short sale.

✓	Requirements for payments to subordinate lienholders
	Payments to subordinate lienholders must be in exchange for <ul style="list-style-type: none"> <li>• a lien release,</li> </ul>

✓	<b>Requirements for payments to subordinate lienholders</b>
	<ul style="list-style-type: none"> <li>• a full release of liability for the borrower, and</li> <li>• extinguishment of the indebtedness secured by the subject property.</li> </ul>
	<p>Payments from the sales proceeds to all subordinate lienholders to facilitate lien releases must not exceed \$6,000 in aggregate. If an individual subordinate lien or total subordinate liens are less than \$6,000, the payoff must not exceed the subordinate lien amount owed. If there are multiple subordinate lienholders, the servicer has discretion to divide the subordinate lien payments among the subordinate lienholders.</p>
	<p>Payments to subordinate lienholders must be paid from the sales proceeds at the closing of the short sale transaction.</p>
	<p>Funds must only be used only for subordinate mortgage liens or deeds of trust recorded in the land records that constitute a valid lien against the subject property.</p> <p>Examples of other types of liens which funds must not be used for include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• HOA liens,</li> <li>• judgments,</li> <li>• mechanic’s liens, and</li> <li>• materialmen’s liens.</li> </ul> <p><b>Note:</b> If other liens impede the closing of a short sale, the servicer must submit the case to Fannie Mae for prior written approval</p>

Prior to releasing any funds to a subordinate lienholder, the servicer must obtain written commitment from the subordinate lienholder that it will

- release the borrower from all claims and liability relating to the subordinate lien in exchange for receiving the agreed-upon payoff amount,
- waive all rights to seek a deficiency judgment against the borrower, and
- not require a contribution in addition to any funds provided by Fannie Mae as a condition for releasing its lien and releasing the borrower from personal liability.

If the subordinate lienholder chooses to release its lien to allow the short sale to close, but does not agree to release the borrower from liability on the note, it cannot receive a payment from

Fannie Mae. Regardless of whether payment is made to a subordinate lienholder, the servicer must obtain written commitment from the subordinate lienholder(s) to release the lien(s).

The servicer must require the closing law firm or settlement agent to either

- confirm that they are in receipt of the written commitment from subordinate lienholder(s) to release the lien(s), or
- request that a copy of the written commitment provided by the subordinate lienholder be sent to the servicer with the HUD-1 Settlement Statement which is provided in advance of the closing.

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### Incentive Payments to Assist a Borrower with Relocation Expenses

When a property securing the mortgage loan is the borrower's principal residence at the time of the *Evaluation Notice*, the borrower is entitled to an incentive payment of \$3,000 from Fannie Mae to assist with relocation expenses following the successful completion of a Fannie Mae short sale unless one of the following apply:

- the borrower is required to contribute cash or execute a promissory note;

**Note:** If the servicer believes relocation assistance is warranted despite the borrowers failure to contribute, the servicer must submit its relocation assistance recommendation to Fannie Mae for prior written approval.

- the borrower has PCS orders and receives a DLA or other government relocation assistance; or

**Note:** The servicer must obtain Fannie Mae's prior written approval to provide relocation assistance when government relocation assistance is not provided to a borrower with PCS orders.

- the servicer has knowledge that the borrower is receiving relocation assistance from another source other than the servicer.

The servicer must adjust the amount of Fannie Mae's relocation assistance in accordance with the following table.

If...	The servicer...
the servicer provides relocation assistance	must not deduct that amount from Fannie Mae's relocation assistance amount.

If...	The servicer...
another source provides relocation assistance	must deduct that amount from Fannie Mae’s relocation assistance amount.

The servicer must instruct the closing law firm or settlement agent to disburse the amount of the relocation incentive payment provided by Fannie Mae to the borrower at closing from the short sale proceeds, if applicable. The servicer must not pay relocation assistance provided by any source other than Fannie Mae from the short sale proceeds.

The servicer must not require the borrower to apply the borrower incentive payment to obtain the release of other liens or non-real estate title impediments.

### Providing a Deficiency Waiver for Certain Mortgage Loans

The servicer must release the borrower from liability for any deficiency associated with the Fannie Mae mortgage loan upon successful completion of a Fannie Mae short sale for the following mortgage loans:

- mortgage loans that do not have mortgage insurance; and
- mortgage loans that have mortgage insurances, but the mortgage insurer has granted Fannie Mae delegation of authority (see *Processing a Fannie Mae Short Sale for a Mortgage Loan With Mortgage Insurance*).

The servicer must provide a deficiency waiver to the borrower at the closing, if applicable.

While use of the *Deficiency Waiver Agreement* ([Form 189](#)) is optional, it reflects a minimum level of information that the servicer must include.

### Servicer Responsibility for Anti-Fraud Measures

The servicer must not approve a borrower for a Fannie Mae short sale if there is evidence of fraud or misrepresentation in the transaction.

The following table provides the conditions that must be met for all short sale transactions.

✓	<b>Conditions for completion of a Fannie Mae short sale transaction</b>
	All parties involved in the short sale transaction must sign and date a <i>Short Sale Affidavit</i> ( <a href="#">Form 191</a> ) at the closing.

✓	<b>Conditions for completion of a Fannie Mae short sale transaction</b>
	<p><b>Note:</b> If the closing law firm or settlement agent is prohibited by law from signing <a href="#">Form 191</a>, the servicer must condition the waiver of the signature upon an agreement that the closing law firm or settlement agent will not act as the closing agent on a subsequent transaction involving the subject property within one year of the closing of this short sale transaction.</p>
	<p>The borrower or the purchaser must not receive any funds or commissions from the sale of subject property, with the exception of the borrower receiving a relocation incentive payment from Fannie Mae or another acceptable source (see <i>Incentive Payments to Assist the Borrower with Relocation Expenses</i> for additional information).</p>
	<p>Any relocation incentive payment received by the borrower from Fannie Mae must be reflected on the HUD-1 Settlement Statement.</p>
	<p>The deed conveying the property to the purchaser must be amended, in compliance with applicable state law, to include the following provision:</p> <p>“Grantee herein is prohibited from conveying captioned property for any sales price for a period of 30 days from the date of this deed. After this 30–day period, Grantee is further prohibited from conveying the property for a sales price greater than \$ [Insert value equal to 120% of short sale price] until 90 days from the date of this deed. These restrictions shall run with the land are not personal to the Grantee.”</p> <p><b>Note:</b> If a short sale falls into either of the following categories and the purchaser requests a waiver of the deed restriction requirement, the servicer must submit the mortgage loan to Fannie Mae for prior written approval:</p> <ul style="list-style-type: none"> <li>• HAP provided by the Department of Defense, or</li> <li>• a purchase that is the result of an employer relocation program.</li> </ul>

Within 48 hours of the short sale transaction closing, the servicer must review the HUD-1 Settlement Statement to validate compliance with this Guide and for accuracy, including the following items:

- that the purchaser and the sales price match the purchase contract;
- that the HUD-1 Settlement Statement is consistent with the closing instructions, particularly ineligible transfer of title to related parties; and
- that the deed has been sent for recordation in the name of the buyer.

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## **Processing a Fannie Mae Short Sale for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae short sale in accordance with this Guide without obtaining separate mortgage insurer approval at the company or loan level.

For mortgage insurers from which Fannie Mae has not obtained delegation of authority, the servicer must, once it has obtained the property valuation, contact the mortgage insurer to discuss the possibility of pursuing a short sale and must not agree to a short sale unless the mortgage insurer agrees in writing to the following:

- to waive its property acquisition rights before the claim is filed, and
- to settle the claim by paying the lesser of the full percentage option under the terms of the master policy or the amount required to make Fannie Mae whole.

In discussing the possibility of a short sale with the mortgage insurer, the servicer must keep in mind the conditions under which Fannie Mae will accept a short sale. If the mortgage insurer refuses to consider a short sale or offers to settle the claim for an amount that is less than the percentage option or Fannie Mae's "make whole" amount, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

The servicer must file a primary mortgage insurance claim on all conventional first lien mortgage loans on which Fannie Mae bears the risk of loss and is insured under a master primary mortgage insurance policy with the exception of Republic Mortgage Insurance Company. The servicer must follow the procedures in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property for filing the mortgage insurance claim.

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## **D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure) (04/08/2015)**

### **Introduction**

This topic contains the following:

- General Requirements When Processing a Fannie Mae Mortgage Release
- Evaluating a Borrower's Hardship
- Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent
- Determining if a Borrower Qualifies for Streamlined Documentation
- Evaluating a Borrower Whose Mortgage Loan is Greater Than 30 Days Delinquent
- Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options
- Evaluating the Credit Report for New Mortgage Loans Obtained
- Obtaining a Property Valuation and Evaluating the Condition of the Property
- Allowable Payments to Subordinate Lienholders
- Borrower Incentive Payments
- Evaluating a Borrower's Ability to Make a Contribution
- Requirements for Accepting a Fannie Mae Mortgage Release
- Providing a Deficiency Waiver for Certain Mortgage Loans
- Processing a Fannie Mae Mortgage Release for a Mortgage Loan with Mortgage Insurance

### **General Requirements When Processing a Fannie Mae Mortgage Release**

The following table provides some of the servicer's responsibilities in connection with processing a Fannie Mae Mortgage Release for a first lien mortgage loan.

✓	<b>The servicer must...</b>
	Ensure that the borrower is not involved in or party to litigation other than foreclosure or bankruptcy involving the subject property or mortgage loan.

✓	The servicer must...
	Evaluate the borrower’s eligibility and contribution requirements, if any, based on the status of the mortgage loan at the time of the respective evaluation.
	<p>Inform the borrower of the three exit options:</p> <ol style="list-style-type: none"> <li>1. Immediate move.</li> <li>2. A three-month transition lease with no rent payment required.</li> <li>3. A twelve-month lease at market rent payment.</li> </ol> <p>See <i>Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options</i> for information on options #2 and #3.</p>
	Advise the borrower that there may be possible tax consequences if any portion of the outstanding debt is forgiven, and refer the borrower to IRS Publication 544, Sales and Other Dispositions of Assets, particularly the section captioned “Foreclosure, Repossession, or Abandonment.”
	Work with the borrower to complete all requirements associated with completing and executing the Mortgage Release and ensure that there is sufficient time to complete the processing of the Mortgage Release, including sending the Mortgage Release offer to the borrower, so that an executed deed can be received no later than 30 days prior to the foreclosure sale date.
	<p>Work with the title company to resolve any issues that may delay the closing, including assisting the borrower in subordinate lien releases, and ensure that the borrower can convey clear and marketable title. The servicer must follow the procedures in <i>Verifying Clear and Marketable Title</i> in F-1-19, Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure) for ensuring that clear and marketable title can be conveyed.</p> <p><b>Note:</b> While the servicer is not required to order a title insurance policy, the servicer is authorized to do so if it deems it necessary to complete the Mortgage Release. Fannie Mae will reimburse the servicer for title insurance costs in accordance with E-5-07, Other Reimbursable Expenses.</p>
	Submit the deed for recordation within five business days of the servicer’s acceptance of the executed deed from the borrower.
	Ensure the property is vacant and broom swept, unless the borrower is eligible in accordance with <i>Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options</i> .

✓	<b>The servicer must...</b>
	Release the first lien mortgage loan within the time required by applicable state or local law or, if state or local law does not require release of the first lien mortgage loan within a specific time frame, within 30 business days after the occurrence of the following: <ul style="list-style-type: none"> <li>• the acceptance of the Mortgage Release by the servicer, and</li> <li>• confirmation by the comprehensive property inspection that the subject property is vacant and secured (unless the borrower is eligible in accordance with <i>Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options</i>).</li> </ul>
	Appropriately manage liquidation workout options that involve the borrower’s relinquishing ownership of the property to ensure that the borrower’s rights are appropriately protected.
	Provide evidence of the borrower’s indication of intent to pursue a Mortgage Release to Fannie Mae upon request.

When Fannie Mae’s approval of a Mortgage Release is required, the servicer must follow the procedures in *Requesting Approval for a Non-Delegated Mortgage Release Case* in F-1-35, *Requesting Fannie Mae’s Approval via HomeSaver Solutions* for requesting Fannie Mae’s approval of a Mortgage Release.

### Evaluating a Borrower’s Hardship

The following table provides the eligibility requirements related to hardship depending upon the status of the mortgage loan.

<b>Mortgage Loan Status</b>	<b>Hardship Requirements</b>
Current or less than 90 days delinquent	The borrower must document one of the following hardships in accordance with <i>Determining Whether a Borrower Response Package is Complete</i> in D2-2-05, <i>Receiving a Borrower Response Package</i> : <ul style="list-style-type: none"> <li>• death of a borrower or co-borrower,</li> <li>• long-term or permanent illness or disability of a borrower or co-borrower or dependent family member, or</li> <li>• the borrower was previously discharged from the debt obligation through a Chapter 7 bankruptcy and did not reaffirm the mortgage loan.</li> </ul>

Mortgage Loan Status	Hardship Requirements
	<p><b>Note:</b> If the borrower faces a hardship other than those listed and he or she provides all relevant documentation to the servicer for consideration for a Mortgage Release, the servicer must still review the BRP. If the servicer determines that the request is warranted, it must submit its recommendation to Fannie Mae to obtain prior written approval.</p>
90 days or more delinquent	<p>The borrower must document one of the hardships listed on the <i>Uniform Borrower Assistance Form (Form 710)</i>, or equivalent, in accordance with <i>Determining Whether a Borrower Response Package is Complete</i> in D2-2-05, <i>Receiving a Borrower Response Package</i>.</p> <p>The servicer must develop written procedures to review the evidence of hardship and determine when it is appropriate to offer a Mortgage Release when the borrower selects “other” as the hardship.</p>

The following table provides the servicing requirements when a borrower is an active duty military servicemember of the U.S. Armed Forces with PCS orders relocating the borrower from his or her principal residence and the servicer determines that a Mortgage Release is the appropriate workout option.

If the mortgage loan is...	Then the servicer must...
Current or less than 90 days delinquent	submit the recommendation to Fannie Mae to obtain prior written approval.
90 days or more delinquent	proceed with evaluating the borrower for consideration of a Mortgage Release without obtaining Fannie Mae’s prior approval.

### Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent

The following table lists all of the requirements that must be satisfied for the servicer to approve a Fannie Mae Mortgage Release when the mortgage loan is current or less than 31 days delinquent.

✓	<p><b>Eligibility criteria for a Fannie Mae Mortgage Release when the mortgage loan is current or less than 31 days delinquent</b></p>
	<p>The borrower must meet the hardship requirements described previously.</p>
	<p>The property securing the mortgage must be the borrower’s principal residence.</p> <p><b>Note:</b> If the subject property was the borrower’s principal residence, but is vacant at the time of the evaluation, the servicer must submit the Mortgage Release to Fannie Mae to obtain prior written approval.</p>
	<p>The borrower’s current monthly debt-to-income ratio must be greater than 55%. The servicer must follow the procedures in <i>Calculating the Borrower’s Current Monthly Debt-to-Income Ratio When the Mortgage Loan Is Current or Less Than 31 Days Delinquent</i> in F-1-19, <i>Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure)</i> for calculating the borrower’s current monthly debt-to-income ratio.</p> <p><b>Note:</b> Active duty military servicemembers of the U.S. Armed Forces with PCS orders relocating from a principal residence, whether or not the servicemember currently occupies the property, purchased on or before June 30, 2012 are exempt from the current monthly debt-to-income ratio requirement.</p>

The servicer must not approve a Mortgage Release when the borrower has non-retirement liquid assets greater than \$50,000. In such cases, the servicer must submit a recommendation to Fannie Mae for review. The servicer must follow the procedures in *Requesting Approval for a Non-Delegated Mortgage Release Case* in F-1-35, *Requesting Fannie Mae’s Approval via HomeSaver Solutions* for requesting Fannie Mae’s approval.

### Determining if a Borrower Qualifies for Streamlined Documentation

The servicer must evaluate the borrower for a Mortgage Release without receiving a BRP or verifying the borrower’s hardship if

- the mortgage loan is 90 days or more delinquent as of the date of the servicer evaluation;
- the mortgage loan is not secured by an investment property, as identified at origination; and
- one of the following criteria is met:
  - the borrower’s classic FICO credit score, which must be no more than 90 days old as of the date of evaluation, is less than 620. The servicer must follow the procedures in *Obtaining and Reviewing the Borrower’s Credit Score* in F-1-19, *Processing a Fannie Mae Mortgage*

Release (Deed-In-Lieu of Foreclosure) for obtaining and reviewing the FICO credit score;  
or

- the borrower's debt has been discharged pursuant to Chapter 7 of the U.S. Bankruptcy Code. The servicer must obtain proof that the mortgage loan was included in the borrower's Chapter 7 bankruptcy filing, such as notification from the court or a copy of the order of discharge showing the mortgage loan as discharged.

The servicer must screen the mortgage loan against Fannie Mae's most recent Non-Eligible List. Any mortgage loans that are found on this list are not eligible for streamlined documentation.

If the borrower originally qualified for a Fannie Mae short sale in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation* in D2-3.3-01, Fannie Mae Short Sale, and subsequently works with the servicer to transition to a Mortgage Release, the servicer must use the borrower's initial Streamlined Documentation qualification for the Mortgage Release.

If the borrower fully reinstates the mortgage loan, bringing the mortgage loan current, after the initial Mortgage Release qualification, the borrower is no longer eligible for a Mortgage Release without the servicer receiving and evaluating a BRP and verifying the borrower's hardship in accordance with D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

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### **Evaluating a Borrower Whose Mortgage Loan is Greater Than 30 Days Delinquent**

For the servicer to approve a Fannie Mae Mortgage Release when the mortgage loan is greater than 30 days delinquent, the borrower must meet the hardship requirements described in *Evaluating a Borrower's Hardship*. The servicer must not approve a Mortgage Release when the borrower has non-retirement liquid assets greater than \$50,000. In such cases, the servicer must submit a recommendation to Fannie Mae for review. No property types are excluded. The servicer must follow the procedures in *Requesting Approval for a Non-Delegated Mortgage Release Case* in F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions for requesting Fannie Mae's approval.

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### **Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options**

Once the servicer determines that the borrower is eligible for a Mortgage Release and the borrower expresses interest in a Mortgage Release transition option, the servicer must screen the borrower for eligibility for a Mortgage Release transition option (exit options #2 and #3 as described in *General Requirements When Processing a Fannie Mae Mortgage Release*). The servicer must refer the Mortgage Release to Fannie Mae when both the mortgage loan and borrower meet the eligibility criteria described in the following table.

✓	<p><b>Mortgage loan and borrower eligibility criteria for Mortgage Release transition options</b></p>
	<p>The mortgage loan must be a first lien mortgage loan secured by a single-family property.</p>
	<p>The mortgage loan must not be guaranteed, insured, or held by FHA, HUD, VA, or the RD.</p>
	<p>The subject property must be</p> <ul style="list-style-type: none"> <li>• the borrower's principal residence, or</li> <li>• an investment property which has been leased to a tenant(s) who uses the property as a principal residence.</li> </ul> <p><b>Note:</b> For the Mortgage Release transition option that allows the borrower to execute a three-month use and occupancy agreement with no rent payment required, the subject property must be the borrower's principal residence.</p>
	<p>At least three monthly payments must have been made since origination or since the last mortgage loan modification, if applicable.</p> <p><b>Note:</b> This is only applicable for the Mortgage Release transition option that allows the borrower to execute a twelve-month lease agreement with a market rent payment.</p>
	<p>The mortgage loan must not have 12 or more payments past due when referred to Fannie Mae for consideration for a Mortgage Release transition option.</p> <p><b>Note:</b> This is only applicable for the Mortgage Release transition option that allows the borrower to execute a twelve-month lease agreement with a market rent payment.</p>
	<p>The borrower must not be involved in an active bankruptcy proceeding or party to litigation involving the subject property or mortgage loan.</p> <p><b>Note:</b> For the Mortgage Release transition option that allows the borrower to execute a three-month use and occupancy agreement with no rent payment required, the borrower may be involved in an active bankruptcy proceeding.</p>
	<p>Clear and marketable title must be able to be conveyed.</p>
	<p>Subordinate lien releases must be able to be obtained, if applicable.</p>

✓	<b>Mortgage loan and borrower eligibility criteria for Mortgage Release transition options</b>
	<p>The occupant must have verifiable income.</p> <p><b>Note:</b> Unemployed occupants with no source of income are not eligible. For the Mortgage Release transition option that allows the borrower to execute a three-month use and occupancy agreement with no rent payment required, the occupant is not required to have verifiable income.</p>

The servicer must follow the procedures in *Processing a Mortgage Release Transition Option* in F-1-19, *Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure)* for processing a Mortgage Release transition option.

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### Evaluating the Credit Report for New Mortgage Loans Obtained

For all Mortgage Release cases except those that are eligible in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation*, the servicer must review each borrower’s credit report to determine

- if the borrower(s) obtained a new mortgage loan in the six months preceding the delinquency on the mortgage loan secured by the subject property; or
- in the case of a current mortgage loan, in the six months preceding the evaluation for a Mortgage Release.

If the servicer determines that the borrower obtained a new mortgage loan in the six months preceding the delinquency, or preceding the evaluation for a Mortgage Release, as applicable, the servicer is authorized to approve the case only if the hardship was due to

- a distant employment transfer,
- new employment, or
- receipt of PCS orders.

If the borrower has a hardship other than these, the servicer must submit the case to Fannie Mae for written approval.

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### Obtaining a Property Valuation and Evaluating the Condition of the Property

If the servicer determines that the borrower meets the eligibility criteria stated above for a Fannie Mae Mortgage Release, it must place a property valuation order directly with Fannie Mae to



determine the market value of the property securing the mortgage loan, if required by Fannie Mae or the mortgage insurer. The servicer must follow the procedures in *Obtaining a Property Valuation* in F-1-19, Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure) for obtaining a property valuation.

Prior to the borrower executing a Fannie Mae Mortgage Release, the servicer must schedule property inspections to ensure that the property is undamaged, properly maintained, and free from structural problems, environmental contamination, or existing or potential legal concerns. The servicer’s action will depend on whether the servicer previously ordered an interior BPO, as described in the following table.

<b>If the servicer has...</b>	<b>Then the servicer...</b>
previously ordered an interior BPO	is authorized to use the interior BPO to determine whether the property condition is acceptable prior to final execution of the Mortgage Release, as long as the BPO is dated within 90 days of the borrower’s approval for a Mortgage Release.
not previously ordered an interior BPO	must order an interior inspection of the property and verify the property is in acceptable condition within 60 days of the borrower’s acceptance of the Mortgage Release.

See E-3.3-03, Inspecting Properties Prior to Foreclosure Sale for the requirements related to performing property in inspections.

The servicer must submit the Mortgage Release request to Fannie Mae to receive prior written approval if the property inspection or property valuation reveals any of the following about the subject property and the servicer determines that a Mortgage Release is the appropriate workout option:

- the subject property has been poorly maintained,
- the subject property requires major repairs,
- the subject property has structural property has structural or foundation problems,
- the subject property contains environmental contamination, or
- the subject property poses potential legal risk.

### Allowable Payments to Subordinate Lienholders

The following table provides the requirements that apply to allowable payments to subordinate lienholders for a Mortgage Release.

✓	<b>Requirements for payment to subordinate lienholders</b>
	<p>Payments to subordinate lienholders must be in exchange for</p> <ul style="list-style-type: none"> <li>• a lien release,</li> <li>• a full release of liability for the borrower, and</li> <li>• extinguishment of the indebtedness secured by the subject property.</li> </ul>
	<p>Payments to all subordinate lienholders to facilitate lien releases must not exceed \$6,000 in aggregate. If an individual subordinate lien or total subordinate liens are less than \$6,000, the payoff must not exceed the subordinate lien amount owed. If there are multiple subordinate lienholders, the servicer has discretion to divide the subordinate lien payments among the subordinate lienholders.</p>
	<p>Funds must only be used for subordinate mortgage liens or deeds of trust recorded in the land records that constitute a valid lien against the subject property.</p> <p>Examples of other types of liens which funds must not be used for include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• HOA liens,</li> <li>• judgments,</li> <li>• mechanic’s liens, and</li> <li>• materialmen’s liens.</li> </ul> <p><b>Note:</b> If other liens impede the closing of a Mortgage Release, the servicer must submit the case to Fannie Mae for prior written approval</p>

Prior to releasing any funds to a subordinate lienholder, the servicer must obtain written commitment from the subordinate lienholder that it will

- release the borrower from all claims and liability relating to the subordinate lien in exchange for receiving the agreed-upon payoff amount,

- waive all rights to seek a deficiency judgment against the borrower, and
- not require a contribution in addition to any funds provided by Fannie Mae as a condition for releasing its lien and releasing the borrower from personal liability.

If a subordinate lienholder chooses to release its lien to allow the Mortgage Release to close, but does not agree to release the borrower from liability on the note, it cannot receive a payment from Fannie Mae. Regardless of whether payment is made to a subordinate lienholder, the servicer must obtain written commitment from the subordinate lienholder(s) to release the lien(s).

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### Borrower Incentive Payments

The servicer is authorized to pay the borrower an incentive following the successful completion of a Mortgage Release for a mortgage loan evaluated for a Mortgage Release on or before December 1, 2015, located in one of the following jurisdictions:

- Connecticut
- District of Columbia
- Illinois
- Maryland
- Massachusetts
- New Jersey
- New York
- Pennsylvania

**Note:** For a property in one of these jurisdictions, the property securing the mortgage loan does not need to be the borrower's principal residence.

The amount of the incentive payment is based on the requirements in the following table.

<b>If the property securing the mortgage loan...</b>	<b>Then the borrower is entitled to...</b>
is the borrower's principal residence at the time of the <i>Evaluation Notice</i>	an incentive payment of up to \$10,000 from Fannie Mae.

If the property securing the mortgage loan...	Then the borrower is entitled to...
is not the borrower’s principal residence at the time of the <i>Evaluation Notice</i>	an incentive payment of up to \$7,000 from Fannie Mae.

**Note:** The servicer must make the applicable change to the incentive payment amount in the *Evaluation Notice*.

If the property securing the mortgage loan is located in one of the previously listed jurisdictions and the amount of the incentive payment is greater than \$3,000, the servicer must submit the case into HSSN for approval prior to closing.

If the property securing the mortgage loan is not located in the previously listed jurisdictions, then the property securing the mortgage loan must be the borrower’s principal residence at the time of the *Evaluation Notice*. The servicer is then authorized to pay the borrower an incentive payment of up to \$3,000 from Fannie Mae following the successful completion of a Mortgage Release.

Regardless of the jurisdiction the property securing the mortgage loan is located in, the borrower is not eligible for an incentive payment if one of the following apply:

- the borrower is required to contribute cash or execute a promissory note (even if the borrower fails to contribute), or
- the borrower has PCS orders and receives a DLA or other government relocation assistance.

**Note:** If the servicer determines an incentive payment is warranted as an exception to these exclusions, the servicer must submit its incentive payment recommendation to Fannie Mae for prior written approval.

The total incentive the borrower may receive may exceed Fannie Mae’s maximum incentive amount if the servicer elects to provide an additional incentive payment from its own funds.

If the servicer has knowledge that the borrower is receiving transition or relocation assistance from a source other than the servicer, it must subtract that amount from Fannie Mae’s incentive payment up to the maximum amount the borrower is entitled to receive.

If the property inspection report indicates that the subject property is vacant, but that there is damage to the subject property caused by the borrower or that the subject property was not left in broom-swept condition, then the servicer must reduce Fannie Mae’s incentive payment by the estimate or actual, if known, cost of remediating the issues.

The servicer must not require the borrower to apply the borrower incentive payment to obtain the release of other liens or non-real estate title impediments.

The timing for the payment of the borrower incentive is outlined in the following table.

<b>If the borrower...</b>	<b>Then the servicer must distribute the incentive payment to the borrower...</b>
is not participating in a Mortgage Release transition option	within 30 days after the servicer’s acceptance of the executed deed from the borrower.
is participating in either a 3- or 12-month Mortgage Release transition option	within 30 days after the property becomes vacant.

### **Evaluating a Borrower's Ability to Make a Contribution**

The servicer must evaluate the borrower’s ability to make a contribution based on the status of the mortgage loan at the time the servicer evaluated the borrower for eligibility for a Mortgage Release.

The servicer must not evaluate the borrower for a cash and/or promissory note contribution if

- prohibited by applicable law;
- the servicer approved a borrower for a Fannie Mae Mortgage Release in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation*; or
- the mortgage loan is 90 days or more delinquent and the borrower is an active duty military servicemember of the U.S. armed forces with PCS orders relocating the servicemember from the subject property, which is a principal residence, whether or not the servicemember currently occupies the property, purchased by the borrower on or before June 30, 2012.

The following table describes how the servicer must evaluate the borrower for a contribution depending on the status of the mortgage loan at the time that the borrower is evaluated for a Fannie Mae Mortgage Release.

<b>If the mortgage loan is...</b>	<b>Then the servicer must...</b>
current or less than 31 days delinquent	evaluate the borrower’s ability to make a cash contribution using the Borrower Cash Contribution Test.
greater than 30 days delinquent	evaluate the borrower’s ability to make a cash and/or promissory note contribution using

If the mortgage loan is...	Then the servicer must...
	the Borrower Cash Contribution Test and the Promissory Note Test.

The servicer must follow the procedures in *Evaluating the Borrower’s Ability to Make a Contribution* in F-1-19, Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure) for evaluating the borrower’s ability to make a contribution using the Borrower Cash Contribution Test and the Promissory Note Test.

The borrower’s total cash and/or promissory note contribution must not exceed the total amount of the deficiency.

### Requirements for Accepting a Fannie Mae Mortgage Release

The servicer must obtain all of the items listed in the following table within 60 days of the borrower’s acceptance of the offer for a Fannie Mae Mortgage Release.

✓	<b>Documentation that must be obtained within 60 days of the borrower’s acceptance of a Mortgage Release</b>
	The deed and a personal property release executed by the borrower.  <b>Note:</b> While use of the <i>Personal Property Release Form (Form 192)</i> is optional, it reflects a minimum level of information that the servicer must include.
	The mortgage insurer’s approval, if applicable, if Fannie Mae has not obtained a delegation of authority.
	Agreement(s) that the subordinate lienholder(s) will release <ul style="list-style-type: none"> <li>• the subordinate lien, and</li> <li>• the borrower from liability if accepting payment from Fannie Mae.</li> </ul>
	Clear and marketable title.
	The cash contribution and/or executed promissory note, if applicable.
	The property inspection indicating that there are not environmental hazards or legal concerns.

If the servicer is unable to resolve all issues within 60 days, an extension of 30 days is permitted as long as the servicer provides the borrower with written or verbal weekly status updates indicating the reason that the Mortgage Release is still pending.

The servicer must request Fannie Mae's approval to accept the deed if it receives the executed deed less than 30 days prior to the foreclosure sale date. The servicer is responsible for any costs incurred due to the acceptance of a Mortgage Release that results in a delay in acquisition of the property.

The servicer must complete a final interior property inspection to ensure that the subject property is vacant, secure, and in broom swept condition no more than two business days following the receipt of the executed deed and all related documents. The servicer must not complete final acceptance of the executed Mortgage Release until after it has received the results of the final property inspection. The servicer must take the action described in the following table if it determines that the borrower has left personal property in the subject property.

<b>If, at the time of the final property inspection, the servicer determines that the personal property left by the borrower has...</b>	<b>Then the servicer...</b>
an actual cash value less than \$500	is authorized to proceed with the Mortgage Release.
an actual cash value equal to or greater than \$500	must get Fannie Mae's prior written approval before completing a Mortgage Release.

For a Mortgage Release transition option, the servicer is not required to complete a comprehensive property inspection prior to execution of the deed of conveyance. However, the servicer must review the interior property valuation to ensure the subject property's habitability (see *Obtaining a Property Valuation and Evaluating the Condition of the Property*).

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement for requesting reimbursement of allowable fees.

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### **Providing a Deficiency Waiver for Certain Mortgage Loans**

The servicer must release the borrower from liability for any deficiency associated with the Fannie Mae mortgage loan upon successful completion of a Fannie Mae Mortgage Release for the following mortgage loans:

- mortgage loans that do not have mortgage insurance, and
- mortgage loans that have mortgage insurances, but the mortgage insurer has granted Fannie Mae delegation of authority (see *Processing a Fannie Mae Mortgage Release for a Mortgage Loan With Mortgage Insurance*).

The servicer must provide a deficiency waiver to the borrower after the servicer’s acceptance of the executed deed from the borrower, if applicable.

While use of the *Deficiency Waiver Agreement* ([Form 189](#)) is optional, it reflects a minimum level of information that the servicer must include.

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### **Processing a Fannie Mae Mortgage Release for a Mortgage Loan with Mortgage Insurance**

The servicer must see F-2-07, Mortgage Insurer Delegations for Workout Options for the list of mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process a Fannie Mae Mortgage Release in accordance with this Guide without obtaining separate mortgage insurer approval at the company or loan level.

For mortgage insurers from which Fannie Mae has not obtained delegation of authority, the servicer must not agree to a Fannie Mae Mortgage Release unless the mortgage insurer agrees in writing to the following:

- to waive its property acquisition rights before the claim is filed, and
- to settle the claim by paying the lesser of the full percentage option under the terms of the master policy or the amount required to make Fannie Mae whole.

### **Related Announcements**

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC–2014–21</a>	December 10, 2014
<a href="#">Announcement SVC–2015–05</a>	April 8, 2015



## Section D2-3.4, Other Workout Options to Assist a Borrower



### D2-3.4-01, Military Indulgence (11/12/2014)

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#### Introduction

SCRA provides protection and relief to civilians who incur a mortgage debt and subsequently enter military service, including members of the National Guard who are called to active duty by federal authorities. Fannie Mae's military indulgence policy covers those servicemembers entitled to relief under SCRA as well as members of the National Guard or other state-supported military unit who are called to active duty by a state governor and entitled to state-mandated relief. The relief generally begins when the individual reports for active duty and ends a short period of time after he or she is separated from active duty. In addition to protections provided by the SCRA, Fannie Mae provides additional protections.

This topic contains the following:

- Initiating Relief
- Reducing the Interest Rate
- Providing Forbearance
- Initiating or Proceeding with Foreclosure Proceedings

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#### Initiating Relief

Before granting any military indulgence (which includes the statutory interest rate reduction, any forbearance, protection against foreclosure, and extension of redemption periods), the servicer must document the servicemember's active duty orders using (i) Fannie Mae's *Request for Military Indulgence* (Form 180) or (ii) other sources (such as a report certifying the active duty status for a servicemember from the Defense Manpower Data Center, an organization within the Department of Defense) and other forms such as the *Uniform Borrower Assistance Form* (Form 710), or equivalent, to document financial and hardship information. While use of Form 180 is optional, it reflects the minimum level of information the servicer must obtain to verify the servicemember's active duty orders, unless the borrower is requesting assistance in addition to the assistance that is required under the SCRA.

The servicer should contact the servicemember or his or her family, at a minimum, every three months to determine when his or her active duty status will end or, if military indulgence forbearance was granted, whether there has been a change in his or her financial situation.

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### Reducing the Interest Rate

The servicer must grant an eligible borrower a reduction in the interest rate to 6% in accordance with the provisions of the SCRA; provided, however, that the servicer must not exercise the option provided by the SCRA to apply to a court for relief from reducing the interest rate to 6% if the servicer is of the opinion that the servicemember's ability to pay interest at a rate in excess of 6% per year is not materially affected by reason of the servicemember's military service. The servicer should make the new interest rate effective with the first payment due after the servicemember (i) enters active duty or (ii) is entitled to the new interest rate under the SCRA.

In addition to reducing the interest rate to 6%, the servicer must reapply any prepaid monthly payments with due dates during the period of active duty at the 6% interest rate. If the servicemember fails to notify the servicer when he or she enters active duty status, but subsequently provides evidence of the active duty status, the servicer must reapply any monthly payments made during the period of active duty at the 6% interest rate. Installments that are delinquent when the servicemember enters active duty status must be paid at the interest rate that was in effect when the payments came due. The servicer must provide the following options to the servicemember regarding the treatment of any remaining funds after any reapplication:

- application as a monthly payment, if sufficient;
- application as a principal curtailment; or
- a refund to the borrower.

The servicer must follow the procedures in *Determining the Monthly Mortgage Payment Amount* for calculating the monthly payment amount during and after the servicemember's active duty and in *Determining the Servicing Fee Amount* for calculating the servicing fee in F-1-30, Processing Military Indulgence. The servicer must provide written correspondence to the servicemember that indicates the new payment amount, the date it becomes effective, and the date it will be discontinued and the servicemember is not required to execute any document to reflect the reduced interest rate attributable to the military indulgence.

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### Providing Forbearance

If the servicemember is unable to make the full monthly payment after the interest rate is reduced to 6%, the servicer is authorized to agree to accept lesser payments, which can continue for the

entire term of the servicemember's active duty and for another three months after he or she is released from active duty. If the servicemember is unable to repay all delinquent installments under the mortgage loan within this time, the servicer must work out a repayment plan that cures the delinquency as soon as possible. If circumstances warrant, the servicer must consider modifying the mortgage loan once the servicemember's active duty has been completed.

While the servicer should request the servicemember to pay an amount that is at least equal to the amount needed to cover escrow deposits for T&I payments, it must arrange repayment terms that best suit the individual servicemember's ability to pay, while keeping in mind the need to minimize the accumulated arrearages. The servicer must not require the servicemember to have a court order to obtain this relief. The servicer must waive any late charges that become due after the servicemember was called to active duty.

If Fannie Mae's mortgage loan is in a second lien position and the first lien mortgage loan is granted military indulgence, the second lien mortgage loan must also be placed under military indulgence. The servicer of the second lien mortgage loan must request a copy of the military indulgence plan for the first lien mortgage loan, and, if provided, make sure that the indulgence period for the second lien mortgage loan will end at the same time.

The servicer must consider the mortgage loan to be current as long as the servicemember remits the amount required per the terms of the military indulgence forbearance agreement. If the mortgage loan becomes 90 days delinquent under the terms of the military indulgence forbearance agreement, the servicer must investigate the reason for the delinquency and arrange additional forbearance, if appropriate, but must not initiate foreclosure proceedings. If the servicemember cannot make any monthly payments, the servicer must instruct him or her to request a stay in enforcement of the mortgage loan terms from the court.

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### **Initiating or Proceeding with Foreclosure Proceedings**

The servicer must attempt to ascertain the military status of the mortgagor(s) before initiating foreclosure proceedings and must comply with specific state or local laws that address the effect of the SCRA on the foreclosure process, or that impose other restrictions or limitations on foreclosure for servicemembers.

The servicer must stay any foreclosure proceedings that were already in process or postpone the initiation of foreclosure proceedings against a servicemember eligible for military indulgence. The servicer must also provide a 12-month extended stay of foreclosure and other legal proceedings from the date on which military service ends. The servicer must not attempt to obtain the eligible servicemember's written consent or petition the court to continue or commence foreclosure proceedings.

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## **D2-3.4-02, Offering a Mortgage Release (Deed-in-Lieu of Foreclosure) for a Second Lien Mortgage Loan (11/12/2014)**

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### **Introduction**

This topic contains information on offering a mortgage release (deed-in-lieu of foreclosure) for a second lien mortgage loan.

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The following table provides the requirements for the servicer of a seriously delinquent second lien mortgage loan when evaluating a borrower for a Mortgage Release.

✓	<b>The servicer must...</b>
	Coordinate with the first lien mortgage loan servicer regarding any proposed action related to the acceptance of a Mortgage Release to determine the following: <ul data-bbox="298 1066 1008 1245" style="list-style-type: none"><li>• status of the first lien mortgage loan,</li><li>• intentions of the first lien mortgage loan servicer, and</li><li>• possibility of a mutually arranged disposition.</li></ul>
	Order an Owner and Encumbrance Report to ensure that there are no other outstanding liens.

The servicer must obtain Fannie Mae's prior approval to accept a Mortgage Release. The servicer must follow the procedures in *Requesting Approval for a Mortgage Release for a Second Lien Mortgage Loan* in F-1-35, *Requesting Fannie Mae's Approval via HomeSaver Solutions* for requesting Fannie Mae's approval of a Mortgage Release.

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## **D2-3.4-03, Charging Off a Second Lien Mortgage Loan (11/12/2014)**

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### **Introduction**

This topic contains information on charging off a second lien mortgage loan.

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If the servicer of a second lien mortgage loan determines that it is not in Fannie Mae's best interest to pursue collection efforts or legal actions against the borrower, it must submit a recommendation for resolving the second lien mortgage loan delinquency to Fannie Mae.

The servicer must follow the procedures in *Requesting Approval for a Charge-Off of a Second Lien Mortgage Loan* in F-1-35, *Requesting Fannie Mae's Approval via HomeSaver Solutions* for submitting a recommendation to Fannie Mae.

See the [Investor Reporting Manual](#) for reporting a charge-off to Fannie Mae.



## **D2-3.4-04, Assignment of a Mortgage Loan to the Insurer or Guarantor (11/12/2014)**

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### **Introduction**

This topic contains the following:

- Assignment of a Conventional Mortgage Loan to the Mortgage Insurer
- Assignment of a HUD or VA Mortgage Loan to the Insurer or Guarantor

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### **Assignment of a Conventional Mortgage Loan to the Mortgage Insurer**

If the mortgage insurer exercises a right under the master policy to acquire a delinquent conventional first lien mortgage loan, the servicer must assign the mortgage loan to the mortgage insurer and take whatever action is necessary to obtain payment under the insurance policy.

If the mortgage insurer instructs the servicer to assign an insured delinquent second lien conventional mortgage loan to it rather than continuing the foreclosure process, the servicer must prepare the necessary legal documents to assign the second lien mortgage loan and file a claim under the insurance contract.

See the [Investor Reporting Manual](#) for reporting the assignment to Fannie Mae.

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### **Assignment of a HUD or VA Mortgage Loan to the Insurer or Guarantor**

If the mortgage insurer or guarantor exercises its right under the policy to acquire a delinquent government mortgage loan or an assignment is the only way to liquidate a mortgage loan, the servicer must

- assign the mortgage loan to the insurer or guarantor and take required follow-up actions in compliance with applicable regulations and procedures,
- file a claim with the insurer or guarantor, and
- report the assignment to Fannie Mae. See the *Investor Reporting Manual* for reporting the assignment to Fannie Mae.

Fannie Mae will hold the servicer accountable for any loss Fannie Mae incurs because it failed to assign a VA-guaranteed mortgage loan for refunding when the VA instructed it to do so.

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# Chapter D2-4, Reporting Delinquent Mortgage Loans and Workout Options



## Reporting Delinquent Mortgage Loans and Workout Options

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### Introduction

This chapter contains information on reporting delinquent mortgage loans and workout options.

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### In This Chapter

This chapter contains the following topics:

D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae (11/12/2014) . . . . .	553
D2-4-02, Reporting a Workout Option to Fannie Mae (11/12/2014) . . . . .	554
D2-4-03, Reporting Certain Workout Options to Treasury (11/12/2014) . . . . .	554

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## D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae (11/12/2014)

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### Introduction

This topic contains information on reporting a delinquent mortgage loan to Fannie Mae.

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The servicer must electronically transmit a file extract of its delinquent mortgage loans to Fannie Mae each month. The servicer must follow the procedures in F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network for reporting delinquent mortgage loans to Fannie Mae.



## **D2-4-02, Reporting a Workout Option to Fannie Mae (11/12/2014)**

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### **Introduction**

This topic contains information on reporting a workout option to Fannie Mae.

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The servicer must report certain mortgage loans that receive a workout option to Fannie Mae. The servicer must follow the procedures in F-1-33, Reporting a Workout Option via HomeSaver Solutions Network for the requirements for reporting the applicable workout option to Fannie Mae.

Additionally, the servicer must

- report receipt of Trial Period Plan payments to Fannie Mae in a timely manner particularly for MBS mortgage loans that are not subject to Fannie Mae's automatic reclassification process as discussed in A1-3-07, Automatic Reclassification of MBS Mortgage Loans; and
  - send an REOgram, including any applicable lien release documents and contact information for the HOA, to Fannie Mae's REAM Division (see F-4-03, List of Contacts) within 24 hours of the date the servicer completes the final acceptance of the executed Mortgage Release. See *Contents of the REOgram* in E-4.1-01, Notifying Fannie Mae of an Acquired Property for the contents of the REOgram.
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## **D2-4-03, Reporting Certain Workout Options to Treasury (11/12/2014)**

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### **Introduction**

This topic contains information about reporting certain workout options to Treasury.

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The servicer must report mortgage loans that receive certain workout options to Treasury. The servicer must see HMPAdmin.com for more information on reporting these workout options to Treasury.





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# Part E, Default-Related Legal Services, Bankruptcy, Foreclosure Proceedings, and Acquired Properties



## Default-Related Legal Services, Bankruptcy, Foreclosure Proceedings, and Acquired Properties

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### Introduction

This part describes default-related legal services, bankruptcy, foreclosure proceedings, and acquired properties.

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### In This Part

This part contains the following chapters:

E-1, Referring Default-Related Legal Matters and Non-Routine Litigation to Law Firms . . .	557
E-2, Managing Bankruptcy Proceedings . . . . .	577
E-3, Managing Foreclosure Proceedings . . . . .	603
E-4, Managing Acquired Properties . . . . .	651
E-5, Requesting Reimbursement for Expenses Associated with Default-Related Legal Matters . . . . .	685

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# Chapter E-1, Referring Default-Related Legal Matters and Non-Routine Litigation to Law Firms



## Referring Default-Related Legal Matters and Non-Routine Litigation to Law Firms

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### Introduction

This chapter describes referring default-related legal matters and non-routine litigation to law firms.

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### In This Chapter

This chapter contains the following sections:

E0-1.1, Referring a Mortgage Loan to a Law Firm .....	558
E0-1.2, Timing of the Referral to a Law Firm .....	566
E0-1.3, Handling Non-Routine Litigation .....	571

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## Section E0-1.1, Referring a Mortgage Loan to a Law Firm

### E-1.1-01, General Requirements for Referring a Mortgage Loan to a Law Firm (11/12/2014)

The following table describes the servicer's responsibilities for all referrals to law firms for default-related legal services.

✓	The servicer must...
	Send the referral to a law firm that has been selected and retained for the jurisdiction under the requirements set forth in A4-2.2-01, Selecting and Retaining Law Firms.
	Submit a complete referral package to the law firm and work with the firm to determine <ul style="list-style-type: none"><li>• the documents needed in that particular jurisdiction for the specific proceedings, and</li><li>• whether the documents may be photocopies or must be the originals.</li></ul>
	Advise the law firm to which the referral is made that Fannie Mae owns or securitizes the mortgage loan being referred.
	Manage referrals to law firms to avoid any conflicts of interest on the part of the law firm with respect to Fannie Mae and the servicer.
	Provide Fannie Mae's Legal department (see F-4-03, List of Contacts) with five business days' prior written notice of any transfer of files from one law firm to another.

The law firm to which a foreclosure referral is made will handle any subsequent bankruptcy case, unless the bankruptcy case is filed in a different jurisdiction and the servicer has not selected and retained the law firm to perform legal services in the jurisdiction in which the bankruptcy case is filed. In those cases, the bankruptcy case must be handled by a law firm selected and retained by the servicer in the jurisdiction in which the bankruptcy case was filed. When the bankruptcy case is resolved, the matter must be referred back to the firm that originally received the foreclosure referral if foreclosure is still necessary, unless the firm's retention has been terminated or a suspension of new referrals is in place. See *Required Referral Timelines for*

*Mortgage Loans Previously Referred for Foreclosure* in E-1.2-01, Timing of the Bankruptcy Referral for additional information and requirements.

For mortgage loans referred for foreclosure prior to June 1, 2013 to law firms which were members of the Fannie Mae retained attorney network when the referrals were made, if a bankruptcy is filed after June 1, 2013 and the law firm has been selected and retained by the servicer, the bankruptcy referral must go to the firm, unless that firm's retention has been terminated or a suspension of new referrals is in place.

Fannie Mae may deny reimbursement of fees and out-of-pocket expenses for any referrals to law firms that have not been selected and retained under these requirements. See A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process for additional information.

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## E-1.1-02, Required Referral Documents (11/12/2014)

### Introduction

The servicer must provide all appropriate documentation and mortgage loan status data for each mortgage loan it refers to a law firm for any default-related legal services.

After referral, the servicer must keep the law firm informed about any change in the status of the mortgage loan.

At the time of any referral to a law firm, the servicer must provide the firm with

- a true, correct, and complete copy of the note, including any allonge, produced from the original held by the document custodian;
- the original note, including any allonge; or
- a lost note affidavit.

Providing a copy of or the original note will depend on whether the applicable law of the jurisdiction requires the original note or merely a copy. Lost note affidavits must only be used after a thorough and diligent search has been made for the original note. Fannie Mae does not reimburse the servicer for the cost to obtain original notes or lost note affidavits.

The servicer must institute a process to request the necessary documents from the document custodian no later than the 95th day of delinquency in order to ensure that these documents are available at the time of referral.

If the servicer fails to provide the appropriate documentation and information as part of the referral package, or does not respond within three business days to requests from the law firm for additional information or documents, Fannie Mae reserves the right to pursue any of its available remedies, which may include, but are not limited to, the following:

- indemnification,
- “make whole,”
- repurchase, or
- compensatory fees.

This topic contains the following:

- Additional Required Bankruptcy Referral Documents
- Additional Required Foreclosure Referral Documents
- Additional Documents Required for Proceedings Involving a Manufactured Home

### Additional Required Bankruptcy Referral Documents

The following table lists the documentation required specifically for bankruptcy referral packages.

✓	<b>Documentation required for the bankruptcy referral package</b>
	All legal documents the law firm needs to conduct the bankruptcy proceedings.
	All necessary information about the status of <ul style="list-style-type: none"> <li>• the property,</li> <li>• the borrower,</li> <li>• the mortgage loan, and</li> <li>• the bankruptcy filing.</li> </ul>
	Any relevant information on the current and any prior bankruptcy filings, such as plans, pleadings, schedules, and proofs of claims involving the borrower or the subject property.
	Information related to any potential workout options.
	The mortgage loan collection history.
	Any current or previous foreclosure status information.
	All information the servicer has regarding the value of the security property, if applicable.

The servicer must check its records for the mortgage loan carefully to determine whether the borrower has filed for bankruptcy previously. If the records reflect other bankruptcy filings, the servicer must mark the referral package it sends to the bankruptcy attorney as “repeat filer” or “possible bankruptcy abuse” and ask the attorney to confirm whether the borrower’s filing is considered “abusive.” See also E-2.3-01, Identifying Abusive Filers for additional information.

### Additional Required Foreclosure Referral Documents

When an assignment of mortgage to the party in whose name the foreclosure will be conducted is required (and in all cases as to which MERS is the mortgagee of record), the servicer must adhere to the requirements shown in the following table.

✓	<b>The servicer must...</b>
	Have a process to identify the mortgagee of record by the 90th day of delinquency.

✓	<b>The servicer must...</b>
	Ensure that, no later than the time of the foreclosure referral to a law firm, the mortgage has been validly assigned (that is, is legally effective and enforceable) to the party in whose name the foreclosure will be conducted.

The following table provides additional requirements for the assignment of mortgages.

<b>If...</b>	<b>Then the servicer...</b>
the property is located in a jurisdiction that recognizes the effectiveness of executed, but unrecorded, assignments	may initiate foreclosure prior to recordation of the assignment.  However, the assignment must be recorded as soon as possible, in compliance with the laws of the jurisdiction where the property is located.
the jurisdiction requires recordation of the assignment to the party in whose name the foreclosure will be conducted before proceeding with foreclosure	must record the assignment before the foreclosure begins (as defined by applicable state or local law).
the MERS is the mortgagee of record	must as quickly as possible prepare and execute (and record, if necessary) the assignment of mortgage from MERS to the party in whose name the foreclosure will be conducted.
the assignment of the mortgage has been executed but not recorded or sent for recording as of the date of the foreclosure referral	must include the original assignment in the referral package sent to the law firm.
applicable law requires that there be an assignment of mortgage to the servicer or Fannie Mae before foreclosure referral, e.g., prior to the sending of a notice of default or right to cure	must prepare and execute (and record, if necessary) the assignment of mortgage in compliance with applicable requirements.

### **Additional Documents Required for Proceedings Involving a Manufactured Home**

If the referral is for a mortgage loan secured by a manufactured home, the servicer must also provide the law firm with

- information that the property type is manufactured housing;



- copies (or originals, if originals will be needed) of all collateral documents or other documents that may facilitate the legal process; and
- a copy of the property inspection report, property status report, or other documentation that identifies the status of the property as manufactured housing.



### E-1.1-03, Required Referral Data (11/12/2014)

The following table lists the information that must be sent to a law firm when a mortgage loan is referred for either bankruptcy or foreclosure proceedings.

✓	<b>The referral must include...</b>
	<p>The following servicer information:</p> <ul style="list-style-type: none"> <li>• the servicer's name, address, and Fannie Mae Identification Number; and</li> <li>• the servicer's contact person's name, telephone number, email address, and fax number.</li> </ul>
	<p>The following property information:</p> <ul style="list-style-type: none"> <li>• the property address, and Tax Identification Number or assessor's parcel number (if available);</li> <li>• the property type (single-family, condo, co-op, etc.);</li> <li>• the number of dwelling units;</li> <li>• occupancy status;</li> <li>• whether the property is owner-occupied or an investment property (if an investment property, provide all known information, including number of units, occupancy status, names of any tenants, rental income, lease amounts, etc.);</li> <li>• Native American Land (Tribal Trust, allotted, restricted fee, as applicable);</li> <li>• the name and telephone number of the management agent for a co-op project (if applicable); and</li> <li>• the name and telephone number of the homeowners' association or condominium association (if applicable).</li> </ul>

✓	<b>The referral must include...</b>
	<p>The following borrower information:</p> <ul style="list-style-type: none"> <li>• the borrower’s name and, if available, phone number(s), and email address;</li> <li>• the borrower’s mailing address (if different from property address);</li> <li>• the borrower’s Social Security number or Tax Identification Number; and</li> <li>• the borrower’s current military status (if any).</li> </ul>
	<p>The following mortgage loan information:</p> <ul style="list-style-type: none"> <li>• the servicer’s Loan Identification and Fannie Mae Loan Number;</li> <li>• MERS MIN, if applicable;</li> <li>• lien priority (first or subordinate);</li> <li>• original mortgage loan amount;</li> <li>• current UPB and LPI date;</li> <li>• the total amount past due (reinstatement);</li> <li>• the total amount due (payoff);</li> <li>• itemization of fees, costs, and other charges;</li> <li>• brief servicing history for the last 12 months (including previous foreclosure referrals, workout attempts, and bankruptcies);</li> <li>• the name of the mortgage insurer (if applicable); and</li> <li>• any other important mortgage loan characteristics (such as HECM status, Texas Home Equity Loan, etc.).</li> </ul>

In addition to all of the data elements previously mentioned in this topic, a referral to a law firm for bankruptcy proceedings will also require the following information:

- bankruptcy case number,
- bankruptcy jurisdiction,
- date of the bankruptcy filing,

- chapter under which the bankruptcy was filed,
  - any property valuation information,
  - breakdown of the monthly payment (principal, interest, and escrow deposits),
  - mortgage escrow analysis (showing any shortage or surplus), and
  - foreclosure case number, jurisdiction, and date the proceedings initiated.
-

## Section E0-1.2, Timing of the Referral to a Law Firm



### E-1.2-01, Timing of the Bankruptcy Referral (11/12/2014)

#### Introduction

The timeline for referring a case to a law firm will vary depending on the status of the mortgage loan at the time the bankruptcy case is filed.

See F-2-02, Bankruptcy Referral and Completion Timelines for additional information.

This topic contains the following:

- Required Referral Timelines for Mortgage Loans Not Previously Referred for Foreclosure
- Required Referral Timelines for Mortgage Loans Previously Referred for Foreclosure

#### Required Referral Timelines for Mortgage Loans Not Previously Referred for Foreclosure

The servicer may refer all delinquent mortgage loans in Chapter 7, 12, and 13 cases to a law firm for preparation of the proof of claim and, in Chapter 12 and 13 cases, review of the debtor's plan. It is not necessary for these mortgage loans to be 60 days delinquent before being referred to a law firm. When the mortgage loan associated with a bankruptcy case has not previously been referred for foreclosure, the servicer must refer the mortgage loan to a law firm in accordance with the criteria presented in the following table.

Bankruptcy filed	Required timelines for referral
Chapter 7, 12, or 13 cases	<p>The servicer must send the referral no later than two weeks from the 60th day of delinquency.</p> <p>If the mortgage loan is already 60 or more days delinquent when the borrower files, the servicer must send the referral no later than two weeks from the date of the bankruptcy filing.</p> <p>The servicer must refer the case earlier to a law firm if it believes that the bankruptcy may affect the borrower's obligations under the</p>

<b>Bankruptcy filed</b>	<b>Required timelines for referral</b>
	terms of the note or mortgage, or if expedited relief from stay is otherwise necessary to protect Fannie Mae's interests.
Chapter 11	Regardless of whether the mortgage loan is current or delinquent when a borrower files, the servicer must refer the case to a law firm.  The servicer must send the referral no later than two weeks from the date of the bankruptcy filing.

The servicer is responsible for ensuring that the bankruptcy is appropriately handled prior to referral to a law firm.

### **Required Referral Timelines for Mortgage Loans Previously Referred for Foreclosure**

When the mortgage loan associated with a bankruptcy case has been previously referred to a law firm for the initiation of foreclosure proceedings, the servicer must immediately

- notify the law firm of the bankruptcy filing, and
- send any required bankruptcy referral within two weeks from the date of the bankruptcy filing.

Bankruptcy referral requirements for mortgage loans previously referred to foreclosure are described in the following table.

<b>✓</b>	<b>If a law firm was already retained to conduct the foreclosure proceedings, then...</b>
	The same firm must handle any subsequent bankruptcy case, unless the bankruptcy case is filed in a different jurisdiction and the servicer has not selected and engaged the firm to perform legal services in that jurisdiction. In those cases, the bankruptcy must be handled by a law firm selected and retained by the servicer in the jurisdiction in which the bankruptcy case was filed.
	The servicer must promptly forward all applicable information to the law firm and instruct the law firm to take all actions necessary to protect Fannie Mae's interests.

When the bankruptcy case is resolved, the servicer must refer the case back to the law firm that originally received the foreclosure referral, assuming that

- foreclosure is still necessary, and
- the firm's engagement has not been terminated and no suspension of new referrals is in place.

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## **E-1.2-02, Timing of the Foreclosure Referral for Mortgage Loans Generally (11/12/2014)**

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For all mortgage loans secured by a principal residence, the servicer must refer the mortgage loan to foreclosure no earlier than day 121 of delinquency unless applicable law permits earlier referral. If the servicer determines, in accordance with applicable law, that the property securing the mortgage loan is not, or is no longer the borrower's principal residence, the servicer must refer the mortgage loan to foreclosure prior to day 121 of delinquency as described below.

Depending on the outcome of the prereferral review for mortgage loans not secured by a principal residence, the mortgage loan must be referred to a law firm for foreclosure no later than the 120th day of delinquency, except in circumstances where the borrower submits a BRP shortly before the foreclosure referral. See E-3.2-01, Conducting Prereferral Review and E-3.2-04, Postponing Foreclosure Referral for Mortgage Loans Not Secured by a Principal Residence for additional information.

Foreclosure is considered to have begun on the date when the servicer refers the matter to a law firm. The servicer must maintain a record of the date of the referral in the mortgage loan file.

Fannie Mae requires the servicer to contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) before beginning foreclosure proceedings for an eMortgage or if it becomes aware of environmental hazards that affect the security property. Regardless of whether Fannie Mae is named as a party in any environmental litigation, it must be considered non-routine and the servicer must immediately notify Fannie Mae's Legal department by submitting a *Non-Routine Litigation Form* (Form 20). See also E-1.3-02, Reporting Non-Routine Litigation to Fannie Mae for additional information. The servicer must follow the procedures in *Reporting Environmental Hazards to Fannie Mae* in F-1-10, Managing Foreclosure Proceedings, for instructions specifically related to reporting environmental issues to Fannie Mae.

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## **E-1.2-03, Timing of the Foreclosure Referral for Second Lien Conventional Mortgage Loans Not Secured by a Principal Residence (11/12/2014)**

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Foreclosure proceedings for a second lien mortgage loan that is not secured by a principal residence can begin when at least two full monthly payments are past due. In addition, even

if a second lien mortgage loan that is not secured by a principal residence is not two full monthly payments past due, as long as the servicer has complied with SCRA requirements and any applicable state law that restricts the right to foreclose on a second lien mortgage loan, foreclosure proceedings can begin if

- the first lien mortgage loan is in default, and
- the second lien mortgage instrument includes a provision that the second lien mortgage loan will be considered in default, regardless of the status of its payments, if the first lien mortgage loan is in default.

After the servicer sends the required breach letter as prescribed in D2-2-06, Sending a Breach or Acceleration Letter, its next action depends on whether the second lien mortgage loan has conventional MI. When the mortgage loan has MI, the servicer must determine if

- both the first and second lien mortgage loans are in default, and
- Fannie Mae has an interest in only one mortgage loan, or both the first and second lien mortgage loans.

The terms of the recourse or credit enhancement arrangement under which Fannie Mae purchased or securitized an uninsured second lien mortgage loan will determine whether foreclosure proceedings will be initiated and the type(s) of actions the servicer must take. The servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) by submitting a case through HSSN before making a decision to foreclose on any conventional second lien mortgage loan and/or to advance the funds to bring the first lien mortgage loan current.

The servicer must refer the case to a law firm to begin foreclosure proceedings on a second lien mortgage loan that is not secured by a principal residence no later than 30 days after the date it issued the breach letter once a final determination is made to initiate foreclosure on such a mortgage loan.



### **E-1.2-04, Timing of the Foreclosure Referral for Government Mortgage Loans (11/12/2014)**

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If the borrower does not pursue FHA's foreclosure prevention alternatives (or is not eligible for them), the servicer must refer the mortgage loan to a law firm to begin foreclosure proceedings in compliance with FHA's guidelines if permitted by applicable law.

The servicer of a VA-guaranteed mortgage loan must send all notices the VA requires to notify the borrower of his or her breach of the terms of the mortgage loan and refer the mortgage loan to a law firm to begin foreclosure proceedings in compliance with VA guidelines if permitted by applicable law.

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## Section E0-1.3, Handling Non-Routine Litigation



### E-1.3-01, General Servicer Responsibilities for Non-Routine Matters (11/12/2014)

“Non-routine” litigation generally consists of an action that, regardless of whether Fannie Mae is a party to the proceeding

- seeks monetary damages against Fannie Mae, its officers, directors, or employees;
- challenges the validity, priority, or enforceability of a Fannie Mae mortgage loan or seeks to impair Fannie Mae's interest in an acquired property and the handling of which is not otherwise addressed in the *Servicing Guide*; or
- presents an issue that may pose a significant legal or reputational risk to Fannie Mae.

The following table describes the servicer's responsibilities related to non-routine litigation.

✓	<b>The servicer must...</b>
	Appropriately handle legal matters affecting Fannie Mae mortgage loans.
	Notify Fannie Mae’s Legal department of any non-routine litigation by submitting a <i>Non-Routine Litigation Form</i> ( <a href="#">Form 20</a> ).  <b>Note:</b> Fannie Mae reserves the right to direct and control all litigation involving a Fannie Mae mortgage loan, and the servicer and any law firm handling the litigation must cooperate fully with Fannie Mae in the prosecution, defense, or handling of the matter.
	Obtain Fannie Mae's prior written approval before either <ul style="list-style-type: none"> <li>• removing a case to federal court based on Fannie Mae's Charter, or</li> <li>• appealing or otherwise challenging judgment in any foreclosure or bankruptcy proceeding.</li> </ul>

✓	<b>The servicer must...</b>
	<p><b>Note:</b> The servicer must also notify Fannie Mae’s Legal department by submitting <a href="#">Form 20</a> if a borrower files an appeal or seeks other post-judgment relief in a foreclosure or bankruptcy proceeding.</p>
	Periodically update Fannie Mae on the progress of non-routine litigation as necessary and appropriate.
	<p>Provide Fannie Mae with sufficient opportunity in advance of any deadline or due date to review and comment upon proposed substantive pleadings, including</p> <ul style="list-style-type: none"> <li>• motions,</li> <li>• responses,</li> <li>• replies, and</li> <li>• briefs.</li> </ul>
	<p>Notify retained counsel of its proposal to offer any mortgage loan modification and provide counsel with sufficient opportunity in advance of the solicitation to review and provide comments in connection with any solicitation materials. See also <i>Determining Eligibility for a Fannie Mae Streamlined Modification</i> in D2-3.2-08, Fannie Mae Streamlined Modification, <i>Determining Eligibility for a Fannie Mae Streamlined Modification Post Disaster Forbearance</i> in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance, and <i>Determining Eligibility for a Fannie Mae Cap and Extend Modification for Disaster Relief</i> in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief, for eligibility requirements.</p>

Not all contested matters constitute non-routine litigation. The following represent examples that are considered routine litigation and need not be reported to Fannie Mae:

- a contested foreclosure action in which the borrower alleges a case-specific procedural or technical defect in the foreclosure, or
- a contested foreclosure action in which the borrower alleges a case specific payment application claim.

In contrast, a contested foreclosure or bankruptcy action in which a borrower challenges the servicer's ability to conduct a foreclosure or seek relief from stay based on a legal argument which, if upheld, could have broader application to other Fannie Mae mortgage loans is non-routine litigation because of the potential for negative legal precedent to extend beyond the immediate case.

In order to assist the servicer in identifying non-routine litigation, the following table lists the categories of non-routine litigation and provides examples of matters that must be reported to Fannie Mae as non-routine litigation. Given the evolving nature of default-related litigation, it is not possible to provide an exhaustive list.

<b>Non-Routine Category</b>	<b>Examples</b>
Actions that seek monetary relief against Fannie Mae.	Any claim (including counterclaims, cross-claims, or third-party claims in foreclosure or bankruptcy actions) for damages against Fannie Mae or its officers, directors, or employees.
Actions that challenge the validity, priority, or enforceability of a Fannie Mae mortgage loan or seek to impair Fannie Mae's interest in an acquired property.	<p>An action seeking to demolish a property as a result of a code violation;</p> <p>An action seeking to avoid a lien based on a failure to comply with a law or regulation;</p> <p>An attempt by another lienholder to assert priority over Fannie Mae's lien or extinguish Fannie Mae's interests;</p> <p>A quiet title action seeking to declare Fannie Mae's lien void; or</p> <p>An attempt by a borrower to effect a cramdown of a mortgage in bankruptcy as to which Fannie Mae has not delegated authority to the servicer or law firm to address.</p>
Actions that present an issue that may pose significant legal or reputational risk to Fannie Mae.	<p>Any issue involving Fannie Mae's conservatorship, its conservator FHFA, Fannie Mae's status as a federal instrumentality, or an interpretation of Fannie Mae's Charter;</p> <p>Any contention that Fannie Mae is a federal agency or otherwise part of the United States Government;</p> <p>Any "due process" or other constitutional challenge;</p>

Non-Routine Category	Examples
	<p>Any challenge to the methods by which Fannie Mae does business;</p> <p>Any putative class action involving a Fannie Mae mortgage loan;</p> <p>A challenge to the standing of the servicer to conduct foreclosures or bankruptcies which, if successful, could create negative legal precedent with an impact beyond the immediate case;</p> <p>A challenge to the methods by which MERS does business or to its ability to act as nominee under a mortgage;</p> <p>Any “show cause orders” or motions for sanctions relating to a Fannie Mae mortgage loan, whether against Fannie Mae, the servicer, a law firm, or a vendor of the servicer or law firm;</p> <p>Any foreclosure on Indian tribal lands;</p> <p>Any environmental litigation relating to a Fannie Mae loan;</p> <p>A need to foreclose judicially in a state where non-judicial foreclosures predominate;</p> <p>Any claim invoking HAMP as a basis to challenge a foreclosure;</p> <p>Any cross-border insolvency proceeding under Chapter 15 of the Bankruptcy Code;</p> <p>Any claim of predatory lending or discrimination in loan origination or servicing; or</p>

Non-Routine Category	Examples
	Any claim implicating the interpretation of the terms of the Fannie Mae/Freddie Mac Uniform Mortgage Instruments.

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 **E-1.3-02, Reporting Non-Routine Litigation to Fannie Mae (11/12/2014)**

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Non-routine litigation must be reported to Fannie Mae within two business days of the servicer receiving notice of the litigation, except with respect to the following three categories of loan-level challenges

- a challenge to the standing of the servicer to conduct foreclosures or bankruptcies which, if successful, could create negative legal precedent with an impact beyond the immediate case;
- a challenge to the methods by which MERS does business or its ability to act as nominee under a mortgage; or
- any claim invoking HAMP as a basis to challenge a foreclosure.

With respect to these three categories of loan-level challenges, it is not necessary for the servicer to notify Fannie Mae until

- the borrower seeks summary judgment on such a challenge;
- briefing is required in response to such a challenge; or
- the issue is expected to be raised at a scheduled trial.

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 **E-1.3-03, Reporting “Legal Filings” to MERS (11/12/2014)**

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Rule 14 of the MERS System Rules of Membership imposes notification requirements concerning “Legal Filings” that raise certain MERS-related challenges. The servicer is responsible for ensuring any notification required under MERS Rule 14 is provided to

MERSCORP Holdings, Inc., and also immediately to Fannie Mae's Single Family Legal  
department (see F-4-03, List of Contacts).

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# Chapter E-2, Managing Bankruptcy Proceedings



## Managing Bankruptcy Proceedings (11/12/2014)

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### Introduction

This chapter describes managing bankruptcy proceedings.

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### In This Chapter

This chapter contains the following sections:

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E0-2.2, Managing Bankruptcies by Chapter .....	587
E0-2.3, Servicing Special Circumstance Bankruptcies .....	596

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## Section E0-2.1, Bankruptcy Proceedings in General

### E-2.1-01, General Servicing Requirements for Mortgage Loans Under Bankruptcy Protection (11/12/2014)

The following table provides general servicing requirements for all mortgage loans subject to an active bankruptcy.

✓	<b>When a borrower files for bankruptcy, the servicer must...</b>
	Take all actions that are necessary to protect Fannie Mae's interests.
	Report the initiation of bankruptcy proceedings in the first delinquency status information it transmits to Fannie Mae after it learns that the borrower has filed for bankruptcy (even if the mortgage loan payment is current). See <i>Delinquency Status Code Hierarchy and Definitions</i> in F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network for a list of delinquency status codes.
	Ensure that appropriate follow-ups are scheduled and actions are taken in a timely manner to protect Fannie Mae's interests.
	Be able to provide Fannie Mae with documented evidence it took all required actions to mitigate a specific bankruptcy in a timely and appropriate manner.

### E-2.1-02, Confirming Bankruptcy Information (11/12/2014)

Once the servicer determines that a borrower has filed bankruptcy, it must obtain confirmation and note in its bankruptcy tracking system all of the information shown in the following table.

✓	<b>Bankruptcy information the servicer must confirm and document in its file</b>
	Borrower's name.
	Bankruptcy case number.



✓	<b>Bankruptcy information the servicer must confirm and document in its file</b>
	Date of filing.
	Chapter under which the bankruptcy was filed.
	Court that has jurisdiction over the case.
	Name of the presiding bankruptcy judge.

The electronic public access systems shown in the following table enable members to access federal, state and local court records, thus giving the servicer the ability to immediately check on the latest status of a given bankruptcy case.

<b>Service</b>	<b>Service Provider</b>
Lexis Nexis® Courtlink®	Lexis Nexis
Pacer	United States Courts

Within two weeks of a borrower filing for bankruptcy, the servicer must check its records for the mortgage loan to determine whether a previous bankruptcy has been filed. See E-2.3-01, Identifying Abusive Filers for additional information.

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 **E-2.1-03, Suspending Debt Collection Efforts (11/12/2014)**

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The servicer must immediately suspend any and all debt collection efforts (including foreclosure proceedings) upon notification of a bankruptcy filing, unless legal counsel expressly advises it that certain collection efforts may be continued.

If collection efforts or foreclosure proceedings began before the servicer received notice of the bankruptcy filing, the servicer must contact the law firm as soon as possible to determine how to proceed.


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 **E-2.1-04, Expected Servicer/Attorney Interaction During Bankruptcy Proceedings (11/12/2014)**

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Key instances of Fannie Mae’s required timelines for servicer and attorney interaction related to bankruptcy proceedings are provided in the following table.

The law firm will...	The servicer must...
notify the servicer of the receipt of the referral package (and indicate whether or not it is complete) within two business days	send any required missing documentation (or, if appropriate, have the foreclosure attorney send the documents) to the law firm within three business days after it receives the attorney's acknowledgment and request.
request that the servicer provide the information needed to complete the proof of claim or other necessary action	provide this information to the law firm within three business days.  <b>Note:</b> The servicer must always provide any additional information, verifications, certifications, documentation and signatures that the law firm requests no later than three business days after the firm asks for them.
promptly send to the servicer all workout proposals, along with a recommendation either to accept the proposal or to pursue an alternative bankruptcy strategy (describing the details of the alternative strategy)	review the information and recommendation within five business days.  If the servicer concurs with any recommended workout proposal and Fannie Mae's approval is required, it must submit the recommendation to Fannie Mae via HSSN within ten business days after it receives the law firm's initial recommendation.  Within five business days after it receives Fannie Mae's decision about the workout proposal, the servicer must advise the law firm of the decision.

 **E-2.1-05, Filing a Notice of Appearance and Sending Proper Notices (11/12/2014)**

The servicer must ensure the law firm files a Notice of Appearance after receiving the referral package.

The servicer must notify the bankruptcy court and the Chapter 12 or Chapter 13 bankruptcy trustee when a mortgage loan subject to a Chapter 12 or Chapter 13 bankruptcy is included in a servicing transfer.



## **E-2.1-06, Reviewing Bankruptcy Reorganization Plans (11/12/2014)**

The servicer or the law firm must obtain a copy of any proposed reorganization plan and review it prior to the confirmation hearing and any deadline to object to confirmation. The review must consider the scenarios described in the following table.

<b>If any of the following statements are true...</b>	<b>Then...</b>
the plan attempts to modify the security deed or mortgage, the note, the principal balance, interest rate, or maturity date	the servicer must ensure that the attorney files an Objection to the Confirmation or to other Motions filed by the debtor, as appropriate.
the plan does not include the correct arrearage claim amount and provide for the payment of interest (where permissible to collect)	
the plan does not provide for the arrearage claim to be paid in a reasonable period of time in accordance with local rules and practices	
the plan does not provide for attorneys' fees	

The servicer must direct the law firm to request that post-petition payments be sent directly to the servicer unless local rules and practices require post-petition payments to be sent to the trustee. If the security property is located in a jurisdiction that allows the trustee to receive both the pre-petition and post-petition monthly payments, and the confirmation hearing is not held within 45 days of the meeting of creditors, the servicer must instruct the law firm to consider requesting interim payments by filing a Motion for Adequate Protection Payments, if permitted by the bankruptcy court.

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## **E-2.1-07, Preparing and Filing a Proof of Claim (11/12/2014)**

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Either the servicer or the law firm must prepare and file a Proof of Claim within the deadline established by the court.

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## **E-2.1-08, Monitoring Borrower Payments and Critical Dates (11/12/2014)**

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The following table provides Fannie Mae's requirements for monitoring and tracking borrower payments.

✓	<b>The servicer must...</b>
	Keep accurate records of the payments it receives from the borrower before, during, and after the bankruptcy process.
	Ensure that both pre-petition and post-petition payments are made on time and are properly accounted for in accordance with <ul style="list-style-type: none"><li>• Fannie Mae's standard servicing requirements,</li><li>• the borrower's contractual obligations, and</li><li>• the rules of the bankruptcy court.</li></ul>
	Keep the law firm informed about the borrower's payment record, and send a new referral if the mortgagor becomes 60 days delinquent with his or her plan payments. The referral must be sent no later than two weeks from the 60th day of delinquency.
	Maintain a legal event record that includes dates and indicates the status of the case at various stages in the bankruptcy process.

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## E-2.1-09, Identifying Workout Opportunities (11/12/2014)

The following table provides Fannie Mae requirements for the servicer when identifying workout opportunities for mortgage loans in bankruptcy.

✓	The servicer must...
	Work together with the law firm to pursue workout opportunities during all phases of the bankruptcy process. Fannie Mae reserves the right to request a report of the documented communication between the servicer and law firm concerning workout attempts.
	Have the law firm contact the borrower's counsel to discuss the different workout options that might be suitable for the borrower, when the borrower is contractually delinquent. If the borrower is not represented by counsel, the law firm may contact the borrower directly.
	Work with the law firm and the borrower's counsel to discuss details of the various alternatives and to select the most appropriate option.
	Seek approval from Fannie Mae and the Bankruptcy Court, as required, when a workout opportunity is identified.

The particular workout option to be utilized in a given bankruptcy case will depend upon many factors, including but not limited to

- the type of bankruptcy case,
- the stage of the bankruptcy case,
- local practices and procedures, and
- the particular circumstances of the borrower and the property.



## E-2.1-10, Dealing with Delays in the Bankruptcy Process (11/12/2014)

The bankruptcy timelines in this chapter represent expected time frames within which Fannie Mae expects a routine bankruptcy proceeding to be concluded, given the applicable legal

requirements. Fannie Mae recognizes there are a variety of issues that may cause delays in completing bankruptcy cases.

Examples of potential delays in the bankruptcy process include:

- the borrower performing in accordance with an adequate protection order or stipulation,
- a bankruptcy trustee attempting to sell the property securing the mortgage loan, or
- jurisdictional constraints being present.

The servicer must ensure all pre-petition and post-petition payments are properly applied and monitored in accordance with all applicable laws and as described in *Processing Pre-Petition and Post-Petition Payments* in E-2.2-04, Managing Chapter 13 Bankruptcies. The servicer is responsible and accountable for any and all timeline delays attributable to the law firm.



## **E-2.1-11, Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy (11/12/2014)**

### **Introduction**

As long as any mortgage loan remains in its MBS pool, regardless of servicing option or delinquency status, the servicer must report and remit the P&I to Fannie Mae each month as scheduled under the original terms of the mortgage loan.

See C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae. Also refer to E-2.3-03, Handling Cramdowns of the Mortgage Debt for more information regarding P&I remittance on loans subject to cramdowns in bankruptcy.

For example, a MBS mortgage loan in an MBS pool issued prior to June 1, 2007 that is current (or has not been in a continuous state of delinquency for at least four consecutive payment due dates) in the month in which the Order of Confirmation is entered will remain in its MBS pool.

This topic contains the following:

- Removing Regular Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan
- Reclassifying Special Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan

### Removing Regular Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan

The following table outlines the time frame within which a servicer may purchase a regular servicing option mortgage loan from an MBS pool.

If a regular servicing option mortgage loan is in an MBS pool...	Then the servicer may purchase such MBS mortgage loan...
issued on or after June 1, 2007	following the earlier of <ul style="list-style-type: none"> <li>• the confirmation of a plan that modifies the terms of the MBS mortgage loan, or</li> <li>• the loan having been in a continuous state of delinquency for at least four consecutive monthly payment due dates, or at least eight consecutive payment due dates in the case of a biweekly mortgage loan, without a full cure during that period.</li> </ul>
issued prior to June 1, 2007	after the mortgage loan has been in a continuous state of delinquency for at least four consecutive monthly payment due dates, or at least eight consecutive monthly payment due dates in the case of a biweekly mortgage loan, without a full cure during that period.

A regular servicing option MBS mortgage loan that has been repurchased from its MBS pool is not eligible for redelivery.

### Reclassifying Special Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan

The following table outlines the time frame within which a special servicing option mortgage loan may be reclassified from an MBS pool.

If a special servicing option mortgage loan is in an MBS pool...	Then the mortgage loan may be reclassified...
issued on or after June 1, 2007	following the earlier of

If a special servicing option mortgage loan is in an MBS pool...	Then the mortgage loan may be reclassified...
	<ul style="list-style-type: none"> <li>• the confirmation of a reorganization plan that modifies the terms of the MBS mortgage loan, or</li> <li>• the loan having been in a continuous state of delinquency for at least four consecutive monthly payment due dates, or at least eight consecutive payment due dates in the case of a biweekly mortgage loan, without a full cure during that period.</li> </ul>
issued prior to June 1, 2007	after the mortgage loan has been in a continuous state of delinquency for at least four consecutive monthly payment due dates, or at least eight consecutive payment due dates in the case of a biweekly mortgage loan, without a full cure during that period.

The mortgage loan may already appear on Fannie Mae's list of delinquent mortgage loans due for reclassification. If not, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to request that the mortgage loan be added to the reclassifications scheduled for the month in which the plan is confirmed. If the opportunity to do so in the current month has expired, the servicer may request that the mortgage loan be added to the reclassifications for the following month.



## Section E0-2.2, Managing Bankruptcies by Chapter



### E-2.2-01, Managing Chapter 7 Bankruptcies (11/12/2014)

#### Introduction

Case completion for a Chapter 7 bankruptcy proceeding is defined as

- the termination of the automatic stay,
- the case being dismissed or closed, or
- when the borrower receives a discharge and the trustee abandons all interest in the secured property.

This topic contains the following:

- Managing Chapter 7 Bankruptcies for Current Mortgage Loans
- Managing Chapter 7 Bankruptcies for Delinquent Mortgage Loans

#### Managing Chapter 7 Bankruptcies for Current Mortgage Loans

The servicer must closely monitor the payment status of the mortgage loan and, if it becomes 60 days delinquent, refer it to a law firm within two weeks of the 60th day of delinquency. The servicer must also closely monitor the case and take appropriate actions to ensure that no pleadings are filed or other actions taken that would adversely affect Fannie Mae's security interest in the property. The time frame for completing a Chapter 7 bankruptcy case for a mortgage loan that was current (or less than 60 days delinquent) when the borrower filed bankruptcy is two months and two weeks from the 60th day of delinquency.

#### Managing Chapter 7 Bankruptcies for Delinquent Mortgage Loans

The servicer must abide by the requirements shown in the following table when servicing a delinquent mortgage loan involved in a Chapter 7 bankruptcy proceeding.

✓	The servicer must...
	Determine the borrower's intentions for the security property as soon as possible.
	Obtain either payments or relief from the bankruptcy stay in a timely manner.

If the borrower intends to surrender the security property, the servicer must attempt to obtain relief from the automatic stay by requesting a court order as expeditiously as possible. If the borrower intends to retain possession of the security property, the servicer must pursue a workout option.

Once the automatic stay is terminated, or the case is dismissed or discharged with a Trustee Abandonment of the property, the servicer must immediately complete all of the actions described in the following table.

✓	The servicer must...
	Send any required breach letter to the borrower.
	Refer the mortgage loan to a law firm to initiate (or resume) foreclosure.
	Consider the possibility of arranging a workout option.

The time frame for completing a Chapter 7 bankruptcy case for a mortgage loan that was 60 or more days delinquent (or in foreclosure) when the borrower filed bankruptcy is two months and two weeks from the date of the bankruptcy filing.



## E-2.2-02, Managing Chapter 11 Bankruptcies (11/12/2014)

### Introduction

This topic contains the following:

- General Servicer Responsibilities
- Managing Chapter 11 Bankruptcies that Involve Delinquent Mortgage Loans
- Servicing the Mortgage Loan After Confirmation of a Chapter 11 Plan

### General Servicer Responsibilities

When servicing a mortgage loan involved in a Chapter 11 bankruptcy, the servicer must complete the actions described in the following table.

✓	<b>The servicer must...</b>
	Refer a Chapter 11 case to a law firm within two weeks of the filing of the bankruptcy case and direct the attorney to file a Notice of Appearance.
	Have the law firm review the proposed Plan of Reorganization and the Disclosure Statement.
	Ensure the law firm actively participates in the plan confirmation process and files an objection to any plan that attempts to modify Fannie Mae's rights under the security instruments, or that is not otherwise in Fannie Mae's best interest.

If neither the servicer nor the law firm has been granted delegated authority to address a borrower's request for a cramdown, the servicer must immediately report this as non-routine litigation to Fannie Mae's Legal department by submitting a *Non-Routine Litigation Form (Form 20)*. In cases in which the borrower will not receive a discharge upon confirmation of the reorganization plan, the

servicer must instruct the law firm to attempt to negotiate termination of the automatic stay upon confirmation of the plan.

See also E-2.3-03, Handling Cramdowns of the Mortgage Debt.

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### **Managing Chapter 11 Bankruptcies that Involve Delinquent Mortgage Loans**

In all cases in which the borrower is contractually delinquent, the servicer must discuss with the law firm whether it is practical to file a Motion for Relief, a Motion for Adequate Protection Payments, and/or a Motion for Sequestration of Rental Income (if the property is being rented). The following table provides the servicer with additional directions for the proper management and servicing of a Chapter 11 bankruptcy that involves a delinquent mortgage loan.

<b>If...</b>	<b>Then the servicer must...</b>
there is proof that the borrower has no equity in the security property and the property is not necessary for the borrower's reorganization	direct the law firm to request relief from the automatic stay.
the mortgage loan is released from bankruptcy without an Order of Confirmation being issued	<ul style="list-style-type: none"> <li>• examine the possibility of arranging a workout option,</li> <li>• immediately send any required breach letter to the borrower, and</li> <li>• refer the mortgage loan to a law firm to initiate or resume foreclosure proceedings.</li> </ul>

## Servicing the Mortgage Loan After Confirmation of a Chapter 11 Plan

When a Chapter 11 reorganization plan that modifies the original terms of a mortgage loan is confirmed, the servicer must not report the modified terms (or cramdown) through HSSN. The following table provides Fannie Mae's requirements for reporting and servicing the mortgage loan post-confirmation.

✓	<b>The servicer must...</b>
	Send either the mortgage loan modification documents or a copy of the reorganization plan that detail the modified terms of the mortgage loan to Fannie Mae's DDC or third-party document custodian, as applicable.
	Report the mortgage loan modification in the next delinquency status information it transmits to Fannie Mae after the Order of Confirmation is entered. For a list of delinquency status codes, see <i>Delinquency Status Code Hierarchy and Definitions</i> in F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network.
	Report the terms of the mortgage loan modification to Fannie Mae by submitting an email that includes a completed <a href="#">Bankruptcy Cramdown Template</a> to Fannie Mae's NSO (see F-4-03, List of Contacts).
	Work with its Fannie Mae Investor Reporting Representative (see F-4-03, List of Contacts) to make appropriate changes to Fannie Mae's investor reporting system records.
	Remit payments for the secured debt as regular remittances, and payments for the unsecured debt as special remittances.

With respect to special servicing option MBS mortgage loans, no changes are to be made to the terms of the mortgage loan in Fannie Mae's records until after Fannie Mae reclassifies the mortgage loan as a portfolio mortgage loan. See *Removing Regular Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* and *Reclassifying Special Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* in E-2.1-11, Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy for requirements related to reclassification or removal of MBS mortgage loans. See also *Processing Pre-Petition and Post-Petition Payments* in E-2.2-04, Managing Chapter 13 Bankruptcies and C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for more information on actions required when a mortgage loan becomes delinquent.

In cases in which the automatic stay remains in effect following confirmation, if the borrower becomes 60 days delinquent in making the payments required under the plan, the servicer must either refer the case to a law firm within two weeks of the 60th day of delinquency or, if already

referred, advise the law firm to seek relief from the automatic stay or a dismissal of the case in accordance with local bankruptcy rules and practices. The servicer is responsible for ensuring that all previous payments have been properly applied and for verifying that the borrower is 60 days delinquent before sending the referral.

Once the automatic stay is terminated or the case is dismissed, the servicer must immediately complete all of the actions described in the following table.

✓	<b>The servicer must...</b>
	Send any required breach letter to the borrower.
	Refer the mortgage loan to a law firm to initiate (or resume) foreclosure.
	Consider the possibility of arranging a workout option.



### **E-2.2-03, Managing Chapter 12 Bankruptcies (11/12/2014)**

Because there will not be many Chapter 12 filings for all Fannie Mae mortgage loans, each case must be handled according to its specific circumstances. The servicer and law firm (if the case is referred), must decide the actions that need to be taken.

The timelines for completing a Chapter 12 bankruptcy are described in the following table.

<b>If the mortgage loan...</b>	<b>Then the time frame for completing a Chapter 12 bankruptcy is...</b>
was current or < 60 days delinquent when the borrower filed bankruptcy	five months and two weeks from the earlier of <ul style="list-style-type: none"> <li>• the 60th day of delinquency, or</li> <li>• the date of referral to a law firm.</li> </ul>
was ≥ 60 days delinquent or in foreclosure when the borrower filed bankruptcy	five months and two weeks from the date of the bankruptcy filing.
becomes 60 days delinquent pursuant to the plan, post-confirmation	two months and two weeks from the 60th day of delinquency, and the servicer must <ul style="list-style-type: none"> <li>• verify that all previous payments have been properly applied, and</li> </ul>

If the mortgage loan...	Then the time frame for completing a Chapter 12 bankruptcy is...
	<ul style="list-style-type: none"> <li>send a new referral to the law firm no later than two weeks from the 60th day of delinquency to seek relief from the automatic stay or a dismissal of the case in accordance with local bankruptcy rules and practices.</li> </ul>

Case completion for a Chapter 12 bankruptcy proceeding is defined as any of the following:

- the termination of the automatic stay,
- the case being dismissed or closed,
- when the trustee abandons all interest in the secured property, or
- when the Chapter 12 plan is confirmed.



## E-2.2-04, Managing Chapter 13 Bankruptcies (11/12/2014)

### Introduction

This topic contains the following:

- General Servicer Responsibilities
- Processing Pre-Petition and Post-Petition Payments
- Servicing the Mortgage Loan After Confirmation of a Chapter 13 Plan

### General Servicer Responsibilities

If the terms of the Chapter 13 plan are unacceptable, and the borrower is not willing to amend the plan to adequately address the unacceptable provisions, the servicer must ensure that the law firm files an Objection to Confirmation of the plan and/or a Motion to Dismiss the case, as appropriate.

The timelines for completing a Chapter 13 bankruptcy are described in the following table.

<b>If the mortgage loan...</b>	<b>Then the time frame for completing a Chapter 13 bankruptcy is...</b>
was < 60 days delinquent when the borrower filed bankruptcy	five months and two weeks from the 60th day of delinquency, or from the date of referral to a law firm, whichever occurs first.
was ≥ 60 days delinquent or in foreclosure when the borrower filed bankruptcy	five months and two weeks from the date of the bankruptcy filing.
becomes 60 days delinquent pursuant to the plan, post-confirmation	two months and two weeks from the 60th day of delinquency.

Case completion for a Chapter 13 bankruptcy proceeding is defined as any of the following:

- the termination of the automatic stay,
- the case being dismissed or closed,
- when the trustee abandons all interest in the secured property, or
- when the Chapter 13 plan is confirmed.

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### **Processing Pre-Petition and Post-Petition Payments**

The servicer must monitor and separately account for all pre-petition and post-petition payments. If the payments are sent to the trustee, the servicer must access the trustee's website or contact the trustee's office to verify the receipt of specific payments.

The following table outlines the specific information the servicer must maintain related to any payments it receives during the confirmation process.

✓	<b>Details to be noted with the receipt of all payments pre-confirmation</b>
	Type of payment (pre-petition or post-petition).
	Amount received.
	Date received.
	Source of the payment.
	Allocation of the payment (principal, interest, late charges, etc.).

Unless the court requires the payments to be applied under the terms of the repayment plan, the servicer should generally hold any pre-petition payments it receives as "unapplied" funds until an amount equal to the contractual monthly or biweekly payment due is available for application.

During the confirmation process, the servicer must satisfy Fannie Mae's standard remittance requirements for the remittance type of the mortgage loan, advancing funds when required for scheduled interest and scheduled principal, if applicable. See E-2.1-11, Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy and C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for additional information. In addition, the servicer must comply with all policies and procedures in Fannie Mae's *Investor Reporting Manual*.

### **Servicing the Mortgage Loan After Confirmation of a Chapter 13 Plan**

Once a Chapter 13 bankruptcy plan has been confirmed, the servicer must service the mortgage loan in accordance with the requirements listed in the following table.

✓	<b>The servicer must...</b>
	Continue to monitor the timely receipt of all payments for the pre-petition arrearages and any post-petition payments that come due.
	Satisfy Fannie Mae's standard remittance requirements based on the applicable remittance type for the mortgage loan throughout the term of the reorganization plan.  See E-2.1-11, Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy for requirements related to reclassification or removal of MBS mortgage loans. See also C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for additional information.
	Maintain several sets of records during the term of the reorganization plan: <ul style="list-style-type: none"> <li>• one that reflects application of the payments under the terms of the reorganization plan,</li> <li>• one that reflects application of the payments under the original terms of the mortgage loan, and</li> <li>• one that reflects application of any scheduled interest that must be remitted to Fannie Mae if the mortgage loan has a scheduled/actual remittance type.</li> </ul>
	Confirm the plan payment status with the trustee in jurisdictions in which the post-petition monthly payments are made through the Chapter 13 trustee when the servicer believes that the borrower is 60 days delinquent in his or her payments.
	Refer the case to a law firm to seek relief from the automatic stay or a dismissal of the case in accordance with local bankruptcy rules and practices within two weeks of the borrower becoming 60 days delinquent on either contractual post-petition payments or pre-petition payments pursuant to the plan.



✓	<b>The servicer must...</b>
	Send any required breach letter immediately to the borrower and refer the mortgage loan to a law firm to initiate or resume foreclosure proceedings (as applicable) when the automatic stay is lifted or the case is dismissed. Additionally, the servicer must always consider the possibility of arranging some workout option.

## Section E0-2.3, Servicing Special Circumstance Bankruptcies



### E-2.3-01, Identifying Abusive Filers (11/12/2014)

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If the servicer's records reflect other bankruptcy filings by the borrower, it must refer the case to a law firm immediately and ensure the referral is properly labeled as described in *Additional Required Bankruptcy Referral Documents* in E-1.1-02, Required Referral Documents.

The servicer must ensure the law firm closely monitors the status of any case involving an abusive filer and prepares any pleadings that are appropriate.

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### E-2.3-02, Addressing Individuals with Fractional Interests in a Security Property (11/12/2014)

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When it appears that a fractional interest in a property has been conveyed and a petition for bankruptcy filed solely for the purpose of delaying foreclosure proceedings, the servicer must ensure the law firm prepares a Motion for Relief from Automatic Stay pursuant to Section 362(d)(4), if appropriate. Any orders obtained must be immediately recorded in compliance with applicable state laws governing notices or interests or liens in real property so they will be binding in future cases involving the same property for a two-year period.

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## **E-2.3-03, Handling Cramdowns of the Mortgage Debt (11/12/2014)**

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### **Introduction**

A cramdown is an attempt to involuntarily modify any terms of the security deed, mortgage, or note by court order.

A borrower's request for a cramdown for which Fannie Mae has not delegated authority to the servicer or law firm to address the issues presented is non-routine litigation and must immediately be reported to Fannie Mae's Legal department by submitting a *Non-Routine Litigation Form (Form 20)*. Fannie Mae must be consulted with respect to all strategy involving cramdowns as to which Fannie

Mae has not delegated authority to the servicer or law firm to address the issues presented. Fannie Mae will make the final determination of how to respond to cramdowns.

See also E-2.2-02, Managing Chapter 11 Bankruptcies.

This topic contains the following:

- General Servicer Responsibilities
- Notifying Fannie Mae About Cramdown Petitions
- Applying Payments Received During the Confirmation Process
- Applying Payments After Confirmation of a Cramdown

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### **General Servicer Responsibilities**

The following table lists additional requirements for the servicer when it learns that a bankruptcy case has been filed that includes a cramdown proposal.

✓	The servicer must...
	Immediately refer the case to a law firm and mark the referral package as "cramdown" or "involuntary loan modification."

✓	The servicer must...
	Ensure the law firm reviews the borrower's proposed valuation of the security property and compares it to the estimated value that the servicer obtains for the property.
	Work closely with the law firm in selecting an appraiser that is sufficiently familiar with the issues involved in complex bankruptcy matters and has experience testifying about these issues in court, if an appraisal is required to oppose a cramdown request.
	Analyze the case and consult with both the law firm and with Fannie Mae to determine whether an appeal might be appropriate, if the valuation or confirmation hearing results in a ruling adverse to Fannie Mae's interests.

### Notifying Fannie Mae About Cramdown Petitions

The servicer must keep Fannie Mae's NSO fully informed about the status of bankruptcy cramdowns that involve Fannie Mae mortgage loans.

An email must be submitted to Fannie Mae's NSO (see F-4-03, List of Contacts) when

- the servicer first becomes aware of the request for cramdown (attaching a copy of both the borrower's request for cramdown and any valuation the servicer has obtained);
- the court approves a request for a cramdown (attaching a copy of the confirmed reorganization plan, when applicable); or
- the borrower successfully completes the confirmed reorganization plan and the debtor receives a discharge (attaching a copy of the discharge if applicable).

With respect to special servicing option MBS mortgage loans, no changes should be made to the terms of the mortgage loans in Fannie Mae's records until after Fannie Mae reclassifies the mortgage loan as a portfolio mortgage loan. See also *Removing Regular Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* and *Reclassifying Special Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* in E-2.1-11, Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy. For additional information on reporting the terms of a confirmed cramdown to Fannie Mae, see *Servicing the Mortgage Loan After Confirmation of a Chapter 11 Plan* in E-2.2-02, Managing Chapter 11 Bankruptcies.

### Applying Payments Received During the Confirmation Process

The servicer must be able to account for any scheduled interest (and principal, if applicable) that must be remitted to Fannie Mae. Refer to *Processing Pre-Petition and Post-Petition Payments* in E-2.2-04, Managing Chapter 13 Bankruptcies for additional information.

The servicer's remittance to Fannie Mae must satisfy Fannie Mae's standard remittance requirements based on the remittance type of the mortgage loan. The servicer may not deduct its expenses from any payments the trustee forwards to it. For additional information regarding reclassifying or removing loans from a MBS pool, see *Removing Regular Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* and *Reclassifying Special Servicing Option MBS Mortgage Loans Upon Confirmation of a Bankruptcy Plan* in E-2.1-11, *Remitting P&I for MBS Mortgage Loans That Are Part of a Bankruptcy*. In addition, the servicer must comply with the policies and procedures in Fannie Mae's *Investor Reporting Manual*.

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### Applying Payments After Confirmation of a Cramdown

Once the bankruptcy court confirms a reorganization plan that provides for a cramdown of the mortgage debt, the servicer must separately account for payments to the secured and unsecured portions of the debt made under the repayment plan. The servicer must not make any permanent changes to the mortgage terms by actually modifying the mortgage loan documents.

The following table lists payment details the servicer must maintain record of in its accounting system for funds applied under the terms of a confirmed cramdown.

✓	Payment details required for a confirmed cramdown
	Interest rate, monthly payment, and due date for the secured portion of the debt.
	Interest rate, monthly payment, and due date for the unsecured portion of the debt.
	The original terms of the mortgage note and the application of payments under those terms.

If the court rules upon confirmation of the plan that any payments made during the confirmation process be credited against the secured claim, the servicer may need to adjust both its and Fannie Mae's records to reallocate the payments between the secured and unsecured portions of the debt.

The servicer must track the payment of ongoing taxes and applicable property insurance for non-escrowed mortgage loans and must notify the law firm and request that a Motion for Relief from Stay or a Motion to Dismiss be filed if the borrower fails to maintain current tax or property insurance obligations.

The servicer must report the terms of a confirmed cramdown to both Fannie Mae's NSO (see F-4-03, List of Contacts) by e-mail and Fannie Mae's Legal department by submitting [Form 20](#). The servicer must also work with Fannie Mae to make appropriate changes to Fannie Mae's investor reporting system records.

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### **E-2.3-04, Bankruptcies Involving Mortgage Loans Secured by Investment Properties (11/12/2014)**

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The servicer must ask the law firm to confirm that the security instrument includes an assignment of rents provision when it refers a bankruptcy case that involves an investment property. If an Assignment of Rents provision is included, the servicer must ensure the law firm files a Motion for Sequestration of Rental Income to prohibit the borrower from using any rental income without the bankruptcy court's permission.

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### **E-2.3-05, Bankruptcies Involving Balloon Mortgage Loans (11/12/2014)**

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When a borrower who has a balloon mortgage loan files for bankruptcy before the balloon maturity date, the servicer's ability to ensure the continuation of mortgage insurance coverage by offering a conditional refinancing to the borrower prior to the balloon maturity date may be affected.

The following table lists actions to be completed by the servicer when referring a balloon mortgage loan to a law firm for bankruptcy proceedings.

✓	<b>The servicer must...</b>
	Determine whether the balloon maturity date will occur while the bankruptcy action is pending. This includes any repayment period under a confirmed reorganization plan.
	Inform the law firm of the approaching balloon maturity date when it refers the case.
	Contact the applicable mortgage insurer to confirm whether the bankruptcy proceedings will have any effect on the mortgage insurance coverage if they continue beyond the balloon maturity date.  <b>Note:</b> This is particularly important in connection with a Chapter 13 bankruptcy since the confirmed reorganization plan may permit the mortgage debt to be paid over a five-year period.

The servicer must ensure the law firm thoroughly reviews the proposed reorganization plan for either a Chapter 11 or a Chapter 13 bankruptcy to determine whether the plan includes any objectionable terms.

An Objection must be filed if either

- a Chapter 11 reorganization plan modifies the terms of the mortgage loan to extend beyond the balloon maturity date, or
- a Chapter 13 reorganization plan extends the mortgage loan beyond the balloon maturity date and does not call for the borrower to satisfy any additional obligations for accrued interest and escrow deposits beyond the balloon maturity date.

For proposed plans that extend beyond the balloon maturity date, the servicer must ask the law firm to ensure any additional expenses that may accrue after the balloon maturity date are appropriately treated in the plan.

If a Chapter 13 reorganization plan involving a balloon mortgage loan is confirmed and it is later discovered that the balloon note would have matured during the life of the plan, the servicer must notify Fannie Mae's Legal department (see F-4-03, List of Contacts).

See also Fannie Mae's *Balloon Mortgage Loan Servicing Manual* for additional information.



### **E-2.3-06, Bankruptcies Involving Multiple Fannie Mae Mortgage Loans (11/12/2014)**

Before referring a case to a law firm, the servicer must make a reasonable effort to determine whether the borrower has any other outstanding mortgage debts on other real property included in the bankruptcy estate. One way of doing this is to order a credit report for the borrower to see if any other mortgage debts appear on the report. If such debts exist, the servicer must try to identify the servicers of the other mortgage loans and initiate contact with them to determine whether Fannie Mae also has an interest in those mortgage loans.

In any instance in which Fannie Mae has an interest in more than one mortgage loan for which the security property is part of the same borrower's bankruptcy estate, the servicer must abide by the instructions presented in the following table.

✓	<b>The servicer must...</b>
	Coordinate its efforts with those of the other servicers and/or the law firms to which the other servicers have referred the mortgage loans.
	Have the same law firm handle the proceedings for all of the mortgage loans, whenever possible. If not possible, the servicers must emphasize to the individual law firms to

✓	<b>The servicer must...</b>
	which they have referred the mortgage loans the need to work closely with the other firm(s) involved to ensure that Fannie Mae's interests are adequately protected.

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### **E-2.3-07, Responding to Post-Foreclosure Bankruptcy Filings (11/12/2014)**

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The servicer must contact Fannie Mae's REAM division (see F-4-03, List of Contacts) within two business days of the date it learns a borrower has filed for bankruptcy post-foreclosure sale to ensure Fannie Mae is aware of the filing.

Fannie Mae will select and monitor the law firm that will handle the proceedings for a post-foreclosure bankruptcy filing and will advise the law firm of the applicable fee when it refers the case.

Fannie Mae may request that the servicer pay the attorney fee and any applicable costs, request payment from Fannie Mae, and file the *Statement for Recipients of Miscellaneous Income* (IRS Form 1099-MISC). When this occurs, the servicer must pay the law firm the amount billed for the post-foreclosure bankruptcy filing, up to a maximum amount of \$500. If the law firm submits a bill showing an attorney fee that is greater than \$500, the servicer should not pay it unless the attorney also provides a copy of a letter from Fannie Mae authorizing payment of the higher fee. If the attorney fails to provide a copy of Fannie Mae's authorization, the servicer must contact Fannie Mae's REAM division (see F-4-03, List of Contacts) to confirm whether the higher amount may be paid. For additional information on IRS reporting requirements, see C-4.2-01, Filing IRS Forms 1099-A, 1099-C and 1099-MISC.

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### **E-2.3-08, Cross-Border Insolvency Proceedings (11/12/2014)**

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In the event the servicer is notified of a cross-border insolvency proceeding under Chapter 15 of the Bankruptcy Code, the servicer must contact Fannie Mae's Legal department (see F-4-03, List of Contacts) to obtain specific instructions about how such a filing should be reported to Fannie Mae, and to discuss the handling of the matter, including legal fees and costs.



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# Chapter E-3, Managing Foreclosure Proceedings



## Managing Foreclosure Proceedings

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### Introduction

This chapter describes managing foreclosure proceedings.

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### In This Chapter

This chapter contains the following sections:

E0-3.1, Foreclosure Proceedings in General . . . . .	604
E0-3.2, Initiating and Processing Foreclosure Proceedings . . . . .	607
E0-3.3, Preparing for the Foreclosure Sale . . . . .	625
E0-3.4, When Foreclosure Proceedings Must Be Suspended or Canceled . . . . .	637
E0-3.5, Servicer Responsibilities Following the Foreclosure Sale . . . . .	648

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## Section E0-3.1, Foreclosure Proceedings in General



### E-3.1-01, General Servicing Requirements Related to Foreclosure Proceedings (11/12/2014)

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This chapter provides Fannie Mae's requirements and policies for conducting foreclosure proceedings for Fannie Mae mortgage loans.

Fannie Mae sets out those instances when its requirements vary for any particular

- lien type,
- amortization method,
- remittance type,
- servicing option,
- mortgage loan type, or
- ownership interest.

Absent any restrictive language, the same policy or requirement applies for all mortgage loans Fannie Mae has purchased or securitized as standard transactions.

Occasionally, Fannie Mae may address the need for a special servicing option MBS mortgage loan to be handled in a different manner than other mortgage loans serviced for Fannie Mae. Under no circumstances should the servicer of a regular servicing option MBS mortgage loan interpret the content of this chapter as relieving it of its responsibilities and obligations for conducting the foreclosure proceedings and disposing of the acquired property, including the absorption of all costs and any related losses.

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

The servicer of a portfolio mortgage loan, a participation pool mortgage loan that Fannie Mae holds in its portfolio, or of an MBS mortgage loan serviced under the special servicing option, 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. The servicer must complete the actions shown in the following table prior to referring a mortgage loan to foreclosure.

✓	<b>The servicer must...</b>
	Inspect the property and analyze the individual circumstances of the delinquency.
	Diligently investigate mortgage loans originated as investment properties and attempt to determine whether or not the borrower is collecting rental income from the property.  If the servicer suspects that the property or any unit(s) of the property is tenant occupied, it must take appropriate action to ascertain the actual occupancy status of the property. This includes completing detailed property inspections and conducting skip tracing.
	Promptly notify the law firm of any change in mortgage loan status, including <ul style="list-style-type: none"> <li>• occupancy status,</li> <li>• rental income and amounts,</li> <li>• tenant information, and</li> <li>• lease information.</li> </ul>

### **E-3.1-03, Fannie Mae Address for Instruments of Record (11/12/2014)**

When an instrument of record relating to a single-family property requires the use of an address for Fannie Mae, including assignments of mortgages, foreclosure deeds, REO deeds, and lien releases (see F-4-03, List of Contacts) for the proper address.



### **E-3.1-04, Addressing a Bankruptcy Filed During Active Foreclosure (11/12/2014)**

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The servicer must contact the law firm within one business day after it learns of a bankruptcy filing in connection with a mortgage loan that has already been referred to a law firm for foreclosure. See *Required Referral Timelines for Mortgage Loans Previously Referred for Foreclosure* in E-1.2-01, *Timing of the Bankruptcy Referral* for additional requirements.

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## Section E0-3.2, Initiating and Processing Foreclosure Proceedings



### E-3.2-01, Conducting Prereferral Review (11/12/2014)

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The servicer must perform a prereferral review of the mortgage loan within 15 days prior to the date the servicer is required to refer the mortgage loan to foreclosure. Before the review, the breach or acceleration letter and the Borrower Solicitation Package deadline must have expired without affirmative response from the borrower.

#### **For all mortgage loans:**

The prereferral review must ensure that all procedures relating to establishing QRPC as outlined in D2-2-01, Achieving Quality Right Party Contact with a Borrower were followed and that:

- an approved payment arrangement is not pending, and either
  - a complete BRP has not been received, or
  - if a complete BRP has been received, the servicer has determined that either the borrower is not eligible for a workout option or the servicer has extended an offer for a workout option and the borrower has not accepted the offer within the required time frame specified in the *Evaluation Notice*.

**Note:** The servicer must not delay referral to foreclosure if the time frame for the borrower to respond to an offer for a workout option has expired.

#### **For mortgage loans secured by a principal residence:**

During any prereferral review period or before the servicer has made the first notice or filing required by applicable law for any judicial or non-judicial foreclosure process that pertains to a mortgage loan secured by a principal residence, the servicer must not refer the mortgage loan to foreclosure under any of the following circumstances:

- there is an approved payment arrangement for a workout option;

- a complete BRP has been received and the servicer is within the 30-day time period for evaluating the BRP;
- the servicer has extended an offer for a workout option and the borrower's response time period has not expired;
- the borrower is conditionally approved for monthly payment assistance under the federal Hardest Hit Fund program;
- the borrower has accepted an offer for a workout option and is performing in accordance with its terms; or
- the time period for the borrower to exercise any right of appeal as described in D2-2-07, Resolving an Appeal of a Mortgage Loan Modification Trial Period Plan Denial has not expired, the servicer is evaluating the borrower's appeal, or the time period following the servicer's appeal decision for the borrower to accept any offer for a workout option has not expired.

See also E-3.2-04, Postponing Foreclosure Referral for Mortgage Loans Not Secured by a Principal Residence for additional information.



### **E-3.2-02, Initiating Foreclosure Proceedings on a First Lien Conventional Mortgage Loan (11/12/2014)**


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Upon expiration of the breach letter, the servicer must expedite foreclosure proceedings to the greatest extent allowable under applicable law (and without exploring workout options) in the following circumstances, and provided the borrower is not eligible for relief from foreclosure in accordance with D2-3.4-01, Military Indulgence, or any state law that similarly restricts the right to foreclose

- the property has been abandoned or vacated by the borrower and it is apparent the borrower does not intend to make the monthly payments;
- the borrower was advised in writing of available workout options and his or her written response indicates a lack of interest in the mortgage loan obligation, or provides permission for the commencement of foreclosure proceedings; or
- income from rental of the property is not being applied to the monthly payments and arrangements cannot be made to apply it.

If the servicer services first lien mortgage loans owned or securitized by Fannie Mae and also services subordinate lien mortgage loans for itself or other investors, the servicer must follow Fannie Mae's foreclosure guidelines and process both the prereferral review and any foreclosure proceedings for the Fannie Mae mortgage loans in a timely manner. The servicer must not consider the status of, or impact on, any subordinate liens that the servicer is servicing for itself or other investors when performing a prereferral review or proceeding with a foreclosure action. However, the servicer that also services a subordinate lien mortgage loan may assign the first lien mortgage loan to Fannie Mae and file the foreclosure of the first lien mortgage loan in Fannie Mae's name in order to avoid having to "sue itself" in the foreclosure action.

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 **E-3.2-03, Initiating Foreclosure Proceedings on a Second Lien Conventional Mortgage Loan (11/12/2014)**

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Once a final determination has been made to initiate foreclosure for a second lien mortgage loan, the servicer's next actions will depend on whether both the first and second lien mortgage loans are in default and whether Fannie Mae has an interest in only one mortgage loan or both the first and second lien mortgage loans.

**A. Insured second lien mortgage loan in default.**

If an insured second lien mortgage loan is in default, but the first lien mortgage loan is current, the servicer may be instructed to

- foreclose on the second lien mortgage loan,
- acquire title to the property subject to the first lien mortgage loan, and
- file a claim with the mortgage insurer. (During the course of the foreclosure proceedings, the mortgage insurer may instruct the servicer to advance funds to satisfy the first lien mortgage loan. In such cases, the servicer must do so and include the advanced funds in the insurance claim it files.)

If the mortgage insurer does not accept conveyance and take title to the acquired property, the second lien mortgage loan servicer must notify Fannie Mae's REAM division of this and advise Fannie Mae of the effect of any due-on-sale clause in the first lien mortgage loan.

The following table provides additional requirements based on Fannie Mae's ownership interest in the first lien mortgage loan.

If Fannie Mae...	Then the servicer...
does not have an ownership interest in the first lien mortgage loan	must advance funds to ensure the first lien mortgage loan remains current while the property is on the market.
has an ownership interest in the first lien mortgage loan	must not advance funds to keep the first lien mortgage loan current since eventually Fannie Mae will need to foreclose to acquire clear title to the property.

**B. Insured first- and second lien mortgage loans in default.**

If both the first- and second lien mortgage loans are in default, the second lien mortgage loan servicer must assume control over the foreclosure process to ensure that Fannie Mae’s interest in the second lien mortgage debt will be fully protected. However, when Fannie Mae has an ownership interest in both mortgage loans, there may be occasions when Fannie Mae decides that the most efficient liquidation method is to instruct the first lien mortgage loan servicer to bid both the first- and second lien mortgage debts at the foreclosure sale and to acquire title on Fannie Mae’s behalf. If Fannie Mae pursues this alternative, the first lien mortgage loan servicer can still file a claim under the mortgage insurance policy for that mortgage loan, and Fannie Mae will assume the responsibility for disposing of the acquired property if the mortgage insurer does not accept title to it.

If during foreclosure the mortgage insurer instructs the servicer to reinstate the first lien mortgage loan (or does not issue instructions to the contrary before the date of the foreclosure sale), the servicer must

- advance the funds necessary to reinstate the first lien mortgage loan,
- proceed with the foreclosure of the second lien mortgage loan, and
- acquire title to the property subject to the first lien mortgage loan.

If the mortgage insurer instructs the servicer to satisfy the mortgage loan, the servicer must do so.

If the mortgage insurer does not accept conveyance and take title to the acquired property, the second lien mortgage servicer must notify Fannie Mae’s REAM division (see F-4-03, List of Contacts). At the same time, the servicer must also advise Fannie Mae about the effect of any due-on-sale (or transfer) clause in the first lien mortgage loan. Fannie Mae will be responsible for marketing the property.

The servicer must not pay off the first lien mortgage loan unless the mortgage insurer or Fannie Mae has issued specific instructions to do so.




## E-3.2-04, Postponing Foreclosure Referral for Mortgage Loans Not Secured by a Principal Residence (11/12/2014)

The servicer may postpone foreclosure referral of property not secured by a principal residence beyond the 120th day of delinquency upon receipt of a complete BRP. For additional information regarding required referral timelines for mortgage loans secured by a principal residence, see E-1.2-02, Timing of the Foreclosure Referral for Mortgage Loans Generally.

The following table provides Fannie Mae requirements for postponement of foreclosure referral beyond the 120th day of delinquency for mortgage loans not secured by a principal residence.

<b>If...</b>	<b>Then the servicer...</b>
a complete BRP is received	must delay the foreclosure referral up to 30 days to complete an evaluation.
the servicer makes a retention offer to the borrower	<p>must delay the foreclosure referral up to 14 days to allow the borrower to respond to the offer.</p> <p>The borrower may indicate acceptance of the offer as follows:</p> <ul style="list-style-type: none"> <li>• verbally,</li> <li>• in writing (including email responses), or</li> <li>• by remitting a payment.</li> </ul>
a payment is required under the terms of a retention offer that has been extended and the borrower indicates acceptance either verbally or in writing	must delay the foreclosure referral until the last day of the month in which the first payment is due under the terms of the retention offer.
the servicer receives the first payment in accordance with the terms of a Trial Period Plan	must delay the foreclosure referral until the borrower breaches the Trial Period Plan.
the servicer receives the first payment in accordance with the terms of a repayment or forbearance plan	must delay the foreclosure referral until the borrower breaches the plan.


Verbal or written acceptance, without payment or execution of required documents, serves only to postpone foreclosure referral. Except for those forbearance or repayment plans for which a written agreement may not be required, a workout arrangement must not be consummated without executed documents. See E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for additional information. The servicer must not postpone foreclosure referral due to the review of a borrower inquiry.

 **E-3.2-05, Expected Servicer/Attorney Interaction During Foreclosure Proceedings (11/12/2014)**

Fannie Mae requires the servicer and the law firm to interact throughout the course of foreclosure proceedings. Some of the key instances of this interaction are listed in the following table. Please note that this list is not intended to be all-inclusive as there will be other mortgage loan and jurisdictional specific servicing obligations; therefore, the servicer must respond to any law firm requests consistent with the requirements and time frames set forth in the following table.

The law firm will...	And, the servicer must...
acknowledge receipt of the referral package (and indicate whether or not it is complete) within two business days	provide any required missing documents or additional information to the law firm (including verifications, certifications, documentation, and signatures) within three business days after it receives the law firm’s request for the items.  <p style="text-align: center;"><b>Note:</b> To ensure that this timeline is met, a servicer should consider giving the law firm a limited power of attorney, or other similar alternative.</p>
notify the servicer of the scheduled foreclosure sale date (or the scheduled UCC sale date, for co-op units)  <p style="text-align: center;"><b>Note:</b> If the court orders a Foreclosure by Sale in Connecticut, the law firm will so advise the servicer.</p>	provide the law firm with bidding instructions at least five business days before the scheduled sale date.  If the servicer’s failure to provide bidding instructions results in the continuance or postponement of a scheduled foreclosure sale,

The law firm will...	And, the servicer must...
	Fannie Mae will not reimburse the servicer for the attorneys' fees and costs incurred as a result of the continuance or postponement.  <b>Note:</b> The servicer must advise the law firm if a deficiency judgment is to be pursued after the sale in Louisiana.
request an advance of funds from the servicer when it is required to make a significant advance in connection with the foreclosure proceedings.	respond to the law firm's request for an advance of funds to defray out-of-pocket costs within ten business days in any instance in which the law firm is required to make a significant advance in connection with the foreclosure.

 **E-3.2-06, Conducting Borrower Outreach During Foreclosure (11/12/2014)**

When a delinquent conventional mortgage loan is referred to a law firm, the servicer must continue efforts to contact and work with the borrower to develop and finalize a workout option.

The following table provides the time frame within which the servicer must continue to pursue workout efforts.

If the secured property is located in a...	Then the servicer's solicitation efforts must continue...
judicial state	up to 60 days prior to foreclosure sale.
non-judicial state	up to 30 days prior to foreclosure sale.

Skip trace efforts must continue until all reasonable sources have been attempted or contact numbers and addresses have been verified.

The servicer should discontinue contact efforts if:

- QRPC was established and the servicer has documented that the borrower does not want to pursue a workout option, or

- the servicer has determined that foreclosure is the appropriate action after evaluating the borrower for all workout options.

The following table provides additional requirements for workout efforts during foreclosure.

✓	The servicer must...
	Keep the law firm advised about the status of relevant workout negotiations.
	Consult with the law firm before entering into a written workout agreement with the borrower to ensure the foreclosure proceeding will not be impaired in the event it has to be resumed.
	Notify the law firm within two business days after either: <ul style="list-style-type: none"><li>• a workout arrangement has been agreed to, or</li><li>• the mortgage loan is fully reinstated.</li></ul>

See E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations for specific instructions related to servicer-initiated temporary suspension of foreclosure.



### **E-3.2-07, Impact of HFA Engagement (11/12/2014)**

If an HFA notifies the servicer that a borrower has been approved for HFA assistance under unemployment mortgage assistance or a reinstatement program, the servicer must not refer the mortgage loan to foreclosure or conduct a scheduled foreclosure sale for 45 days.

The servicer may extend the suspension of foreclosure actions beyond 45 days, as necessary, to facilitate the processing of HFA assistance, provided that

- it continues to validate with the HFA that the borrower's status has not changed,
- the action is in compliance with its agreement with the HFA, and
- it obtains Fannie Mae's prior approval for any suspension beyond 60 days.

For additional information, see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations and D2-3.1-05, Interacting with Housing Finance Agencies and Hardest-Hit Fund Programs.



## **E-3.2-08, Processing Reinstatements During Foreclosure (11/12/2014)**

### **Introduction**

This topic contains the following:

- Accepting a Full Reinstatement During Foreclosure
- Accepting a Partial Reinstatement During Foreclosure
- Servicer Requirements After the Mortgage Loan is Partially or Fully Reinstated During Foreclosure

### **Accepting a Full Reinstatement During Foreclosure**

The servicer must accept a full reinstatement of a first lien mortgage loan even if foreclosure proceedings have already begun. This is also true for a second lien mortgage loan as long as the first lien mortgage loan is not delinquent or provided the first lien mortgage loan servicer has agreed to arrangements for curing the delinquency.

The following table provides the definition of a full reinstatement.

✓	<b>A full reinstatement must include payment of...</b>
	All delinquent mortgage loan payments, bearing interest at the rate applicable on the date they became due.
	Late charges on the delinquent payments.
	Any funds the servicer advanced for protection of the security or to pay taxes, insurance premiums, etc.
	The costs of performing the preforeclosure property inspection required by Fannie Mae, FHA, or the VA (as applicable), and if permitted under the terms of the security instrument.
	All expenses, including attorney fees; that were actually incurred in connection with the foreclosure proceedings that are permitted under the terms of the note, security instrument, and applicable law.
	See also E-5-05, Prorated Attorneys Fees for additional information.

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## Accepting a Partial Reinstatement During Foreclosure

The servicer may accept a borrower's proposal for a partial reinstatement during foreclosure under the circumstances shown in the following table.

✓	Requirements for accepting a partial reinstatement
	The servicer believes the borrower is acting in good faith and that the mortgage loan can be brought current within a reasonable time frame.
	The proposed plan is submitted in writing.
	The repayment plan must clearly state the action the servicer may take to resume the foreclosure action if the borrower does not meet the agreed-upon terms. See D2-3.2-04, Repayment Plan for additional information.

See also C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae for additional information. The servicer must follow the procedures in F-1-31, Remitting and Accounting to Fannie Mae.

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## Servicer Requirements After the Mortgage Loan is Partially or Fully Reinstated During Foreclosure

After a mortgage loan is either partially or fully reinstated, the servicer must return the original mortgage note to the document custodian if the servicer took physical possession of the original note for the foreclosure action. The servicer must return the note to the document custodian by submitting a *Request for Release/Return of Documents* (Form 2009). The servicer also must follow the procedures in F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network, to report the reinstatement to Fannie Mae.



## E-3.2-09, Conducting Foreclosure Proceedings (11/12/2014)

### Introduction

This topic contains the following:

- Conducting Foreclosure Proceedings When Fannie Mae Is the Mortgagee of Record
- Conducting Foreclosure Proceedings When the Servicer Is the Mortgagee of Record
- Conducting Foreclosure Proceedings When MERS Is the Mortgagee of Record

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### **Conducting Foreclosure Proceedings When Fannie Mae Is the Mortgagee of Record**

The servicer must conduct the foreclosure in Fannie Mae's name when Fannie Mae is the mortgagee of record for all mortgage loans except for MBS mortgage loans serviced under the regular servicing option that are secured by properties located in Utah or Mississippi. For these mortgage loans, the servicer must request that Fannie Mae reassign the mortgage loan to it so the foreclosure can be completed in the servicer's name.

The servicer must execute any required substitutions of trustees when Fannie Mae has granted the servicer its limited power of attorney to do so on Fannie Mae's behalf. However, if state law or customary practice prohibits an attorney-in-fact from executing substitutions of trustees, the servicer must submit the substitution of trustee documents to Fannie Mae for execution before the foreclosure proceedings begin.

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### **Conducting Foreclosure Proceedings When the Servicer Is the Mortgagee of Record**

When the servicer is the mortgagee of record for a mortgage loan, the jurisdiction in which the security property is located will affect how the foreclosure proceedings are conducted or initiated.

In most states, the law firm must initiate the proceedings in the servicer's name when the servicer is the mortgagee of record or in the participating lender's name when the servicer is not the mortgagee of record for a participation pool mortgage loan. The law firm must subsequently have title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax.

The servicer and the law firm must determine the most appropriate method to use in each jurisdiction.

In any state or jurisdiction in which the foreclosure proceedings must be conducted in Fannie Mae's name to prevent the imposition of a transfer tax (such as Rhode Island; New Hampshire; Maine; or Orleans Parish, Louisiana), an assignment of the mortgage or deed of trust to Fannie Mae must be prepared and recorded in a timely manner to avoid any delays in the initiation of the foreclosure proceedings. If the servicer believes that a foreclosure proceeding must be conducted in Fannie Mae's name in any other jurisdiction to prevent the imposition of a transfer tax, the servicer must contact Fannie Mae's Legal department (see F-4-03, List of Contacts) for permission to do so.

When Fannie Mae's DDC or third-party document custodian has custody of an original unrecorded assignment of the mortgage to Fannie Mae, the servicer may either

- request return of that document so it can be recorded, or
- prepare a new assignment if doing so will expedite the process.

Once the assignment to Fannie Mae has been recorded, the foreclosure proceedings must be conducted in Fannie Mae's name.

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### **Conducting Foreclosure Proceedings When MERS Is the Mortgagee of Record**

The servicer must not name MERS as a plaintiff or foreclosing party in any foreclosure action on a Fannie Mae mortgage loan. When MERS is the mortgagee of record, the servicer must prepare an assignment from MERS to the servicer and bring the foreclosure in its own name unless Fannie Mae specifically allows the foreclosure to be brought in the name of Fannie Mae. In that event, the assignment must be from MERS to Fannie Mae, in care of the servicer at the servicer's address for receipt of notices. The assignment must be prepared and provided to the law firm in the referral package.

Fannie Mae will not reimburse the servicer for any expense incurred in preparing or recording an assignment of the mortgage loan from MERS to the servicer or to Fannie Mae. If the borrower reinstates the mortgage loan prior to completion of the foreclosure proceedings, re-assigning and re-registering the mortgage loan with MERS will be at the discretion and expense of the servicer.

The servicer must consult with the law firm to determine if any other legal requirements apply when conducting foreclosures of mortgage loans in which MERS is the prior mortgagee of record. See *Additional Required Foreclosure Referral Documents* in E-1.1-02, Required Referral Documents for additional information regarding MERS and proper assignments.



### **E-3.2-10, Paying Certain Expenses During the Foreclosure Process (11/12/2014)**

The servicer must use any funds remaining in the borrower's escrow deposit account to pay taxes and insurance premiums that come due during the foreclosure process. The servicer also may use escrow funds to pay costs for the protection of the security and related foreclosure costs as long as state or local laws, government regulations, or the requirements of the mortgage insurer or guarantor do not preclude the use of escrow funds for these purposes. If the escrow balance is not sufficient to cover these expenses, the servicer must advance its own funds. See also *Advancing*



*Funds to Cover Expenses* in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.



### **E-3.2-11, Collecting Under an Assignment of Rents (11/12/2014)**

When the servicer determines that it is appropriate to pursue collections under the assignment of rents provision, taking into consideration mortgage insurer or guarantor requirements, it must recommend a specific action to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts). If Fannie Mae agrees, it will provide guidance, including legal instructions, for collecting and processing rents.

Generally, the rental income can be applied to the mortgage loan delinquency if

- the mortgage loan provides for an assignment of rents;
- other arrangements to repay the delinquency cannot be made;
- local law allows the mortgagee to collect rents under these circumstances; and
- this action will not create any new rights for the occupant that might impair Fannie Mae's ability to foreclose the mortgage loan at a later date.

Rental income that is collected on a delinquent mortgage loan must be applied in accordance with the terms of the note and security instrument.

The following table provides the servicer with instructions when the mortgage loan is in foreclosure and the servicer is already collecting rental income.

✓	<b>The servicer must...</b>
	Hold any rental income it receives as unapplied funds until the mortgage loan is liquidated.
	Keep a record of rental income collections and disbursements so that they can be considered when the final claim under the mortgage insurance or guaranty is filed.
	Remit Fannie Mae's share of the rental income to Fannie Mae or deduct it from the amount due to reimburse the servicer for any advances it made.

## E-3.2-12, Performing Property Preservation During Foreclosure Proceedings (11/12/2014)

Throughout the foreclosure process, the servicer must perform all property maintenance functions as necessary to ensure that the condition and appearance of the property are satisfactorily maintained.

The servicer must manage and protect the property until it is conveyed to the insurer or guarantor, or until Fannie Mae assigns that responsibility elsewhere, including when

- a borrower selects an immediate move Mortgage Release and the REOgram is submitted to Fannie Mae, or
- a borrower selects the three-month transition or twelve-month lease.

The servicer must take whatever action is necessary to protect the value of the property. This includes making sure that no apparent violations of applicable law are occurring on the property (such as violations of laws relating to illegal narcotics and similar substances) and that the property is protected against vandals and the elements.

The following table provides servicer actions required prior to the foreclosure sale for all properties.

✓	<b>The servicer must...</b>
	Contact Fannie Mae's REAM division (see F-4-03, List of Contacts) to determine whether utility services should be continued.
	Secure a vacant property by changing exterior locks, securing all windows and exterior doors, repairing fences, and otherwise securing potentially dangerous areas and facilities such as swimming pools against entry or use by children or others who could be harmed.  <b>Note:</b> Properties should not be boarded unless absolutely necessary to prevent vandalism, secure the property, or where required by law.
	Notify Fannie Mae about <ul style="list-style-type: none"> <li>• any damage to the property,</li> <li>• any injury to a person on the property,</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>any conditions that could result in injury to someone who enters the property, or</li> <li>any other conditions or occurrences that should be brought to Fannie Mae’s attention, particularly those that may warrant Fannie Mae filing a claim under its general liability insurance policy.</li> </ul>

The servicer should refer to the *Property Maintenance and Management: Property Preservation Matrix and Reference Guide* for all maintenance work. When the cost to complete property preservation work will exceed the Fannie Mae allowable, the servicer must submit the request via HomeTracker®. The servicer must follow the procedures in *Requesting Fannie Mae Approval for Property Preservation and Maintenance* in F-1-10, Managing Foreclosure Proceedings, for detailed instructions for submitting a request when it does not have access to HomeTracker.



### **E-3.2-13, Addressing Title Defects Generally (04/08/2015)**

With respect to each first lien mortgage loan sold to Fannie Mae, the following warranties are made to Fannie Mae:

- the mortgage is a valid and subsisting lien on the property;
- the property is free and clear of all encumbrances and liens having priority over it except for liens for real estate taxes, and liens for special assessments, that are not yet due and payable; and
- the mortgage and any security agreements, chattel mortgages, or equivalent documents relating to it have been properly signed, are valid, and their terms may be enforced by Fannie Mae, its successors, and assigns.

**Note:** These warranties are not all inclusive.

The servicer must comply with Fannie Mae’s requirements for addressing title defects, as shown in the following table.

✓	<b>The servicer must...</b>
	Take prudent steps to cure the defect, even if the servicer is not responsible for the selling representations and warranties for the mortgage loan or if the title defect was created by a prior servicer.

✓	<b>The servicer must...</b>
	Promptly provide the title information to the responsible party if the servicer is not the responsible party.
	Cure the title defect as part of the foreclosure process when possible.

Fannie Mae reserves the right to

- require repurchase of such mortgage loans if the defects are not resolved within 90 days of the date the servicer is notified or otherwise becomes aware of the defects, or
- choose to pursue other remedies, including the assessment of compensatory fees for the delay caused by the title defects.

Delays by title insurance companies in processing and resolving claims, or disputes with title insurance companies over coverage issues will not excuse the servicer from its repurchase obligations or prevent the imposition of compensatory fees. Fannie Mae is under no obligation to extend the cure period for title defects beyond 90 days.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue date
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015

## E-3.2-14, Addressing Title Defects for Bifurcated Mortgage Loans (11/12/2014)

The following table provides a list of servicer responsibilities related to curing title defects for bifurcated mortgage loans.

✓	<b>The servicer must...</b>
	Promptly notify Fannie Mae when it is notified or becomes aware of an origination or servicing title defect and the selling representations and warranties or prior servicer obligations were not assumed by the servicer.

✓	The servicer must...
	Contact Fannie Mae's NUC Responsible Party Resource Center (see F-4-03, List of Contacts) if it needs confirmation of the responsible party.
	Cooperate with the responsible party and take reasonable steps to cure an origination title defect.

The servicer need not take actions or advance any funds that would not be approved by Fannie Mae unless the responsible party separately agrees to reimburse the servicer for such amounts in attempting to cure the title defect on the bifurcated mortgage loan in the manner suggested by the responsible party. Fannie Mae reserves the right, at its option, to pursue other remedies as set forth in the Guides.

Fannie Mae reserves the right to require the responsible party to repurchase a mortgage loan if the originating or prior servicer created servicing title defects that are not resolved to Fannie Mae's satisfaction within 90 days of the responsible party's receipt of notice of the title defect from Fannie Mae or otherwise.

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### E-3.2-15, Allowable Time Frames for Completing Foreclosure (11/12/2014)

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Fannie Mae has established time frames within which it expects routine foreclosure proceedings to be completed. See the *Foreclosure Time Frames and Compensatory Fee Allowable Delays Exhibit* for the maximum number of allowable days within which routine foreclosure proceedings are to be completed.

The maximum number of allowable days

- denotes the maximum allowable time lapse between the due date of the last paid installment and the completion of the foreclosure sale;
- represents the time typically required for routine, uncontested foreclosure proceedings; and
- reflects the legal requirements of the applicable jurisdiction, and takes into consideration delays that may occur outside of the control of the servicer.

If the number of actual days to complete the foreclosure proceedings exceeds the maximum number of allowable days, and no reasonable explanation for the delay is provided to

Fannie Mae through monthly delinquency status reporting or other information exchange protocols, Fannie Mae will require the servicer to pay a compensatory fee as outlined in A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process.

Examples of reasonable explanations for delays include, but are not limited to, the following:

- bankruptcy,
- probate,
- military indulgence,
- contested foreclosure,
- the mortgage loan is currently in review for HAMP,
- the mortgage loan is in an active mortgage loan modification trial plan or unemployment forbearance, or
- recent legislative, administrative, or judicial changes to existing state foreclosure laws, provided that the servicer is diligently working toward resolution of the delay to the extent feasible.

Fannie Mae will not impose compensatory fees for delays beyond the control of the servicer, provided that the delinquency status codes and any other information reported by the servicer on the loan are timely and accurate.

## Section E0-3.3, Preparing for the Foreclosure Sale

### E-3.3-01, Completing Preforeclosure Sale Review (11/12/2014)

The servicer must review the mortgage loan history at least 30 days prior to the scheduled foreclosure sale to verify

- compliance with all required delinquency management requirements in accordance with this Part and Part D of this *Servicing Guide*, and
- that no approved payment arrangements or workout offers are pending or accepted.

The servicer must fulfill the delinquency management requirements or resolve outstanding workout offers prior to the foreclosure certification date referenced in E-3.3-02, Certifying the Status of Workout Negotiations Prior to Foreclosure Sale.

### E-3.3-02, Certifying the Status of Workout Negotiations Prior to Foreclosure Sale (11/12/2014)

The servicer must complete an account review between 7 and 15 days prior to the scheduled foreclosure sale. The following table provides additional servicer guidelines related to the pre-sale certification.

If...	Then the servicer must...
the servicer determines that all delinquency management requirements have been achieved and there is no workout offer either pending or accepted	send written certification to the law firm between 7 and 15 days prior to the foreclosure sale date indicating that the law firm must continue with the foreclosure sale.
a BRP was received and an offer for a retention option was extended to the borrower on or before the 7th day prior to the foreclosure sale,	not issue a certification to the law firm and must make every effort to stop a scheduled foreclosure sale.

If...	Then the servicer must...
or an approved purchase offer for a short sale is scheduled to close	
local jurisdictional requirements are such that the 7- to 15-day time frame prior to foreclosure sales needs to be extended in order to comply with jurisdictional requirements	allow additional time to complete the review and provide the certification to the law firm sooner.

The servicer must instruct the law firm to postpone the foreclosure sale if certification cannot be provided prior to the foreclosure sale date.

The servicer must work with the law firm to develop a process for receipt of the certification to prevent unnecessary delays. Delays in the foreclosure proceeding timelines resulting from cancellation of the foreclosure sale or from the servicer's failure to provide timely certification to the law firm will subject the servicer to compensatory fees. Refer to A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process for additional information.

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 **E-3.3-03, Inspecting Properties Prior to Foreclosure Sale (11/12/2014)**

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The servicer must ensure that a thorough property inspection is completed before it decides to liquidate the mortgage loan by initiating foreclosure.

When foreclosure proceedings are initiated, the servicer must ensure that a comprehensive property inspection is completed 30 days prior to the date of the foreclosure sale for

- all conventional mortgage loans,
- any FHA mortgage loan that cannot be conveyed to FHA,
- all VA mortgage loans for which VA would not establish an “upset price,” and
- any RD mortgage loan serviced under the special servicing option.

The servicer must follow the procedures in *Performing Property Inspections* in F-1-10, Managing Foreclosure Proceedings, when inspections are needed. See A4-2.1-02, Property Inspection Vendor Management and Oversight for additional requirements for property inspection vendors. The servicer must also follow the procedures in *Requesting*



*Reimbursement Property Inspections* in F-1-06, Expense Reimbursement, to submit for reimbursement of associated expenses.



## E-3.3-04, Issuing Bidding Instructions (02/11/2015)

### Introduction

This topic contains the following:

- General Requirements for All Bidding Instructions
- Bidding Instructions for Conventional Mortgage Loans
- Bidding Instructions for FHA-Insured Mortgage Loans
- Bidding Instructions for VA-Guaranteed Mortgage Loans
- Evaluating VA No-Bid Buydowns
- Bidding Instructions for RD-Guaranteed Mortgage Loans

### General Requirements for All Bidding Instructions

The servicer must issue bidding instructions to the law firm for all mortgage loans referred for foreclosure. The servicer must pay particular attention to any bidding requirements issued by FHA, VA, RD, or the mortgage insurer to make sure that Fannie Mae will not be prevented from recovering the full amount due under the insurance or guaranty contract.

If applicable law, Fannie Mae, or the MI company requires that a property value be obtained for bidding instructions, the servicer must use the VMS application. To obtain access to the VMS application, the servicer must complete a [VMS User Setup Template](#) and submit it to Fannie Mae's NSO (see F-4-03, List of Contacts). The servicer must include the cost of the property value order in the MI claim, when applicable.

The following table provides the servicer with additional information related to submitting property valuation requests when required by applicable law, Fannie Mae, or the MI company.

✓	The servicer must...
	Request the property valuation when required for bidding instructions as soon as it is aware of the foreclosure sale date, but no earlier than 90 days prior to the foreclosure sale date.

✓	The servicer must...
	Include a completed <i>VMS Valuation Order Template</i> with the request.
	Obtain the results of property valuation order requests for the purposes of bidding instructions through HSSN within 7 to 10 calendar days from the date the servicer submits the request.  Fannie Mae will not email the results of the property valuation to the servicer.

The servicer must not issue bidding instructions to the law firm if its preforeclosure property inspection reveals, or the servicer otherwise discovers, that the property has incurred significant hazard damage without a claim having been filed with the insurance carrier. Instead, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to determine whether or not a property (hazard) insurance claim should be filed, and if so, what foreclosure bid should be entered.

In any instance in which a property (hazard) or flood insurance claim has been filed, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to obtain bidding instructions and must notify Fannie Mae of the outstanding property (hazard) or flood insurance claim.

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### Bidding Instructions for Conventional Mortgage Loans

The servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to obtain bidding instructions for

- all conventional second lien mortgage loans and
- co-op share loans that are in a first lien position.

For all other first lien mortgage loans, the servicer must issue bidding instructions based on the following guidelines, which are designed to ensure that a third party's bidding at the foreclosure sale will not result in Fannie Mae's eventually acquiring the property for more than the total mortgage indebtedness or for less than Fannie Mae's reserve price as described in *When to Obtain a Reserve Price*.

For Fannie Mae's bidding instructions, the servicer must consider whether or not

- the mortgage loan has mortgage insurance,
- the property is located in a state (or jurisdiction) that has a redemption period in which the borrower (or a junior lienholder) can redeem the property for the amount of the foreclosure bid,

- the property is located in a state (or jurisdiction) that does not have a redemption period, but which levies transfer taxes and/or other related fees and costs on the winning bidder at the foreclosure sale, and
- the property is located in a state (or jurisdiction) that recognizes Fannie Mae's exemption from the payment of real estate transfer taxes.

### When to Obtain a Reserve Price

The servicer must obtain a reserve price from Fannie Mae in any of the following circumstances:

- when preparing bids for uninsured conventional first lien mortgage loans;
- when applicable laws do not require that an appraisal report be used to set the bid; or
- if the mortgage insurer of a first lien mortgage loan elects not to issue bidding instructions and defers to Fannie Mae.

The following table provides a list of servicer requirements for obtaining and using a reserve price.

✓	<b>The servicer must...</b>
	Request the reserve price through the VMS in HSSN between 30 and 90 days before the scheduled foreclosure sale date.  <b>Note:</b> The servicer must use the reason code “Reserve Price Bid Instructions” when submitting a request to obtain a reserve price.
	Request an updated reserve price when the “expiration date” of the reserve price will occur prior to the scheduled foreclosure sale date. The servicer must always use an unexpired reserve price to establish the bid amount.
	Provide bidding instructions to the law firm in a timely manner so as not to delay, cancel or stop a scheduled foreclosure sale. In circumstances where the servicer is unable to provide the law firm with the bidding instructions in a timely manner, it must document the mortgage loan servicing file accordingly.

The following tables provide Fannie Mae's requirements for the preparation of bidding instructions for a first lien mortgage loan, depending on whether or not the mortgage loan is insured.

### For an Uninsured Conventional First Lien Mortgage Loan:

<b>If the security property is in a state or jurisdiction...</b>	<b>Then the servicer must...</b>
that has a redemption period	instruct the law firm to bid:
that does not have a redemption period and does not levy transfer taxes or other related fees and costs on the winning foreclosure bid, or does levy transfer taxes to which Fannie Mae's real estate transfer tax exemption applies	<ul style="list-style-type: none"> <li>• an amount equal to the lesser of:                             <ul style="list-style-type: none"> <li>– 100% of the reserve price obtained from Fannie Mae, or</li> <li>– 100% of the total mortgage indebtedness, or</li> </ul> </li> <li>• such other amount as may be required by applicable law (e.g., judgment amount)</li> </ul>
that does not have a redemption period, but which levies transfer taxes or other related fees and costs on the winning foreclosure bid and does not recognize Fannie Mae's exemption from paying real estate transfer taxes	<p>instruct the law firm to enter an initial bid of \$100 (or any other minimum amount the state requires in order for the bid to be considered valid), and continue bidding until it either</p> <ul style="list-style-type: none"> <li>• wins the bidding, or</li> <li>• bids an amount equal to the lesser of:                             <ul style="list-style-type: none"> <li>– 100% of the reserve price obtained from Fannie Mae, or</li> <li>– 100% of the total mortgage indebtedness, or</li> </ul> </li> <li>• such other amount as may be required by applicable law (e.g., judgment amount)</li> </ul> <p>If the bid amount cannot be increased because the person conducting the foreclosure is prohibited from accepting a range of bids from the servicer, the servicer must instruct the law firm to bid as if the property were in a jurisdiction with a redemption period as indicated above.</p>

**For an Insured Conventional First Lien Mortgage Loan:**

For a first lien mortgage loan covered by mortgage insurance, the servicer must bid an amount approved by the mortgage insurer. If the mortgage insurer elects not to issue bidding instructions per its guidelines, or defers to Fannie Mae for foreclosure sale bidding instructions, the servicer must follow the policies and requirements for an uninsured conventional first lien mortgage loan.

If the mortgage insurer’s bidding instructions or requirements include preserving deficiency rights, and where permitted by applicable law, the servicer must preserve the mortgage insurer’s right to pursue a deficiency action in accordance with the mortgage insurer’s instructions.

### Bidding Instructions for FHA-Insured Mortgage Loans

The amount the servicer must bid for a FHA-insured mortgage loan depends on when the mortgage loan was endorsed for insurance. The following table provides additional bidding information based on the policy endorsement date.

If the FHA mortgage loan...	Then the bid amount...	And the servicer must...
was endorsed for insurance before November 30, 1983	must include the full amount of the indebtedness consisting of the <ul style="list-style-type: none"> <li>• unpaid principal balance,</li> <li>• accrued interest to the date of the sale using the rate in effect for each payment on the date it became due,</li> <li>• any advances for T&amp;I, and</li> <li>• other foreclosure costs, including attorney fees and any reimbursable property inspection fees.</li> </ul>	<ul style="list-style-type: none"> <li>• subtract from the total indebtedness any funds that it is holding for a mortgage loan insured under an FHA Escrow Commitment or for a mortgage loan that is subject to an interest rate buydown plan, and</li> <li>• send Fannie Mae any funds it holds as soon as the foreclosure sale is held.</li> </ul>
was endorsed for insurance on or after November 30, 1983	will vary depending on whether FHA elects to have the property appraised.  When FHA has the property appraised, it will advise the servicer of the amount to bid at the foreclosure sale. The	bid the exact amount specified by FHA as long as the servicer receives FHA’s bid amount within the five days before the foreclosure sale — unless state law

If the FHA mortgage loan...	Then the bid amount...	And the servicer must...
	bid amount will reflect the fair market value of the property, appropriately adjusted for FHA's estimate for holding costs and resale costs that it would incur if the property were conveyed.	requires a higher amount to be bid.  If the servicer does not receive FHA's bid amount within the five days before the foreclosure sale, it must bid the full amount of Fannie Mae's indebtedness.

### Bidding Instructions for VA-Guaranteed Mortgage Loans

For VA mortgage loans, the bid must be the amount that VA specified as its “upset price.” If VA does not specify an upset price and Fannie Mae has not authorized a VA no-bid buydown as further discussed in *Evaluating VA No-Bid Buydowns*, the servicer must determine the bid amount by subtracting the amount the VA will pay under its guaranty from the amount required to satisfy the indebtedness.

### Evaluating VA No-Bid Buydowns

The servicer must evaluate whether a VA no-bid buydown is feasible and makes sound economic sense. When evaluating whether a VA no-bid buydown is feasible the servicer must take the actions listed in the following table.

✓	The servicer must...
	Compare the amount needed to buy down the debt to the level at which the VA will be willing to accept conveyance of the property to the loss Fannie Mae might expect from acquiring and disposing of the property.
	Ensure the proposed action will not affect the validity of the foreclosure or the indebtedness that will be established against the borrower.
	Ensure the proposed action will be binding on all parties.
	Ensure Fannie Mae's recovery of the full claim amount due to it under the VA guaranty will not be jeopardized.
	Obtain Fannie Mae's prior written approval by submitting its recommendation and all pertinent information to Fannie Mae via HSSN. The servicer must follow the procedures in <i>Requesting Approval for a VA No-Bid Buydown</i> in F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions.

If the servicer does not receive the VA's no-bid letter until after the cut-off date has passed, it must contact the VA to request a revised cut-off date if it does not believe that it has sufficient time to obtain Fannie Mae's approval to the no-bid buydown and reschedule the foreclosure sale.

The following table provides additional instructions to the servicer based on Fannie Mae's review of the VA no-bid buydown.

If Fannie Mae...	Then the servicer must...
does not agree to the no-bid buydown	follow Fannie Mae's general procedures related to <ul style="list-style-type: none"> <li>• bidding at the foreclosure sale,</li> <li>• filing claims under the VA guaranty, and</li> <li>• managing the acquired property.</li> </ul>
agrees to the no-bid buydown	follow the debt reduction procedures established by the applicable VA regional office, and the procedures Fannie Mae generally has in effect for properties that are conveyed to the VA.  The servicer also must report the VA no-bid buydown in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision to authorize the buydown.

### Bidding Instructions for RD-Guaranteed Mortgage Loans

For RD mortgage loans, the servicer must bid the full amount of the indebtedness. This amount consists of

- the unpaid principal balance,
- accrued interest to the date of the sale,
- any advances for T&I, and
- other foreclosure costs, including attorneys' fees and any reimbursable property inspection fees.

## Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015

### E-3.3-05, Handling a Suspension or Reduction of the Redemption Period (11/12/2014)

The servicer must abide by any suspension of the redemption period as required by SCRA. The following table provides additional Fannie Mae requirements applicable to the suspension period.

✓	The servicer must...
	Permit the servicemember's dependents to continue living in the property and paying a reasonable rent, if they were residing in the property at the time of foreclosure sale.
	Notify Fannie Mae's REAM division (see F-4-03, List of Contacts) about the suspension of the redemption period until after the completion of the borrower's active duty so that Fannie Mae can adjust its marketing efforts for the property. Also see D2-3.4-01, Military Indulgence.
	Whenever possible and economically feasible, petition the court or take any other legal actions necessary for a reduced redemption period if the property is vacant or abandoned in order to minimize expenses and delays.

### E-3.3-06, Pursuing a Deficiency Judgment (11/12/2014)

The servicer must pursue a deficiency judgment on a FHA, VA, or RD mortgage loan if instructed to do so by FHA, VA, or RD, respectively.



A deficiency judgment cannot be pursued for a Texas Section 50(a)(6) mortgage loan.

The servicer is authorized to waive Fannie Mae’s deficiency judgment rights if so doing will help resolve foreclosure delays based upon individual borrower circumstances. This authorization is applicable to conventional mortgage loans only that are in foreclosure and are experiencing foreclosure delays.

The following table provides the actions the servicer must complete prior to approving a waiver of deficiency judgment rights.

✓	<b>The servicer must...</b>
	<p>Contact the mortgage insurer (if the mortgage loan is covered by mortgage insurance) to obtain the mortgage insurer’s consent to waive its deficiency judgment rights.</p> <p>If the mortgage insurer does not provide its consent to waive its deficiency judgment rights, the servicer must notify the borrower that, notwithstanding Fannie Mae’s waiver of its deficiency judgment rights, the mortgage insurer may have the right to pursue the borrower for any deficiency judgment which occurs from the resolution of the foreclosure matter.</p>
	<p>Determine if the mortgage loan is on Fannie Mae’s most recent Non-Eligible List.</p> <p>If the mortgage loan is on Fannie Mae’s most recent Non-Eligible List, the servicer must request Fannie Mae’s approval for a deficiency waiver by:</p> <ol style="list-style-type: none"> <li>1. requesting a <i>Deficiency Waiver Template</i> from Fannie Mae’s NSO, and</li> <li>2. emailing the completed form to back to Fannie Mae’s NSO (see F-4-03, List of Contacts).</li> </ol> <p>If a mortgage loan is not on Fannie Mae’s most recent Non-Eligible List, the servicer is authorized to use its discretion to determine whether or not to waive Fannie Mae’s deficiency judgment rights.</p>

For each deficiency waiver granted, the servicer must ensure that it properly documents the deficiency waiver in the mortgage loan servicing file and must be able to provide this information to Fannie Mae upon request.

The servicer must proceed non-judicially in jurisdictions where the preferred or routine method of foreclosure is non-judicial, even if doing so means waiving Fannie Mae's right to pursue a deficiency judgment, unless the servicer or the law firm is aware of circumstances that suggest the benefits of proceeding judicially outweigh the increase in time frame, fees, and costs. If the servicer has questions regarding the preservation or waiver of deficiency claims, it must contact

Fannie Mae's NSO (see F-4-03, List of Contacts) for guidance, including direction to proceed judicially on a case-by-case basis.

The following table provides additional Fannie Mae requirements related to the pursuit of a deficiency judgment.

✓	<b>The servicer must...</b>
	Promptly communicate to either the mortgage insurer or Fannie Mae (depending on whether the mortgage loan is insured or uninsured) any information it may have to assist in deciding whether to pursue a deficiency judgment.
	Advise Fannie Mae about any information it receives from the mortgage insurer concerning whether the deficiency judgment is to be pursued solely or jointly.
	Cooperate with and assist Fannie Mae and its vendors in the pursuit of a deficiency.

## Section E0-3.4, When Foreclosure Proceedings Must Be Suspended or Canceled



### E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations (11/12/2014)

#### Introduction

When a delinquent mortgage loan is referred to a law firm, the servicer must continue to work with the borrower to bring the mortgage loan current or finalize a workout arrangement up to the date of the foreclosure sale, unless the servicer has determined that all workout options are not feasible as discussed in *chapter D2-3, Fannie Mae's Home Retention and Liquidation Workout Options*.

When a delinquent mortgage loan is referred to a law firm, the servicer must NOT suspend foreclosure proceedings pending Fannie Mae's approval of additional attorney fees.

This topic contains the following:

- General Requirements for Suspending Foreclosure Proceedings
- Handling a BRP Received Within 30 Days of the Post Referral to Foreclosure Solicitation Letter
- Handling a BRP Received After the 30-Day Response Period But More Than 37 Days Prior to the Foreclosure Sale Date
- Handling a BRP Received After the 30-Day Response Period but Within 15–37 Days Prior to the Foreclosure Sale Date
- Handling a BRP Received Less Than 15 Days Prior to the Foreclosure Sale Date

#### General Requirements for Suspending Foreclosure Proceedings

If a mortgage loan has been referred to foreclosure prior to receipt of a complete BRP, the servicer may delay the foreclosure process without requesting Fannie Mae prior written approval pursuant to the terms and conditions set forth below:

- The BRP must be complete before any legal action may be postponed, except if an offer for a short sale has been made based upon Streamlined Documentation.
- In cases where a payment is required under the terms of a retention offer or Trial Period Plan, and the borrower indicates acceptance of the offer, the servicer must delay the next legal action in the foreclosure proceeding until the last day of the month in which the first payment is due under the terms of the proposed workout.

**Note:** Verbal or written acceptance, without payment or execution of required documents, serves only to postpone referral to foreclosure. Except for those forbearance or repayment plans for which a written agreement may not be required, a workout plan may not be consummated without executed documents.

- If the servicer receives the first payment in a timely manner in accordance with the terms of a Trial Period Plan, repayment plan or forbearance plan, the servicer must delay the next legal action until the borrower breaches the plan.
- Fourteen-day delay periods may be extended in order to postpone or repeat the next legal action or postpone a foreclosure sale if necessary under state or local law.
- If the servicer approves a short sale purchase offer with a complete BRP (or other acceptable documentation under the Streamlined Documentation Requirements), the servicer must suspend the foreclosure sale to allow the short sale to close as permitted under state or local law.
- If a notice of trustee/sheriff sale has been recorded and the servicer is notified of borrower approval by the HFA, the servicer may postpone the foreclosure proceedings. However, if a foreclosure sale is scheduled less than seven days from the date the servicer is notified of borrower approval by the HFA, the servicer must not notify the attorney to “place on hold” or suspend the foreclosure proceedings.

When the servicer receives a complete BRP, it must delay the next legal action in the foreclosure process as required by these provisions as long as delays are permitted under state or local law. The next legal action will be the next step required by law to proceed with the foreclosure action, such as publication or service of process, but does not include administrative actions, such as title searches or document preparation.

In some states, the judge may dismiss the case for “lack of prosecution” if the workout plan is not filed with the court as part of the foreclosure proceedings. If this happens and the borrower subsequently defaults under the executed workout plan, the foreclosure proceedings will have to be restarted, which will result in extra foreclosure fees and expenses. In such cases, Fannie Mae will not reimburse the servicer for the resulting additional fees and expenses.

The servicer is not in violation of these requirements to the extent that a court or public official fails or refuses to halt some or all activities in the matter after the servicer has made reasonable efforts to move the court or request the public official for a cessation of the activity or event.

The limitations described in the remainder of this section apply only to suspensions initiated by the servicer without Fannie Mae's approval and do not apply to suspensions otherwise required by Fannie Mae.

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### Handling a BRP Received Within 30 Days of the Post Referral to Foreclosure Solicitation Letter

The following table provides Fannie Mae's requirements for suspending foreclosure proceedings when a BRP is received within 30 days of the mailing of the Post Referral to Foreclosure Solicitation Letter.

<b>When the servicer is evaluating the BRP</b>	
<b>Jurisdiction</b>	<b>Requirement</b>
Judicial	The servicer must delay filing a Motion for Judgment or equivalent action.  If a Motion For Judgment is already filed, the servicer must take reasonable steps to avoid a ruling on the Motion for up to 30 days to conduct an evaluation of the BRP.  Other legal actions must not be delayed at this time.
Non-judicial	No delay in legal action is required to conduct an evaluation of the BRP.
<b>When an Evaluation Notice for a retention offer has been sent to the borrower</b>	
<b>Jurisdiction</b>	<b>Requirement</b>
Judicial	The servicer must continue to delay the Motion for Judgment (or equivalent action) for up to 14 days to permit the borrower to respond.
Non-judicial	The servicer must delay the next legal action for up to 14 days to permit the borrower to respond.

### Handling a BRP Received After the 30-Day Response Period But More Than 37 Days Prior to the Foreclosure Sale Date

The following table contains Fannie Mae’s requirements for suspending foreclosure proceedings on all mortgage loans secured by a principal residence and are only applicable to the first complete BRP submitted.

If...	Then the servicer must...
the borrower’s first complete BRP is received after referral to foreclosure and more than 37 days prior to the foreclosure sale date	delay filing the motion for foreclosure judgment or order of sale.
the motion for foreclosure judgment or order of sale has already been filed	request the court to delay a hearing or ruling as permitted under state or local law unless <ul style="list-style-type: none"> <li>• the servicer has reviewed the first complete BRP and delivered an <i>Evaluation Notice</i> to the borrower stating that the borrower is ineligible for a workout option and, if applicable, the borrower has not requested an appeal or the borrower’s appeal has been denied in accordance with D2-2-07, Resolving an Appeal of a Mortgage Loan Modification Trial Period Plan Denial; or</li> <li>• the borrower rejects all workout options offered by the servicer; or</li> <li>• the borrower fails to perform under an agreement on any workout option.</li> </ul>

Additional guidance related specifically to short sale and Mortgage Release transactions is provided below.

#### Borrower Response Package Submitted Without a Short Sale Offer

The servicer must meet the requirements shown in the following table upon receipt of the first complete BRP without a short sale offer for a principal residence more than 37 days prior to the foreclosure sale date, when either

- the borrower indicates in the BRP that he or she desires a liquidation workout option, or

- the servicer will not be offering a mortgage loan modification to the borrower.

✓	<b>The servicer must...</b>
	Send the borrower an <i>Evaluation Notice</i> within 5 days of an evaluation decision but no more than 30 days from the receipt of a complete BRP.
	Require the borrower to <ul style="list-style-type: none"> <li>• respond to the servicer decision within 14 days of the date of the <i>Evaluation Notice</i> by either                             <ul style="list-style-type: none"> <li>– appealing the denial of any mortgage loan modification Trial Period Plan, if applicable, or</li> <li>– indicating the intent to accept the offer to pursue a short sale, if the <i>Evaluation Notice</i> includes the servicer’s approval to pursue a short sale.</li> </ul> </li> <li>• submit a short sale offer within 45 days of the date of the <i>Evaluation Notice</i> or within 45 days of the servicer’s appeal decision, if applicable.</li> </ul>
	Review a short sale offer within 15 days from the date it is received if the borrower submits the offer within 45 days of the <i>Evaluation Notice</i> .
	Delay referral to foreclosure or the next legal action in the foreclosure process during the <ul style="list-style-type: none"> <li>• servicer evaluation of the BRP;</li> <li>• 14-day borrower response period;</li> <li>• appeals process, if applicable;</li> <li>• 45-day period the borrower is required to submit a short sale offer to the servicer;</li> <li>• 15-day period the servicer is reviewing a short sale offer submitted within 45 days of the date of the <i>Evaluation Notice</i>; and</li> <li>• 60-day period following servicer approval of the short sale offer to facilitate the closing of an approved short sale.</li> </ul>
	Proceed with the next legal action in the foreclosure process if <ul style="list-style-type: none"> <li>• the servicer rejects the short sale offer, or</li> <li>• the borrower does not respond or comply with all requirements of the short sale.</li> </ul>

### Borrower Response Package Submitted With a Short Sale Offer

The following table reflects requirements the servicer must meet when the first complete BRP for a principal residence that includes a short sale offer is received more than 37 days prior to the foreclosure sale date.

✓	The servicer must...
	Send the borrower an <i>Evaluation Notice</i> within 5 days of an evaluation decision but no more than 30 days from the receipt of a complete BRP submitted with a short sale offer.
	<p>Require the borrower to respond to the servicer decision within 14 days of the date of the <i>Evaluation Notice</i> or, if applicable, appeal the denial of any mortgage loan modification Trial Period Plan.</p> <p><b>Note:</b> The servicer must not require the borrower to respond to a short sale counteroffer prior to the end of the time frame for the borrower’s response to the <i>Evaluation Notice</i>. Specifically, the servicer must request a counteroffer response from the borrower by the later of either</p> <ul style="list-style-type: none"> <li>• five business days for the servicer’s or Fannie Mae’s short sale counteroffer; or</li> <li>• the date by which the borrower’s response to the <i>Evaluation Notice</i> is due in cases where the servicer is providing an <i>Evaluation Notice</i> in response to the first complete BRP.</li> </ul>
	<p>Delay referral to foreclosure or the next legal action in the foreclosure process during the</p> <ul style="list-style-type: none"> <li>• servicer evaluation of the BRP and short sale offer;</li> <li>• 14-day borrower response period;</li> <li>• appeals process, if applicable; and</li> <li>• 60-day period following servicer approval of the short sale offer to facilitate the closing of an approved short sale.</li> </ul>
	<p>Proceed with the next legal action in the foreclosure process if</p> <ul style="list-style-type: none"> <li>• the servicer rejects the short sale offer, or</li> <li>• the borrower does not respond or comply with all requirements of the short sale.</li> </ul>



## Mortgage Release

The servicer must meet the requirements shown in the following table when the first complete BRP for a principal residence is received more than 37 days prior to the foreclosure sale date and either

- the borrower indicates in the BRP that he or she desires a liquidation workout option, or
- the servicer will not be offering a mortgage loan modification to the borrower.

If the borrower...	Then the servicer...
<p>was not previously approved to pursue a short sale</p>	<ul style="list-style-type: none"> <li>• must send the borrower an <i>Evaluation Notice</i> within 5 days of an evaluation decision but no more than 30 days from the receipt of a complete BRP.</li> <li>• must require the borrower to respond to the servicer decision within 14 days of the date of the Mortgage Release offer in the <i>Evaluation Notice</i> by either                             <ul style="list-style-type: none"> <li>– accepting the offer to pursue a Mortgage Release offer, or</li> <li>– appealing the denial of any mortgage loan modification Trial Period Plan, if applicable.</li> </ul> </li> <li>• must delay the next legal action or referral to foreclosure during the                             <ul style="list-style-type: none"> <li>– servicer evaluation of the BRP;</li> <li>– 14-day borrower response period;</li> <li>– appeals process, if applicable; and</li> <li>– 60 days following the date of the borrower’s acceptance in order to complete the Mortgage Release transaction.</li> </ul> </li> </ul>

If the borrower...	Then the servicer...
	<ul style="list-style-type: none"> <li>• must proceed with the next legal action in the foreclosure process at the end of the 60-day period, but is permitted to use an additional 30 days to complete the Mortgage Release transaction if it cannot be completed within 60 days.</li> </ul>
was previously approved to pursue a short sale and accepts a Mortgage Release offer	must not delay the next legal action in the foreclosure process and adhere to Fannie Mae's foreclosure postponement requirements.

The following table contains Fannie Mae's requirements for suspending foreclosure proceedings on all other mortgage loans when a BRP is received after the 30-day response period but more than 37 days prior to the foreclosure sale date. These requirements also apply to mortgage loans secured by a principal residence for all subsequent complete BRPs.

<b>BRP received after the 30-Day response period but more than 37 days prior to the foreclosure sale date</b>	
<b>Stage of Evaluation</b>	<b>Requirements</b>
A BRP has been received and is being evaluated	No delay in legal action is required.
A BRP and a short sale offer have been received	<p>The servicer must attempt to conduct a review of the BRP and short sale offer in accordance with Fannie Mae's required timelines. See D2-2-05, Receiving a Borrower Response Package containing standard review timelines.</p> <p>If the servicer cannot do so, it must conduct an expedited review of the BRP and short sale offer prior to the foreclosure certification date.</p>
An <i>Evaluation Notice</i> was sent to the borrower and a retention offer has been extended	<p>No delay in legal action is required unless the foreclosure sale is within the borrower's 14-day response period.</p> <p>In those instances, the servicer must delay the foreclosure sale for up to 14 days to allow the borrower to respond.</p>

### Handling a BRP Received After the 30-Day Response Period but Within 15–37 Days Prior to the Foreclosure Sale Date

The following table provides Fannie Mae requirements for suspending foreclosure proceedings when the BRP is received after the 30-day response period but within 15 to 37 days prior to the foreclosure sale date.

<b>BRP received after 30-Day response period but within 15-37 days prior to the foreclosure sale date</b>	
<b>Stage of Evaluation</b>	<b>Requirements</b>
The BRP has been received and is being evaluated	No delay in legal action is required. The servicer must conduct an expedited review of the BRP (and short sale purchase offer, if applicable) prior to the foreclosure certification date.
An <i>Evaluation Notice</i> was sent to borrower and a retention offer has been extended	No delay in legal action is required unless a retention offer is made and the foreclosure sale is within the borrower's 14-day response period.  In those instances, the servicer must delay the foreclosure sale for up to 14 days to allow the borrower to respond.

**Note:** The servicer must not offer a Mortgage Release option during this time period.

### Handling a BRP Received Less Than 15 Days Prior to the Foreclosure Sale Date

The following table provides Fannie Mae requirements for suspending foreclosure proceedings when the BRP is received less than 15 days prior to the foreclosure sale date.

<b>BRP received less than 15 Days prior to the foreclosure sale date</b>	
<b>Stage of Evaluation</b>	<b>Requirements</b>
The BRP has been received and is being evaluated	No delay in legal action is required. The servicer is encouraged, but not required, to conduct an expedited review of the BRP (and short sale purchase offer, if applicable).

<b>BRP received less than 15 Days prior to the foreclosure sale date</b>	
<b>Stage of Evaluation</b>	<b>Requirements</b>
A Notification and <i>Evaluation Notice</i> was sent to the borrower and a retention offer has been extended	The servicer must delay the foreclosure sale for up to 14 days to allow the borrower to respond.
The servicer has approved a short sale purchase offer	The servicer must suspend the foreclosure sale to allow the short sale to close as permitted under state or local law.

If the servicer completed its review of the BRP, it must notify the borrower prior to the foreclosure sale as to the results of the review. If the servicer did not complete its review of the BRP, it must advise the borrower of its inability to review the package prior to the sale.

**Note:** The servicer must not offer a Mortgage Release option during this time period.

### **E-3.4-02, Canceling the Foreclosure Sale for a Completed Workout (11/12/2014)**

The servicer must cancel the foreclosure sale once the borrower has successfully completed a workout option.

For a mortgage loan modification, the sale must not be cancelled until

- the Trial Period Plan is successfully completed with all payments having been made, and
- the mortgage loan modification agreement has been signed by the borrower(s).

When the servicer offers the borrower a Mortgage Release, the servicer must not suspend or cancel the foreclosure process until the servicer has accepted the executed deed from the borrower.

The following table provides further clarification regarding servicer actions depending on when the executed deed is received.

<b>If the servicer...</b>	<b>Then the servicer must...</b>
does not receive an executed deed with clear and marketable title as well as all required	continue the foreclosure process.

<b>If the servicer...</b>	<b>Then the servicer must...</b>
documents signed by the borrower at least 30 days prior to the foreclosure sale	
receives an executed deed more than 30 days prior to foreclosure sale but the borrowers did not provide all the required signed documents	request the additional required documents.

The foreclosure process must not be suspended or canceled unless all required executed documents are received and accepted prior to the foreclosure sale date. The servicer should escalate the decision to accept the documents to Fannie Mae if necessary.

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## Section E0-3.5, Servicer Responsibilities Following the Foreclosure Sale

### E-3.5-01, Reclassifying or Removing MBS Mortgage Loans Post-Foreclosure (11/12/2014)

Unless the mortgage loan is subject to the Fannie Mae automatic reclassification process, Fannie Mae requires that the servicer foreclose while the mortgage loan is in the MBS pool. The servicer then must purchase a regular or modified special servicing option MBS mortgage loan from the MBS pool within 60 days after the foreclosure sale date. For additional information regarding reclassifying or removing MBS mortgage loans in foreclosure, see *Mandatory Repurchase of Certain MBS Mortgage Loans* in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, Make Whole Payment Requests and Deferred Payment Obligations. The servicer must follow the procedures in *Remitting a Settlement Received for an MBS Mortgage Loan* in F-1-31, Remitting and Accounting to Fannie Mae, for instructions on remitting claim or sales proceeds received for MBS mortgage loans post-foreclosure sale.

### E-3.5-02, Handling Third-Party Sales (02/11/2015)

The following table provides the servicer with requirements for properly handling a third-party sale.

✓	<b>The servicer must...</b>
	<p>Collect the gross sale proceeds and remit the amount Fannie Mae is due within five business days after it receives the final payment from the third-party bidder.</p> <p>The servicer must follow the procedures in <i>Reporting Third-Party Sales to Fannie Mae</i> in F-1-10, Managing Foreclosure Proceedings, as well as <i>Remitting Third-Party Sales Proceeds to Fannie Mae</i> in F-1-31, Remitting and Accounting to Fannie Mae, for additional instructions.</p>

✓	<b>The servicer must...</b>
	Remit the third-party bidder's initial deposit to Fannie Mae within five business days after discovery that a sale will not be finalized.

Any excess sales proceeds must be distributed in accordance with applicable law.

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015

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 **E-3.5-03, Inspecting Properties Post-Foreclosure Sale (11/12/2014)**

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Fannie Mae may require the servicer to conduct a post-foreclosure sale inspection for an acquired property in connection with the cancellation of a flood insurance policy or upon Fannie Mae's request for another purpose. See E-4.4-03, Continuing or Canceling Flood Insurance Coverage for additional information.

The servicer must also conduct any post-foreclosure sale property inspections that FHA and VA require for properties that are conveyed to them.

Fannie Mae will reimburse the servicer for the costs of any post-foreclosure property inspection in the following instances:

- when Fannie Mae requires the servicer to conduct the post-foreclosure sale property inspection, and
- when the post-foreclosure sale inspection is required by FHA and VA, to the extent that the expenses can legitimately be included in an insurance or loan guaranty claim.

See A4-2.1-02, Property Inspection Vendor Management and Oversight for additional requirements for property inspection vendors. The servicer must follow the procedures in

*Performing Property Inspections* in F-1-10, *Managing Foreclosure Proceedings*, and *Requesting Reimbursement for Preforeclosure Property Inspections* in F-1-06, *Expense Reimbursement*, to seek reimbursement for inspection fees.



### **E-3.5-04, Providing Evidence of Title (11/12/2014)**

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In Hawaii, the servicer must obtain an owner's title policy after the foreclosure sale if Fannie Mae acquires title to a property through a non-judicial foreclosure.

The servicer must not obtain an owner's title policy after the foreclosure sale in any other state unless Fannie Mae specifically directs it to do so. Fannie Mae will accept other forms of title evidence as long as FHA, VA, RD, or the mortgage insurer does not specifically require an owner's title policy.

Fannie Mae will not reimburse the servicer for the cost of an owner's title policy unless Fannie Mae or the mortgage insurer directs it to obtain one.

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# Chapter E-4, Managing Acquired Properties



## Managing Acquired Properties

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### Introduction

This chapter describes managing acquired properties.

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### In This Chapter

This chapter contains the following sections:

E0-4.1, Notifying Fannie Mae of Property Acquisitions .....	652
E0-4.2, Conveying Title to an Acquired Property .....	658
E0-4.3, Preserving and Managing Properties .....	663
E0-4.4, Property (Hazard) and Flood Insurance Coverage Requirements .....	667
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## Section E0-4.1, Notifying Fannie Mae of Property Acquisitions



### E-4.1-01, Notifying Fannie Mae of an Acquired Property (11/12/2014)

#### Introduction

Once the foreclosure sale is held and the property acquired, or a Mortgage Release has been executed, the servicer must notify Fannie Mae about the property acquisition.

Two different notifications are required:

- An early warning notice (or REOgram) that Fannie Mae has an acquired property to dispose of.
- The notice of the removal status code that is part of the regular monthly reporting process.

See *Reporting a Mortgage Release to Fannie Mae* in F-1-33, *Reporting a Workout Option via HomeSaver Solutions Network*, as well as *Reporting a Mortgage Loan Liquidation to Fannie Mae* in Fannie Mae's *Investor Reporting Manual* for additional information.

Unless otherwise directed by Fannie Mae, a special servicing option MBS mortgage loan that has been foreclosed must be removed from the MBS pool no later than the remittance date following the date on which the liquidation action code was reported to Fannie Mae.

If Fannie Mae advises the servicer that the acquired property related to a foreclosed special servicing option MBS mortgage loan remains in the MBS trust after foreclosure, it must be removed from the trust no later than the close of the third calendar year following the calendar year in which the MBS trust acquired the property. See E-3.5-01, *Reclassifying or Removing MBS Mortgage Loans Post-Foreclosure* for additional information on this topic.

This topic contains the following:

- Timing of the REOgram
- Contents of the REOgram
- Monitoring the Status of Acquired Properties

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### Timing of the REOgram

Within 24 hours after the date of a foreclosure sale the servicer must send an REOgram to Fannie Mae for the following mortgage loans:

- all conventional mortgage loans,
- FHA mortgage loans that will not be conveyed to FHA,
- VA mortgage loans for which VA did not establish an “upset price,” and
- any RD mortgage loans serviced under the special servicing option, even though Fannie Mae may not gain clear title to the property until after expiration of any redemption period.

Fannie Mae may charge the servicer a compensatory fee for each day it is late in submitting the REOgram unless it determines there is a reasonable explanation for the delay as described in A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process. Fannie Mae also may exercise any other available and appropriate remedies for late submissions.

There is one exception to the time frame to submit the REOgram:

If the security property is located in Connecticut and the court orders a Foreclosure by Sale, the foreclosure sale may not be approved and the conveyance deed issued until 60 or more days after the actual foreclosure sale date. Fannie Mae cannot dispose of the property until after the sale is approved, so the servicer should wait until the court approves the sale and issues the deed to Fannie Mae, and then submit the REOgram to notify Fannie Mae about the property acquisition. The REOgram must then be sent within 24 hours after the servicer learns the foreclosure sale has been approved.

For information on Fannie Mae requirements for submitting an REOgram after execution of a Mortgage Release, see D2-4-02, Reporting a Workout Option to Fannie Mae.

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### Contents of the REOgram

The REOgram must include the items listed in the following table.

✓	Required elements of the REOgram	✓	Required elements of the REOgram
	The servicer's name and address, its nine-digit Fannie Mae servicer number, and the name and telephone number of its contact person.		The borrower's (and if applicable, co-borrower's) name and Social Security number.

✓	<b>Required elements of the REOgram</b>	✓	<b>Required elements of the REOgram</b>
	Fannie Mae's loan number.		The servicer's mortgage identification number.
	Lien type (first or second).		Loan type (FHA, VA, conventional, or RD).
	Loan origination date.		An indication of whether a property (hazard) insurance claim is pending.
	Type of property (single-family, two- to four-unit, or unit in a condo, PUD, or co-op project).		The property address including <ul style="list-style-type: none"> <li>• house or unit number;</li> <li>• street name, city, county, state, and ZIP code; and</li> <li>• the property's legal description (including the tax parcel identification).</li> </ul>
	LPI date and the UPB.		The manufactured housing identification.
	Occupancy status—vacant, owner-occupied, or tenant-occupied.  If the mortgage loan is secured by an investment property, it is very important to provide all available information, including number of units, occupancy status, names of any tenants, rental income, lease amounts, etc.		Date of the foreclosure sale or the HSSN closing date for an REOgram related to a Mortgage Release.
	The expiration date of any applicable redemption period.		The name of the original appraiser, the date of the appraisal, and the appraised value.
	The name and contact information of the law firm that handled the foreclosure.		Date of last property inspection.
	Mortgage insurance information including <ul style="list-style-type: none"> <li>• insurer's name,</li> </ul>		If Fannie Mae's mortgage loan is in a second lien position, appropriate information about the first lien mortgage loan, including

✓	<b>Required elements of the REOgram</b>	✓	<b>Required elements of the REOgram</b>
	<ul style="list-style-type: none"> <li>• Fannie Mae's two-digit identification code for the mortgage insurer,</li> <li>• name and telephone number of the mortgage insurer's contact person,</li> <li>• certificate number,</li> <li>• type of coverage,</li> <li>• coverage percentage, and</li> <li>• the claim status and amount.</li> </ul>		<ul style="list-style-type: none"> <li>• name of the first lien mortgage loan servicer,</li> <li>• an indication of whether Fannie Mae has an ownership interest in the first lien mortgage loan,</li> <li>• the mortgage insurer's name and the percent of coverage it provides,</li> <li>• the UPB,</li> <li>• the LPI date, and</li> <li>• the amount of the advances the second lien mortgage loan servicer has made against the first lien mortgage loan.</li> </ul>
	<p>Evidence the subordinate lienholder has recorded the release of the subordinate lien in connection with an REOgram related to a Mortgage Release by providing all of the following:</p> <ul style="list-style-type: none"> <li>• the county and date of recordation,</li> <li>• book,</li> <li>• page, and</li> <li>• document number, if applicable, in the comments field of the REOgram.</li> </ul>		

If a property subject to resale restrictions is acquired by Fannie Mae through foreclosure or the acceptance of a Mortgage Release, and the resale restrictions survive foreclosure, in the section of the REOgram titled "Comments about the Property," the servicer must indicate that the property is subject to resale restrictions that survive foreclosure. The servicer must also provide contact information for the governmental housing agency or other applicable organization. With

respect to all resale restrictions, the servicer represents and warrants that upon transfer of the property to Fannie Mae, all required notices have been given in an appropriate manner, and that the foreclosure or Mortgage Release complies with the requirements of the applicable resale restrictions. With respect to resale restrictions that do not survive foreclosure or acceptance of a Mortgage Release, or the expiration of any applicable redemption period, the servicer represents and warrants that all actions necessary to terminate the resale restrictions have been taken.

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### Monitoring the Status of Acquired Properties

After the servicer submits an REOgram to Fannie Mae, it must monitor the property's status to ensure that it files the final *request for expense reimbursement* in a timely manner.

Once the servicer is able to confirm that closing has occurred for an acquired property Fannie Mae sold, it must file the final *request for expense reimbursement* within 30 days of the closing date.



## E-4.1-02, Eliminations and Rescissions of Foreclosure Sales (11/12/2014)

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### Introduction

This topic contains the following:

- General Requirements for Eliminations and Rescissions of Foreclosure Sales
- Compensatory Fees for Foreclosure Rescissions

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### General Requirements for Eliminations and Rescissions of Foreclosure Sales

This topic contains Fannie Mae's requirements for eliminations and rescissions of foreclosure sales. "Elimination" is the process of removing a property from Fannie Mae's REO inventory system of record. "Foreclosure Sale Rescission" is the legal process of reversing a foreclosure sale and removing Fannie Mae as titleholder to the property. When the servicer identifies an issue that requires an elimination and/or rescission of the foreclosure sale, the servicer must submit a request for elimination and/or rescission within five days.

There are circumstances in which a foreclosure sale rescission may not involve elimination. However, if an REOgram has been submitted with an associated foreclosure sale, an elimination

will also be necessary. To submit a request for elimination and/or rescission, the servicer must complete and submit the *Elimination/Rescission Request Template*. The template can also be obtained by emailing Fannie Mae's NSO (see F-4-03, List of Contacts) and must also be submitted to that same email address once completed.

When Fannie Mae identifies an issue that requires a property to be eliminated from its REO inventory or a foreclosure sale to be rescinded, Fannie Mae will initiate the elimination and/or rescission process. Fannie Mae will send the Elimination/Rescissions Daily Report to the servicer. The report will list Fannie Mae's decision for each servicer-requested elimination or rescission, as well as those eliminations and/or rescissions that Fannie Mae has processed. The servicer must complete the actions listed in the following table.

✓	The servicer must...
	Review the Elimination/Rescissions Daily Report for notification of servicer-requested elimination/rescission approvals and Fannie Mae-processed eliminations/rescissions.
	Add each eliminated file back into its servicer system within 24 hours of notification of approval or notification that the file has been eliminated by Fannie Mae.
	Resume managing the eliminated/rescinded file pursuant to the <i>Servicing Guide</i> .
	Work with the law firm that handled the foreclosure to ensure that any necessary activities to complete the elimination and/or rescission are coordinated in a timely fashion.

If a new foreclosure sale takes place or other actions are taken to validate the foreclosure sale, a new REOgram must be submitted within 24 hours of the action.

Upon elimination and/or rescission of the foreclosure sale, the servicer is responsible for transferring title into the appropriate party's name and removing Fannie Mae from title in accordance with *Correcting Conveyances to Fannie Mae* in A2-1-03, Execution of Legal Documents. The servicer must initiate any required steps to restore title to the appropriate party within two days of the elimination and/or rescission notification. The servicer, however, must adhere to specific local and state law recordation requirements, as applicable.

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### Compensatory Fees for Foreclosure Rescissions

Fannie Mae may assess the servicer a compensatory fee for any failure to follow Fannie Mae guidelines or other servicing error or alleged error that results in a rescission of a foreclosure sale. Fannie Mae will not reimburse foreclosure fees and costs that are required to complete a new foreclosure following rescission. See A1-4.2-02, Compensatory Fees for Delays in the Liquidation Process for additional information on compensatory fees.

## Section E0-4.2, Conveying Title to an Acquired Property



### E-4.2-01, Completing Conveyance Documents (11/12/2014)

#### Introduction

This topic contains the following:

- General Requirements for Completing All Conveyance Documents
- When Foreclosure Is Conducted in Fannie Mae's Name
- When Foreclosure Is Conducted in the Servicer's Name
- Conveying Insured Conventional Mortgage Loans
- Conveying FHA Mortgage Loans
- Conveying VA Mortgage Loans

#### General Requirements for Completing All Conveyance Documents

The following table outlines the required servicer actions for completing conveyance documents.

✓	The servicer must...
	Satisfy the requirements that FHA, HUD, VA, RD, or the mortgage insurer have established regarding conveyance of an acquired property to them and for completing the actual conveyance within the required time frame.
	Establish procedures to ensure that all post-foreclosure sale actions are taken in a timely manner, particularly in those states (such as Maryland) that require significant post-sale actions to obtain good and marketable title.  <b>Note:</b> Fannie Mae will hold the servicer responsible for a failure to obtain good and marketable title in a timely manner (even when the foreclosure sale was held within Fannie Mae's prescribed time frame).



✓	<b>The servicer must...</b>
	Use the type of deed or other transfer instrument that is customarily used to convey a property in the jurisdiction where the security property is located.
	Instruct the law firm to include in the conveyance document(s) the <ul style="list-style-type: none"> <li>• street address,</li> <li>• unit number (when applicable), and</li> <li>• legal description.</li> </ul>
	Resume managing the eliminated/rescinded file pursuant to the <i>Servicing Guide</i> .
	Retain in its individual mortgage loan file the foreclosure deed and Mortgage Release documents and any and all material that could assist Fannie Mae in marketing, selling, or conveying the property.

If Fannie Mae discovers during the marketing of an acquired property that additional information is needed, it will contact the servicer by telephone or email. The servicer must provide all requested additional information within 3 business days of the request. See A2-1-03, Execution of Legal Documents for additional information regarding the execution of legal documents. The servicer must follow the procedures in F-1-13, Obtaining and Executing Legal Documents.

### When Foreclosure Is Conducted in Fannie Mae's Name

When the foreclosure is conducted in Fannie Mae's name, no conveyance document is required unless the mortgage insurer or guarantor has indicated it will accept conveyance of the property.

The following table outlines the required servicer actions when the foreclosure is conducted in Fannie Mae's name and the mortgage insurer or guarantor indicates it will accept conveyance of the property.

<b>If the servicer...</b>	<b>Then the servicer must...</b>
has Fannie Mae's limited power of attorney to execute conveyance documents	prepare, execute, and submit for recordation a special or limited warranty deed conveying title to the property to the insurer or guarantor.
does not have Fannie Mae's limited power of attorney or is otherwise unable to convey the title directly to the insurer or guarantor	prepare the necessary documents to convey the property to the insurer or guarantor and submit them to Fannie Mae's NSO (see F-4-03, List of Contacts) for execution. This must be completed at least two weeks before title to

If the servicer...	Then the servicer must...
	the property will be turned over to the insurer or guarantor. Fannie Mae will return the documents to the servicer as soon as they are executed.

### When Foreclosure Is Conducted in the Servicer's Name

If the servicer knows that a property can be conveyed directly to FHA or the VA, and that it is allowed to directly convey the title to them, it must do so.

In the following circumstances, the servicer is responsible for the marketing and disposition of the acquired property and title to the property must remain in the servicer's name for

- an FHA coinsured mortgage loan,
- an RD mortgage loan serviced under the modified special servicing option or the regular servicing option, or
- any MBS mortgage loan serviced under the regular servicing option.

When the foreclosure is conducted in the servicer's name, the servicer must convey title to the property to Fannie Mae after the servicer is the successful bidder at the foreclosure sale, and the mortgage loan is one of the following:

- a conventional mortgage loan held in Fannie Mae's portfolio,
- a conventional mortgage loan in a special servicing option MBS pool,
- an RD mortgage loan serviced under the special servicing option, or
- an FHA or VA mortgage loan that cannot be conveyed.

When the servicer is required to convey title to the property to Fannie Mae after the property is acquired, the law firm must have the title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax.

The servicer must submit any deed for recordation that conveys title to Fannie Mae on the day following the foreclosure sale. Should the mortgage insurer or guarantor decide to accept conveyance of the property after title has been conveyed to Fannie Mae, the servicer must proceed as described in *When Foreclosure Is Conducted in Fannie Mae's Name* in E-4.2-01, Completing Conveyance Documents.

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### Conveying Insured Conventional Mortgage Loans

The conventional mortgage insurer decides whether it will accept conveyance of a property that secured a conventional mortgage loan only after the claim has been filed. Therefore, the property cannot be conveyed until the mortgage insurer provides notice of its decision.

Whenever the mortgage insurer agrees to accept the property, the servicer must immediately convey it.

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### Conveying FHA Mortgage Loans

The servicer can convey a property that secured an FHA mortgage loan as soon as Fannie Mae has acquired marketable title. The servicer must not convey a property that secured an FHA coinsured mortgage loan under any circumstances.

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### Conveying VA Mortgage Loans

The servicer must convey a property that secured a VA mortgage loan to the VA when it sends the "notice of election to convey" within 15 days after the foreclosure sale date. The servicer must also send a preliminary billing for VA's "upset price."

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## E-4.2-02, Handling Reconveyance to the Insurer or Guarantor (11/12/2014)

Custody of the property must be turned over to FHA, the VA, or the mortgage insurer as soon as possible after their requirements for conveying properties have been met. When FHA or the VA does not accept a property that the servicer conveys, the servicer must determine why the property was reconveyed to Fannie Mae. If FHA's or VA's reasons for not accepting the property can still be resolved, the servicer must take any action required to correct the matter. The servicer must then reconvey the property to FHA or VA.

The following table lists the actions required of the servicer if a second conveyance is not accepted by FHA or VA.

✓	<b>The servicer must...</b>
	Submit an REOgram notifying Fannie Mae of the acquisition of the property.

✓	<b>The servicer must...</b>
	Document the REOgram Case Comments with a written explanation of why FHA or VA would not accept the property.
	Provide Fannie Mae with any recommendations it has for disposing of the property in the REOgram Case Comments.

## Section E0-4.3, Preserving and Managing Properties

### E-4.3-01, Managing the Property Post-Foreclosure Sale (11/12/2014)

Following the foreclosure sale, Fannie Mae will designate a broker, agent, or property management company to oversee the property marketing and assume certain property management responsibilities.

The servicer must continue to perform the property management responsibilities shown in the following table until Fannie Mae notifies it the property has been sold and the final settlement has occurred.

✓	The servicer must...
	Request that tax rolls be changed to reflect Fannie Mae's ownership of the property, specifying that tax bills should continue to be directed to the servicer.
	Contact the management company if the acquired property was part of a condo, PUD, or co-op project to ensure that all future bills for HOA or co-op corporation assessments or fees are sent to the servicer.
	Pay all appropriate taxes, assessments, and fees as they come due.

Under certain circumstances, Fannie Mae also may request the servicer to perform some property management functions that usually would be assigned to a broker, agent, or property management company. For example, Fannie Mae might designate the servicer to handle these functions for a property that has suffered a fire loss since it cannot be marketed until the insurance company settles the claim. However, Fannie Mae must approve all repair and marketing costs involved in the disposition of the property.

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## **E-4.3-02, The Broker's, Agent's, or Property Management Company's Responsibilities (11/12/2014)**

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Fannie Mae's assigned broker, agent, or property management company will manage the maintenance and repair of foreclosed properties and contact the utility companies to have all bills for utility services directed to them for payment. Any issues the servicer may become aware of related to the management or marketing of a property after the foreclosure date must be reported to Fannie Mae's REAM division (see F-4-03, List of Contacts).

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## **E-4.3-03, Handling Eviction Proceedings (11/12/2014)**

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Fannie Mae will initiate eviction proceedings, and select and monitor the eviction attorney in connection with any property for which Fannie Mae has the property disposition responsibility.

Properties for which Fannie Mae has this responsibility include:

- conventional mortgage loans that Fannie Mae held in its portfolio,
- government mortgage loans that Fannie Mae held in its portfolio and which cannot be conveyed to the insurer or guarantor, and
- government or conventional mortgage loans that were part of an MBS pool, including any that had a shared-risk special servicing option under which Fannie Mae would be responsible for property disposition efforts.

The foreclosure law firm must include certain language in the foreclosure complaint, judgment, pleadings, or other documentation in any state or jurisdiction in which the inclusion of such language will facilitate or execute the eviction process without causing an appreciable delay in the foreclosure. Fannie Mae requires the law firm to do this work as an integral part of the foreclosure process without charging an additional fee.

Fannie Mae's designated eviction attorney will contact the servicer or the law firm that handled the foreclosure to request any documents needed to initiate the eviction proceedings.

The following table lists servicer requirements for communicating with Fannie Mae's eviction attorney.

✓	<b>The servicer must...</b>
	Provide the necessary documentation to ensure that the initial “notice to vacate” can be served as soon as possible after the date of the property acquisition.
	Return any documentation the eviction attorney subsequently requests as soon as possible, or request that the law firm that handled the foreclosure provide the documents directly to the eviction attorney within three business days.
	Work with the eviction attorney to schedule the actual eviction.

For any case in which the servicer has the responsibility for disposing of an acquired property, the servicer or its eviction attorney must handle the eviction proceedings. Fannie Mae may impose sanctions, including daily compensatory fees, if there are unwarranted delays in processing these cases.

These cases include the following:

- government mortgage loans that will be conveyed to the insurer or guarantor, and
- conventional mortgage loans that were part of an MBS pool that had a shared-risk special servicing option under which the servicer would be responsible for property disposition efforts.

The following table describes servicer requirements when the servicer must retain an attorney to handle eviction proceedings.

✓	<b>The servicer must...</b>
	Contact Fannie Mae's REAM division (see F-4-03, List of Contacts) to obtain Fannie Mae's maximum allowable eviction fees and costs for the particular state.
	Pay the eviction attorney promptly on receipt of a billing for attorney fees and eviction costs.
	File the applicable <i>Statement for Recipients of Miscellaneous Income</i> (IRS Form 1099-MISC) with the IRS, at the appropriate time. See C-4.2-01, Filing IRS Forms 1099-A, 1099-C and 1099-MISC for additional information.
	File a supplemental claim for any eviction fees and costs that are claimable under the mortgage insurance claim, if applicable.
	Aggressively monitor the eviction attorney to ensure that Fannie Mae promptly obtains possession of the property.

The servicer may request reimbursement for its payment of eviction attorney fees and related costs from Fannie Mae by submitting a *request for expense reimbursement*. The servicer must follow the procedures in F-1-06, Expense Reimbursement to do this.





## Section E0-4.4, Property (Hazard) and Flood Insurance Coverage Requirements



### E-4.4-01, Continuing or Canceling Property (Hazard) Insurance Coverage (11/12/2014)

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#### Introduction

The servicer's action regarding the continuation or cancellation of property (hazard) insurance coverage will depend upon

- the type of mortgage loan that was liquidated, and
- whether the property will be conveyed to the insurer or guarantor.

Fannie Mae's property recovery firms assume all responsibilities for filing any necessary property (hazard) insurance claims for losses identified post-foreclosure for

- conventional first lien mortgage loans,
- conventional second lien mortgage loans for which Fannie Mae either had an ownership interest in the first lien mortgage loan or paid off the first lien mortgage loan in connection with the foreclosure of the second lien mortgage loan,
- FHA or VA mortgage loans that cannot be conveyed to the insurer or guarantor, and
- RD guaranteed mortgage loans serviced under the special servicing option.

The property recovery firm may contact the servicer to obtain information about any applicable property insurance policy and carrier(s) and any recent property inspections completed by the servicer.

This topic contains the following:

- Overview of Servicer Responsibilities Associated with the Decision to Continue or Cancel Property (Hazard) Insurance
- For Conventional First Lien Mortgage Loans
- For Conventional Second Lien Mortgage Loans
- For FHA Mortgage Loans
- For VA Mortgage Loans
- For RD Mortgage Loans

## Overview of Servicer Responsibilities Associated with the Decision to Continue or Cancel Property (Hazard) Insurance

Servicer responsibilities related to the decision to continue or cancel property (hazard) insurance coverage are described in the following table.

✓	<b>The servicer must...</b>
	Provide all requested information or documentation to the property recovery firm within three business days.
	Take appropriate actions related to the property (hazard) insurance policy for an acquired property that was secured by a second lien mortgage loan if, in connection with the second lien mortgage loan foreclosure, Fannie Mae decides not to pay off an outstanding first lien mortgage loan in which it does not have an ownership interest (since Fannie Mae does not use a property recovery firm in this instance).
	Have procedures in place to view HomeTracker regularly for updates to the Vacancy Report.

**Note:** Fannie Mae will provide the vacant property report through HomeTracker. If the servicer has not acquired access to HomeTracker, instructions are available on Fannie Mae’s website, [How to Obtain Access to HomeTracker](#). The servicer will be able to identify when a property was added to the Vacancy Report in HomeTracker by referencing the “date loaded in HT” field on the report. Any inquiries regarding the Vacancy Report and cancellation of property (hazard) insurance should be addressed to Fannie Mae’s REAM division (see F-4-03, List of Contacts).

### For Conventional First Lien Mortgage Loans

The following table describes the servicer's responsibilities related to the cancellation of property (hazard) insurance coverage once the property appears on the Vacancy Report in HomeTracker.

✓	<b>Within 14 days after the property appears on the Vacancy Report in HomeTracker, the servicer must...</b>
	Ask the property (hazard) insurance carrier to cancel the policy and, unless prohibited by the policy or applicable law, send it any unearned premium refund.

✓	<b>Within 14 days after the property appears on the Vacancy Report in HomeTracker, the servicer must...</b>
	Request cancellation of Fannie Mae's mortgagee interest in the policy and removal of its name from the policy if the insurance carrier is not willing to cancel the policy because Fannie Mae is not the named insured.

If the servicer cancels the insurance policy prematurely and damages are later found, the servicer must make Fannie Mae whole for any losses or fees relating to the property damages.

The following table describes the servicer's responsibilities related to any loss draft funds it receives.

✓	<b>The servicer must...</b>
	Remit to Fannie Mae the remaining balance of any insurance loss drafts that the servicer is maintaining on a mortgage loan that is liquidated through foreclosure or execution of a Mortgage Release within 30 days of issuing the REOgram.
	Wire any funds received from an insurance loss draft that was a result of a claim filed by Fannie Mae's property recovery firm to Fannie Mae within 10 business days of receipt.

**Note:** The servicer cannot issue any insurance loss draft proceeds to pay fees to its property recovery firm or any other servicer expenses, and Fannie Mae will not reimburse fees to any servicer's property recovery firm or for any other related servicer expenses.

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### For Conventional Second Lien Mortgage Loans

The actions the servicer of a conventional second lien mortgage loan must take are dependent upon whether or not Fannie Mae

- has an ownership interest in both the first and second lien mortgage loans, and, if Fannie Mae does not;
- chooses to pay off the first lien mortgage loan in connection with the foreclosure of the second lien mortgage loan.

**A. Property recovery firm has claim-filing responsibility.** Fannie Mae's designated broker, agent, or property management company must complete the post-foreclosure inspection of an acquired property that secured a second lien mortgage loan and the property recovery firm is

responsible for the filing of any applicable property (hazard) insurance claim on behalf of Fannie Mae if:

- Fannie Mae had an ownership interest in both the first- and second lien mortgage loans, or
- Fannie Mae, in connection with the second lien mortgage loan foreclosure, chose to pay off a first lien mortgage loan in which Fannie Mae did not have an ownership interest.

If Fannie Mae...	Then...
had an ownership interest in both the first- and second lien mortgage loans	within 14 days after the property appears on the Vacancy Report in HomeTracker, the first lien mortgage loan servicer must ask the property (hazard) insurance carrier to cancel the policy and, unless prohibited by the policy or applicable law, to send it any unearned premium refund.
did not have an ownership interest in the first lien mortgage loan and chose to pay it off in connection with the second lien mortgage loan foreclosure	the second lien mortgage loan servicer’s responsibilities related to the property (hazard) insurance policy will begin when title to the property is acquired at the foreclosure sale.

**B. First- and second lien mortgage loan servicers coordinate claim-filing responsibility.** The second lien mortgage loan servicer must complete the post-foreclosure property inspection and assist the first lien mortgage loan servicer should it need to file a claim when Fannie Mae (in connection with the second lien mortgage loan foreclosure) chose not to pay off an outstanding first lien mortgage loan in which it did not have an ownership interest. The second lien mortgage loan servicer must also request the property (hazard) insurance carrier cancel Fannie Mae’s second lien mortgagee interest in the policy and show instead that Fannie Mae is the named insured.

The property recovery firm may contact the second lien mortgage loan servicer if the property appears on the list of acquired properties that it receives from Fannie Mae. In such cases, the second lien mortgage loan servicer must advise the property recovery firm that the first lien mortgage loan servicer is responsible for the property (hazard) insurance policy and filing any required claim.

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### For FHA Mortgage Loans

The following table describes servicer requirements for FHA mortgage loans that will be conveyed to HUD.

✓	The servicer must...
	Obtain an endorsement to the property (hazard) insurance policy to reflect Fannie Mae's interests immediately following the foreclosure sale.
	Cancel the insurance coverage on the date the deed to HUD is filed for record and include the amount of the refund, or an estimated refund amount if the refund has not been received, as a deduction on the FHA mortgage insurance claim.

If the property cannot be conveyed to HUD, the servicer must instead adhere to the policy described for conventional mortgage loans in *For Conventional First Lien Mortgage Loans* in E-4.4-01, Continuing or Canceling Property (Hazard) Insurance Coverage.

When the servicer receives the refund of the unearned property insurance premium from the hazard insurer, it must immediately remit the funds to Fannie Mae as a “special remittance.” However, if Fannie Mae has not reimbursed the servicer for all of its outstanding foreclosure expenses, the servicer may keep the property insurance premium refund and show it as a credit on the *request for expense reimbursement* that it submits to request reimbursement of its outstanding expenses for the mortgage loan.

**Note:** This does not pertain to property (hazard) insurance proceeds, but only premium refunds.

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### For VA Mortgage Loans

For VA mortgage loans that will be conveyed to VA, the servicer must endorse the applicable property insurance policy over to the VA immediately following the foreclosure sale. If the property cannot be conveyed to VA, the servicer must adhere to the policy for conventional mortgage loans in *For Conventional First Lien Mortgage Loans* in E-4.4-01, Continuing or Canceling Property (Hazard) Insurance Coverage.

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### For RD Mortgage Loans

For RD mortgage loans serviced under the modified special servicing option or the regular servicing option, the servicer's decision about canceling the property insurance policy or Fannie Mae's mortgagee interest in it must be made in accordance with RD requirements.

For RD mortgage loans serviced under the special servicing option, the servicer must adhere to the policy for conventional mortgage loans in *For Conventional First Lien Mortgage Loans* in E-4.4-01, Continuing or Canceling Property (Hazard) Insurance Coverage.

## **E-4.4-02, Remitting Property (Hazard) Insurance Settlement Proceeds or Unearned Premium Refunds (11/12/2014)**

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As soon as the first- or second lien mortgage loan servicer receives the unearned premium refund from the hazard insurer, it must remit the funds to Fannie Mae as a “special remittance.” A list of special remittance codes and their uses can be found in the *CRS User Guide*. However, if the servicer has outstanding foreclosure expenses that Fannie Mae has not reimbursed it for, the servicer may “net” the unearned premium refund out of the next *request for expense reimbursement* that it submits for that mortgage loan.

If, for any reason, a property (hazard) insurance carrier refuses to return the unearned premium refund to the servicer, the servicer must either

- include a comment to that effect when it submits its final *request for expense reimbursement*, or
- contact Fannie Mae’s REAM division (see F-4-03, List of Contacts) to give Fannie Mae the name of the insurance carrier and the reason the refund has not been sent to the servicer.

When the servicer requests reimbursement for a property (hazard) insurance premium that it has advanced for an acquired property, Fannie Mae will calculate the amount of unearned premium refund that should be due. Fannie Mae will consider its calculated unearned premium refund amount as an unremitted refund that is still due if

- the servicer's final *request for expense reimbursement* does not reflect the unearned premium refund as a credit, or
- the servicer does not explain why the insurance carrier has not sent the servicer the unearned premium refund.

Each month, Fannie Mae will send the servicer a billing statement for all of the outstanding unearned premium refunds it owes Fannie Mae. The servicer must then take appropriate steps either to

- remit the premium refund(s) to Fannie Mae, or
- provide Fannie Mae’s REAM division with an explanation of why the refund(s) will not be remitted.



## E-4.4-03, Continuing or Canceling Flood Insurance Coverage (11/12/2014)

### Introduction

The actions the servicer must take regarding the continuation or cancellation of flood insurance coverage are dependent upon

- the lien position of the mortgage loan, and
- whether or not there is claimable flood damage to the property.

This topic contains the following:

- Overview of Servicer Responsibilities Associated with the Decision to Continue or Cancel Flood Insurance
- When the Preforeclosure Inspection Reveals No Claimable Damage
- When the Property Inspection Reveals Insured Flood Damage

### Overview of Servicer Responsibilities Associated with the Decision to Continue or Cancel Flood Insurance

The following table describes the servicer's responsibilities regarding flood insurance.

✓	The servicer must...
	Perform any required post-foreclosure property inspection.
	File any necessary flood insurance claims.

The servicer generally does not need to conduct a post-foreclosure property inspection if its preforeclosure inspection for a property that is covered by a flood insurance policy does not reveal any damage that would be claimable under the flood insurance policy. However, when the servicer believes that a flood-related event that occurs after its preforeclosure property inspection could have resulted in claimable damage to the property, the servicer must make a post-foreclosure property inspection within 15 days after the property is acquired to determine whether such damage exists. Fannie Mae will reimburse the servicer for the cost of this property inspection.

A second lien mortgage loan servicer is not required to make a post-foreclosure property inspection under any circumstance if Fannie Mae acquires the property subject to an existing first lien mortgage loan in which Fannie Mae has no ownership interest. The servicer must follow the procedures *Performing Property Inspections* in F-1-10, Managing Foreclosure Proceedings, when completing a post-foreclosure property inspection.

**Note:** If the insurance carrier is not willing to cancel a policy because Fannie Mae is not the named insured, the servicer must request cancellation of Fannie Mae's mortgagee interest in the policy and removal of the servicer's name from the policy since it will no longer be responsible for paying the renewal premiums.

### When the Preforeclosure Inspection Reveals No Claimable Damage

If the servicer's preforeclosure inspection for a property secured by a first lien mortgage loan does not reveal any claimable damage under the flood insurance policy, the servicer should not take any action related to the property until after the foreclosure sale. However, if a flood-related event occurs between the date of the servicer's preforeclosure property inspection and the date the property is acquired, the servicer must inspect the property and, if appropriate, file a claim for damages in accordance with *When the Property Inspection Reveals Insured Flood Damage* in E-4.4-03, Continuing or Canceling Flood Insurance Coverage.

The following table describes the servicer's responsibilities related to the cancellation of flood insurance coverage for a first lien mortgage loan.

✓	<b>Immediately following the foreclosure sale, the servicer must...</b>
	Notify the flood insurance carrier to cancel the policy.
	Ask the flood insurance carrier to send it any unearned premium refund, unless prohibited by the policy or applicable law.

The following table describes the servicer's responsibilities related to the cancellation of flood insurance coverage for a second lien mortgage loan.

<b>If...</b>	<b>Then...</b>
the second lien mortgage loan servicer's preforeclosure inspection does not reveal any claimable damage under the flood insurance policy	the servicer must notify the flood insurance carrier to cancel Fannie Mae's second lien mortgagee interest as soon as the property is acquired.
the second lien mortgage loan servicer is responsible for paying the flood insurance premiums	the servicer must ask the insurer to send it any unearned premium refund, unless prohibited by the policy or applicable law.



If...	Then...
Fannie Mae has an ownership interest in both the first and second lien mortgage loans	the first lien mortgage loan servicer must send the notification for both mortgage loans and assume responsibility for receiving and remitting the unearned premium.

A second lien mortgage loan servicer may need to pursue a different course of action when Fannie Mae acquires title to the property subject to an outstanding first lien mortgage loan in which Fannie Mae had no ownership interest and chose not to pay off that mortgage loan. The servicer’s required action will depend on whether or not the first lien mortgage loan servicer required flood insurance coverage on the property. The following table provides the second lien mortgage loan servicer with instructions that will vary depending on the flood insurance coverage requirements of the first lien mortgage loan servicer.

If the first lien mortgage loan servicer...	Then the second lien mortgage loan servicer must...
required flood insurance coverage	advise the flood insurance carrier to remove Fannie Mae's second lien mortgagee interest and to show instead that Fannie Mae is the named insured.  The second lien mortgage loan servicer will have no further responsibilities related to that coverage.
did not require flood insurance coverage	notify the flood insurance carrier to cancel the policy covering the second lien mortgage loan amount and request the insurer send it any unearned premium refund, unless prohibited by the policy or applicable law.

### When the Property Inspection Reveals Insured Flood Damage

**A. First Lien Mortgage Loan Servicer Responsibilities.** When either a preforeclosure or post-foreclosure property inspection reveals claimable flood damage, the servicer of a first lien mortgage loan must file a claim with the flood insurance carrier immediately. When Fannie Mae has an ownership interest in both the first and second lien mortgage loans, the first lien mortgage loan servicer must file a combined claim for the two mortgage loans.

If the property has not been acquired at the time the claim is filed, the servicer must not take action to cancel Fannie Mae's interest in the policy until after the acquisition.

As soon as the property is acquired, the servicer must notify Fannie Mae's REAM division that a claim has been filed, but must not authorize any repairs to the property because Fannie Mae's designated broker, agent, or property management company will be responsible for all repairs. The servicer must ask the flood insurance carrier to cancel the policy as soon as the claim is settled and, unless prohibited by the policy or applicable law, to send it any unearned premium refund.

**B. Second Lien Mortgage Loan Servicer Responsibilities.** The servicer of a second lien mortgage loan must file a claim only if it is or was responsible for maintaining flood insurance coverage, either because the first lien mortgage loan servicer did not require such coverage or because the first lien mortgage loan servicer cancelled its mortgagee interest when Fannie Mae paid off the first lien mortgage loan in connection with Fannie Mae's foreclosure of the second lien mortgage loan.

When the first lien mortgage loan servicer requires flood insurance coverage, the second lien mortgage loan servicer must work with the first lien mortgage loan servicer to ensure that Fannie Mae's interests are adequately protected.

When the second lien mortgage loan servicer files a claim, its action will depend on whether or not Fannie Mae has acquired the property at the time the claim is filed.

If the property has not been acquired, the servicer must not take action to cancel Fannie Mae's interests in the policy until after the acquisition. As soon as the property is acquired, the servicer must notify Fannie Mae's REAM division (see F-4-03, List of Contacts) to indicate that a claim has been filed, but must not authorize any repairs to the property because Fannie Mae's designated broker, agent, or property management company will be responsible for all repairs. The servicer must ask the flood insurance carrier to cancel the policy as soon as the claim is settled and, unless prohibited by the policy or applicable law, to send it any unearned premium refund.



#### **E-4.4-04, Remitting Flood Insurance Settlement Proceeds or Unearned Premium Refunds (11/12/2014)**

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When the servicer receives flood insurance settlement proceeds, it must remit them to Fannie Mae as a "special remittance." A list of special remittance codes and their uses can be found in the *CRS User Guide*. When the servicer receives an unearned premium refund, it may either remit the refund to Fannie Mae as a special remittance or, if the servicer has outstanding foreclosure expenses that Fannie Mae has not reimbursed, the servicer may "net" it out of the next request for expense reimbursement submitted for the mortgage loan.

If, for any reason, the flood insurance carrier refuses to refund the unearned premium to the servicer, the servicer must either

- include a comment to that effect when it submits its final *request for expense reimbursement*, or
- contact Fannie Mae's REAM division to provide Fannie Mae with the name of the insurance carrier and the reason the refund has not been sent.

When the servicer requests reimbursement of a flood insurance premium it has advanced for an acquired property, Fannie Mae will calculate the amount of unearned premium refund that should be due. Fannie Mae will consider its calculated unearned premium refund amount as an unremitted refund that is still due if

- the servicer's final *request for expense reimbursement* does not reflect the unearned premium refund as a credit, or
- the servicer does not explain why the insurance carrier has not sent the servicer the unearned premium refund.

Each month, Fannie Mae will send the servicer a billing statement for all of the outstanding unearned premium refunds it owes Fannie Mae. The servicer must then take appropriate steps either to

- remit the premium refund(s) to Fannie Mae, or
- provide Fannie Mae's REAM division (see F-4-03, List of Contacts) with an explanation of why the refund(s) will not be remitted.

## Section E0-4.5, Filing MI Claims for Liquidated Properties



### **E-4.5-01, Filing MI Claims for Conventional Mortgage Loans or for Other Mortgage Loans for which Fannie Mae Bears the Risk of Loss (11/12/2014)**

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The servicer must file all primary mortgage insurance claims for liquidated conventional first lien mortgage loans

- insured under a master primary policy issued by any approved mortgage insurer except Republic Mortgage Insurance Company, and
- for which Fannie Mae bears the risk of loss.

The mortgage insurance claim must be filed so that the claims proceeds are sent directly to Fannie Mae.

The servicer also must file claims for mortgage loans for

- conventional first lien mortgage loans insured by mortgage insurers not participating in the MI Direct® mortgage insurance claims process, and
- those mortgage loans that are not conventional first lien mortgage loans for which Fannie Mae bears the risk of loss.

The servicer of a portfolio mortgage loan or an MBS mortgage loan serviced under the special servicing option must reimburse Fannie Mae in the following circumstances:

- if certain costs in the claim are disallowed;
- if the amount of interest payable is cut off solely because the servicer did not follow the required procedures for conveyance or claim filing; or
- if any payments the servicer owes the insurer or guarantor (for premiums, surcharges, etc.) are netted against the benefits paid to Fannie Mae.

Once the mortgage insurance claim is filed, whether by the servicer or Fannie Mae, the servicer has different responsibilities depending on how the property is liquidated. The servicer must follow the procedures in F-1-07, *Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property*.

Generally, after completing its responsibilities, the servicer is not required to take any further action unless it is contacted by Fannie Mae's eviction attorney, or the mortgage insurer, and asked to provide certain information or documentation. If the servicer fails to provide requested documentation, it must indemnify Fannie Mae for any losses caused by its inaction. The servicer must provide any additional information requested by the mortgage insurer in order to process the claim. The servicer must follow the procedures in *Ensuring Timely Settlement of the MI Claim for a Conventional Mortgage Loan* in F-1-07, *Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property*.



## **E-4.5-02, Filing MI Claims for FHA Mortgage Loans (11/12/2014)**

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Under FHA regulations, a mortgagee may submit a claim for FHA insurance benefits for a foreclosed single-family mortgage loan on the date that the deed to HUD is filed for record. The servicer must follow the procedures in *Filing MI an Claim with FHA* in F-1-07, *Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property*.

If specifically directed by FHA, the servicer may submit a claim without conveying title to the property to HUD. If this is the case, the servicer must follow the procedures in *Filing an MI Claim for an FHA Mortgage Loan without Conveying Title to HUD* in F-1-07, *Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property*.

If the servicer erroneously indicates its name on a claim form for the mortgage loan, FHA will transfer the funds directly to the servicer, rather than to Fannie Mae. When this occurs, the servicer must remit the funds to Fannie Mae immediately. Fannie Mae may impose a daily compensatory fee for delayed remittances of FHA claim settlements that are the result of the servicer's erroneous preparation of the claim form. For additional information see A1-4.2-02, *Compensatory Fees for Delays in the Liquidation Process*.

If a servicer cannot convey title to HUD, submit the required title evidence or fiscal data, or file a supplemental claim within the time frames that FHA allows, it must follow the procedures in *Requesting an Extension from FHA for Filing an MI Claim* in F-1-07, *Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property*.

When Fannie Mae completes its final claim analysis for an FHA mortgage loan, it will notify the servicer if one of the following applies:

- the servicer owes Fannie Mae any money, or
- the servicer must purchase the property from Fannie Mae as the result of HUD's refusal to accept conveyance of the property or outright denial of the claim.

Within 30 days after the date of Fannie Mae's notification, the servicer must resolve the issue or send Fannie Mae any money it owes.



### **E-4.5-03, Filing MI Claims for FHA Coinsured Mortgage Loans (11/12/2014)**

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After the foreclosure sale of an FHA coinsured mortgage loan, FHA expects the servicer to try to sell the property. However, Fannie Mae will assume the responsibility for marketing the property. If the property is not sold within six months after the foreclosure sale, the servicer must notify FHA. Procedures for filing MI claims will vary based on whether Fannie Mae is able to sell the property within the six month time frame allotted by FHA. The servicer must follow the applicable procedure in either, *Filing a Claim for an Unsold FHA Coinsured Property*, or *Filing a Claim for an FHA Coinsured Property that Fannie Mae Sold*, in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property.

As soon as the servicer receives the FHA claim settlement, it must remit the full amount it owes Fannie Mae. If the payment is not sent to Fannie Mae within 15 days after it is received, Fannie Mae may impose a daily interest charge until it receives it.

The interest charge will be calculated at the prime rate (as published in *The Wall Street Journal's* prime rate index) that was in effect on the first business day of the month in which FHA transferred the funds to the servicer, plus 3%.

The servicer must reimburse Fannie Mae for any amount that FHA disallows from the claim because of the servicer's failure to comply with FHA's requirements.

The following table indicates the breakdown of the amount due to Fannie Mae depending on whether or not the property was sold.

If the property...	The servicer's payment to Fannie Mae will represent...
was sold and Fannie Mae has the sales proceeds in its possession	<ul style="list-style-type: none"> <li>• the remaining UPB,</li> <li>• debenture and mortgage loan interest included in FHA's settlement, and</li> <li>• two-thirds of the foreclosure costs.</li> </ul>
was not sold within the allowable six months resulting in a claim settlement based on the appraised value of the property	<ul style="list-style-type: none"> <li>• the entire amount of the outstanding principal balance,</li> <li>• debenture and mortgage loan interest included in FHA's settlement, and</li> <li>• two-thirds of the foreclosure costs.</li> </ul>

 **E-4.5-04, Filing MI Claims for FHA Title I Loans (11/12/2014)**

The servicer must file a claim under the insurance contract for an FHA Title I mortgage loan within nine months of the date of the borrower's default. The servicer must file the claim in accordance with the information shown in the following table.

If the Title I mortgage loan...	Then the claim...
was sold to Fannie Mae without recourse	must be filed in Fannie Mae's name so Fannie Mae's claim reserve account is appropriately adjusted.
was sold to Fannie Mae with recourse	must be filed in the servicer's name so the servicer's claim reserve account is adjusted and the claim proceeds are sent to it.

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### **E-4.5-05, Filing MI Claims for HUD Section 184 Mortgage Loans (11/12/2014)**

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The servicer of HUD Section 184 mortgage loan that Fannie Mae held in its portfolio or that was in a special servicing option pool must file the application for mortgage loan guarantee benefits on Fannie Mae's behalf to ensure the claim settlement check is sent directly to Fannie Mae. The servicer must follow the procedures in *Filing an MI Claim for a Section 184 Mortgage Loan* in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property, when the claim must be filed on behalf of Fannie Mae.

The servicer of a HUD Section 184 mortgage loan that is in a regular servicing option MBS pool must make Fannie Mae whole when it assigns the mortgage to HUD. Therefore, it must file the application for loan guarantee benefits in its own name.

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### **E-4.5-06, Filing MI Claims for VA Mortgage Loans (11/12/2014)**

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The servicer must provide to the local VA office a list of its officers who are authorized to execute VA claim forms for Fannie Mae. The servicer must keep this list current at all times.

The servicer must file the claim with VA within 15 days after the foreclosure sale in accordance with the procedures in *Filing an MI Claim with VA* in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property.

When Fannie Mae completes its final claim analysis for a VA mortgage loan, Fannie Mae will notify the servicer if one of the following applies:

- the servicer owes Fannie Mae any money, or
- the servicer must purchase the property from Fannie Mae as a result of VA's refusal to accept conveyance of the property or outright denial of the claim.

Within 30 days after the date of Fannie Mae's notification, the servicer must resolve the issue or send Fannie Mae any money it owes.



## E-4.5-07, Filing MI Claims for RD Mortgage Loans (11/12/2014)

Claim filing procedures for RD mortgage loans are similar for all three servicing options, except that the claim is filed for the benefit of the servicer in some cases and on Fannie Mae's behalf in other cases. The following table provides additional details for each of the servicing options.

If the mortgage loan is serviced under...	Then the servicer...
the regular servicing option or the modified special servicing option	<p>must purchase the mortgage loan from Fannie Mae immediately following the foreclosure sale and file the claim on its own behalf since it will be responsible for disposing of the acquired property.</p> <p><b>Note:</b> This is also true for any RD mortgage loan originated under the RD Native American Pilot program.</p>
the special servicing option	is not required to purchase the mortgage loan or to dispose of the acquired property, but must file the claim on Fannie Mae's behalf.

The servicer must follow the procedures in *Filing an RD Guarantee Claim on Fannie Mae's Behalf* in F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property, when the claim must be filed on behalf of Fannie Mae.

The responsibility for any loss not recovered from RD varies depending on the servicing option and is described in the following table.

If the mortgage loan is serviced under...	Then...
the regular servicing option, or was originated under the RD Native American Pilot program	the servicer is fully responsible for any losses not recovered from RD.
the special servicing option	Fannie Mae will bear all losses not recovered from RD.

If the mortgage loan is serviced under...	Then...
the modified special servicing option	Fannie Mae will reimburse the servicer for the portion of the allowable loss that RD does not pay.

To obtain reimbursement for the difference between the calculated loss and RD's actual claim payment for a mortgage loan serviced under the modified special servicing option, the servicer must submit a *request for expense reimbursement* to Fannie Mae along with a copy of the RD claim form and notice of RD's acceptance or mortgage loan modification of the claim to Fannie Mae's REAM division (see F-4-03, List of Contacts). Fannie Mae will not reimburse the servicer of a modified special servicing option RD mortgage loan for any additional loss it incurs because it sells the property for a net sales price that is less than the appraised value of the property (less RD's allowance for the costs of disposing of the property). However, if the servicer's net sales price is more than the property's appraised value (less RD's allowance for the costs of disposing of the property), Fannie Mae does not require the servicer to return the funds Fannie Mae reimbursed.

# Chapter E-5, Requesting Reimbursement for Expenses Associated with Default-Related Legal Matters



## Requesting Reimbursement for Expenses Associated with Default-Related Legal Matters

### Introduction

This chapter describes requesting reimbursement for expenses associated with default-related legal matters.

### In This Chapter

This chapter contains the following topics:

E-5-01, Requesting Reimbursement for Expenses (11/12/2014) . . . . .	685
E-5-02, Servicer Responsibilities Prior to Requesting Reimbursement of Attorney Fees and Costs (11/12/2014) . . . . .	686
E-5-03, Allowable Bankruptcy Fees (11/12/2014) . . . . .	687
E-5-04, Allowable Foreclosure Fees (11/12/2014) . . . . .	688
E-5-05, Prorated Attorneys Fees (11/12/2014) . . . . .	692
E-5-06, Technology Fees and Electronic Invoicing (11/12/2014) . . . . .	693
E-5-07, Other Reimbursable Expenses (11/12/2014) . . . . .	695



### E-5-01, Requesting Reimbursement for Expenses (11/12/2014)

The servicer must request reimbursement for advances it has made for property taxes, insurance premiums, out of pocket expenses, and applicable HOA dues by submitting a request for expense reimbursement. Generally, Fannie Mae will reimburse the servicer for its advances every six

months. However, Fannie Mae will consider more frequent reimbursements when the expenses for an individual case exceed \$500. The servicer must submit its final *request for expense reimbursement* for expenses incurred during the disposition process within 30 days after the property is disposed.

When multiple requests for reimbursement are submitted in connection with the same mortgage loan, the servicer must submit its final *request for expense reimbursement* for expenses incurred during the disposition process within 30 days after

- completion of a workout option,
- the date the claim was filed, if the property will be conveyed to the insurer or guarantor,
- a third party acquires the property at the foreclosure sale, or
- Fannie Mae disposes of an acquired property.

**Note:** If the servicer submits a request for reimbursement of advances after the date Fannie Mae specifies for the submission of the final *request for expense reimbursement*, Fannie Mae may deny the request or assess a late submission compensatory fee.

The servicer must follow the procedures in F-1-06, Expense Reimbursement, for all reimbursement requests.



## **E-5-02, Servicer Responsibilities Prior to Requesting Reimbursement of Attorney Fees and Costs (11/12/2014)**

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The servicer must instruct the law firm to submit all statements for fees and expenses for default-related legal services directly to the servicer. The following table outlines the responsibilities of the servicer prior to requesting reimbursement from Fannie Mae.

✓	The servicer must...
	Review and approve the attorney fees and costs to ensure they are in compliance with Fannie Mae guidelines, including the requirement that all costs be actual, reasonable, and necessary.
	Ensure the legal services were performed in accordance with applicable law and professional standards of conduct.

✓	<b>The servicer must...</b>
	Ensure fees and costs charged to borrowers are permitted under the terms of the note, security instrument, and applicable laws.
	<p>Ensure bills submitted by the law firm describe each item of cost in sufficient detail to clearly identify it as being an allowable fee or cost.</p> <p>Examples of sufficient supporting details include:</p> <ul style="list-style-type: none"> <li>• a servicer’s explanation on a Florida loan that judgment for foreclosure was obtained as a result of an uncontested trial; or</li> <li>• an attorney invoice describing an expense as an attorney fee for a Chapter 13 bankruptcy court notification of default and stay termination.</li> </ul>
	Ensure attorney fees are prorated to reasonably relate to the amount of work actually performed.
	Pay the fees and costs and retain paid invoices to substantiate all reimbursement requests.
	Have appropriate policies, procedures, and controls to ensure compliance with Fannie Mae’s requirements.

The servicer must ensure the law firm can comply with Fannie Mae's excess fee process. If necessary, law firms can request excess fee training by contacting Fannie Mae's NSO (see F-4-03, List of Contacts).

In accordance with the provisions of this chapter and the procedures in F-1-06, Expense Reimbursement, Fannie Mae will reimburse the servicer for Fannie Mae’s share of any attorney fees and actual, reasonable and necessary out-of-pocket expenses it incurs for foreclosure or bankruptcy proceedings (including the cost of any required appraisal and any advances it has to make to cover escrow deficits) for a whole mortgage loan or a participation pool mortgage loan held in Fannie Mae's portfolio, or for an MBS mortgage loan serviced under the special servicing option. The servicer must not deduct its expenses from any payments received from the bankruptcy trustee.



### **E-5-03, Allowable Bankruptcy Fees (11/12/2014)**

Fannie Mae's schedule of maximum allowable attorney fees for services rendered in connection with bankruptcy actions is included in the *Allowable Bankruptcy Attorney Fees Exhibit*.

Generally, Fannie Mae will not reimburse the servicer for any attorney fees that exceed or are not included within Fannie Mae's maximum allowable bankruptcy fee schedule—unless the law firm obtains the appropriate excess fee approval from Fannie Mae's NSO (see F-4-03, List of Contacts).

When legally permissible, the servicer must preserve the borrower's obligation to reimburse it for attorney fees and costs paid for bankruptcy actions in accordance with local bankruptcy rules and all applicable law.

The servicer may request reimbursement by submitting a *request for expense reimbursement* when

- its expenses have surpassed \$500, or
- an advance has been outstanding for at least 6 months.



## **E-5-04, Allowable Foreclosure Fees (11/12/2014)**

The maximum attorney fees that Fannie Mae allows for legal proceedings related to foreclosures appear in the *Allowable Foreclosure Attorney Fees Exhibit*. Generally, Fannie Mae will not reimburse the servicer for any attorney fees that exceed or are not included within Fannie Mae's maximum allowable foreclosure fee schedule—unless the law firm obtains the appropriate excess fee approval from Fannie Mae's NSO (see F-4-03, List of Contacts).

In general, the maximum allowable foreclosure fee for a judicial foreclosure is intended to cover all services that are typically required to be performed by foreclosure counsel in the prosecution of a judicial foreclosure in accordance with local law. The following table lists the services included in the allowable judicial foreclosure fee.

<b>Judicial Foreclosure Services</b>	
A	Ordering title.
B	Reviewing title reports and exceptions.
C	Drafting Complaint, Summons, Lis Pendens, and other papers necessary to initiate the foreclosure action.
D	Filing the foreclosure Complaint and Lis Pendens.

<b>Judicial Foreclosure Services</b>	
E	Executing all steps necessary to obtain service of process on all defendants, including review of process server affidavits, obtaining court permission to serve by publication, and referral and tracking of published notices.
F	Preparing legal papers for entry of foreclosure judgment, whether by default or through summary judgment process.
G	Obtaining judgment of foreclosure, including one court appearance.
H	Preparing all legal papers to conduct the foreclosure sale.
I	Conducting, or arranging for sheriff or other third party to conduct, the foreclosure sale.
J	Attending the foreclosure sale, when required.
K	Obtaining judicial confirmation of foreclosure sale, where required by local law.
L	Preparing all legal papers necessary to convey title to Fannie Mae or a successful third-party bidder.

In general, the maximum allowable foreclosure fee for non-judicial foreclosures is intended to cover all services that are typically required to be performed by counsel in the completion of a non-judicial foreclosure resulting in title transferring from the borrower to the highest bidder at the foreclosure sale, in accordance with local laws. The following table lists the services included in the allowable non-judicial foreclosure fee.

<b>Non-Judicial Foreclosure Services</b>	
A	Ordering title.
B	Reviewing title reports and exceptions.
C	Preparing all necessary legal papers to initiate the non-judicial foreclosure process, including Substitution of Trustee, Notice of Default, and Notice of Sale.
D	Recording the necessary documents in the appropriate county recorder's office.
E	Executing all steps necessary to obtain service of process on all persons entitled to notice, including review of process server affidavits and referral and tracking of published notices.
F	Publishing and posting the requisite notices as required by local foreclosure law.
G	Preparing all legal papers to conduct the foreclosure sale.
H	Conducting, or arranging for sheriff or other third party to conduct, the foreclosure sale.
I	Attending the foreclosure sale, when required.
J	Preparing and filing a report of sale with the local court or recorder's office, where required by local law.

<b>Non-Judicial Foreclosure Services</b>	
K	Preparing all legal papers necessary to convey title to Fannie Mae or a successful third-party bidder.

For both judicial and non-judicial foreclosure actions, the full attorneys' fee cannot be considered to be earned until all of the steps necessary to complete the foreclosure and vest title in Fannie Mae, including any post-sale confirmation or ratification proceedings, have been completed.

For both judicial and non-judicial foreclosure actions, the maximum allowable attorney fee does not include the costs involved in such a proceeding, such as title charges, filing costs, recordation costs, process server expenses, and publication costs, as applicable.

Fannie Mae will reimburse the servicer for reasonable attorney fees necessary to resolve issues caused by unexpected events, unless they are due to

- a breach or alleged breach of selling warranties or representations or origination or selling activities,
- the servicer's failure or alleged failure to satisfy its servicing duties and responsibilities, or
- actual or alleged error or lack of diligence on the part of the servicer as it relates to law firm performance management and compliance oversight.

Events which may require additional legal services include, but are not limited to, the following:

- additional court appearances due to borrower delay or court-initiated continuances;
- motions to shorten redemption periods (for instance, when a property has been abandoned);
- litigation activities, including discovery practice, motions, trial, and appeal, engendered by borrower defenses not related to origination or servicing of the mortgage loan or the acts or omissions of a law firm selected and retained by the servicer;
- probate court practice required due to the death of the borrower or co-borrower; or
- intervention by other claimants, including taxing authorities or homeowners' or condo associations.

The servicer must pay counsel a reasonable fee for services rendered if additional legal services are required to protect Fannie Mae's interest and the legal services



- are not within the scope of services contemplated by the maximum allowable foreclosure fee, and
- are required due to a breach or alleged breach of selling warranties or representations or origination or selling activities or to the lender's failure or alleged failure to satisfy its duties and responsibilities as a servicer. In these circumstances, Fannie Mae will not reimburse the servicer for the fees.

The servicer must not require (and must not permit their affiliates or any outsourcing companies or other third-party vendors utilized by the servicer to assist in servicing defaulted mortgage loan to require) law firms to perform additional services for no compensation.

Some of the services for which the servicer is obligated to pay counsel without reimbursement from Fannie Mae may include, but are not limited to, the following:

- Title curative work, including judicial proceedings to eliminate recorded liens that are prior in time; judicial proceedings to account for missing intervening assignments; and legal analysis and communications with prior lienholders and title companies.
- Litigation activities, including discovery practice, motions, trial, and appeal, caused by borrower defenses related to origination or servicing of the mortgage loan, including payment dispute allegations.

Fannie Mae will not reimburse the servicer for legal fees and expenses related to actions that are essentially servicing functions or for expenses that are properly allocated to the law firm's overhead expenses, since such expenses are taken into consideration when Fannie Mae establishes its fee schedule.

Expenses that are generally considered to be overhead costs include:

- travel time and expenses,
- document preparation charges,
- secretarial and word processing "time" charges,
- fees for notary services,
- photocopy charges,
- charges for certified copies of documents,
- charges for legal services to the trustee,

- telephone charges, and
- any charges for calls or correspondence to the servicer or Fannie Mae.



### **E-5-05, Prorated Attorneys Fees (11/12/2014)**

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Although Fannie Mae has established maximum allowable foreclosure fees for each jurisdiction, it will only reimburse a servicer for attorney fees that have been prorated to reasonably relate to the amount of legal work actually performed by the law firm.

When a foreclosure is stopped because the borrower files for bankruptcy, the mortgage is reinstated, or a workout agreement is executed, the attorney fee related to the stopped foreclosure proceedings must bear a proportional relationship to the fee that would have been charged had the foreclosure proceedings continued to their completion. The fee must be prorated to the amount of work actually performed before the foreclosure action was stopped and be consistent with Fannie Mae's standard reimbursable fee, or any additional fee Fannie Mae authorized.

It is not necessary for prorated attorney fees to be evenly distributed over the entire foreclosure process. The initial file review and the commencement of the foreclosure proceedings generally are the most labor-intensive phases of the process, which means that a greater portion of the fee may relate to these activities. The servicer must determine the reasonableness of a prorated fee based on all of the facts and circumstances of each particular case.

If foreclosure proceedings are subsequently recommenced, the fee paid to the law firm for the subsequent foreclosure proceedings will vary depending on whether the earlier proceedings can be resumed or must be started over. If earlier proceedings can be resumed, the fee for the completion of the foreclosure must relate to the amount of work the attorney actually performs after the proceedings have been resumed. If the proceedings have to be started over, the attorney will be entitled to the full amount of Fannie Mae's allowable fee once the foreclosure is completed.

The servicer and the law firm may charge the borrower only those foreclosure fees and costs that are permitted under the terms of the note, security instrument, and applicable laws. The servicer must include the applicable attorney fee as part of the amount required to reinstate the mortgage loan. All out-of-pocket costs that the law firm incurred prior to the cessation of foreclosure proceedings must be collected from the borrower as a condition of the reinstatement or workout agreement. These out-of-pocket expenses may include such things as

- foreclosure title searches,

- court filing costs,
- service of process costs, and
- publication costs.

If the servicer fails to include as part of the amount required to reinstate or pay off the mortgage loan any legal fees and costs that were incurred in connection with the foreclosure proceedings, or is prohibited from charging the borrower for certain costs under applicable law, it must reinstate or pay off the loan without collection of such legal fees and costs from the borrower. In addition, the servicer must pay the law firm for the fees and costs incurred by the law firm even if sufficient funds were not collected from the borrower.

The servicer cannot request that Fannie Mae reimburse it for any legal fees and costs that it failed to include as part of the amount required to reinstate or pay off the loan, unless it was not legally permissible to collect the fees and costs from the borrower. If it was not legally permissible to collect fees and costs from the borrower, Fannie Mae will reimburse the servicer for such fees and costs to the extent that

- services were performed to protect Fannie Mae's interests,
- services were actually rendered, and
- the fees and costs were actual, reasonable, and necessary and complied with Fannie Mae's guidelines.

The servicer must follow the procedures in *Requesting Reimbursement for Prorated Attorneys' Fees* in F-1-06, Expense Reimbursement, to request reimbursement for prorated attorneys' fees.



## **E-5-06, Technology Fees and Electronic Invoicing (11/12/2014)**

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The servicer or any outsourcing companies or third-party vendors utilized by the servicer must not directly or indirectly charge to the attorney handling Fannie Mae mortgage loans technology or electronic invoice submission fees.

These charges include, without limitation, any fees charged

- on a per loan basis,
- on a “click charge” basis,
- for entering data into the servicer's systems or any other systems, and
- for accessing data in the servicer's systems or any other systems.

The servicer must

- directly pay any outsourcing companies or third-party vendors utilized by the servicer for any technology or electronic invoice submission fees, and
- ensure that attorneys are permitted to integrate the systems used by the attorneys with those of the outsourcing company or third-party vendor utilized by the servicer without any cost to the attorney.

Fannie Mae will reimburse the servicer for technology and electronic invoice submission fees paid by the servicer to an outsourcing company or a third-party vendor up to the limitations set forth below. Any fees paid by the servicer that exceed these limitations must be borne by the servicer. In addition, no portion of the fees for technology usage or electronic invoice submission may be charged as a cost to the borrower or be charged to the attorney.

With respect to technology fees, Fannie Mae will reimburse a maximum of \$25.00 per loan for the life of a default, including all portions of the foreclosure and bankruptcy process.

With respect to electronic invoice submission fees, Fannie Mae will reimburse a maximum of \$10.00 for the life of the loan, regardless of the number of reinstatements, foreclosure referrals, bankruptcy filings, or invoices submitted.

The maximum reimbursable fee is \$5.00 for the submission of electronic invoices relating to a foreclosure, regardless of the number of invoices, and an additional \$5.00 for the submission of electronic invoices if a bankruptcy is filed on the same loan, regardless of the number of invoices.

The servicer must follow the procedures in *Defined Expense Reimbursement Limits* in F-1-06, Expense Reimbursement, for allowable technology and electronic invoicing fees.



## E-5-07, Other Reimbursable Expenses (11/12/2014)

### Introduction

Both the servicer and the law firm must make every effort to reduce foreclosure-related costs and expenses in a manner consistent with Fannie Mae's guidelines and all applicable law. Some costs may be reduced through more efficient use of the print media. For example, in posting a legal advertisement, the foreclosure attorney (or trustee) must substitute a reference to the mortgage loan for the full legal description of the property—if doing so will not affect the validity of the foreclosure sale. Similarly, in some circumstances, costs may be managed by ensuring that an advertisement is not typeset or spaced in a manner that increases the costs with no apparent additional benefit. On-line or alternative publications may be used to reduce the costs of publication, if allowed by applicable state laws.

The servicer must attempt to minimize the costs incurred from third-party vendors—such as auctioneers or constables—by regularly examining the pricing offered by alternative vendors and negotiating for the best value from the vendor and other qualified service providers. In addition, title costs to confirm title and identify parties entitled to notice of the foreclosure must be kept at a minimum. Where permitted by law, a title search, abstract, or Limited Trustee Sale Guaranty must be obtained in lieu of an insured product or a full Trustee Sale Guaranty, when the cost of obtaining the title search, abstract, or Limited Trustee Sale Guaranty is less than the cost to obtain an insured product or a full Trustee Sale Guaranty.

Fannie Mae will reimburse the servicer for Fannie Mae's share of any funds it advances for foreclosure expenses related to FHA, VA, and conventional mortgage loans (whether they are whole mortgage loans or participation pool mortgage loans held in Fannie Mae's portfolio or MBS mortgage loans serviced under the special servicing option) and those related to RD mortgage loans serviced under the special servicing option. Specifically, Fannie Mae will reimburse the servicer for the out-of-pocket costs that it pays to third-party vendors or the courts, which are listed in *Defined Expense Reimbursement Limits* in F-1-06, Expense Reimbursement, and provided the costs are actual, reasonable, and necessary (and are included in any applicable FHA, VA, RD, or mortgage insurance claim that is filed).

To request reimbursement for these items, the servicer must follow the procedures in *Requesting Reimbursement for Other Reimbursable Expenses* in F-1-06, Expense Reimbursement.

This topic contains the following:

- Publication of Legal Notices for California Non-Judicial Foreclosures

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### **Publication of Legal Notices for California Non-Judicial Foreclosures**

Fannie Mae will reimburse the servicer its costs for publication of legal notices for California non-judicial foreclosures only if the notices are placed through one of the Daily Journal Corporation newspapers listed in Reimbursement for Publication of Legal Notices for California Non-Judicial Foreclosures in F-1-06, Expense Reimbursement, that will satisfy the state's notice requirements. If none of the newspapers listed meet the notice requirements of California law, the law firm retained by the servicer must select another newspaper that both will meet the notice requirements of California law and is one of the least expensive and most frequently published. The servicer must follow the procedures in *Requesting Reimbursement for Other Reimbursable Expenses* in F-1-06, Expense Reimbursement, to request reimbursement for these costs.

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# Part F, Servicing Guide Procedures, Exhibits, and Quick Reference Materials



## Procedures, Exhibits, and Quick Reference Materials

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### Introduction

This part contains reference materials to support this *Servicing Guide*.

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### In This Part

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# Chapter F-1, *Servicing Guide* Procedures



## Servicing Guide Procedures

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### Introduction

This chapter provides resources to support this Guide.



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## Chapter 1, Servicing Guide Procedures

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## **F-1-01, Servicing ARM Loans (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Reviewing ARM Adjustment Correction Errors
- Reviewing ARM Adjustment Correction Errors for Assumed Mortgage Loans
- Correcting ARM Adjustment Errors
- Verifying the Correct Interest Rate and Payment Amount for Each Adjustment Period
- Re-amortizing the Mortgage Loan
- Calculating the New Monthly Payment After an Adjustment Error
- Determining the Amount of an Under- or Overcharge Related to an Adjustment Error
- Correcting Conversion Notice Errors
- Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment
- Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment and an Incorrect Interest Rate
- Exercising/Reporting ARM Conversions for Portfolio Mortgage Loans
- Determining Fannie Mae's Required Net Yield for an ARM Loan Conversion
- Determining the Monthly Payment and Effective Date for an ARM Loan Conversion
- Repurchasing Converted MBS Mortgage Loans and Redelivering Them to Fannie Mae

### **Reviewing ARM Adjustment Correction Errors**

When reviewing adjustments made for ARM loans it services for Fannie Mae, the servicer must follow all of Fannie Mae's procedures, in accordance with C-2.2-01, Identifying and Disclosing Adjustment Errors, regardless of whether the review is undertaken as a result of

- a full audit,
- a routine spot-check of its ARM adjustments, or
- an inquiry from a third party.

### Reviewing ARM Adjustment Correction Errors for Assumed Mortgage Loans

The following table describes how to review adjustments for ARM loans that have been assumed, in accordance with C-2.2-01, Identifying and Disclosing Adjustment Errors.

If the previous borrower...	Then the servicer must...
requested the review	review only those adjustments that occurred prior to the effective date of the assumption.
did not request the review	review only those adjustments that occurred after the effective date of the assumption.

### Correcting ARM Adjustment Errors

The following table describes various scenarios and resulting actions the servicer must take after correcting an ARM adjustment error, in accordance with C-2.2-01, Identifying and Disclosing Adjustment Errors.

If the servicer...	Then the servicer must...
does not reflect the adjustment error consistently in its own internal records, Fannie Mae's records, and notices sent to the borrower	adjust its records by re-amortizing the mortgage loan to properly allocate the P&I distribution for any incorrectly applied payments and to correct the UPB.  <b>Note:</b> Generally, the borrower does not need to be notified of the correction since it results in amortization of the mortgage loan under the terms that were disclosed to the borrower in their mortgage loan documents.
is required to file a corrected <i>Mortgage Interest Statement</i> (IRS Form 1098) with the IRS	send the borrower the appropriate notification of the correction.

If the servicer...	Then the servicer must...
notifies the borrower of an incorrect interest rate and/or monthly payment, but updates its records and Fannie Mae's records correctly	notify the borrower of the correction and update Fannie Mae's records if the borrower's UPB after the correction differs from the UPB that Fannie Mae has in its records.

If the ARM adjustment errors require a correction to the Fannie Mae investor reporting system records, the servicer may need to change

- the monthly payment,
- the mortgage loan interest rate,
- the mortgage loan pass-through rate,
- the pool accrual rate, and/or
- other key ARM plan parameters that Fannie Mae retains in its records.

ARM adjustment errors may also have resulted from the servicer's erroneous remittances to Fannie Mae. Fannie Mae may require the servicer to submit appropriate documentation to support its proposed corrective action. This documentation may include

- copies of the mortgage note and ARM rider,
- the payment history records,
- the corrected amortization schedule, and
- the lender's negotiated contract, if it permitted the ARM adjustments to be handled in a manner that differs from Fannie Mae's standard requirements.

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### Verifying the Correct Interest Rate and Payment Amount for Each Adjustment Period

The following table provides instructions for verifying the correct interest rate for each ARM adjustment period in accordance with C-2.2-01, Identifying and Disclosing Adjustment Errors.

Step	Servicer Action
1	Use the correct index value applicable for each adjustment date.
2	Apply any per-adjustment interest rate caps.
3	Round the resulting rate as specified in the mortgage loan instrument.

**Note:** If application of a per-adjustment cap to the final interest rate change would perpetuate the error(s), the servicer must not apply it. The corrected interest rate must never exceed the original interest rate by more than the lifetime cap specified in the mortgage loan instruments.

This same procedure must be used to verify ARM adjustment errors that involve only incorrect interest rate changes, as well as to verify errors that involve only incorrect payment changes if the errors were not identified until after an interest rate change occurred.

The following table shows a variation of this procedure that must be used for ARM adjustment errors involving only incorrect payment changes that are identified before an interest rate change occurs.

Step	Servicer Action
1	Use the correct monthly payment applicable for each payment adjustment date.
2	Apply any payment caps for each adjustment date that occurred during the period for which the ARM loan was incorrectly adjusted.  <b>Note:</b> If applying a per-adjustment cap to any payment change would perpetuate the previous error(s), the servicer must not apply it.

### Re-amortizing the Mortgage Loan

In accordance with *Re-amortizing the Mortgage Loan* in C-2.2-01, Identifying and Disclosing Adjustment Errors, the servicer must adhere to the following instructions.

To re-amortize the mortgage loan, the servicer must use

- the correct interest rate for each interest rate adjustment date that occurred during the period the ARM loan was incorrectly adjusted, and
- the actual payment that the borrower has been making.

However, if the adjustment error for any given adjustment period involved only an incorrect monthly payment, the ARM loan should be re-amortized for only that adjustment period. For this scenario, the servicer must use

- the correct interest rate, and

- the correct monthly payment (instead of the actual payment the borrower was making).

The servicer must also ensure the dates on which it applies any curtailments under the corrected amortization schedule are the same as those on which the curtailments were actually applied.

**Note:** The overcharge or undercharge to the borrower is the difference between the re-amortized UPB for the ARM loan and the actual UPB that resulted from the incorrect payment application.

### Calculating the New Monthly Payment After an Adjustment Error

When the servicer identifies and corrects an adjustment error, it must then calculate the new monthly payment, in accordance with *Calculating the New, Correct Monthly Payments* in C-2.2-01, Identifying and Disclosing Adjustment Errors. The following table describes the process for determining the correct monthly payment.

If the adjustment error involved...	Then the interest rate...
both an incorrect interest rate and monthly payment	<p>may or may not need to be changed, depending on whether the subsequent interest rate adjustments resulted in the borrower being charged interest at the correct rate.</p> <p>To calculate the correct monthly payment, the servicer must use</p> <ul style="list-style-type: none"> <li>• the correct interest rate,</li> <li>• the actual UPB and remaining mortgage loan term as of the LPI date, and</li> <li>• any applicable payment cap, unless its application would perpetuate the previous error(s).</li> </ul>
an incorrect monthly payment only	<p>does not need to be changed.</p> <p>To calculate the correct monthly payment, the servicer must use the monthly payment that should have become effective on the last payment adjustment date.</p>

If the adjustment error involved...	Then the interest rate...
	<p><b>Note:</b> This is necessary even if the difference between the correct payment and the erroneous payment is greater than the applicable per-adjustment cap.</p>
an incorrect interest rate only	may or may not need to be changed, depending on whether subsequent rate adjustments resulted in the borrower being charged interest at the correct rate.

### Determining the Amount of an Under- or Overcharge Related to an Adjustment Error

When the servicer identifies and corrects an adjustment error, it must then determine the amount of the undercharge or overcharge, in accordance with *Calculating the New, Correct Monthly Payments* in C-2.2-01, Identifying and Disclosing Adjustment Errors. The following table describes the process for making this determination.

If...	And...	Then the borrower...
both the mortgage loan interest rate and the monthly payment were incorrect	the UPB that results from the re-amortization is lower than the actual principal balance of the mortgage loan	was overcharged, and is due a refund of (or a credit for) the overcharge.
both the mortgage loan interest rate and the monthly payment were incorrect	the UPB that results from the re-amortization is higher than the actual principal balance of the mortgage loan	was undercharged, although the servicer must not require the borrower to make up the difference between the actual payment and the correct payment, nor may it charge the borrower interest on the amount of the undercharge.
the mortgage loan interest rate was incorrect, but the monthly payment was correct	the UPB that results from the re-amortization is lower than the actual principal balance of the mortgage loan	was charged too much interest, and is due a credit for the overcharge. Because the monthly payment was correct, the borrower is not due an actual cash refund of the interest overcharge. Instead, the servicer must re-allocate the payment it received between

If...	And...	Then the borrower...
		P&I to reduce the UPB by the amount of the overcharge.
the mortgage loan interest rate was incorrect, but the monthly payment was correct	the UPB that results from the re-amortization is higher than the actual principal balance of the mortgage loan	was charged too little interest. The servicer must not require the borrower to make up the interest undercharge, re-allocate the borrower's payment between P&I, nor may it charge the borrower interest on the amount of the undercharge.
the monthly payment was incorrect, but the mortgage loan interest rate was correct	the UPB that results from the re-amortization is higher than the actual principal balance of the mortgage loan	was overcharged, and is due a credit for the overcharge. Under certain conditions, the borrower is due a refund of the overcharge.
the monthly payment was incorrect, but the mortgage loan interest rate was correct	the UPB that results from the re-amortization is lower than the actual principal balance of the mortgage loan	was undercharged. The servicer must not require the borrower to make up the difference between his or her actual payment and the correct payment, nor may it charge the borrower interest on the amount of the undercharge.

### Correcting Conversion Notice Errors

The servicer must adhere to the following procedures if a borrower questions the servicer's failure to provide advance notification of an upcoming opportunity to exercise an option to convert to a fixed-rate mortgage loan, in accordance with C-2.2-02, Assuming Responsibility for Conversion Notice Errors.

The servicer must verify the correct interest rate for a borrower who questions the servicer's failure to provide advance notification of an upcoming opportunity to exercise the option to convert to a fixed-rate mortgage loan. To accomplish this, the servicer must calculate the rate that would have been in effect had the borrower been given timely notice of the conversion option and made his or her election within the required time frame.

The interest rate must

- be calculated in accordance with the provisions of the mortgage loan instruments, and
- **not** exceed the original interest rate by more than the lifetime interest rate cap specified in the mortgage loan instruments.



## Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment

The following table provides instructions for the servicer to determine whether to refund or credit overcharges related to an incorrect monthly payment for a current ARM loan, in accordance with C-2.2-03, Determining Whether to Provide a Refund or Credit for Overcharges.

If the ARM loan is...	Then the servicer must...
current, and the servicer has not advanced funds to cure an escrow overdraft	<p>give the borrower the choice between</p> <ul style="list-style-type: none"> <li>• receiving a cash refund and having the UPB of the mortgage loan increased to the correct amount, or</li> <li>• having the previous overpayment of principal treated as the application of a curtailment and leaving the actual, lower UPB in effect.</li> </ul>
current, and the servicer has advanced funds to cure an escrow overdraft	<p>give the borrower a choice between</p> <ul style="list-style-type: none"> <li>• having the overcharge credited against the servicer’s outstanding advance, or</li> <li>• having the overcharge treated as the previous application of a curtailment.</li> </ul> <p>If the borrower chooses a credit, the servicer must increase the UPB of the mortgage loan to the amount that it would have been if the payment adjustment had been correct. However, the servicer may decrease the borrower’s payment by any amount previously added to the payment to repay the servicer for its advance.</p> <p>If the borrower chooses a curtailment, then the actual, lower UPB remains in effect and the borrower must continue to pay the advance as part of the monthly payment.</p>
delinquent, but the servicer has not advanced funds to cure an escrow overdraft	<p>base its action on the amount of the overcharge, and either</p> <ul style="list-style-type: none"> <li>• leave the actual, lower UPB in effect if the overcharge is less than a monthly payment of P&amp;I; or</li> <li>• credit the borrower if the overcharge is equal to one or more monthly payments of P&amp;I by</li> </ul>

If the ARM loan is...	Then the servicer must...
	<ul style="list-style-type: none"> <li>– changing the UPB of the ARM loan to the balance that would have been in effect if the adjustment error had not occurred, and</li> <li>– re-applying the overcharge as P&amp;I installments to advance the LPI date, with any remaining overages credited as a curtailment.</li> </ul>
delinquent, and the servicer has advanced funds to cure an escrow overdraft	<p>repay its advance and apply any remainder toward reducing or curing the delinquency.</p> <p>To repay its advance, the servicer must</p> <ul style="list-style-type: none"> <li>• increase the UPB of the ARM loan by the amount of the overcharge, and</li> <li>• reduce the monthly payment accordingly, if the monthly payment had been increased to repay the advance.</li> </ul> <p><b>Note:</b> The borrower will not be given an option on how to credit the overcharge.</p>

### Refunding or Crediting Overcharges Resulting from an Incorrect Monthly Payment and an Incorrect Interest Rate

The servicer must issue a cash refund or credit if the incorrect monthly payment and incorrect interest rate results in a net overcharge of more than \$1.00. The following table describes procedures the servicer must follow in determining whether to refund or credit overcharges related to an incorrect monthly payment and an incorrect interest rate, in accordance with C-2.2-03, Determining Whether to Provide a Refund or Credit for Overcharges.

If the mortgage loan is...	Then the servicer must...
current, and the servicer has not advanced funds to cure an escrow overdraft	send the borrower a cash refund.
current, but the servicer has advanced funds to cure an escrow deficit	credit the overcharge by applying it to reduce the amount of the outstanding advance.

If the mortgage loan is...	Then the servicer must...						
	<p><b>Note:</b> If any of the net overcharge remains after the advance is fully paid, the servicer must send the borrower a cash refund of the remaining amount.</p>						
<p>delinquent, but the servicer has not advanced funds to cure an escrow deficit</p>	<p>credit the borrower for the net overcharge, as follows:</p> <p>If the net overcharge is sufficient to bring the mortgage loan current, the servicer must</p> <ul style="list-style-type: none"> <li>• apply the overcharge to the past due installments, and</li> <li>• provide the borrower a cash refund of any remaining amount.</li> </ul> <p>If the net overcharge is not equal to the full amount of the delinquent monthly payments and applying the overcharge to them jeopardizes current or potential foreclosure proceedings, the servicer must treat the net overcharge as unapplied funds until the borrower submits all of the delinquent monthly payments.</p> <p>If the servicer subsequently must initiate foreclosure proceedings because the borrower did not submit the additional amounts requested, the servicer must apply the funds being held as unapplied toward the reduction of the total indebtedness.</p> <p>If the net overcharge is not equal to the full amount of the delinquent monthly payments, but applying the overcharge does not jeopardize foreclosure proceedings, the servicer must apply the overcharge to the delinquent monthly payments.</p>						
<p>delinquent, and the servicer has advanced funds to cure an escrow overdraft</p>	<p>credit the borrower for the net overcharge by completing the steps in the following table.</p> <table border="1" data-bbox="594 1629 1412 1850"> <thead> <tr> <th data-bbox="594 1629 686 1675">Step</th> <th data-bbox="686 1629 1412 1675">Servicer Action</th> </tr> </thead> <tbody> <tr> <td data-bbox="594 1675 686 1766">1</td> <td data-bbox="686 1675 1412 1766">Apply the overcharge to reduce the amount of the servicer’s outstanding advance.</td> </tr> <tr> <td data-bbox="594 1766 686 1850">2</td> <td data-bbox="686 1766 1412 1850">Apply any remaining overcharge to reduce the delinquency.</td> </tr> </tbody> </table>	Step	Servicer Action	1	Apply the overcharge to reduce the amount of the servicer’s outstanding advance.	2	Apply any remaining overcharge to reduce the delinquency.
Step	Servicer Action						
1	Apply the overcharge to reduce the amount of the servicer’s outstanding advance.						
2	Apply any remaining overcharge to reduce the delinquency.						

## Exercising/Reporting ARM Conversions for Portfolio Mortgage Loans

The servicer must notify Fannie Mae about the conversion of a portfolio ARM loan or participation pool ARM loan to a fixed-rate mortgage loan when it submits its monthly accounting reports, in accordance with C-2.3-01, Processing ARM Conversions to Fixed Rate Mortgage Loans.

The following table provides a timeline that compares the requirements for exercising and reporting conversions of ARM plans that have a monthly conversion option to those that have a periodic conversion option.

Action Date	Monthly Conversion Option	Periodic Conversion Option
Date by which borrower must give notice of election to convert	Lender-specified date. Generally, the date will be in the first 5 days of a month for conversions that will become effective on the first <sup>1</sup> day of the second month following the election notice.	Lender-specified date. Generally, the date will be between 15 and 45 days before the scheduled interest rate change date.
Date by which borrower must pay conversion fee and return executed documents	Lender-specified date. Generally, the date will fall between 5 and 45 days before the date on which the new converted interest rate will become effective <sup>1</sup> .	Lender-specified date. Generally, the date will fall between 5 and 30 days before the scheduled interest rate change date.
Date of Fannie Mae required net yield used as basis for new converted interest rate	Applicable yield in effect as of the beginning of the first business day of the month in which the election notice is given.	Applicable yield in effect as of the beginning of the day that is 45 days before the scheduled interest rate change date.
Effective date for new converted interest rate	First <sup>2</sup> day of the second month following the election notice.  New converted interest rate is determined as follows: <ul style="list-style-type: none"> <li>For mortgage loans with terms greater than 15 years —60<sup>3</sup>-day mandatory delivery yield for 30-year</li> </ul>	Scheduled interest rate change date.  New converted interest rate is determined as follows: <ul style="list-style-type: none"> <li>For mortgage loans with terms greater than 15 years —60<sup>3</sup>-day mandatory delivery yield for 30-year</li> </ul>

Action Date	Monthly Conversion Option	Periodic Conversion Option
	<p>fixed-rate mortgage loans + 0.625% (or 0.875% for a cooperative share loan, unless the note specifies a different percentage), rounded to the nearest 0.125%.</p> <ul style="list-style-type: none"> <li>For mortgage loans with terms of 15 years or less— 60<sup>3</sup>-day mandatory delivery yield for 15-year fixed-rate mortgage loans + 0.625% (or 0.875% for a cooperative share loan, unless the note specifies a different percentage), rounded to the nearest 0.125%.</li> </ul>	<p>fixed-rate mortgage loans + 0.625% (or 0.875% for a cooperative share loan, unless the note specifies a different percentage), rounded to the nearest 0.125%.</p> <ul style="list-style-type: none"> <li>For mortgage loans with terms of 15 years or less— 60<sup>3</sup>-day mandatory delivery yield for 15-year fixed-rate mortgage loans + 0.625% (or 0.875% for a cooperative share loan, unless the note specifies a different percentage), rounded to the nearest 0.125%.</li> </ul>
Effective date for new payment	First <sup>2</sup> day of the month following the effective date of the new converted interest rate.	First <sup>2</sup> day of the month following the scheduled interest rate change date.
Last date for notifying borrower of new payment	Twenty-five days before the effective date of the new payment.	Twenty-five days before the effective date of the new payment.
Last date for reporting conversion to Fannie Mae	Third business day of the month following the effective date for the new payment (which is when the Fannie Mae investor reporting system reports for the reporting period that includes that effective date are due).	Third business day of the month following the effective date for the new payment (which is when the Fannie Mae investor reporting system reports for the reporting period that includes that effective date are due).

<sup>1</sup>To ensure consistent treatment of borrowers, servicers that service both portfolio mortgage loans and MBS mortgage loans should consider using the time frame required for MBS mortgage loans – which is no later than the 15th day of the month in which the election notice is given.

<sup>2</sup>Timeline assumes that the monthly payments are due on the first day of each month. If not, the servicer must change these references to reflect the day of the month on which monthly payments are actually due.

<sup>3</sup>For mortgage loans purchased under commitments dated prior to December 9, 1987, Fannie Mae’s required net yield would be the posted yield for similar 30-day mandatory delivery commitments for fixed-rate mortgage loans.

## Determining Fannie Mae’s Required Net Yield for an ARM Loan Conversion

The following content describes how to determine Fannie Mae’s required net yield for ARM loans, in accordance with C-2.3-01, Processing ARM Conversions to Fixed Rate Mortgage Loans.

### Convertible ARM Plans with a Periodic Conversion Option:

The required net yield is the yield in effect for

- 60-day mandatory commitments for comparable term conventional fixed-rate first lien mortgage loans,
- accounted for under the actual/actual remittance type, and
- at the time Fannie Mae’s Capital Markets Sales Desk opened on the first business day of the month in which the borrower requested the conversion.

If the ARM loan is part of an MBS pool, the definition of required net yield depends on the post-conversion disposition option designated by the seller when it delivered the MBS pool to Fannie Mae. The following table provides the required net yield information for each post-conversion disposition option.

Some plans apply the limit on the amount by which the interest rate can change over the life of the mortgage loan to the new rate established for the fixed-rate mortgage loan at the time of the conversion. Therefore, the servicer must compare the newly calculated interest rate to the original note rate. If the new interest rate exceeds the original note rate by more than the specified percentage, the new interest rate will be the rate determined by adding that percentage to the original note rate.

<b>Seller selected disposition option</b>	<b>The required net yield is...</b>
Market rate post-conversion option	the posted 60-day mandatory delivery actual/actual commitment yield for 30-year conventional fixed-rate mortgage loans (or the yield for 15-year mortgage loans, if the term of the ARM was 15 years or less) that was in effect on a specific date (as specified at the time of mortgage loan origination) that falls during the month that is two months before the date on which interest will begin to accrue at the new fixed rate.
Take-out post-conversion option	the yield that Fannie Mae has posted for the actual/actual remittance type when Fannie Mae’s Capital Markets Desk opens

<b>Seller selected disposition option</b>	<b>The required net yield is...</b>
	on the first business day of the second month before the date on which interest begins to accrue at the new fixed interest rate. To establish the new interest rate, this yield must be increased by 0.625% (or 0.875%, if the mortgage loan is secured by a co-op unit). If the note provides for it, this new rate must be rounded to the nearest 0.125%. The new interest rate becomes effective on the conversion date.

### **Convertible ARM Plans with a Monthly Conversion Option**

The required net yield is the yield that was in effect 45 days before the conversion date. The following table provides additional yield information depending on the date of the ARM loan commitment.

<b>For ARM loans...</b>	<b>Fannie Mae's required net yield is...</b>
purchased under commitments dated prior to December 9, 1987	the posted yield for similar 30-day mandatory delivery commitments for fixed-rate mortgage loans.
purchased under commitments dated on and after December 9, 1987	the posted yield for similar mandatory delivery commitments that have a 60-day term.

To establish the new interest rate, this yield must be increased by 0.625% (or 0.875%, if the ARM loan is secured by a co-op unit). If the note provides for it, this new rate must be rounded to the nearest 0.125%. The new interest rate becomes effective on the conversion date.

These plans also apply the limit on the amount by which the interest rate can change over the life of the ARM loan to the new rate established for the fixed-rate mortgage loan at the time of the conversion. Therefore, the servicer must compare the new calculated interest rate to the original note rate. If the new interest rate exceeds the original note rate by more than the specified percentage, the new interest rate will be the rate determined by adding that percentage to the original note rate.

### **Determining the Monthly Payment and Effective Date for an ARM Loan Conversion**

The following procedure provides instructions for determining the new monthly payment and effective date, in accordance with C-2.3-01, Processing ARM Conversions to Fixed Rate Mortgage Loans.

To calculate the new monthly payment, determine the amount required to repay the UPB of the ARM loan

- in substantially equal payments,
- over the remaining term of the mortgage loan, and
- at the new fixed interest rate.

This new monthly payment becomes effective in the month following the month in which the new fixed interest rate goes into effect—either on

- the first day of the month, or
- on the applicable due date, if the mortgage loan has a payment due date other than the first of the month.

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### Repurchasing Converted MBS Mortgage Loans and Redelivering Them to Fannie Mae

The following table provides additional information regarding the repurchase and redelivery of converted MBS mortgage loans in accordance with C-2.3-03, Repurchasing Converted MBS Mortgage Loans and Redelivering Them to Fannie Mae.

Post-Conversion Disposition Option	Under this option, the servicer must...
Option 1: Market Rate	<ul style="list-style-type: none"> <li>• Decide whether or not to redeliver the converted mortgage loan to Fannie Mae,</li> <li>• retain the interest rate risk associated with the period of time between the date the mortgage loan is converted and the date of any future sale of the mortgage loan, and</li> <li>• verify the mortgage loan meets the specific eligibility requirements for converted ARM loans that are specified in the <i>Selling Guide, C3-5-01, Creating Stated-Structure ARM MBS</i>.</li> </ul> <p>If the servicer chooses to redeliver the mortgage loan to Fannie Mae, it may either deliver the mortgage loan</p> <ul style="list-style-type: none"> <li>• as part of a new MBS pool of fixed-rate mortgage loans, or</li> <li>• as a portfolio mortgage loan that must be either an actual/actual or a scheduled/actual remittance type.</li> </ul>



Post-Conversion Disposition Option	Under this option, the servicer must...
	The servicer is authorized to use any outstanding commitment it has with Fannie Mae (or obtain a new one) for the redelivery of the mortgage loan.
Option 2: Take-Out Option	<p>Redeliver the converted mortgage loan to Fannie Mae as a portfolio mortgage loan.</p> <p>Fannie Mae does not require the servicer to re-qualify the borrower or to verify that the mortgage loan still meets Fannie Mae’s eligibility requirements.</p> <p>Procedures for obtaining a take-out option commitment are in the <i>Selling Guide, C3-5-01, Creating Stated-Structure ARM MBS</i>.</p>



## F-1-02, Escrow, Taxes, Assessments, and Insurance (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Determining Property (Hazard) Insurance Coverage Amounts
- Submitting a Report of Property (Hazard) or Flood Insurance Loss
- Instructing Mortgage Insurers to Release Data
- Notifying Fannie Mae of Mortgage Insurance Rescissions, Claim Denials, or Cancellations
- Verifying Property Value for MI Termination

### Determining Property (Hazard) Insurance Coverage Amounts

The servicer must ensure that the property (hazard) insurance coverage amount meets the requirements in *Determining Minimum Coverage Amounts* in B-2-02, Property (Hazard) Insurance Requirements for Mortgage Loans Secured by a One- to Four-Unit Property.

The following table outlines the actions that the servicer must take to determine whether the insurance coverage amount meets Fannie Mae’s requirements.

Step	Servicer Action	
1	Compare the insurable value of the improvements (as established by the property insurer) to the UPB of the mortgage loan.	
	<b>If...</b>	<b>Then...</b>
	the insurable value of the improvements is less than the UPB	the insurable value will be the amount of coverage required.
	the UPB of the mortgage loan is less than the insurable value of the improvements	go to Step 2.
2	Calculate 80% of the insurable value of the improvements.	
	<b>If the resulting amount is...</b>	<b>Then...</b>
	equal to or less than the UPB of the mortgage loan	the UPB will be the amount of coverage required.
	greater than the UPB of the mortgage loan	this calculated figure will be the amount of coverage required.

The following table provides examples of calculating the amount of coverage required.

Category	Property A	Property B	Property C
Insurable Value of the Improvements	\$90,000	\$100,000	\$100,000
UPB	\$95,000	\$90,000	\$75,000
80% of the Insurable Value of the Improvements	—	\$80,000	\$80,000
Amount of Coverage Required	\$90,000	\$90,000	\$80,000

### Submitting a Report of Property (Hazard) or Flood Insurance Loss

The servicer must submit a *Report of Property (Hazard) Insurance Loss* ([Form 176](#)) to Fannie Mae in accordance with B-5-01, Insured Loss Events.

The following table provides the information required when submitting [Form 176](#) to Fannie Mae.

✓	<b>The servicer must include with its submission of Form 176...</b>
	The status of the mortgage loan: current, delinquent, in bankruptcy, or in foreclosure.
	The amount of the insurance loss proceeds.

✓	<b>The servicer must include with its submission of Form 176...</b>
	Photographs of the damaged property, if applicable.
	A complete accounting of the total debt, including UPB, accrued interest, advances, etc..
	Cost of repairs or restoration.
	Statement of impact that a total loss would have on conveyance of the property to the insurer or guarantor or on claim settlement.
	A recommendation on the disposition of the insurance loss proceeds.

### Instructing Mortgage Insurers to Release Data

The servicer must provide instructions for a mortgage insurance company to release information to Fannie Mae in accordance with B-8.1-01, Conventional Mortgage Insurance Servicer Responsibilities.

Follow these steps to instruct the mortgage insurance company to release details to Fannie Mae.

Step	Servicer Action
1	Use the disclosure template and release instructions posted on Fannie Mae’s website or any other form that is acceptable to the mortgage insurer and that results in the release of the requested data to Fannie Mae.
2	Return the disclosure template and release instructions (or its equivalent) to each mortgage insurer using the contact information posted on <a href="#">Fannie Mae’s website</a> .  <b>Note:</b> Language that accomplishes the same objective may also be included in any other written agreement between the servicer and mortgage insurer, such as a master primary policy, as long as it covers both mortgage loans currently insured by the mortgage insurer as well as those that become insured or may become insured in the future. Under such circumstances, separate instructions need not be returned to each mortgage insurer using the posted contacts.

### Notifying Fannie Mae of Mortgage Insurance Rescissions, Claim Denials, or Cancellations

The servicer must notify Fannie Mae of mortgage insurance rescissions, claim denials, or cancellations for all mortgage loans in accordance with B-8.1-01, Conventional Mortgage Insurance Servicer Responsibilities.

Follow these steps to notify Fannie Mae of mortgage insurance rescissions, claim denials, or cancellations.

If the mortgage loan is...	Then...	
active	<b>Step</b>	<b>Servicer Action</b>
	1	Report to Fannie Mae using Action Code 54 (MI Terminated—High Risk Loan) as part of their monthly activity reporting and by sending an email to <a href="mailto:mi_mail@fanniemae.com">mi_mail@fanniemae.com</a> .
	2	Report to Fannie Mae in the LAR that relates to the month in which the notification from the mortgage insurer was received and the Action Date must be the date of the notification received from the mortgage insurer. If the servicer cannot report the Action Code through the LAR file, then it must do so through SURF™.
liquidated	Notify Fannie Mae of mortgage insurance rescissions, claim denials, or cancellations by sending an email to <a href="mailto:mi_mail@fanniemae.com">mi_mail@fanniemae.com</a> .	

**Note:** Notification for active and liquidated mortgage loans must include the Fannie Mae and servicer loan numbers and a description of the rescission, mortgage insurer-initiated cancellation, or claim denial.

### Verifying Property Value for MI Termination

The servicer may cancel borrower-purchased mortgage insurance at the request of the borrower in accordance with *Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Property Value* in B-8.1-04, Termination of Conventional Mortgage Insurance.

Valuation of the property, if required, is at the expense of the borrower. As soon as the servicer receives the applicable fee for the confirmation of value from the borrower, it should request a BPO, certification of value, or new appraisal.



## **F-1-03, Establishing and Implementing Custodial Accounts (03/18/2015)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Establishing P&I Custodial Accounts
  - Drafting Schedule by Type of Draft
  - Establishing T&I Custodial Accounts
  - Disposition of T&I Funds
  - Implementing Custodial Accounts
  - Subservicer-Specific Requirements for Custodial Accounts
  - Establishing Drafting Arrangements
  - Drafting through CRS
  - Implementing CRS Drafting Arrangements
  - Remitting through CRS and ADS
  - Reconciling Custodial Bank Accounts
- 

### **Establishing P&I Custodial Accounts**

As described in *P&I Custodial Accounts* in A4-1-02, Establishing Custodial Bank Accounts, the funds in the P&I custodial account must relate to monthly P&I payments due Fannie Mae. The servicer of participation mortgage loans must deposit only Fannie Mae's percentage shares of the funds into the P&I custodial account. However, the servicer is authorized to transfer the entire P&I payment from its clearing account into the custodial account, as long as it removes its share of the funds no later than the next business day after they are deposited into the custodial account. The servicer must deduct the servicing fees and late charges before the servicer transfers P&I payments from its clearing account to the custodial account.

The following table describes the requirements for the collection and disposition of P&I funds.

✓	<b>The servicer must...</b>
	Establish a reasonable daily cut-off of its work to ensure that collections are promptly credited to the appropriate account.
	Ensure that it deposits any monthly payments collected after the mortgage loan was submitted to Fannie Mae for purchase or securitization, including any payments due from an interest rate buydown account, to the P&I account no later than one business day after it or its designee receives Fannie Mae’s purchase proceeds or the MBS.  Fannie Mae will consider waiving its next-day-deposit requirement when a servicer uses a computer service bureau or a third party as a collection agent if it feels that adequate controls exist.
	Maintain records identifying each borrower, the amount of each borrower’s payment, and the custodial account into which each payment is deposited.

### Drafting Schedule by Type of Draft

As described in *P&I Custodial Accounts* in A4-1-02, Establishing Custodial Bank Accounts, the required draft date will differ based on the type of draft.

The following table describes the schedule for various types of drafts.

<b>Draft Type</b>	<b>Drafting Schedule</b>
MBS LLPAs	5th business day of the month following issuance of the related MBS pool
<ul style="list-style-type: none"> <li>• Guaranty fees</li> <li>• Guaranty fee buydown charges</li> <li>• Fees for Flash MBS® processing</li> </ul>	7th business day of each month (or on the preceding business day if the 7th is not a business day)
Other fees and charges, such as <ul style="list-style-type: none"> <li>• Upfront commitment fees</li> <li>• Pair-off or extension fees</li> <li>• Pool contract fees</li> </ul>	Throughout the month

The servicer is authorized to withdraw funds from the P&I custodial account only for the following purposes:

- remit the funds due Fannie Mae on the remittance date,
- reimburse itself for delinquency advances for scheduled/actual and scheduled/scheduled remittance types that are recovered from subsequent collections (to the extent that such collections are payments on the related mortgage loan or are not required to be included in the funds due to Fannie Mae on the next remittance date),
- remove amounts that have been deposited in error,
- remove fees, charges, funds due related to servicing transfers, and other amounts that are deposited into the account on a temporary basis,
- remove interest earned on an interest-bearing custodial account, and
- clear and terminate the account.

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### Establishing T&I Custodial Accounts

As described in *T&I Custodial Accounts* in A4-1-02, Establishing Custodial Bank Accounts, funds in the T&I custodial account may not be commingled with P&I funds, the servicer’s general corporate funds, or with funds held by the servicer for other investors.

The following table describes requirements the servicer must adhere to when establishing custodial accounts for T&I funds.

✓	<b>The servicer must...</b>
	Establish a reasonable daily cut-off of its work to ensure that collections are promptly credited to the appropriate account.
	Deposit the borrower’s escrow account balance and funds for any interest rate buydown account that are not scheduled for application toward the monthly payment into the T&I custodial account no later than one business day after it (or its designee) receives Fannie Mae’s purchase proceeds or the MBS, for newly purchased or securitized mortgage loans. Fannie Mae may waive its next-day-deposit requirement when a servicer uses a computer service bureau or a third party as a collection agent if it feels that adequate controls exist.
	Maintain records if the servicer maintains separate T&I custodial accounts for different remittance types identifying

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• each borrower,</li> <li>• the amount of each borrower’s escrow deposit, and</li> <li>• the custodial account into which each payment is deposited.</li> </ul>

### Disposition of T&I Funds

As described in *T&I Custodial Accounts* in A4-1-02, Establishing Custodial Bank Accounts, all escrow-related disbursements for a mortgage loan must be made from the T&I custodial account.

The servicer is authorized to withdraw T&I funds from the T&I custodial account only for these purposes:

- pay taxes, insurance premiums, etc., when they are due;
- refund escrow account surpluses to the borrower or to pay interest to the borrower;
- remove any amounts deposited in error;
- reimburse itself for T&I servicing advances from subsequent payments on the related mortgage loan once the mortgage loan becomes current; and
- clear and terminate the account.

### Implementing Custodial Accounts

As described in A4-1-02, Establishing Custodial Bank Accounts, the servicer is responsible for the safekeeping of custodial funds at all times. For each custodial account the servicer establishes, the servicer and the depository institution must execute

- a *Letter of Authorization for P&I Custodial Account* ([Form 1013](#)) or
- a *Letter of Authorization for T&I Custodial Account* ([Form 1014](#))

When a servicer establishes (or changes) a custodial account for a mortgage loan, it must send the original of each executed [Form 1013](#) or [Form 1014](#) electronically to [custodial\\_account@fanniemae.com](mailto:custodial_account@fanniemae.com).

The servicer is authorized to maintain multiple P&I custodial accounts for a single remittance type. The number of custodial accounts established depends on the number of remittance types



under which a servicer is reporting and on whether the servicer chooses to commingle its T&I funds for all remittance types. A servicer could establish as many as eight different custodial accounts (although it could reduce the number of accounts to five by commingling the T&I funds for all remittance types), depending on whether it

- has mortgage loans accounted for under all three remittance types (including both portfolio mortgage loans and MBS mortgage loans accounted for as the scheduled/scheduled remittance type) and
- chooses to separate its T&I custodial accounts by each of the remittance types.

On the other hand, a servicer that accounts for portfolio mortgage loans under only one remittance type or that services MBS mortgage loans only would need to establish two custodial accounts.

Custodial accounts established for the deposit of P&I funds must be titled as follows:

*“(Name of servicer), as agent, trustee, and/or bailee for the benefit of Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account).”*

Custodial accounts established for the deposit of T&I funds must be titled as follows:

*“(Name of servicer), as agent and/or trustee for the benefit of Fannie Mae and payments of various mortgagors, respectively (Custodial Account).”*

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### Subservicer-Specific Requirements for Custodial Accounts

A servicer that uses subservicer(s) must have each subservicer execute a separate Letter of Authorization for each custodial account it establishes. The following table describes the steps the servicer and subservicer must take in order to properly implement custodial accounts.

Step	Servicer Action
1	A subservicer that is establishing (or changing) a custodial account must execute and send the original and one copy of the executed <a href="#">Form 1013</a> or <a href="#">Form 1014</a> to the servicer.
2	The servicer must retain the copy and send the executed original <a href="#">Form 1013</a> and/or <a href="#">Form 1014</a> to Fannie Mae at <a href="mailto:custodial_account@fanniemae.com">custodial_account@fanniemae.com</a> .
3	The servicer, subservicer, and the custodial depository must each retain a copy of the executed original <a href="#">Form 1013</a> and/or <a href="#">Form 1014</a> in its files.

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## Establishing Drafting Arrangements

The servicer must arrange for drafting of custodial funds in a manner consistent with the requirements of the *Servicing Guide* and Lender Contract. The servicer must refer to the following table to designate a drafting arrangement for a custodial account under ADS or to change an existing arrangement.

Step	Servicer Action
1	Complete an <i>Authorization for Automatic Transfer of Funds</i> ( <a href="#">Form 1072</a> ) for each drafting arrangement to its custodial bank(s).
2	Send Fannie Mae's Cash Management Unit copies of both the voided check and <a href="#">Form 1072</a> to <a href="mailto:cash_processing@fanniemae.com">cash_processing@fanniemae.com</a> or via fax to (240) 699-3888.

The following table describes the servicer actions if the account will be drafted under both the CRS™ and ADS.

Step	Servicer Action
1	Establish the arrangement with the CRS.
2	Send the executed <a href="#">Form 1072</a> to <a href="mailto:cash_processing@fanniemae.com">cash_processing@fanniemae.com</a> or via fax to (240) 699-3888 so Fannie Mae can set up the arrangement in the ADS.

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## Drafting through CRS

Under the CRS, a servicer is authorized to designate as a drafting account one P&I account for each remittance type it services.

If the servicer maintains multiple P&I accounts for a single remittance type, the servicer must designate only one of these accounts as its drafting account for that remittance type. All monies due Fannie Mae for that remittance type must be moved to the designated drafting account prior to the date Fannie Mae drafts the account.

A servicer with multiple P&I custodial accounts is authorized to use a consolidated drafting account in order to facilitate operational efficiencies. If the servicer uses a consolidated drafting account that includes scheduled/scheduled MBS mortgage loans, the servicer must designate a separate account as its drafting account for that remittance type only and all monies due must be moved from various MBS P&I custodial accounts (if the servicer has chosen to use multiple custodial accounts) to a single designated MBS pool consolidated drafting account prior to the date Fannie Mae drafts the account.

A servicer is authorized to designate a separate consolidated drafting account for scheduled/scheduled portfolio, scheduled/actual, or actual/actual mortgage loans. The servicer is authorized to designate

- any of the portfolio mortgage loan P&I custodial accounts as the consolidated drafting account or
- a special consolidated account that is used solely for drafting purposes.

### Implementing CRS Drafting Arrangements

The following table describes to requirements for implementing drafting arrangements.

If the servicer designates...	Then the servicer must...
a drafting arrangement for a consolidated drafting account	fulfill all requirements related to establishing drafting arrangements, including the execution of <a href="#">Form 1072</a> .  The servicer must not deposit into the consolidated drafting accounts funds that are collected on behalf of other investors.
an existing P&I custodial account as a special drafting account	must advise Fannie Mae of the special drafting account by submitting a <a href="#">Form 1013</a> electronically to <a href="mailto:custodial_account@fanniemae.com">custodial_account@fanniemae.com</a> .

### Remitting through CRS and ADS

The servicer must see *Chapter C-3, Remitting and Accounting in Servicing Guide Procedures: Remitting, Accounting, and Reporting to Third Parties* for requirements related to remitting through CRS or ADS.

### Reconciling Custodial Bank Accounts

The following table describes the requirements for reconciling custodial bank accounts.

Step	Servicer Action		
1	Reconcile its cash book to the custodial account(s) every month using the applicable Custodial Account Analysis.		
	<table border="1"> <tr> <td>✓</td> <td><b>The servicer must...</b></td> </tr> </table>	✓	<b>The servicer must...</b>
✓	<b>The servicer must...</b>		

Step	Servicer Action
	Use the <i>P&amp;I Custodial Account Analysis (Form 496)</i> to <ul style="list-style-type: none"> <li>• reconcile each P&amp;I custodial account, and</li> <li>• reflect the composition of the cash book balance of the account at the close of the reporting period.</li> </ul>
	Use the <i>T&amp;I Custodial Account Analysis (Form 496A )</i> to <ul style="list-style-type: none"> <li>• reconcile each T&amp;I custodial account, and</li> <li>• reflect the composition of the cash book balance of the account at the close of the reporting period.</li> </ul>
2	Retain each month’s reconciliation and analysis in its records in the event that Fannie Mae requests the submission of a specific <a href="#">Form 496</a> or <a href="#">Form 496A</a> to Fannie Mae.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## F-1-04, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Processing a Request for the Release of Property Securing a Mortgage Loan
- Protecting Fannie Mae’s Rights Regarding Taking of Property by Condemnation or Eminent Domain

## Processing a Request for the Release of Property Securing a Mortgage Loan

The servicer must evaluate a request for the release of property securing a mortgage loan in accordance with D1-1-01, Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan.

Upon receipt of the *Application for Release of Security* (Form 236), and any other documentation that may be necessary depending on the reason for the request for release of security, the servicer must follow the steps outlined in the following table.

Step	Servicer Action
1	<p>Obtain any required approval from</p> <ul style="list-style-type: none"> <li>• the mortgage insurer or guarantor, and</li> <li>• the servicer of the first lien mortgage loan, if Fannie Mae's interest is in a second lien mortgage loan.</li> </ul>
2	<p>Determine whether Fannie Mae allows the servicer to approve the release of security on its behalf. If Fannie Mae does not authorize the servicer to approve the release of security on its behalf, submit Form 236 and all documents as specified on Form 236, along with a recommendation, to Fannie Mae's NSO at <a href="mailto:partial_releases@fanniemae.com">partial_releases@fanniemae.com</a> for approval.</p> <p><b>Note:</b> The servicer must contact Fannie Mae's NSO (see F-4-03, List of Contacts) to determine whether Fannie Mae is willing to subordinate the mortgage lien to a burdensome easement if it determines that a burdensome easement</p> <ul style="list-style-type: none"> <li>• is not customary in the area, or</li> <li>• interferes with the property owner's use or enjoyment of the property.</li> </ul> <p>If the request for release, or partial release, of security is approved, continue to Step #3.</p>
3	<p>If an escrow deposit account is maintained to pay property taxes, notify the tax collector or assessor under the following circumstances:</p> <ul style="list-style-type: none"> <li>• a release of any portion of a security property affects the amount of taxes levied against the property, or</li> </ul>

Step	Servicer Action	
	<ul style="list-style-type: none"> <li>an authorized substitution of security property will affect either the taxing jurisdiction or the tax assessment.</li> </ul>	
4	Execute any legal documentation needed for the release of security in accordance with the following table.	
	<b>If...</b>	<b>Then the servicer...</b>
	the servicer is the owner of record for the mortgage loan	is authorized to execute any legal documentation needed for the release of security, regardless of whether the release was approved by the servicer or Fannie Mae.
	Fannie Mae is the owner of record and the servicer has the required power of attorney to execute documents for release of security, including partial releases, on Fannie Mae's behalf	is authorized to execute the documents for releases, including partial releases, of security, regardless of whether the release was approved by the servicer or Fannie Mae.
	Fannie Mae is the owner of record, the servicer does not have the required power of attorney to execute documents for release of security — including partial releases — on Fannie Mae's behalf, and the release, or partial release, of security must be approved by Fannie Mae	must send the documents to the Fannie Mae's NSO (see F-4-03, List of Contacts) at the same time it submits the <a href="#">Form 236</a> , so that if the release is approved, Fannie Mae can execute the documents at the same time.
	Fannie Mae is the owner of record, the servicer does not have the required power of attorney to execute documents for release of security — including partial releases — on Fannie Mae's behalf, and the servicer is authorized to approve the release, or partial release, of security	must send the following to Fannie Mae's NSO (see F-4-03, List of Contacts): <ul style="list-style-type: none"> <li>the documents to be executed (with the Fannie Mae loan number and, if applicable, the MERS MIN clearly identified),</li> <li>a copy of the approved <a href="#">Form 236</a>, and</li> <li>a letter that describes any special instructions related to the execution of the documents and indicates the address to which the executed documents should be returned.</li> </ul>

Step	Servicer Action				
5	<p>Determine whether any cash consideration paid for the release, or partial release, will be</p> <ul style="list-style-type: none"> <li>• applied to the outstanding debt. If so, continue to Step #6, or</li> <li>• used for property improvements.</li> </ul> <p><b>Note:</b> For substantial cash consideration, the servicer may collect the entire amount from the borrower and disburse the funds as specific improvements are completed.</p>				
6	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="297 877 841 926">If...</th> <th data-bbox="849 877 1383 926">Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 936 841 1902"> <p>any consideration received is less than the total mortgage debt</p> </td> <td data-bbox="849 936 1383 1902"> <ul style="list-style-type: none"> <li>• apply it to pay any past due installments or to make an additional principal payment (curtailment), and</li> <li>• appropriately report the application in the next Fannie Mae investor reporting system reporting period.</li> </ul> <p><b>Note:</b> If the application of the entire consideration to the UPB results in an LTV ratio that is less than the previous ratio, the servicer must require the borrower to apply only the portion of the consideration required to maintain the previous ratio and permit the borrower to retain the excess. However, if there is reason to require a reduced LTV ratio—such as the occupancy status of the property having changed from principal residence or second home to investment property—the servicer must require that the</p> </td> </tr> </tbody> </table>	If...	Then the servicer must...	<p>any consideration received is less than the total mortgage debt</p>	<ul style="list-style-type: none"> <li>• apply it to pay any past due installments or to make an additional principal payment (curtailment), and</li> <li>• appropriately report the application in the next Fannie Mae investor reporting system reporting period.</li> </ul> <p><b>Note:</b> If the application of the entire consideration to the UPB results in an LTV ratio that is less than the previous ratio, the servicer must require the borrower to apply only the portion of the consideration required to maintain the previous ratio and permit the borrower to retain the excess. However, if there is reason to require a reduced LTV ratio—such as the occupancy status of the property having changed from principal residence or second home to investment property—the servicer must require that the</p>
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Step	Servicer Action	
		total consideration be applied to the mortgage loan debt.
	the proceeds are sufficient to satisfy the mortgage loan debt or if they do not fully satisfy the mortgage loan debt but Fannie Mae has agreed to charge off the difference (in connection with a condemnation or a full taking of the property by eminent domain)	<ul style="list-style-type: none"> <li>• remove the mortgage loan from Fannie Mae's investor reporting system by Reporting an Action Code 71, and</li> <li>• remit the proceeds via the CRS as a "Special Remittance" (Remittance Type 370). Also see the <i>Investor Reporting Manual</i> and Fannie Mae's <i>CRS User Guide</i>.</li> </ul>
	<p><b>Note:</b> When a request to grant a burdensome easement or to release a beneficial easement is approved, Fannie Mae does not require the borrower to apply any cash consideration he or she receives for the release toward the mortgage loan debt, although the servicer may require that the consideration be used to make any past due monthly payments.</p>	

### Protecting Fannie Mae's Rights Regarding Taking of Property by Condemnation or Eminent Domain

When there is a legal proceeding that may significantly affect Fannie Mae's rights in the property, the servicer must evaluate a request for release in accordance with *Evaluating a Request for the Partial or Total Taking of Property Securing a Mortgage Loan by Condemnation* in D1-1-01, *Evaluating a Request for the Release, or Partial Release, of Property Securing a Mortgage Loan*.

The servicer must take the actions outlined in the following table.

✓	The servicer must...
	Determine the method that the government instrumentality used to establish the property value on which the compensation is based.
	Determine the amount of the proposed award or compensation to be paid to the property owner.
	Pursue any legal remedies that are available if it does not appear that the borrower is being fairly compensated.



✓	<b>The servicer must...</b>
	If applicable, advise the law firm engaged in any foreclosure or bankruptcy proceedings about the proposed condemnation or taking by eminent domain so that the law firm can assume responsibility for any necessary legal action.

## F-1-05, Examples of Documentation Required in the Mortgage Loan Servicing File (11/12/2014)

As required in *Contents of the Individual Mortgage Loan File* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records, in all instances, the servicer must document its compliance with all Fannie Mae policies and procedures, including but not limited to, time frames that are required within the *Servicing Guide*. The servicer must maintain in the mortgage loan servicing file all documents and system records that preserve Fannie Mae’s ownership interest in the mortgage loan.

The following table provides examples of some (but not all) documentation requirements, as applicable.

✓	<b>As applicable, the servicer must maintain documentation evidencing...</b>
	A copy of the initial letter sent to the borrower shortly after closing and before the first monthly payment is due.
	All collection efforts of second-lien mortgage loans.
	A copy of all documentation that supports rehabilitation or renovation work, including, but not limited to <ul style="list-style-type: none"> <li>• plans and specifications,</li> <li>• “as completed” appraisal,</li> <li>• rehabilitation or construction contract,</li> <li>• rehabilitation or construction loan agreement,</li> <li>• certificate of completion, and</li> <li>• title insurance endorsement or updates.</li> </ul>
	Certification regarding the adequacy of the property (hazard) insurance following completion of rehabilitation or renovation work.

✓	<b>As applicable, the servicer must maintain documentation evidencing...</b>
	All servicing actions taken as a result of a disaster to ensure that any future mortgage insurance or guaranty claims will not be adversely affected.
	A copy of the acknowledgment letter received from the borrower acknowledging receipt of the BRP or, if acknowledgment was provided verbally, notation that an acknowledgment telephone call was received.
	The date of receipt of the BRP.
	The nature of the borrower’s hardship, including evidence of all information provided by the borrower.
	The evaluation of a mortgage loan that has been escalated, including all supporting evidence for the decision reached.
	The basis for the servicer’s determination that the borrower is facing imminent default, including <ul style="list-style-type: none"> <li>• identification of the borrower’s hardship,</li> <li>• the anticipated or actual timing of the default,</li> <li>• information regarding the borrower’s financial condition utilized in determining that the borrower is facing imminent default,</li> <li>• the condition and circumstances of a property securing the mortgage loan, and</li> <li>• a copy of the Adverse Action Notice, if applicable</li> </ul>
	A copy of the signed <a href="#">IRS Form 4506T-EZ</a> or <a href="#">IRS Form 4506-T</a> .
	Any exceptions to the <i>Servicing Guide</i> , if applicable.
	All communication with the borrower.
	The nature of acceptance and terms of the borrower’s acceptance of a workout option.
	Compliance with Fannie Mae’s early delinquency counseling requirements, including <ul style="list-style-type: none"> <li>• the date(s) counseling was offered,</li> <li>• the borrower’s response(s) to the offer,</li> <li>• the name of the organization providing the counseling, if applicable, and</li> </ul>

✓	<b>As applicable, the servicer must maintain documentation evidencing...</b>
	<ul style="list-style-type: none"> <li>• a brief summary of the results of the counseling.</li> </ul>
	An executed Borrower’s Authorization for Counseling form.
	The borrower’s notification of housing counseling options.
	The reason for approving the initial Unemployment Forbearance.
	Telephone contact with the borrower related to a forbearance plan, including but not limited to <ul style="list-style-type: none"> <li>• the date of the telephone contact,</li> <li>• the names of the contact person, and</li> <li>• a summary of the conversation.</li> </ul>
	The servicer’s reason for not cancelling a forbearance plan that does not meet the terms of the agreement.
	The borrower’s intended plans to remediate the unique hardship.
	The reason to cease or resume collection activities, including those decisions made based on conditional approval for a Housing Finance Agency’s Hardest Hit Fund programs.
	A copy of the <i>Evaluation Notice</i> to a borrower for a workout option, which includes the date on which it was sent to the borrower.
	All documents and information received during the process of determining borrower eligibility, including <ul style="list-style-type: none"> <li>• borrower income verification,</li> <li>• total monthly payment and total monthly gross debt payment calculations, NPV calculations (NPV model and version used, assumptions, inputs, and outputs), and</li> <li>• evidence of the application of each step of the mortgage loan modification waterfall, escrow analysis, escrow advances, and escrow set up.</li> </ul>
	The borrower’s submission of a complete BRP prior to the expiration of Fannie Mae’s HAMP.
	Borrower solicitations or borrower-initiated inquiries regarding HAMP, the outcome of the evaluation for mortgage loan modification under HAMP, and specific justification with supporting details if the request for mortgage loan modification under HAMP was denied.
	A copy of the HAMP Counseling Letter.

✓	<b>As applicable, the servicer must maintain documentation evidencing...</b>
	The reason(s) that a Trial Period Plan is not finalized.
	The servicer's consideration of the borrower for other workout options if a borrower under a HAMP mortgage loan modification loses good standing.
	Call attempts and letters sent if the borrower is unresponsive after missing a Trial Period Plan payment.
	All information related to appeals in the mortgage servicing file.
	All documents and information received during the process of evaluating a borrower for a 2MP modification, including <ul style="list-style-type: none"> <li>• evidence of application of each of the mortgage loan modification steps,</li> <li>• all documents and information related to the monthly mortgage loan payments during and after any Trial Period Plan,</li> <li>• all documents and information related to incentive payment calculations, and</li> <li>• detailed records to document the reason(s) for any Trial Period Plan failure.</li> </ul>
	A copy of the <i>Property Inspection Report (Form 30)</i> .
	Compliance with all response time frame requirements related to short sales as outlined in the <i>Servicing Guide</i> .
	All communication with the borrower and/or the borrower's real estate broker regarding a short sale or Mortgage Release.
	Fannie Mae's minimum net required proceeds.
	Status updates for a Mortgage Release communicated to the borrower.
	A copy of the deficiency waiver for a Mortgage Release.
	All written correspondence with a borrower who has received military indulgence required under the Servicemembers Civil Relief Act that indicates the <ul style="list-style-type: none"> <li>• new payment amount,</li> <li>• date it becomes effective,</li> <li>• date it will be discontinued, and</li> <li>• copy of the repayment plan (if applicable).</li> </ul>
	A copy of the servicemember's orders and the completed <i>Request for Military Indulgence (Form 180)</i> as long as the military indulgence remains in effect.

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✓	<b>As applicable, the servicer must maintain documentation evidencing...</b>
	The date the conventional or RD mortgage loan was referred to foreclosure.
	All materials that could assist Fannie Mae in marketing, selling, or conveying the secured property.

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## **F-1-06, Expense Reimbursement (03/18/2015)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- General Expense Reimbursement Requirements
  - Requesting Reimbursement for Special Assessments
  - Requesting Reimbursement for Expenses Associated with Workout Options
  - Reimbursing Fannie Mae for a Cancelled Mortgage Loan Modification
  - Requesting Reimbursement for Prorated Attorneys' Fees
  - Requesting Reimbursement for Preforeclosure Property Inspections
  - Requesting Reimbursement for Recordation Fees
  - Reimbursement for Publication of Legal Notices for California Non-Judicial Foreclosures
  - Defined Expense Reimbursement Limits
  - Requesting Reimbursement for Other Reimbursable Expenses
- 

### **General Expense Reimbursement Requirements**

The servicer must advance its own funds in accordance with *Advancing Funds to Cover Expenses* in B-1-01, *Administering an Escrow Account and Paying Expenses and Requirements When a Property's Flood Zone Status Changes* in B-3-01, *Flood Insurance Requirements Applicable to All Property Types*.

### Applying Mortgage Payments toward Escrow or Corporate Advances

If the borrower does not repay an escrow or corporate advance and the mortgage loan terms and applicable law allow it, the servicer must apply the monthly payment received from the borrower toward advances in the order shown in the following table, in accordance with the *Servicing Guide*.

Step	Funds must be applied in the order shown
1	Reimbursable expenses — such as the cost for repairing or securing the property and late payment penalties imposed by tax authorities (if the borrower was a factor in delaying the payment).
2	Interest on the amount advanced — calculated at the current interest accrual rate, from the date of the advance to the date payment is received.
3	The advance or amount agreed to as a periodic payment toward the total advanced.
4	The scheduled mortgage loan payment. If the remaining amount is not equal to a full payment, it should be processed as a payment shortage.

### Requesting Reimbursement from Fannie Mae

To be eligible for reimbursement of either escrow or corporate advances from Fannie Mae, advances must be

- \$500 or more,
- necessary to protect Fannie Mae’s interest in the property, and
- made for a mortgage loan that is a:
  - portfolio mortgage loan,
  - participation pool mortgage loan, or
  - special servicing option MBS mortgage loan.

The servicer must take the steps shown in the following table to obtain reimbursement of funds advanced to cover expenses.

Step	Servicer Action
1	Advance the funds to pay expenses in a timely manner.
2	Submit a <i>request for expense reimbursement</i> .

Step	Servicer Action
3	Retain in the mortgage loan servicing file all supporting documentation for all <i>requests for expense reimbursement</i> .
4	Ensure supporting documentation is available to Fannie Mae upon request.

If Fannie Mae reimburses the servicer for an advance, any subsequent repayment by the borrower must be used to repay Fannie Mae.

When the servicer accepts a full reinstatement of the mortgage loan in accordance with E-3.2-08, Processing Reinstatements During Foreclosure where Fannie Mae has reimbursed the servicer for its advances for foreclosure-related expenses including the costs of any preforeclosure property inspection, the servicer must repay the reimbursement by remitting the funds as a special remittance in accordance with *Remitting a Special Remittance* in F-1-31, Remitting and Accounting to Fannie Mae.

When a property has been remapped into a SFHA and the servicer is unable to collect the applicable flood insurance premium from the borrower, Fannie Mae will advise the servicer if any of the remedies permitted under the mortgage loan should be pursued against the borrower.

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### Requesting Reimbursement for Special Assessments

When a special assessment is imposed on a property, the servicer must take certain actions in accordance with the *Servicing Guide*. See *Paying Special Assessments* in B-1-01, Administering an Escrow Account and Paying Expenses.

If the project is in a state that has adopted the UCA, UCIOA, or a similar statute, after completion of the foreclosure sale or acceptance of the Mortgage Release, Fannie Mae will reimburse the servicer for advances up to the lowest of the

- actual advances paid,
- maximum limit provided in the project declaration, or
- state statutory maximums.

Fannie Mae will not reimburse the servicer for any fees or costs related to attempts to collect the delinquent assessments.

The servicer must take the steps shown in the following table to obtain reimbursement of special assessments.

Step	Servicer Action
1	Advance the funds to pay expenses.
2	Complete the foreclosure sale or acceptance of the Mortgage Release.
3	Submit a <i>request for expense reimbursement</i> .

## Requesting Reimbursement for Expenses Associated with Workout Options

### Requesting Reimbursement for HAMP Expenses

The servicer must pay any actual out-of-pocket expenses in accordance with *Handling Fees and Late Charges in Connection with a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification. The servicer must pay any out-of-pocket expenses, such as the following:

- required notary fees,
- recordation fees,
- title costs,
- property valuation fees,
- credit report fees, or
- other allowable and documented expenses.

Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses. To request reimbursement, the servicer must complete a *request for expense reimbursement* that complies with the instructions shown in the following table.

✓	The servicer must...
	Submit a <i>request for expense reimbursement</i> to Fannie Mae.  <b>Note:</b> For mortgage loans considered under HAMP, Fannie Mae will waive the requirements that the claim equal a minimum amount of \$500, or that the mortgage loan be at least 6 months delinquent.
	Include only administrative fees and costs associated with HAMP on the <i>request for expense reimbursement</i> .



✓	<b>The servicer must...</b>
	Reference HAMP in the comments section on the <i>request for expense reimbursement</i> .

### Requesting Reimbursement for Mortgage Loan Modification Expenses

The servicer must pay any actual out-of-pocket expenses in accordance with the *Servicing Guide* associated with the execution of the following mortgage loan modifications:

- Fannie Mae Standard Modification,
- Fannie Mae Streamlined Modification,
- Fannie Mae Streamlined Modification Post Disaster Forbearance,
- Fannie Mae Cap and Extend Modification for Disaster Relief,
- Fannie Mae MyCity Modification, or
- Fannie Mae 2MP Modification.

The servicer must pay any out-of-pocket expenses, including, but not limited to, the following:

- required notary fees,
- recordation fees,
- title costs,
- property valuation fees,
- credit report fees, or
- other allowable and documented expense.

Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses in accordance with this Procedure.

### Requesting Reimbursement for Short Sale Expenses

The servicer may request reimbursement for Fannie Mae's share of all expenses related to a short sale for a conventional mortgage loan, including the amount required to reimburse the servicer for the appraisal, by submitting a *request for expense reimbursement*.

**Note:** Uncollected late charges will not be reimbursed.

The servicer must retain the original invoices that support the expenses claimed in the mortgage loan servicing file.

For special servicing option MBS mortgage loans, the servicer must not request reimbursement for Fannie Mae’s share of the amount required to remove the mortgage loan (or participation interest in the mortgage loan) from the pool, since Fannie Mae will automatically reimburse the servicer for this amount after it remits the funds and reports the applicable action code required to remove the mortgage loan (or participation interest in the mortgage loan) from the pool. Also see the *Investor Reporting Manual* for additional information.

### Requesting Reimbursement for Mortgage Release Expenses

Fannie Mae will reimburse the servicer for costs related to

- preparing documentation for the Mortgage Release (see *Defined Expense Reimbursement Limits* further in this topic), and
- obtaining a title update associated with execution of a Mortgage Release (provided the borrower is unable to pay).

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### Reimbursing Fannie Mae for a Cancelled Mortgage Loan Modification

For any mortgage loan modification that is cancelled by the servicer but not re-entered into HSSN within 30 days of the date of the cancellation, the servicer must refund Fannie Mae within 60 days of the cancellation date any requested amounts paid by Fannie Mae to the servicer in connection with the cancelled mortgage loan modification.

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### Requesting Reimbursement for Prorated Attorneys’ Fees

The servicer may request reimbursement of prorated attorney fees in accordance with E-5-05, Prorated Attorneys Fees. To request reimbursement, the servicer must comply with the instructions shown in the following table.

✓	The servicer must...
	Include any information that Fannie Mae needs to verify the accuracy of the requested amount, including <ul style="list-style-type: none"> <li>• a description of the work performed;</li> <li>• a copy of Fannie Mae’s written approval of any additional fees, if applicable; and</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• an explanation of how the prorated fee was derived.</li> </ul>
	Distinguish between a prorated attorney fee and the law firm’s out-of-pocket costs.
	Submit the <i>request for expense reimbursement</i> to Fannie Mae.

### Requesting Reimbursement for Preforeclosure Property Inspections

Fannie Mae will reimburse the servicer for all interior and exterior preforeclosure property inspections completed in compliance with requirements of the *Servicing Guide*. See *Defined Expense Reimbursement Limits* further in this topic.

The following table describes the servicer’s responsibilities when requesting reimbursement for property inspection fees.

✓	<b>The servicer must...</b>
	<p>Validate fees and costs prior to submitting a request for expense reimbursement to ensure the expenses are</p> <ul style="list-style-type: none"> <li>• reasonable and necessary to protect Fannie Mae’s interest, and</li> <li>• compliant with Fannie Mae’s guidelines.</li> </ul>
	Retain all individual invoices related to completed property inspections and make the invoices available to Fannie Mae upon request.
	Request reimbursement for the lesser of Fannie Mae’s maximum allowable reimbursement amount or the actual cost incurred by submitting a <i>request for expense reimbursement</i> .

### Requesting Reimbursement for Recordation Fees

In accordance with C-1.2-05, Charging for a Release of Lien, the servicer must complete the steps in the following table in order to request reimbursement for recordation fees it must pay in connection with mortgage loan satisfactions.

Step	Servicer Action
1	<p>At the end of each calendar quarter, create an itemized list of</p> <ul style="list-style-type: none"> <li>• the individual mortgage loans,</li> </ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• their respective states, and</li> <li>• the related fees paid during that quarter.</li> </ul>
2	Complete a <i>request for expense reimbursement</i> .
3	Send the completed <i>request for expense reimbursement</i> and itemized list to Fannie Mae's REAM division, (see F-4-03, List of Contacts).

**Note:** The servicer must not net fees for recording the satisfaction of a mortgage loan out of the proceeds received for the individual mortgage loan payoff.

Fannie Mae will reimburse the servicer for any government-imposed recordation fees it has to pay in connection with mortgage loan satisfactions as described in the following table, in accordance with C-1.2-05, Charging for a Release of Lien.

If the mortgage loan is secured by property in...	And...	Then the servicer may...
Kansas, Michigan, or Tennessee	the mortgage loan is a portfolio mortgage loan or a special servicing option MBS mortgage loan	submit a <i>request for expense reimbursement</i> to Fannie Mae.
Maryland or Ohio	<ul style="list-style-type: none"> <li>• the mortgage loan is a portfolio mortgage loan or a special servicing option MBS mortgage loan, and</li> <li>• the mortgage loan documents do not specifically require the borrower to pay the recordation fee</li> </ul>	submit a <i>request for expense reimbursement</i> , thus warranting the mortgage loan documents do not allow it to pass the charges on to the borrower.
any state other than Kansas, Michigan, Tennessee, Maryland, and Ohio	<ul style="list-style-type: none"> <li>• the mortgage loan is a portfolio mortgage loan or a special servicing option MBS mortgage loan, and</li> <li>• state or local law requires the mortgagee to pay recordation fees</li> </ul>	submit a <i>request for expense reimbursement</i> , attaching copies of the applicable state or local law to support its request.

## **Reimbursement for Publication of Legal Notices for California Non-Judicial Foreclosures**

Fannie Mae will reimburse the servicer its costs for publication of legal notices for non-judicial foreclosures in California in accordance with E-5-07, Other Reimbursable Expenses only if the notices are placed through one of the following Daily Journal Corporation newspapers that will satisfy the state's notice requirements:

- Daily Commerce (Los Angeles)
- The Daily Recorder (Sacramento),
- The Inter-City Express (Oakland),
- Orange County Reporter,
- Riverside Business Journal,
- San Diego Commerce,
- San Jose Post-Record,
- Sonoma County Herald-Recorder, or
- The San Francisco Daily Journal.

If none of these newspapers meet the notice requirements of California law, the law firm must select another newspaper that

- meets the notice requirements of California law, and
- is one of the least expensive and most frequently published.

The law firm must prepare the necessary notices and arrange for the publication of the notices in the appropriate newspaper.

When the law firm utilizes one of the Daily Journal Corporation newspapers in the preceding list, it must provide the Daily Journal Corporation newspaper with

- the applicable Fannie Mae loan number, and
- indicate that the publication relates to a Fannie Mae referral.

### Defined Expense Reimbursement Limits

This procedure contains the amount that Fannie Mae will pay for its share of expenses when specific reimbursement expense limits are defined. Also see *Allowable Foreclosure Attorney Fees Exhibit* and *Allowable Bankruptcy Attorney Fees Exhibit* for additional information.

Defined Expense Reimbursement Limits	
<b>Property Inspections</b>	
Description	Maximum Reimbursement Amount
Interior Property Inspection	\$20/inspection
Exterior Property Inspection	\$15/inspection
<b>Workout Expenses</b>	
Mortgage Release document preparation cost	up to \$400
<b>Escrow Expenses</b>	
Taxes	Post-origination tax periods covering up to <ul style="list-style-type: none"> <li>• six months prior to the LPI date for an escrowed account, or</li> <li>• one year prior to the LPI date for non-escrowed accounts.</li> </ul>
Tax Penalties and Late Charges	<ul style="list-style-type: none"> <li>• Late charges and penalties are not payable on escrowed mortgage loans</li> <li>• The first set of late charges and penalties for each tax type, for non-escrowed mortgage loans</li> </ul>
HOA Dues	From the foreclosure sale date up to the REO sale date (disposition). Reimbursement of dues incurred prior to the foreclosure date will be decided per each state's statutes.
Flood Insurance	Post-origination flood insurance policies beginning within six months prior to the LPI date.
<b>Technology Fees and Electronic Invoicing</b>	
Description	Maximum Reimbursement Amount
Technology Fees	\$25/mortgage loan for life of the default

<b>Defined Expense Reimbursement Limits</b>	
Electronic Invoicing	\$10/life of mortgage loan; \$5 for submission of electronic invoice relating to a foreclosure and an additional \$5 if a bankruptcy is filed on the same mortgage loan
<b>Property Preservation</b>	
Description	Maximum Reimbursement Amount
<b>A. Securing</b>	
Knob lock or Knob lock with deadbolt	\$60 each
Padlock or Hasp and Padlock	\$40 each
Slider lock/Window lock	\$25 each
Boarding	\$0.90/united inches (UI)
Security Door	\$250/door
Cover Exterior Dryer Vent	\$25 each — 1 per unit for the life of the mortgage loan
Repair Garage Door	\$100/door for the life of the mortgage loan
Pool/Hot Tub/Spa Securing — Fence/Gate/Lanai	\$400 total for the life of the mortgage loan
<b>B. Lawn Maintenance</b>	
Initial Grass Cut and Desert Landscaping (Less than 12” height)	Less than 10,000 sq ft — \$100 each
	10,001 — 15,000 square ft — \$150 each
	15,001 — 25,000 sq ft — \$175 each
	25,001 — 35,000 sq ft — \$200 each
	35,001 — 43,560 sq ft — \$225 each
Grass Re-cut and Desert Landscaping	Less than 10,000 sq ft — \$80 each
	10,001 — 15,000 sq ft — \$100 each
	15,001 — 25,000 sq ft — \$125 each
	25,001 — 35,000 sq ft — \$150 each
	35,001 — 43,560 sq ft — \$175 each
Trim Trees/Shrubs/Vines	\$250/calendar year (\$500/calendar year HI & FL)
<b>C. Winterization</b>	

<b>Defined Expense Reimbursement Limits</b>	
Dry Winterization	\$100 for the first unit for the life of the mortgage loan
Wet/Steam Winterization	\$150 for the first unit for the life of the mortgage loan
Radiant Winterization	\$250 for the first unit for the life of the mortgage loan
Additional unit of any type of winterization	\$50 each for the life of the mortgage loan
Re-Winterize	\$50 each /calendar year
<b>D. Health and Safety</b>	
Cleaning Refrigerator and Stand Alone Freezer	\$100 each
Cleaning Toilet	\$75 each
Capping Wires	\$1 each
Capping Gas/Water/Sewer Lines	\$25 each
Extermination	\$100/calendar year
Install/Repair/Replace Exterior Handrails	\$10/linear foot, \$200 for the life of the mortgage loan
<b>E. Raw Garbage, Perishable Debris, and Personal Property</b>	
*Combined maximum of 10 cubic yards for the life of the mortgage loan	
Raw Garbage and Perishable Debris — Interior/Exterior	*\$40/cubic yard
Move Personal Property — Interior/Exterior	*\$20/cubic yard
Dead Vermin/Animal Removal	\$75 for the life of the mortgage loan
<b>F. Additional Allowable Items</b>	
Address Posting	\$50 for the life of the mortgage loan
Chimney Cap	\$250/cap — 2 per unit for the life of the mortgage loan
Clean Gutters	\$1/linear foot, \$100/calendar year
Repair/Reattach Gutters	\$2/linear foot, \$150/calendar year
Snow Removal	\$75 each clearing, \$375/calendar year
Repair/Replace Sump Pump	\$300 for the life of the mortgage loan



<b>Defined Expense Reimbursement Limits</b>	
Utility Transfers and Shut Off	\$75 for one time shut off/transfer fee of each
Police/Fire Report	\$50 for the life of the mortgage loan
Emergency Funds	\$500 for the life of the mortgage loan
<b>G. Damaged Properties</b>	
Patch/Repair Roof	\$2/sq ft., \$800 for the life of the mortgage loan
<b>H. Code Violations</b>	
Vacant Property Registration	Actual cost to register per local requirement

### **Requesting Reimbursement for Other Reimbursable Expenses**

In accordance with E-5-07, Other Reimbursable Expenses, Fannie Mae will reimburse the servicer for the following out-of-pocket costs that it pays to third-party vendors or the courts, as long as the costs are actual, reasonable, and necessary (and are included in any applicable FHA, VA, RD, or mortgage insurance claim that is filed):

- filing costs and other costs required by the courts;
- trustee sale guarantees or other title foreclosure litigation reports;
- costs for posting notices of foreclosure sales;
- costs for publication of legal notices (reimbursable for California non-judicial foreclosures only if the notices are placed as specified by Fannie Mae);
- costs of announcing postponements of foreclosure sales;
- costs of servicing summonses and complaints and other legal notices for which the law requires personal service;
- charges for brokers' price opinions (or for appraisals, if Fannie Mae instructed the servicer to obtain them) that are obtained in connection with relief provisions, workout options, or if legally required to determine the amount of the foreclosure bid;
- the cost of recording any legal documents necessary to the conduct of the foreclosure (such as notices of default, notices of sale, substitutions of trustees, assignments (with the exception of preparing or recording an assignment of the mortgage loan from MERS to the servicer or Fannie Mae) satisfaction documents, deeds); and

- other costs that Fannie Mae approves in advance or that are specifically footnoted on the standard fee schedule that appears in *Allowable Attorney Foreclosure Fees Exhibit*.

**Note:** Fannie Mae will not reimburse the servicer for any expense incurred in preparing or recording an assignment of the mortgage loan from MERS to either the servicer or Fannie Mae. Reassigning and re-registering the mortgage with MERS is not required by Fannie Mae and any such action will be at the discretion or and expense of the servicer.

Fannie Mae will reimburse the servicer for postage costs incurred by law firms for first-class mail and certified or registered mail when required, provided the postage costs are incurred by the law firm retained by the servicer to handle Fannie Mae foreclosure and bankruptcy matters on mailings that are required by

- state statute,
- court rule or court order, or
- *Soliciting a Borrower After Referral to Foreclosure* in D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option.

Fannie Mae will not reimburse the servicer for postage costs incurred in connection with mailings by the servicer or law firm that are associated with servicer functions. Examples of mailings that are associated with servicer functions are

- demand and acceleration letters;
- communications with borrowers or third parties related to general servicing matters that are not required by state statute, court rule or order, with the exception of the requirements stated in *Soliciting a Borrower After Referral to Foreclosure* in D2-2-04, Sending a Borrower a Solicitation Package for a Workout Option;
- correspondence addressing allegations of servicing or organization error;
- responses to Qualified Written Requests under RESPA; and
- responses to FDCPA letters.

All postage costs must be actual, reasonable, and necessary. Fannie Mae will not reimburse the servicer for the cost of:

- mailing preparation services,

- overnight mail,
- stationery
- envelopes, or
- postal meter rental.

Under the provisions of 12 U.S.C. §1723a (c)(2), Fannie Mae is exempt from the imposition of revenue or documentary stamps (or the like) that are imposed pursuant to state law. Therefore, Fannie Mae will not reimburse the servicer for those items if it pays them.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2014-21</a>	December 10, 2014
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## **F-1-07, Filing an MI Claim for a Liquidated Mortgage Loan or Acquired Property (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- After Filing an MI Claim Associated with a Short Sale or Third-Party Foreclosure Sale
- After Filing an MI Claim for a Property Acquired through a Mortgage Release or Foreclosure Sale
- Ensuring Timely Settlement of the MI Claim for a Conventional Mortgage Loan
- Filing an MI Claim with FHA
- Filing an MI Claim for an FHA Mortgage Loan without Conveying Title to FHA
- Requesting an Extension from FHA for Filing an MI Claim
- Filing a Claim for an Unsold FHA Coinsured Property
- Filing a Claim for an FHA Coinsured Property that Fannie Mae Sold
- Filing an MI Claim for a Section 184 Mortgage Loan
- Filing a Guaranty Claim with VA
- Filing an RD Guaranty Claim on Fannie Mae's Behalf

### **After Filing an MI Claim Associated with a Short Sale or Third-Party Foreclosure Sale**

For a mortgage loan liquidated via a short sale or third-party foreclosure sale, the servicer must complete the actions listed in the following table after filing the MI claim, in accordance with E-4.5-01, Filing MI Claims for Conventional Mortgage Loans or for Other Mortgage Loans for which Fannie Mae Bears the Risk of Loss.

✓	The servicer must...
	Remove the mortgage loan from Fannie Mae's investor reporting system using Action Code 71.
	Report the proceeds from the sale through the CRS, using the 310 receipt code.
	File the MI claim within 30 days after remitting the 310 receipt code to Fannie Mae.

✓	<b>The servicer must...</b>
	<p>Provide the mortgage insurer with a copy of the following documents:</p> <ul style="list-style-type: none"> <li>• the final HUD-1 settlement statement,</li> <li>• the property valuation, and</li> <li>• the approval letter that states the terms and conditions of any short payoff.</li> </ul>
	<p>Submit a final <i>request for expense reimbursement</i> through the CRS no later than 30 days following the settlement of the third-party sale or short sale.</p>
	<p>Within two business days after filing the MI claim, send a copy of the claim form to Fannie Mae’s REAM division at the following address:</p> <p>Fannie Mae            REAM — Conveyances &amp; Claims            P.O. Box 650043            Dallas, TX 75265–0043</p>
	<p>Include on the MI claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>

**After Filing an MI Claim for a Property Acquired through a Mortgage Release or Foreclosure Sale**

For properties acquired through a Mortgage Release or foreclosure sale, the servicer must complete the actions listed in the following table after filing the MI claim, in accordance with E-4.5-01, Filing MI Claims for Conventional Mortgage Loans or for Other Mortgage Loans for which Fannie Mae Bears the Risk of Loss.

✓	<b>The servicer must...</b>
	<p>Submit an REOgram within 24 hours of the property acquisition.</p>

✓	<b>The servicer must...</b>
	Remove the mortgage loan from Fannie Mae’s investor reporting system with Action Code 72.
	Submit a final <i>request for expense reimbursement</i> through the CRS no later than 30 days following the settlement of the Mortgage Release or foreclosure sale date, or, in states that have redemption periods, within 30 days after expiration of the redemption period.
	Provide the mortgage insurer with a copy of the valuation for an executed Mortgage Release.
	<p>Within two business days after filing the MI claim, send a copy of the claim form to Fannie Mae’s REAM division at the following address:</p> <p>Fannie Mae                      REAM — Conveyances &amp; Claims                      P.O. Box 650043                      Dallas, TX 75265–0043</p>
	<p>Include on the MI claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>

### **Ensuring Timely Settlement of the MI Claim for a Conventional Mortgage Loan**

After it files the claim, the servicer must follow up with the mortgage insurer to ensure that the claim is settled in a timely manner in accordance with E-4.5-01, Filing MI Claims for Conventional Mortgage Loans or for Other Mortgage Loans for which Fannie Mae Bears the Risk of Loss.

Generally, the mortgage insurer is contractually required to pay the claim within a specified period after it receives all required documentation. This period is usually 60 days.

If Fannie Mae does not receive the MI claim proceeds before the end of the contractual period, it will ask the servicer to explain the delay. The following table provides a list of data points the servicer must include in its explanation to Fannie Mae.

✓	<b>The servicer must include...</b>
	The date it met the mortgage insurer's documentation requirements (if they had not been met with the servicer filed the claim).
	The dates of its follow-up efforts with the mortgage insurer.
	The mortgage insurer's response(s) to the servicer's inquiries.

If Fannie Mae believes the servicer acted prudently, Fannie Mae will pursue the delayed claim payment directly. If Fannie Mae determines there was no reasonable explanation for the delay, the servicer must advance its own funds to pay the claim amount due Fannie Mae.

If the servicer does not use the *Uniform Mortgage Insurance Claim for Loss (Form 1015)* to file the MI claim, it must send the mortgage insurer's claim form under cover of a *Mortgage Insurer's Claim Payment Data (Form 567)*. The mortgage insurer will use this form when it sends the claim settlement to Fannie Mae. To make sure that a foreclosure claim settlement is sent directly to Fannie Mae's lockbox, the servicer must show Fannie Mae's name and address as follows:

Fannie Mae

P.O. Box 277672

Atlanta, GA 30384-7672

When Fannie Mae receives the claim settlement, it will send the servicer a copy of the [Form 567](#) to let it know if it can convey the property to the mortgage insurer.

### Filing an MI Claim with FHA

For an FHA mortgage loan, the servicer must complete the actions shown in the following table, in accordance with E-4.5-02, Filing MI Claims for FHA Mortgage Loans.

✓	<b>The servicer must...</b>
	Ensure the claim settlement is sent directly to Fannie Mae's lockbox. To do so, the servicer must use the following Fannie Mae name and address on the claim form:  Fannie Mae  P.O. Box 9776

✓	<b>The servicer must...</b>
	Washington, DC 20016 —9776
	<p>Within two business days after filing the MI claim, send a copy of the claim form to Fannie Mae’s REAM division at the following address:</p> <p>Fannie Mae REAM — Conveyances &amp; Claims P.O. Box 650043 Dallas, TX 75265–0043</p>
	<p>Include on the MI claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>
	<p>Analyze FHA’s claim payment advice letter (particularly those in which interest is curtailed or expenses are disallowed) to determine whether to</p> <ul style="list-style-type: none"> <li>• file a supplemental claim, or</li> <li>• contact FHA to offer an explanation that will reverse the curtailment or disallowance.</li> </ul> <p><b>Note:</b> Any appeal must be submitted within three months of FHA’s denial letter.</p>

### Filing an MI Claim for an FHA Mortgage Loan without Conveying Title to FHA

If FHA specifically directs the servicer to submit a claim without conveying the title to the property to HUD, the servicer must comply with all aspects of FHA’s claim without conveyance procedures in accordance with E-4.5-02, Filing MI Claims for FHA Mortgage Loans. These procedures include

- providing required notices to FHA,
- bidding the amount specified by FHA, and
- adhering to any other request made by FHA.



The servicer must use FHA Mortgagee Number 9500109998 when the claim forms require Fannie Mae's FHA Mortgagee Number.

### Requesting an Extension from FHA for Filing an MI Claim

If the servicer cannot convey title to FHA, submit the required title evidence or fiscal data, or file a supplemental claim within the time frames FHA allows, it must send a *Mortgagee's Request for Extensions of Time* (Form HUD 50012) to its local HUD office in accordance with E-4.5-02, Filing MI Claims for FHA Mortgage Loans. The request must include the information shown in the following table.

✓	<b>The servicer must...</b>
	Provide a valid reason for requesting the extension.
	Define the circumstances that prevent the servicer from taking the timely action.
	Mail the form at least ten days before the allowable time period has elapsed.

### Filing a Claim for an Unsold FHA Coinsured Property

In accordance with E-4.5-03, Filing MI Claims for FHA Coinsured Mortgage Loans, if the property secured by an FHA Coinsured Mortgage Loan is not sold within six months of the foreclosure, the servicer must notify FHA before the expiration of this period. FHA will then arrange for an independent appraisal to determine the value of the property for claim purposes.

The servicer must complete the actions shown in the following table.

✓	<b>The servicer must...</b>
	File the mortgage insurance claim within 15 days after receiving FHA's notice of the appraised value of the property.
	Send Fannie Mae a deed and any other documents necessary to convey title from Fannie Mae to the servicer. Fannie Mae will return the executed documents to the servicer for recordation.

### Filing a Claim for an FHA Coinsured Property that Fannie Mae Sold

If Fannie Mae is able to sell the property within six months after the foreclosure sale, Fannie Mae will notify the seller as soon as the sales contract has been finalized. The servicer must adhere to FHA's procedures shown in the following table, in accordance with E-4.5-03, Filing MI Claims for FHA Coinsured Mortgage Loans.

✓	<b>The servicer must...</b>
	File a <i>Single-Family Application for Insurance Benefits</i> (HUD Form 27011) with FHA within 15 days after the new mortgage loan is closed.
	<p>Within two business days after filing the MI claim, send a copy of the claim to Fannie Mae’s REAM division.</p> <p>Fannie Mae REAM — Conveyances &amp; Claims P.O. Box 650043 Dallas, TX 75265–0043</p>
	<p>Include on the MI claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>

### Filing an MI Claim for a Section 184 Mortgage Loan

For properties secured by HUD Section 184 mortgage loans, the servicer must follow the procedures in the following table, in accordance with E-4.5-05, Filing MI Claims for HUD Section 184 Mortgage Loans.

✓	<b>The servicer must...</b>
	<p>Instruct HUD to send the proceeds to:</p> <p>Fannie Mae P.O. Box 9776 Washington, DC 20016–9776</p>
	Submit a <i>request for expense reimbursement</i> after filing the claim to request reimbursement for any HUD-authorized fees and expenses that it advanced.
	Within two business days after filing the MI claim, send a copy of the claim form to Fannie Mae’s REAM division at the following address:

✓	<b>The servicer must...</b>
	<p>Fannie Mae</p> <p>REAM — Conveyances &amp; Claims</p> <p>P.O. Box 650043</p> <p>Dallas, TX 75265–0043</p>
	<p>Include on the MI claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>

### Filing a Guaranty Claim with VA

In accordance with E-4.5-06, Filing MI Claims for VA Mortgage Loans, the servicer must follow the procedures shown in the following table.

✓	<b>The servicer must...</b>
	<p>Ensure the claim settlement is sent directly to Fannie Mae’s lockbox. To do so, use the following Fannie Mae name and address on the claim form and on the billing for the “upset price.”</p> <p>Fannie Mae</p> <p>P.O. Box 277672</p> <p>Atlanta, GA 30384–7672</p>
	<p>Within two business days after filing the guaranty claim, send a copy of the <i>Claim Under Loan Guaranty</i> (VA Form 26–1874) to Fannie Mae’s REAM division at the following address:</p> <p>Fannie Mae</p> <p>REAM — Conveyances &amp; Claims</p> <p>P.O. Box 650043</p>

✓	<b>The servicer must...</b>
	Dallas, TX 75265–0043
	<p>Include on the claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>

**Filing an RD Guarantee Claim on Fannie Mae’s Behalf**

In accordance with E-4.5-07, Filing MI Claims for RD Mortgage Loans, the servicer must adhere to the requirements set forth in the following table.

✓	<b>The servicer must...</b>
	<p>Ensure the claim settlement is sent directly to Fannie Mae’s lockbox. To do so, use the following Fannie Mae name and address on the claim form and on the billing for the “upset price.”</p> <p>Fannie Mae  P.O. Box 277672  Atlanta, GA 30384–7672</p>
	<p>Within two business days after filing the claim, send a copy of the RD claim form to Fannie Mae’s REAM division at the following address:</p> <p>Fannie Mae  REAM — Conveyances &amp; Claims  P.O. Box 650043  Dallas, TX 75265–0043</p>
	<p>Include on the claim form</p> <ul style="list-style-type: none"> <li>• the Fannie Mae loan number,</li> <li>• servicer loan number,</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• servicer’s name, and</li> <li>• servicer’s Fannie Mae lender identification number.</li> </ul>



## **F-1-08, Handling Property Forfeitures and Seizures (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Responding When Contacted by DOJ Representative Prior to Property Forfeiture or Seizure
- Responding to Notification by DOJ Representative After Property Forfeiture or Seizure
- Responding to Contact by Parties Other than Law Enforcement

### **Responding When Contacted by DOJ Representative Prior to Property Forfeiture or Seizure**

When contacted in regards to a property forfeiture or seizure, the servicer must take action in accordance with D1-6-03, Handling Property Forfeitures and Seizures.

If the servicer is contacted by a representative of the DOJ prior to the initiation of forfeiture or seizure of a property, it must follow the steps outlined in the following table.

<b>Step</b>	<b>Servicer Action</b>
1	<p>Verify that the caller is an authorized representative of the DOJ before releasing any information related to a Fannie Mae mortgage loan.</p> <p>To verify, contact the appropriate DOJ representative that the caller indicated. Use the telephone number in the telephone directory, rather than the number provided by the caller.</p> <p>The appropriate party to contact is the</p> <ul style="list-style-type: none"> <li>• Forfeiture Analyst if the caller identified himself or herself as an FBI representative, or</li> </ul>

Step	Servicer Action						
	<ul style="list-style-type: none"> <li>Asset Removal Team if the caller identified himself or herself as a DEA representative.</li> </ul>						
2	<p>Provide the DOJ representative with the following contact information for its Fannie Mae Servicing Representative (see F-4-03, List of Contacts):</p> <ul style="list-style-type: none"> <li>name,</li> <li>address, and</li> <li>telephone number.</li> </ul>						
3	<p>Do not provide any information about the borrower, the mortgage loan, or the property unless the DOJ representative provides a subpoena, summons, search warrant, or formal written request.</p> <p>If the servicer no longer has the individual mortgage loan file because it sent the file to Fannie Mae following its acquisition of the property through a foreclosure sale or acceptance of a Mortgage Release, the servicer must</p> <ul style="list-style-type: none"> <li>refer the caller to Fannie Mae's REAM Division (see F-4-03, List of Contacts), and</li> <li>send the documents presented by the requesting agency to Fannie Mae's REAM Division (see F-4-03, List of Contacts).</li> </ul> <p><b>Note:</b> The servicer must inform the requesting agency that it must also submit a written certification that it has complied with the provisions of the federal Right to Financial Privacy Act, unless the request for information relates to a grand jury subpoena or a case involving crimes against a financial institution (pursuant to Section 3413(1) of 12 USCA).</p>						
4	<p>Report its contact with the DOJ's representatives to Fannie Mae. To notify Fannie Mae, the servicer must take the actions described in the following table.</p> <table border="1" data-bbox="297 1598 1369 1875"> <thead> <tr> <th data-bbox="297 1598 386 1640">✓</th> <th data-bbox="394 1598 1369 1640">Servicer Action</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 1650 386 1692"></td> <td data-bbox="394 1650 1369 1692">Call its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).</td> </tr> <tr> <td data-bbox="297 1703 386 1875"></td> <td data-bbox="394 1703 1369 1875"> <p>Send a letter that describes the</p> <ul style="list-style-type: none"> <li>nature of the contact,</li> <li>information that was requested,</li> </ul> </td> </tr> </tbody> </table>	✓	Servicer Action		Call its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).		<p>Send a letter that describes the</p> <ul style="list-style-type: none"> <li>nature of the contact,</li> <li>information that was requested,</li> </ul>
✓	Servicer Action						
	Call its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).						
	<p>Send a letter that describes the</p> <ul style="list-style-type: none"> <li>nature of the contact,</li> <li>information that was requested,</li> </ul>						

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• information that was provided, and</li> <li>• date of the referral to Fannie Mae.</li> </ul> <p>Transmit the mortgage loan servicing file for the property in question.</p> <p><b>Note:</b> Once Fannie Mae receives the mortgage loan servicing file, it assumes the responsibility for handling all inquiries related to the property.</p>
5	<p>Prior to or after seizure of a property, the servicer must not, without first contacting Fannie Mae</p> <ul style="list-style-type: none"> <li>• have any other direct contact with the DOJ representative, or</li> <li>• provide any additional information about the property or the borrower to the DOJ representative.</li> </ul> <p><b>Note:</b> The servicer must promptly notify its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) about all contacts related to the property that are initiated by DOJ representatives.</p>

### Responding to Notification by DOJ Representative After Property Forfeiture or Seizure

When contacted in regards to a property forfeiture or seizure, the servicer must take action in accordance with D1-6-03, Handling Property Forfeitures and Seizures.

If the DOJ does not contact the servicer before it initiates forfeiture or seizure proceedings, but does provide the servicer with notice when the property is seized or the forfeiture proceedings are instituted, the servicer must take the actions described in the following table.

✓	Servicer Action
	<p>Verify that the caller is an authorized representative of the DOJ before releasing any information related to a Fannie Mae mortgage loan, if applicable.</p> <p>To verify, contact the appropriate party at the DOJ that the caller indicated. Use the telephone number in the telephone directory, rather than the number provided by the caller.</p> <p>The appropriate party to contact is the</p>

✓	<b>Servicer Action</b>
	<ul style="list-style-type: none"> <li>• Forfeiture Analyst if the caller identified himself or herself as an FBI representative, or</li> <li>• Asset Removal Team if the caller identified himself or herself as a DEA representative.</li> </ul>
	Contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) as soon as it receives the notice.
	Inform its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) about all deadlines and requirements specified in the notice.
	Provide its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) a copy of the notice and any accompanying documents.

### **Responding to Contact by Parties Other than Law Enforcement**

If the servicer is notified, by a party other than law enforcement, of a possible connection between illegal drug activity and a specific property, the servicer must take action in accordance with D1-6-03, Handling Property Forfeitures and Seizures.

When the servicer receives information about activity from a source other than a law enforcement official, such as a neighbor, the servicer must take the actions described in the following table.

✓	<b>Servicer Action</b>
	Promptly call the Asset Removal Team in the closest DEA office.
	Disclose to the DEA the information permitted under state or federal law applicable to the situation.
	Maintain in the mortgage loan servicing file the following records: <ul style="list-style-type: none"> <li>• the office contacted,</li> <li>• the name of the DEA representative with whom the servicer spoke,</li> <li>• the date of the contact, and</li> <li>• any other relevant details.</li> </ul>
	Promptly contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) and provide the following information: <ul style="list-style-type: none"> <li>• the type of information that was received from the contacting source,</li> </ul>



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✓	<b>Servicer Action</b>
	<ul style="list-style-type: none"><li>• the source of the information,</li><li>• the DEA regional office that the servicer contacted,</li><li>• the specific DEA representative that the servicer contacted, and</li><li>• any other relevant details.</li></ul>
	If any information is requested, follow the appropriate procedure for responding when contacted by DOJ representatives.

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## **F-1-09, Maintaining Fannie Mae Servicer Status (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Requesting a Higher Deductible Amount for Fidelity Bond Coverage
  - Reporting Fidelity Bond/Errors & Omissions Insurance Loss Events
- 

### **Requesting a Higher Deductible Amount for Fidelity Bond Coverage**

The servicer must obtain permission from Fannie Mae for higher deductible amounts in accordance with *Deductible Clause* in A3-2-01, Fidelity Bond Coverage.

To request a higher deductible, the servicer must submit a request for Fannie Mae's permission. The request must include

- the reason why the servicer is requesting the higher deductible, and
  - a copy of the servicer's most recent audited financial statements (prepared under GAAP).
- 

### **Reporting Fidelity Bond/Errors & Omissions Insurance Loss Events**

The servicer must report events requiring notice to Fannie Mae in accordance with A3-2-03, Reporting Events. The notice from the servicer must include

- A copy of the insurer's notice,

- The reason for the insurer’s action (if not included in the notice), and
- An explanation of its efforts to obtain replacement coverage or to otherwise satisfy Fannie Mae’s insurance requirements.



## **F-1-10, Managing Foreclosure Proceedings (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Reporting Environmental Hazards to Fannie Mae
- Requesting Fannie Mae Approval for Property Preservation and Maintenance
- Performing Property Inspections for Mortgage Loans in Foreclosure
- Reporting Third-Party Sales to Fannie Mae

### **Reporting Environmental Hazards to Fannie Mae**

The servicer must not begin foreclosure proceedings for any mortgage loan if it becomes aware of environmental hazards affecting the security property, in accordance with E-1.2-02, Timing of the Foreclosure Referral for Mortgage Loans Generally. Instead, the servicer must report the information to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

Regardless of whether Fannie Mae is named as a party in any environmental litigation, it must be considered non-routine and the servicer must immediately notify Fannie Mae’s Legal department by submitting a *Non-Routine Litigation Form* (Form 20). Also see E-1.3-02, Reporting Non-Routine Litigation to Fannie Mae for additional information.

When the servicer learns about the issuance of a lead-based paint citation, obtains other evidence of lead-based paint law violations, or becomes aware of threatened environmental litigation relating to a mortgage loan which it intends to refer to foreclosure, it must report the information in the following table to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) within 30 days after the mortgage loan is referred for foreclosure if the security property is a one-unit investment property or a two- to four-unit property.

✓	<b>The notification to Fannie Mae must include...</b>
	The current value of the property based on, at a minimum, an exterior inspection of the property and, if the borrower is cooperative, and interior inspection.

✓	<b>The notification to Fannie Mae must include...</b>
	The amount of Fannie Mae’s outstanding debt.
	The number of children under eight years of age residing in the property, giving the exact age of each such child (if any) and, in the event the property is a two- to four-unit property, the unit(s) with children residing in them.
	A copy of any documentation it has obtained related to lead-based paint law violations (including actual lead-based paint citation) or threatened or pending lead-based paint litigation.

**Note:** When the property is located in Massachusetts, the servicer must conduct an actual search to determine whether there are any outstanding lead-based paint citations against the property or property owner just before it decides to refer a mortgage loan to foreclosure. For the most part, Fannie Mae expects that a lead-based paint citation search will involve simply making a phone call to the appropriate oversight authority (such as the local housing court, department of health, etc.). However, if a citation search becomes more complex, Fannie Mae will reimburse the servicer for the actual costs of each required citation search it conducts. To determine whether reimbursement for a specific search is warranted, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

If, during the search, the servicer discovers that a lead-based paint citation has been issued, it must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) immediately so Fannie Mae can evaluate the details of the specific case and advise the servicer of the actions it must take (including postponement of the foreclosure sale, if necessary). If Fannie Mae advises the servicer to proceed with the foreclosure action, the servicer must conduct another search immediately before the foreclosure sale is held to ensure no additional citations were issued against the property subsequent to its earlier search.

### Requesting Fannie Mae Approval for Property Preservation and Maintenance

When the cost of the contemplated preservation work exceeds Fannie Mae’s allowable amount, the servicer must submit the request via HomeTracker™ for Fannie Mae approval, in accordance with E-3.2-12, Performing Property Preservation During Foreclosure Proceedings. The following table provides instructions when the servicer has not acquired access to HomeTracker.

✓	<b>The servicer must...</b>
	Complete a <i>Property Preservation Request for Repair</i> (Form 1095).
	Attach all photographic evidence along with pertinent supporting documentation to assist Fannie Mae in making a sound decision concerning the proposed maintenance.

✓	<b>The servicer must...</b>
	Submit the completed form and all attachments to: <a href="mailto:property_preservation@fanniemae.com">property_preservation@fanniemae.com</a> .

Once the request for repair is received, Fannie Mae will determine if other bids are necessary. Fannie Mae will send an email to the servicer at the email address provided on the request for repair to indicate either

- additional bids are necessary, or
- the amount for the preservation work is approved.

### Performing Property Inspections for Mortgage Loans in Foreclosure

The following table provides a list of information that must be included with submission of a comprehensive *Property Inspection Report* (Form 30) in accordance with the *Servicing Guide*.

✓	<b>The property inspection report must include...</b>
	Occupancy data. When the property is occupied by a tenant, the servicer must include the term of the lease and the amount of the monthly rental income being collected.
	The condition of the property, including the estimated costs of any repairs needed to make it marketable.
	Current photographs of the property and the neighborhood.
	An assessment of the possibility of vandalism with recommendations and estimated costs for protecting the property.
	An assessment of whether the property is improved with manufactured housing.
	An estimate of the market value of the property.
	Factual data regarding market trends in the neighborhood.
	Names, addresses, and telephone numbers of brokers, contractors, potential buyers, and others who could assist in either the rehabilitation or sale of the property.
	The location of the keys to the property.

When the property inspection reveals evidence of manufactured housing, the servicer must indicate this in the general comments section of Form 30 and also include the information listed in the following table.

✓	<b>The general comments section of Form 30 must include...</b>
	Any identifying number(s) related to the manufactured home, such as VIN, the serial number that must appear on the HUD Data Plate, etc.

✓	<b>The general comments section of Form 30 must include...</b>
	The manufacturer’s name and model, year of manufacture, length and width of the unit(s).

### Reporting Third-Party Sales to Fannie Mae

The servicer must report all third-party sales to Fannie Mae in accordance with E-3.5-02, Handling Third-Party Sales. The servicer must follow the instructions shown in the following table.

✓	<b>The servicer must...</b>
	Remove the mortgage loan from Fannie Mae’s active accounting records or the MBS pool in the reporting period for the month in which the foreclosure sale occurred, by reporting an Action Code 71 to Fannie Mae’s investor reporting system. Also see the <i>Investor Reporting Manual</i> .
	Report the proceeds from the sale as a “special remittance.” Also see <i>Reporting a Special Remittance</i> in F-1-31, Remitting and Accounting to Fannie Mae.
	Forward a copy of the closing statement to Fannie Mae’s REAM division (see F-4-03, List of Contacts) on the same day it remits the funds to Fannie Mae. The closing statement must include a breakdown of: <ul style="list-style-type: none"> <li>• principal,</li> <li>• interest,</li> <li>• servicing fees,</li> <li>• outstanding advances, and</li> <li>• any other items to the date of sale.</li> </ul>

## F-1-11, Manufactured Home Post-Purchase Adjustments (11/12/2014)

As described in *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records, if it comes to the attention of the servicer that it is servicing a mortgage loan secured by a manufactured home that was delivered to Fannie

Mae without notation of Special Feature Code 235 (which is required to identify that property type), the servicer must follow the steps outlined in the following table to initiate a post-purchase adjustment for a portfolio mortgage loan.

Step	Servicer Action
1	<p>Assemble the documentation needed to research the discrepancy for the mortgage loan in question, including</p> <ul style="list-style-type: none"> <li>• Fannie Mae funding notification (“purchase advise”),</li> <li>• Mortgage note,</li> <li>• ARM rider — if the loan is an ARM loan,</li> <li>• Fannie Mae contract — if the discrepancy is related to the guaranty fee rate or servicing fee rate, and</li> <li>• Mortgage payment history — if the discrepancy is related to the LPI or UPB at delivery.</li> </ul>
2	<p>Compare Fannie Mae’s loan-level records with the servicer’s records to determine the cause of the discrepancy.</p>
3	<p>Download and complete the <i>Post-Purchase Adjustment Request Form</i></p>
4	<p>Encrypt all documents containing NPI, and email the form and the following supporting documentation to <a href="mailto:postpurchase_adjustments@fanniemae.com">postpurchase_adjustments@fanniemae.com</a>:</p> <ul style="list-style-type: none"> <li>• Detailed explanation of the discrepancy and corrective action requested,</li> <li>• Copy of the funding notification (purchase advice),</li> <li>• Copy of the mortgage note (including ARM addenda, if applicable), and</li> <li>• Additional documentation supporting your request, as applicable (e.g., DU findings, HUD-1, mortgage loan history).</li> </ul> <p>If the servicer is unable to scan and send the supporting documents as an email attachment, the servicer must fax then to Fannie Mae at (240) 699-4201; however, be sure to indicate in the email message that the documents have been faxed.</p>
5	<p>Review the Post-Purchase Adjustment notification and adjustment detail which will be sent via Message Manager, and take the corrective action indicated.</p>

Step	Servicer Action	
	<b>If...</b>	<b>Then...</b>
	corrective action requires payment or receipt of additional funds because the servicer was paid either too much or too little for the mortgage loan	the servicer must confirm that there is a designated account for ACH processing.
	corrective action involves the drafting of funds from the servicer's designated account	the servicer must make sure that sufficient funds are available in that account prior to the scheduled draft date (as indicated in the notification).
	corrective action results in a mortgage loan being ineligible for delivery to Fannie Mae	the assigned Fannie Mae Account Manager will notify the servicer it must repurchase the mortgage loan immediately.

**Notes:**

Processing time for most post-purchase adjustment requests (from submission through data correction) is 2–3 weeks; some request may require additional levels of review and approval that will require additional time.

Drafts and refunds are processed through ACH within 3 business days of the notice posting in Message Manager.



## **F-1-12, Processing Mortgage Loan Payments and Payoffs (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Applying a Mortgage Loan Payment
- Calculating the Interest Portion of a Mortgage Loan Payment
- Processing a Curtailment
- Collecting an Advance Made on Behalf of the Borrower at Payoff
- Calculating Interest on a Payoff
- Collecting a Prepayment Premium
- Applying Funds Remaining After Payoff in an Interest Rate Buydown Plan Account
- Satisfying the Mortgage Loan and Releasing the Lien

### **Applying a Mortgage Loan Payment**

The servicer must apply monthly payments in the order described in the following table, in accordance with C-1.1-01, Servicer Responsibilities for Processing Mortgage Loan Payments.

<b>Date of mortgage loan instruments</b>	<b>Monthly payments must be applied in the order listed</b>
Instruments dated March 1999 or later	<ol style="list-style-type: none"><li>1. Interest</li><li>2. Principal</li><li>3. Deposits for escrow items, as applicable. Such deposits may include<ul style="list-style-type: none"><li>• taxes and assessments,</li><li>• property or mortgage insurance premiums,</li><li>• leasehold payments or ground rents, and</li></ul></li></ol>



Date of mortgage loan instruments	Monthly payments must be applied in the order listed
	<ul style="list-style-type: none"> <li>• community association dues, fees, and charges.</li> </ul> 4. Late charges, if any.
Instruments dated before March 1999	1. Deposits for insurance and taxes, if applicable 2. FHA service charges, if applicable 3. Interest 4. Principal 5. Late charges, if any

### Calculating the Interest Portion of a Mortgage Loan Payment

The servicer must calculate the mortgage interest portion of the monthly payment as follows, in accordance with C-1.1-01, Servicer Responsibilities for Processing Mortgage Loan Payments.

If the mortgage loan is...	Then the interest portion must be determined by calculating...
a fixed-rate first lien mortgage loan	30 days' interest on the UPB as of the LPI date and using the current accrual rate.
a fixed-rate first lien biweekly mortgage loan	14 days' interest on the UPB as of the LPI date and using the current interest accrual rate.
a fixed-rate second lien mortgage loan	each monthly payment using the payment-to-payment calculation method, when this is required by the security instrument. Otherwise, interest must be determined as outlined above.
an ARM loan	each monthly payment based on its applicable effective interest accrual date.

**Note:** Multiple interest accrual rates may apply.

### Processing a Curtailment

If the borrower includes a curtailment with his or her monthly payment when the mortgage loan is current, the servicer must apply monthly payments in the order described in the following

table, in accordance with *Processing Additional Principal Payments for Current Mortgage Loans* in C-1.2-01, Processing Additional Principal Payments.

<b>When the borrower submits a curtailment...</b>	<b>The servicer must...</b>
with the scheduled monthly payment	apply the scheduled monthly payment first, then apply the curtailment.
at any other time of the month, separately	apply the curtailment first, then apply the next scheduled monthly payment.

After a substantial principal curtailment, the servicer may agree to reduce the P&I payment only (based on a re-amortization of the current UPB and using the current interest rate and remaining loan term) for any current portfolio mortgage loan or for a current first lien mortgage loan that is in an MBS pool.

### **Collecting an Advance Made on Behalf of the Borrower at Payoff**

When a mortgage loan is paid in full, the servicer is responsible for collecting any advances made on behalf of the borrower along with the mortgage loan payoff, in accordance with C-1.2-03, Processing Payments in Full. The following table describes the servicer's responsibilities related to collecting advances.

<b>✓</b>	<b>The servicer must...</b>
	Collect any funds advanced on behalf of the borrower.
	Remit the repayment as a special remittance to Fannie Mae, and within 30 days of the payoff date, if Fannie Mae advanced the funds.

**Note:** The repayment of advances must not be included as part of the payoff proceeds.

### **Calculating Interest on a Payoff**

In accordance with C-1.1-01, Servicer Responsibilities for Processing Mortgage Loan Payments, the servicer must calculate the amount of interest charged to the borrower

- based on the UPB of the mortgage loan,
- as of the LPI date, and

- using the current interest accrual rate.

A full month’s interest should be calculated on the basis of a 360–day year, while a partial month’s interest should be based on a 365–day year.

The servicer of a second lien mortgage loan or an FHA Title I loan may not use the rule of 78s (or the sum of the digits) method for calculating the interest unless Fannie Mae has provided approval for this calculation method.

The amount of interest that may be charged to the borrower is specified in the following table. This is not necessarily the amount of interest that will be remitted to Fannie Mae. Also see C-3-02, Remitting Payoff Proceeds. The servicer must follow the procedures in F-1-31, Remitting and Accounting to Fannie Mae.

Mortgage Loan Type	The servicer must compute interest...
<ul style="list-style-type: none"> <li>• VA</li> <li>• RD</li> <li>• FHA Title I</li> <li>• Conventional first lien and second lien mortgage loans</li> <li>• FHA loans that are being refinanced as “new”</li> </ul>	<p>up to, but not including, the day the payoff funds were received.</p>
<ul style="list-style-type: none"> <li>• All other FHA mortgage loans (regardless of the date they were endorsed for mortgage insurance)</li> <li>• HUD-guaranteed Section 184 loans</li> </ul>	<ul style="list-style-type: none"> <li>• up to the date of payoff, for payoff funds received on an installment due date; or</li> <li>• through the end of the month, for payoff funds received after an installment due date.</li> </ul>

**Note:** When the installment due date falls on a non-business day, the receipt of the payoff funds shall be considered received on the installment due date provided they are received on the next business day.

### Collecting a Prepayment Premium

In accordance with C-1.2-03, Processing Payments in Full, the servicer cannot impose or collect a prepayment premium on most mortgage loans. However, the servicer may collect a prepayment

premium if all of the conditions set forth in the following table are satisfied and the mortgage loan is NOT a Texas section 50(a)(6).

✓	<b>To collect a prepayment premium, the servicer must...</b>
	Have a negotiated contract that specifically provides for the enforcement of a prepayment premium.
	Meet the guidelines set out in the <i>Selling Guide, B8-3-02, Special Note Provisions and Language Requirements</i> .
	Advise Fannie Mae of the collection of the premium when it next reports a Transaction Type 96 (LAR), regardless of whether Fannie Mae permits the servicer to retain the prepayment premium or requires it to remit the premium to Fannie Mae.

### Applying Funds Remaining After Payoff in an Interest Rate Buydown Plan Account

When determining the amount to be collected for payoff of the mortgage loan, the servicer must consider any funds remaining in an interest buydown plan account. The following table provides additional guidance in accordance with *Applying Funds Remaining in an Interest Rate Buydown Plan Account* in C-1.2-03, Processing Payments in Full.

✓	<b>The servicer must...</b>
	Reduce the payoff amount by the amount of any remaining buydown funds.
	Not subtract the buydown funds from the mortgage loan balance because an incorrect interest calculation would result.

### Satisfying the Mortgage Loan and Releasing the Lien

After verifying the amount required to pay the mortgage loan in full has been received, the servicer must perform all of the tasks specified in the following table in accordance with C-1.2-04, Satisfying the Mortgage Loan and Releasing the Lien.

**Note:** The servicer must not pass on to the borrower or to Fannie Mae any penalty fee it has to pay because it failed to process the release and satisfaction documents within the required time frame.

✓	<b>The servicer must...</b>
	Remove Fannie Mae's interest (or that of the mortgagee of record) from all applicable property insurance policies.

✓	<b>The servicer must...</b>
	Notify the taxing authorities that future tax bills should be sent to the borrower (or to the servicer of the first lien mortgage loan if only a second lien mortgage loan is paid off).
	Prepare and execute the appropriate release or satisfaction documents identified by the Fannie Mae loan number and, if applicable, the MERS MIN.
	<p>Send the satisfaction or release documents, and a request for the assignment of the custody documents, to</p> <p>Fannie Mae</p> <p>Vendor Oversight</p> <p>Legal Document Execution</p> <p>13150 Worldgate Drive</p> <p>Herndon, VA 22070</p> <p><b>Note:</b> Fannie Mae will return the executed documents promptly to the servicer.</p>
	Notify the mortgage insurer or guarantor of the payoff.
	Advise MERS to deactivate the MERS registration for the mortgage loan, if applicable.
	Remit Fannie Mae's share of the payoff proceeds in accordance with the remittance schedule established for the remittance type under which the mortgage loan is reported.
	Code the payoff as Action Code 60 when it next reports a Transaction Type 96 (LAR) to Fannie Mae through Fannie Mae's investor reporting system.



## F-1-13, Obtaining and Executing Legal Documents (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Submitting a Request to the Document Custodian
- Submitting a Document Execution Request
- Requesting a Limited Power of Attorney
- Preparing a Reconveyance Quitclaim Deed
- Preparing an Assignment of Mortgage
- Fannie Mae Contacts for Document Execution Requests

### Submitting a Request to the Document Custodian

The servicer must provide the law firm with either a copy or the original note at the time of referral, in accordance with E-1.1-02, Required Referral Documents. The servicer must follow the instructions shown in the following table in order to obtain the proper documents.

If the original note is in the custody of...	Then, the servicer must...
Fannie Mae's DDC	submit a request to the DDC's electronic release system.
a third-party document custodian designated by the servicer	submit a <i>Request for Release/Return of Documents</i> (Form 2009) to the document custodian.

**Note:** In either case, the servicer must specify whether the original note is required or whether the request is for a copy.

### Submitting a Document Execution Request

As required in A2-1-03, Execution of Legal Documents, the servicer must submit a document execution request, as described in the following table.

✓	<b>The servicer must...</b>
	<p>Send an email to the NSO Documents mailbox at <a href="mailto:NSO_Documents@fanniemae.com">NSO_Documents@fanniemae.com</a> and include the following:</p> <ul style="list-style-type: none"> <li>• Fannie Mae loan number or indicate that a mortgage loan number is not available because the mortgage loan was conveyed to Fannie Mae in error,</li> <li>• the reason for the request, and</li> <li>• attach executable document(s) requiring Fannie Mae signature.</li> </ul>
	Include a return shipping label.

When resubmitting (due to an incomplete initial package), be sure to include all documents, including ones previously sent to avoid processing delays.

### Requesting a Limited Power of Attorney

In accordance with *Fannie Mae's Limited Power of Attorney to Execute Documents* in A2-1-03, Execution of Legal Documents, the servicer must have a limited power of attorney in order to execute certain documents on behalf of Fannie Mae.

To request a limited power of attorney, the servicer must perform the steps on the following table.

Step	Servicer Action
1	<p>Prepare and execute a separate Limited Power of Attorney form (shown below) for each jurisdiction in which it is servicing mortgage loans on behalf of Fannie Mae.</p> <p>When preparing the form, the servicer may</p> <ul style="list-style-type: none"> <li>• reformat the document to make it recordable in specific jurisdictions,</li> <li>• change the notary acknowledgement, and</li> <li>• make other minor wording changes.</li> </ul>
2	<p>Attach the document(s) to a cover letter that</p> <ul style="list-style-type: none"> <li>• states the jurisdiction(s) that the limited power of attorney will cover,</li> <li>• explains any changes made to the document(s), and</li> </ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>provides any special instructions necessary to make the document(s) recordable in a specific jurisdiction.</li> </ul>
3	<p>Send the request package to:</p> <p>Vendor Oversight/Custody Group</p> <p>Attn: Limited Power of Attorney</p> <p>13150 Worldgate Drive</p> <p>Herndon, VA 20170</p> <p>or</p> <p><a href="mailto:Custody_Group@fanniemae.com">Custody_Group@fanniemae.com</a></p>

The servicer must use the following form to execute a limited power of attorney. The servicer must not amend the list of transactions for which the document will be used.

**Limited Power of Attorney**

Fannie Mae, a corporation organized and existing under the laws of the United States of America, having an office for the conduct of business at 13150 Worldgate Drive, Herndon, Virginia 20170, constitutes and appoints \_\_\_\_\_, a \_\_\_\_\_ organized and existing under the laws of \_\_\_\_\_, its true and lawful Attorney-in-Fact, and in its name, place and stead and for its use and benefits, to execute, endorse, and acknowledge all documents customarily and reasonably necessary and appropriate for:

- the release of a borrower from personal liability under the mortgage or deed of trust following an approved transfer of ownership of the security property;
- the full satisfaction or release of a mortgage or the request to a trustee for a full reconveyance of a deed of trust;
- the partial release or discharge of a mortgage or the request to a trustee for a partial reconveyance or discharge of a deed of trust;
- the modification or extension of a mortgage or deed of trust;
- the subordination of the lien of a mortgage or deed of trust;



- the completion, termination, cancellation, or rescission of foreclosure relating to a mortgage or deed of trust, including (but not limited to) the following actions:
  - the appointment of a successor or substitute trustee under a deed of trust, in accordance with state law and the deed of trust;
  - the issuance of a statement of breach or nonperformance;
  - the issuance or cancellation or rescission of notices of default
  - the cancellation or rescission of notices of sale; and
  - the issuance of such other documents as may be necessary under the terms of the mortgage, deed of trust, or state law to expeditiously complete said transactions, including, but not limited to, assignments or endorsements of mortgage loans, deeds of trust, or promissory notes to convey title from Fannie Mae to the Attorney-in-Fact under this Limited Power of Attorney;
- the conveyance of properties to the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), Rural Development (RD), or a state or private mortgage insurer; and
- the assignment or endorsement of mortgage loans, deeds of trust, or promissory notes to the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), Rural Development (RD), a state or private mortgage insurer, or Mortgage Electronic Registration System (MERS®).

The undersigned gives to said Attorney-in-Fact full power and authority to execute such instruments and to do and perform all and every act and thing requisite, necessary, and proper to carry into effect the power or powers granted by or under this Limited Power of Attorney as fully, to all intents and purposes, as the undersigned might or could do, and hereby does ratify and confirm all that said Attorney-in-Fact shall lawfully do or cause to be done by authority hereof.

Third parties without actual notice may rely upon the power granted under this Limited Power of Attorney, upon the exercise of such power by the Attorney-in-Fact, that all conditions precedent to such exercise of power have been satisfied and that this Limited Power of Attorney has not been revoked unless an instrument of revocation has been recorded.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_.

FANNIE MAE

By: \_\_\_\_\_,

Vice President

By: \_\_\_\_\_,

Assistant Secretary

COMMONWEALTH OF VIRGINIA }

COUNTY OF FAIRFAX }

The foregoing instrument was acknowledged before me, a notary public commissioned in Fairfax County, Virginia this \_\_\_\_\_ day of \_\_\_\_\_, by \_\_\_\_\_, Vice President, and by \_\_\_\_\_, Assistant Secretary, of Fannie Mae, a United States Corporation, on behalf of the corporation.

\_\_\_\_\_, Notary Public

My commission expires: \_\_\_\_\_

### Preparing a Reconveyance Quitclaim Deed

As required in A2-1-03, Execution of Legal Documents, if the servicer conveys a property to Fannie Mae in error, the servicer must comply with the requirements shown in the following table in preparing the reconveyance quitclaim deed, in accordance with *Correcting Conveyances to Fannie Mae* in A2-1-03, Execution of Legal Documents

✓	<b>The servicer must...</b>
	<p>Insert the following clause in the body of the quitclaim deed:</p> <p>“This property was inadvertently conveyed to the Federal National Mortgage Association and the Federal National Mortgage Association did not accept the deed.”</p> <p><b>Note:</b> The word “conveyed” must be used in the first clause, as noted above; otherwise, do not use it.</p>
	Ensure that the grantor’s name in the quitclaim deed matches the grantee’s name in the recorded deed.
	Ensure that the property address and legal description are included in the quitclaim deed.
	Ensure that the property address and the legal description match what is in the recorded deed.
	Provide supporting documentation showing the recorded conveyance to Fannie Mae (i.e., foreclosure deed).
	<p>Include one of the following Fannie Mae addresses:</p> <p>14221 Dallas Parkway Suite 1000</p> <p>Dallas, TX 75254</p> <p>or</p> <p>P.O. Box 650043</p> <p>Dallas, TX 75265</p>
	Submit the quitclaim deed for recordation within 5 days of receipt of the fully executed quitclaim deed from Fannie Mae.

The following words must not be used in the body of the quitclaim deed as they do not convey ownership from the grantor to the grantee:

- grants,
- sold,
- bargain, or

- convey.

The following words may be used in the body of the quitclaim deed to convey ownership from the grantor to the grantee:

- remise,
- release, or
- quitclaim.

**Note:** Fannie Mae will only follow the chain of title or assignment and will only quitclaim to the previous grantor or assignor.

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### Preparing an Assignment of Mortgage

As required in A2-1-03, Execution of Legal Documents, when preparing the assignment of mortgage, the servicer must include in the documentation

- a copy of the recorded assignment to Fannie Mae,
- the property address, and
- Fannie Mae's address at P.O. Box 650043, Dallas, TX 75265.

When submitting a document execution request for an assignment of mortgage, the servicer must comply with the requirements shown in the following table.

✓	The servicer must...
	Include a copy of the recorded assignment to Fannie Mae.
	Include the property address.
	Send to the following Fannie Mae address: P.O. Box 650043 Dallas, TX 75265

Refer to the steps in *Submitting a Document Execution Request* earlier in this topic for further requirements.

**Note:** Fannie Mae will only follow the chain of title or assignment and will only quitclaim to the previous grantor or assignor.

### Fannie Mae Contacts for Document Execution Requests

As stated in *Fannie Mae's Limited Power of Attorney to Execute Documents* in A2-1-03, Execution of Legal Documents, if the servicer does not have a limited power of attorney to execute documents on Fannie Mae's behalf or has a power of attorney that does not authorize it to execute documents for a specific type of transaction, the servicer must send the documents requiring execution in any instance in which Fannie Mae is the owner of record for the mortgage loan by email, when permitted. If, however, an original document must be executed by Fannie Mae, the servicer must send the document by regular or overnight mail.

The following table describes the different contacts the servicer must use when requesting the execution of documents.

<b>Document Ownership</b>	<b>Document Execution Submission Without LPOA or Servicer Unable to Execute</b>	<b>For Inquiries OR If Required Delivery Method is Email</b>	<b>Delivery Address when an Original is Required to be Mailed</b>
Vendor Oversight/ Custody Group	<ul style="list-style-type: none"> <li>• Satisfaction/discharges of paid off mortgage loans</li> <li>• Servicer requests for limited power of attorney to execute on Fannie Mae's behalf</li> </ul>	<a href="mailto:Custody_Group@fanniemae.com">Custody_Group@fanniemae.com</a>	Fannie Mae  Vendor Oversight/ Custody Group  13150 Worldgate Drive  Herndon, VA 20170
National Servicing Organization (NSO)	<ul style="list-style-type: none"> <li>• Quitclaim deeds for properties conveyed in error</li> <li>• Release of liability</li> <li>• Assignments of mortgage</li> <li>• Substitution of trustees</li> <li>• Conveyance or reconveyances of acquired properties</li> <li>• Mortgage Loan Modifications</li> </ul>	<a href="mailto:NSO_Documents@fanniemae.com">NSO_Documents@fanniemae.com</a>	Fannie Mae  Attn: NSO Documents  P.O. Box 809007  Dallas, TX 75265

Document Ownership	Document Execution Submission Without LPOA or Servicer Unable to Execute	For Inquiries OR If Required Delivery Method is Email	Delivery Address when an Original is Required to be Mailed
	<ul style="list-style-type: none"> <li>All other documents</li> </ul>		
NSO — Loss Mitigation	Partial Release of Security	<a href="mailto:partial_releases@fanniemae.com">partial_releases@fanniemae.com</a>	Fannie Mae NSO, Loss Mitigation 14221 Dallas Parkway Suite 1000 Dallas, TX 75254



## F-1-14, Post-Delivery Servicing Transfers (11/12/2014)

### Introduction

This Servicing Guide Procedure includes the following:

- Requesting Fannie Mae Approval
- Special Notifications to the Transferee Servicer
- Notifying Third Parties
- Transfer of Individual Mortgage Loan Files and Portfolio Information
- Submission of Final Accounting Reports/Remittances
- Preparing Mortgage Loan Assignments
- Transfer of Custodial Documents

### Requesting Fannie Mae Approval

#### Transfer of Mortgage Loans

As required in *Requesting Fannie Mae Approval* in A2-7-03, Post-Delivery Servicing Transfers, the servicer must submit the appropriate information to request Fannie Mae's approval of the transfer of servicing, including servicing transfers involving a subservicer.

When requesting approval to transfer servicing, the transferor or transferee servicer or subservicer must submit the information in the following table to Fannie Mae.

✓	<b>The transferor or transferee servicer or subservicer must submit to Fannie Mae...</b>
	A fully completed <i>Request for Approval of Servicing or Subservicing Transfer</i> (Form 629) in an electronic format to Servicing Transfers Group at <a href="mailto:servicing_transfers@fanniemae.com">servicing_transfers@fanniemae.com</a> at least 60 days before the proposed transfer date.
	A check for a nonrefundable \$500 processing fee to the address referenced on Form 629 noting the names of the transferor and transferee servicers, and subservicer, and the proposed transfer date.

The transfer and sale dates must be included on Form 629. The transfer date refers to the date on which the physical transfer of the servicing (or subservicing) responsibilities from the transferor servicer (or subservicer, as the case may be) to the transferee servicer (or subservicer) occurs. It may not necessarily be the same date as the sale date identified in a servicing transfer agreement. The sale date is the date on which the ownership of the servicing rights and the legal liability for the servicing of the Fannie Mae mortgage loans transfer from one servicer to another.

**Note:** While Fannie Mae requires the transferring parties to identify the sale date associated with a servicing transfer, Fannie Mae’s approval will only be issued as to the transfer date.

### Mortgage Loans in a Fannie Mae Majors®

As required in *Requesting Fannie Mae Approval in A2-7-03, Post-Delivery Servicing Transfers*, the servicer must submit the appropriate information to request Fannie Mae’s approval of the transfer of servicing.

The transferee servicer must take the actions described in the following table for reporting on the transferred mortgage loans if any of the mortgage loans for which servicing is to be transferred are in MBS pools that are part of a Fannie Mae Majors® multiple pool and the transferee servicer is already servicing mortgage loans in the same Majors pool.

<b>If the mortgage loan being transferred...</b>	<b>Then the transferee servicer...</b>
has the same remittance type and date	may report the transferred mortgage loans under the same nine-digit Fannie Mae lender identification number that it currently uses.

If the mortgage loan being transferred...	Then the transferee servicer...
has a different remittance type or date	must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) to request a new branch lender identification number.

### Special Notifications to the Transferee Servicer

As required in *Obligations of the Transferor and Transferee Servicers* and *Special Notifications to the Transferee Servicer* in A2-7-03, Post-Delivery Servicing Transfers, the transferor servicer must provide special notification to the transferee servicer when a transfer of servicing include a mortgage loan

- modified under HAMP and/or 2MP,
- an eMortgage, or
- a mortgage loan subject to resale restrictions regardless of whether the restrictions survive foreclosure or acceptance of a Mortgage Release (deed-in-lieu of foreclosure).

### When a Servicing Transfer Includes a Mortgage Loan Modified Under HAMP, 2MP or an eMortgage

For a mortgage loan modified under HAMP/2MP or an eMortgage, the transferor servicer must take the actions described in the following table.

✓	The transferor servicer must...
	Advise the transferee servicer that a mortgage loan modified under HAMP/2MP or an eMortgage is part of the portfolio being transferred.
	Confirm that the transferee servicer <ul style="list-style-type: none"> <li>• is aware of the special requirements for these mortgage loans, and</li> <li>• agrees to assume the additional responsibilities associated with servicing these mortgage loans.</li> </ul>

### When a Servicing Transfer Includes a Mortgage Loan Subject to Resale Restrictions

For a mortgage loan subject to resale restrictions, the transferor servicer must take the actions described in the following table.



✓	<b>The transferor servicer must...</b>
	Identify each mortgage loan subject to resale restrictions on the <a href="#">Form 629</a> .
	Confirm that the transferee servicer is aware of its duties and obligations related to the servicing of a mortgage loan subject to resale restrictions.

### Notifying Third Parties

As described in *Notifying Third Parties* in A2-7-03, Post-Delivery Servicing Transfers, the transferor and transferee servicers must take certain actions to ensure that all servicing functions that involve third parties will continue uninterrupted (or discontinued, if appropriate) after the transfer of servicing.

The following table describes the actions the transferor or transferee servicer must take to ensure that all servicing functions that involve third parties will continue uninterrupted (or discontinued, if appropriate) after the transfer of servicing.

✓	<b>The transferor or transferee servicer must...</b>
	Fulfill all requirements of each mortgage insurance policy that insures any conventional mortgage loans included in the transfer — including, but not limited to, the requirements for providing timely notification or requesting prior approval — to ensure the continuation of the MI coverage.  If the current mortgage insurer will not provide continuing coverage following the servicing transfer, the transferee servicer must find another mortgage insurer to provide MI coverage that is equivalent to the previous coverage — at no increased cost to the borrower or Fannie Mae — and obtain that mortgage insurer’s written commitment to provide the required coverage.
	Fulfill all requirements of FHA, VA, RD, or HUD — including, but not limited to, providing timely notification or requesting prior approval — to ensure the continuation of the mortgage insurance or mortgage loan guaranty, if applicable.
	Notify the hazard, flood, earthquake, other property insurance carriers, as applicable, to request a policy endorsement to substitute the transferee servicer’s name in the mortgagee clause and to change the premium billing address to that of the transferee servicer (unless the borrower pays the premium directly).
	Notify any tax or flood service provider and any optional insurance provider (or other products that are providing coverage) that the transferor servicer used for any of the mortgage loans that are being transferred to indicate whether the transferee servicer will continue using its services.

✓	<b>The transferor or transferee servicer must...</b>
	<p>Send appropriate notices of the transfer of servicing (providing the transferee servicer's name and address) to taxing authorities, holders of leaseholds, HOAs, and other lien holders.</p> <p>Any public utilities that levy mandatory assessments for which funds are being escrowed also must be notified.</p>
	<p>Notify any law firm involved in the management of foreclosure or other legal action in connection with the mortgage loans or acquired properties.</p>
	<p>Notify the current document custodian of the pending transfer of servicing and make arrangements for the prompt and safe transfer of the custodial documents to the document custodian designated by the transferee servicer, in accordance with requirements in the <i>Servicing Guide</i>.</p>

### **Transfer of Individual Mortgage Loan Files and Portfolio Information**

As described in *Transfer of Individual Mortgage Loan Files and Portfolio Information* in A2-7-03, Post-Delivery Servicing Transfers, the transferor servicer must deliver the following specific information to the transferee servicer.

The following table describes the information that must be delivered to the transferee servicer.

✓	<b>The transferor servicer must deliver to the transferee servicer...</b>
	<p>Documentation evidencing each mortgage insurer's approval of the servicing transfer or its commitment to insure the transferred mortgage loans, or a copy of the mortgage insurer's master policy evidencing that it is permissible to transfer servicing of insured mortgage loans without the mortgage insurer's prior approval.</p>
	<p>A list of any conventional mortgage loans that have borrower-paid or lender-purchased MI (identifying the applicable premium rates and the due date of the next premium payment) and an explanation of the premium payment obligations and claim payment procedures that apply to them.</p>
	<p>A list of any eMortgages that are part of the portfolio being transferred.</p>
	<p>Copies of any tax or flood service contracts that will remain in effect, or notification that the contracts will be transferred to the transferee servicer by a tape process.</p>
	<p>A list of tax bills, assessments, property insurance premiums, mortgage insurance premiums, etc. that are due to be paid by the servicer, but that are still unpaid as of the transfer date.</p>

✓	<b>The transferor servicer must deliver to the transferee servicer...</b>
	A list of the expiration dates and premium payment frequencies for property insurance, and MI policies, as applicable, related to each mortgage loan being transferred, whether or not premiums for these policies are escrowed.
	A list of mortgage loans that have optional insurance and other insurance products that will remain in effect.
	A list of mortgage loans that are subject to automatic drafting of the monthly payments.
	A list of ARM loans, showing the plan identification and parameters, the index used, the next interest rate change date, the next payment change date, the dates on which any fixed rate conversion option may be exercised, and the current status of any changes in process.
	Transaction and payment histories for the life of the mortgage loans
	<p>Trial balances, as of the close of business on the day immediately preceding the transfer date showing</p> <ul style="list-style-type: none"> <li>• the remittance type for each mortgage loan (actual/actual, scheduled/actual, or scheduled/scheduled);</li> <li>• the remittance cycle for each MBS mortgage loan (standard, Rapid Payment Method, or MBS Express);</li> <li>• Fannie Mae’s applicable ownership interest if it holds only a participation percentage in the mortgage loan;</li> <li>• applicable pool number for MBS mortgage loans;</li> <li>• delinquencies, foreclosure, bankruptcies, and acquired properties;</li> <li>• transfers of ownership, payoffs, and other exception transactions that are in process, including mortgage loan modification-related transactions;</li> <li>• escrow balances, escrow advances, curtailments, unapplied funds, loss drafts; and</li> <li>• buydown account balances for mortgage loans subject to temporary interest rate buydown plans.</li> </ul>
	A copy of the custodial bank reconciliation for each custodial bank account maintained as of the cutoff date (if the transferor servicer is unable to complete this reconciliation by the transfer date, it should complete the reconciliation as promptly

✓	<b>The transferor servicer must deliver to the transferee servicer...</b>
	as possible and send it to the transferee servicer within 5 business days after the transfer date).
	Copies of all investor accounting reports that were filed with Fannie Mae for the 3 months that immediately precede the cutoff date.
	A reconciliation of any outstanding shortage/surplus balance and over/under collateralized MBS pools, if applicable, related to the mortgage loans being transferred as of the last reporting period of Fannie Mae’s investor reporting system.
	Definitions of codes used in ledger records, trial balances, or any other documents that are being forwarded to the transferee servicer.
	Escrow Analyses.
	All information relating to delinquency management and default prevention.
	Copies of all documents including items held by a document custodian, and all other documents pertinent to servicing the mortgage loans including mortgage loan modification agreements.
	All customer correspondence and responses, including borrower complaints and escalated cases.
	The title policies or alternative title products.
	A list of each mortgage loan that is in the process of foreclosure or for which the borrower has filed bankruptcy, including the Fannie Mae loan number and the name and address of the law firm handling the foreclosure or bankruptcy.
	Information and records for any mortgage loans that are in foreclosure, bankruptcy, or a workout status and for any properties that Fannie Mae acquired by foreclosure or acceptance of a Mortgage Release [(deed-in-lieu of foreclosure) (if Fannie Mae has not sold them by the transfer date)].  <b>Note:</b> If the original mortgage loan custodial documents are not part of the individual mortgage loan file that is being transferred, the transferor servicer must provide a list showing the name of the party that is in possession of the original mortgage note.
	All pertinent information related to the status of any mortgage loan for which a workout option is being pursued.
	A list of any acquired properties for which it is performing administrative functions — such as paying taxes or performing property maintenance if the responsibilities for these functions will be transferred to the transferee servicer. The list must

✓	<b>The transferor servicer must deliver to the transferee servicer...</b>
	identify each property by the Fannie Mae loan number and include a history of the transferor servicer's actions from the date the property was acquired (including information about expenditures, receipts, and management and marketing activities) and provide the appropriate documentation.
	Information on any mortgage loan or acquired property being transferred that is the subject of litigation at the time of the transfer, including all records pertaining to such litigation (including court filings, disclosure requests and responses, and preliminary rulings).

### Transfer of P&I and T&I Funds

As required in A4-1-02, Establishing Custodial Bank Accounts, the servicer is responsible for the safekeeping of custodial funds at all times. The transferor servicer must forward to the transferee servicer all P&I and T&I custodial account balances including, but not limited to,

- unremitted P&I collections;
- escrow funds;
- unapplied funds;
- loss drafts;
- accruals on deposit — for example, for the payment of future renewal premiums for lender-purchased mortgage insurance; and
- buydown funds.

If the transferor servicer has advanced delinquent interest or scheduled P&I to Fannie Mae, the transferee servicer must reimburse the transferor servicer once it receives a final accounting of all monies from the transferor servicer.

All new amounts owed must be paid to the appropriate party promptly, as agreed by the parties.

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### Submission of Final Accounting Reports/Remittances

As described in *Submission of Final Accounting Reports/Remittances* in A2-7-03, Post-Delivery Servicing Transfers, the transferor servicer must submit the monthly LAR for the month that includes the transfer date.

When the servicing is transferred for individual mortgage loans in an MBS pool, the pool will be subdivided, with the mortgage loans transferred to the transferee servicer being grouped

into a new supplemental pool and the mortgage loans that were not transferred remaining in the original pool. In the month of the transfer date, the transferor servicer will be contractually responsible for

- reporting the monthly LAR for all mortgage loan activity processed on the mortgage loans in the original pool,
- reporting that month's MBS pool security balances if any of the transferred mortgage loans are in MBS pools, and
- ensuring that sufficient funds to satisfy that month's remittance obligation (including MBS pool guaranty fees) are available for drafting on the scheduled remittance date for the pool. However, the transferor and transferee servicers may agree that the transferee servicer will make the actual remittance to Fannie Mae.

In the month following the transfer date, the transferor servicer will be responsible for reporting the monthly LAR applicable to mortgage loans remaining in the original MBS pool after the transfer, and the transferee servicer will be responsible for reporting the monthly LAR applicable to the transferred mortgage loans in the newly created supplemental MBS pool. Each of the servicers will be responsible for reporting that month's MBS pool security balances for their respective share of the original MBS pool(s).

The transferor servicer must provide the transferee servicer with copies of its Fannie Mae investor reporting system shortage/surplus reconciliations and the pool-to-security balance reconciliations for the final monthly accounting period for all mortgage loans and MBS pools included in the servicing transfer. The two servicers should agree on how to resolve any differences and reconcile items or funds that are owned Fannie Mae and security holders. (Any questions regarding these issues must be directed to the transferor servicer's Fannie Mae Investor Reporting Representative.)

If, after reconciling the final shortage/surplus balance, the transferor servicer determines that Fannie Mae needs to process a shortage/surplus adjustment, the transferor servicer must send to its Fannie Mae Investor Reporting Representative (see F-4-03, List of Contacts) a copy of the final shortage/surplus reconciliation along with adequate documentation to support the requested adjustment. The adjustment must be requested within 30 days after the transfer date. The transferee servicer will be responsible for any Fannie Mae investor reporting system shortages or MBS security balance deficiencies related to mortgage loans or pools included in the transfer that are not promptly resolved by the transferor servicer.

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### **Preparing Mortgage Loan Assignments**

As described in *Preparing Mortgage Assignments* in A2-7-03, Post-Delivery Servicing Transfers, the transferee servicer must prepare and deliver a recorded mortgage assignment to the

applicable document custodian for all mortgage loans subject to a transfer of servicing within six months of the transfer date.

Any required assignment that is submitted to the document custodian(s) must be identified by the applicable Fannie Mae loan number and submitted under cover of a transmittal letter that includes the following information:

- the name of the transferor servicer;
- the name of the transferee servicer;
- the number of mortgage loans included in the transfer, as well as the number of mortgage loans for which recordable (but unrecorded) assignments to Fannie Mae have been executed;
- the transfer date; and
- a trial balance of the transferred mortgage loans, which identifies the mortgage loans for which assignments to Fannie Mae are being provided (or, if only a few mortgage loans are being transferred, a list of the transferred mortgage loans for which assignments are being provided).

### **Fannie Mae is the Owner of Record**

A new mortgage loan assignment does not need to be prepared if the assignment to Fannie Mae has been recorded. A mortgage loan for which Fannie Mae is the owner of record would be one of the following:

- a mortgage loan that was delivered to Fannie Mae before it converted to the Fannie Mae investor reporting system in 1984 (regardless of the location of the security property);
- a mortgage loan that is secured by a property located in Mississippi or Utah, if the mortgage loan was delivered to Fannie Mae during the period that Fannie Mae required recorded assignments for a Mississippi mortgage loan (after September 1, 1988, until June 7, 1989) or for a Utah mortgage loan (after September 1, 1988, until October 31, 1991); or
- a mortgage loan for which Fannie Mae requested recordation of the assignment (for any reason) after it purchased or securitized the mortgage loan.

### **Fannie Mae is Not the Owner of Record and the Mortgage Loan is Not Registered with MERS**

An assignment from the transferor servicer to the transferee servicer must be prepared and recorded if an assignment to Fannie Mae has not been recorded for a mortgage loan that is not registered with the MERS. The transferor servicer has full responsibility for recording an

assignment from the transferor servicer to the transferee servicer. (Blanket assignments may be used for the assignment, as long as the coverage for each blanket assignment is restricted to a single recording jurisdiction.) Fannie Mae will hold both the transferor servicer and the transferee servicer accountable for ensuring all assignments are prepared and recorded appropriately. An assignment from the transferee servicer to Fannie Mae must be prepared (in recordable form, but not recorded) to replace the one Fannie Mae had originally received from the transferor servicer. This unrecorded assignment from the transferee servicer to Fannie Mae must be an individual assignment. The unrecorded assignment to Fannie Mae must be delivered to the applicable document custodian within six months of the transfer date.

**Note:** Generally, when a transferred mortgage loan is secured by a property located in Puerto Rico, neither an assignment of the mortgage loan from the transferor servicer to the transferee servicer nor an unrecorded assignment from the transferee servicer to Fannie Mae will need to be prepared and recorded.

### **Fannie Mae is Not the Owner of Record and the Mortgage Loan is Registered with MERS**

Generally, when the servicing of a MERS-registered mortgage loan is transferred to a servicer that is not a MERS member (or to a servicer that elects not to continue the MERS registration for the mortgage loan), Fannie Mae requires

- the transferor servicer to prepare an assignment of the mortgage loan from MERS to the transferee servicer and have it executed and recorded,
- the transferor servicer to “deactivate” the Mortgage Identification Number (MIN) in the MERS system for reason: “Transfer to Non-MERS Status”, and
- the transferee servicer to prepare a recordable (but unrecorded) assignment of the mortgage loan from itself to Fannie Mae and to deliver it to the applicable document custodian.

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### **Transfer of Custodial Documents**

If the transferee servicer continues to store the custodial documents with the existing document custodian, it must execute the *Master Custodial Agreement* ([Form 2003](#)), in accordance with *Documentation of the Document Custodian Relationship* in A2-6-02, Document Custodians. If the transferee servicer already has a master custodial agreement on file with that document custodian, the transferee servicer must obtain an *MBS Custodian Recertification* ([Form 2002](#)) in connection with the servicing transfer within six months of the transfer date.

If Fannie Mae’s DDC is already holding the custodial documents for the mortgage loans that are being transferred, Fannie Mae will update its records to reflect the new servicer and accept any



new unrecorded assignment of the mortgage loan to Fannie Mae from the transferee servicer, if applicable, without charging any additional fees.

The transferee servicer and the transferor servicer must work out appropriate arrangements for paying the costs of transferring the documents and obtaining the required pool recertification in an expeditious manner. MBS pool documents that will be held by a new document custodian or by the transferee servicer must be recertified, and a [Form 2002](#) must be completed and submitted to the transferee servicer's lead Fannie Mae office within six months of the transfer date.

### **When Fannie Mae's DDC Transfers Custodial Documents to a New Document Custodian**

If Fannie Mae's DDC will need to transfer custodial documents for MBS mortgage loans that it is holding to a new document custodian, the transferee servicer must notify Fannie Mae at least 45 days before the date that it wants to physically transfer the documents. The notification must

- state its intent to transfer the documents to a new custodian as the result of a transfer of servicing,
- specify the approximate number of mortgage loans for which documents will be transferred,
- indicates the desired date for shipping the documents to the new custodian, and
- provide the names and telephone numbers of the contact persons for the transferee servicer and the new document custodian

This advance notification must be sent to Fannie Mae's Bulk-Out Transfer division, 13150 Worldgate Drive, Herndon, VA 20170.

Fannie Mae will provide additional instructions for handling these "bulk-out" transfers — including the format for electronic requests for document release — after it has reviewed the servicer's advance notification.

### **When Fannie Mae's DDC Will be Receiving Custodial Documents**

If Fannie Mae's DDC will be receiving documents from an existing document custodian, the transferee servicer must notify Fannie Mae at least 30 days before the date that it wants to physically transfer the documents. The notification must

- state its intent to transfer the documents to the DDC as a result of a transfer of servicing,
- specify whether the transfer relates to an entire servicing portfolio or to only certain individual mortgage loans,

- indicate the desired date for delivering the documents to the DDC, and
- provide the names and telephone numbers of the contact person for the transferee servicer and the current document custodian.

This advance notification must be sent to Fannie Mae, Region Code (A, C, D, L, or P, as required to identify the transferee servicer's lead Fannie Mae regional office, MBS Bulk-In Transfer, 13150 Worldgate Drive, Herndon, VA 20170. Fannie Mae will provide additional instructions for handling these "bulk-in" transfers — including the record layout for the electronic transfer tape — after it has reviewed the servicer's advance notification.

### **Custodial Documents for Participation Pool Mortgage Loans**

For participation pool mortgage loans that Fannie Mae holds in its portfolio, any original mortgage notes that the transferor servicer has in its possession must be transferred to Fannie Mae's DDC for permanent retention no later than 30 days after the transfer date. To ensure that the transferred documents are appropriately identified, a label showing the Fannie Mae loan number must be affixed to the notes. The documents that are being turned over to Fannie Mae for custody also must be annotated on the trial balance that is submitted to Fannie Mae in connection with the servicing transfer.



## **F-1-15, Preparing to Implement a Workout Option (03/18/2015)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Evaluating the Borrower Using Imminent Default Indicator
- Processing the IRS Form 4506T-EZ or IRS Form 4506-T
- Notifying Fannie Mae of Lead-Based Paint Citations

### **Evaluating the Borrower Using Imminent Default Indicator**

The servicer must evaluate a borrower using the imminent default evaluation in accordance with D2-1-02, Using Freddie Mac's Imminent Default Indicator.

To perform the imminent default evaluation, the servicer must take the steps in the following table.

Step	Servicer Action
1	<p>Submit the case to IDI.</p> <ul style="list-style-type: none"> <li>• Create a Microsoft Excel spreadsheet containing all of the data elements required for an imminent default determination, noting the following about these data elements: <ul style="list-style-type: none"> <li>– 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.</li> <li>– Monthly debt-to-income ratio: Do not include unemployment income.</li> <li>– Property valuation: The servicer must obtain a property valuation, which must not be more than 90 days old as of the date the servicer performs the IDI test, using an exterior BPO, an appraisal, Fannie Mae’s APS™, Freddie Mac’s AVM, or a third-party AVM, provided the APS or other AVM renders a reliable confidence score. The servicer may rely on its own internal AVM provided that <ul style="list-style-type: none"> <li>○ the servicer is subject to supervision by a federal regulatory agency, and</li> <li>○ the servicer’s primary federal regulatory agency has reviewed the model.</li> </ul> </li> </ul> </li> </ul> <p><b>Note:</b> If Fannie Mae’s APS, Freddie Mac’s AVM, the third-party AVM, or the servicer’s internal AVM does not render reliable confidence score, the servicer must obtain an assessment of the property value utilizing an exterior BPO, an appraisal, or a property valuation method documented as acceptable to the servicer’s federal regulatory supervisor. The property value assessment must be rendered in accordance with the FDIC’s Interagency Appraisal and Evaluation Guidelines regardless of whether such guidelines apply to mortgage loan modifications.</p>

Step	Servicer Action
	<p>Only mortgage loans owned or securitized by Fannie Mae are permitted in the input file. A sample Excel spreadsheet (Imminent Default Indicator Data Submission File Template) is available on <a href="#">Fannie Mae's website</a>.</p> <ol style="list-style-type: none"> <li>a. Save the spreadsheet in .CVS format.</li> <li>b. Log in to HSSN and launch the File Transfer Portal link.</li> <li>c. Upload the input file.</li> <li>d. When IDI completes processing, retrieve the .CSV output file.</li> </ol> <ul style="list-style-type: none"> <li>• If the IDI result is 1, the mortgage loan is categorized as “at risk of imminent default”, and the borrower is eligible to be considered further for a mortgage loan modification.</li> <li>• If the IDI result is 2, continue to Step 2 to confirm that the borrower has an acceptable hardship.</li> </ul>
2	<p>Evaluate the Hardship.</p> <p>The only acceptable hardships for the mortgage loan to be categorized as “at risk of imminent default” and the borrower to be eligible to be considered further for a mortgage loan modification are</p> <ul style="list-style-type: none"> <li>• death of a borrower or co-borrower;</li> <li>• long-term or permanent illness or disability of a borrower, co-borrower, or dependent family member;</li> <li>• divorce or legal separation of a borrower or co-borrower; or</li> <li>• an increased monthly P&amp;I payment occurred as result of an interest rate adjustment within the last 12 months for a previously modified mortgage loan with a step-rate feature.</li> </ul>

**Processing the IRS Form 4506T-EZ or IRS Form 4506-T**

The servicer must obtain the *Short Form Request for Individual Tax Return Transcript (IRS Form 4506T-EZ)* or *Request for Transcript of Tax Return (IRS Form 4506-T)* in accordance with *Determining Whether a Borrower Response Package is Complete* in D2-2-05, Receiving a Borrower Response Package.

The servicer must submit the Form to the IRS to obtain a copy of the borrower’s tax transcript in the following instances:

- to reconcile inconsistencies between other information the borrower provided (e.g., information the borrower provided in the *Uniform Borrower Assistance Form (Form 710)*) and the income documentation;
- when the borrower has income that is required to be documented by the borrower’s most recent federal income tax return but the borrower has not provided his or her tax return, complete with all schedules (e.g., self-employed borrowers); or
- if Fannie Mae requests it.

The servicer is encouraged to use the IRS Income Verification Express Service, which uses secure email to deliver tax return transcripts to servicers.

**Note:** For borrowers in the UST’s (also known as US Possessions), [IRS Form 4506T-EZ](#) and [IRS Form 4506-T](#) may not be accepted. Depending on the borrower’s UST classification of residency, the borrower may be required to file in the UST or the U.S or may have to file in both the UST and U.S.

The servicer must adhere to all applicable processes for eligible borrowers filing tax returns in UST and obtain all applicable forms when required.

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### Notifying Fannie Mae of Lead-Based Paint Citations

The following table lists the documentation that the servicer must provide when notifying Fannie Mae of lead-based paint citations in accordance with D2-3.1-06, Notifying Fannie Mae of Lead-Based Paint Citations.

✓	<b>The servicer must provide to Fannie Mae...</b>
	A copy of any document related to lead-based paint law violations or threatened or pending lead-based paint litigation.
	The current value of the property.
	The amount of the outstanding debt secured by the property.
	The number and exact age of each child under eight years of age who are residing in the property.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015



## F-1-16, Processing a Fannie Mae 2MP Modification (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Working with Lender Processing Services
- Determining the New Modified Mortgage Loan Terms

### Working with Lender Processing Services

The servicer must adhere to the requirements in *General Requirements for Fannie Mae 2MP Modifications* in D2-3.2-12, Fannie Mae 2MP Modification.

The servicer must enter into a contract directly with LPS to facilitate the communication of HAMP mortgage loan modification information between the first- and second-lien servicer.

LPS maintains a database of second liens that may be eligible under 2MP and that are serviced by servicers participating in 2MP. Information from the database will be used to match first and second lien mortgage loans and to notify the second lien mortgage loan servicer of the HAMP mortgage loan modification status and details necessary for the second lien mortgage loan servicer to offer a 2MP mortgage loan modification to the borrower. LPS will provide matching information to the servicer of a Fannie Mae second lien mortgage loan via a secure transmission. Reporting requirements, including a 2MP Data Dictionary and 2MP Data Dictionary Appendix, are available on HMPAdmin.com.

The following table describes servicer requirements for working with LPS.

✓	At a minimum, the servicer must...
	Pay a one-time set-up fee and a nominal transaction fee for each second lien mortgage loan matched by LPS, regardless of whether a 2MP mortgage loan modification is completed.

✓	<b>At a minimum, the servicer must...</b>
	<p>Agree to provide LPS with information regarding all eligible second lien mortgage loans that it services.</p> <p style="text-align: center;"><b>Note:</b> If the servicer identifies matching first and second lien mortgage loans on its own system, it should work with LPS so that the required loan information is accurately reflected in the LPS database.</p>
	<p>Provide monthly updates to LPS to be used for matching first and second lien mortgage loans to facilitate 2MP mortgage loan modifications and for program analysis and reporting.</p>

### Determining the New Modified Mortgage Loan Terms

The servicer must determine the new modified mortgage loan terms in accordance with *Determining the 2MP Modification Terms* in D2-3.2-12, Fannie Mae 2MP Modification.

The servicer must follow all of the steps in the order provided in the following table to determine the borrower’s new modified mortgage loan terms.

Step	Responsible Party Action
1	<p>Capitalize the arrearage.</p> <p>Capitalize accrued interest and servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by applicable state law. This includes costs and expenses incurred in performing second lien mortgage loan servicing obligations, such as those related to preservation and protection of the security property and the enforcement of the mortgage.</p> <p>The servicer must only capitalize those third-party delinquency fees that are reasonable and necessary.</p> <p style="text-align: center;"><b>Note:</b> 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 60-month repayment period unless the borrower decides to pay the amount upfront.</p>
2	<p>Reduce the interest rate of the second lien to 1.0%.</p> <p>After five years, the interest rate on the second lien mortgage loan will reset to the interest rate that is in effect on the HAMP-modified first lien mortgage loan.</p>

Step	Responsible Party Action
	<p>If applicable, following the initial interest rate reset, the interest rate of the modified second lien mortgage loan will reset on the same terms and schedule as the interest rate of the HAMP-modified first lien mortgage loan. At any time, the servicer is authorized to offer a rate of interest that is lower than the HAMP-modified first lien mortgage loan.</p> <p><b>Example:</b> <i>The interest rate cap on the modified first lien mortgage loan is 6.5%. The interest rate on the modified first lien mortgage loan is fixed at 5.0% for the first five years and then increases by 1.0% in year six to 6.0%, and by 0.5% in year seven to 6.5%. Thereafter, the interest rate remains at 6.5% for the remaining term of the first lien mortgage loan. Accordingly, the interest rate of the modified second lien mortgage loan will be fixed at 1.0% for the first five years and then increase by 5.0% in year six to 6.0%, and by 0.5% in year seven to 6.5%.</i></p>
3	<p>If the original term of the second lien mortgage loan is shorter than the remaining term of the HAMP-modified first lien mortgage loan, the servicer must extend the term of the second lien mortgage loan to be the lesser of</p> <ul style="list-style-type: none"> <li>• the term of the HAMP-modified first lien mortgage loan, or</li> <li>• 480 months.</li> </ul> <p><b>Note:</b> The term must not exceed 480 months.</p>
4	<p>If there was principal forbearance on the HAMP-modified first lien mortgage loan, forbear principal on the second lien mortgage loan in the same proportion.</p> <p>The proportion of the required second lien mortgage loan forbearance should be based on the ratio of the principal forbearance amount of the HAMP-modified first lien mortgage loan to the total UPB of the HAMP-modified first lien mortgage loan on its mortgage loan modification effective date.</p> <p>The ratio for determining the amount of principal forbearance must not include any principal forgiveness amount granted by the servicer of the first lien mortgage loan.</p> <p><b>Example:</b> <i>The total UPB amount of the HAMP-modified first lien on its mortgage loan modification effective date is \$100,000 and the amount of principal forbearance on the first lien is \$10,000. Therefore, the servicer must forbear 10% of the second lien. If the total UPB of the second lien on the mortgage loan modification effective date is \$40,000, the servicer must forbear a total of \$4,000.</i></p>



The servicer must use the terms of the HAMP mortgage loan modification of the first lien mortgage loan to determine the terms of the 2MP mortgage loan modification for the second lien mortgage loan, and is not required to verify any of the financial information provided by the borrower in connection with the HAMP mortgage loan modification.

Because the HAMP-modified first lien mortgage loan was, as required by HAMP guidelines, delinquent or faced imminent default before mortgage loan modification, the servicer is authorized to conclude that

- default is foreseeable with respect to the related second lien mortgage loan, and
- the combination of the mortgage loan modification of the first lien mortgage loan and the second lien mortgage loan under HAMP guidelines will be NPV positive. As a result, the second lien mortgage loan servicer is not required to perform an additional NPV test on the related second lien mortgage loan.

Unless the servicer identifies evidence of fraud or misrepresentation (such as when the second lien mortgage loan servicer is aware that a property is not owner-occupied), it has no additional responsibility to verify the information provided by the first lien mortgage loan servicer through LPS. If the servicer identifies evidence of fraud or misrepresentation, it must not proceed with the 2MP mortgage loan modification and must notify the HAMP Program Administrator.

If the second lien mortgage loan is an open-end line of credit, the servicer must terminate the borrower's ability to draw additional amounts on the credit line when the 2MP mortgage loan modification becomes effective.



## **F-1-17, Processing a Fannie Mae Cap and Extend Modification for Disaster Relief (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Obtaining a Property Valuation
- Determining the New Modified Mortgage Loan Terms
- Preparing the Loan Modification Agreement
- Executing and Recording the Loan Modification Agreement
- Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

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## Obtaining a Property Valuation

The servicer must obtain a property valuation in accordance with *Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

The servicer must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification, using one of the following:

- an exterior BPO;
- an appraisal;
- Fannie Mae's APS;
- Freddie Mac's AVM;
- a third-party AVM; or
- the servicer's own internal AVM, provided that
  - the servicer is subject to supervision by a federal regulatory agency, and
  - the servicer's primary federal regulatory agency has reviewed the model.

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

The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN.

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## Determining the New Modified Mortgage Loan Terms

The servicer must determine the borrower's new modified mortgage loan terms in accordance with *Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

The servicer must follow all of the steps in the order provided in the following table to determine the borrower’s new modified mortgage loan terms.

Step	Servicer Action						
1	<p>Capitalize the arrearage.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, <i>Administering an Escrow Account and Paying Expenses</i> for additional information.</p>						
2	<p>Set the modification interest rate to a fixed rate based on the requirements in the following table.</p> <table border="1" data-bbox="297 1465 1412 1892"> <thead> <tr> <th data-bbox="297 1465 797 1514">If the mortgage loan is...</th> <th data-bbox="805 1465 1412 1514">The servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 1524 797 1640">a fixed rate mortgage loan</td> <td data-bbox="805 1524 1412 1640">set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.</td> </tr> <tr> <td data-bbox="297 1650 797 1892">an ARM or a step-rate mortgage loan</td> <td data-bbox="805 1650 1412 1892">                     set the interest rate as follows:                     <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> </ul> </td> </tr> </tbody> </table>	If the mortgage loan is...	The servicer must...	a fixed rate mortgage loan	set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.	an ARM or a step-rate mortgage loan	set the interest rate as follows: <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> </ul>
If the mortgage loan is...	The servicer must...						
a fixed rate mortgage loan	set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.						
an ARM or a step-rate mortgage loan	set the interest rate as follows: <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> </ul>						

Step	Servicer Action
	<ul style="list-style-type: none"> <li>If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.</li> </ul>
3	<p>Extend the term in monthly increments up to 480 months from the mortgage loan Modification Effective Date and reamortize the mortgage loan over a term needed to achieve a new modified monthly P&amp;I payment that is as close to the current pre-modification P&amp;I payment as possible, without exceeding the pre-modification P&amp;I payment amount.</p> <p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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 loan to be eligible for the mortgage loan modification.</p>

If the mortgage loan has deferred principal (principal forbearance amount), the servicer must not capitalize this amount into the interest-bearing unpaid principal balance as part of the Cap and Extend Modification for Disaster Relief. Deferred principal must continue to be deferred and be payable upon maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing unpaid principal balance. Interest must not accrue on any deferred principal.

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). If the borrower does not make the final Trial Period Plan payment until the end of the month in which it is due, the servicer is authorized to complete the Loan Modification Agreement with a Modification Effective Date that is the first day of the second month following the Trial Period Plan. However, no additional Trial Period Plan payment is required during the interim month.

**Note:** The Loan Modification Agreement must be prepared anytime prior to the completion of the Trial Period Plan but in no instance can the Loan Modification Agreement be prepared on or after the mortgage loan Modification Effective Date.

The servicer must incorporate into the *Loan Modification Agreement (Form 3179)* additional provisions required pursuant to the *Summary: Modification Agreement Form 3179*.

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	<b>The servicer must...</b>
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	<p>Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form:</p> <ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to 10 years and the servicer is extending the term of the mortgage loan more than 10 years beyond the original maturity date;</li> <li>• the Loan Modification Agreement contains assignment of leases and rents provisions; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>

✓	<b>The servicer must...</b>
	Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.
	Obtain a title endorsement or similar title insurance product issued by a title insurance company if <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	Record the executed Loan Modification Agreement if <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan; or</li> <li>• the remaining term on the mortgage loan is less than or equal to 10 years and the servicer is extending the term of the mortgage loan more than 10 years beyond the original maturity date.</li> </ul>

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required, to ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae’s lien status for the entire amount owed. See *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records for additional information regarding collateral documents.

The following table provides the servicer’s requirements for executing and recording the Loan Modification Agreement based upon the entity that is the mortgagee of record.

If...	Then the servicer must...
the servicer is the mortgagee of record	take all the actions listed in the following:
Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record	1. Execute the Loan Modification Agreement.
Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae's behalf	2. Have the executed Loan Modification Agreement recorded, if required by local law or Fannie Mae.  3. Send the Loan Modification Agreement to the document custodian.  <b>Note:</b> If Fannie Mae's DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).
Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae's behalf	mail the Loan Modification Agreement to Fannie Mae's NSO (see F-4-03, List of Contacts) for execution.  Documents sent to Fannie Mae for execution must <ul style="list-style-type: none"> <li>• be identified by the Fannie Mae loan number,</li> <li>• be sent under cover of a letter that provides any special instructions related to execution of the documents, and</li> <li>• indicate the name and address to which the executed documents should be returned.</li> </ul>

### Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

The servicer must execute the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Cap and Extend Modification for Disaster Relief* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief.

After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	<b>The servicer must...</b>
	<p>For a portfolio mortgage loan, add any amounts to be capitalized to the UPB of the mortgage loan as of the date specified in the agreement. Usually, the capitalization date is one month before the new modified payment will be due.</p> <p><b>Note:</b> The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.</p>
	<p>Revise the borrower’s payment records to provide for collection of the modified payment.</p>
	<p>If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%).</p> <p><b>Note:</b> For mortgage loans that have lender-paid mortgage insurance, see B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.</p>
	<p>Apply any funds that:</p> <ul style="list-style-type: none"> <li>• the borrower deposited with the servicer as a condition of the mortgage loan modification,</li> <li>• have been deposited on behalf of the borrower in connection with the mortgage loan modification, or</li> <li>• the mortgage insurer contributed in connection with the mortgage loan modification.</li> </ul> <p><b>Note:</b> Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower’s escrow deposit account.</p>





## **F-1-18, Processing a Fannie Mae HAMP Modification (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Verifying Occupancy
- Calculating the Monthly Mortgage Payment Ratio
- Using a Standard Net Present Value Test
- Determining the New Modified Mortgage Loan Terms
- Calculating the Borrower's Total Monthly Debt Ratio
- Preparing the Loan Modification Agreement
- Executing and Recording the Loan Modification Agreement

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### **Verifying Occupancy**

The servicer must evaluate the borrower and the mortgage loan for eligibility for a HAMP modification in accordance with *Determining Eligibility for a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

To verify occupancy, the servicer must take the action described in the following table depending upon the address indicated on the credit report.

<b>If the credit report...</b>	<b>Then the servicer...</b>
lists the property address as the borrower's current residence	is authorized to rely solely on the address indicated on the credit report to verify occupancy.
does not indicate the property address as the borrower's current residence	must perform additional due diligence prior to extending a HAMP offer, which must be documented in the mortgage loan file for compliance review purposes.

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## Calculating the Monthly Mortgage Payment Ratio

The servicer must evaluate the borrower and the mortgage loan for eligibility for a HAMP modification in accordance with *Determining Eligibility for a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

The monthly mortgage payment ratio is the ratio of the borrower's current monthly payment to the borrower's monthly gross income. In the case of co-borrowers, the monthly mortgage payment ratio is the ratio of the borrowers' current monthly payment to the combined monthly gross income of the borrower and co-borrower(s).

The borrower's monthly payment includes the monthly payment of the following items, as applicable:

- principal,
- interest,
- property taxes,
- property (hazard) insurance,
- flood insurance,
- condo association fees,
- HOA fees, and
- any escrow payment shortage amounts subject to the 60-month repayment plan.

**Note:** When determining the borrower's monthly mortgage payment ratio, the servicer must adjust the borrower's current monthly payment to include the preceding expenses if they are applicable and not already included in the borrower's payment.

The current monthly payment must not include MI premium payments or payments due to holders of subordinate liens. If the borrower has indicated that there are association fees, but has not been able to provide written documentation to verify the fees, the servicer may rely on the information provided by the borrower, if the servicer has made reasonable efforts to obtain the association fee information in writing.

The borrower's monthly gross income is defined as the borrower's monthly income amount before any payroll deductions and includes the following items, as applicable:

- wages and salaries,
- overtime pay,
- commissions,
- fees,
- tips,
- bonuses,
- housing allowances,
- other compensation for personal services,
- Social Security payments (including Social Security received by adults on behalf of minors or by minors intended for their own support), and
- monthly income from annuities, insurance policies, retirement funds, pensions, disability or death benefits, rental income, and other income such as adoption assistance.

**Note:** The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to employment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a mortgage loan modification.

There is no requirement to refresh income documentation during the remainder of the Trial Period Plan from the date of the Fannie Mae HAMP modification eligibility determination.

A borrower that is being evaluated for a Fannie Mae HAMP modification may elect to submit his or her most recent signed federal income tax return, but is not required to do so. In the event that a borrower does not provide his or her signed federal income tax return including all schedules and forms, the servicer must, in accordance with D2-2-05, Receiving a Borrower Response Package, submit the *Short Form Request for Individual Tax Return Transcript* ([IRS 4506T-EZ](#)) or *Request for Transcript of Tax Return* ([IRS Form 4506-T](#)), if applicable, to the IRS for processing.

If a tax return or transcript is not available for the most recent tax year, the servicer is authorized to accept any of the following:

- a signed tax return,
- an electronically filed tax return, or

- transcripts for a prior tax year.

However, the servicer must also process the borrower’s signed [IRS Form 4506-T](#) with the IRS to confirm that the borrower did not file a current tax return. If a borrower is not required to file a tax return, the servicer must have the borrower document why he or she was not required to file a tax return.

The servicer must review the tax return information for all borrowers to help verify income and identify discrepancies. The following table provides the servicers’ requirements when tax documentation submitted by the borrower reveals inconsistencies with information previously reported.

✓	<b>The servicer must...</b>
	Obtain other documentation to reconcile inconsistencies when the tax information identifies income relevant to the HAMP decision that the borrower did not disclose on the <i>Uniform Borrower Assistance Form</i> ( <a href="#">Form 710</a> ).
	Use reasonable business judgment to determine whether income is no longer being earned or has been reduced to the amounts disclosed on <a href="#">Form 710</a> .
	Ask the borrower to explain material differences between the federal income tax returns/transcript and <a href="#">Form 710</a> , and document such differences in the mortgage loan file.

The servicer must not modify a mortgage loan if there is reasonable evidence indicating the borrower submitted income information that is false or misleading, or if the borrower otherwise engaged in fraud in connection with the mortgage loan modification.

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### Using a Standard Net Present Value Test

The servicer must evaluate the borrower and the mortgage loan for eligibility for a HAMP modification in accordance with *Determining Eligibility for a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

The net present value (NPV) model is available on HMPAdmin.com. The servicer will have access to the NPV model as well as the NPV User Guide, which provides detailed guidelines for submitting proposed mortgage loan modification data.

To obtain a property valuation input for the NPV model, servicers may use an AVM, an exterior BPO, or an appraisal. If the servicer is using an AVM, it is authorized to

- use an AVM provided by Fannie Mae or Freddie Mac, provided that the AVM renders a reliable confidence score, or

- 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 an AVM is unable to render a value with a reliable confidence score, the servicer must obtain an assessment of the property value utilizing an exterior BPO or a property valuation method acceptable to the servicer's Federal regulatory supervisor. Such assessment must be rendered in accordance with FDIC's Interagency Appraisal and Evaluation Guidelines.

In all cases, the property valuation used must not be more than 90 days old as of the date that the servicer first evaluated the borrower for a Fannie Mae HAMP Trial Period Plan using the NPV model.

**Note:** The property valuation will remain valid for the duration and does not need to be updated for any subsequent NPV evaluation.

From time to time, the NPV base model will be updated and a new version will be made available. The servicer will be allowed a grace period to implement each new version of the NPV base model, which will be set forth in the applicable NPV release documentation. In addition, the release documentation will provide guidance as to which NPV model version the servicer should use during the grace period. After the grace period, the servicer must use either the most recent version of the base model or a customized version that meets the requirements for customization outlined in the model documentation.

In the event that a mortgage loan must be run through the NPV model more than once, the servicer should test the mortgage loan using the same major NPV model version each time the borrower is evaluated. All versions of the NPV model are available on HMPAdmin.com.

A servicer with a servicing book of at least \$40 billion has the option to create a customized NPV model that uses a set of default rates and redefault rates estimated based on the experience of its own portfolio. When estimating the default and redefault rates, the servicer must take the following into consideration, if feasible:

- current LTV,
- current monthly mortgage loan payment,
- current credit score,
- delinquency status, and

- other loan or borrower attributes.

### Determining the New Modified Mortgage Loan Terms

The servicer must determine the borrower’s new modified mortgage loan terms in accordance with *Determining the Fannie Mae HAMP Modification Terms* in D2-3.2-07, Fannie Mae HAMP Modification. The servicer must follow the steps in the order provided in the following table in an effort to achieve a target monthly mortgage payment ratio as close as possible to, without going below, 31%.

Step	Servicer Action
1	<p>Capitalize the arrearage.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state law.</li> </ul> <p><b>Note:</b> 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 60-month repayment period unless the borrower decides to pay the amount upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.</p>
2	<p>If necessary, reduce the starting interest rate in increments of 0.125% to get as close as possible to the target monthly mortgage payment ratio.</p> <p><b>Note:</b> The starting interest rate is the current interest rate (the note rate) on the mortgage loan. The interest rate floor in all cases is 2%.</p>

Step	Servicer Action						
	<p>The following table describes how to handle the resulting rate in relation to the Interest Rate Cap, which is the Freddie Mac Weekly Primary Mortgage Market Survey® (PMMS®) Rate for 30-year fixed-rate conforming mortgage loans, rounded to the nearest 0.125%, as of the date that the Loan Modification Agreement is prepared.</p> <table border="1" data-bbox="297 583 1377 926"> <thead> <tr> <th data-bbox="297 583 760 632">If the resulting interest rate...</th> <th data-bbox="768 583 1377 632">Then the reduced interest rate will be...</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 642 760 873">is below the Interest Rate Cap</td> <td data-bbox="768 642 1377 873">in effect for the first five years, followed by annual increases of 1% per year, or such lesser amount as may be needed, until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining mortgage loan term.</td> </tr> <tr> <td data-bbox="297 884 760 926">exceeds the interest rate cap</td> <td data-bbox="768 884 1377 926">the permanent interest rate.</td> </tr> </tbody> </table> <p><b>Note:</b> If a borrower has an ARM or interest-only mortgage loan, the interest rate will convert to a fixed-interest-rate, fully amortizing mortgage loan. For Fannie Mae ARM loans that provide for a monthly payment option (for example, specified minimum payment, interest-only payment, 30-year fully amortizing payment, or 15-year fully amortizing payment), the payment used to calculate the 31% monthly mortgage payment ratio should be the current payment legally due at the time the servicer determines eligibility regardless of imminent changes in the rate or amount of payment. This payment option must be used in the HAMP modification waterfall to reduce the borrower's monthly mortgage payment ratio as close as possible to, without going below, 31%.</p>	If the resulting interest rate...	Then the reduced interest rate will be...	is below the Interest Rate Cap	in effect for the first five years, followed by annual increases of 1% per year, or such lesser amount as may be needed, until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining mortgage loan term.	exceeds the interest rate cap	the permanent interest rate.
If the resulting interest rate...	Then the reduced interest rate will be...						
is below the Interest Rate Cap	in effect for the first five years, followed by annual increases of 1% per year, or such lesser amount as may be needed, until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining mortgage loan term.						
exceeds the interest rate cap	the permanent interest rate.						
3	<p>If necessary, extend the term and re-amortize the mortgage loan by up to 480 months from the mortgage loan modification effective date (that is, the first day of the month following the end of the Trial Period Plan) to achieve the target monthly mortgage payment ratio. Negative amortization after the effective date of the mortgage loan modification is prohibited.</p> <p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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</p>						

Step	Servicer Action
	be renegotiated to satisfy this requirement for the loan to be eligible for the Fannie Mae HAMP modification.
4	<p>If necessary, provide principal forbearance to achieve the target monthly mortgage payment ratio.</p> <p>The principal forbearance amount is non-interest-bearing and non-amortizing. The amount of principal forbearance will result in a balloon payment fully due and payable upon the earliest of the borrower’s transfer of the property, payoff of the interest-bearing UPB, or maturity of the mortgage loan.</p> <p>For mortgage loans eligible for a Fannie Mae HAMP modification, the servicer is not required to forbear more than the greater of</p> <ul style="list-style-type: none"> <li>• 30% of the UPB of the mortgage loan (after any capitalization per Step 1), or</li> <li>• an amount resulting in a modified interest-bearing balance that would create a current mark-to-market LTV ratio equal to 100%.</li> </ul>

### Calculating the Borrower’s Total Monthly Debt Ratio

The servicer must send the borrower a HAMP Counseling Letter in accordance with *Communicating with a Borrower Regarding a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

The borrower’s total monthly debt ratio is the ratio of the borrower’s monthly gross expenses divided by the borrower’s monthly gross income (as described in *Calculating the Monthly Mortgage Payment Ratio*).

The servicer must obtain a credit report for each borrower or a joint report for a married couple who are co-borrowers to validate installment debt and other liens. In addition, the servicer must consider information concerning monthly obligations obtained from the borrower either verbally or in writing. Monthly gross expenses equal the sum of the monthly charges listed in the following table, as applicable.

Type of Monthly Expense	Additional Information
Monthly mortgage loan payment	<p>The monthly payment, including:</p> <ul style="list-style-type: none"> <li>• MI premiums,</li> <li>• taxes,</li> </ul>



Type of Monthly Expense	Additional Information
	<ul style="list-style-type: none"> <li>• property insurance,</li> <li>• homeowners' or condo association fee payments, and</li> <li>• assessments related to the property whether or not they are included in the monthly payment.</li> </ul>
Monthly payment on all closed-end subordinate mortgage loans	None
Payments on all installment debts with more than ten months of payments remaining	<p>Include debts that are in a period of either deferment or forbearance.</p> <p>When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment. If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.</p>
Monthly payments on revolving or open-end accounts	<p>Include regardless of the balance.</p> <p>In the absence of a stated payment, the payment must be calculated by multiplying the outstanding balance by 3%.</p>
Monthly payments on a HELOC	<p>Must be included in the payment ratio using the minimum monthly payment reported on the credit report.</p> <p>If the HELOC has a balance but no monthly payment is reported, the servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.</p>

Type of Monthly Expense	Additional Information
Alimony, child support, and separate maintenance payments	Only include when more than ten months of payments are remaining and if supplied by the borrower.
Monthly auto lease payments	Include regardless of the number of payments remaining.
Aggregate negative net rental income from all investment properties owned	Only include if supplied by the borrower.
Monthly mortgage loan payments for a second home	Include PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, and condo unit or co-op unit maintenance fees, excluding unit utility charges.

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

The servicer must prepare the *Home Affordable Modification Agreement (Form 3157)* early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). The servicer is authorized to, at its discretion, complete the Loan Modification Agreement so the mortgage loan modification becomes effective on the first day of the second month following the final Trial Period Plan month to allow for sufficient processing time. However, the servicer must treat all borrowers the same in applying this option by selecting, at its discretion and evidenced by a written policy, the date by which the final Trial Period Plan payment must be submitted before the servicer applies this option (“cut-off date”). The cut-off date must be after the due date for the final Trial Period Plan payment set forth in the *Evaluation Notice*.

**Note:** If the servicer elects this option, the borrower will not be required to make an additional Trial Period Plan payment during the month (the “interim month”) in between the final Trial Period Plan month and the month in which the mortgage loan modification becomes effective. For example, if the last Trial Period Plan month is March and the servicer elects the option described above, the borrower is not required to make any payment during April, and the mortgage loan modification becomes effective, and the first payment under the Loan Modification Agreement is due, on May 1.

The servicer may encounter circumstances where a co-borrower signature is not obtainable for the Loan Modification Agreement, for reasons such as mental incapacity, military deployment, or contested divorce. When a co-borrower’s signature is not obtainable and the servicer decides to continue with the HAMP mortgage loan modification, the servicer must appropriately document the basis for the exception in the servicing records.

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae HAMP Modification* in D2-3.2-07, Fannie Mae HAMP Modification.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	<b>The servicer must...</b>
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	<p>Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form:</p> <ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>
	Ensure that all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.

✓	<b>The servicer must...</b>
	<p>Obtain a title endorsement or similar title insurance product issued by a title insurance company if</p> <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	<p>Record the executed Loan Modification Agreement if</p> <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan; or</li> <li>• the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date.</li> </ul>

The servicer is authorized to execute the Loan Modification Agreement on behalf of MERS and, if applicable, submit it for recordation.



## **F-1-19, Processing a Fannie Mae Mortgage Release (Deed-In-Lieu of Foreclosure) (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Verifying Clear and Marketable Title
  - Calculating the Borrower's Current Monthly Debt-to-Income Ratio When the Mortgage Loan is Current or Less than 31 Days Delinquent
  - Obtaining and Reviewing the Borrower's Credit Score
  - Evaluating the Borrower's Ability to Make a Contribution
  - Obtaining a Property Valuation
  - Processing a Mortgage Release Transition Option
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### **Verifying Clear and Marketable Title**

The servicer must adhere to *General Requirements When Processing a Fannie Mae Mortgage Release* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

The servicer must order a title search. In addition to the title search, the servicer must review the following to determine if the borrower will be able to deliver clear and marketable title:

- readily available information provided by the borrower,
  - the borrower's credit report,
  - the mortgage loan servicing file, and
  - other sources identifying subordinate liens and other claims on title.
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### **Calculating the Borrower's Current Monthly Debt-to-Income Ratio When the Mortgage Loan is Current or Less than 31 Days Delinquent**

The servicer must evaluate the borrower for a Fannie Mae Mortgage Release in accordance with *Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

Chapter 1, Servicing Guide Procedures

To calculate the borrower’s current monthly debt-to-income ratio, which is the ratio of the borrower's current monthly expenses divided by the borrower's current monthly income, the servicer must take the actions listed in the following table.

✓	<b>When calculating the borrower’s current monthly debt-to-income ratio, the servicer must...</b>
	Verify the borrower's monthly debt and other qualifying expenses.
	Obtain a credit report for each borrower or a joint credit report for a married couple who are co-borrowers to <ul style="list-style-type: none"> <li>• validate installment debt and other liens; and</li> <li>• review for new credit lines or liens obtained during the term of the hardship. If there are new credit lines or liens, other than for an allowed new mortgage loan (see <i>Evaluating the Credit Report for New Mortgage Loans Obtained</i> in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure)), which cause the borrower’s total monthly debt ratio to go above 55%, the servicer must use good business judgment to determine if those expenses are reasonable and should be included in the qualifying expenses.</li> </ul>
	Consider information concerning monthly obligations obtained from the borrower in writing.
	Determine the borrower's monthly gross income based on income documentation provided by the borrower.

Qualifying expenses equal the sum of the monthly charges described in the following table, as applicable.

<b>Type of Monthly Expense</b>	<b>Additional Information</b>
The current monthly mortgage loan payment	<p>The servicer must include any mortgage insurance premiums, taxes, property insurance, HOA or condo association fee payments, and assessments related to the property (whether or not they are included in the current mortgage loan payment).</p> <p>If taxes and insurance premiums are not known, the servicer must estimate the borrower’s monthly taxes and property insurance payments.</p>

Type of Monthly Expense	Additional Information
Monthly payments on all closed-end subordinate lien mortgage loans	The servicer must exclude the subordinate lien payments for the subject property.
Monthly payments on all installment debts with more than ten months of payments remaining	<p>This includes debts that are in a period of either deferment or forbearance.</p> <p>When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment.</p> <p>If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.</p>
Monthly payments on revolving or open-end accounts, regardless of the balance	In the absence of a stated payment, the payment is calculated by multiplying the outstanding balance by 3%.
Monthly payments on an existing HELOC	<p>This must be included using the minimum monthly payment reported on the credit report.</p> <p>If the HELOC has a balance but no monthly payment is reported, the servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.</p>
Alimony, child support, and separate maintenance payments	Include if there are more than ten months of payments remaining, and only if supplied by the borrower.
Car lease payments	Include regardless of the number of payments remaining.
Aggregate negative net rental income from all investment	None.

Type of Monthly Expense	Additional Information
Monthly mortgage loan payment for a second home	Include PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, and condo unit or co-op unit maintenance fees (excluding unit utility charges).

Monthly gross income is based on income documentation provided by the borrower before any payroll deductions and equals the sum of the following items, as applicable:

- wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, or other compensation for personal services;
- Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support;
- monthly income from annuities, insurance policies, retirement funds, or pensions;
- disability or death benefits;
- positive net rental income; and
- other income such as adoption assistance.

When the borrower’s income is non-taxable, and the income and its tax-exempt status are likely to continue, the servicer must develop an “adjusted gross income” by adding an amount equivalent to 25% of the non-taxable income to the borrower’s income. If the servicer can determine that the actual amount of federal and state taxes is more than 25% of the borrower’s non-taxable income, the servicer is authorized to use that amount to develop the adjusted gross income.

**Note:** The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to unemployment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a Mortgage Release.

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### Obtaining and Reviewing the Borrower’s Credit Score

The servicer must evaluate the borrower to determine if he or she qualifies for streamlined documentation in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).



The classic FICO is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. Fannie Mae approves the use of the following versions of the classic FICO score:

- Equifax Beacon® 5.0,
- Experian®/Fair Isaac Risk Model V2SM, and
- TransUnion FICO® Risk Score, Classic 04.

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.

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### **Evaluating the Borrower’s Ability to Make a Contribution**

The servicer must evaluate the borrower for his or her ability to make a contribution in accordance with *Evaluating a Borrower’s Ability to Make a Contribution* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure). The servicer should seek to arrive at a mutually agreeable contribution amount in order to facilitate the Mortgage Release and is authorized to use its judgment in determining which option to use or to combine options.

#### **Borrower Cash Contribution Test:**

The servicer must evaluate a borrower for a cash contribution if the borrower’s cash reserves, including assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts), as stated on the *Uniform Borrower Assistance Form* ([Form 710](#)) are in excess of the greater of

- \$10,000; or
- six times the contractual monthly mortgage loan payment including principal, interest, and tax and insurance escrows (PITI). If the servicer does not escrow for taxes and insurance, it must estimate the borrower’s monthly tax and insurance premium amounts.

If the borrower has cash reserves of more than \$50,000, the servicer must request written approval from Fannie Mae for the contribution amount.

If the servicer determines that the borrower has the capacity to make a cash contribution, it must request a contribution of 20% of the borrower’s cash reserves, not to exceed the amount of the deficiency. The following table provides the servicer’s requirements when a borrower is either

unwilling or unable to contribute 20% of their cash reserves depending upon the delinquency status of the mortgage loan.

<b>If a borrower is either unwilling or unable to contribute 20% of their cash reserves and the mortgage loan is...</b>	<b>Then the servicer...</b>
current or less than 31 days delinquent	<p>must request approval from Fannie Mae to accept less than a contribution of 20% of the borrower's cash reserves.</p> <p><b>Note:</b> If the borrower's hardship is death of the primary wage earner, the servicer is authorized to negotiate a cash contribution of less than 20% of the borrower's cash reserves, but must document its explanation in the mortgage loan servicing file of the specific circumstances that limited the borrower's ability to make a contribution of 20% of the borrower's cash reserves.</p>
greater than 30 days delinquent	<p>is authorized to negotiate a lower contribution amount, or agree that the circumstances warrant no contribution.</p> <p><b>Note:</b> The fact that the borrower is unwilling to contribute the amount requested by the servicer is not a sufficient rationale for accepting a contribution amount lower than that requested by the servicer. If the borrower is not willing to make a contribution that the servicer deems the borrower can reasonably make, the servicer must submit the case to Fannie Mae for review.</p>

When a cash contribution is required, the minimum amount is \$500.

**Promissory Note Test:**

The servicer must evaluate a borrower for a promissory note contribution if the borrower’s future debt-to-income ratio is less than 55% calculated as described below.

If the servicer determines that the borrower has the capacity to make a promissory note contribution, the servicer must calculate the promissory note payment and promissory note balance to request from the borrower, which is described in the following table.

Step	Steps to determine the promissory note terms
1	<p>Calculate the monthly promissory note payment:</p> $(55\% - \text{borrower's future debt-to-income ratio})/2 \times \text{Gross Monthly Income}$ <p><b>Note:</b> The monthly promissory note payment must be rounded to the nearest dollar.</p>
2	<p>Determine the term of the promissory note:</p> <p>The servicer is authorized to consider a five- or ten-year term for the promissory note.</p>
3	<p>Calculate the promissory note balance:</p> <p>Monthly promissory note payment X promissory note term.</p> <p><b>Note:</b> If the servicer determines that the promissory note balance will be less than \$5,000, the servicer is not required to request a promissory note.</p>

The promissory note must have a note rate of 0%. The resulting promissory note payment must be affordable and result in a future debt-to-income ratio of less than 55%.

The following table provides an example of how to calculate the promissory note terms.

Example: Determining the Promissory Note Terms	
Calculate the monthly promissory note payment	$(55\% - 49\%)/2 \times \$4,000 = \$120$
Calculate the promissory note balance	$\$120 \times 60 \text{ months} = \$7,200$

If the borrower is unable to contribute the initial amount requested, the servicer is authorized to negotiate a lower amount or agree that circumstances warrant no contribution.

**Note:** The fact that the borrower is unwilling to contribute the amount requested by the servicer is not a sufficient rationale for accepting a contribution amount lower than that

requested by the servicer. If the borrower is not willing to make a contribution that the servicer deems the borrower can reasonably make, the servicer must submit the case to Fannie Mae for review.

A *Promissory Note Model Form (Form 190)* is available on Fannie Mae's website. Use of **Form 190** is optional; however, it reflects the minimum level of information that the servicer must include. If the servicer elects to use **Form 190**, it must revise it as necessary to comply with applicable law.

**Calculating the Borrower’s Future Monthly Debt-to-Income Ratio to Evaluate the Borrower for a Promissory Note Contribution:**

For the servicer to calculate the borrower’s future monthly debt-to-income ratio for purposes of evaluating the borrower for a promissory note contribution, the servicer must take the actions listed in the following table.

✓	<b>When calculating the borrower’s future monthly debt-to-income ratio for purposes of evaluating the borrower for a promissory note contribution, the servicer must...</b>
	Determine the borrower’s monthly debt and other qualifying expenses, including an actual or estimated future housing payment.
	Obtain a credit report for each borrower or a joint credit report for a married couple who are co-borrowers to <ul style="list-style-type: none"> <li>• validate installment debt and other liens; and</li> <li>• review for new credit lines or liens obtained during the term of the hardship. If there are new credit lines or liens, other than for an allowed new mortgage loan (see <i>Evaluating the Credit Report for New Mortgage Loans Obtained</i> in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure)), which cause the borrower’s total monthly debt ratio to go above 55%, the servicer must use good business judgment to determine if those expenses are reasonable and should be included in the qualifying expenses.</li> </ul>
	Consider information concerning monthly obligations obtained from the borrower in writing.
	Determine the borrower's monthly gross income based on income documentation provided by the borrower.

Qualifying expenses equal the sum of the monthly charges described in the following table, as applicable.

Type of Monthly Expense	Additional Information
The monthly actual future housing payment, if known	<p>If unknown, the servicer must use 75% of the current monthly mortgage loan payment, including any mortgage insurance premiums, taxes, property insurance, HOA or condo association fee payments, and assessments related to the property (whether or not they are included in the current monthly payment).</p> <p>If taxes and insurance premiums are not known, the servicer must estimate the borrower's monthly taxes and property insurance payments.</p>
Monthly payments on all closed-end subordinate lien mortgage loans	The servicer must exclude the subordinate lien payments for the subject property.
Monthly payments on all installment debts with more than ten months of payments remaining	<p>This includes debts that are in a period of either deferment or forbearance.</p> <p>When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment.</p> <p>If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.</p>
Monthly payments on revolving or open-end accounts, regardless of the balance	In the absence of a stated payment, the payment is calculated by multiplying the outstanding balance by 3%.
Monthly payments on an existing HELOC	<p>This must be included using the minimum monthly payment reported on the credit report.</p> <p>If the HELOC has a balance but no monthly payment is reported, the servicer must obtain</p>

Type of Monthly Expense	Additional Information
	<p>documentation verifying the payment amount, or use a minimum of 1% of the balance.</p> <p>The servicer must exclude the monthly HELOC payment if the HELOC is a lien against the subject property.</p>
Alimony, child support, and separate maintenance payments	Include if there are more than ten months of payments remaining, and only if supplied by the borrower.
Car lease payments	Include regardless of the number of payments remaining.
Aggregate negative net rental income from all investment	Do not include negative net rental income if it is on the subject property.
Monthly mortgage loan payment for a second home	<p>Include PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, and condo unit or co-op unit maintenance fees (excluding unit utility charges).</p> <p>The servicer must exclude the monthly mortgage loan payment if the second home is the subject property.</p>

Monthly gross income is based on income documentation provided by the borrower before any payroll deductions and equals the sum of the following items, as applicable:

- wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, or other compensation for personal services;
- Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support;
- monthly income from annuities, insurance policies, retirement funds, or pensions;
- disability or death benefits;
- positive net rental income; and
- other income such as adoption assistance.

When the borrower’s income is non-taxable, and the income and its tax-exempt status are likely to continue, the servicer must develop an “adjusted gross income” by adding an amount

equivalent to 25% of the non-taxable income to the borrower's income. If the servicer can determine that the actual amount of federal and state taxes is more than 25% of the borrower's non-taxable income, the servicer is authorized to use that amount to develop the adjusted gross income.

**Note:** If the subject property is an investment property, the servicer must exclude all investment property related income from the borrower's total monthly income.

The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to unemployment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a Mortgage Release.

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### Obtaining a Property Valuation

The servicer must obtain a property valuation for a Mortgage Release or a Mortgage Release transition option in accordance with *Obtaining a Property Valuation and Evaluating the Condition of the Property* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

The property valuation for a Mortgage Release can be

- an interior and exterior inspection of the property in the form of a BPO;
- an interior and exterior inspection of the property in the form of a an appraisal, which must be performed in accordance with USPAP; or
- a valuation obtained through Fannie Mae's APS.

**Note:** For a Mortgage Release transition option, the property valuation must be an interior and exterior inspection of the property in the form of

- a BPO; or
- an appraisal, which must be performed in accordance with USPAP.

The property valuation must be dated or have been refreshed by Fannie Mae within 90 calendar days of the servicer approving the borrower for a Mortgage Release.

In addition, the property valuation for a Mortgage Release transition option must include an estimate of market rent.

**Note:** The estimated market rent provided in the property valuation is not the binding offer of market rent. The final market rent will be set by Fannie Mae’s property management company.

The following table provides additional requirements for all property valuations for a Mortgage Release.

✓	<b>The servicer must...</b>
	Submit property valuation orders using the VMS application and the <i>VMS Valuation Order Template</i> .  <b>Note:</b> To obtain access to the VMS application, the servicer must complete a <i>VMS User Setup Template</i> and submit it to <a href="mailto:valuation_operations@fanniemae.com">valuation_operations@fanniemae.com</a> .
	Include the cost of the property value order in the MI claim.

The results of the property value will be available through HSSN within seven to ten calendar days from the date the servicer submits the order.

### Processing a Mortgage Release Transition Option

The servicer must evaluate the borrower for Mortgage Release transition options and refer the case to Fannie Mae in accordance with *Evaluating a Borrower for Fannie Mae Mortgage Release Transition Options* in D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

When the servicer refers the case to Fannie Mae, it must provide the applicable form as outlined in the following table.

<b>If the servicer is referring the borrower for the Mortgage Release transition option that allows the borrower to execute...</b>	<b>Then the servicer must submit a...</b>
a three-month transition option with no rent payment required	<i>Mortgage Release Program Transition Option Referral Form (Form 193)</i> .
a twelve-month lease with a market rent payment	<i>Mortgage Release Program Lease Option Referral Form (Form 187)</i> .



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Fannie Mae, or its designee, will take the steps necessary to further verify subject property and occupant eligibility. The following table provides the subject property eligibility criteria for a Mortgage Release transition option.

✓	<b>Subject Property Eligibility</b>
	There are no zoning or HOA rental limitations that would prevent a Mortgage Release transition option.
	<p>If a property inspection or property valuation reveals damage to the subject property, the estimated total cost to repair the subject property must be less than 10% of its estimated market value (estimated “As Is” sales price).</p> <p><b>Note:</b> If the estimated total cost to repair the subject property is between 10% and 15% of its estimated market value, the servicer must submit the Mortgage Release transition option to Fannie Mae to obtain prior written approval. A subject property with an estimated total cost for repairs greater than 15% of the estimated market value is not eligible.</p>
	The subject property does not have any environmental contaminations or pose any potential legal risk.
	The subject property is in compliance with local rules and laws, or can be brought into compliance within 30 days.
	The subject property is not within a target area for any corporate, government, or community neighborhood stabilization plan which may need the property as part of the plan for purposes other than residential.
	The rental income, if applicable, is anticipated to cover ongoing maintenance and management costs.

The following table provides the occupant eligibility criteria for a Mortgage Release transition option.

✓	<b>Occupant Eligibility</b>
	<p>Income is sufficient to cover rental payments of not more than 31% of the borrower/tenant’s monthly gross income.</p> <p><b>Note:</b> If the current market rent is greater than 31% of the borrower/tenant's monthly gross income, a lease agreement will not be offered. For the Mortgage Release three-month transition option with no rent payment required, this income requirement is not applicable.</p>

✓	<b>Occupant Eligibility</b>
	<p>The occupant agrees to</p> <ul style="list-style-type: none"> <li>• be responsible for regular maintenance,</li> <li>• keep the property in good condition, and</li> <li>• permit marketing of the property for sale.</li> </ul> <p style="text-align: center;"><b>Note:</b> For the Mortgage Release three-month transition option with no rent payment required, the borrower must agree to allow the property to be marketed for sale beginning on the 30th day of the use and occupancy agreement.</p>
	The number of occupants is appropriate for the home and in compliance with local laws and HOA rules, if applicable.
	If pets are present, renter's insurance is obtained, if required.
	The occupants signing the lease agreement must agree to a credit review, and all residents over 18 years of age must have an acceptable background check, including receiving clearance from OFAC.
	There are no signs or reports of illegal activities conducted at the property.
	The property is to be used as a principal residence.

Fannie Mae will inform the servicer whether or not a lease was finalized and whether the Mortgage Release is contingent on the property being vacant.

The servicer must then finalize the Mortgage Release accordingly.

**Note:** The servicer must notify Fannie Mae if a Mortgage Release is not successfully executed for any case that was approved for Mortgage Release transition options consideration. The servicer must use the *Mortgage Release Program Cancellation Form (Form 188)*.

Prior to acceptance of a Mortgage Release in connection with the Mortgage Release transition options, the servicer must ensure that the borrowers execute (in favor of Fannie Mae, the servicer, and their agents) a general release of all claims arising prior to the acceptance of the Mortgage Release which relate in any way to the mortgage loan or the subject property.

For non-delegated cases, where Fannie Mae makes the decision, the servicer has five weeks from Fannie Mae's approval of the Mortgage Release to complete the transaction to allow enough time

for the lease approval process. Delegated servicers that might have a shorter processing time frame are instructed to allow time for the lease approval process when the borrower states an interest in the Mortgage Release transition options.



## **F-1-20, Processing a Fannie Mae MyCity Modification (01/14/2015)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Obtaining a Property Valuation
  - Determining the New Modified Mortgage Loan Terms
  - Preparing the Loan Modification Agreement
  - Executing and Recording the Loan Modification Agreement
  - Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification
- 

### **Obtaining a Property Valuation**

The servicer must obtain a property valuation in accordance with *Determining Eligibility for a Fannie Mae MyCity Modification* in D2-3.2-11, Fannie Mae MyCity Modification.

The servicer must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification, using one of the following:

- an exterior BPO;
- an appraisal;
- Fannie Mae's APS;
- Freddie Mac's AVM;
- a third-party AVM; or
- the servicer's own internal AVM, provided that
  - the servicer is subject to supervision by a federal regulatory agency, and

- the servicer's primary federal regulatory agency has reviewed the model.

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

The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN.

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### Determining the New Modified Mortgage Loan Terms

The servicer must determine the borrower’s new modified mortgage loan terms in accordance with *Determining the Fannie Mae MyCity Modification Terms* in D2-3.2-11, Fannie Mae MyCity Modification. The servicer must follow the steps in the order provided in the following table in an effort to achieve a target reduction in the P&I payment of as close to, but not exceeding, 60%.

Step	Servicer Action
1	<p>Capitalize arrearages.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p>

Step	Servicer Action
	See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, <i>Administering an Escrow Account and Paying Expenses</i> for additional information.
2	Reduce the starting interest rate in increments of 0.125% to get as close as possible to the target reduction in the P&I payment.  <b>Note:</b> The starting interest rate is the current interest rate (the note rate) on the mortgage loan. The interest rate floor in all cases is 2%.
3	Extend the term in one month increments not to exceed 480 months from the mortgage loan Modification Effective Date.  <b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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 up to 30% of the UPB of the mortgage loan (including capitalization of arrearages).

The servicer must request Fannie Mae’s prior written approval through HSSN to deviate from the prescribed steps for determining the new modified mortgage payment terms, unless a certain step is prohibited or otherwise limited by applicable state law. If the servicer applies the steps as listed in the preceding table and a 60% P&I payment reduction cannot be achieved, the borrower is still eligible for a Fannie Mae MyCity Modification provided all other eligibility criteria of the Fannie Mae MyCity Modification program are met.

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae MyCity Modification* in D2-3.2-11, Fannie Mae MyCity Modification.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). If

the borrower does not make the final Trial Period Plan payment until the end of the month in which it is due, the servicer is authorized to complete the Loan Modification Agreement with a Modification Effective Date that is the first day of the second month following the Trial Period Plan. However, no additional Trial Period Plan payment is required during the interim month.

**Note:** The Loan Modification Agreement must be prepared any time prior to the completion of the Trial Period Plan but in no instance can the Loan Modification Agreement be prepared on or after the mortgage loan Modification Effective Date.

The servicer must incorporate into the *Loan Modification Agreement* (Form 3179) additional provisions required pursuant to the *Summary: Modification Agreement Form 3179*.

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae MyCity Modification* in D2-3.2-11, Fannie Mae MyCity Modification.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	<b>The servicer must...</b>
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	<p>Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form:</p> <ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date;</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• the Loan Modification Agreement contains assignment of leases and rents provisions; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>
	<p>Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.</p>
	<p>Obtain a title endorsement or similar title insurance product issued by a title insurance company if:</p> <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	<p>Record the executed Loan Modification Agreement if:</p> <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification workout options);</li> <li>• the final interest rate on the modified mortgage loan is greater than the interest rate in effect prior to modification of the mortgage loan; or</li> <li>• the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date.</li> </ul>

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required, to ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae’s lien status for the entire amount owed. See

*Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records for additional information regarding collateral documents.

The following table provides the servicer’s requirements for executing and recording the Loan Modification Agreement based upon the entity that is the mortgagee of record.

If...	Then the servicer must...
the servicer is the mortgagee of record	take all the following actions:
Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record	1. Execute the Loan Modification Agreement.
Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf	2. Have the executed Loan Modification Agreement recorded, if required by local law or Fannie Mae.  3. Send the Loan Modification Agreement to the document custodian.  <b>Note:</b> If Fannie Mae’s DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).
Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf	Mail the Loan Modification Agreement to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.  Documents sent to Fannie Mae for execution must <ul style="list-style-type: none"> <li>• be identified by the Fannie Mae loan number,</li> <li>• be sent under cover of a letter that provides any special instructions related to execution of the documents, and</li> <li>• indicate the name and address to which the executed documents should be returned.</li> </ul>

### Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae MyCity Modification* in D2-3.2-11, Fannie Mae MyCity Modification.



After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	<b>The servicer must...</b>
	<p>For a portfolio mortgage loan, add any amounts to be capitalized to the UPB of the mortgage loan as of the date specified in the agreement. Usually, the capitalization date is one month before the new modified payment will be due.</p> <p><b>Note:</b> The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.</p>
	<p>Revise the borrower’s payment records to provide for collection of the modified payment.</p>
	<p>If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%).</p> <p><b>Note:</b> For mortgage loans that have lender-paid mortgage insurance, see B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.</p>
	<p>Apply any funds that</p> <ul style="list-style-type: none"> <li>• the borrower deposited with the servicer as a condition of the mortgage loan modification,</li> <li>• have been deposited on behalf of the borrower in connection with the mortgage loan modification, or</li> <li>• the mortgage insurer contributed in connection with the mortgage loan modification.</li> </ul> <p><b>Note:</b> Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower’s escrow deposit account.</p>

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-01</a>	January 14, 2015



## F-1-21, Processing a Fannie Mae Short Sale (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Calculating the Borrower's Current Monthly Debt-to-Income Ratio When the Mortgage Loan is Current or Less than 31 Days Delinquent
- Obtaining and Reviewing the Borrower's Credit Score
- Evaluating the Borrower's Ability to Make a Contribution
- Obtaining a Property Valuation
- Determining if a Short Sale Offer Meets or Exceeds the MNR Proceeds

### Calculating the Borrower's Current Monthly Debt-to-Income Ratio When the Mortgage Loan is Current or Less than 31 Days Delinquent

The servicer must evaluate the borrower for a Fannie Mae Short Sale in accordance with *Evaluating a Borrower Whose Mortgage Loan Is Current or Less Than 31 Days Delinquent* in D2-3.3-01, Fannie Mae Short Sale.

To calculate the borrower's current monthly debt-to-income ratio, which is the ratio of the borrower's current monthly expenses divided by the borrower's current monthly income, the servicer must take the actions listed in the following table.

✓	<b>When calculating the borrower's current monthly debt-to-income ratio, the servicer must...</b>
	Verify the borrower's monthly debt and other qualifying expenses.
	Obtain a credit report for each borrower or a joint credit report for a married couple who are co-borrowers to <ul style="list-style-type: none"> <li>• validate installment debt and other liens; and</li> </ul>

✓	<b>When calculating the borrower’s current monthly debt-to-income ratio, the servicer must...</b>
	<ul style="list-style-type: none"> <li>review for new credit lines or liens obtained during the term of the hardship. If there are new credit lines or liens, other than for an allowed new mortgage loan (see <i>Evaluating the Credit Report for New Mortgage Loans Obtained</i> in D2-3.3-01, Fannie Mae Short Sale), which cause the borrower’s total monthly debt ratio to go above 55%, the servicer must use good business judgment to determine if those expenses are reasonable and should be included in the qualifying expenses.</li> </ul>
	Consider information concerning monthly obligations obtained from the borrower in writing.
	Determine the borrower's monthly gross income based on income documentation provided by the borrower.

Qualifying expenses equal the sum of the monthly charges described in the following table, as applicable.

<b>Type of Monthly Expense</b>	<b>Additional Information</b>
The current monthly mortgage loan payment	<p>The servicer must include any mortgage insurance premiums, taxes, property insurance, HOA or condo association fee payments, and assessments related to the property (whether or not they are included in the current mortgage loan payment).</p> <p>If taxes and insurance premiums are not known, the servicer must estimate the borrower’s monthly taxes and property insurance payments.</p>
Monthly payments on all closed-end subordinate lien mortgage loans	The servicer must exclude the subordinate lien payments for the subject property.
Monthly payments on all installment debts with more than ten months of payments remaining	<p>This includes debts that are in a period of either deferment or forbearance.</p> <p>When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment.</p>

Type of Monthly Expense	Additional Information
	If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.
Monthly payments on revolving or open-end accounts, regardless of the balance	In the absence of a stated payment, the payment is calculated by multiplying the outstanding balance by 3%.
Monthly payments on an existing HELOC	This must be included using the minimum monthly payment reported on the credit report.  If the HELOC has a balance but no monthly payment is reported, the servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.
Alimony, child support, and separate maintenance payments	Include if there are more than ten months of payments remaining, and only if supplied by the borrower.
Car lease payments	Include regardless of the number of payments remaining.
Aggregate negative net rental income from all investment	None.
Monthly mortgage loan payment for a second home	Include PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, and condo unit or co-op unit maintenance fees (excluding unit utility charges).

Monthly gross income is based on income documentation provided by the borrower before any payroll deductions and equals the sum of the following items, as applicable:

- wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, or other compensation for personal services;
- Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support;
- monthly income from annuities, insurance policies, retirement funds, or pensions;

- disability or death benefits;
- positive net rental income; and
- other income such as adoption assistance.

When the borrower's income is non-taxable, and the income and its tax-exempt status are likely to continue, the servicer must develop an "adjusted gross income" by adding an amount equivalent to 25% of the non-taxable income to the borrower's income. If the servicer can determine that the actual amount of federal and state taxes is more than 25% of the borrower's non-taxable income, the servicer is authorized to use that amount to develop the adjusted gross income.

**Note:** The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to unemployment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a short sale.

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### **Obtaining and Reviewing the Borrower's Credit Score**

The servicer must evaluate the borrower to determine if he or she qualifies for streamlined documentation in accordance with *Determining if a Borrower Qualifies for Streamlined Documentation* in D2-3.3-01, Fannie Mae Short Sale.

The classic FICO is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. Fannie Mae approves the use of the following versions of the classic FICO score:

- Equifax Beacon 5.0,
- Experian/Fair Isaac Risk Model V2SM, and
- TransUnion FICO Risk Score, Classic 04.

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.

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### **Evaluating the Borrower's Ability to Make a Contribution**

The servicer must evaluate the borrower for his or her ability to make a contribution in accordance with *Evaluating a Borrower's Ability to Make a Contribution* in D2-3.3-01, Fannie

Mae Short Sale. The servicer should seek to arrive at a mutually agreeable contribution amount in order to facilitate the short sale and is authorized to use its judgment in determining which option to use or to combine options.

**Borrower Cash Contribution Test:**

The servicer must evaluate a borrower for a cash contribution if the borrower’s cash reserves, including assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts), as stated on the *Uniform Borrower Assistance Form (Form 710)* are in excess of the greater of

- \$10,000; or
- six times the contractual monthly mortgage loan payment including principal, interest, and tax and insurance escrows (PITI). If the servicer does not escrow for taxes and insurance, it must estimate the borrower’s monthly tax and insurance premium amounts.

If the borrower has cash reserves of more than \$50,000, the servicer must request written approval from Fannie Mae for the contribution amount.

If the servicer determines that the borrower has the capacity to make a cash contribution, it must request a contribution of 20% of the borrower’s cash reserves, not to exceed the amount of the deficiency. The following table provides the servicer’s requirements when a borrower is either unwilling or unable to contribute 20% of their cash reserves depending upon the delinquency status of the mortgage loan.

<b>If a borrower is either unwilling or unable to contribute 20% of their cash reserves and the mortgage loan is...</b>	<b>Then the servicer...</b>
current or less than 31 days delinquent	must request approval from Fannie Mae to accept less than a contribution of 20% of the borrower’s cash reserves.  <p><b>Note:</b> If the borrower’s hardship is death of the primary wage earner, the servicer is authorized to negotiate a cash contribution of less than 20% of the borrower’s cash reserves, but must document its explanation in the mortgage loan servicing file of the specific circumstances that limited the borrower’s ability to make a</p>

<b>If a borrower is either unwilling or unable to contribute 20% of their cash reserves and the mortgage loan is...</b>	<b>Then the servicer...</b>
	contribution of 20% of the borrower's cash reserves.
greater than 30 days delinquent	is authorized to negotiate a lower contribution or agree that circumstances warrant no contribution.  <b>Note:</b> The fact that the borrower is unwilling to contribute the amount requested by the servicer is not a sufficient rationale for accepting a contribution amount lower than that requested by the servicer. If the borrower is not willing to make a contribution that the servicer deems the borrower can reasonably make, the servicer must submit the case to Fannie Mae for review.

When a cash contribution is required, the minimum amount is \$500.

**Promissory Note Test:**

The servicer must evaluate a borrower for a promissory note if the borrower's future debt-to-income ratio is less than 55%, calculated as described below.

If the servicer determines that the borrower has the capacity to make a promissory note contribution, the servicer must calculate the promissory note payment and promissory note balance to request from the borrower, which is described in the following table.

<b>Step</b>	<b>Steps to determine the promissory note terms</b>
1	Calculate the monthly promissory note payment:  $(55\% - \text{borrower's future debt-to-income ratio})/2 \times \text{Gross Monthly Income}$  <b>Note:</b> The monthly promissory note payment must be rounded to the nearest dollar.
2	Determine the term of the promissory note:

Step	Steps to determine the promissory note terms
	The servicer is authorized to consider a five- or ten-year term for the promissory note.
3	<p>Calculate the promissory note balance:</p> <p>Monthly promissory note payment X promissory note term.</p> <p><b>Note:</b> If the servicer determines that the promissory note balance will be less than \$5,000, the servicer is not required to request a promissory note.</p>

The promissory note must have a note rate of 0%. The resulting promissory note payment must be affordable and result in a future debt-to-income ratio of less than 55%.

The following table provides an example of how to calculate the promissory note terms.

Example: Determining the Promissory Note Terms	
Calculate the monthly promissory note payment	$(55\% - 49\%) / 2 \times \$4,000 = \$120$
Calculate the promissory note balance	$\$120 \times 60 \text{ months} = \$7,200$

If the borrower is unable to contribute the initial amount requested, the servicer is authorized to negotiate a lower contribution or agree that circumstances warrant no contribution.

**Note:** The fact that the borrower is unwilling to contribute the amount requested by the servicer is not a sufficient rationale for accepting a contribution amount lower than that requested by the servicer. If the borrower is not willing to make a contribution that the servicer deems the borrower can reasonably make, the servicer must submit the case to Fannie Mae for review.

A *Promissory Note Model Form* ([Form 190](#)) is available on Fannie Mae's website. Use of [Form 190](#) is optional; however, it reflects the minimum level of information that the servicer must include. If the servicer elects to use [Form 190](#), it must revise it as necessary to comply with applicable law.

### Calculating the Borrower's Future Monthly Debt-to-Income Ratio to Evaluate the Borrower for a Promissory Note Contribution:

For the servicer to calculate the borrower's future monthly debt-to-income ratio for purposes of evaluating the borrower for a promissory note contribution, the servicer must take the actions listed in the following table.



✓	<b>When calculating the borrower’s future monthly debt-to-income ratio for purposes of evaluating the borrower for a promissory note contribution, the servicer must...</b>
	Determine the borrower’s monthly debt and other qualifying expenses, including an actual or estimated future housing payment.
	Obtain a credit report for each borrower or a joint credit report for a married couple who are co-borrowers to <ul style="list-style-type: none"> <li>• validate installment debt and other liens; and</li> <li>• review for new credit lines or liens obtained during the term of the hardship. If there are new credit lines or liens, other than for an allowed new mortgage loan (see <i>Evaluating the Credit Report for New Mortgage Loans Obtained</i> in D2-3.3-01, Fannie Mae Short Sale), which cause the borrower’s total monthly debt ratio to go above 55%, the servicer must use good business judgment to determine if those expenses are reasonable and should be included in the qualifying expenses.</li> </ul>
	Consider information concerning monthly obligations obtained from the borrower in writing.
	Determine the borrower's monthly gross income based on income documentation provided by the borrower.

Qualifying expenses equal the sum of the monthly charges described in the following table, as applicable.

<b>Type of Monthly Expense</b>	<b>Additional Information</b>
The monthly actual future housing payment, if known	If unknown, the servicer must use 75% of the current monthly mortgage loan payment, including any mortgage insurance premiums, taxes, property insurance, HOA or condo association fee payments, and assessments related to the property (whether or not they are included in the current monthly payment).  If taxes and insurance premiums are not known, the servicer must estimate the borrower’s monthly taxes and property insurance payments.
Monthly payments on all closed-end subordinate lien mortgage loans	The servicer must exclude the subordinate lien payments for the subject property.

Type of Monthly Expense	Additional Information
Monthly payments on all installment debts with more than ten months of payments remaining	<p>This includes debts that are in a period of either deferment or forbearance.</p> <p>When payments on an installment debt are not on the credit report or are listed as deferred, the servicer must obtain documentation to support the payment amount included in the monthly debt payment.</p> <p>If no monthly payment is reported on a student loan that is deferred or is in forbearance, the servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.</p>
Monthly payments on revolving or open-end accounts, regardless of the balance	In the absence of a stated payment, the payment is calculated by multiplying the outstanding balance by 3%.
Monthly payments on an existing HELOC	<p>This must be included using the minimum monthly payment reported on the credit report.</p> <p>If the HELOC has a balance but no monthly payment is reported, the servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.</p> <p>The servicer must exclude the monthly HELOC payment if the HELOC is a lien against the subject property.</p>
Alimony, child support, and separate maintenance payments	Include if there are more than ten months of payments remaining, and only if supplied by the borrower.
Car lease payments	Include regardless of the number of payments remaining.
Aggregate negative net rental income from all investment	Do not include negative net rental income if it is on the subject property.

Type of Monthly Expense	Additional Information
Monthly mortgage loan payment for a second home	<p>Include PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, and condo unit or co-op unit maintenance fees (excluding unit utility charges).</p> <p>The servicer must exclude the monthly mortgage loan payment if the second home is the subject property.</p>

Monthly gross income is based on income documentation provided by the borrower before any payroll deductions and equals the sum of the following items, as applicable:

- wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, or other compensation for personal services;
- Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support;
- monthly income from annuities, insurance policies, retirement funds, or pensions;
- disability or death benefits;
- positive net rental income; and
- other income such as adoption assistance.

When the borrower’s income is non-taxable, and the income and its tax-exempt status are likely to continue, the servicer must develop an “adjusted gross income” by adding an amount equivalent to 25% of the non-taxable income to the borrower’s income. If the servicer can determine that the actual amount of federal and state taxes is more than 25% of the borrower’s non-taxable income, the servicer is authorized to use that amount to develop the adjusted gross income.

**Note:** If the subject property is an investment property, the servicer must exclude all investment property related income from the borrower’s total monthly income.

The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to unemployment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a short sale.

## Obtaining a Property Valuation

The servicer must obtain a property valuation in accordance with *Obtaining a Property Valuation* in D2-3.3-01, Fannie Mae Short Sale. The property valuation must be dated or have been refreshed by Fannie Mae within 90 calendar days of the short sale approval.

The following table provides additional requirements for all property valuations for a short sale.

✓	<b>The servicer must...</b>
	<p>Submit property valuation orders using the VMS application and the <a href="#">VMS Valuation Order Template</a>.</p> <p><b>Note:</b> To obtain access to the VMS application, the servicer must complete a <a href="#">VMS User Setup Template</a> and submit it to <a href="mailto:valuation_operations@fanniemae.com">valuation_operations@fanniemae.com</a>.</p>
	Include the cost of the property value order in the MI claim.

The results of the property value will be available through HSSN within seven to ten calendar days from the date the servicer submits the order.

## Determining if a Short Sale Offer Meets or Exceeds the MNR Proceeds

The servicer must process a Fannie Mae short sale in accordance with *Listing the Property and Evaluating a Short Sale Offer* in D2-3.3-01, Fannie Mae Short Sale.

The servicer must deduct the following from the short sale purchase offer to determine if the offer results meet or exceed the MNR:

- allowable transaction costs (as described in *Determining Allowable Short Sale Transaction Costs* in D2-3.3-01, Fannie Mae Short Sale),
- the actual subordinate lien payments, and
- Fannie Mae's actual relocation assistance.

The following table provides an example of how to calculate the net proceeds.

<b>Net Proceeds Example</b>	
Short Sale Purchase Offer	\$100,000
<i>Minus</i>	- \$9,000

<b>Net Proceeds Example</b>	
Acceptable Short Sale Transaction Costs	
<i>Minus</i>	- \$6,000
Subordinate-Lien Payments	
<i>Minus</i>	- \$3,000
Fannie Mae Relocation Incentive	
Value to Compare to Fannie Mae's MNR	\$82,000



## **F-1-22, Processing a Fannie Mae Standard Modification (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Obtaining a Property Valuation
- Determining the New Modified Mortgage Loan Terms
- Calculating the Housing Expense-to-Income Ratio
- Preparing the Loan Modification Agreement
- Executing and Recording the Loan Modification Agreement
- Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

### **Obtaining a Property Valuation**

The servicer must obtain a property valuation in accordance with *Determining the Fannie Mae Standard Modification Terms* in D2-3.2-05, Fannie Mae Standard Modification.

The servicer must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification, using one of the following:

- an exterior BPO;

- an appraisal;
- Fannie Mae's APS;
- Freddie Mac's AVM;
- a third-party AVM; or
- the servicer's own internal AVM, provided that
  - the servicer is subject to supervision by a federal regulatory agency, and
  - the servicer's primary federal regulatory agency has reviewed the model.

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

The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN.

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### **Determining the New Modified Mortgage Loan Terms**

The servicer must determine the borrower's new modified mortgage loan terms in accordance with *Determining the Fannie Mae Standard Modification Terms* in D2-3.2-05, Fannie Mae Standard Modification.

### **Mortgage Loans With a Pre-modification MTMLTV Equal to or Greater Than 80%:**

For mortgage loans with a pre-modification MTMLTV equal to or greater than 80%, the servicer must complete all of the steps in the order shown in the following table.

<b>Step</b>	<b>Servicer Action</b>
1	Capitalize the arrearage.  The following are considered as acceptable arrearages for capitalization: <ul style="list-style-type: none"><li>• accrued interest,</li><li>• out-of-pocket escrow advances to third parties,</li></ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, <i>Administering an Escrow Account and Paying Expenses</i> for additional information.</p>
2	Set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i> .
3	<p>Extend the term to 480 months from the mortgage loan Modification Effective Date.</p> <p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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.</p>
4	<p>For mortgage loans with a pre-modification MTMLTV ratio greater than 115%, the servicer must forbear principal in an amount that is the lesser of</p> <ul style="list-style-type: none"> <li>• an amount that would create a post-modified MTMLTV ratio of 115% using the interest-bearing principal balance, or</li> <li>• 30% of the gross post-modified UPB of the mortgage loan (including capitalization of arrearages).</li> </ul> <p>The servicer must stop forbearing principal once the modified interest-bearing UPB results in a 115% MTMLTV ratio or the amount of forbearance equals 30% of the post-modification UPB, whichever is first. Interest must not accrue on the</p>

Step	Servicer Action
	deferred principal. Deferred principal is payable upon maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing unpaid principal balance.

**Mortgage Loans With a Pre-modification MTMLTV Less Than 80%:**

For mortgage loans with a pre-modification MTMLTV less than 80%, the servicer must complete all of the steps in the order shown in the following table.

Step	Servicer Action				
1	<p>Capitalize the arrearage.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.</p>				
2	<p>Set the modification interest rate to a fixed rate based on the requirements in the following table.</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>If the mortgage loan is...</th> <th>Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td>a fixed rate mortgage loan</td> <td>Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.</td> </tr> </tbody> </table>	If the mortgage loan is...	Then the servicer must...	a fixed rate mortgage loan	Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.
If the mortgage loan is...	Then the servicer must...				
a fixed rate mortgage loan	Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.				



Step	Servicer Action	
	an ARM or step-rate mortgage loan	<p>Set the interest rate as follows:</p> <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> <li>• If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.</li> </ul>
3	Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.	
	<b>If the calculated monthly P&amp;I payment using...</b>	<b>Then the borrower is eligible for a...</b>
	the 480-month amortization term is less than or equal to the current monthly P&I payment	480-month amortization term.
	the 360-month amortization term provides a current monthly P&I payment reduction of at least 20%	360-month amortization term.
	the 240-month amortization term provides a current monthly P&I payment reduction of at least 20%	240-month amortization term.
	<p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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.</p>	

Step	Servicer Action								
4	Follow the guidance provided in the following table for an eligible mortgage loan to determine the appropriate information to include in the <i>Evaluation Notice</i> and solicitation letter, as applicable.								
	<table border="1"> <thead> <tr> <th data-bbox="297 516 784 600">If the mortgage loan is eligible for...</th> <th data-bbox="792 516 1380 600">Then the servicer must send the borrower an offer based on...</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 611 784 684">the 480-month amortization term only</td> <td data-bbox="792 611 1380 684">a 480-month amortization term.</td> </tr> <tr> <td data-bbox="297 695 784 768">the 480-month and 360-month amortization terms</td> <td data-bbox="792 695 1380 768">a 480-month and 360-month amortization term.</td> </tr> <tr> <td data-bbox="297 779 784 863">the 480-month, 360-month, and 240-month amortization terms</td> <td data-bbox="792 779 1380 863">a 480-month, 360-month, and 240-month amortization term.</td> </tr> </tbody> </table>	If the mortgage loan is eligible for...	Then the servicer must send the borrower an offer based on...	the 480-month amortization term only	a 480-month amortization term.	the 480-month and 360-month amortization terms	a 480-month and 360-month amortization term.	the 480-month, 360-month, and 240-month amortization terms	a 480-month, 360-month, and 240-month amortization term.
If the mortgage loan is eligible for...	Then the servicer must send the borrower an offer based on...								
the 480-month amortization term only	a 480-month amortization term.								
the 480-month and 360-month amortization terms	a 480-month and 360-month amortization term.								
the 480-month, 360-month, and 240-month amortization terms	a 480-month, 360-month, and 240-month amortization term.								
	<p><b>Note:</b> If the borrower is eligible for a Trial Period Plan with more than one amortization term, the borrower may choose an amortization term offer.</p>								
	The servicer must revise the <i>Evaluation Notice</i> as outlined in the following table.								
✓	<b>Additional Evaluation Notice Requirements</b>								
	<p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul>								
	A statement informing the borrower he or she must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification, regardless of which amortization term is selected, and that failure to comply with the Trial Period Plan may also impact his or her ability to obtain another mortgage loan modification.								

Step	Servicer Action
	A statement informing the borrower that if the mortgage loan becomes delinquent after the mortgage loan is permanently modified, the borrower may not be eligible for another mortgage loan modification.
	A statement informing the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties.
5	<p>To determine the final terms of the modified mortgage loan, the servicer must use the first two steps above and the amortization term selected by the borrower during the Trial Period Plan.</p> <p><b>Note:</b> If the first Trial Period Plan payment submitted by the borrower does not correspond to an amortization term payment offered in the Trial Period Plan, the servicer must use the shortest amortization term provided in the Trial Period Plan that is covered by the borrower's actual payment to determine the amortization term and monthly payment obligation during the Trial Period Plan and the permanent mortgage loan modification.</p>

### Calculating the Housing Expense-to-Income Ratio

The servicer must ensure that the mortgage loan modification meets the requirements in accordance with *Determining the Fannie Mae Standard Modification Terms* in D2-3.2-05, Fannie Mae Standard Modification.

The borrower's monthly gross income is defined as the borrower's monthly income amount before any payroll deductions and includes the following items, as applicable:

- wages and salaries,
- overtime pay,
- commissions,
- fees,
- tips,
- bonuses,
- housing allowances,

- other compensation for personal services,
- Social Security payments (including Social Security received by adults on behalf of minors or by minors intended for their own support), and
- monthly income from annuities, insurance policies, retirement funds, pensions, disability or death benefits, rental income, and other income such as adoption assistance.

**Note:** The servicer must not consider unemployment insurance benefits or any other temporary sources of income related to employment, such as severance payments, as part of the monthly gross income for mortgage loans being evaluated for a mortgage loan modification.

The servicer must calculate the post-modification housing expense-to-income ratio depending upon the type of property, as described in the following table.

If the mortgage loan is secured by...	Then the servicer must...
a principal residence	divide the borrower’s monthly housing expense, which includes the following items, as applicable, by the borrower’s monthly gross income: <ul style="list-style-type: none"> <li>• principal and interest,</li> <li>• property (hazard) and flood insurance premiums,</li> <li>• real estate taxes,</li> <li>• ground rent,</li> <li>• special assessments,</li> <li>• homeowners’ association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit),</li> <li>• co-op corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower’s unit), and</li> </ul>

If the mortgage loan is secured by...	Then the servicer must...
	<ul style="list-style-type: none"> <li>• any projected monthly escrow shortage payment.</li> </ul> <p style="text-align: center;"><b>Note:</b> The servicer must exclude monthly mortgage insurance premiums from the monthly housing expense-to-income calculation.</p>
A second home	add the monthly housing expense of the second home to the monthly housing expense on the borrower's principal residence and divide this amount by borrower's monthly gross income.
An investment property	<p>add any monthly net rental income on the subject property to the borrower's gross monthly income for purposes of calculating the post-modification housing expense-to-income ratio.</p> <ul style="list-style-type: none"> <li>• The net rental income (or net rental loss) on the subject property must be calculated as 75% of the monthly gross rental income, reduced by the monthly housing expense on the rental property.</li> <li>• Add any monthly negative net rental income (i.e., net rental loss) on the subject property to the monthly housing expense on the borrower's principal residence and divide this amount by the borrower's monthly gross income.</li> <li>• If the borrower currently is not receiving rental income on the subject property, the monthly housing expense on the subject property must be added to the monthly housing expense on the borrower's</li> </ul>

If the mortgage loan is secured by...	Then the servicer must...
	principal residence and then divided by the borrower's monthly gross income.

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification* in D2-3.2-05, Fannie Mae Standard Modification.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). If the borrower does not make the final Trial Period Plan payment until the end of the month in which it is due, the servicer is authorized to complete the Loan Modification Agreement with a Modification Effective Date that is the first day of the second month following the Trial Period Plan. However, no additional Trial Period Plan payment is required during the interim month.

**Note:** The Loan Modification Agreement must be prepared any time prior to the completion of the Trial Period Plan but in no instance can the Loan Modification Agreement be prepared on or after the mortgage loan Modification Effective Date.

The servicer must incorporate into the *Loan Modification Agreement (Form 3179)* additional provisions required pursuant to the *Summary: Modification Agreement Form 3179*.

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification* in D2-3.2-05, Fannie Mae Standard Modification.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	The servicer must...
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form: <ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date;</li> <li>• the Loan Modification Agreement contains assignment of leases and rents provisions; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>
	<p>Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.</p>
	<p>Obtain a title endorsement or similar title insurance product issued by a title insurance company if:</p> <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	<p>Record the executed Loan Modification Agreement if</p> <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan; or</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date.</li> </ul>

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required, to ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae’s lien status for the entire amount owed. See *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records for additional information regarding collateral documents.

The following table provides the servicer’s requirements for executing and recording the Loan Modification Agreement based upon the entity that is the mortgagee of record.

<b>If...</b>	<b>Then the servicer must...</b>
the servicer is the mortgagee of record	take all the following actions:
Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record	1. Execute the Loan Modification Agreement.
Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf	2. Have the executed Loan Modification Agreement recorded, if required by local law or Fannie Mae.  3. Send the Loan Modification Agreement to the document custodian.  <b>Note:</b> If Fannie Mae’s DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).
Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf	Mail the Loan Modification Agreement to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.



If...	Then the servicer must...
	<p>Documents sent to Fannie Mae for execution must</p> <ul style="list-style-type: none"> <li>• be identified by the Fannie Mae loan number,</li> <li>• be sent under cover of a letter that provides any special instructions related to execution of the documents, and</li> <li>• indicate the name and address to which the executed documents should be returned.</li> </ul>

### Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Standard Modification* in D2-3.2-05, Fannie Mae Standard Modification.

After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	The servicer must...
	<p>For a portfolio mortgage loan, add any amounts to be capitalized to the UPB of the mortgage loan as of the date specified in the agreement. Usually, the capitalization date is one month before the new modified payment will be due.</p> <p><b>Note:</b> The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.</p>
	<p>Revise the borrower’s payment records to provide for collection of the modified payment.</p>
	<p>If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%).</p> <p><b>Note:</b> For mortgage loans that have lender-paid mortgage insurance, see B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.</p>

✓	The servicer must...
	<p>Apply any funds that</p> <ul style="list-style-type: none"><li>• the borrower deposited with the servicer as a condition of the mortgage loan modification,</li><li>• have been deposited on behalf of the borrower in connection with the mortgage loan modification, or</li><li>• the mortgage insurer contributed in connection with the mortgage loan modification.</li></ul> <p><b>Note:</b> Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower's escrow deposit account.</p>



## F-1-23, Processing a Fannie Mae Streamlined Modification Post Disaster Forbearance (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Obtaining a Property Valuation
- Determining the New Modified Mortgage Loan Terms
- Preparing the Loan Modification Agreement
- Executing and Recording the Loan Modification Agreement
- Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

### Obtaining a Property Valuation

The servicer must obtain a property valuation in accordance with *Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms* in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance.

The servicer must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification, using one of the following:

- an exterior BPO;
- an appraisal;
- Fannie Mae's APS;
- Freddie Mac's AVM;
- a third-party AVM; or
- the servicer's own internal AVM, provided that
  - the servicer is subject to supervision by a federal regulatory agency, and
  - the servicer's primary federal regulatory agency has reviewed the model.

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

The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN.

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### **Determining the New Modified Mortgage Loan Terms**

The servicer must determine the borrower's new modified mortgage loan terms in accordance with *Determining the Fannie Mae Streamlined Modification Post Disaster Forbearance Terms* in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance.

### **Mortgage Loans With a Pre-modification MTMLTV Equal to or Greater Than 80%:**

For mortgage loans with a pre-modification MTMLTV equal to or greater than 80%, the servicer must complete all of the steps in the order shown in the following table.

<b>Step</b>	<b>Servicer Action</b>
1	Capitalize the arrearage.

Step	Servicer Action
	<p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.</p>
2	<p>Set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</p>
3	<p>Extend the term to 480 months from the mortgage loan Modification Effective Date.</p> <p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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.</p>
4	<p>For mortgage loans with a pre-modification MTMLTV ratio greater than 115%, the servicer must forbear principal in an amount that is the lesser of</p> <ul style="list-style-type: none"> <li>• an amount that would create a post-modified MTMLTV ratio of 115% using the interest-bearing principal balance, or</li> </ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• 30% of the gross post-modified UPB of the mortgage loan (including capitalization of arrearages).</li> </ul> <p>The servicer must stop forbearing principal once the modified interest-bearing UPB results in a 115% MTMLTV ratio or the amount of forbearance equals 30% of the post-modification UPB, whichever is first. Interest must not accrue on the deferred principal. Deferred principal is payable upon maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing unpaid principal balance.</p>

**Mortgage Loans With a Pre-modification MTMLTV Less Than 80%:**

For mortgage loans with a pre-modification MTMLTV less than 80%, the servicer must complete all of the steps in the order shown in the following table.

Step	Servicer Action
1	<p>Capitalize the arrearage.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, Administering an Escrow Account and Paying Expenses for additional information.</p>

Step	Servicer Action	
2	Set the modification interest rate to a fixed rate based on the requirements in the following table.	
	If the mortgage loan is...	Then the servicer must...
	a fixed rate mortgage loan	Set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.
	an ARM or step-rate mortgage loan	Set the interest rate as follows: <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> <li>• If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the borrower's current mortgage loan interest rate.</li> </ul>
3	Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.	
	If the calculated monthly P&I payment using...	Then the borrower is eligible for a...
	the 480-month amortization term is less than or equal to the current monthly P&I payment	480-month amortization term.
	the 360-month amortization term provides a current monthly P&I payment reduction of at least 20%	360-month amortization term.
the 240-month amortization term provides a current monthly P&I payment reduction of at least 20%	240-month amortization term.	
<p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term of the leasehold estate must not expire prior to the date that is five years beyond the new maturity date of the</p>		

Step	Servicer Action												
	<p>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.</p>												
4	<p>Follow the guidance provided in the following table for an eligible mortgage loan to determine the appropriate information to include in the <i>Evaluation Notice</i> and solicitation letter, as applicable.</p> <table border="1" data-bbox="293 667 1380 1024"> <thead> <tr> <th data-bbox="293 667 786 751">If the mortgage loan is eligible for...</th> <th data-bbox="786 667 1380 751">Then the servicer must send the borrower an offer based on...</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 751 786 842">the 480-month amortization term only</td> <td data-bbox="786 751 1380 842">a 480-month amortization term.</td> </tr> <tr> <td data-bbox="293 842 786 932">the 480-month and 360-month amortization terms</td> <td data-bbox="786 842 1380 932">a 480-month and 360-month amortization term.</td> </tr> <tr> <td data-bbox="293 932 786 1024">the 480-month, 360-month, and 240-month amortization terms</td> <td data-bbox="786 932 1380 1024">a 480-month, 360-month, and 240-month amortization term.</td> </tr> </tbody> </table> <p><b>Note:</b> If the borrower is eligible for a Trial Period Plan with more than one amortization term, the borrower may choose an amortization term offer.</p> <p>The servicer must revise the <i>Evaluation Notice</i> as outlined in the following table.</p> <table border="1" data-bbox="293 1213 1380 1751"> <thead> <tr> <th data-bbox="293 1213 391 1255">✓</th> <th data-bbox="391 1213 1380 1255">Additional Evaluation Notice Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 1255 391 1751"></td> <td data-bbox="391 1255 1380 1751"> <p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent mortgage loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul> </td> </tr> </tbody> </table> <p>A statement informing the borrower he or she must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification, regardless of which amortization</p>	If the mortgage loan is eligible for...	Then the servicer must send the borrower an offer based on...	the 480-month amortization term only	a 480-month amortization term.	the 480-month and 360-month amortization terms	a 480-month and 360-month amortization term.	the 480-month, 360-month, and 240-month amortization terms	a 480-month, 360-month, and 240-month amortization term.	✓	Additional Evaluation Notice Requirements		<p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent mortgage loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul>
If the mortgage loan is eligible for...	Then the servicer must send the borrower an offer based on...												
the 480-month amortization term only	a 480-month amortization term.												
the 480-month and 360-month amortization terms	a 480-month and 360-month amortization term.												
the 480-month, 360-month, and 240-month amortization terms	a 480-month, 360-month, and 240-month amortization term.												
✓	Additional Evaluation Notice Requirements												
	<p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent mortgage loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul>												

Step	Servicer Action
	<p>term is selected, and that failure to comply with the Trial Period Plan may also impact his or her ability to obtain another modification.</p> <p>A statement informing the borrower that if the mortgage loan becomes delinquent after the mortgage loan is permanently modified, the borrower may not be eligible for another mortgage loan modification.</p> <p>A statement informing the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties.</p>
5	<p>To determine the final terms of the modified mortgage loan, the servicer must use the first two steps above and the amortization term selected by the borrower during the Trial Period Plan.</p> <p><b>Note:</b> If the first Trial Period Plan payment submitted by the borrower does not correspond to an amortization term payment offered in the Trial Period Plan, the servicer must use the shortest amortization term provided in the Trial Period Plan that is covered by the borrower’s actual payment to determine the amortization term and monthly payment obligation during the Trial Period Plan and the permanent mortgage loan modification.</p>

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance* in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). If the borrower does not make the final Trial Period Plan payment until the end of the month in which it is due, the servicer is authorized to complete the Loan Modification Agreement with a Modification Effective Date that is the first day of the second month following the Trial Period Plan. However, no additional Trial Period Plan payment is required during the interim month.

**Note:** The Loan Modification Agreement must be prepared anytime prior to the completion of the Trial Period Plan but in no instance can the Loan Modification Agreement be prepared on or after the mortgage loan Modification Effective Date.



The servicer must incorporate into the *Loan Modification Agreement (Form 3179)* additional provisions required pursuant to the *Summary: Modification Agreement Form 3179*.

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance*.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	<b>The servicer must...</b>
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	<p>Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form:</p> <ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date;</li> <li>• the Loan Modification Agreement contains assignment of leases and rents provisions; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>
	Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.

✓	<b>The servicer must...</b>
	<p>Obtain a title endorsement or similar title insurance product issued by a title insurance company if</p> <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	<p>Record the executed Loan Modification Agreement if</p> <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan; or</li> <li>• the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date.</li> </ul>

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required, to ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae’s lien status for the entire amount owed. See *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records for additional information regarding collateral documents.

The following table provides the servicer’s requirements for executing and recording the Loan Modification Agreement based upon the entity that is the mortgagee of record.

<b>If...</b>	<b>Then the servicer must...</b>
the servicer is the mortgagee of record Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record	take all the following actions:

If...	Then the servicer must...
<p>Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae's behalf</p>	<ol style="list-style-type: none"> <li>1. Execute the Loan Modification Agreement.</li> <li>2. Have the executed Loan Modification Agreement recorded, if required by local law or Fannie Mae.</li> <li>3. Send the Loan Modification Agreement to the document custodian.</li> </ol> <p><b>Note:</b> If Fannie Mae's DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).</p>
<p>Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae's behalf</p>	<p>Mail the Loan Modification Agreement to Fannie Mae's NSO (see F-4-03, List of Contacts) for execution.</p> <p>Documents sent to Fannie Mae for execution must</p> <ul style="list-style-type: none"> <li>• be identified by the Fannie Mae loan number,</li> <li>• be sent under cover of a letter that provides any special instructions related to execution of the documents, and</li> <li>• indicate the name and address to which the executed documents should be returned.</li> </ul>

### Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification Post Disaster Forbearance* in D2-3.2-09, Fannie Mae Streamlined Modification Post Disaster Forbearance.

After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	<b>The servicer must...</b>
	<p>For a portfolio mortgage loan, add any amounts to be capitalized to the UPB of the mortgage loan as of the date specified in the agreement. Usually, the capitalization date is one month before the new modified payment will be due.</p> <p><b>Note:</b> The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.</p>
	<p>Revise the borrower’s payment records to provide for collection of the modified payment.</p>
	<p>If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%).</p> <p><b>Note:</b> For mortgage loans that have lender-paid mortgage insurance, see B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.</p>
	<p>Apply any funds that</p> <ul style="list-style-type: none"> <li>• the borrower deposited with the servicer as a condition of the mortgage loan modification,</li> <li>• have been deposited on behalf of the borrower in connection with the mortgage loan modification, or</li> <li>• the mortgage insurer contributed in connection with the mortgage loan modification.</li> </ul> <p><b>Note:</b> Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower’s escrow deposit account.</p>



## **F-1-24, Processing a Fannie Mae Streamlined Modification (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Obtaining a Property Valuation
  - Determining the New Modified Mortgage Loan Terms
  - Preparing the Loan Modification Agreement
  - Executing and Recording the Loan Modification Agreement
  - Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification
- 

### **Obtaining a Property Valuation**

The servicer must obtain a property valuation in accordance with *Determining the Fannie Mae Streamlined Modification Terms* in D2-3.2-08, Fannie Mae Streamlined Modification.

The servicer must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification, using one of the following:

- an exterior BPO;
- an appraisal;
- Fannie Mae's APS;
- Freddie Mac's AVM;
- a third-party AVM; or
- the servicer's own internal AVM, provided that
  - the servicer is subject to supervision by a federal regulatory agency, and
  - the servicer's primary federal regulatory agency has reviewed the model.

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

The servicer must attach the valuation and documentation when submitting its proposed recommendation to Fannie Mae through HSSN.

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### Determining the New Modified Mortgage Loan Terms

The servicer must determine the borrower’s new modified mortgage loan terms in accordance with *Determining the Fannie Mae Streamlined Modification Terms* in D2-3.2-08, Fannie Mae Streamlined Modification.

### Mortgage Loans With a Pre-modification MTMLTV Equal to or Greater Than 80%:

For mortgage loans with a pre-modification MTMLTV equal to or greater than 80%, the servicer must complete all of the steps in the order shown in the following table.

Step	Servicer Action
1	<p>Capitalize the arrearage.</p> <p>The following are considered as acceptable arrearages for capitalization:</p> <ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p>

Step	Servicer Action
	See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, <i>Administering an Escrow Account and Paying Expenses</i> for additional information.
2	Set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i> .
3	Extend the term to 480 months from the mortgage loan Modification Effective Date.  <b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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	For mortgage loans with a pre-modification MTMLTV ratio greater than 115%, the servicer must forbear principal in an amount that is the lesser of <ul style="list-style-type: none"> <li>• an amount that would create a post-modified MTMLTV ratio of 115% using the interest-bearing principal balance, or</li> <li>• 30% of the gross post-modified UPB of the mortgage loan (including capitalization of arrearages).</li> </ul> <p>The servicer must stop forbearing principal once the modified interest-bearing UPB results in a 115% MTMLTV ratio or the amount of forbearance equals 30% of the post-modification UPB, whichever is first. Interest must not accrue on the deferred principal. Deferred principal is payable upon maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing unpaid principal balance.</p>

#### **Mortgage Loans With a Pre-modification MTMLTV Less Than 80%:**

For mortgage loans with a pre-modification MTMLTV less than 80%, the servicer must complete all of the steps in the order shown in the following table.

Step	Servicer Action
1	Capitalize the arrearage.  The following are considered as acceptable arrearages for capitalization:

Step	Servicer Action						
	<ul style="list-style-type: none"> <li>• accrued interest,</li> <li>• out-of-pocket escrow advances to third parties,</li> <li>• any required escrow advances that will be paid to third parties by the servicer during the Trial Period Plan, and</li> <li>• servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state laws.</li> </ul> <p><b>Note:</b> 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 upfront. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.</p> <p>See <i>Administering an Escrow Account in Connection With a Mortgage Loan Modification</i> in B-1-01, <i>Administering an Escrow Account and Paying Expenses</i> for additional information.</p>						
2	<p>Set the modification interest rate to a fixed rate based on the requirements in the following table.</p> <table border="1" data-bbox="297 1205 1383 1827"> <thead> <tr> <th data-bbox="297 1205 786 1247">If the mortgage loan is...</th> <th data-bbox="794 1205 1383 1247">Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="297 1257 786 1383">a fixed rate mortgage loan</td> <td data-bbox="794 1257 1383 1383">Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.</td> </tr> <tr> <td data-bbox="297 1394 786 1827">an ARM or step-rate mortgage loan</td> <td data-bbox="794 1394 1383 1827">                     Set the interest rate as follows:                     <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> <li>• If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the</li> </ul> </td> </tr> </tbody> </table>	If the mortgage loan is...	Then the servicer must...	a fixed rate mortgage loan	Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.	an ARM or step-rate mortgage loan	Set the interest rate as follows: <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> <li>• If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the</li> </ul>
If the mortgage loan is...	Then the servicer must...						
a fixed rate mortgage loan	Set the modified mortgage loan interest rate to the borrower’s current mortgage loan interest rate.						
an ARM or step-rate mortgage loan	Set the interest rate as follows: <ul style="list-style-type: none"> <li>• If the current interest rate is less than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the current <i>Fannie Mae Standard Modification Interest Rate</i>.</li> <li>• If the current interest rate is equal to or greater than the current <i>Fannie Mae Standard Modification Interest Rate</i>, set the modified mortgage loan interest rate to the</li> </ul>						



Step	Servicer Action	
		borrower's current mortgage loan interest rate.
3	Calculate the monthly P&I payment using a 480-month, a 360-month, and a 240-month amortization term.	
	<b>If the calculated monthly P&amp;I payment using...</b>	<b>Then the borrower is eligible for a...</b>
	the 480-month amortization term is less than or equal to the current monthly P&I payment	480-month amortization term.
	the 360-month amortization term provides a current monthly P&I payment reduction of at least 20%	360-month amortization term.
	the 240-month amortization term provides a current monthly P&I payment reduction of at least 20%	240-month amortization term.
	<p><b>Note:</b> When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term 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.</p>	
4	Follow the guidance provided in the following table for an eligible mortgage loan to determine the appropriate information to include in the <i>Evaluation Notice</i> and solicitation letter, as applicable.	
	<b>If the mortgage loan is eligible for...</b>	<b>Then the servicer must send the borrower an offer based on...</b>
	the 480-month amortization term only	a 480-month amortization term.
	the 480-month and 360-month amortization terms	a 480-month and 360-month amortization term.
	the 480-month, 360-month, and 240-month amortization terms	a 480-month, 360-month, and 240-month amortization term.

Step	Servicer Action										
	<p><b>Note:</b> If the borrower is eligible for a Trial Period Plan with more than one amortization term, the borrower may choose an amortization term offer.</p> <p>The servicer must revise the <i>Evaluation Notice</i> as outlined in the following table.</p> <table border="1" data-bbox="293 575 1388 1608"> <thead> <tr> <th data-bbox="293 575 391 617">✓</th> <th data-bbox="391 575 1388 617">Additional Evaluation Notice Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="293 617 391 1115"></td> <td data-bbox="391 617 1388 1115"> <p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent mortgage loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul> </td> </tr> <tr> <td data-bbox="293 1115 391 1318"></td> <td data-bbox="391 1115 1388 1318"> <p>A statement informing the borrower he or she must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification, regardless of which amortization term is selected, and that failure to comply with the Trial Period Plan may also impact his or her ability to obtain another modification.</p> </td> </tr> <tr> <td data-bbox="293 1318 391 1444"></td> <td data-bbox="391 1318 1388 1444"> <p>A statement informing the borrower that if the mortgage loan becomes delinquent after the mortgage loan is permanently modified, the borrower may not be eligible for another mortgage loan modification.</p> </td> </tr> <tr> <td data-bbox="293 1444 391 1608"></td> <td data-bbox="391 1444 1388 1608"> <p>A statement informing the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties.</p> </td> </tr> </tbody> </table>	✓	Additional Evaluation Notice Requirements		<p>For Trial Period Plans that include multiple amortization terms, a statement informing the borrower that</p> <ul style="list-style-type: none"> <li>• he or she must make the first Trial Period Plan payment that corresponds to the amortization term he or she selects by the first payment due date,</li> <li>• once he or she selects an amortization term and corresponding monthly P&amp;I payment by making the first Trial Period Plan payment, that amortization term will be fixed for both the Trial Period Plan and the permanent mortgage loan modification, and</li> <li>• the amortization term cannot be changed once the borrower submits the first Trial Period Plan payment.</li> </ul>		<p>A statement informing the borrower he or she must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification, regardless of which amortization term is selected, and that failure to comply with the Trial Period Plan may also impact his or her ability to obtain another modification.</p>		<p>A statement informing the borrower that if the mortgage loan becomes delinquent after the mortgage loan is permanently modified, the borrower may not be eligible for another mortgage loan modification.</p>		<p>A statement informing the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties.</p>
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	<p>A statement informing the borrower he or she must remain in compliance with the requirements of the Trial Period Plan in order to receive a permanent mortgage loan modification, regardless of which amortization term is selected, and that failure to comply with the Trial Period Plan may also impact his or her ability to obtain another modification.</p>										
	<p>A statement informing the borrower that if the mortgage loan becomes delinquent after the mortgage loan is permanently modified, the borrower may not be eligible for another mortgage loan modification.</p>										
	<p>A statement informing the borrower that upon successful completion of the Trial Period Plan and conversion to permanent mortgage loan modification, the borrower has the ability to prepay the mortgage loan without restrictions or penalties.</p>										
5	<p>To determine the final terms of the modified mortgage loan, the servicer must use the first two steps above and the amortization term selected by the borrower during the Trial Period Plan.</p> <p><b>Note:</b> If the first Trial Period Plan payment submitted by the borrower does not correspond to an amortization term payment offered in the Trial Period Plan, the servicer must use the shortest amortization term provided</p>										

Step	Servicer Action
	in the Trial Period Plan that is covered by the borrower’s actual payment to determine the amortization term and monthly payment obligation during the Trial Period Plan and the permanent mortgage loan modification.

### Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification* in D2-3.2-08, Fannie Mae Streamlined Modification.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (Modification Effective Date). If the borrower does not make the final Trial Period Plan payment until the end of the month in which it is due, the servicer is authorized to complete the Loan Modification Agreement with a Modification Effective Date that is the first day of the second month following the Trial Period Plan. However, no additional Trial Period Plan payment is required during the interim month.

**Note:** The Loan Modification Agreement must be prepared anytime prior to the completion of the Trial Period Plan but in no instance can the Loan Modification Agreement be prepared on or after the mortgage loan Modification Effective Date.

The servicer must incorporate into the *Loan Modification Agreement* ([Form 3179](#)) additional provisions required pursuant to the [Summary: Modification Agreement Form 3179](#).

### Executing and Recording the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification* in D2-3.2-08, Fannie Mae Streamlined Modification.

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	The servicer must...
	Ensure that the Loan Modification Agreement is executed by the borrower(s).
	Ensure that, in the following circumstances, the Loan Modification Agreement is in recordable form:

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• if state or local law requires a mortgage loan modification agreement be recorded to be enforceable;</li> <li>• if the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;</li> <li>• if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date;</li> <li>• the Loan Modification Agreement contains assignment of leases and rents provisions; or</li> <li>• if the servicer’s practice for modifying mortgage loans in its portfolio is to create mortgage loan modification agreements in recordable form.</li> </ul>
	<p>Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.</p>
	<p>Obtain a title endorsement or similar title insurance product issued by a title insurance company if</p> <ul style="list-style-type: none"> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options); or</li> <li>• the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan.</li> </ul>
	<p>Record the executed Loan Modification Agreement if</p> <ul style="list-style-type: none"> <li>• state or local law requires the mortgage loan modification agreement be recorded to be enforceable;</li> <li>• the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae’s mortgage loan modification options);</li> </ul>

✓	<b>The servicer must...</b>
	<ul style="list-style-type: none"> <li>• if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan; or</li> <li>• the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date.</li> </ul>

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required, to ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae’s lien status for the entire amount owed. See *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records for additional information regarding collateral documents.

The following table provides the servicer’s requirements for executing and recording the Loan Modification Agreement based upon the entity that is the mortgagee of record.

<b>If...</b>	<b>Then the servicer must...</b>
the servicer is the mortgagee of record Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf	take all the following actions: <ol style="list-style-type: none"> <li>1. Execute the Loan Modification Agreement.</li> <li>2. Have the executed Loan Modification Agreement recorded, if required by local law or Fannie Mae.</li> <li>3. Send the Loan Modification Agreement to the document custodian.</li> </ol> <p style="margin-left: 40px;"><b>Note:</b> If Fannie Mae’s DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).</p>

If...	Then the servicer must...
<p>Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae's behalf</p>	<p>Mail the Loan Modification Agreement to Fannie Mae's NSO (see F-4-03, List of Contacts) for execution.</p> <p>Documents sent to Fannie Mae for execution must</p> <ul style="list-style-type: none"> <li>• be identified by the Fannie Mae loan number,</li> <li>• be sent under cover of a letter that provides any special instructions related to execution of the documents, and</li> <li>• indicate the name and address to which the executed documents should be returned.</li> </ul>

### Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

The servicer must complete the mortgage loan modification in accordance with *Offering a Trial Period Plan and Completing a Fannie Mae Streamlined Modification* in D2-3.2-08, Fannie Mae Streamlined Modification.

After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	The servicer must...
	<p>For a portfolio mortgage loan, add any amounts to be capitalized to the UPB of the mortgage loan as of the date specified in the agreement. Usually, the capitalization date is one month before the new modified payment will be due.</p> <p><b>Note:</b> The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.</p>
	<p>Revise the borrower's payment records to provide for collection of the modified payment.</p>
	<p>If the servicing fee that the servicer was receiving before the mortgage loan modification was greater than one-quarter of one percent (0.25%), then the servicer must change the servicing fee to one-quarter of one percent (0.25%).</p>

✓	<b>The servicer must...</b>
	<p><b>Note:</b> For mortgage loans that have lender-paid mortgage insurance, see B-8.1-02, Paying Conventional Mortgage Insurance Premiums for additional information.</p>
	<p>Apply any funds that</p> <ul style="list-style-type: none"> <li>• the borrower deposited with the servicer as a condition of the mortgage loan modification,</li> <li>• have been deposited on behalf of the borrower in connection with the mortgage loan modification, or</li> <li>• the mortgage insurer contributed in connection with the mortgage loan modification.</li> </ul> <p><b>Note:</b> Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower’s escrow deposit account.</p>



## **F-1-25, Processing a Forbearance Plan (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Requesting an Extension of a Standard Forbearance Plan
- Requesting an Extension of an Unemployment Forbearance Plan
- Requesting an Extension of a Unique Hardship Forbearance Plan
- Preparing a Written Agreement or Evaluation Notice for a Standard Forbearance Plan

### **Requesting an Extension of a Standard Forbearance Plan**

The servicer must obtain Fannie Mae’s prior written approval to extend a forbearance plan in accordance with *Standard Forbearance Plan Terms* in D2-3.2-01, Standard Forbearance Plan.

The servicer must send its recommendation for an extension along with the items listed in the following table to Fannie Mae at [forbearance\\_ext\\_requests@fanniemae.com](mailto:forbearance_ext_requests@fanniemae.com).

✓	<b>The servicer’s request to extend a standard forbearance plan must include...</b>
	A copy of the forbearance plan.
	A completed <i>Forbearance Extension Request Template</i> .
	A completed BRP documenting his or her hardship and requesting assistance.
	Evidence of the mortgage insurer’s or guarantor’s approval of the proposed forbearance, if applicable.

The Loss Mitigation Department will notify the servicer of decisions on forbearance extension requests via email.

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### Requesting an Extension of an Unemployment Forbearance Plan

The servicer must evaluate the borrower for an extension of the Unemployment Forbearance Plan in accordance with *Determining if the Unemployment Forbearance Plan Should Be Extended* in D2-3.2-02, Forbearance Plan for an Unemployed Borrower.

If the borrower submitted a complete BRP at the time of the initial Unemployment Forbearance Plan review, the servicer must only update the income and asset information the borrower provided on the original *Uniform Borrower Assistance Form (Form 710)*. The servicer is authorized to update this information based upon verbal confirmation from the borrower and must document the servicing file accordingly.

When calculating the borrower’s current monthly housing expense-to-income ratio, the monthly housing expense is comprised of principal, interest, actual or estimated escrows for taxes and insurance (including MI premiums), any escrow shortage payments included in the existing monthly mortgage loan payment, monthly HOA/co-op fee, and ground rent.

If the mortgage loan does not meet the eligibility requirements for the Unemployment Forbearance Plan workout option, and the servicer believes, based on the borrower’s circumstances, that an Unemployment Forbearance Plan is appropriate, it must submit its recommendation for an extension along with the items listed in the following table to Fannie Mae at [forbearance\\_ext\\_requests@fanniemae.com](mailto:forbearance_ext_requests@fanniemae.com).

✓	<b>The servicer’s request to extend an Unemployment Forbearance Plan must include...</b>
	A copy of the forbearance plan.



✓	<b>The servicer's request to extend an Unemployment Forbearance Plan must include...</b>
	A completed <i>Forbearance Extension Request Template</i> .
	A completed BRP documenting his or her hardship and requesting assistance.
	Evidence of the mortgage insurer's or guarantor's approval of the proposed forbearance, if applicable.

The Loss Mitigation Department will notify the servicer of decisions on forbearance extension requests via email.

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### Requesting an Extension of a Unique Hardship Forbearance Plan

The servicer must obtain Fannie Mae's prior written approval to extend a forbearance plan associated with a unique hardship situation in accordance with *Determining If the Forbearance Plan for a Unique Hardship Should be Extended* in D2-3.2-03, Forbearance Plan for a Unique Hardship.

The servicer must send its recommendation and the suggested term along with the items listed in the following table to Fannie Mae at [forbearance\\_ext\\_requests@fanniemae.com](mailto:forbearance_ext_requests@fanniemae.com).

✓	<b>The servicer's request to extend a unique hardship forbearance plan must include...</b>
	A copy of the forbearance plan.
	A completed <i>Forbearance Extension Request Template</i> .
	A completed BRP documenting his or her hardship and requesting assistance.
	Evidence of the mortgage insurer's or guarantor's approval of the proposed forbearance, if applicable.

The Loss Mitigation Department will notify the servicer of decisions on forbearance extension requests via email.

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### Preparing a Written Agreement or Evaluation Notice for a Standard Forbearance Plan

The servicer must prepare a written agreement or *Evaluation Notice* in accordance with *Standard Forbearance Plan Terms* in D2-3.2-01, Standard Forbearance Plan.

Subject to compliance with applicable law, the written agreement or *Evaluation Notice* must comply with the requirements shown in the following table.

✓	<b>The written agreement or <i>Evaluation Notice</i> must include...</b>
	A provision that permits the servicer to initiate or resume foreclosure if the terms of the agreement are not satisfied by the borrower.
	For any second lien mortgage loan, a provision for automatic termination of the relief plan when the first lien mortgage loan goes into foreclosure.

In the case of a written agreement or *Evaluation Notice* that is not signed by the borrower, unless prohibited by law, the servicer must include appropriate language to provide that, by making a payment under or acting in accordance with the terms of the agreement, the borrower is further confirming the borrower’s agreement to the terms specified in the written agreement or *Evaluation Notice*.



## **F-1-26, Processing a Government Mortgage Loan Modification (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Executing and Recording Form 181

### **Executing and Recording Form 181**

The servicer must execute the mortgage loan modification in accordance with D2-3.2-06, Government Mortgage Loan Modifications.

The following table provides the servicer’s requirements for executing and recording the *Agreement for Modification or Extension of a Mortgage* (**Form 181**) based upon the entity that is the mortgagee of record.

<b>If...</b>	<b>Then the servicer</b>
the servicer is the mortgagee of record	is authorized to execute <b>Form 181</b> and, if applicable, submit it for recordation. The servicer must then take the actions following:
Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record	
Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of	

If...	Then the servicer
<p>mortgage loan modification on Fannie Mae’s behalf</p>	<ul style="list-style-type: none"> <li>• Send a copy of the executed <a href="#">Form 181</a> to the borrower and to the mortgage insurer or guarantor.</li> <li>• Submit the original executed (and recorded, if applicable) <a href="#">Form 181</a> to the appropriate custodian.</li> <li>• Place a copy in the mortgage loan servicing file.</li> </ul>
<p>Fannie Mae is the mortgagee of record, but has not given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf</p>	<p>must send the original <a href="#">Form 181</a> to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</p> <p>The servicer must send <a href="#">Form 181</a> under cover of a transmittal letter that specifies the following:</p> <ul style="list-style-type: none"> <li>• the type of action being requested,</li> <li>• whether the Agreement will need to be recorded in the public records after it is executed, and</li> <li>• an address to which the executed Agreement should be returned.</li> </ul> <p>Fannie Mae will execute <a href="#">Form 181</a> and return it to the servicer, regardless of whether the executed Agreement needs to be recorded.</p> <p><b>Note:</b> If the Agreement needs to be recorded, the servicer must submit it for recordation.</p>



## F-1-27, Processing a Repayment Plan (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Requesting an Extension of a Repayment Plan
- Preparing a Written Agreement or Evaluation Notice for a Repayment Plan

### Requesting an Extension of a Repayment Plan

The servicer must obtain Fannie Mae's prior written approval for an extension of a repayment plan in accordance with *Repayment Plan Terms* in D2-3.2-04, Repayment Plan.

The servicer must send its recommendation for an extension along with the items listed in the following table to its Fannie Mae Servicing Representative (see F-4-03, List of Contacts).

✓	The servicer's request to extend a repayment plan must include...
	A copy of the repayment plan.
	A completed BRP documenting his or her hardship and requesting assistance.
	Evidence of the mortgage insurer's or guarantor's approval of the proposed repayment plan, if applicable.

### Preparing a Written Agreement or Evaluation Notice for a Repayment Plan

The servicer must prepare a written agreement or *Evaluation Notice* in accordance with *Repayment Plan Terms* in D2-3.2-04, Repayment Plan.

Subject to compliance with applicable law, the written agreement or *Evaluation Notice* must comply with the requirements shown in the following table.

✓	The written agreement or <i>Evaluation Notice</i> must include...
	The terms of the agreement, including, as applicable: <ul style="list-style-type: none"><li>• the repayment schedule for making additional payment when the borrower resumes regular monthly payments; and</li></ul>

✓	<b>The written agreement or <i>Evaluation Notice</i> must include...</b>
	<ul style="list-style-type: none"><li>the date by which the default will be cured and the mortgage loan will be brought current under the terms of the repayment plan.</li></ul>
	A provision that permits the servicer to initiate or resume foreclosure if the terms of the agreement are not satisfied by the borrower.
	For any second lien mortgage loan, a provision for automatic termination of the relief plan when the first lien mortgage loan goes into foreclosure.

In the case of a written agreement or *Evaluation Notice* that is not signed by the borrower, unless prohibited by law, the servicer must include appropriate language to provide that, by making a payment under or acting in accordance with the terms of the agreement, the borrower is further confirming the borrower's agreement to the terms specified in the written agreement or *Evaluation Notice*.



## **F-1-28, Processing a Transfer of Ownership (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Obtaining MI Approval for a Conventional Mortgage Loan
- Responding to a Title Transferred via Grant Deed
- Completing a Transfer of Ownership

### **Obtaining MI Approval for a Conventional Mortgage Loan**

The servicer must process a transfer of ownership in accordance with *Chapter DI-4, Transfers of Ownership*.

When a transfer of ownership occurs for a mortgage loan, obtaining the mortgage insurer's approval is either

- part of the credit review process, or
- not required unless the borrower requests a release of liability.

The servicer must review the mortgage insurance policy for the specific provision regarding assumptions.

### Responding to a Title Transferred via Grant Deed

The servicer must evaluate all transfers of ownership as required in *Chapter D1-4, Transfers of Ownership*. When the servicer becomes aware of a property transfer through Grant Deed, it must complete the actions shown in the following table.

✓	The servicer must...
	Continue to report credit information related to a mortgage loan delinquency (including the acceptance of a Mortgage Release or the initiation of foreclosure proceedings) to credit bureaus in the borrower's name.
	Determine that the title to the property is clear and marketable (by obtaining a title bring-down).
	File an <i>Acquisition or Abandonment of Secured Property</i> (IRS Form 1099-A) if it accepts a Mortgage Release or acquires title to the property through foreclosure, using the borrower's name and social security number (rather than a third-party company's name and tax identification number). The servicer should not file a <i>Cancellation of Debt</i> (IRS Form 1099-C) since no debt is being canceled because Fannie Mae will not accept a short payoff from the third-party company and will continue to hold the borrower liable.

### Completing a Transfer of Ownership

The servicer must process any transfer of ownership in accordance with *Chapter D1-4, Transfers of Ownership*. The servicer must complete the applicable procedure in the following table depending on the type of transaction.

Type of Transaction	Servicer Action	
An Exempt Transaction	The servicer must process the transfer of ownership as described in the following table.	
	If...	Then the servicer must...
	Fannie Mae is the owner of record for the mortgage loan	<ul style="list-style-type: none"> <li>• notify Fannie Mae when it agrees to a release of liability.</li> <li>• prepare an assumption and release agreement and either                             <ul style="list-style-type: none"> <li>– execute the agreement on Fannie Mae's behalf if it has</li> </ul> </li> </ul>

Type of Transaction	Servicer Action	
		<p>an assignment of mortgage, or</p> <ul style="list-style-type: none"> <li>– prepare the assignment of mortgage and send it to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> <p><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send a copy of the recorded assumption agreement to its document custodian.</p>
	<p>the servicer is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• execute the assumption and release agreement.</li> <li>• send a copy of the executed agreement to the applicable document custodian, either                             <ul style="list-style-type: none"> <li>– Fannie Mae’s DDC, or</li> <li>– an approved third-party custodian that holds the original mortgage note on Fannie Mae’s behalf.</li> </ul> </li> </ul>
<p>A Transfer Subject to State Law Restrictions</p>	<p>The servicer must process the transfer of ownership as described in the following table. The servicer must include a release of liability provision in the transfer instruments if the borrower requested a release of liability and the mortgage insurer agreed to it.</p>	

Type of Transaction	Servicer Action	
	If...	Then...
	Fannie Mae is the owner of record for the mortgage loan	<p>the servicer must either</p> <ul style="list-style-type: none"> <li>• execute the appropriate transfer documents on Fannie Mae’s behalf if it has an assignment of mortgage               <ul style="list-style-type: none"> <li>– an assumption agreement if there is no change in the interest rate, or</li> <li>– a mortgage loan modification and assumption agreement if the interest rate changes; or</li> </ul> </li> <li>• prepare the assignment of mortgage and send it to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> <p><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send the original recorded assumption agreement to its document custodian.</p>
	the servicer is the owner of record for the mortgage loan	<ul style="list-style-type: none"> <li>• the servicer is authorized to execute the appropriate documents.</li> <li>• the servicer must send a copy of the recorded agreement to the</li> </ul>



Type of Transaction	Servicer Action	
		applicable document custodian, either <ul style="list-style-type: none"> <li>– Fannie Mae’s DDC, or</li> <li>– an approved third-party custodian that holds the original mortgage note on Fannie Mae’s behalf.</li> </ul>
	Regardless of the owner of record for the mortgage loan, the servicer must have the executed transfer documents recorded and should request a title bring-down from the title insurer. The bring-down must <ul style="list-style-type: none"> <li>• change the effective date of the mortgage title policy to the date the transfer instruments were recorded, and</li> <li>• insure the mortgage loan as modified by the recorded agreement.</li> </ul>	
A Conventional Mortgage Loan With No Due-on-Sale Provision	The servicer must process the transfer of ownership as described in the following table, if the release of liability is approved.	
	<b>If...</b>	<b>Then the servicer must...</b>
	Fannie Mae is the owner of record for the mortgage loan	<ul style="list-style-type: none"> <li>• prepare an assumption and release agreement and either                             <ul style="list-style-type: none"> <li>– execute the agreement on Fannie Mae’s behalf if it has an assignment of mortgage, or</li> <li>– prepare the assignment of mortgage and send it to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> </li> </ul> <p style="text-align: right;"><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer,</p>

Type of Transaction	Servicer Action	
		<p>the servicer is authorized to execute the assumption agreement and must send a copy of the recorded assumption agreement to its document custodian.</p>
	<p>the servicer is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• execute the assumption and release agreement, and</li> <li>• send a copy of the executed agreement to the applicable document custodian, either                             <ul style="list-style-type: none"> <li>– Fannie Mae’s DDC, or</li> <li>– an approved third-party custodian that holds the original mortgage note on Fannie Mae’s behalf.</li> </ul> </li> </ul>
<p>A Non-Exempt Transaction With an Exception due to the Loan Type and Creditworthy Purchaser</p>	<p>The servicer must process the transfer of ownership as described in the following table. The servicer must include a release of liability provision in the agreement if the borrower requested a release of liability and the mortgage insurer agreed to it.</p>	
	<p><b>If...</b></p>	<p><b>Then the servicer must...</b></p>
	<p>Fannie Mae is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• prepare an assumption and release agreement and either                             <ul style="list-style-type: none"> <li>– execute the agreement on Fannie Mae’s behalf if it has an assignment of mortgage, or</li> <li>– prepare the assignment of mortgage and send it to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> </li> </ul>

Type of Transaction	Servicer Action	
		<p><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send a copy of the recorded assumption agreement to its document custodian.</p>
	<p>the servicer is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• execute the assumption (and release) agreement.</li> <li>• record the executed transfer documents.</li> <li>• send the original recorded assumption (and release) agreement to Fannie Mae’s DDC.</li> <li>• instruct its Fannie Mae investor reporting system representative to change Fannie Mae’s accounting records to reflect the addition of this lifetime interest rate change limitation.</li> </ul>
	<p><b>Note:</b> When the transfer of ownership involves an ARM that does not include a lifetime interest rate change limitation in its terms, the servicer must include the following language in the assumption (and release) agreement:</p>	

Type of Transaction	Servicer Action			
	<p><i>“The interest rate I am required to pay after I assume this mortgage obligation and for the entire term of this mortgage loan will never be greater than __ percent.”</i></p> <p>In addition, if the mortgage loan is convertible to a fixed-rate mortgage loan, the servicer also must include the following sentence:</p> <p><i>“This limitation also applies if I exercise my option to convert to a fixed-rate mortgage loan.”</i></p> <p>To determine the appropriate interest rate to insert in this provision, the servicer should add 6% to the sum of the mortgage margin and the index that is in effect on the date that the assumption statement is prepared. If the transaction has not closed within 30 days, the servicer should establish a new rate based on the latest available index.</p>			
An Assumption of a Delinquent Mortgage Loan	The servicer must process the transfer of ownership as described in the following table.			
	<table border="1"> <thead> <tr> <th data-bbox="477 1108 932 1157">If...</th> <th data-bbox="932 1108 1386 1157">Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="477 1157 932 1827">           Fannie Mae is the mortgagee of record and the servicer does not have an assignment of mortgage         </td> <td data-bbox="932 1157 1386 1827"> <ul style="list-style-type: none"> <li>• prepare the assignment of mortgage.</li> <li>• send the assignment of mortgage to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> <p><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send the original recorded assumption</p> </td> </tr> </tbody> </table>	If...	Then the servicer must...	Fannie Mae is the mortgagee of record and the servicer does not have an assignment of mortgage
If...	Then the servicer must...			
Fannie Mae is the mortgagee of record and the servicer does not have an assignment of mortgage	<ul style="list-style-type: none"> <li>• prepare the assignment of mortgage.</li> <li>• send the assignment of mortgage to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> <p><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send the original recorded assumption</p>			

Type of Transaction	Servicer Action					
	<p>the servicer (or MERS) is the mortgagee of record, or if Fannie Mae is the mortgagee of record and the servicer has an assignment of mortgage</p>	<p>agreement to its document custodian.</p> <ul style="list-style-type: none"> <li>• execute the assumption, or assumption and release, agreement.</li> <li>• have the executed agreement recorded, if required.</li> <li>• send the recorded agreement to the document custodian.</li> </ul> <p><b>Note:</b> If Fannie Mae’s DDC is the custodian, the documents must be annotated with the Fannie Mae loan number, and if applicable, the MERS MIN, and mailed to The Bank of New York Trust Company, NA (see F-4-03, List of Contacts).</p>				
	<p>Regardless of the owner of record for the mortgage loan, the servicer must have the executed transfer documents recorded and should request a title bring-down from the title insurer. The bring-down must</p> <ul style="list-style-type: none"> <li>• change the effective date of the mortgage title policy to the date the transfer instruments were recorded, and</li> <li>• insure the mortgage loan as modified by the recorded agreement.</li> </ul> <p>The servicer must provide the document custodian with the assumption agreement.</p>					
An FHA or VA Mortgage Loan	<p>The servicer must process the transfer of ownership as described in the following table.</p> <table border="1" data-bbox="477 1835 1380 1877"> <thead> <tr> <th data-bbox="477 1835 932 1877">If...</th> <th data-bbox="932 1835 1380 1877">Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td data-bbox="477 1877 932 1877"> </td> <td data-bbox="932 1877 1380 1877"> </td> </tr> </tbody> </table>		If...	Then the servicer must...		
If...	Then the servicer must...					

Type of Transaction	Servicer Action	
	<p>Fannie Mae is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• prepare an assumption and release agreement and either               <ul style="list-style-type: none"> <li>– execute the agreement on Fannie Mae’s behalf if it has an assignment of mortgage; or</li> <li>– prepare the assignment of mortgage and send it, along with proof that FHA or VA, as applicable, approved the release of liability, if applicable, to Fannie Mae’s NSO (see F-4-03, List of Contacts) for execution.</li> </ul> </li> </ul> <p style="text-align: center;"><b>Note:</b> Once Fannie Mae returns the executed assignment of mortgage to the servicer, the servicer is authorized to execute the assumption agreement and must send the original recorded assumption agreement to its document custodian.</p>
	<p>the servicer is the owner of record for the mortgage loan</p>	<ul style="list-style-type: none"> <li>• execute the assumption and release agreement.</li> <li>• send a copy of the executed agreement to the applicable document custodian, either               <ul style="list-style-type: none"> <li>– Fannie Mae’s DDC, or</li> </ul> </li> </ul>

Type of Transaction	Servicer Action
	– an approved third-party custodian who holds the original mortgage not on Fannie Mae’s behalf.



## **F-1-29, Processing a Workout Incentive Fee (04/08/2015)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Incentive Fee for a Repayment Plan
- Incentive Fee for a Mortgage Loan Modification
- Incentive Fee for a Short Sale
- Incentive Fee for a Mortgage Release
- Incentive Compensation for a HAMP Modification
- Incentive Compensation for a 2MP Modification

### **Incentive Fee for a Repayment Plan**

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

When a repayment plan is considered to be the appropriate workout option, Fannie Mae will review eligibility for the repayment plan incentive fee and make the final determination based on information provided by the servicer; therefore, the servicer need not submit requests for payment of repayment plan incentive fees. Repayment plan incentive fees on eligible mortgage loans will be sent to the servicer on a monthly basis.

After a repayment plan is established, the following criteria must be satisfied:

- The servicer must report the repayment plan using HSSN by the second business day of the month following the month the plan was entered into with the borrower.

- The servicer must continue to report each month that the borrower is on a repayment plan until the mortgage loan becomes current, the borrower defaults on the terms of the repayment plan, or the mortgage loan is liquidated.

### Incentive Fee for a Mortgage Loan Modification

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

An incentive fee payment for an eligible mortgage loan modification for a Fannie Mae Standard Modification, Fannie Mae Streamlined Modification, Fannie Mae Streamlined Modification Post Disaster Forbearance, and Fannie Mae Cap and Extend Modification for Disaster Relief is disbursed as outlined in the following table.

Step	Required Action
1	The servicer enters a closed case into HSSN.
2	Fannie Mae reviews eligibility for the mortgage loan modification incentive fee and makes the determination based on information provided by the servicer through HSSN.
3	If eligible, Fannie Mae pays the incentive fee on a monthly basis.  <b>Note:</b> The servicer must not submit a <i>request for expense reimbursement</i> for the incentive fee.

Also see *Reimbursing Fannie Mae for a Cancelled Mortgage Loan Modification* in F-1-06, Expense Reimbursement for the requirements for reimbursing Fannie Mae when a mortgage loan modification is cancelled.

### Incentive Fee for a Short Sale

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

An incentive fee payment for an eligible short sale is disbursed as outlined in the following table.

Step	Required Action
1	The servicer enters a closed case into HSSN.
2	Fannie Mae reviews eligibility for the short sale incentive fee and makes the determination based on information provided by the servicer through HSSN.



Step	Required Action
3	<p>If eligible, Fannie Mae pays the incentive fee on a monthly basis two months following the month in which the short sale was closed in HSSN.</p> <p><b>Note:</b> The servicer must not submit a <i>request for expense reimbursement</i> for the incentive fee.</p>

### Incentive Fee for a Mortgage Release

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

An incentive fee payment for an eligible Mortgage Release is disbursed as outlined in the following table.

Step	Required Action
1	The servicer enters a closed case into HSSN.
2	Fannie Mae reviews eligibility for the Mortgage Release incentive fee and makes the determination based on information provided by the servicer through HSSN.
3	<p>If eligible, Fannie Mae pays the incentive fee on a monthly basis two months following the month in which the Mortgage Release was closed in HSSN.</p> <p><b>Note:</b> The servicer must not submit a <i>request for expense reimbursement</i> for the incentive fee.</p>

### Incentive Compensation for a HAMP Modification

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

The following table indicates the timing and conditions of incentives applicable to a HAMP modification.

Type of Incentive Compensation	Timing and Conditions of Incentive Payment
Servicer Incentive	Servicer incentive fees will be earned and payable upon the borrower's successful completion of a Trial Period Plan.
Borrower "Pay for Performance" Incentive	The "pay for performance" principal balance reduction payment will

<b>Type of Incentive Compensation</b>	<b>Timing and Conditions of Incentive Payment</b>
	<ul style="list-style-type: none"> <li>• accrue monthly, and</li> <li>• be applied annually prior to the first payment due date after the anniversary month in which the Trial Period Plan is effective for each of the first five years following execution of the Agreement.</li> </ul> <p>Borrower incentive payments do not accrue during the Trial Period Plan; however, in the first month of the permanent mortgage loan modification, the borrower will accrue incentive payments equal to the number of months in the Trial Period Plan in addition to any accrual earned during the first month of the permanent mortgage loan modification. Borrower “pay for performance” principal balance reduction payments will accrue as long as the mortgage loan is current and the monthly payments are paid on time (the payment is made by the last day of the month in which the payment is due). For example, if the mortgage loan is current and the borrower makes 10 out of 12 payments on time, he or she will be credited for 10/12 of the annual incentive payment as long as the mortgage loan is in good standing at the time the annual “pay for performance” incentive is paid. A borrower whose mortgage loan is delinquent on a rolling 30- or 60-day basis will not accrue annual incentive payments.</p> <p>If and when the mortgage loan ceases to be in good standing, the borrower will cease to be eligible for any further incentive payment after that time, even if he or she subsequently cures his or her delinquency. The borrower will lose his or her right to any accrued incentive compensation when the mortgage loan ceases to be in good standing.</p>
Expanded Borrower “Pay for Performance” Incentive	The expanded borrower “pay for performance” incentive will be payable prior to the first payment due date after the sixth anniversary of the HAMP Trial Period Plan effective date. See F-2-03, Incentive Fees for Workout Options for additional information on the incentive.

Type of Incentive Compensation	Timing and Conditions of Incentive Payment
	<p><b>Note:</b> No expanded borrower “pay for performance” incentive will be available for payment prior to September 1, 2015.</p>

Neither the borrower nor the servicer will be entitled to accrue incentive compensation for the interim month if the borrower does not make a Trial Period Plan payment during the interim month.

If a borrower misses three consecutive payments at any time following the execution of a HAMP modification (that is, three monthly payments are due and unpaid on the last day of the third month), the mortgage loan is no longer considered to be in “good standing.” Once lost, good standing cannot be restored and eligibility for incentives and interest reimbursements cannot be reclaimed, even if the borrower fully cures the delinquency.

The servicer must first apply any borrower “pay for performance” incentives in accordance with the application of scheduled payments as specified in the security instrument. The following table outlines how the servicer must apply any portion of the borrower “pay for performance” incentive being applied as a principal curtailment.

If the borrower “pay for performance” incentive being applied as a principal curtailment...	Then the servicer must apply such “pay for performance” incentive...
is less than the interest-bearing UPB	to the interest-bearing UPB.
is greater than or equal to the interest-bearing UPB	<p>in the following order to the</p> <ol style="list-style-type: none"> <li>1. deferred UPB, if any; and</li> <li>2. interest-bearing UPB.</li> </ol> <p><b>Note:</b> After applying the incentive in the above order, the servicer must remit any remaining incentive payment directly to the borrower.</p>

The following table outlines the process for obtaining HAMP-related incentives.

Step	Required Action
1	The servicer reports mortgage loan information through the HAMP servicer web portal.
2	Borrower and servicer incentive payments will be reviewed for eligibility based on . <ul style="list-style-type: none"> <li>• mortgage loan modification terms that reflect the target monthly mortgage payment ratio of 31%; or</li> <li>• the requirements for receipt of the expanded borrower “pay for performance” incentive.</li> </ul>
3	If eligible, the incentive payments are made via ACH to the bank account(s) designated by the servicer on the <i>HAMP Registration Form</i> during the HAMP registration process. The incentive payments will be paid on the 27th calendar day of each month (or, if the 27th falls on a non-business day, the preceding business day). <p><b>Note:</b> On the business day prior to the date payment is made, servicers will be able to obtain a detailed report of the incentive payments to be remitted by viewing the Cash Payment Report by Servicer (OBE.10) available on the reporting web portal at HMPAdmin.com. This report provides the total cash to be disbursed for each HAMP Registration Number, the aggregate for each HAMP Servicer Number associated with the HAMP Registration Number, and the loan level detail for each incentive type.</p>

Also see *Reimbursing Fannie Mae for a Cancelled Mortgage Loan Modification* in F-1-06, Expense Reimbursement for the requirements for reimbursing Fannie Mae when a mortgage loan modification is cancelled.

### Incentive Compensation for a 2MP Modification

The servicer must evaluate a mortgage loan for workout options in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

The following table indicates the timing and conditions of incentives applicable to a 2MP modification.

Type of Incentive Compensation	Timing and Conditions of Incentive Payment
Servicer Incentive	Servicer incentive fees will be earned and payable upon the effective date of a 2MP modification.

Type of Incentive Compensation	Timing and Conditions of Incentive Payment
Borrower “Pay for Performance” Incentive	<p>The “pay for performance” principal balance reduction payment will accrue monthly and be applied annually after the anniversary month in which the 2MP modification became effective for each of the first five years. Borrower “pay for performance” principal balance reduction payments will accrue as long as the first and second lien mortgage loans are current and the monthly payments are paid on time (the payment is made by the last day of the month in which the payment is due). Borrower incentive payments do not accrue during the Trial Period Plan. The payments will be made to the servicer of the second lien mortgage loan to be applied towards reducing the UPB on the second lien mortgage loan.</p> <p><b>Note:</b> If and when the HAMP and/or 2MP mortgage loan modification cease to be in good standing or are paid in full, the borrower will cease to be eligible for any further incentive payment after that time, even if he or she subsequently cures his or her delinquency. Undisbursed incentive payments, even if accrued, will not be made.</p>

Neither the borrower nor the servicer will be entitled to accrue incentive compensation for the interim month if the borrower does not make a Trial Period Plan payment during the interim month.

If a borrower misses three consecutive payments at any time on his or her second lien following the execution of a 2MP modification (that is, three monthly payments are due and unpaid on the last day of the third month), the second lien is no longer considered to be in “good standing.” Once lost, good standing cannot be restored and eligibility for incentives and interest reimbursements cannot be reclaimed, even if the borrower fully cures the delinquency.

The following table outlines how the servicer obtains the borrower “Pay for Performance” incentive fee.

Step	Required Action
1	The servicer enters a closed case into HSSN.
2	The servicer reports the 2MP modification transaction to the Program Administrator.

Step	Required Action
3	<p>If eligible, Fannie Mae, in its capacity as 2MP Program Administrator, pays the incentive fee.</p> <p><b>Note:</b> The servicer must not include a <i>request for expense reimbursement</i> for the incentive fee.</p>

Also see *Reimbursing Fannie Mae for a Cancelled Mortgage Loan Modification* in F-1-06, Expense Reimbursement for the requirements for reimbursing Fannie Mae when a mortgage loan modification is cancelled.

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015



## F-1-30, Processing Military Indulgence (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- Determining the Monthly Mortgage Payment Amount
- Determining the Servicing Fee Amount
- Reporting Military Indulgence to Fannie Mae
- Requesting Reimbursement for Advances

## Determining the Monthly Mortgage Payment Amount

The servicer must grant a reduction in the interest rate to 6% in accordance with *Reducing the Interest Rate* in D2-3.4-01, Military Indulgence.

The two methods for determining monthly mortgage loan payment amounts owed for mortgage loans for which the interest rate is reduced to 6% are described in the following table.

Method	Rationale
Standard Amortization Method and Payments	This method is based upon a recalculated amortization schedule with interest at the rate of 6% and the actual remaining term of the mortgage loan.
Interest Subsidy Amortization Method and Payments	<p>This method is based on the amortization schedule (or schedules, in the case of an ARM) that would have applied if the borrower had remained a civilian.</p> <p>Each new payment is calculated as the sum of the next monthly principal installment called for by the applicable amortization schedule plus monthly interest at the rate of 6% based on the prior period's scheduled ending UPB (i.e., the principal balance scheduled to be outstanding immediately prior to the applicable due date).</p> <p>This method results in an amount that increases each month, usually in a minimal amount. Accordingly, the servicer must adjust the payment periodically (at least annually) to ensure that the payment is sufficient to cover, in full, both the monthly principal installments called for by the applicable amortization schedule and interest accruing at 6%.</p> <p>Fannie Mae requires that payments be applied first to principal, rather than interest, so that amortization stays on the schedule that would have applied if the borrower had remained a civilian. Failure to recalculate the payment periodically will result in a borrower interest payment at less than 6%.</p>

The servicer must perform the action in the following table in order to advance the LPI date depending upon the mortgage loan type.

If the mortgage loan was delinquent when the servicemember entered active duty status and the mortgage loan is...	Then the servicer must...
serviced under the actual/actual, scheduled/actual, or scheduled/scheduled cash remittance type	take the following steps: <ol style="list-style-type: none"> <li>1. Capitalize the delinquent interest by increasing the UPB and advancing the LPI date to bring the mortgage loan to a current status.</li> <li>2. Use this balance to calculate the new monthly payment, based on the 6% interest rate and using the standard amortization method.</li> </ol>
part of an MBS pool	take the following steps: <ol style="list-style-type: none"> <li>1. Hold the payments collected at the recalculated interest rate of 6% as unapplied funds.</li> <li>2. Apply the funds when they are sufficient to pay the oldest delinquent installment (P&amp;I) in full, with interest at the rate that was in effect when the installment came due.</li> <li>3. Repeat this process until all the delinquent installments have been paid.</li> <li>4. Apply payments to installments that came due after the amount owed was recalculated, based on the 6% interest rate and either the standard or the interest subsidy amortization method.</li> </ol>

Fannie Mae, as the mortgage holder, will absorb the cost of this interest rate reduction.

**Note:** ARM loans placed under military indulgence require special treatment while an eligible servicemember is on active duty. Pursuant to the SCRA, the mortgage loan must be treated as a fixed-rate mortgage loan bearing interest at 6%, unless the applicable adjustable rate would be lower. This occurs with either the standard amortization method or the interest subsidy amortization method, in determining payments that come due after the date on which the borrower reports for active U.S. military duty.



Any scheduled interest rate adjustments that would result in a rate in excess of 6% must be forgiven during the period of active duty. However, the servicer must never charge the borrower a higher rate than he or she would have been charged if he or she had remained a civilian.

The servicer must change the installment to reflect the full interest rate as of the second payment due after the borrower is no longer on active duty to either the

- pre-military fixed rate, or
- the latest applicable interest rate for an ARM loan.

This will ensure that the borrower is charged interest at 6% during whatever portion of the month he or she was on active duty. The following table provides requirements for recalculating the borrower's monthly mortgage loan payment after military service.

<b>If the...</b>	<b>And the mortgage loan is...</b>	<b>Then the borrower's monthly mortgage loan payment after service will be...</b>
the standard amortization method was used	a fixed-rate mortgage loan	calculated by re-amortizing the UPB that is scheduled to be outstanding immediately following the last payment that is owed at the reduced rate of 6% at the pre-military fixed rate.
	an ARM loan	calculated by re-amortizing the UPB that is scheduled to be outstanding immediately following the last payment that is owed at the reduced rate of 6% at the latest applicable interest rate.
the interest subsidy amortization method was used	a fixed-rate mortgage loan	the payment he or she had before the interest rate reduction.
	an ARM loan	the full payment as calculated and reported to Fannie Mae as of the scheduled interest change date that most recently precedes the borrower's release from active duty.

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## Determining the Servicing Fee Amount

The servicer must grant a reduction in the interest rate to 6% in accordance with *Reducing the Interest Rate* in D2-3.4-01, Military Indulgence.

Once the servicer has reduced the interest rate to 6%, it must calculate its servicing fee on the UPB of the mortgage loan at the beginning of each month and not use a percentage-of-interest factor to determine the fee to ensure that it will continue to receive the same, or nearly the same, servicing fee that it would have received had the interest rate not been reduced to 6%.

**Note:** With the standard amortization method, there will be a slight difference because principal will amortize faster.

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## Reporting Military Indulgence to Fannie Mae

The servicer must notify Fannie Mae when it places a mortgage loan under military indulgence in accordance with the *Servicing Guide*. The servicer must notify Fannie Mae by completing the actions shown in the following table.

✓	<b>The servicer must...</b>
	Send an email to the Exceptions Transaction Management Unit at <a href="mailto:sailors_and_soldiers@fanniemae.com">sailors_and_soldiers@fanniemae.com</a> .
	Include with the email a completed <i>SCRA Reporting and Disbursement Request Form</i> (Form 1022).  <b>Note:</b> The Form 1022 must be submitted no later than the ninth business day of the month. Requests received after the ninth business day will be processed the following month.

The servicer also must prepare Form 1022 when it

- reduces the servicemember's interest rate to 6%;
- puts other forms of military indulgence into effect for the servicemember;
- changes the servicemember's payment, if the interest subsidy amortization method is used; or
- changes the interest rate back to its pre-military interest rate (or the applicable adjusted rate, for an ARM).

If military indulgence (in addition to reduction of the interest rate to 6%) is granted in connection with a delinquency, the servicer must also report the granting of military indulgence in the first delinquency status information report it transmits to Fannie Mae after the date the additional military indulgence was granted.

**Note:** If the mortgage loan is an ARM, the servicer must report through Fannie Mae's investor reporting system a Transaction Code 83: Monthly Rate/Payment Change, as each scheduled interest rate adjustment is due. Also see the *Investor Reporting Manual*.

### Requesting Reimbursement for Advances

The servicer may request reimbursement for advances made under a military indulgence in accordance with the *Servicing Guide*. The process for requesting reimbursement for advances made under a military indulgence varies according to whether the mortgage loan is a portfolio mortgage loan or an MBS mortgage loan, as shown in the following table.

<b>If the mortgage loan is...</b>	<b>Then...</b>
a portfolio mortgage loan	<p>Fannie Mae will adjust its investor reporting system records to reflect the 6% interest rate and new P&amp;I payments (calculated in accordance with either the standard method or the interest subsidy method) upon receipt of the <a href="#">Form 1022</a>. The servicer will not have to advance any interest and no request for reimbursement is necessary.</p> <p><b>Note:</b> If the interest subsidy amortization method is used, the servicer must notify Fannie Mae by submitting <a href="#">Form 1022</a> to <a href="mailto:sailors_and_soldiers@fanniemae.com">sailors_and_soldiers@fanniemae.com</a> to notify Fannie Mae of any change in the monthly installment while the mortgage loan is under military indulgence.</p>
a Pooled from Portfolio mortgage loan (PFP)	<ul style="list-style-type: none"> <li>• regardless of remittance type, Fannie Mae will not adjust its investor reporting system records.</li> <li>• the servicer must submit <a href="#">Form 1022</a> to <a href="mailto:sailors_and_soldiers@fanniemae.com">sailors_and_soldiers@fanniemae.com</a> by the ninth business day in order to request an adjustment be made to the servicer's shortage surplus account for the current month.</li> </ul>

If the mortgage loan is...	Then...
	<p><b>Note:</b> Requests received after the ninth business day will be processed the following month.</p>
an MBS mortgage loan	<ul style="list-style-type: none"> <li>• regardless of remittance type, Fannie Mae will not adjust its investor reporting system records.</li> <li>• the servicer must submit the mortgage loan information through Fannie Mae’s investor reporting system under the Loan Reporting screen through the SCRAMS file transmit link.</li> <li>• once the mortgage loan has been submitted through Fannie Mae’s investor reporting system, the servicer must only resubmit if               <ul style="list-style-type: none"> <li>– corrections are needed,</li> <li>– there is an early release, or</li> <li>– service has been extended.</li> </ul> </li> </ul>

Fannie Mae will continue to make disbursements for the amount of the interest rate reduction through the military indulgence end date plus one year. The disbursements will be funded two days prior to the end of the month in the custodial account that the servicer has assigned for military indulgence funds. Once a mortgage loan is reclassified from the MBS pool, the servicer must submit [Form 1022](#) to have the rates updated effective the month after the reclassification.

The servicer’s request for reimbursement will also differ based on the type of amortization method used. The following table provides additional instructions depending on amortization method.

If the servicer uses...	Then...
the standard amortization method	there will be a discrepancy between Fannie Mae's records and the servicer's records, not only with respect to the interest rate, but also between principal scheduled to be collected from the borrower versus the principal scheduled to be paid to MBS investors. To correct this principal discrepancy, each month the servicer must

If the servicer uses...	Then...
	<ul style="list-style-type: none"> <li>• remit a reconciling principal curtailment in the amount of the difference between the principal scheduled to be applied to the mortgage note (which is based on reamortization with 6% interest over the remaining term), compared to the scheduled principal that is due to security holders (which is based on the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian).</li> </ul> <p style="text-align: center;"><b>Note:</b> Since this principal is collected from the mortgagor, it is not necessary to submit a reimbursement request for principal to Fannie Mae. (The sum of the interest reduction advanced by the servicer and reimbursed by Fannie Mae, plus the reduced borrower payment, is more than the amount that would have been advanced to Fannie Mae had the borrower remained a civilian by an excess amount that Fannie Mae applies on its records as the principal curtailment.)</p> <ul style="list-style-type: none"> <li>• identify the principal curtailment on all pool reconciliations; and</li> <li>• report the principal curtailment as unscheduled principal during security balance reporting period. (No reconciling principal curtailment is needed with the interest subsidy method because the principal portion of each monthly borrower payment is the amount specified by the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian.)</li> </ul> <p style="text-align: center;"><b>Note:</b> If the servicer fails to report the reconciling principal curtailment at the MBS pool level, it will have a pool-to-security balance reconciliation problem.</p>
the interest subsidy method	no reconciling principal curtailment needs to be reported. The servicer must, however, adhere to the following:

If the servicer uses...	Then...
	<ul style="list-style-type: none"><li>• apply payments to principal before interest (so that amortization stays on the applicable schedule). The amount necessary to cover, in full, both the monthly principal installments called for by the applicable amortization schedule and the interest accruing at 6% will increase each month, although usually by an immaterial amount; and</li><li>• recalculate the payment at least annually, to avoid a material underpayment of interest.</li></ul> <p><b>Note:</b> Request for reimbursement is not required. Fannie Mae is not required to reimburse for interest insofar as the payment the borrower owes is insufficient to pay interest at the rate of 6% in full.</p>



## **F-1-31, Remitting and Accounting to Fannie Mae (02/11/2015)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Remitting a P&I Payment to Fannie Mae for a Summary Reporting Actual/Actual Mortgage Loan
- Remitting a P&I Payment to Fannie Mae for a Detailed Reporting Actual/Actual Mortgage Loan
- Remitting a P&I Payment to Fannie Mae for a Scheduled/Actual Mortgage Loan
- Remitting a P&I Payment to Fannie Mae for a Scheduled/Scheduled Mortgage Loan
- Remitting through the CRS
- Remitting via ADS
- Remitting a Special Remittance
- Remitting Short Sale Proceeds
- Remitting MBS Guaranty Fees and Charges
- Remitting Other Fees and Charges
- Remitting to Fannie Mae for a Delinquent MBS Mortgage Loan
- Remitting Payoff Proceeds
- Remitting Third-Party Sales Proceeds to Fannie Mae
- Remitting a Settlement Received for an MBS Mortgage Loan
- Determining the Payoff Date for a Scheduled/Scheduled Mortgage Loan

## Remitting a P&I Payment to Fannie Mae for a Summary Reporting Actual/Actual Mortgage Loan

The servicer must report its remittances for summary reporting actual/actual remittance type mortgage loans to Fannie Mae in the CRS in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

The servicer must report its remittances to Fannie Mae via CRS

- whenever the total amount collected is greater than \$2,500 after the servicer deducts its servicing fees,
- at least once a month if the total amount collected was less than \$2,500 after the servicer deducts its servicing fees, and/or
- on the first work day of each month if there were any collections on the last work day in the preceding month that were not remitted because they were received after the 4:00 p.m. ET deadline for electronically transmitting remittance transactions to Fannie Mae.

The following table outlines requirements if the servicer does not receive its collection activity reports in time to ensure that accumulated collections can be remitted to Fannie Mae in accordance with Fannie Mae's required schedule.

✓	The servicer must...
	Make a reasonable estimate of the funds due.
	Base its remittance transmission on that estimate.

The servicer must calculate its estimate by using either:

- its preceding remittance transmission amount, or
- management reports that show its past average remittance for that particular day of the month.

When the actual collection report is available, the servicer must adjust its remittance by:

- immediately remitting any additional funds that are due, or
- reducing its next remittance transmission by the overremitted amount.

**Note:** The detailed reporting actual/actual mortgage loans do not follow the same remittance guidelines as the summary reporting actual/actual remittances. For details,



also see *Remitting P&I Payments to Fannie Mae for Detailed Reporting, Actual/Actual Mortgage Loans*.

### Remitting a P&I Payment to Fannie Mae for a Detailed Reporting Actual/Actual Mortgage Loan

The following table provides instructions for detailed reporting for actual/actual mortgage loans in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

✓	<b>The servicer must...</b>
	Report any activity daily, as received. Any activity reported automatically initiates a draft of the remittance amount from the servicer’s custodial account within 48 hours.
	Report mortgage loan activity to Fannie Mae through SURF as transactions occur. Transactions may include P&I payments, curtailments, payoffs, etc.

### Remitting a P&I Payment to Fannie Mae for a Scheduled/Actual Mortgage Loan

Instructions for remitting P&I payments to Fannie Mae for scheduled/actual remittance type mortgage loans are provided in the following table, in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

✓	<b>The servicer must...</b>
	Report its remittance for all funds due to Fannie Mae via the CRS in time for the funds to be available for Fannie Mae’s use by the 20th calendar day of each month.  <b>Note:</b> If the 20th calendar day is not a business day, the servicer must report these remittances by the preceding business day.
	Transmit the remittance transaction via CRS by 4:00 p.m. ET on the 19th of each month.  <b>Note:</b> If the 19th calendar day is not a business day, the servicer must transmit the remittance transaction before 4:00 p.m. ET on the last preceding day.

### Remitting a P&I Payment to Fannie Mae for a Scheduled/Scheduled Mortgage Loan

The procedure for remitting P&I payments for scheduled/scheduled remittance type mortgage loans differs based on the type of mortgage loan (portfolio or MBS). For MBS mortgage loans, the procedure differs based on the type of remittance cycle (standard, RPM®, or MBS Express).

The following table provides remitting instructions for scheduled/scheduled remittance type mortgage loans in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

Mortgage Loan Type	The servicer must...				
Portfolio mortgage loan	<ul style="list-style-type: none"> <li>• Make all funds due Fannie Mae available for Fannie Mae’s use by the 18th calendar day of the month.</li> </ul> <p style="text-align: center;"><b>Note:</b> If the 18th calendar day is not a business day, the servicer must report these remittances by the preceding business day.</p> <ul style="list-style-type: none"> <li>• Transmit the remittance transaction via CRS by 4:00 p.m. ET on the 17th of each month.</li> </ul>				
MBS mortgage loan	<ul style="list-style-type: none"> <li>• Determine the date by which funds must be available for Fannie Mae’s use based on which remittance cycle (and, in some instances, on which remittance date) the servicer selected when it created the MBS pool.</li> </ul> <p style="text-align: center;"><b>Note:</b> To assist a servicer in ensuring it will have sufficient funds on hand in its drafting account, Fannie Mae will send the servicer a summary statement of all of its anticipated and pending drafts for MBS pools by the 5th business day of the month. This summary statement, available via draft notifications on Fannie Mae’s website, will include P&amp;I remittances and guaranty fee remittances listed by their due dates and any compensatory fees due to lost interest on late remittances for MBS pools that have the RPM or MBS Express remittance cycles. Then, on the business day preceding Fannie Mae’s draft, Fannie Mae will notify the servicer of the amount of its draft.</p> <table border="1" data-bbox="591 1650 1409 1890"> <thead> <tr> <th data-bbox="591 1650 1000 1696">Remittance Cycle</th> <th data-bbox="1000 1650 1409 1696">Remittance Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="591 1696 1000 1890">Standard</td> <td data-bbox="1000 1696 1409 1890">Funds must be available for drafting on the 18th calendar day of the month, or the preceding business day if the 18th is not a business day.</td> </tr> </tbody> </table>	Remittance Cycle	Remittance Requirements	Standard	Funds must be available for drafting on the 18th calendar day of the month, or the preceding business day if the 18th is not a business day.
Remittance Cycle	Remittance Requirements				
Standard	Funds must be available for drafting on the 18th calendar day of the month, or the preceding business day if the 18th is not a business day.				

Mortgage Loan Type	The servicer must...	
	<b>Remittance Cycle</b>	<b>Remittance Requirements</b>
		<ul style="list-style-type: none"> <li>• For pools that have a 6th day of the month designated remittance date, the funds must be available for drafting through CRS on the 5th day of the month.</li> <li>• For pools that have other designated remittance dates, the funds must be available for draft through the ADS on the designated remittance date (or the preceding business day if the designated remittance date is not a business day).</li> </ul>
	RPM	Funds must be available for drafting through the applicable remittance system on the designated remittance date.
	MBS Express	<p>Funds are remitted on two different dates and under two different remittance systems. The date and remittance system depend on the type of funds being remitted.</p> <ul style="list-style-type: none"> <li>• Remittances related to unscheduled principal (payoffs, curtailments, repurchases, and other removals) must be reported via CRS on the 3rd business day of the month so Fannie Mae can draft them by the 4th business days of the month after they were collected. (However, if the total amount</li> </ul>

Mortgage Loan Type	The servicer must...				
	<table border="1"> <thead> <tr> <th data-bbox="591 390 998 432">Remittance Cycle</th> <th data-bbox="998 390 1421 432">Remittance Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="591 432 998 1837"></td> <td data-bbox="998 432 1421 1837"> <p>of the servicer’s unscheduled principal payment for all of the MBS Express pools is less than \$250, the servicer can include the unscheduled principal along with its later remittance of scheduled P&amp;I.</p> <ul style="list-style-type: none"> <li>• Remittances related to scheduled P&amp;I must be in the servicer’s designated draft account in time for Fannie Mae to draft them on the 18th calendar day of the month or the preceding business day if the 18th is not a business day.</li> </ul> <p><b>Note:</b> Funds required to remove a delinquent mortgage loan that Fannie Mae has reclassified as an actual/actual remittance type from an MBS Express pool will be treated as a scheduled payment, rather than as a mortgage loan payoff, so they must be in the servicer’s designated draft account in time for Fannie Mae to draft them with other scheduled remittances for the pool.</p> </td> </tr> </tbody> </table>	Remittance Cycle	Remittance Requirements		<p>of the servicer’s unscheduled principal payment for all of the MBS Express pools is less than \$250, the servicer can include the unscheduled principal along with its later remittance of scheduled P&amp;I.</p> <ul style="list-style-type: none"> <li>• Remittances related to scheduled P&amp;I must be in the servicer’s designated draft account in time for Fannie Mae to draft them on the 18th calendar day of the month or the preceding business day if the 18th is not a business day.</li> </ul> <p><b>Note:</b> Funds required to remove a delinquent mortgage loan that Fannie Mae has reclassified as an actual/actual remittance type from an MBS Express pool will be treated as a scheduled payment, rather than as a mortgage loan payoff, so they must be in the servicer’s designated draft account in time for Fannie Mae to draft them with other scheduled remittances for the pool.</p>
Remittance Cycle	Remittance Requirements				
	<p>of the servicer’s unscheduled principal payment for all of the MBS Express pools is less than \$250, the servicer can include the unscheduled principal along with its later remittance of scheduled P&amp;I.</p> <ul style="list-style-type: none"> <li>• Remittances related to scheduled P&amp;I must be in the servicer’s designated draft account in time for Fannie Mae to draft them on the 18th calendar day of the month or the preceding business day if the 18th is not a business day.</li> </ul> <p><b>Note:</b> Funds required to remove a delinquent mortgage loan that Fannie Mae has reclassified as an actual/actual remittance type from an MBS Express pool will be treated as a scheduled payment, rather than as a mortgage loan payoff, so they must be in the servicer’s designated draft account in time for Fannie Mae to draft them with other scheduled remittances for the pool.</p>				

## Remitting through the CRS

The CRS relies on remittance codes, which are unique to specific transactions, to identify monies related to the individual remittances the servicer reports. There are five remittance type codes the servicer can use to report P&I remittances. (See the *Investor Reporting Manual* for a list of these codes.) Each remittance type code must be linked to a single drafting account. This account can be either the P&I custodial account for the applicable remittance type or a consolidated drafting account the servicer uses for MBS P&I or for all other remittance types.

In CRS, the servicer must provide drafting instructions to Fannie Mae by 3:00 p.m. ET and remit the draft amount at any time up until Fannie Mae’s cut-off time at 4:00 p.m. ET. The servicer can change the information for individual drafts at any time prior to its transmission of the information to Fannie Mae. After drafting instructions and remittance amount are provided to Fannie Mae, Fannie Mae will then draft the servicer’s designated drafting account using the ACH system.

The following table summarizes the reporting requirements the servicer must use when remitting funds in CRS, in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

<b>Mortgage Loan Type</b>	<b>The servicer must report remittances...</b>
Portfolio mortgage loans with actual/actual remittance	Via summary reporting when collections are enough to require the funds be remitted to Fannie Mae. Fannie Mae will draft the related funds from the servicer’s designated drafting account on the following business day.
	Via detailed reporting, daily, as received. This initiates a draft of the remittance amount from the servicer’s custodial account on the next business day after loan activity is reported.
Portfolio mortgage loans with scheduled/actual or scheduled/scheduled remittance	On the business day before the applicable remittance due date. Fannie Mae will draft the related funds from the servicer’s designated drafting account on the following business day.
MBS mortgage loans with RPM remittance cycle and 6th of the month remittance date	Between the 1st and 4th business day of the month. Fannie Mae will draft the reported remittance amount from the servicer’s designated drafting account on the day after the servicer provides Fannie Mae with drafting

Mortgage Loan Type	The servicer must report remittances...
	instructions. However, if the servicer fails to report the applicable remittance by the 4th business day of the month, Fannie Mae will automatically draft the expected remittance (based on the servicer’s security balance report) on the 5th business day of the month.
MBS mortgage loans with the MBS Express remittance cycle	Between the 1st and 4th business day of the month for unscheduled P&I remittances. Fannie Mae will draft the reported remittance amount from the servicer’s designated drafting account on the day after the servicer provides Fannie Mae with drafting instructions. However, if the servicer fails to report the applicable remittance by the 4th business day of the month, Fannie Mae will automatically draft the expected remittance (based on the servicer’s security balance report) on the 5th business day of the month.

**Note:** For additional information on compensatory fees that may be assessed for late remittances, also see A1-4.2-01, Compensatory Fees Other Than Delays in the Liquidation Process.

### Remitting via ADS

The servicer must remit funds related to MBS mortgage loans based on the remittance cycle of the MBS pool. The following table provides servicer responsibilities associated with different remittance cycles in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

Remittance Cycle	The servicer must...
Standard or MBS Express	<ul style="list-style-type: none"> <li>• Make the funds available for a single draft, regardless of the number of such MBS pools it services, and</li> <li>• Arrange for its subservicers to remit funds periodically so that only one draft</li> </ul>

Remittance Cycle	The servicer must...
	is necessary, unless the subservicer remits funds directly on the servicer’s behalf.
RPM	<ul style="list-style-type: none"> <li>• Make multiple remittances in accordance with each, applicable MBS pool remittance date. For example, if the servicer has remittances for pools with remittance due dates on the 8th, 10th, and 15th of the month, Fannie Mae will automatically draft the servicer’s designated drafting account on each of those applicable due dates.</li> <li>• Make all funds available for a single draft for all mortgage loans with pools that have the same remittance due date.</li> </ul> <p style="text-align: center;"><b>Note:</b> In either instance, Fannie Mae’s automatic draft will be based on the servicer’s security balance report for the month.</p>

### Remitting a Special Remittance

The servicer must report special remittances for all mortgage loans is services to Fannie Mae via CRS, in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae. This includes both portfolio mortgage loans and MBS mortgage loans.

There are 20 remittance type codes the servicer can use for reporting special remittances to Fannie Mae. (See the *CRS User Guide* for a list of remittance type codes). Each special remittance must have a corresponding Fannie Mae loan number provided in CRS.

Each remittance type code must be linked to a single drafting account. See F-1-03, Establishing and Implementing Custodial Accounts for additional information on establishing drafting arrangements.

### Remitting Short Sale Proceeds

For portfolio mortgage loans, PFP mortgage loans, and special servicing option MBS mortgage loans, the servicer must remit short sale proceeds to Fannie Mae in accordance with C-1.2-02, Processing Short Sale Proceeds, by taking the actions described in the following table.

✓	<b>The servicer must...</b>
	Remit the short sale proceeds via CRS as a special remittance using special remittance code 310.  <b>Note:</b> Do NOT submit as Code 001, 002, or 003.
	Remit any borrower cash contributions and/or promissory note associated with the short sale using special remittance code 324.
	Remit the short sale proceeds to Fannie Mae within two business days of the servicer’s receipt of the net sale proceeds, but no later than three business days after the short sale.
	Include the Fannie Mae loan number where indicated.
	Contact its assigned Fannie Mae Investor Reporting Representative, (see F-4-03, List of Contacts), with any questions related to remitting short sale proceeds.

For regular servicing option MBS mortgage loans, shared-risk special servicing option MBS mortgage loans, regular servicing option RD mortgage loans, or any mortgage loans subject to some type of recourse or other credit enhancement arrangement, the servicer must remit the short sale proceeds just as it would remit a full payoff of any other regular servicing option MBS mortgage loan since the servicer must absorb any losses and expenses related to the short sale.

Also see *Reporting a Liquidation to Fannie Mae* in the *Investor Reporting Manual* to remove the mortgage loan from Fannie Mae’s active accounting records.

### Remitting MBS Guaranty Fees and Charges

Fannie Mae initiates drafts for guaranty fees, guaranty fee buydown charges and deposits for guaranty fee buyup charges. The following table lists the steps the servicer must follow to enable successful drafts/deposits for guaranty fees and buydown/buyup charges, in accordance with, C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

Step	Servicer Action
1	Designate a custodial bank account from which Fannie Mae will draft the fees. See F-1-03, Establishing and Implementing Custodial Accounts for detailed requirements.
2	Complete an <i>Authorization for Automatic Transfer of Funds</i> , ( <a href="#">Form 1072</a> ), to authorize Fannie Mae to draft/deposit the fees from the designated account.
3	Retrieve the electronic draft notice (or “bill”) from Fannie Mae’s website. This notice shows the amount due for the guaranty fees, any guaranty fee buydown charges,



Step	Servicer Action
	and adjustment to offset any guaranty fee buyup payment that Fannie Mae owes the servicer, and the total net amount due Fannie Mae.
4	Review the draft notice for accuracy. If the net of the fees and charges the servicer calculates does not agree with the amount shown on the draft notice, the servicer must contact its Fannie Mae Investor Reporting Representative (see F-4-03, List of Contacts) immediately to provide details on the amount and nature of the discrepancy. Fannie Mae will review its records to validate the discrepancy the servicer identified and make any necessary adjustments to the bill.
5	Remit the fees and charges to the designated custodial account so they are available to Fannie Mae on the 7th calendar day of the month, or on the preceding business day if the 7th is not a business day.

### Remitting Other Fees and Charges

All other fees and charges due Fannie Mae, such as upfront commitment fees, pair-off or extension fees, or fees for Flash MBS processing, must all be deposited into a single custodial account that has been designated as the draft account on [Form 1072](#). Sufficient funds must be in the account at all times to ensure the amount scheduled to be drafted on a specific date will be available when the draft actually takes place. The following table provides additional information regarding when Fannie Mae will draft certain other fees, in accordance with C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae.

Type of Fee	Fannie Mae will draft the account...
Upfront commitment fees related to negotiated case commitments	The day following the request for the contract, without providing any advance notification.
Fees related to pair-offs, or extensions of cash commitments or contracts that are request by a seller/servicer	<p>The business day following the seller/servicer’s request for the pair-off or extension.</p> <p>Fannie Mae will draft the account on the business day following the extended expiration date or following the expiration of the additional time period it allows for processing pending purchases before an automatic pair-off takes place, if the fees relate to</p> <ul style="list-style-type: none"> <li>• an automatic five-day extension of a commitment or contract, or</li> <li>• an automatic pair-off of the remaining balance of an expired commitment or contract.</li> </ul>

Type of Fee	Fannie Mae will draft the account...
	Fannie Mae will provide the seller/servicer with advance notification of its draft.
Fees related to Flash MBS processing	The 7th calendar day of the month (or the preceding business day if the 7th is not a business day). Fannie Mae will notify the seller/servicer one day prior to its draft.

### Remitting to Fannie Mae for a Delinquent MBS Mortgage Loan

If an MBS mortgage loan is delinquent, the servicer must ensure that Fannie Mae receives the scheduled P&I payment when it is due, in accordance with *Remitting to Fannie Mae for Delinquent Mortgage Loans* in C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae. The servicer can either

- use funds it has on hand for any prepaid P&I installments, curtailments, and payoffs to offset payment shortfalls that occur as the result of mortgage loan delinquencies; or
- advance its own funds to cover the payment shortfalls, if there are insufficient collects on hand from prepaid P&I installments, curtailments, and payoffs not yet due to Fannie Mae.

To ensure it has adequate controls over this process, the servicer must maintain a record of all delinquency advances that were funded by prepaid installments in any given month and perform appropriate reconciliations of this activity.

### Remitting Payoff Proceeds

The following table provides the schedule and remittance requirements for remitting mortgage loan payoff proceeds to Fannie Mae, in accordance with C-3-02, Remitting Payoff Proceeds.

Mortgage Loan Type	Requirements for Remitting Payoff Proceeds
Actual/Actual Remittance Type Mortgage Loan	<p>If the payoff proceeds are greater than \$2,500, they must be remitted to Fannie Mae immediately. Otherwise, the servicer must remit the payoff proceeds under the servicer’s regular remittance schedule. The servicer must remit:</p> <ul style="list-style-type: none"> <li>• the UPB;</li> <li>• the full amount of the interest due, up to but not including, the payoff date;</li> </ul>

Mortgage Loan Type	Requirements for Remitting Payoff Proceeds
	<ul style="list-style-type: none"> <li>• FHA servicer charges, if applicable; and</li> <li>• any prepayment premium, if applicable.</li> </ul> <p><b>Note:</b> The servicer may deduct its applicable servicing fees and any unapplied buydown funds Fannie Mae may be holding.</p>
Scheduled/Actual Remittance Type Mortgage Loan	<p>The servicer must remit the payoff proceeds to Fannie Mae as part of its regular monthly remittance, by the 20th of the month following the month in which they were received, or any other negotiated remittance date.</p> <p>The servicer must remit Fannie Mae’s share of</p> <ul style="list-style-type: none"> <li>• the UPB;</li> <li>• one-half of one month’s interest, calculated at the net certificate yield of the pass-through rate for a whole mortgage loan; and</li> <li>• any prepayment premium, if Fannie Mae agreed that such a premium could be collected and requires it to be remitted to Fannie Mae.</li> </ul>
Scheduled/Scheduled Remittance Type Mortgage Loan	<p>The servicer must remit the payoff proceeds as part of its regular monthly remittance</p> <ul style="list-style-type: none"> <li>• on the standard remittance day of the 18th calendar day of the month following the month in which they were received,</li> <li>• by the early remittance day the servicer specified under the RPM for MBS remittances, or</li> <li>• by the 4th business day of the month, if the loan is in an MBS Express pool.</li> </ul> <p>The remittance amount to Fannie Mae will vary by mortgage loan type as follows:</p> <ul style="list-style-type: none"> <li>• Portfolio mortgage loans:             <ul style="list-style-type: none"> <li>– scheduled UPB of the mortgage loan, and</li> </ul> </li> </ul>

Mortgage Loan Type	Requirements for Remitting Payoff Proceeds
	<ul style="list-style-type: none"> <li>– a full month’s interest calculated at the pass-through rate of the mortgage loan.</li> <li>• MBS mortgage loans:               <ul style="list-style-type: none"> <li>– Fannie Mae’s share of the security balance of the mortgage loan;</li> <li>– a full month’s interest calculated at the pass-through or accrual rate of the pool, or at the mortgage loan accrual rate if the mortgage loan is in a weighted-average ARM MBS pool; and</li> <li>– any prepayment premium, if Fannie Mae agreed that such a premium could be collected and requires it to be remitted to Fannie Mae.</li> </ul> </li> </ul> <p><b>Note:</b> Because the servicer is required to remit a full month’s interest to Fannie Mae, the servicer must use its own funds to cover the difference between the interest Fannie Mae is due and the interest collected from the borrower when a mortgage loan is paid off before the end of the month.</p>

For FHA Title I loans, the scheduled for remitting funds depends on the remittance type for the mortgage loan. The servicer must remit

- the UPB, and
- the full amount of interest due through the end of the payoff month.

**Note:** The servicer may deduct its applicable servicing fee.

### Remitting Third-Party Sales Proceeds to Fannie Mae

The servicer must remit all third-party sales proceeds to Fannie Mae regardless of whether or not the sale is finalized or falls through in accordance with E-3.5-02, Handling Third-Party Sales.

If the sale is finalized, the amount that must be remitted to Fannie Mae is the lesser of:

- the reserve price, or

- the total mortgage indebtedness, including the UPB of the mortgage loan and interest (based on the applicable pass-through rate) for the period from the due date of the LPI to the latter of the liquidation or settlement date.

However, if state law requires that the sheriff deduct fees from the sale proceeds, the servicer must remit the proceeds less such deductions to Fannie Mae along with an itemization of the deducted fees.

The servicer must submit a *request for expense reimbursement* for any reimbursable expenses.

The servicer must not submit any sales proceeds that remain after Fannie Mae has been paid the amount it is due — and after the servicer has been reimbursed for its expenses and advances — because these proceeds must be distributed as provided for under local statutory requirements.

Any premium refunds (minus the portion that may be required to reimburse Fannie Mae or the servicer for advances Fannie Mae made) must be disbursed as shown in the following table.

<b>If the mortgage loan is...</b>	<b>Then the payment must be made to the...</b>
FHA	Third-party purchaser
Conventional, VA, or RD	Borrower

For a VA mortgage loan, the servicer must file a claim under the guaranty if the third party’s bid was more than VA’s “upset price,” but less than the total indebtedness. The servicer also may file a claim under FHA’s claim without conveyance procedure for an FHA mortgage loan that was endorsed for insurance on or after November 30, 1983. For additional information, see *Section E0—4.5, Filing MI Claims for Liquidated Properties*.

### **Remitting a Settlement Received for an MBS Mortgage Loan**

The servicer must remit any claim or sales proceeds it receives to Fannie Mae in accordance with E-3.5-01, *Reclassifying or Removing MBS Mortgage Loans Post-Foreclosure* by adhering to the instructions shown in the following table.

<b>✓</b>	<b>The servicer must...</b>
	Immediately deposit the funds into its scheduled/scheduled MBS P&I custodial account.
	Report the receipt of funds in its accounting reports for the current month.
	Remit funds to Fannie Mae on the remittance date in the month following their receipt.

Regardless of whether a claim settlement received is a full or partial settlement, the servicer must purchase the mortgage loan from the MBS pool upon receipt.

If the servicer receives only a partial settlement because the claim is paid in installments (as is the case for FHA claims), the servicer must advance its corporate funds to purchase the mortgage loan from the MBS pool (retaining for its own account the partial settlement as well as all future installments of the claim settlement).

### Determining the Payoff Date for a Scheduled/Scheduled Mortgage Loan

The following table outlines how the servicer must determine the payoff date.

If...	Then...
a scheduled/scheduled remittance type mortgage loan payoff is handled by a settlement attorney or closing agent	the servicer can consider the mortgage loan as being paid off on the settlement (or closing) date, even if it does not receive the funds for several days.
a mortgage loan payoff comes directly from the borrower	the servicer can consider the mortgage loan paid off on the day the servicer receives the funds.

The following table describes the servicer’s responsibilities related to making a first of the month payoff election in accordance with C-3-02, Remitting Payoff Proceeds.

✓	The servicer must...
	Make a first of the month payoff election for all scheduled/scheduled remittance type mortgage loans it services for Fannie Mae.
	Treat all full scheduled/scheduled remittance type payoffs consistent with its election as described below.

In making a first of the month payoff election, any full payoff received on the first business day of a month must consistently be considered as having been either

- received in the prior calendar month, or
- received in the calendar month in which receipt actually occurs.

There is one exception to this rule. If a servicer elects to use the actual date of receipt to determine the pass-through date, it may either

- continue its current practice, or

- make a one-time election to consider such first business day payoffs as being received on the last day of the preceding calendar month.

Payoff of any mortgage loan that is subject to a servicing transfer must be serviced in accordance with the practice of the applicable transferee servicer when processing a payoff received on the first business day of a month.

Treatment of a payoff received on the first business day of the month for any mortgage loan that is subject to subservicing is further explained in the following table.

✓	<b>The subservicer must...</b>
	Make its own first of the month payoff election, rather than following the election of the servicer.
	Choose between either <ul style="list-style-type: none"> <li>• electing one option for all mortgage loans serviced on behalf of Fannie Mae, or</li> <li>• electing an option based on its individual agreement with the servicer for which it is subservicing Fannie Mae mortgage loans.</li> </ul> <p style="text-align: center;"><b>Note:</b> If a subservicer chooses the second option, it must follow that election for all mortgage loans serviced on behalf of that servicer.</p>
	Have written policies and procedures in place for managing the appropriate option(s) selected.

The first day of the month payoff election requirement will apply to all scheduled/scheduled MBS and scheduled/scheduled cash remittance type mortgage loans the servicer is currently servicing for Fannie Mae and may service in the future.

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015



## F-1-32, Reporting a Delinquent Mortgage Loan via HomeSaver Solutions Network (04/08/2015)

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### Introduction

This Servicing Guide Procedure contains the following:

- What to Report for a Delinquent Mortgage Loan
  - When to Report Delinquency Status Information
  - How to Report Delinquent Status Information
  - How to Correct Exceptions
  - Delinquency Status Code File Layout
  - Delinquency Status Code Hierarchy and Definitions
  - Reason for Delinquency Codes
- 

### What to Report for a Delinquent Mortgage Loan

The servicer must report delinquency status information to Fannie Mae through HSSN in accordance with D2-3.2-08, Fannie Mae Streamlined Modification.

For all mortgage loans that are greater than 30 days delinquent, the servicer must advise Fannie Mae of the action it plans to take or has taken until the mortgage loan becomes current (or liquidated) by reporting

- the appropriate delinquency status code that best describes the latest action the servicer has taken to cure a delinquency or, if that failed, to liquidate the mortgage loan. See *Delinquency Status Code Hierarchy and Definitions* for additional information.

**Note:** The reporting of a specific delinquency status code does not relieve the servicer of the need to satisfy other requirements Fannie Mae has regarding providing its Fannie Mae Servicing Representative (see F-4-03, List of Contacts) with advance notice about a given action or requesting Fannie Mae's prior approval before it takes a particular action;



- the effective date of the delinquency status being reported, if applicable (e.g., the month in which mortgage loan payments first become subject to a forbearance or repayment plan or the month in which the borrower files a bankruptcy action, etc.);
- the workout option program type code, if applicable;
- the completion date of the delinquency status being reported, if applicable; and
- the reason for delinquency.

**Note:** Several different “reason for delinquency” codes could apply to an individual mortgage loan; however, the servicer must report the one that appears to be the primary reason for the borrower’s failure to make his or her monthly payments.

The data submitted must be accurate, complete, timely, and must agree with the servicer’s records. Fannie Mae relies on accurate reporting by a servicer to track compliance with timing requirements and restrictions.

The following table indicates what the servicer must report when the mortgage loan was reported to Fannie Mae as delinquent in the prior reporting cycle.

When a mortgage loan was reported in the prior reporting cycle and...	Then the servicer...
none of delinquency status information has changed	must re-transmit the same delinquency status information that it previously reported for the mortgage loan.
the delinquency status information has changed	must report the new delinquency status information.  <b>Note:</b> The servicer must report the delinquency status code; the effective date and completion date of the delinquency status being reported, if applicable; and the “reason for delinquency” code even if only one of them has changed.
a delinquency status code no longer applies because the mortgage loan has been reinstated (and the servicer reported a current	will no longer need to report delinquency status information to Fannie Mae for that mortgage loan.

When a mortgage loan was reported in the prior reporting cycle and...	Then the servicer...
LPI date through Fannie Mae’s investor reporting system)	
a delinquency status code no longer applies because the mortgage loan has been liquidated (and the servicer reported a liquidation action code through Fannie Mae’s investor reporting system)	

**When to Report Delinquency Status Information**

By the second business day of each month, the servicer must report delinquency status information as part of its next scheduled delinquency status report for any mortgage loan, including MBS mortgage loans serviced under the regular servicing option, that was either

- 30 or more days delinquent as of the last day of the preceding month, or
- for which an action was taken to cure the delinquency (such as granting forbearance, agreeing to a mortgage loan modification, filing for bankruptcy, etc.) during the preceding month, even if the mortgage loan was less than 30 days delinquent.

**How to Report Delinquent Status Information**

The servicer is authorized to transmit delinquency status information to Fannie Mae through HSSN or via CPU-to-CPU. The record layout for the servicer’s delinquent mortgage loan file extract must be the same regardless of the transmission method it chooses. See *Delinquency Status Code File Layout* for additional information.

**How to Correct Exceptions**

On approximately the third calendar day of each month, Fannie Mae will provide the following reports related to invalid and illogical reporting of delinquency status and reason codes:

- Delinquency Exception Summary Report - summarizes the types of exceptions for a particular servicer, and
- Delinquency Exception Details Report - provides the loan level details for the various exceptions.

The following table outlines the actions that the servicer must take to reconcile any exceptions identified by Fannie Mae.

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Step	Servicer Action
1	Obtain and review the report.
2	Determine the appropriate corrections to resolve each exception.
3	By the 10th calendar day of the month in which the exception report was issued, make corrections through HSSN.
4	On the 11th calendar day of the month, receive from Fannie Mae <ul style="list-style-type: none"> <li>• an updated final exception report, and</li> <li>• a summary of what was reported during the month.</li> </ul>
5	Use the final exception reports to reconcile the information on its systems.

**Delinquency Status Code File Layout**

The record layout detailed in the following table must be used for the delinquent mortgage loan file extract.

#	Data Element	Position	Format	Required Field	Definition
1	Servicer Number	1-9	9 N / 9(9)	Yes	Fannie Mae- assigned servicer number
2	Space	10	X(1)	Yes	
3	Fannie Mae Loan Number	11-20	10 AN / 9(10)	Yes	10-digit unique Fannie Mae- assigned loan number
4	Space	21	X(1)	Yes	
5	Delinquency Status Code	22-23	2 AN / X(2)	Yes	The latest action or stage of a specific action for a mortgage in each reporting cycle
6	Space	24	X(1)	Yes	
7	Reason for Delinquency Code	25-27	3 AN / X(3)	Yes	Describes the circumstance that appears to be the primary contributing factor to the delinquency
8	Space	28	X(1)	Yes	

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#	Data Element	Position	Format	Required Field	Definition
9	Default Effective Date	29-36	8 N / 9(8)	Required for codes 09, 12, 15, 17, 80, BF and AW.	Date that the delinquency status code becomes effective
10	Space	37	X(1)	Yes	
11	Default Completion Date	38-45	8 N / 9(8)	Required for codes 09, 12, 15, 17 and BF.	Date that the delinquency status was completed
12	Space	46	X(1)	Yes	
13	Forbearance Program Type Coder	47	1 N / X(1)	Required for reporting forbearance program type	Indicates what type of forbearance plan the borrower is on: <ul style="list-style-type: none"> <li>• 0 = Regular Forbearance</li> <li>• 3 = Military Assistance Program or Space (Empty)</li> </ul>
14	Space	48	X(1)	Yes	
15	Imminent Default Indicator	49	1 N / X(1)	Required for reporting when the Forbearance Program Type Code is a value other than 0.	Indicates that the loan has been placed in forbearance because the borrower has been determined to be in imminent default. <ul style="list-style-type: none"> <li>• 1 = YES or</li> <li>• 0 = NO or Space (Empty)</li> </ul>
16	Space	50	X(1)	Yes	
17	Forbearance Program Payment Amount	51 -61	11 N / 9(8).99	Required for reporting forbearance payment amount if the delinquent loan is a	The forbearance program payment amount is the Military Assistance Program amount, NOT the actual amount received.

#	Data Element	Position	Format	Required Field	Definition
				Military Assistance Program	If the value is short of length, prefix with zeros and suffix with zeros after the decimal.
18	Space	62	X(1)	Yes	
19	Forbearance Program Payment Date	63 -70	8 AN / X(1)	Required for reporting forbearance program payment date	Date the forbearance payment was received during the last reporting month
20	Space	71	X(1)	Yes	
21	Ninety Plus New Layout Indicator	72-75	4 AN / X(4)	Required for reporting forbearance program	Enter HSFR if the delinquent loan is a Military Assistance Program.  Enter 4 spaces if the delinquent loan is NOT a Military Assistance Program.
22	Space	76	X(5)	Yes	

### Delinquency Status Code Hierarchy and Definitions

Each of the Delinquency Status Codes in the following tables can be applied to a given mortgage loan at any point in the delinquency process. The codes are not always mutually exclusive; however, the servicer must report only one code (that may change from month to month) based on Fannie Mae’s delinquency status code hierarchy for each delinquent mortgage loan in each reporting cycle.

When multiple delinquency status codes are applicable to an individual loan, the servicer must use the appropriate delinquency status code in the highest priority. Priority Level 1, Priority Level 2, and Priority Level 3 delinquency status codes are mutually exclusive, meaning only one delinquency status code within each priority level can apply during a reporting cycle. If the most appropriate delinquency status code is in a priority level in which the codes are not mutually exclusive, the servicer must determine the delinquency status code that best describes the latest action it has taken to cure the delinquency or to liquidate the mortgage loan.

The servicer must continue to report the appropriate delinquency status code based on the hierarchy and the effective date of the action taken until the delinquency has been resolved or the delinquency status action is complete.

**Note:** If the description does not provide a definition of the effective date, then the servicer must report the date the action was taken.

<b>Priority Level 1</b>		
<b>Codes for Approved Workout Options</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
BF	Trial Modification	<p>The borrower has been approved to participate in a mortgage loan modification that requires a Trial Period Plan, even if the borrower files bankruptcy. This code should remain until all scheduled Trial Period Plan payments have been received and the delinquency status code is changed to reflect the most appropriate status.</p> <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the first day of the month in which the first Trial Period Plan payment is due.</li> <li>• The <b>Completion Date</b> is the last day of the month in which the Trial Period Plan has ended.</li> </ul>
09	Forbearance	<p>The servicer has authorized a temporary suspension of payments or has agreed to accept payments less than the borrower’s scheduled monthly payment for a specified period of time. This includes a mortgage loan that has received forbearance under an HFA program.</p> <p><b>Note:</b> 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 09 (Forbearance), to reflect the mortgage loan’s delinquent status.</p> <p>The servicer must designate <b>Forbearance Program Type Code 3 (Military Assistance Program)</b> for all forbearance plans granted for the following unique hardships:</p> <ul style="list-style-type: none"> <li>• U.S. servicemember injured while on active duty, or</li> <li>• death of a U.S. servicemember while on active duty.</li> </ul>

<b>Priority Level 1</b>		
<b>Codes for Approved Workout Options</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
		<p>– The <b>Effective Date</b> is the next scheduled monthly or biweekly payment (or suspension of payment) under the agreed forbearance, regardless of whether the loan is current or delinquent.</p> <p style="text-align: center;"><b>Note:</b> The Effective Date may not be the next payment due date on the loan in all instances.</p> <p>– For <b>Forbearance Programs where the Program Code is not equal to 0</b>, the <b>Effective Date</b> is the first day of the month in which the first payment is received.</p> <p>– The <b>Completion Date</b> is the last scheduled payment date.</p>
17	Short Sale Approved/ Offer Received	<p>A contract or offer has been received for a short sale and Fannie Mae has approved the offer.</p> <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date on which the contract or offer is received.</li> <li>• The <b>Completion Date</b> is the anticipated closing date.</li> </ul>
12	Repayment Plan	<p>The servicer has an agreement with the borrower for the acceptance of regularly scheduled monthly payments plus an additional amount over a prescribed number of months to bring the mortgage loan current.</p> <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the first scheduled monthly or biweekly payment due under the repayment plan.</li> <li>• The <b>Completion Date</b> is the last scheduled payment date.</li> </ul>
27	Assumption	<p>An assumption of the mortgage loan debt has been assumed by a third-party. In this scenario, a Trial Period</p>

<b>Priority Level 1</b>		
<b>Codes for Approved Workout Options</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
		Plan or mortgage loan modification has not been offered to the new borrower.  <b>Note:</b> If an assumption is completed with a modification, the servicer must report either the Trial Period Plan or Modification code.
28	Modification	The borrower has successfully completed all scheduled mortgage modification Trial Period Plan payments and the Loan Modification Agreement has been sent to the borrower. This code should remain until the loan has been converted to a permanent modification.
29	Charge-off	Fannie Mae has agreed that it is not in its best interests to pursue collection efforts or legal actions against the borrower because of a reduced value for the property, a low outstanding mortgage loan balance, or the presence of certain environmental hazards on the property.
32	Military Indulgence	The servicer has granted a delinquent servicemember a stay of foreclosure proceedings under a military indulgence or any similar applicable law.
44	Mortgage Release	Fannie Mae authorized the servicer to accept a voluntary conveyance of the property instead of acquiring the property through foreclosure proceedings.

<b>Priority Level 2</b>		
<b>Complete Borrower Response Package</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
H5	Complete Borrower Response Package	The completed BRP has been received. This code must only be reported in the month the complete BRP is received. If an approved workout option (Level 1) was established in the same reporting cycle in which the complete BRP was received, the servicer must report the appropriate workout delinquency status code.



Priority Level 2		
Complete Borrower Response Package		
Code	Name	Definition
		<ul style="list-style-type: none"> <li>The <b>Effective Date</b> is the date that the completed workout package is received.</li> </ul>

Priority Level 3		
Bankruptcy –related Codes		
Code	Name	Definition
3L	Bankruptcy Chapter 7 – Asset Case	Notification to Fannie Mae that the Chapter 7 bankruptcy will remain in effect longer than normal due to trustee-found assets.
3M	Bankruptcy – Property Surrendered	The property has been surrendered as part of the bankruptcy.
59	Chapter 12 Bankruptcy	The borrower has filed for bankruptcy under Chapter 12 of the U.S. Bankruptcy Code.
65	Chapter 7 Bankruptcy	<p>The borrower has filed for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code.</p> <p><b>Note:</b> If the Chapter 7 is an Asset Case, the servicer must report the delinquency status code – 3L.</p>
66	Chapter 11 Bankruptcy	The borrower has filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.
67	Chapter 13 Bankruptcy	The borrower has filed for bankruptcy under Chapter 13 of the U.S. Bankruptcy Code. The Chapter 13 has not been confirmed by the bankruptcy court.
69	Chapter 13 Bankruptcy Plan – Post-Petition Period Utilize	<p>The Chapter 13 plan has been confirmed by the bankruptcy court.</p> <ul style="list-style-type: none"> <li>The <b>Effective Date</b> is the first month after the month in which the plan is confirmed.</li> </ul>

<b>Priority Level 4</b>		
<b>Foreclosure-related Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
20	Reinstatement	The servicer has accepted funds from a borrower on a mortgage loan that is in foreclosure to be applied to the loan to partially reinstate the mortgage loan.
24	Drug Seizure	The Department of Justice (or any other state or federal agency) has decided to seize (or has seized) a property under the forfeiture provision of the Controlled Substances Act.
30	Third-Party Sale	A successful third-party bidder was awarded the property at the foreclosure sale.
31	Probate	The servicer cannot pursue (or complete) foreclosure action because proceedings relating to a deceased borrower's estate are in process. This code must be reported until probate is resolved.
33	Contested or Litigated Foreclosure	The file is in a contested or litigated foreclosure status and is pending resolution. <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date on which the answer to the complaint was filed or litigation was engaged.</li> </ul>
43	Foreclosure	The servicer has referred the case to an attorney (or trustee) to take legal action to acquire the property through a foreclosure sale.
61	Second Lien Considerations	Applies to a second-lien mortgage loan to indicate that the servicer is evaluating the advantages and disadvantages of pursuing a foreclosure action or recommending that the debt be charged off.
62	Veterans Affairs—"No-Bid"	The Department of Veterans Affairs refused to establish an "upset price" to be bid at the foreclosure sale for a VA-guaranteed mortgage loan that the servicer had referred for foreclosure.
63	Veterans Affairs—Refund	The Department of Veterans Affairs has requested information about a VA-guaranteed mortgage loan the servicer referred for foreclosure in order to reach a decision about whether to accept an assignment for purposes of refunding the mortgage loan to avoid foreclosure.

<b>Priority Level 4</b>		
<b>Foreclosure-related Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
64	Veterans Affairs— Buydown	Fannie Mae has agreed to make a cash contribution to reduce the outstanding indebtedness of a VA-guaranteed mortgage loan for which the Department of Veterans Affairs failed to establish an “upset price” bid for the foreclosure sale in order to get the VA to reconsider its decision about establishing an “upset price.”
71	Foreclosure Sale Scheduled	The foreclosure sale is scheduled. <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date on which the foreclosure sale is initially scheduled to occur.</li> </ul>
94	Judgment or Decree Entered	The mortgage loan is in foreclosure and the judgment or decree has been entered. The code should remain until the foreclosure sale is scheduled.
95	Foreclosure Sale Continued	The foreclosure sale was delayed as a result of postponement, attorney delay, or other reason.
BE	Title Issue in Progress	The foreclosure proceedings are delayed due to title issues and are pending resolution.
BG	Pre-File Mediation/ Mediation	The mortgage loan has been referred to mediation. For loans that have been previously referred to an attorney for foreclosure, this code must not be used until the servicer is notified by the attorney that the loan has been referred to mediation. Once notified of the referral to mediation, this code must then replace the existing status code.

<b>Priority Level 5</b>		
<b>Collection-related Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
AW	Quality Right Party Contact	Quality Right Party Contact has been established but the servicer has not identified a specific solution for resolving the borrower’s delinquency. This code must only be reported for one month. <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date that the Quality Right Party Contact was established.</li> </ul>

<b>Priority Level 5</b>		
<b>Collection-related Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
15	Short Sale Approved/ Marketing Property	<p>The borrower has been approved to participate in a short sale and is actively marketing the property, but an offer has not yet been received or the borrower is making reduced or suspended payments during a short sale marketing period.</p> <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date the borrower has been approved to participate in a short sale.</li> <li>• The <b>Completion Date</b> is the anticipated ending date of the property listing.</li> </ul>
42	Delinquent, No Action	<p>The mortgage loan is 30+ days delinquent, but the servicer has not taken legal action or the servicer is unable to contact a borrower who may have been impacted by a disaster and the servicer has decided to grant the borrower disaster relief while attempting to establish contact to ascertain the facts. The servicer must then report this code until the servicer is able to establish QRPC and determine an appropriate course of action.</p>
80	Breach Letter Sent	<p>The breach or acceleration letter has been sent and the mortgage loan has not yet been referred to an attorney (or trustee) for foreclosure proceedings.</p> <ul style="list-style-type: none"> <li>• The <b>Effective Date</b> is the date on which the breach letter was sent.</li> </ul>

<b>Priority Level 6</b>		
<b>Other Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
26	Refinance	<p>The servicer is aware that the borrower is pursuing an arrangement whereby the existing first-lien mortgage loan will be refinanced (paid off).</p> <p><b>Note:</b> This code must only be reported for one month.</p>

<b>Priority Level 6</b>		
<b>Other Codes</b>		
<b>Code</b>	<b>Name</b>	<b>Definition</b>
49	Assignment	A mortgage loan is in the process of being assigned to the insurer or guarantor.

### Reason for Delinquency Codes

<b>Code</b>	<b>Name</b>	<b>Definition</b>
001	Death of Borrower	The delinquency is attributable to the death of a borrower.
002	Illness of Borrower	The delinquency is attributable to a prolonged illness that keeps a borrower from working and generating income.
003	Illness of Borrower's Family Member	The delinquency is attributable to the borrower having incurred extraordinary expenses as the result of the illness of a family member (or having taken on the sole responsibility for repayment of the mortgage debt as the result of the co-borrower's illness).
004	Death of Borrower's Family Member	The delinquency is attributable to the borrower having incurred extraordinary expenses as the result of the death of a family member (or having taken on the sole responsibility for repayment of the mortgage debt as the result of the co-borrower's death).
005	Marital Difficulties	The delinquency is attributable to problems associated with a separation or divorce, such as a dispute over ownership of the property, a decision not to make payments until the divorce settlement is finalized, a reduction in the income available to repay the mortgage debt.
006	Curtailement of Income	The delinquency is attributable to a reduction in the borrower's income, such as a garnishment of wages, a change to a lower paying job, reduced commissions or overtime pay, loss of a part- time job.
007	Excessive Obligations	The delinquency is attributable to the borrowers having incurred excessive debts (either in a single instance or as a matter of habit) that prevent him or her from making payments on both those debts and the mortgage debt.

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<b>Code</b>	<b>Name</b>	<b>Definition</b>
008	Abandonment of Property	The delinquency is attributable to the borrower having abandoned the property for reason(s) that are not known by the servicer (because the servicer has not been able to locate the borrower).
009	Distant Employment Transfer	The delinquency is attributable to a borrower being transferred or relocated to a distant job location and incurring additional expenses for moving and housing in the new location, which affects his or her ability to pay both those expenses and the mortgage debt.
011	Property Problem	The delinquency is attributable to the condition of the improvements or the property (for example, substandard construction, expensive and extensive repairs needed, subsidence of sinkholes on property, impaired rights of ingress and egress.) or the borrower's dissatisfaction with the property or the neighborhood.
012	Inability to Sell Property	The delinquency is attributable to the borrower(s) having difficulty in selling the property.
013	Inability to Rent Property	The delinquency is attributable to the borrower(s) needing rental income to make the monthly payments and having difficulty in finding a tenant for a one-unit investment property or for one or four- unit property.
014	Military Service	The delinquency is attributable to a borrower having entered active duty status and his or her military pay not being sufficient to enable the continued payment of the existing mortgage debt.
015	Other	The delinquency is attributable to reasons that are not otherwise included in this list of applicable codes.
016	Unemployment	Use this code <ul style="list-style-type: none"> <li>• to indicate that the delinquency is attributable to a reduction in income resulting from a borrower having lost his or her job,</li> <li>• for any period of HFA unemployment mortgage assistance, or</li> </ul>

Code	Name	Definition
		<ul style="list-style-type: none"> <li>if the borrower is approved for unemployment forbearance, even if there are multiple reasons for delinquency</li> </ul>
017	Business Failure	The delinquency is attributable to a self-employed borrower having a reduction in income and/or excessive obligations that are the direct result of the failure of his or her business to remain a viable entity or, at least, to generate sufficient profit that the borrower can rely on to meet his or her personal obligations.
019	Casualty Loss	The delinquency is attributable to the borrower(s) having incurred a sudden, unexpected property loss as a result of fire, storm, theft, earthquake or flood.
022	Energy-Environment Costs	The delinquency is attributable to the borrower having incurred excessive energy-related costs or costs associated with the removal of environmental hazards in, on, or near the property.
023	Servicing Problems	The delinquency is attributable to the borrower(s) being dissatisfied with the way the servicer is servicing the mortgage loan or with the fact that servicing of the mortgage loan has been transferred to a new servicer.
026	Payment Adjustment	The delinquency is attributable to the borrower(s) being unable to make a new payment that resulted from an increase related to a scheduled payment change for a graduated-payment or adjustable-rate mortgage loan; increased monthly escrow accruals that are needed to pay higher taxes, insurance premiums, or special assessments; or the spreading of the amount needed to repay an escrow shortage over the next year.
027	Payment Dispute	The delinquency is attributable to a disagreement between the borrower and the servicer about the amount of the monthly payment, the acceptance of a partial payment, or the application of previous payments that results in the borrower's refusal to make the payment(s) until the dispute is resolved.
029	Transfer of Ownership Pending	The delinquency is attributable to the borrower's having agreed to sell the property and deciding not to make any additional payments.

<b>Code</b>	<b>Name</b>	<b>Definition</b>
030	Fraud	The delinquency is attributable to a legal dispute arising out of a fraudulent or illegal action that occurred in connection with the origination of the mortgage loan (or later).
031	Unable to Contact Borrower	The reason for the delinquency cannot be ascertained because the borrower cannot be located or has not responded to the servicer's inquiries.
INC	Incarceration	The delinquency is attributable to a borrower having been jailed or imprisoned (regardless of whether he or she is still incarcerated).

The table below provides references to the Announcements that have been issued that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015





## **F-1-33, Reporting a Workout Option via HomeSaver Solutions Network (11/12/2014)**

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### **Introduction**

This Servicing Guide Procedure contains the following:

- Reporting a Combination of a Forbearance Plan and Repayment Plan to Fannie Mae
  - Reporting a Non-HAMP Mortgage Loan Modification to Fannie Mae
  - Reporting a Conversion of a Streamlined Modification to a HAMP Modification
  - Reporting a HAMP Modification to Fannie Mae
  - Reporting a 2MP Modification to Fannie Mae
  - Reporting a Government Mortgage Loan Modification to Fannie Mae
  - Reporting a Short Sale to Fannie Mae
  - Reporting a Mortgage Release to Fannie Mae
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### **Reporting a Combination of a Forbearance Plan and Repayment Plan to Fannie Mae**

The servicer must evaluate a borrower for a workout option in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

When the servicer structures a combination of workout options in an agreement that includes forbearance and a repayment plan, it must report the workout option to Fannie Mae as follows:

- Use a forbearance plan code during the forbearance period (when monthly payments are reduced or suspended).
  - Use a repayment plan code during the repayment period (when regular monthly payments have resumed and additional payments are scheduled to be made to cure the delinquency).
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### **Reporting a Non-HAMP Mortgage Loan Modification to Fannie Mae**

The servicer must evaluate a borrower for Fannie Mae's mortgage loan modification options in accordance with Fannie Mae's *Servicing Guide*.

The following table outlines the required servicer actions to report a Fannie Mae Standard Modification, Streamlined Modification, Streamlined Modification Post Disaster Forbearance, or Cap and Extend Modification for Disaster Relief to Fannie Mae.

Step	Servicer Action
1	Submit a case into HSSN by entering loan-level information, including <ul style="list-style-type: none"> <li>• a property valuation, and</li> <li>• the applicable campaign ID to identify the mortgage loan modification program under which the case is being submitted.</li> </ul>
2	Report loan-level data in HSSN upon receipt of the borrower’s first Trial Period Plan payment and all subsequent Trial Period Plan payments under the Trial Period Plan.  If the borrower makes all required Trial Period Plan payments, continue to step 3. If not, cancel the case in HSSN and do not continue to step 3.
3	After application of all Trial Period Plan payments made by the borrower, the servicer must represent and warrant in HSSN that once the sum of payments totals 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.
4	After Fannie Mae’s prior written approval is obtained, if required, and the MBS mortgage loan is reclassified, if applicable, the servicer will update the Officer Signature Date in HSSN to close the mortgage loan modification.  <p><b>Note:</b> If the pre-modification UPB or the pre-modification LPI reported in HSSN for the closed mortgage loan modification does not agree with the pre-modification UPB or LPI in Fannie Mae’s investor reporting system, the mortgage loan modification will not be processed in Fannie Mae’s investor reporting system until the discrepancy is resolved.</p>

### Reporting a Conversion of a Streamlined Modification to a HAMP Modification

The servicer must process a Fannie Mae Streamlined Modification in accordance with D2-3.2-08, Fannie Mae Streamlined Modification.

The servicer must follow the process indicated through the servicer web portal accessible on HMPAdmin.com for reporting a mortgage loan converted from a Fannie Mae Streamlined Modification Trial Period Plan to a permanent Fannie Mae HAMP modification.

### Reporting a HAMP Modification to Fannie Mae

The servicer must evaluate a borrower for a HAMP modification in accordance with D2-3.2-07, Fannie Mae HAMP Modification.

The following table outlines the required servicer actions to report a HAMP modification to Fannie Mae.

Step	Servicer Action
1	Submit a case into HSSN once the servicer has received a complete BRP and determined that the borrower is eligible for a HAMP modification by entering loan-level information.
2	Report loan-level data in HSSN upon receipt of the borrower's first Trial Period Plan payment and all subsequent Trial Period Plan payments under the Trial Period Plan.  If the borrower makes all required Trial Period Plan payments, continue to step 3. If not, cancel the case in HSSN and do not continue to step 3.
3	After application of all Trial Period Plan payments made by the borrower, the servicer must represent and warrant in HSSN that once the sum of payments totals 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.
4	After Fannie Mae's prior written approval is obtained, if required, and the MBS mortgage loan is reclassified, if applicable, the servicer will update the Officer Signature Date in HSSN to close the mortgage loan modification.

### Reporting a 2MP Modification to Fannie Mae

The servicer must evaluate a borrower for a 2MP mortgage loan modification in accordance with D2-3.2-12, Fannie Mae 2MP Modification.

The following table outlines the required servicer actions to report a 2MP modification to Fannie Mae.

Step	Servicer Action
1	Submit a case into HSSN once the servicer has received a complete BRP and determined that the borrower is eligible for a HAMP modification by entering loan-level information.

Step	Servicer Action
2	Report loan-level data in HSSN upon receipt of the borrower's first Trial Period Plan payment and all subsequent Trial Period Plan payments under the Trial Period Plan.  If the borrower makes all required Trial Period Plan payments, continue to step 3. If not, cancel the case in HSSN and do not continue to step 3.
3	After application of all Trial Period Plan payments made by the borrower, the servicer must represent and warrant in HSSN that once the sum of payments totals 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.
4	After Fannie Mae's prior written approval is obtained, if required, and the MBS mortgage loan is reclassified, if applicable, the servicer will update the Officer Signature Date in HSSN to close the mortgage loan modification.

### Reporting a Government Mortgage Loan Modification to Fannie Mae

For a government mortgage loan, the servicer must evaluate a borrower for and complete a mortgage loan modification in accordance with D2-3.2-06, Government Mortgage Loan Modifications.

The following table outlines the requirements to report a government mortgage loan modification to Fannie Mae.

Step	Servicer Action
1	Obtain a signed <a href="#">Form 181</a> from the borrower(s) and any co-makers or endorsers of the note.
2	Have its authorized representative sign the completed <a href="#">Form 181</a> to indicate the servicer's approval of the mortgage loan modification or extension.
3	Submit the information pertaining to the mortgage loan modification as a case in HSSN, and upload the executed <a href="#">Form 181</a> .  <b>Note:</b> If Fannie Mae notifies the servicer of any discrepancies between the information entered into HSSN and Fannie Mae's investor reporting system, continue with steps 3 and 4.
4	Work with Fannie Mae to identify the proper corrective action required to resolve the issue(s).

Step	Servicer Action	
	<b>If the servicer determines that...</b>	<b>Then, the servicer must...</b>
	the data entered into HSSN was incorrect	<ul style="list-style-type: none"> <li>cancel the case in HSSN,</li> <li>correct the date, and</li> <li>resubmit a case via HSSN.</li> </ul>
	the data reported through the Loan Activity Report was inaccurate	submit a corrected LAR.
5	Notify Fannie Mae when it has completed the appropriate corrective action.	
	<p><b>Note:</b> Fannie Mae will then resolve the error in its investor reporting system. The servicer can confirm that the investor reporting system accurately applied the modified terms after the error is resolved.</p>	

### Reporting a Short Sale to Fannie Mae

The servicer must evaluate a borrower for a short sale in accordance with D2-3.3-01, Fannie Mae Short Sale.

The following table outlines the required servicer actions to report a Fannie Mae short sale to Fannie Mae as a delegated case.

Step	Servicer Action
1	Report the completion of the short sale to Fannie Mae through HSSN once the servicer receives the final signed HUD-1, the net sales proceeds, any cash contributions, and the executed promissory note, if applicable.
2	<p>Within five business days after the sale, forward to Fannie Mae's REAM Division (see F-4-03, List of Contacts) the following:</p> <ul style="list-style-type: none"> <li>a copy of the HUD-1, and</li> <li>a copy of the claim for loss that was filed with the mortgage insurer, if applicable.</li> </ul>

The following table lists the Comment Codes that the servicer must provide in the Servicer General Comment section in HSSN, as applicable.

<b>If...</b>	<b>Then the servicer must enter Comment Code...</b>
the mortgage loan is current or less than 31 days delinquent	“IMDEF”
the borrower was approved for Streamlined Documentation	“LFICO”
the borrower had a hardship related to Permanent Change of Station	“PCSMOVE”
the borrower was approved for a relocation incentive	“RELOINC”

**Note:** The servicer must enter the Comment Codes using upper case letters only, first in the Servicer General Comment section before other comments relating to the workout are entered, in the order shown in the table above; and side-by-side with one space between codes, as applicable. Do not use commas or other punctuation to separate codes.

Also, the servicer must see the *Investor Reporting Manual* for detailed requirements on how to report to Fannie Mae’s investor reporting system.

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### Reporting a Mortgage Release to Fannie Mae

The servicer must evaluate a borrower and execute a Mortgage Release in accordance with D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

The servicer must report the acceptance of the executed deed to Fannie Mae through HSSN within 24 hours of receipt.

**Note:** The servicer must submit the case into HSSN, regardless of the transition option chosen, to complete its final acceptance of the Mortgage Release.

The following table lists the Comment Codes that the servicer must provide in the Servicer General Comment section in HSSN, as applicable.

<b>If...</b>	<b>Then the servicer must enter Comment Code...</b>
the mortgage loan is current or less than 31 days delinquent	“IMDEF”

If...	Then the servicer must enter Comment Code...
the borrower was approved for Streamlined Documentation	“LFICO”
the borrower had a hardship related to Permanent Change of Station	“PCSMOVE”
the borrower was approved for a relocation incentive	“RELOINC”

**Note:** The servicer must enter the Comment Codes using upper case letters only, first in the Servicer General Comment section before other comments relating to the workout are entered, in the order shown in the table above; and side-by-side with one space between codes, as applicable. Do not use commas or other punctuation to separate codes.

Also, the servicer must see the *Investor Reporting Manual* for detailed requirements on how to report to Fannie Mae’s investor reporting system.



## **F-1-34, Reporting to Third Parties (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Reporting to Credit Repositories
- Reporting to the IRS

### **Reporting to Credit Repositories**

#### **Establishing a Relationship with a Credit Repository**

When initially establishing a relationship with a credit repository, the servicer must indicate the relationship is being established in compliance with Fannie Mae’s requirements. The following table provides a list of major credit repositories in accordance with C-4.1-01, Notifying Credit Repositories.

<b>Credit Repositories</b>
Equifax Information Services
Experian Information Solutions Automated Media Control (AMC)
Innovis Data Solutions
Trans Union Corporation

### Reporting to a Credit Repository for a Short Sale or a Mortgage Release

The servicer must report a short sale or Mortgage Release to credit repositories in accordance with C-4.1-01, Notifying Credit Repositories.

The following table lists all items that must be reported upon closing of a short sale.

✓	<b>The servicer must report...</b>
	An account status code 13 (Paid or closed / zero balance).
	A payment rating code 0, 1, 2, 3, 4, 5, or 6 that properly identifies whether the account is current or past due within the activity period being reported prior to completion of the short sale.
	A special comment code “AU” to identify the short sale in the final month of credit bureau reporting in which the status code 13 is reported.
	A current balance of \$0.
	An amount past due of \$0.
	The date the short sale closed (MMDDYY).
	The date of the last payment (MMDDYY).

The following table lists all the items that must be reported upon the completion of a Mortgage Release.

✓	<b>The servicer must report...</b>
	An account status code 89.
	A payment rating code 0, 1, 2, 3, 4, 5, or 6 that properly identifies whether the account is current or past due within the activity period being reported prior to completion of the Mortgage Release.
	A current balance of \$0.
	An amount past due of \$0.



✓	<b>The servicer must report...</b>
	The date the Mortgage Release closed (MMDDYY).
	The date of the last payment (MMDDYY).

## Reporting to the IRS

### Filing an IRS Form 1099–A, 1099–C or 1099–MISC

The following table describes the servicer’s requirements for reporting information to the IRS in accordance with C-4.2-01, Filing IRS Forms 1099-A, 1099-C and 1099–MISC.

✓	<b>The servicer must...</b>
	File an information return with the IRS (using its own name and employer’s tax identification number), if it receives \$600 or more of mortgage loan interest payments from the borrower for a calendar year.
	Notify the borrower of the amount of interest it received and reported to the IRS.
	File <i>IRS Form 1099–MISC</i> to report all fees it paid to foreclosure or bankruptcy attorneys for foreclosure and bankruptcy proceedings.

### Reporting to the IRS on Magnetic Media

To ensure that Fannie Mae can identify the servicer and specific mortgage loan numbers if the IRS contacts Fannie Mae for additional information or clarification, Fannie Mae requires the servicer to perform the actions listed in the following table in accordance with *Reporting via Magnetic Media* in C-4.2-01, Filing IRS Forms 1099-A, 1099-C and 1099–MISC.

✓	<b>The servicer must...</b>
	<p>Insert the following header information when the <i>IRS Form 1099–A</i> is filed on Fannie Mae’s behalf:</p> <ul style="list-style-type: none"> <li>• Fannie Mae on the first “Payer” line and the 10–digit Fannie Mae loan number (or MBS pool number), followed by one space, and</li> <li>• the 9–digit identification number Fannie Mae assigned to the servicer, on the line for the “Payer’s account number for Payee.”</li> </ul>
	Submit a <i>Summary of IRS For 1099–A and 1099–C Filing (Form 1100)</i> to notify Fannie Mae that it reported to the IRS on magnetic media.



## **F-1-35, Requesting Fannie Mae's Approval via HomeSaver Solutions (11/12/2014)**

### **Introduction**

This Servicing Guide Procedure contains the following:

- Requesting Approval for the Assumption of a Delinquent Conventional Mortgage Loan
- Requesting Approval for a Workout Option for a New Property Owner
- Requesting Approval for a Non-Delegated Mortgage Release Case
- Requesting Approval for a Mortgage Release for a Second Lien Mortgage Loan
- Requesting Approval for a Charge-Off of a Second Lien Mortgage Loan
- Requesting Approval for a VA No-Bid Buydown
- Requesting Approval for a Non-Delegated Short Sale Case

### **Requesting Approval for the Assumption of a Delinquent Conventional Mortgage Loan**

The servicer must evaluate a request for an assumption of a delinquent conventional mortgage loan that includes a due-on-sale (or due-on-transfer) provision in accordance with *Allowing a Delinquent Mortgage Loan to be Assumed* in D1-4.2-02, Conventional Mortgage Loans That Include a Due- on-Sale (or Due-on-Transfer) Provision.

To determine whether Fannie Mae is will waive the enforcement of the due-on-sale (or due-on-transfer) provision and approve the assumption, the servicer must provide through HSSN the information described in the following table.

✓	<b>The servicer must provide through HSSN...</b>
	A description of the borrower's financial circumstances.
	The property market value analysis from an appraisal or an interior BPO.
	Information about any conditions of the mortgage insurer's approval, if applicable.
	The servicer's recommendation to waive the due-on-sale (or due-on-transfer) provision and permit the assumption based on the creditworthiness of the prospective purchaser.

Fannie Mae will work with the servicer and the mortgage insurer, if applicable, to determine the exact terms of the assumption, including any contributions that must be made by the borrower or the prospective purchaser.

Fannie Mae will not approve an assumption if the mortgage loan has subordinate financing unless arrangements are made to pay off the subordinate lien(s).

**Note:** The servicer does not need to make any changes to its monthly investor reporting system reports to reflect mortgage assumptions for portfolio mortgage loans.

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### Requesting Approval for a Workout Option for a New Property Owner

The servicer must request Fannie Mae’s approval for any workout option it determines is appropriate for a new property owner in accordance with D1-4.1-02, Allowable Exemptions Due to the Type of Transfer. The servicer must comply with the requirements shown in the following table.

✓	<b>Servicer Action</b>
	Submit the case into HSSN under the recommended workout option.
	Indicate in the case comments section the case is associated with a transfer of ownership or an assumption.

Fannie Mae will determine the terms of the workout and any related assumption.

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### Requesting Approval for a Non-Delegated Mortgage Release Case

The servicer must evaluate a borrower for a Mortgage Release in accordance with D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure).

The following table outlines the required servicer actions to request Fannie Mae’s prior written approval for a Mortgage Release as a non-delegated case.

<b>Step</b>	<b>Servicer Action</b>
1	Transmit through HSSN <ul style="list-style-type: none"> <li>• a description of the borrower's financial circumstances,</li> <li>• a property valuation,</li> </ul>

Step	Servicer Action						
	<ul style="list-style-type: none"> <li>• general summary information about satisfaction of the eligibility criteria for Mortgage Release,</li> <li>• an indication of whether the borrower can make a cash contribution to reduce Fannie Mae's loss (or is willing to execute a promissory note for the amount of any required contribution), and</li> <li>• its recommendation to Fannie Mae.</li> </ul>						
2	Obtain Fannie Mae's decision regarding the Mortgage Release through HSSN. Fannie Mae will make its decision available shortly after Fannie Mae receives the servicer's recommendation.						
	<table border="1"> <thead> <tr> <th>If...</th> <th>Then the servicer must...</th> </tr> </thead> <tbody> <tr> <td>Fannie Mae approves the Mortgage Release</td> <td>continue to step 3.</td> </tr> <tr> <td>Fannie Mae denies the Mortgage Release and instructs the servicer to continue with foreclosure</td> <td>report the initiation of foreclosure in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision. Do not continue to step 3.</td> </tr> </tbody> </table>	If...	Then the servicer must...	Fannie Mae approves the Mortgage Release	continue to step 3.	Fannie Mae denies the Mortgage Release and instructs the servicer to continue with foreclosure	report the initiation of foreclosure in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision. Do not continue to step 3.
If...	Then the servicer must...						
Fannie Mae approves the Mortgage Release	continue to step 3.						
Fannie Mae denies the Mortgage Release and instructs the servicer to continue with foreclosure	report the initiation of foreclosure in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision. Do not continue to step 3.						
3	Obtain the letter including the terms and conditions of Fannie Mae's decision about acceptance of the Mortgage Release through HSSN.						
4	Have its attorney prepare the deed of conveyance and file a claim with the insurer or guarantor. Also see E-4.2-01, Completing Conveyance Documents.						
5	File a claim with the insurer or guarantor, if applicable.						

### Requesting Approval for a Mortgage Release for a Second Lien Mortgage Loan

The servicer must evaluate a borrower of a second lien mortgage loan for a Mortgage Release in accordance with D2-3.4-02, Offering a Mortgage Release (Deed-in-Lieu of Foreclosure) for a Second Lien Mortgage Loan.

The following table outlines the required servicer actions to request Fannie Mae's prior written approval for a Mortgage Release.

Step	Servicer Action
1	Transmit the following through HSSN: <ul style="list-style-type: none"> <li>• a description of the borrower's financial circumstances,</li> </ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• a property valuation,</li> <li>• general summary information about satisfaction of the eligibility criteria for a Mortgage Release,</li> <li>• an indication of whether the borrower can make a cash contribution to reduce Fannie Mae's loss (or is willing to execute a promissory note for the amount of any required contribution),</li> <li>• an analysis of the first lien mortgage loan servicer's intentions and the possibility of recovery on the second lien mortgage loan if the mortgage loan is a second lien mortgage loan and Fannie Mae does not have an interest in the first lien mortgage loan, and</li> <li>• its recommendation.</li> </ul> <p><b>Note:</b> If the borrower has non-retirement liquid assets greater than \$50,000, the servicer must specify that when it submits the case. specifically, the servicer must enter the dollar amount, as applicable, in the "assets" field in HSSN.</p>
2	Obtain the letter including the terms and conditions of Fannie Mae's decision about acceptance of the Mortgage Release through HSSN. This letter will be available shortly after Fannie Mae receives the servicer's recommendation.
3	Have its attorney prepare the deed of conveyance and file a claim with the insurer or guarantor. Also see E-4.2-01, Completing Conveyance Documents.

### Requesting Approval for a Charge-Off of a Second Lien Mortgage Loan

The servicer must evaluate a second lien mortgage loan for a charge-off in accordance with D2-3.4-03, Charging Off a Second Lien Mortgage Loan.

Fannie Mae's decision on whether or not to charge off the second lien mortgage loan debt will depend on the circumstances outlined in the following table.

If...	Then...
Fannie Mae has an interest in both the first and second lien mortgage loans	Fannie Mae may choose to consolidate the two mortgage loans and modify the borrower's payments instead of charging off the debt.

If...	Then...
Fannie Mae does not have an interest in the first lien mortgage loan	Fannie Mae may decide to either <ul style="list-style-type: none"> <li>• pursue a workout for the second lien mortgage loan,</li> <li>• pay off the first lien mortgage loan and foreclose the second lien mortgage loan, or</li> <li>• charge off the second lien mortgage loan debt.</li> </ul>

The following table outlines the required servicer actions to request Fannie Mae’s prior written approval for the charge-off of a second lien mortgage loan.

Step	Servicer Action
1	Measure Fannie Mae’s outstanding debt against <ul style="list-style-type: none"> <li>• the estimated cost of continued collection efforts;</li> <li>• the estimated cost of any required legal actions;</li> <li>• the status, UPB, and ownership of the first lien mortgage loan;</li> <li>• the mortgage insurer’s policy regarding the filing of an insurance claim when the debt is abandoned (if the mortgage loan is insured);</li> <li>• the condition of the property and the estimated market value for the property; and</li> <li>• the borrower’s ability to reinstate the mortgage loan(s).</li> </ul>
2	If, based on the results of step 1 above, the servicer still recommends a charge-off, submit its recommendation through HSSN.
3	Obtain the letter including the terms and conditions of Fannie Mae's decision about charging-off the mortgage loan through HSSN. This letter will be available shortly after Fannie Mae receives the servicer’s recommendation.

### Requesting Approval for a VA No-Bid Buydown

The servicer must evaluate a request for a VA no-bid buydown in accordance with *Evaluating VA No-bid Buydowns* in E-3.3-04, Issuing Bidding Instructions.

To request Fannie Mae’s approval of a VA no-bid buydown, the servicer must transmit items listed in the following table to Fannie Mae through HSSN.

✓	<b>The servicer must provide through HSSN...</b>
	The date of the foreclosure sale.
	Information about any other factors that might affect Fannie Mae’s decision.
	The servicer’s recommendation.

A letter including terms and conditions of Fannie Mae’s decision about the VA no-bid buydown will be available to the servicer through HSSN shortly after Fannie Mae receives the servicer’s recommendation.

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### Requesting Approval for a Non-Delegated Short Sale Case

The servicer must evaluate a borrower for a short sale in accordance with D2-3.3-01, Fannie Mae Short Sale.

The following table outlines the required servicer actions to request Fannie Mae’s prior written approval for a short sale as a non-delegated case.

<b>Step</b>	<b>Servicer Action</b>
1	<p>Submit the following through HSSN:</p> <ul style="list-style-type: none"> <li>• a description of the borrower’s financial circumstances,</li> <li>• a property market value analysis,</li> <li>• the specifics about the purchase offer, and</li> <li>• the servicer’s recommendation to Fannie Mae.</li> </ul> <p><b>Note:</b> If the borrower has non-retirement liquid assets greater than \$50,000, the servicer must specify that when it submits the case. Specifically, the servicer must enter the dollar amount, as applicable, in the “assets” fields in HSSN.</p>
2	Send the same information submitted through HSSN and any required documentation to the mortgage insurer by overnight mail delivery (whenever possible).

Step	Servicer Action
	<p><b>Note:</b> Fannie Mae and the mortgage insurer must be notified of a sales offer immediately and simultaneously to avoid jeopardizing Fannie Mae’s claim under the mortgage insurance contract.</p>
3	<p>Obtain the letter including the terms and conditions of Fannie Mae’s decision through HSSN. This letter will be available shortly after Fannie Mae receives the servicer’s recommendation.</p>



## F-1-36, Reclassifying an MBS Mortgage Loan (11/12/2014)

### Introduction

This Servicing Guide Procedure contains the following:

- General Information Regarding Reclassifying an MBS Mortgage Loan
- Reviewing and Deselecting a Mortgage Loan from Reclassification
- Reclassifying a Pooled from Portfolio Mortgage Loan
- Reporting a Reclassified Mortgage Loan
- Reclassifying an MBS Mortgage Loan for Forbearance
- Reclassifying an MBS Mortgage Loan for a Repayment Plan
- Reclassifying an MBS Mortgage Loan for a Mortgage Loan Modification

### General Information Regarding Reclassifying an MBS Mortgage Loan

Under certain circumstances described in the *Servicing Guide* and below, Fannie Mae will remove a mortgage loan or compel the servicer to remove a mortgage loan from an MBS pool and place it in Fannie Mae’s portfolio. All MBS mortgage loans (regular and special servicing option mortgage loans) removed from MBS pools in this manner will become actual/actual remittance type mortgage loans that Fannie Mae will hold in its portfolio, identifying them by the Fannie Mae loan number, the servicer’s loan number, and the property address.

The servicer remains responsible for the recourse obligation on a regular servicing option mortgage loan that is removed from the pool and held in Fannie Mae’s portfolio.



## Reviewing and Deselecting a Mortgage Loan from Reclassification

As required in A1-3-07, Automatic Reclassification of MBS Mortgage Loans, Fannie Mae will reclassify as an actual/actual remittance type portfolio mortgage loan a mortgage loan that satisfies its selection criteria. The servicer must review all MBS mortgage loans that Fannie Mae has selected for reclassification and determine if any of those mortgage loans no longer meet the reclassification requirements. The following table lists the steps for reviewing mortgage loans that have been approved for reclassification to deselect those that must not be reclassified.

✓	<b>The servicer must...</b>
	<p>Review the Eligible for Deselection Report (available on HSSN) to view the mortgage loans that Fannie Mae has selected for reclassification, but that are eligible for deselection.</p> <p>The servicer must review the mortgage loans scheduled for automatic reclassification.</p>
	<p>On HSSN, deselect any mortgage loans that must not be reclassified, including any mortgage loan that has</p> <ul style="list-style-type: none"> <li>• been brought current,</li> <li>• had enough payment applied to reduce the delinquency to three months, or</li> <li>• been paid off, foreclosed, or otherwise liquidated.</li> </ul>
	<p>Make the request to deselect a mortgage loan for reclassification on HSSN between the 11th and 15th calendar day of the month.</p>

**Note:** Fannie Mae will automatically reclassify any mortgage loan that the servicer did not instruct Fannie Mae to deselect.

## Reclassifying a Pooled from Portfolio Mortgage Loan

The servicer may confirm that Fannie Mae has reclassified a PFP mortgage loan by reviewing the Pooled from Portfolio Reclass Report that is posted on SURF.

## Reporting a Reclassified Mortgage Loan

The servicer must comply with all payment processing, remitting, accounting, and reporting requirements related to servicing reclassified mortgage loans as outlined in

A4-1-02, Establishing Custodial Bank Accounts and *Part C, Mortgage Loan Payment Processing, Remitting, Accounting, and Reporting*. If necessary, the servicer must contact its Fannie Mae Investor Reporting Representative (see F-4-03, List of Contacts) for assistance.

When a mortgage loan has been reclassified, the servicer must take the actions as outlined in the following table.

✓	<b>After an MBS mortgage loan has been reclassified, the servicer must...</b>
	Report the mortgage loan as an actual/actual remittance type, including any activity that occurred for a reclassified mortgage loan after the date that the servicer notified Fannie Mae of its deselections for the month.
	Use the same Fannie Mae loan number that applied to the mortgage loan when it was in the MBS pool.
	Adjust the MBS security balance for each pool from which reclassified mortgage loans were removed. This action ensures a correct calculation of the guaranty fees due Fannie Mae for the month after the reclassification.
	Update its internal records to reflect the change in remittance type as of the first day of the month in which the automatic reclassification takes place.

**Note:** The pass-through rate for a reclassified mortgage loan is equal to the sum of its previous pass-through rate and its previous guaranty fee rate; therefore, the servicer can retain the same servicing compensation that it received while the mortgage loan was in the MBS pool.

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### Reclassifying an MBS Mortgage Loan for Forbearance

The servicer must comply with the maximum term for a forbearance plan in accordance with *Determining the Allowable Forbearance Plan Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options

On approximately the 11th calendar day of each month, Fannie Mae will post a listing on HSSN of the MBS mortgage loans that have been reported to Fannie Mae with a delinquency status code of forbearance that Fannie Mae intends to reclassify. The following table outlines the actions that the servicer must take to deselect a mortgage loan for reclassification, as applicable.

<b>Step</b>	<b>Servicer Action</b>
1	Review the listing provided by Fannie Mae on HSSN.
2	Determine whether any mortgage loan identified should be reclassified based on real-time information that the servicer has for the mortgage loan.

Step	Servicer Action
3	<p>By the 15th day of the month in which it is notified, deselect those mortgage loans that either</p> <ul style="list-style-type: none"> <li>• are current,</li> <li>• will be reported with a delinquency status code to indicate that the mortgage loan is no longer in forbearance,</li> <li>• the servicer is working with the borrower on a workout option, or</li> <li>• the servicer has commenced or resulted collection activities leading to foreclosure proceedings.</li> </ul>

A mortgage loan that continues to have a delinquency status code indicating that it is in forbearance for six consecutive months without indicating a delinquency status code change in the seventh month will be removed from the MBS pool by Fannie Mae.

### Reclassifying an MBS Mortgage Loan for a Repayment Plan

The servicer must comply with the maximum term for a repayment plan in accordance with *Determining the Allowable Repayment Plan Term for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

On approximately the 11th calendar day of each month, Fannie Mae will post a listing on HSSN of the MBS mortgage loans that have been reported to Fannie Mae with a delinquency status code of repayment plan that Fannie Mae intends to reclassify. The following table outlines the actions that the servicer must take to deselect mortgage loans for reclassification, as applicable.

Step	Servicer Action
1	Review the listing provided by Fannie Mae on HSSN.
2	Determine whether any mortgage loan identified should be reclassified based on real-time information that the servicer has for the mortgage loan.
3	<p>By the 15th day of the month in which it is notified, deselect those mortgage loans that either</p> <ul style="list-style-type: none"> <li>• are current,</li> <li>• will be reported with a delinquency status code to indicate that the mortgage loan is no longer on a repayment plan,</li> </ul>

Step	Servicer Action
	<ul style="list-style-type: none"> <li>• the servicer is working with the borrower on a workout option, or</li> <li>• the servicer has commenced or resulted collection activities leading to foreclosure proceedings.</li> </ul>

A mortgage loan that continues to have a delinquency status code indicating that it is in a repayment plan for 17 consecutive months without indicating a delinquency status code change in the month of notification will be removed from the MBS pool by Fannie Mae.

### Reclassifying an MBS Mortgage Loan for a Mortgage Loan Modification

The servicer must ensure that an MBS mortgage loan is removed from the MBS pool for the purposes of modification in accordance with *Conditions of a First and Second Lien Mortgage Loan modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The following table outlines the actions the servicer must take to reclassify an MBS mortgage loan based on the mortgage loan status at the time the mortgage loan modification is negotiated.

If, at the time the mortgage loan modification is negotiated...	Then...
the borrower's payment default is imminent	Fannie Mae will reclassify the mortgage loan during the fourth month of the Trial Period Plan if <ul style="list-style-type: none"> <li>• the borrower has made the fourth payment of a four-month Trial Period Plan, and</li> <li>• the servicer has notified Fannie Mae of receipt of the payment on or before the 15th calendar day (the servicer's reclassification date) of the fourth month of the Trial Period Plan.</li> </ul>
payment default has already occurred	Fannie Mae will reclassify the mortgage loan during the third month of the Trial Period Plan if <ul style="list-style-type: none"> <li>• the borrower has made the third payment of a three-month Trial Period Plan, and</li> </ul>

<b>If, at the time the mortgage loan modification is negotiated...</b>	<b>Then...</b>
	<ul style="list-style-type: none"> <li>the servicer has notified Fannie Mae of receipt of the payment on or before the 15th calendar day (the servicer’s reclassification date) of the third month of the Trial Period Plan.</li> </ul>

If the final Trial Period Plan payment (either third or fourth Trial Period Plan payment as applicable depending on the original mortgage loan status) is received after the 15th calendar day (the servicer’s reclassification date) of the final month of the Trial Period Plan but before the end of the Trial Period Plan, then it will not be possible to reclassify the mortgage loan from the MBS pool during the final month of the Trial Period Plan. In such event, the servicer must extend the Trial Period Plan one month, and the reclassification date will be the 15th calendar day of such extended month. If the servicer has not notified Fannie Mae of its receipt of the final Trial Period Plan payment on or before the servicer’s reclassification date, the servicer shall extend the Trial Period Plan for an additional month.

If the required Trial Period Plan payments are not made in accordance with the Trial Period Plan, Fannie Mae will cancel the case in HSSN.

The following table outlines the actions that the servicer must take after a mortgage loan has completed the Trial Period Plan.

✓	<b>The servicer must...</b>
	Confirm that Fannie Mae has reclassified an MBS mortgage loan by obtaining the Purchase Advice from SURF. If Fannie Mae does not include the mortgage loan in its list of mortgage loans due for reclassification before the month in which the modified terms become effective, the servicer must contact its Fannie Mae Servicing Representative (see F-4-03, List of Contacts)
	After a mortgage loan is reclassified, follow the existing procedure and update the Officer Signature Date in HSSN to close the mortgage loan modification case.
	Apply all subsequent payments in accordance with the terms of the modified mortgage loan.

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# Chapter F-2, Exhibits



## Exhibits

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### Introduction

This chapter contains the exhibits referenced within this Servicing Guide.

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### In This Chapter

This chapter contains the following exhibits:

F-2-01, Borrower's Authorization for Counseling (11/12/2014) .....	976
F-2-02, Bankruptcy Referral and Completion Timelines (11/12/2014) .....	977
F-2-03, Incentive Fees for Workout Options (04/08/2015) .....	979
F-2-04, Compensatory Fee Calculation Examples (11/12/2014) .....	985
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F-2-06, Historical Yield Differential Adjustment Provisions (11/12/2014) .....	1004
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## F-2-01, Borrower's Authorization for Counseling (11/12/2014)

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### Introduction

This exhibit contains model language to obtain the borrower's authorization to release mortgage loan information to a third-party counseling organization or mortgage insurer.

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### **Borrower's Authorization for Counseling**

TO WHOM IT MAY CONCERN:

If I fail to make any monthly mortgage payment as agreed, I understand that the servicer of my mortgage loan may refer me to a third-party counseling organization or a mortgage insurer, which will advise me about finding ways to meet my mortgage loan obligation. I hereby authorize the servicer to release information to such third-party counseling organization or mortgage insurer, and request that the counseling party contact me.

I further hereby authorize the third-party counseling organization or mortgage insurer to make a recommendation about appropriate action to take with regard to my mortgage loan, which may assist the servicer in determining whether to restructure my mortgage loan or to offer other extraordinary services that could preserve my long-term homeownership.

(Signature) Borrower Name/Date:

(Signature) Borrower Name/Date:

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## **F-2-02, Bankruptcy Referral and Completion Timelines (11/12/2014)**

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### **Introduction**

This exhibit contains bankruptcy referral and completion timelines.

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### **Bankruptcy Referral and Completion Timelines**

<b>Chapter 7 Bankruptcy</b>		
<b>Delinquency Status</b>	<b>When to Refer to an Attorney</b>	<b>Timeline for Case Completion</b>
Mortgage loan is delinquent, but less than 60 days delinquent when the bankruptcy is filed	May refer for proof of claim preparation if proof of claim is required to be filed.	2 months and 2 weeks from the 60th day of delinquency to case completion

<b>Chapter 7 Bankruptcy</b>		
<b>Delinquency Status</b>	<b>When to Refer to an Attorney</b>	<b>Timeline for Case Completion</b>
Mortgage loan is 60 or more days delinquent or in foreclosure when the bankruptcy is filed	Refer no later than 2 weeks after the bankruptcy is filed.	2 months and 2 weeks from the date of the bankruptcy filing to case completion
Case completion for a Chapter 7 bankruptcy proceeding is defined as: automatic stay terminated, case dismissed or closed, or the borrower receives a discharge and the trustee abandons all interest in the secured property.		

<b>Chapter 11 Bankruptcy</b>		
<b>Delinquency Status</b>	<b>When to Refer to an Attorney</b>	<b>Timeline for Case Completion</b>
Mortgage loan is current or delinquent when bankruptcy is filed	Refer no later than 2 weeks from the date of the bankruptcy filing.	No timeline implemented at this time

<b>Chapter 12 and 13 Bankruptcy</b>		
<b>Delinquency Status</b>	<b>When to Refer to an Attorney</b>	<b>Timeline for Case Completion</b>
Mortgage loan is delinquent, but less than 60 days delinquent when the bankruptcy is filed	May refer for proof of claim preparation and plan review.	5 months and 2 weeks from the 60th day of delinquency
Mortgage loan is 60 or more days delinquent or in foreclosure when the bankruptcy is filed	Refer no later than 2 weeks after the bankruptcy is filed.	5 months and 2 weeks from the date of the bankruptcy filing to case completion



<b>Chapter 12 and 13 Bankruptcy</b>		
<b>Delinquency Status</b>	<b>When to Refer to an Attorney</b>	<b>Timeline for Case Completion</b>
After confirmation of either a Chapter 12 or Chapter 13 plan, the mortgagor becomes 60 days delinquent making payments pursuant to the plan	Refer when the mortgage loan is 60 days delinquent, but no later than 2 weeks from the 60th day of delinquency.	2 months and 2 weeks from the 60th day of delinquency
Case completion for a Chapter 12 or 13 bankruptcy proceeding is defined as: automatic stay terminated, case dismissed or closed, the trustee abandons all interest in the secured property, or the Chapter 12 or 13 plan is confirmed.		



## **F-2-03, Incentive Fees for Workout Options (04/08/2015)**

### **Introduction**

This exhibit contains incentive fees for workout options.

### **Incentive Fees for Workout Options**

The following table lists the incentive fees for certain workout options that will be paid on mortgage loans where Fannie Mae bears the risk of loss.

<b>Workout Option</b>	<b>Incentive Fee</b>	<b>Additional Information</b>
Repayment Plan	\$500	The following conditions must be satisfied: <ul style="list-style-type: none"> <li>The mortgage loan must be 60 days or more delinquent when first reported with a delinquency status code 12 – Repayment Plan.</li> </ul>

Workout Option	Incentive Fee		Additional Information
			<ul style="list-style-type: none"> <li>The mortgage loan must be brought current upon the successful completion of the repayment plan.</li> <li>The mortgage loan must not be brought current in the same month as the delinquency status code 12 – Repayment Plan is reported.</li> <li>The mortgage loan must not be paid in full or repurchased after the delinquency status code 12 – Repayment Plan is reported and before the mortgage loan becomes current.</li> <li>If a repayment plan incentive fee has been paid for the mortgage loan previously, a 12-month period must have elapsed from the date the mortgage loan became current.</li> </ul>
Fannie Mae Standard Modification; Fannie Mae Streamlined Modification; Fannie Mae Streamlined Modification Post Disaster Forbearance; Fannie Mae Cap and Extend Modification for Disaster Relief	<b>Number of Days the Mortgage Loan is Delinquent as of the First Trial Period Plan Payment Due Date</b>	<b>Incentive Fee Amount</b>	<p>The following conditions apply:</p> <ul style="list-style-type: none"> <li>The servicer must close the mortgage loan modification within two months of the last day of the month in which the final trial period plan payment is due.</li> <li>If the mortgage loan is placed in bankruptcy, it is eligible for the \$1,600 incentive fee only if a Trial Period Plan begins immediately following the bankruptcy period.</li> <li>If the mortgage loan is less than or equal to 60 days delinquent and has been placed in a forbearance plan, it is eligible for the \$1,600 incentive fee only if: <ul style="list-style-type: none"> <li>– a Trial Period Plan begins immediately following the forbearance period, and</li> </ul> </li> </ul>
	Less than or equal to 120 days delinquent	\$1,600	
	121 days delinquent through 210 days delinquent	\$1,200	

Workout Option	Incentive Fee		Additional Information
	Greater than 210 days delinquent	\$400	<p>– the forbearance plan was based on one of the following hardships:</p> <ul style="list-style-type: none"> <li>○ a natural disaster,</li> <li>○ the death of a borrower or co-borrower,</li> <li>○ the death of a family member who contributed to the monthly payment,</li> <li>○ a divorce or separation that will result in the borrower being legally awarded the property,</li> <li>○ the inability to pay due to the pending settlement of a disability or major medical claim,</li> <li>○ a unique financial hardship (See D2-3.2-03, Forbearance Plan for a Unique Hardship), or</li> <li>○ a borrower becomes unemployed (See D2-3.2-02, Forbearance Plan for an Unemployed Borrower).</li> </ul> <p><b>Note:</b> Incentive fees for all other mortgage loans placed in a forbearance plan will be calculated based on the number of days the mortgage loan is delinquent as of the first Trial Period Plan payment due date.</p>
Fannie Mae Short Sale	<b>Number of Days the Mortgage Loan is Delinquent</b>	<b>Incentive Fee Amount</b>	None

Workout Option	Incentive Fee		Additional Information
	<b>at the Time the Case is Closed in HSSN</b>		
	Less than or equal to 210 days delinquent	\$2,500	
	211 days delinquent up to and including 300 days delinquent	\$1,500	
	Greater than 300 days delinquent	\$750	
Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure)	<b>Number of Days the Mortgage Loan is Delinquent at the Time the Case is Closed in HSSN</b>	<b>Incentive Fee Amount</b>	None
	Less than or equal to 210 days delinquent	\$2,500	
	211 days delinquent up to and including 300 days delinquent	\$1,500	

Workout Option	Incentive Fee		Additional Information
	Greater than 300 days delinquent	\$750	
Fannie Mae HAMP Modification – Servicer Incentive	<b>Number of Days the Mortgage Loan is Delinquent as of the First Trial Period Plan</b>	<b>Incentive Fee Amount</b>	<p>The following conditions must be satisfied:</p> <ul style="list-style-type: none"> <li>• The servicer must have provided a <i>HAMP Registration Form</i> and HAMP loan setup data prior to the effective date HAMP modification.</li> <li>• The borrower's monthly mortgage payment ratio must be equal to or greater than 31% prior to the implementation of a HAMP modification.</li> </ul>
	Less than or equal to 120 days delinquent	\$2,100	
	121 days delinquent through 210 days delinquent	\$1,700	
	Greater than 210 days delinquent	\$900	
Fannie Mae HAMP Modification – Borrower Incentive	If the borrower's monthly payment (principal, interest, taxes, and all related property insurance and homeowners' or condo association fees, but excluding mortgage insurance) is reduced by 6% or more, the borrower will earn an annual "pay for performance" principal balance reduction payment for up to five years equal to the lesser of the following:		<p>The following conditions must be satisfied:</p> <ul style="list-style-type: none"> <li>• The servicer must have provided a <i>HAMP Registration Form</i> and HAMP loan setup data prior to the effective date HAMP modification.</li> <li>• The borrower's monthly mortgage payment ratio must be equal to or greater than 31% prior to the implementation of a HAMP modification.</li> </ul>

Workout Option	Incentive Fee	Additional Information
	<ul style="list-style-type: none"> <li>• \$1,000 (\$83.33 per month), or</li> <li>• one-half of the reduction in the borrower's annualized monthly payment for each month a timely payment is made.</li> </ul>	
Fannie Mae HAMP Modification-Expanded Borrower Incentive	\$5,000	<p>The following conditions must be satisfied:</p> <ul style="list-style-type: none"> <li>• the mortgage loan must               <ul style="list-style-type: none"> <li>– be a first lien conventional mortgage loan that was previously modified under HAMP;</li> <li>– be in good standing as defined in <i>Identifying Loss of Good Standing</i> in D2-3.2-07, Fannie Mae HAMP Modification on the sixth anniversary of the Trial Period Plan effective date; and</li> <li>– not be paid in full.</li> </ul> </li> <li>• the servicer must have received an executed <i>Real Estate Fraud Certification</i> (Form 720) or U.S. Treasury Department's (Treasury) "Dodd Frank Certification" from the borrower on or before the sixth anniversary of the HAMP Trial Period Plan effective date or September 1, 2015, whichever is later.</li> </ul>
Fannie Mae 2MP Modification – Servicer Incentive	\$500	None

Workout Option	Incentive Fee	Additional Information
Fannie Mae 2MP Modification – Borrower Incentive	If the borrower's monthly second lien mortgage payment is reduced by 6% or more, the borrower will receive an annual “pay for performance” principal balance reduction payment of \$250 for up to five years.	None

### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue date
<a href="#">Announcement SVC-2015-05</a>	April 8, 2015



## F-2-04, Compensatory Fee Calculation Examples (11/12/2014)

### Introduction

This exhibit contains compensatory fee calculation examples.

### Compensatory Fee Calculation Examples

The following examples illustrate how compensatory fees will be calculated using the following formula:

Unpaid Principal Balance (UPB) x Daily Pass Through Rate (PTR/365) x Number of Days Delayed.

**Example #1: Mortgage Loan-Level Compensatory Fee Analysis Resulting in a Compensatory Fee:** In this mortgage loan-level example, the servicer exceeded Fannie Mae's

allowable foreclosure time frame and would be billed a compensatory fee in the amount of \$923.97.

<b>Property Located in Florida</b>	
Unpaid Principal Balance (UPB)	\$100,000
Pass Through Rate (PTR)	4.75%
Last Paid Installment date (LPI)	02/01/2012
<b>Property Located in Florida</b>	
Foreclosure Sale Date	02/01/2014
Servicer's Overall State Foreclosure Time Frame	731 days
Fannie Mae's Overall Allowable Foreclosure Time Frame for Florida	660 days
Number of Days Over Allowable Foreclosure Time Frame	71 days
Allowable Delays Reported	0 days
Compensatory Fee (or Credit)	$(\$100,000)(.0475/365)*(71) = \$ 923.97$

**Example #2: Mortgage Loan-Level Compensatory Fee Analysis Not Resulting in a Compensatory Fee:** In this mortgage loan-level example, the servicer performed under Fannie Mae's allowable foreclosure time frame by 21 days, so a compensatory fee would not be assessed against the servicer for this mortgage loan. The \$273.29 could be used to offset a compensatory fee assessed for over-standard performance on another mortgage loan in this state and in the same billing period.

<b>Property Located in Florida</b>	
Unpaid Principal Balance (UPB)	\$100,000
Pass Through Rate (PTR)	4.75%
Last Paid Installment date (LPI)	02/01/2012
Foreclosure Sale Date	11/01/2013
Servicer's Overall State Foreclosure Time Frame	639 days
Fannie Mae's Overall Allowable Foreclosure Time Frame for Florida	660 days
Number of Days Under Allowable Foreclosure Time Frame	- 21 days



<b>Property Located in Florida</b>	
Allowable Delays Reported	0 days
Compensatory Fee (or Credit)	$(\$100,000)(.0475/365)*(-21) = (\$273.29)$

**Example #3: State-Level Netting That Does Not Result in a Compensatory Fee:** In this example, the servicer's performance on the 10 mortgage loans was under-standard as compared to Fannie Mae's allowable foreclosure time frame. As such, a compensatory fee would not be assessed against the servicer in this state; there would not be a credit issued to the servicer in the form of cash, nor could the \$350 be applied as a credit against a compensatory fee invoice for this servicer in the future.

<b>Foreclosed Mortgage Loans</b>	<b>Compensatory Fee or Credit</b>
1	\$900
2	\$800
3	(\$1,800)
4	(\$600)
5	\$400
6	\$600
7	\$1,000
8	(\$850)
9	\$450
10	(\$1,250)
Net amount of compensatory fee (or credit), in aggregate by state.	(\$350)

**Example #4: State-Level Netting Resulting in a Compensatory Fee:** In this example, the servicer's performance exceeded Fannie Mae's allowable foreclosure time frame on the 10 mortgage loans and it would therefore be billed a compensatory fee of \$2,150.

<b>Foreclosed Mortgage Loans</b>	<b>Compensatory Fee or Credit</b>
1	\$1,200
2	\$800
3	(\$1,000)
4	(\$600)
5	\$1,000
6	\$600

Foreclosed Mortgage Loans	Compensatory Fee or Credit
7	\$1,500
8	(\$850)
9	\$450
10	(\$950)
Net amount of compensatory fee (or credit), in aggregate by state.	\$2,150



## F-2-05, Firm Minimum Requirements (11/12/2014)

### Introduction

This exhibit contains firm minimum requirements.

### Firm Minimum Requirements

The following table describes Fannie Mae's minimum requirements for all law firms selected and retained for default-related legal services for all conventional or government single-family mortgage loans held in Fannie Mae's portfolio and MBS pool mortgage loans guaranteed by Fannie Mae.

Requirement	Description
1. The law firm's practice areas must include end-to-end default-related and REO-related legal services.	<p>A firm's practice areas must include end-to-end default-related legal services (foreclosure, bankruptcy, loss mitigation (for example, deeds-in-lieu of foreclosure), and related litigation) and REO-related legal services (eviction, REO closing, and related litigation).</p> <p>A firm must</p> <ul style="list-style-type: none"> <li>• be familiar with industry standards in the jurisdiction in which it practices;</li> <li>• understand the jurisdiction's legal processes and requirements in foreclosure, bankruptcy, eviction, REO closing, and related litigation; and</li> </ul>

Requirement	Description
	<ul style="list-style-type: none"> <li>• understand the substantive legal issues in the jurisdiction (for example, standing).</li> </ul> <p>Servicers must consider a firm’s experience in the following areas:</p> <ul style="list-style-type: none"> <li>• the Fannie Mae <i>Servicing Guide</i>;</li> <li>• dealing with loss mitigation;</li> <li>• foreclosure mediation;</li> <li>• the Fair Debt Collection Practices Act;</li> <li>• title curative issues; and</li> <li>• general housing-related issues (for example, rent control; Section 8; lead paint liability; health code violations; foreclosure redemption, confirmation and ratification; homeowners’ associations; mobile home matters; and cooperative loans).</li> </ul> <p>Servicers must also give consideration to a firm’s membership in default-related and REO-related trade and industry groups, jurisdiction bar event participation, seminar and lecture participation and attendance, and any other activities relevant to mortgage default and REO law practice.</p>
<p>2. With certain limited exceptions, the law firm must have a staffed office located in the jurisdiction for which it is retained.</p>	<p>A firm must have an appropriately staffed office located in the jurisdiction in which the firm is retained, except in the following circumstances:</p> <ul style="list-style-type: none"> <li>• Special rules apply for the jurisdictions of Alaska, District of Columbia, Idaho, New Hampshire, Rhode Island, Montana, West Virginia, and Wyoming. In those jurisdictions, servicers should give preference to firms that have staffed offices in those jurisdictions, but out-of-jurisdiction firms may be used to handle default-related matters, provided they are</li> </ul>

Requirement	Description
	<p>located in the same region of the country and are able to demonstrate that they have policies, procedures, and processes in place to handle cases from outside the jurisdiction.</p> <ul style="list-style-type: none"> <li>• Servicers may use firms outside the U.S. Territories of Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa to handle default-related matters in those Territories. Servicers should give preference to firms that have staffed offices in the Territory, but out-of-jurisdiction firms may be used, provided that they are able to demonstrate that they have policies, procedures, and processes in place to handle cases from outside the Territory.</li> </ul> <p>If a servicer has difficulty finding a sufficient number of firms with appropriately staffed offices in jurisdictions other than those listed in the exceptions above, the servicer may contact Fannie Mae to request an exception to the requirement that a firm have an appropriately staffed office located in the jurisdiction. Requests should be emailed to <a href="mailto:default_attorney@fanniemae.com">default_attorney@fanniemae.com</a>.</p> <p>A firm must be registered, as necessary, with the appropriate jurisdictional authorities. The servicer must obtain office addresses for each firm it seeks to retain. Additionally, the servicer must require the firm to disclose where the staff handling the work in the particular jurisdiction is located, and to whom the staff in that office regularly reports. For the jurisdictions in which an appropriately staffed office is required, the firm must disclose the extent, if any, to which work will be performed by an office of the firm in another jurisdiction.</p>
<p>3. The law firm must provide two jurisdiction-specific industry references.</p>	<p>A firm must provide the servicer with at least two jurisdiction-specific servicer or default-related references, or, if the firm has been in existence</p>

Requirement	Description
	<p>less than one year, the partners or shareholders of the firm must provide at least two servicer or default-related references in connection with work performed in the particular jurisdiction.</p>
<p>4. The law firm must have the ability to handle default-related and REO-related legal matters throughout the jurisdiction.</p>	<p>A firm must have the ability to handle foreclosures, bankruptcies, evictions, REO closings, and related litigation throughout the jurisdiction.</p> <p>If a firm has partnerships or relationships with third parties (for example,, local counsel, trustee companies, or title companies) that will perform or complete some aspect of the default-related and REO-related work, the firm must</p> <ul style="list-style-type: none"> <li>• disclose such relationships and the extent to which third parties will be relied upon, and</li> <li>• have a reasonable contingency plan for the loss of any of those relationships or operational processes.</li> </ul> <p>In evaluating any such third-party relationship, the servicer must consider the length of time the relationship has existed and the adequacy of the firm’s written policies to mitigate third-party risk.</p> <p>If a firm uses local counsel to handle matters within the jurisdiction, the firm must have a process to select, manage, and review the local counsel and their work product. The process must be designed to ensure that local attorneys are qualified and adequately trained and have a satisfactory history with respect to bar complaints, sanctions, and similar matters.</p> <p>For a firm’s contested caseload (for example, contested foreclosures and litigated cases), the firm’s reliance on local counsel must be minimal. Any use of local counsel for these matters must</p>

Requirement	Description
	<p>be structured so that the retained firm will direct and manage the local counsel on those matters.</p>
<p>5. The law firm must have completed a sufficient volume of default-related and REO-related legal services to demonstrate its experience.</p>	<p>The firm or its managing attorney(s) must have completed a sufficient number of foreclosure, bankruptcy, loss mitigation, eviction, and REO matters within the past 24 months to demonstrate that the firm has experience in representing creditors in default-related and REO-related matters.</p> <p>For the 24-month period, the servicer must review the total number of matters referred, the total number of matters completed, and the number of matters currently pending for each of the following areas: foreclosure, bankruptcy (including proof of claim and motion for relief from stay), loss mitigation, eviction, and REO closing.</p> <p>What constitutes a sufficient number of completed default-related and REO-related legal services will vary depending upon the jurisdiction at issue, the volume the servicer expects to refer to the firm, and the relative size of the firm. Servicers must consider these factors when making this determination.</p>
<p>6. The law firm’s partner(s) or managing attorney(s) must have adequate, relevant, overall jurisdiction-specific experience.</p>	<p>A firm must have one or more managing attorney(s) or partner(s) with no less than eight to ten years of relevant, jurisdiction-specific experience in foreclosure (including, where applicable, confirmation, redemption, and ratification matters), bankruptcy, loss mitigation, eviction, REO closing and related litigation. Servicers may make an exception to this requirement for documented reasons in the event a firm is otherwise qualified.</p> <p>The servicer must obtain a list of the names of the firm’s managing attorneys, partners and</p>

Requirement	Description
	<p>associates with the years of experience in each area (foreclosure, bankruptcy, eviction, REO closing, and related litigation).</p> <p>If the principals or partners of the firm are not actively involved in the management of the firm, the servicer must consider the level of experience of those actively involved in managing the firm.</p>
<p>7. The law firm must have one or more lead attorney(s) for Fannie Mae matters with adequate, relevant litigation experience in the jurisdiction.</p>	<p>A firm must have one or more lead attorney(s) for Fannie Mae matters with at least five years' experience in handling default-related and REO-related litigation in the jurisdiction. The firm's partner(s) or managing attorneys(s) may act as the lead attorney for Fannie Mae matters. If the firm will utilize staff attorneys for Fannie Mae matters, one or more staff attorneys must have at least three years' experience in handling default-related and REO-related litigation in the jurisdiction.</p>
<p>8. The law firm's attorneys must be licensed and in good standing in the jurisdiction in which the firm will be retained.</p>	<p>A firm's attorneys who will handle the work in the jurisdiction must be licensed to practice and be in good standing in the jurisdiction in which the firm will be retained. Legal work must be performed by attorneys licensed in the jurisdiction.</p>
<p>9. The law firm's non-attorney staff must have reasonable experience.</p>	<p>A firm's non-attorney staff must have reasonable experience. In determining what constitutes reasonable experience, the servicer must consider the average years of experience, education, qualifications, and demonstrated ability of the non-attorney staff in relation to their respective levels of responsibility.</p>
<p>10. The law firm must have an appropriate attorney-to-staff ratio to ensure appropriate staff oversight.</p>	<p>A firm must have an appropriate attorney-to-staff ratio to ensure appropriate staff oversight given the size of the firm and the firm's operational structure. In determining what constitutes an appropriate attorney-to-staff ratio, the servicer must consider whether the firm practices in a judicial or non-judicial foreclosure jurisdiction,</p>

Requirement	Description
	the firm’s case management practices, the jurisdiction-specific process, the experience of the firm’s attorneys and staff, the firm’s technology, and the firm’s infrastructure.
11. The law firm must have appropriate attorney-to-file and staff-to-file ratios to ensure appropriate file oversight.	A firm must have appropriate attorney-to-file and staff-to-file ratios to ensure appropriate file oversight given the size of the firm and the firm’s operational structure. In determining what constitutes the appropriate ratios, a servicer must consider whether the firm practices in a judicial or non-judicial foreclosure jurisdiction, the firm’s case management practices, the jurisdiction-specific process, the experience of the firm’s attorneys and staff, the firm’s technology, and the firm’s infrastructure.
12. The law firm must have the ability to grow and contract based on market conditions.	As of the date of the submission of the <i>Servicer Selection Form (Form 200)</i> , the firm must have the ability to accept additional referrals. The firm must not be operating at full capacity given the existing facilities, personnel, and technology or, alternatively, the firm must outline to the servicer’s satisfaction the steps and time frame necessary to be in a position to handle additional referrals while still maintaining appropriate attorney-to-file and staff-to-file ratios. A firm must also have contingency plans to deal with a contraction in the market.
13. The law firm must demonstrate high professional standards.	<p>A firm must demonstrate a history of legal practice that comports with applicable legal and ethical standards, reflecting high professional standards. The servicer must conclude that the firm does not, considering the totality of the circumstances, pose a legal or reputational risk or exhibit systematic issues that may lead to legal or reputational risk.</p> <p>A servicer must obtain the following information from the firm in order to evaluate the sufficiency of the firm’s professional standards:</p>



Requirement	Description
	<ul style="list-style-type: none"> <li>• Any sanctions against the firm or any of its present or former attorneys in the past five years, including the nature of the sanctions and, if they relate to a loan-level matter or systemic firm practice, any corrective actions taken by the firm;</li> <li>• Any bar complaints/reprimands against present or former firm attorneys in the past ten years and whether the complaints were closed, are pending, or resulted in some form of adverse action;</li> <li>• Any government investigations involving the firm in the past ten years and whether the investigations involved firm practices or were related to investigations of the firm's client;</li> <li>• Any damages or settlement of claims as result of an allegation of professional negligence against the firm or its attorneys in the past five years <ul style="list-style-type: none"> <li>– in excess of \$20,000 in any single occurrence or \$50,000 in the aggregate, or</li> <li>– that reflect a possible pattern of professional negligence, regardless of amount; and</li> </ul> </li> <li>• Any significant litigation asserting systemic issues with firm processes or legal work, such as any class action against the firm.</li> </ul> <p>If the servicer is aware of any of the above items that involve the firm's professional standards but which were not disclosed by the firm, the servicer must disclose them to Fannie Mae in the <a href="#">Form 200</a>.</p> <p>The servicer must obtain disclosure from the firm regarding whether the firm (or any of its partners,</p>

Requirement	Description
	<p>shareholders, or employees while acting as a partner, shareholder, or principal at another firm) has previously been terminated by Fannie Mae or Freddie Mac or had referrals by Fannie Mae or Freddie Mac suspended.</p> <p>The servicer must obtain a certification from the firm that, to the best of the firm’s knowledge, the firm’s documents have been and continue to be prepared, executed, and notarized in compliance with applicable law. If the firm reports that the firm, its attorneys, notaries, or third parties that the firm relies on to perform any aspect of default-related or REO-related services have previously prepared, executed, or notarized documents that have not been in compliance with applicable law, the servicer must conclude that the firm has instituted controls, procedures, and processes to address the contributing cause(s) of the firm’s failure to comply with applicable law in order to execute the <a href="#">Form 200</a>.</p> <p>Fannie Mae expects servicers to exercise sound judgment and consider the totality of the circumstances in evaluating the potential legal and reputational risks posed by a firm. The items for consideration outlined above are not intended to be exhaustive or to disqualify a firm from retention if the servicer concludes that the firm is acceptable considering the totality of the circumstances.</p>
<p>14. The law firm must be able to track, monitor and complete matters within defined timelines.</p>	<p>The servicer must confirm that the firm is able to track, monitor, and complete foreclosure and bankruptcy matters in compliance with applicable law and Fannie Mae timeline requirements, taking into consideration outside factors that impact compliance with Fannie Mae timelines such as new foreclosure requirements and court delays.</p>

Requirement	Description
	The servicer must review the firm’s completion timelines.
15. The law firm must have the ability to report key data to Fannie Mae.	A firm must have the capability to provide daily reporting to Fannie Mae, including via a web-based attorney reporting system, regarding key metrics (that is, volume, timelines, delays, loss mitigation successes, etc.). The firm must have staff responsible for reporting.
16. The law firm must have the ability to report diversity data.	A firm must have the capability to report diversity data to the servicer and Fannie Mae, if necessary, in accordance with the Housing and Economic Recovery Act. Pursuant to Announcement SVC-2012-13, <i>Housing and Economic Recovery Act (HERA) Reporting Requirements</i> , the servicer must provide Fannie Mae with data regarding the diversity status of the servicer, its agents, subcontractors, and vendors, including: appropriate certifications of minority-, women-, and disabled-owned status; reports, as requested, on the number of minorities, women, and individuals with disabilities utilized; and any other information Fannie Mae requests for purposes of complying with HERA or any other diversity and inclusion requirements.
17. The law firm must have adequate technology.	A firm must have technology to provide reporting, communication, and tracking of key events and milestones. A firm must have access to PACER/ECF or other similar systems to obtain case and docket information from federal appellate, district, and bankruptcy court records. The firm must be able to provide status reports and track significant dates and events for foreclosure, bankruptcy, evictions, and REO closings. The firm must have the capability to measure duration between various process stages, to identify process impediments (for example, holds), and to parse holds into different categories.

Requirement	Description
	<p>If a firm has partnerships or relationships with third parties (for example, local counsel, trustee companies, or title companies) that will perform or complete some aspect of the default-related or REO-related work or if the firm relies on other offices to perform some aspect of the work or provide operational support, the firm must maintain a reliable and secure means of exchanging matter information between each office and any third party the firm relies upon.</p> <p>The servicer must require a firm to describe whether the firm currently uses a universal translation technology to communicate information between its technological system and the various servicers' systems or explain its method for transmitting information efficiently, accurately, and securely to servicers.</p>
<p>18. The law firm must have adequate technical support.</p>	<p>A firm must have in-house technical expertise or readily available vendor technical support.</p>
<p>19. The law firm must have an appropriate amount of errors and omissions insurance coverage.</p>	<p>A firm must have an appropriate amount of errors and omissions insurance coverage. The amount of required insurance coverage depends upon the amount of foreclosure matters the firm is handling or expects to handle for Fannie Mae and Freddie Mac when it is being evaluated by the servicer. A firm retained to handle Fannie Mae matters must have or be able to obtain the following coverage prior to receiving referrals under the new requirements:</p> <ul style="list-style-type: none"> <li>• Tier I: volume of 0-4,499 foreclosure matters, coverage of not less than \$1 million per occurrence with an aggregate of not less than \$3 million;</li> <li>• Tier II: volume of 4,500-19,999 foreclosure matters, coverage of not less than \$5 million</li> </ul>

Requirement	Description
	<p>per occurrence with an aggregate of not less than \$5 million; and</p> <ul style="list-style-type: none"> <li>• Tier III: volume of 20,000 or more foreclosure matters, coverage of not less than \$8 million per occurrence with an aggregate of not less than \$8 million.</li> </ul> <p>The required level of insurance is determined by the higher of the Fannie Mae or Freddie Mac pending foreclosure volume. By way of example, if a law firm had 2,000 Fannie Mae foreclosure matters and 4,501 Freddie Mac foreclosure matters, the firm would fall within Tier II and the required coverage would be not less than \$5 million per occurrence with an aggregate of not less than \$5 million.</p> <p>Beginning in 2014, servicers must conduct an updated coverage analysis annually, with the appropriate level of insurance to be determined by the number of matters being handled as of June 1 of each year. When an annual review reveals a need to increase a law firm’s coverage, law firms will have until December 31 of each year to obtain any required increased coverage. Servicers may grant firms additional time to obtain increased coverage if necessary to reach the routine renewal date for the firm’s policy, but may not grant extensions beyond June 1 of the following year.</p>
<p>20. The law firm must have adequate financial resources.</p>	<p>A firm must have the financial ability to make required advances in connection with filing fees and costs necessary to process default-related and REO-related matters. The servicer must review the firm’s financial statements or other financial documents in order to confirm that the firm has sufficient reserves or credit lines to manage operating expenses.</p>

Requirement	Description
21. The law firm must have business continuity and/or disaster recovery plans in place.	A firm must have business continuity and/or disaster recovery plans in place to recover critical business functions. A firm must have a documented succession/continuity plan in the event of loss of the firm owner/partners.
22. The law firm must have adequate quality control, supervision of staff, and review of documents.	A firm must have written policies, procedures and/or processes in place by the date of the submission of the <a href="#">Form 200</a> to ensure the proper management and supervision of staff and the proper preparation, review, execution, and notarization of default-related and REO-related documents. The firm must also have an escalation process for employees to raise document execution and other quality control issues to firm management. The servicer must require the firm to provide information related to the firm's process for ensuring compliance with its policies, procedures, processes, and training, such as an internal compliance program and/or quality control reviews.
23. The law firm must provide adequate employee training.	A firm must have written policies for employee training, including privacy training. In determining whether a firm's employee training is adequate, the servicer must consider the frequency of training, the presence of policies and procedures and firm handbooks, manuals, or job aids.
24. The law firm must have adequate controls over information security, data management, and fraud prevention.	<p>A firm must maintain physical, technical, and procedural controls and effective information security and data management to</p> <ul style="list-style-type: none"> <li>• ensure the security and confidentiality of personally identifiable information (PII) and confidential information, whether in paper, electronic or other form;</li> <li>• protect against any threats or hazards to the security or integrity of such information; and</li> </ul>

Requirement	Description
	<ul style="list-style-type: none"> <li>• protect against unauthorized access to or use of such information. The firm must implement controls meeting or exceeding industry standards, including, as applicable, standards promulgated by the International Office for Standardization (ISO) or National Institute for Standards and Technology (NIST).</li> </ul> <p>A firm must ensure that PII that is stored on its systems and workstations is encrypted at rest at all times. A firm must have secured storage for promissory notes and other original documents to prevent theft and to ensure protection against fire, flood or other damage. A firm may not perform, outsource, or send to any affiliate outside of the United States or its territories, any legal work on GSE mortgage loans, including any storage of GSE data. A firm may not send any PII underlying GSE mortgage loans outside the United States. A firm must have written policies, procedures, and processes in place by the date of the submission of the <a href="#">Form 200</a> related to protection of PII and fraud prevention, including policies, procedures and processes related to: background checks of all employees; protection of PII; fraud prevention and identification; and incident response and notification protocols for data breaches and other security incidents. The servicer must review and confirm that the firm meets these requirements for information security, data management, protection of PII, and fraud prevention.</p>
<p>25. No substantial part of the law firm’s practice may include matters that are adverse to financial institutions, including Fannie Mae or Freddie Mac.</p>	<p>No substantial part of a firm’s practice may include matters that are adverse to financial institutions, including Fannie Mae or Freddie Mac. Matters adverse to financial institutions include homeowners’ association foreclosures, consumer debtor or mortgagor representations, and bankruptcy trustee representations.</p>

Requirement	Description
<p>26. The servicer must disclose to Fannie Mae any relationships between the servicer and the firm and any relationships between the firm and any outsourcing company utilized by the servicer.</p>	<p>Attorneys handling Fannie Mae matters must not be affected by a conflict of interest. A servicer must retain the most qualified attorneys to handle Fannie Mae matters without regard to arrangements that could provide a financial or personal benefit directly or indirectly to the servicer, its employees, or any outsourcing companies or other third-party vendors utilized by the servicer to assist in servicing defaulted mortgage loans.</p> <p>In the <a href="#">Form 200</a>, the servicer must disclose to Fannie Mae any current, past (within the last five years), or pending personal and/or financial relationships between</p> <ul style="list-style-type: none"> <li>• the servicer and the law firm, including its partners and shareholders (as applicable) and</li> <li>• the law firm, including its partners and shareholders (as applicable), and any outsourcing company or other third-party vendor utilized by the servicer to assist in servicing defaulted mortgage loans.</li> </ul>
<p>27. The law firm must disclose any interest in providers of related services.</p>	<p>The servicer must require a firm to disclose the identity of, and any relationship with, any entities providing third-party support functions, including, but not limited to, title searches, title insurance, posting, publication, and service of process. The servicer must require the firm to disclose whether the firm has a process to select and regularly review costs and performance of vendors to ensure competitive pricing and high quality.</p>
<p>28. The law firm must adhere to Fannie Mae guidelines regarding outsourcing fees, referral fees, technology and electronic invoice fees, and vendor selection.</p>	<p>Fannie Mae’s existing prohibitions against law firms paying outsourcing fees, referral fees, packaging fees, or similar fees (Part VII, Section 501.03.02: Outsourcing Fees, Referral Fees, Packaging Fees or Similar Fees, and Part VIII,</p>



Requirement	Description
	<p>Section 106.06: Outsourcing Fees, Referral Fees, Packaging Fees or Similar Fees) remain in full force and effect.</p> <p>Fannie Mae’s existing prohibitions against servicers or any outsourcing firm or third party vendors utilized by the servicer charging law firms technology or electronic invoicing fees (Part VII, Section 501.03.03: Technology Fees and Electronic Invoicing, and Part VIII, Section 106.07: Technology Fees and Electronic Invoicing) remain in full force and effect.</p> <p>The servicer must obtain a certification that the firm is not paying these fees on Fannie Mae mortgage loans and will not do so in the future.</p> <p>Fannie Mae’s existing prohibitions against servicer-specified vendors for Fannie Mae referrals (Part VII, Section 501.03.01: Prohibition Against Servicer-Specified Vendors for Fannie Mae Referrals, and Part VIII, Section 106.05: Prohibition Against Servicer-Specified Vendors for Fannie Mae Referrals) remain in full force and effect.</p> <p>The servicer must obtain a certification from the firm that its vendor selections are based on factors such as the cost efficiency, quality, reliability, and timeliness of the services provided and are not influenced and will not be influenced by a requirement or encouragement by the servicer to use specified vendors.</p>



## F-2-06, Historical Yield Differential Adjustment Provisions (11/12/2014)

### Introduction

This exhibit contains historical yield differential adjustment provisions.

### Historical Yield Differential Adjustment Provisions

Fannie Mae's present yield differential adjustment policy and a history of the various yield differential adjustment policies that may apply to mortgage loans are dependent on whether the mortgage loan is a fixed-rate mortgage loan, an ARM loan, or a co-op share loan.

**Provisions for Fixed-Rate Mortgage Loans:** The following table describes the historical yield differential adjustment policies for fixed-rate mortgage loans, except for co-op share loans.

Date of Commitment	Terms of Provision
June 22, 1981 to Fannie Mae investor reporting system conversion date <sup>1</sup>	<p><b>Gross Yield Commitment</b>—The servicer and Fannie Mae each retain one-half of the first 0.25% excess. After that, the servicer retains one-fourth of any other excess and Fannie Mae retains three-fourths.</p> <p><b>Net Yield Commitment</b>—After the excess is reduced by a minimum servicing fee of 0.375%, the remaining excess is shared under the same formula as shown above.</p>
Fannie Mae investor reporting system date <sup>1</sup> to present	The servicer retains all excess yield.

<sup>1</sup>The date that the mortgage seller was converted to the Fannie Mae investor reporting system. The dates that the Fannie Mae regional offices implemented the Fannie Mae investor reporting system are: Atlanta, November 26, 1984; Chicago, December 3, 1984; Dallas, December 3, 1984; Pasadena, December 10, 1984; and Philadelphia, November 5, 1984.

**Provisions for ARM Loans:** The following table describes the historical yield differential adjustment policies for ARM loans, except for co-op share loans.

Date of Commitment	Terms of Provision
August 15, 1983 to present <sup>1</sup>	If Fannie Mae purchased the mortgage loan at <i>par</i> , the servicer retains until the first interest rate change any excess above the

Date of Commitment	Terms of Provision
	<p>difference between the net mortgage rate<sup>2</sup> and Fannie Mae's required yield. After that, the servicer may retain the amount by which the net mortgage margin<sup>2</sup> exceeds Fannie Mae's required margin.</p> <p>If Fannie Mae purchased the mortgage loan at a discount, the servicer retains until the first interest rate change any excess above the difference between the net mortgage rate and Fannie Mae's required yield. After that, the servicer receives no excess.</p>

<sup>1</sup>Different provisions apply for any interest rate-capped ARM plan mortgage loans delivered under commitments dated on and after February 19, 1985. Under those provisions, the servicer retains until the first interest rate change any excess above the difference between the net mortgage rate and Fannie Mae's required yield. The net mortgage rate is determined by subtracting the 0.5% minimum servicing fee from the mortgage interest rate.

Then, on each interest rate change date, the servicer is allowed to retain the amount by which the new net mortgage rate exceeds Fannie Mae's new required pass-through rate. The required pass-through rate is determined by adding the net required margin to the index value, and then comparing the result to the maximum allowable required yield that was determined for both the per-adjustment and lifetime interest rate limitations when Fannie Mae purchased the mortgage. If the calculated pass-through rate exceeds the maximum allowable required yield, that yield becomes the pass-through rate.

<sup>2</sup>The net mortgage margin is determined by subtracting the 0.5% minimum servicing fee from the margin specified in the mortgage instrument.

**Provisions for Co-op Share Loans:** The following table describes the historical yield differential adjustment policies for co-op share loans.

Date of Commitment	Terms of Provision
May 11, 1984 through August 26, 1984	<p>The servicer retains all excess yield for ARM loans. After the excess for a fixed-rate mortgage is reduced by a minimum servicing fee of 0.375%, the remaining excess is shared as follows:</p> <ul style="list-style-type: none"> <li>• Fannie Mae and the servicer each retain one-half of the first 0.25% excess.</li> <li>• After that, the servicer retains one-fourth of any other excess and Fannie Mae retains three-fourths.</li> </ul>
August 27, 1984 to present	For both <b>ARM loans</b> and <b>fixed-rate mortgage loans</b> , the servicer retains all excess yield.



## **F-2-07, Mortgage Insurer Delegations for Workout Options (02/11/2015)**

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### **Introduction**

This exhibit contains information related to mortgage insurer delegations for workout options.

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### **Mortgage Insurer Delegations for Workout Options**

Fannie Mae has obtained delegation of authority on behalf of all servicers from each of the mortgage insurers identified below for the workout options listed.

**Fannie Mae Standard Modification:** Arch MI, Essent Guaranty, Genworth, MassHousing, MGIC, NMI, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Fannie Mae HAMP Modification:** Arch MI, Genworth, MassHousing, MGIC, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Fannie Mae Streamlined Modification:** Arch MI, Essent Guaranty, Genworth, MGIC, NMI, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Fannie Mae Streamlined Modification Post Disaster Forbearance:** Arch MI, Essent Guaranty, NMI, Radian Guaranty, Republic Mortgage Insurance Company.

**Fannie Mae Cap and Extend Modification for Disaster Relief:** Arch MI, Essent Guaranty, NMI, Radian Guaranty, Republic Mortgage Insurance Company.

**Fannie Mae MyCity Modification:** Arch MI, Essent Guaranty, Genworth, MGIC, NMI, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Fannie Mae 2MP Modification:** MGIC, Radian Guaranty, United Guaranty.

**Fannie Mae Short Sale:** Arch MI, Essent Guaranty, Genworth, MGIC, NMI, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure):** Arch MI, Essent Guaranty, Genworth, MGIC, NMI, PMI, Radian Guaranty, Republic Mortgage Insurance Company, Triad, United Guaranty.

**Note:** Fannie Mae instructs the servicer, when filing a claim for a short sale or Mortgage Release (Deed-in-Lieu of Foreclosure), to provide the relevant available valuation to the mortgage insurer if requested.

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2015-03</a>	February 11, 2015



## **F-2-08, Mortgage Insurer Contact Information for MI Disclosure Instructions and Release Forms (11/12/2014)**

### **Introduction**

This exhibit contains mortgage insurer contact information for MI Disclosure Instructions and Release Forms.

### **Mortgage Insurer Contact Information for MI Disclosure Instructions and Release Forms**

Seller/Servicers must return Mortgage Insurance (MI) Disclosure Instructions and Release forms to each mortgage insurer on or before October 1, 2010, using the contact information provided below.

Mortgage Insurer	Contact to which the Mortgage Insurance Disclosure Instructions and Release must be sent at each Mortgage Insurer
CMG Mortgage Insurance Company	No further authorization need be provided to CMG MI in order for CMG MI to provide Fannie Mae with Information with respect to loans owned or to be owned by Fannie Mae, or in connection with which Fannie Mae is or will become a trustee for the benefit of a third party. CMG MI considers that authorization is already

<b>Mortgage Insurer</b>	<b>Contact to which the Mortgage Insurance Disclosure Instructions and Release must be sent at each Mortgage Insurer</b>
	provided by virtue of the fact that CMG MI's First Lien Master Policy defines "Insured" to include the owner of a loan or the trustee of a loan for the benefit of a third party, or, in the case of a loan under review for purchase by Fannie Mae, by virtue of the fact that Fannie Mae is authorized by the Seller/Servicer to obtain pre-purchase information from CMG MI.
Essent Guaranty, Inc.	<p>No further authorization need be provided to Essent Guaranty in order for Essent to provide Fannie Mae with loan insurance information. Authorization is already provided under Section III(B) of Essent's Master Policy.</p> <p>If you have questions, contact Essent Client Services at 1-877-569-6547.</p>
Genworth Mortgage Insurance Corporation	<p>Fax Submissions: (919) 870-3751</p> <p>E-mail Submissions:  <a href="mailto:documentmanagementservices@genworth.com">documentmanagementservices@genworth.com</a></p> <p>Mail/Overnight Submissions:</p> <p>Genworth Mortgage Insurance        8325 Six Forks Road        Raleigh, NC 27615        Attention: Central Imaging – Fifth Floor</p>
Mortgage Guaranty Insurance Corporation	<p>E-mail Submissions: <a href="mailto:ecommerce_services@mgic.com">ecommerce_services@mgic.com</a></p> <p>Mail/Overnight Submissions:</p> <p>MGIC – eCommerce Services        270 E Kilbourn Ave        Milwaukee, WI 53202</p>
PMI Mortgage Insurance Co.	No further authorization need be provided to PMI in order for PMI to provide Fannie Mae with information with respect to loans owned or to be owned by Fannie Mae, or in connection with which Fannie Mae is or will become a trustee for the benefit of a third party. PMI considers that authorization is already provided by virtue of the fact that PMI's First Lien Master Policy defines

<b>Mortgage Insurer</b>	<b>Contact to which the Mortgage Insurance Disclosure Instructions and Release must be sent at each Mortgage Insurer</b>
	"Insured" to include the owner of a loan or the trustee of a loan for the benefit of a third party, or, in the case of a loan under review for purchase by Fannie Mae, by virtue of the fact that Fannie Mae is authorized by the seller/servicer to obtain pre-purchase information from PMI.
Radian Guaranty Inc.	Fax Submissions: 1-888-860-6457  E-mail Submissions: <a href="mailto:ProfileAdministration@Radian.biz">ProfileAdministration@Radian.biz</a>  Mail/Overnight Submissions:  Radian Guaranty – Profile Administration 1601 Market Street, 6th Floor Philadelphia, PA 19103
Republic Mortgage Insurance Company (RMIC)	Fax Submissions: 1-800-849-7642  E-mail Submissions: <a href="mailto:servicing@rmic.com">servicing@rmic.com</a>  Mail/Overnight Submissions:  RMIC 101 N. Cherry Street Winston-Salem, NC 27101 Attention: Policy Servicing
Triad Guaranty Insurance Corporation	<a href="mailto:FM-SVC-InfoRelease@tgc.com">FM-SVC-InfoRelease@tgc.com</a>
United Guaranty Residential Insurance Company	<a href="mailto:Master_policy_servicing@ugcorp.com">Master_policy_servicing@ugcorp.com</a> , with questions directed to 1-877-642-4642.  Questions related to individual loans can still be directed to <a href="mailto:ugcqc@ugcorp.com">ugcqc@ugcorp.com</a> or to 1-888-822-5584.



## F-2-09, Reporting the Principal Amount for Modified Mortgage Loans with Principal Forbearance (11/12/2014)

### Introduction

This exhibit contains reporting the principal amount for modified mortgage loans with principal forbearance.

### Reporting the Principal Amount for Modified Mortgage Loans with Principal Forbearance

The chart below indicates how to report the principal amount for modified mortgage loans with principal forbearance on the LAR by remittance type.

Reporting LAR Liquidations	Reporting for Remittance Type Actual/Actual	Reporting for Remittance Type Scheduled/Actual	Reporting for Remittance Type Scheduled/Scheduled (Portfolio) (also called MRS or MBS-Acquired)
<b>Payoff</b> (Action Code 60)	Actual UPB = \$0.00  Principal Amount = Prior Month Ending Actual UPB + Principal Forbearance Amount	Actual UPB = \$0.00  Principal Amount = Prior Month Ending Actual UPB + Principal Forbearance Amount	Actual UPB = \$0.00  Principal Amount = Prior Month Scheduled UPB + Principal Forbearance Amount
<b>Repurchase</b> (Action Code 65)	Actual UPB = \$0.00  Principal Amount = (Prior Month Ending Actual UPB + Principal Forbearance Amount) x Purchase Price	Actual UPB = \$0.00  Principal Amount = (Prior Month Ending Actual UPB + Principal Forbearance Amount) x Purchase Price	Actual UPB = \$0.00  Principal Amount = (Prior Month Scheduled UPB + Principal Forbearance Amount) x Purchase Price
<b>Foreclosure</b> (Action Codes 70, 71, 72)	Actual UPB <sup>1</sup> = Actual UPB reported as of	Actual UPB <sup>1</sup> = Actual UPB reported as of	Actual UPB <sup>1</sup> = Actual UPB reported as of



<b>Reporting LAR Liquidations</b>	<b>Reporting for Remittance Type Actual/Actual</b>	<b>Reporting for Remittance Type Scheduled/Actual</b>	<b>Reporting for Remittance Type Scheduled/Scheduled (Portfolio) (also called MRS or MBS-Acquired)</b>
	the end of the prior reporting month.  Principal Amount = \$0.00	the end of the prior reporting month.  Principal Amount = \$0.00	the end of the prior reporting month.  Principal Amount = Prior Month Scheduled UPB + Principal Forbearance Amount

<sup>1</sup>Actual UPB reported as of the end of the prior reporting month, not including principal forbearance.

#### Action Code Descriptions

- Action Code 60 - Borrower Payoff/Investor Payoff
- Action Code 65 - Repurchase
- Action Code 70 - Liquidation Held for Sale
- Action Code 71 - Liquidated Third-Party Sale/Condemnation/Short Sale/Assigned to FHA/VA
- Action Code 72 - Liquidated-Pending Conveyance



## **F-2-10, Servicing Fees for MBS Mortgage Loans (11/12/2014)**

### **Introduction**

This exhibit contains servicing fees for MBS mortgage loans.

### **Servicing Fees for MBS Mortgage Loans**

The following table describes the servicing fees that apply to MBS mortgage loans.

<b>Product</b>	<b>Servicing Fee</b>
HUD-guaranteed Section 184 mortgage loans and FHA-insured Section 248 mortgage loans with a fixed interest rate	0.25% minimum fee 0.5% maximum fee
All other fixed-rate mortgage loans	0.25% minimum fee
FHA-insured Section 248 mortgage loans with an adjustable interest rate	0.25% minimum fee 0.5% maximum fee
Uniform Hybrid adjustable rate mortgage (ARM) loans (5/1 Hybrid ARM Plan 3252)	0.125% minimum fee
All other ARM loans	0.25% minimum fee



## **F-2-11, Servicing Fees for Portfolio Mortgage Loans (11/12/2014)**

### **Introduction**

This exhibit contains servicing fees for portfolio mortgage loans.

### **Servicing Fees for Portfolio Mortgage Loans**

The following table describes the servicing fees that apply to portfolio mortgage loans.

<b>Product</b>	<b>Servicing Fee</b>
RD direct-leveraged conventional fixed-rate mortgage loans and RD-guaranteed fixed-rate mortgage loans	0.25% minimum fee
HUD-guaranteed Section 184 mortgage loans and FHA-insured Section 248 mortgage loans with a fixed interest rate	0.5% maximum fee 0.25% minimum fee
FHA-insured Section 248 mortgage loans with an adjustable interest rate	0.25% minimum fee 0.5% maximum fee
HomeStyle Renovation mortgage loans with a fixed interest rate	0.25% minimum fee

<b>Product</b>	<b>Servicing Fee</b>
HomeStyle Construction-to-Permanent mortgage loans	0.25% minimum fee  1% maximum fee during construction phase, only if the mortgage is delivered under a commitment that specifies the premium pricing option  0.5% maximum fee during permanent phase, only if the mortgage is delivered under a commitment that specifies the premium pricing option
FHA Title I mortgage loans	0.5% minimum fee  1.25% maximum fee
Fixed-rate second-lien mortgage loans	0.5% minimum fee  1.25% maximum fee
Conventional fixed-rate, fully amortizing first-lien mortgage loans with the scheduled/scheduled remittance type	0.25% minimum fee
All other fixed-rate monthly payment first-lien mortgage loans with an actual/actual or scheduled/actual remittance type	Either 0.25% or 0.375% minimum fee (at lender's option)
Biweekly payment first-lien mortgage loans	Either 0.25% or 0.375% minimum fee (at lender's option)
All adjustable rate mortgage (ARM) loans	0.25% minimum fee

## Chapter F-3, Glossary



### Glossary

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#### Introduction

This chapter provides a list of terms used throughout this Guide with associated definitions.

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#### In This Chapter

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## **F-3-01, Glossary of Fannie Mae Terms: A (11/12/2014)**

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### **accrual rate**

The rate at which interest is calculated; for a particular remittance date for an MBS pool, it is the mortgage interest rate due under the terms of the mortgage note during the period beginning on the second day of the month preceding the remittance date and ending on the first day of the month in which such remittance date occurs, less the servicer's servicing spread.

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### **acquired bifurcated mortgage loan**

A bifurcated mortgage loan that has been through foreclosure or Mortgage Release but has not been sold by Fannie Mae.

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### **acquired property**

A property for which Fannie Mae has gained title through foreclosure or acceptance of a Mortgage Release (deed-in-lieu of foreclosure); often referred to as real estate owned (REO).

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### **active bifurcated mortgage loan**

A bifurcated mortgage loan that has not been foreclosed upon.

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### **active document custodian**

An entity that has certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year.

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### **actual/actual remittance type**

A remittance type that requires the servicer to remit to Fannie Mae only the actual interest due (if it is collected from borrowers) and the actual principal payments collected from borrowers.

---

### **ARM Flex®**

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using either a fixed MBS margin or a weighted-average MBS margin). Because the application of the interest rate caps for the mortgage loan and the pool will coincide, the pass-

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through rate for a mortgage loan will not increase on any change date in which the interest rate cap limits the interest rate that is charged to the borrower.

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### **ARM Flex Plus®**

ARM MBS pools that provide interest accruals at a weighted-average pool accrual rate (which is developed by using a fixed MBS margin) and allow interest rate caps to be applied independently to the individual mortgage loans in the pool and to the pass-through rate for the pool. This means that the pass-through rate for a mortgage loan may continue to increase even when no further increases can be made to the borrower's interest rate.

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### **assignment of rents**

A written agreement wherein the owner of a property gives another party, such as the mortgagee or creditor, the right to collect rents, manage the property, pay expenses, and apply the net income toward delinquent monthly payments.

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### **assumption and release agreement**

A written agreement whereby Fannie Mae releases a borrower from personal liability under the mortgage loan because a second party (the property purchaser) has agreed to meet the borrower's obligations under the mortgage loan.

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### **Automated Drafting System (ADS)**

The system used to process P&I remittances related to MBS pools that have the standard remittance cycle, MBS pools that have the RPM remittance cycle (except for those that have a 6th of the month remittance date), scheduled P&I remittances related to MBS Express pools, MBS guaranty fees and guaranty fee buydown charges for all MBS pools, and commitment-related or mortgage-related fees and charges for portfolio mortgage loans and MBS mortgage loans.

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## **F-3-02, Glossary of Fannie Mae Terms: B (11/12/2014)**

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### **bankruptcy cramdown**

A process by which a bankruptcy court divides a borrower's debts into secured and unsecured portions. For a mortgage debt, the secured portion is equal to the current appraised value of the

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property and the unsecured portion is equal to the difference between the UPB of the mortgage loan and the appraised value of the property. The borrower is placed under a payment plan that will result in some of the unsecured debt being paid off in three to five years. If the borrower successfully completes the repayment plan, the remainder of the unsecured debt is discharged.

---

### **Beneficial easement**

An easement is that generally enhances the use or value of a property by allowing the property owner a limited use of another property, usually a contiguous property.

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### **bifurcated mortgage loan**

A mortgage loan or property for which the current servicer is not the responsible party for the selling representations and warranties and/or for the prior servicing responsibilities or liabilities.

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### **Borrower Response Package**

All of the required documentation that the borrower is required to provide in response to a foreclosure prevention solicitation.

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### **Borrower Solicitation Package**

A standardized foreclosure prevention solicitation package that provides the borrower with information on all workout options and the required documentation that must be submitted to be evaluated for a workout option.

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### **Burdensome easement**

An easement that may be detrimental to the use or value of the security property.

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### **business day**

A day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York (or other agent acting as Fannie Mae's fiscal agent) is authorized or obligated by law or executive order to remain closed, or (3) a day on which the main offices of Fannie Mae in the District of Columbia are scheduled to be closed. In this Guide, the word "day" without the modifier "business" refers to a calendar day.

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**buydown account**

An account in which funds are held so that they can be applied as part of the monthly payment as each payment comes due during the period that an interest rate buydown plan is in effect.



**F-3-03, Glossary of Fannie Mae Terms: C (11/12/2014)**

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**call abandonment rate**

The percentage of calls that are not intercepted by a live operator before being disconnected (pure data with no exclusions for servicer thresholds, service levels, or call blocking).

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**call blockage rate**

The percentage of calls that did not connect internally with the servicer due to circuit unavailability or programmatic blockage of calls by the automated call distribution system.

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**call option**

A provision in the mortgage that gives Fannie Mae the right to call the mortgage due and payable at the end of a specified period for whatever reason.

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**cancellation of mortgage insurance**

Notification by the mortgage insurer that it has cancelled coverage in connection with a specified mortgage loan as of a specified date due to a breach of one or more provisions of the applicable mortgage guaranty insurance policy.

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**capitalization**

The addition of certain amounts due under the mortgage loan—such as T&I payments made by the servicer or delinquent interest installments—to the UPB of the mortgage loan, either because the borrower was unable to pay them or the servicer paid them on the borrower's behalf.

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**Cash Remittance System (CRS)**

The system used to process P&I remittances for portfolio mortgages, P&I remittances for MBS pools that have the RPM remittance cycle and a 6th of the month remittance date, and



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unscheduled P&I remittances for MBS pools that have the MBS Express remittance cycle, as well as special remittances for all mortgages.

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**cash reserves**

Liquid assets such as cash, savings, money market funds, or marketable stocks or bonds (excluding retirement accounts).

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**Claim denial (mortgage insurance)**

Notification by the mortgage insurer that a claim will not be paid in connection with a specified mortgage loan due to a breach of one or more provisions of the applicable mortgage guaranty insurance policy (for example, its obligation to produce documents).

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**clearing account**

A bank account that is used for the temporary deposit of funds until they can be appropriately identified and transferred into a permanent account.

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**co-borrower**

For Fannie Mae's purposes, this term is used to describe any borrower other than the first borrower whose name appears on the mortgage note, even when that person owns the property jointly with the first borrower (and is jointly and severally liable for the note).

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**coinsurance clause**

A provision in a property insurance policy that states the minimum amount of coverage that must be maintained—as a percentage of the total value of the property—in order for claims for insurance losses to be paid based on replacement costs up to the total coverage amount of the insurance policy.

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**community lending mortgage loan**

A mortgage loan for which the borrower or the location of the security property satisfies the criteria for financing under one of Fannie Mae's community lending products that is designed to provide housing finance opportunities for low-income and moderate-income borrowers, to revitalize neighborhoods, or to reverse historical patterns of neglect and decay.

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### **compensatory fee**

A fee Fannie Mae charges as compensation for damages that may be incurred as the result of a seller/servicer's failure to comply with a specific policy or procedure or to emphasize the importance Fannie Mae places on a particular aspect of the seller/servicer's performance.

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### **concurrent mortgage loan sale**

An exchange of mortgage loans of like terms and quality between Fannie Mae and another seller.

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### **concurrent sales participation pool mortgage loan**

A mortgage loan that is part of a participation pool that was created as a result of a concurrent mortgage loan sale.

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### **condemnation**

Depending on context, may refer to a determination that a building is not fit for use or is dangerous and must be destroyed, or the taking of private property for a public purpose through an exercise of the right of eminent domain.

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### **conforming mortgage loan**

A conventional mortgage loan that had an origination-date principal balance not exceeding the current Fannie Mae loan limit. ("Current" refers to when Fannie Mae purchased or securitized the mortgage.) If a mortgage was originated prior to the current year, the loan limit that was in effect on the origination date is disregarded.

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### **cooperative (co-op) project**

A residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.

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### **cramdown**

See *bankruptcy cramdown*.

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**credit score**

When used by Fannie Mae, the classic FICO score developed by Fair Isaac Corporation.

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**curtailment**

An additional principal payment.

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**custodial account**

A bank account that a seller/servicer must establish to hold the funds of others—the borrower and Fannie Mae—as opposed to any account established to hold the seller/servicer’s corporate funds.

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**custody documents**

The original mortgage note, an original unrecorded assignment to Fannie Mae (or a copy of the original recorded assignment), and, in some cases, the original mortgage insurance or loan guaranty certificate, and, if the mortgage has been modified, the modification agreement.

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**F-3-04, Glossary of Fannie Mae Terms: D (02/11/2015)**

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**data breach**

An incident of unauthorized access or use of borrower information that results in any loss, unauthorized use, disclosure, unauthorized access, or unauthorized acquisition of information that is considered NPI (as defined by the Gramm-Leach-Bliley Act, 15 USC § 6809).

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**deferred payment obligation (DPO)**

The unpaid portion of the mortgage insurance claim where the failure to pay the full amount due on the claim is solely attributable to the mortgage insurer’s financial inability to pay or its insolvency.

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**deferred payment obligation (DPO) mortgage insurer**

A mortgage insurer which is insolvent or has the financial inability to pay its claims in full.

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**delinquency advance**

An amount advanced by a servicer in respect of interest or principal on one or more mortgage loans, as required by their servicing contract, even though the servicer has not collected the actual funds from the related borrowers.

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**demand deposit account**

A bank account in which the funds are available for withdrawal at any time without penalty.

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**deterioration**

A loss in value that is caused by deterioration in the physical condition of a property's improvements.

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**direct surety bond**

A class of bond that is written to afford protection for the direct acts of the principal in the event of a loss caused by the principal's negligence, lack of ability, or dishonest act.



**F-3-05, Glossary of Fannie Mae Terms: E (11/12/2014)**

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**early delinquency counseling**

A requirement for certain mortgage loan products in which servicers must offer financial counseling to borrowers in the early stages of delinquency.

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**early payment default underwriting review**

A review of the seller's initial underwriting for a mortgage loan that becomes delinquent during the early years of the mortgage term.

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**electronic**

Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

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### **electronic mortgage (eMortgage)**

A mortgage loan for which the promissory note and possibly other documents (such as the security instrument and mortgage loan application) are created and stored electronically rather than by using traditional paper documentation that has a pen and ink signature. Most (but not all) eMortgages typically consist of a paper security instrument and an electronic note. The terms “electronic mortgage,” “electronic mortgage loan,” “eMortgage,” and “eMortgage loan” used in this Guide have the same meaning.

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### **electronic record**

A contract or other record created, generated, sent, communicated, received, or stored by electronic means.

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### **electronic signature**

An electronic sound, symbol, or process, attached to or logically associated with a contract or other record executed or adopted by a person with the intent to sign the record.

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### **elimination**

The process of removing a property from Fannie Mae’s real estate owned (REO) inventory system of record.

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### **escrow deficiency**

The amount of a negative balance in the escrow account, including advances the servicer has made on the borrower’s behalf for tax and insurance payments.

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### **escrow shortage**

The amount by which the current escrow account balance falls short of the target balance at the time of the escrow analysis.

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### **excess yield**

The amount by which the net note rate exceeds the sum of its required net yield and any specified minimum servicing fee. For ARM loans, this also may be the amount by which the net mortgage margin exceeds its required margin.

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## **F-3-06, Glossary of Fannie Mae Terms: F (11/12/2014)**

### **Fannie Mae Portfolio**

A seller/servicer's Fannie Mae portfolio includes mortgage loans or participation interests in MBS pools, first and second mortgage loans held in Fannie Mae's portfolio, Fannie Mae's participation interests in first or second mortgage loans in participation pools held in its portfolio, and multifamily mortgage loans.

### **Fannie Majors**

*See multiple pool.*

### **financed mortgage insurance premium**

A mortgage insurance premium for which the borrower is not required to make an advance payment from his or her own funds. Rather, the amount required to pay for a lump-sum premium is financed by including it as part of the original mortgage loan amount.

### **forbearance plan**

One of the workout options that provides for a period of reduced or suspended payments, followed by either full reinstatement, mortgage loan payoff, or workout option, to enable the borrower eventually to cure the entire delinquency.

### **foreclosure sale rescission**

The legal process of reversing a foreclosure sale and removing Fannie Mae as titleholder to the property.

### **Freddie Mac Imminent Default Indicator (IDI)**

A statistical model that predicts the likelihood of default or serious delinquency for mortgage loans that are less than 60 days past due.

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**full payment amount**

For ARM loans, the monthly payment required, at each interest change date, to amortize the then outstanding principal balance at the new interest rate over the remaining mortgage term.

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**F-3-07, Glossary of Fannie Mae Terms: G (11/12/2014)**

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**group home**

A residential structure utilized for occupancy by persons with disabilities.

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**guaranty fee**

Compensation that a seller pays Fannie Mae for the right to participate in the MBS program.

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**guaranty fee buydown**

An agreement to reduce the guaranty fee remittance rate for an MBS mortgage loan below the contractual rate for the applicable servicing option and remittance cycle in return for the seller's payment of a fee to Fannie Mae.

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**guaranty fee buyup**

An agreement to increase the guaranty fee remittance rate for an MBS mortgage above the contractual rate for the applicable servicing option and remittance cycle in return for Fannie Mae's paying a fee to the lender.

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**F-3-08, Glossary of Fannie Mae Terms: H (11/12/2014)**

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**home mortgage loan**

A residential mortgage loan secured by a one- to four-unit property.

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### **HomeStyle Renovation mortgage**

A mortgage that enables eligible borrowers to obtain financing to renovate, remodel, repair, or upgrade their existing home or a home that they are purchasing.

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### **F-3-09, Glossary of Fannie Mae Terms: I (11/12/2014)**

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### **imputed interest**

The interest that Fannie Mae assesses on a loan after it has been foreclosed or liquidated in order to compensate it for the loss of the use of the funds advanced.

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### **inactive document custodian**

An entity that has not certified MBS or portfolio mortgage loans for Fannie Mae in the previous calendar year but is holding mortgage loans in custody for Fannie Mae.

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### **institutional lender**

A financial institution that invests in mortgage loans and keeps them in its own portfolio.

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### ***inter vivos* revocable trust (or living trust)**

A trust that an individual creates during his or her lifetime that becomes effective during his or her lifetime, but which can be changed or canceled at any time for any reason during its creator's lifetime.

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### **interest accrual rate**

The percentage rate at which interest accrues on the mortgage. In most cases, it is also the rate used to calculate the monthly payments, although it is not used for ARM loans with payment change limitations.

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### **interest rate differential**

See *yield difference*.

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**issue date**

The first day of the month in which securities backed by an MBS pool are issued.

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**issue date principal balance**

The principal balance of each mortgage loan in an MBS pool after crediting the principal portion of any monthly payments due on or before the issue date for the related securities (whether or not it was actually collected) and after crediting any unscheduled partial payment or other recovery of principal received on or before the issue date (as long as it was not accompanied by payment of an interest amount that represented scheduled interest due for the month after the payment was made).

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**F-3-10, Glossary of Fannie Mae Terms: J (11/12/2014)**

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**no applicable terms**

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**F-3-11, Glossary of Fannie Mae Terms: K (11/12/2014)**

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**no applicable terms**

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**F-3-12, Glossary of Fannie Mae Terms: L (11/12/2014)**

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**leasehold estate**

A way of holding title to a property wherein the borrower does not actually own the property, but rather has a recorded long-term lease on it.

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**Lender Adjusted Net Worth**

Seller/servicer net worth, as defined and calculated by Fannie Mae, is the seller/servicer's Total Equity Capital as determined by Generally Accepted Accounting Principles (GAAP), less

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goodwill and other intangible assets (excluding mortgage loans servicing rights) and, based on Fannie Mae's assessment of associated risks, a possible deduction of "affiliate receivables" and "pledged assets net of associated liabilities" (hereinafter referred to as "Lender Adjusted Net Worth").

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### **Lender Contract**

Refers to all of the seller or servicer's contracts and commitments with Fannie Mae.

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### **lender-purchased mortgage insurance**

Mortgage insurance coverage for a conventional mortgage loan that the seller pays for by using its own funds, rather than requiring the borrower to include periodic accruals for such coverage as part of his or her monthly payment.

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### **limited payment amount**

The monthly payment established for an ARM loan when the mortgage limits the amount by which a payment can change. It will not be sufficient to fully amortize the mortgage loan so it will result in negative amortization.

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### **loan-level price adjustment (LLPA)**

LLPAs are assessed based on certain eligibility or other loan features, such as credit score, loan purpose, occupancy, number of units, product types, etc.

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## **F-3-13, Glossary of Fannie Mae Terms: M (11/12/2014)**

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### **make whole amount**

The amount that must be realized from a property disposition to avoid incurring a loss. For a foreclosure, it is the total mortgage indebtedness less the amount of any mortgage insurance claim proceeds. For a short sale, it is the sum of the current UPB of the mortgage loan, interest (computed at the mortgage note rate) from the last paid installment date through the expected date of closing, and miscellaneous expenses, less any cash contributions from the borrower or property purchaser.

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### **make whole payment**

The amount that a party responsible for a breach of a selling representation or warranty or a servicing breach must pay Fannie Mae so that Fannie Mae does not incur a loss on the mortgage loan or the property.

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### **mandatory delivery commitment**

A portfolio mortgage loan commitment that generally requires the seller to deliver eligible mortgage loans equal to at least the minimum required delivery amount (which is an amount that will not be less than the original commitment amount by more than \$10,000 or 2.5% of the original amount) by the expiration date of the commitment.

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### **manufactured home**

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system. Other factory-built housing (not built on a permanent chassis), such as modular, prefabricated, panelized, or sectional housing, is not considered manufactured housing. The manufactured home must be built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 (as amended and in force at the time the home is manufactured) and that appear in HUD regulations at 24 C.F.R. Part 3280. Compliance with these standards will be evidenced by the presence of a HUD Data Plate that is affixed in a permanent manner near the main electrical panel or in another readily accessible and visible location. The manufactured home must be a one-family dwelling that is legally classified as real property. The towing hitch, wheels, and axles must be removed and the dwelling must assume the characteristics of site-built housing.

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### **margin**

The amount that is added to an index value to create the mortgage interest rate for an ARM; an amount (expressed as a percentage) that is used in the calculation of the purchase price for an ASAP Plus transaction.

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### **margin differential**

The margin shortage that occurs when the net mortgage margin is less than Fannie Mae's required margin.

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**mark-to-market loan-to-value (MTMLTV) ratio**

The gross UPB of the mortgage loan divided by the current value of the property that secures the mortgage loan.

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**market-rate option**

A post-conversion disposition option that allows the seller to determine whether it wants to redeliver a repurchased convertible ARM loan that was in an MBS pool to Fannie Mae following its conversion to a fixed-rate mortgage loan or to retain the repurchased mortgage loan for its portfolio.

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**Master Agreement**

A negotiated contract that enables sellers to submit multiple transactions—both standard and negotiated—under the terms of a single agreement. Terms are specifically negotiated with each seller.

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**master servicer**

The contractually responsible servicer of a mortgage loan or pool of mortgage loans that is included in a subservicing arrangement.

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**MBS Express pool**

An MBS pool for which the servicer remits unscheduled principal payments to Fannie Mae on the 4th business day of the month and scheduled P&I payments on the 18th calendar day (or the preceding business day if the 18th is not a business day).

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**MBS Express remittance cycle**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has two different remittance dates—one for unscheduled principal payments and one for scheduled P&I payments.

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**MBS margin**

One of the factors used to establish the pool accrual rate for an ARM MBS pool on each interest rate change date. For stated-structure ARM MBS pools, it is the difference between the lowest

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mortgage margin in the pool and the sum of the guaranty fee and the minimum servicing fee. For weighted-average ARM MBS pools, the MBS margin may be a fixed margin that the seller specifies or a weighted-average margin. A fixed MBS margin is attained by varying the servicing fee for individual mortgage loans to equalize the differences in their mortgage margins. A weighted-average MBS margin is attained by reducing the various mortgage margins by the applicable guaranty fee and a fixed servicing fee that the seller specifies, thus developing a different MBS margin for each mortgage loan.

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### **MBS mortgage loans**

A mortgage loan (or participation interest in a mortgage loan) that is part of an MBS pool.

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### **MBS pool**

All of the mortgage loans or participation interests in mortgage loans (delivered under one or more contracts) that will back an individual issuance of MBS.

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### **MBS pool delivery**

Group or groups of mortgage loans (or participation interests in mortgages) delivered by a seller for the purpose of creating a pool to back an MBS issuance. These deliveries are accepted in one or more pool purchase transactions, rather than being accepted as individual mortgage loans (or participation interests) to be held in Fannie Mae's portfolio. Deliveries under this program are, therefore, referred to as MBS pool deliveries.

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### **MI Direct process**

A mortgage insurance claims process where Fannie Mae files the primary mortgage insurance claims on all conventional first lien mortgage loans on which Fannie Mae bears the risk of loss and are insured under a master primary policy issued by certain participating mortgage insurers.

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### **military indulgence**

A relief provision that either (1) is extended by law (such as by the Servicemembers Civil Relief Act to members of the U.S. military or by any similar state law) to a borrower by reason of military service, or (2) forbearance that is extended to a borrower who has entered (or is about to enter) military service and whose ability to keep his or her mortgage loan current has been (or will be) materially adversely affected by military service.

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### **mortgage loan modification**

The act of changing any of the terms of the mortgage by agreement between the borrower and the note holder.

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### **modification and assumption agreement**

A written agreement to change the interest rate when the due-on-sale (or due-on-transfer) provision of the mortgage is enforced because of a change of ownership. It also releases the previous borrower from personal liability under the mortgage loan.

---

### **modified special servicing option**

A servicing option that was previously available for RD mortgage loans under which the servicer had limited exposure to losses because Fannie Mae would reimburse it for the portion of an allowable loss that RD did not pay.

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### **monthly payment**

The monthly payment of P&I collected by servicers. This may also include escrow items for T&I and is therefore also called the full monthly contractual payment.

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### **monthly remittance**

The total of the interest and principal distribution amounts that a servicer is obligated to remit to Fannie Mae on each remittance date. For scheduled/scheduled remittance types, this represents scheduled principal reductions and scheduled interest accruals, whether or not payments were collected from the borrowers. For scheduled/actual remittance types, this represents scheduled interest accruals (whether or not payments were collected from the borrowers) and actual principal collections.

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### **mortgage loan**

An individual secured loan that is sold to Fannie Mae as a portfolio mortgage loan or in a pool of mortgage loans underlying Fannie Mae-guaranteed MBS. The term includes a participation interest in a mortgage loan where context requires.

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### **Mortgage Release (deed-in-lieu of foreclosure)**

A transfer of title from a delinquent borrower to the servicer in satisfaction of the mortgage debt to avoid foreclosure; also called a voluntary conveyance.

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### **Mortgage Selling and Servicing Contract (MSSC)**

The contract that establishes the basic legal relationship between a seller/servicer and Fannie Mae.

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### **multiple pool**

An MBS pool that consists of pools of mortgage loans delivered by more than one seller; also called Fannie Majors.

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## **F-3-14, Glossary of Fannie Mae Terms: N (11/12/2014)**

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### **net present value (NPV) test**

For HAMP, a test using the NPV model and mortgage loan or borrower attributes (for example, mark-to-market LTV, current monthly payment, current credit score, delinquency status) and various assumptions to determine the value of a modification as compared to no modification.

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### **net yield commitment**

A commitment contract that does not include any amount for the servicing fee as part of its yield. (All of Fannie Mae's commitments are net yield commitments.)

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## **F-3-15, Glossary of Fannie Mae Terms: O (11/12/2014)**

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### **owner of record**

The entity that appears in the public records as the owner of a mortgage; usually the mortgage originator, unless the mortgage is subsequently assigned to someone else and that assignment is recorded.

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## **F-3-16, Glossary of Fannie Mae Terms: P (11/12/2014)**

### **pair-off**

A process under which a lender that is unable to meet the terms of a mandatory delivery commitment pays Fannie Mae a fee calculated against the unused portion of the commitment.

### **participation certificate**

The instrument that evidences an undivided interest in mortgages and obligations secured thereby.

### **participation interest**

An individual interest in a mortgage loan, as specified in the applicable participation certificate.

### **participation pool**

The group of mortgage loans that back a participation certificate. Fannie Mae purchases only a percentage interest in each of the mortgage loans. That interest is the same percentage that is specified on the participation certificate.

### **participation pool mortgage loan**

A mortgage loan that is part of a participation pool that Fannie Mae purchased for its portfolio.

### **pass-through rate**

The rate at which interest is paid to Fannie Mae for a mortgage loan. For mortgage loans held in Fannie Mae's portfolio, it is the lower of the required yield or the mortgage interest rate after deduction of a minimum servicing fee.

### **payment rate**

The percentage rate used to calculate the monthly payment when the payment will not fully amortize the mortgage. It differs from the interest accrual rate.



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**pool**

A collection of mortgage loans (or participation interests) delivered pursuant to one or more pool purchase contracts that secure an individual issuance of MBS.

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**pool accrual rate**

The rate of interest that accrues to the security holder of a stated-structure ARM MBS pool. It is subject to change in accordance with adjustments to the index.

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**pool issue date**

The first day of the month in which MBS are issued.

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**pool purchase contract**

A contract between Fannie Mae and a seller to buy and sell mortgage loans or participation interests for inclusion in an MBS pool. It will be uniquely identified by a pool purchase contract number that appears on its face.

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**pool purchase transaction**

Any MBS transaction between Fannie Mae and a seller in which Fannie Mae purchases a group of mortgage loans or participation interests from the seller for the sole purpose of backing all or part of an issuance of MBS.

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**Pooled from Portfolio (PFP)**

A PFP mortgage loan is a loan that has been (or may be in the future) sold to Fannie Mae as a whole loan and subsequently securitized by Fannie Mae into an MBS pool.

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**portfolio mortgage loan**

A mortgage loan purchased by Fannie Mae to hold in its mortgage portfolio.

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**principal distribution amount**

For a particular remittance date, Fannie Mae's share of the aggregate principal portions of the monthly installments for mortgage loans in an MBS pool that became due from the second day

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of the preceding month to and including the first day of the remittance month (whether or not they were actually collected) and those unscheduled principal recoveries that were collected during the month preceding the month in which the remittance is made. This is the principal amount that will be drafted from the servicer's custodial account.

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### **project development**

A condo, PUD, or co-op housing project.

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### **property securing a mortgage loan**

Consists of the land, all improvements erected on the land, including any replacements or additions erected after the origination of the mortgage loan, and all easements, appurtenances, and fixtures that are part of the property or the improvements.

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### **purchase date**

The date on which Fannie Mae disburses the purchase proceeds for a cash delivery; the date on which Fannie Mae purchases a pool or mortgage loan in an early funding transaction.

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### **purchase price**

The percentage of par that Fannie Mae applies to the UPB of a mortgage submitted as a cash delivery to determine the amount of the purchase proceeds; the amount that Fannie Mae will pay the lender on the purchase date for a pool or mortgage loan being purchased in an early funding transaction.

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## **F-3-17, Glossary of Fannie Mae Terms: Q (11/12/2014)**

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### **Quality Right Party Contact (QRPC)**

A uniform standard for communicating with the borrower, co-borrower, or trusted advisor about resolution of the mortgage loan delinquency.

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### **Quitclaim Deed**

An instrument of conveyance of real property that passes whatever title, claim, or interest that the grantor has in the property, but does not make any representations as to the validity of such

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title. A quitclaim deed is not a guarantee that the grantor has clear title to the property; rather it is a relinquishment of the grantor's rights, if any, in the property. The holder of a quitclaim deed receives only the interest owned by the person conveying the deed.

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## **F-3-18, Glossary of Fannie Mae Terms: R (11/12/2014)**

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### **rapid payment method (RPM) remittance cycle**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that has an early remittance date (usually the 10th of the month, although earlier or later dates can be negotiated) for both scheduled and unscheduled payments.

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### **reclassification**

The movement of a delinquent special servicing option MBS mortgage loan that meets specified criteria from the MBS pool into Fannie Mae's portfolio (where it will then be accounted for as an actual/actual remittance type).

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### **recognition agreement**

An agreement on the part of a co-op corporation to recognize specific rights of sellers who finance share loans in the project (or those of the sellers' successors and assigns).

---

### **recourse**

The obligation of the seller to cover losses the buyer incurs as a result of a default on the note. Under a portfolio mortgage loan transaction, a seller that sells a mortgage loan to Fannie Mae under the "with recourse" servicing option assumes the entire risk of borrower default, while a seller that sells a mortgage loan under the "without recourse" servicing option transfers the risk of borrower default to Fannie Mae. (See *regular servicing option* and *special servicing option* for equivalent terms for MBS transactions.)

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### **redemption period**

The specified period in which a borrower can reclaim foreclosed property by making full payment of the mortgage debt, under a legally enforceable right of redemption in some states.

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### **regular servicing option**

A guaranty fee option for an MBS pool under which the seller assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgage loans under which the servicer is fully responsible for any losses not recovered from the RD. (See *recourse* for the equivalent term for a portfolio mortgage loan delivery.)

---

### **rehabilitation (or renovation) escrow account**

An account that is established at closing for a rehabilitation (or renovation) loan. It includes the rehabilitation (or renovation) costs, the contingency reserve, and any escrowed monthly payments (if applicable) or monies that the borrower provides from his or her own funds. These funds are then used to pay for completed repair and rehabilitation (or renovation) work and, if applicable, to make the monthly payments that come due during the rehabilitation (or renovation) period.

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### **relative**

The borrower's spouse, child, or other dependent or any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship.

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### **remaining term**

Original term less the number of payments that have been applied.

---

### **remittance cycle**

A schedule for determining when funds must be remitted to Fannie Mae each month. Portfolio mortgage loans generally have only a single remittance cycle (regardless of the remittance type), but MBS mortgage loans have three different remittance cycles (standard, RPM, and MBS Express).

---

### **remittance date**

The date on which the servicer's remittances are due to Fannie Mae. There is no specific remittance date for actual/actual remittance types since the remittance is based on the amount of funds accumulated at any time. For scheduled/scheduled remittance types, the usual remittance date for the P&I distribution amounts is the 18th of the month (although the servicer may choose an earlier remittance date under either the RPM or MBS Express remittance cycles). For scheduled/actual remittance types, the remittance date is the 20th of the month.

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**remittance type**

A way of determining the composition of the servicer's required remittance to Fannie Mae. For portfolio mortgage loans, there are three types (actual/actual, scheduled/actual, and scheduled/scheduled).

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**remittance type code**

A unique code that is used to identify monies related to individual drafts reported through the MortgageLinks™ Cash Remittance System. There are a different series of codes for P&I remittances and special remittances.

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**rent loss insurance**

Insurance that protects the landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

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**REOgram**

An automated notice that a property has been acquired by foreclosure or acceptance of a deed-in-lieu, which serves as an early warning system for potential property dispositions.

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**repayment plan**

An arrangement made to repay delinquent installments or advances.

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**repurchase date**

The date through which interest must be calculated when a seller/servicer is required to repurchase a mortgage loan or an acquired property from Fannie Mae; the date on which the seller redelivers mortgage loans funded in certain early funding transactions to Fannie Mae for portfolio mortgage loan purchase or for securitization under an As Soon As Pooled Sale transaction.

---

**repurchase price**

The percentage of par that the seller/servicer must apply to the unpaid balance or outstanding debt of a mortgage loan or acquired property that it has to repurchase from Fannie Mae; the sum of the purchase price and the price differential for an As Soon As Pooled Plus™ settlement.

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### **required margin**

Fannie Mae's posted commitment margin for each ARM plan plus all applicable adjustments.

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### **required yield**

Fannie Mae's posted commitment yield plus all applicable adjustments. This yield does not include a servicing fee.

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### **rescission of mortgage insurance**

Notification by the mortgage insurer that it has made the determination to rescind coverage in connection with a specified mortgage loan due to a breach of one or more provisions of the applicable mortgage guaranty insurance policy.

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### **residential home mortgage**

A mortgage that covers a one- to four-unit dwelling that is used to provide living accommodations.

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### **responsible party**

A seller, servicer, or other entity that is responsible for the selling representations and warranties and/or for the servicing responsibilities or liabilities on a mortgage loan.

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### **rule of 78s**

A method used to calculate an interest rebate when an installment loan that had add-on interest is paid off (or refinanced) prior to its maturity date.

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## **F-3-19, Glossary of Fannie Mae Terms: S (11/12/2014)**

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### **sale date**

For post-delivery servicing transfers, the date on which the ownership of the servicing rights and the legal liability for the servicing of Fannie Mae mortgage loans transfer from one servicer to another.

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### **scheduled/actual remittance type**

A method of sending monthly payments to Fannie Mae requiring servicers to remit the scheduled interest due (whether or not it is collected from borrowers) and the actual principal payments that it collects from borrowers.

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### **scheduled/scheduled remittance type**

A method of sending monthly payments to Fannie Mae requiring servicers to remit the scheduled interest due and the scheduled principal due (whether or not payments are collected from borrowers).

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### **security**

An ownership interest in a pool of mortgage loans, which is evidenced by a book-entry account within the Federal Reserve's book-entry system.

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### **security balance**

The balance for an MBS mortgage loan (or a participation interest in an MBS mortgage loan) that is determined by reducing Fannie Mae's share of the issue date principal balance of the mortgage loan by its share of any principal distribution amounts included in subsequent monthly remittances; the balance for an MBS pool that represents the aggregate security balance of all the mortgage loans (or participation interests) in the pool as of any date, which is equal to the aggregate issue date principal balances of the mortgage loans (or participation interests) less any subsequent principal distribution amounts.

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### **Servicer's Reconciliation Facility (SURF)**

A loan activity reporting system designed to allow servicers to report and view loan-level portfolio data.

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### **servicing compensation**

The income that the servicer receives for the collection of payments and management of operational procedures related to a mortgage loan. It includes a base servicing fee, plus late charges, fees charged for special services, yield differential adjustments or excess yield, and, sometimes, prepayment premiums.

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## **Servicing Contract**

Any of the agreements between the servicer and Fannie Mae relating to the servicing of MBS mortgage loans.

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## **servicing spread**

The fixed percentage amount for each mortgage loan or participation interest in a weighted-average ARM MBS pool that consists of the guaranty fee and the servicing fee. It cannot be less than the sum of the minimum allowable servicing fee and the guaranty fee applicable to the pool, nor greater than the sum of the maximum allowable servicing fee and the guaranty fee.

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## **short sale**

A procedure wherein Fannie Mae agrees to the borrower's selling of his or her property for an amount less than that which is owed to Fannie Mae in order to avoid a foreclosure.

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## **single pool**

An MBS pool that consists of mortgage loans or participation interests delivered by a single seller.

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## **single-family mortgage loan**

A mortgage loan secured by a property that contains one to four residential dwelling units.

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## **special remittance**

A remittance, which generally is of a nonrecurring nature for an individual mortgage loan, that relates to a mortgage loan that has been liquidated through a short sale or foreclosure sale or the acceptance of a Mortgage Release (deed-in-lieu of foreclosure). It also may relate to a mortgage loan that has been paid in full, a mortgage loan for which Fannie Mae has advanced funds to protect its security, or a mortgage loan still in Fannie Mae's portfolio that requires a purchase adjustment.

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## **special servicing option**

A guaranty fee option for an MBS pool under which Fannie Mae assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which Fannie



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Mae will bear all losses not recovered from the RD. (See *recourse* for an equivalent term for a cash delivery.)

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**standard remittance cycle**

A payment cycle used for scheduled/scheduled remittance types for MBS pools that requires the scheduled and unscheduled payments to be remitted to Fannie Mae on the 18th calendar day of each month (or on the preceding business day if the 18th is not a business day).

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**servicer**

A servicer that has contracted with the contractually responsible servicer of a mortgage loan or pool of mortgage loans to perform the ongoing servicing activities for the mortgage loan or pool.

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**servicing arrangement**

An arrangement wherein the contractually responsible servicer of a mortgage loan or pool of mortgage loans hires another servicer to perform its servicing functions.

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**sum of the digits interest calculation**

See *rule of 78s*.

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**supervised lender**

A financial institution that is a member of the Federal Reserve System, or an institution whose accounts are insured by the FDIC or the NCUA.

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**F-3-20, Glossary of Fannie Mae Terms: T (11/12/2014)**

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**take-out option**

A post-conversion disposition option that requires the seller to redeliver as a portfolio mortgage loan a repurchased convertible ARM loan that was in an MBS pool following its conversion to a fixed-rate mortgage loan and to continue any recourse or credit enhancement that initially applied to the mortgage loan (unless Fannie Mae agrees that it is no longer needed).

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### **third-party sale**

A foreclosure sale at which the successful purchaser of the property is someone other than the mortgagee or the borrower or their representatives.

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### **total or near-total loss**

A loss that is greater than 80% of the coverage amount of the insurance policy.

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### **transfer date**

For post-delivery servicing transfers, the date on which the physical transfer of the servicing or subservicing responsibilities from the transferor servicer or subservicer, as the case may be, to the transferee servicer or subservicer occurs. It may not necessarily be the same date as the sale date identified in the servicer transfer agreement.

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### **transfer of ownership**

Any means by which the ownership of property changes hands. Fannie Mae considers the transfer of all or any part of the property or any interest in the property to be a transfer of ownership, including the purchase of a property “subject to” the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract, grant deed, or any other land trust device. In cases in which an *inter vivos* revocable trust is the borrower, Fannie Mae also considers any transfer of a beneficial interest in the trust to be a transfer of ownership.

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### **trial period plan**

A three-month period prior to the modification effective date during which the borrower makes payments approximating an amount equal to the modified payment as a condition of the modification. If the borrower is facing imminent default, the trial period must be four months in length.

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### **two- to four-unit property**

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

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## **F-3-21, Glossary of Fannie Mae Terms: U (11/12/2014)**

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### **underwriting documents**

All of the documentation used to support the lending decision for a mortgage—such as the loan application and other documents used to verify a borrower’s employment, income, deposits, and credit history.

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### **underwriting performance review**

An after-the-fact review and risk assessment for a sampling of the mortgage loans Fannie Mae purchases or securitizes to ensure that they satisfy Fannie Mae’s mortgage loan eligibility criteria and underwriting guidelines.

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### **unit mortgage**

A mortgage (or share loan) on an individual residential unit in a PUD, condo, or co-op project.

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## **F-3-22, Glossary of Fannie Mae Terms: V (11/12/2014)**

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### **voluntary conveyance**

See *deed-in-lieu of foreclosure*.

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## **F-3-23, Glossary of Fannie Mae Terms: W (11/12/2014)**

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### **weighted-average pool accrual rate**

The weighted average of the net mortgage interest rates of the mortgage loans in a weighted-average ARM MBS pool, which is the rate at which interest will accrue on the MBS.

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### **weighted-average structure pooling**

A method of creating an ARM MBS pool that results in interest accruals to the security holder at the weighted average of the accrual rates of the mortgage loans in the pool.

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**whole loan delivery**

The submission of a whole mortgage or a participation pool mortgage to Fannie Mae for purchase as a portfolio mortgage. Fannie Mae pays the mortgage seller cash for its mortgage delivery, rather than swapping the mortgage for a mortgage-backed security.

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**F-3-24, Glossary of Fannie Mae Terms: X (11/12/2014)**

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**no applicable terms**

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**F-3-25, Glossary of Fannie Mae Terms: Y (11/12/2014)**

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**yield differential adjustment**

An amount paid to the servicer of a portfolio first mortgage loan when the initial interest rate of a mortgage loan exceeds Fannie Mae's required yield for the commitment under which the mortgage loan was purchased. For ARM loans, a yield differential adjustment occurs if there is excess "margin" rather than yield.

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**F-3-26, Glossary of Fannie Mae Terms: Z (11/12/2014)**

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**no applicable terms**

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## Chapter F-4, *Servicing Guide Resources*



### Servicing Guide Resources

#### Introduction

This chapter provides resources to support this Guide.

#### In This Chapter

This chapter contains the following resources:

F-4-01, References to Fannie Mae's website (11/12/2014) .....	1047
F-4-02, Acronyms and Abbreviations (11/12/2014) .....	1050
F-4-03, List of Contacts (11/12/2014) .....	1055
F-4-04, List of Lender Contracts (11/12/2014) .....	1060



### F-4-01, References to Fannie Mae's website (11/12/2014)

#### Introduction

This topic contains a list of documents that are referenced in this Guide and posted on [Fannie Mae's website](#). The servicer must obtain the documents listed below from [Fannie Mae's website](#) (or any successor site).

Document Name	Location
Allowable Foreclosure Attorney Fees Exhibit	<a href="https://www.fanniemae.com/content/guide_exhibit/allowable-attorney-trustee-foreclosure-fees.pdf">https://www.fanniemae.com/content/guide_exhibit/allowable-attorney-trustee-foreclosure-fees.pdf</a>
Allowable Bankruptcy Attorney Fees Exhibit	<a href="https://www.fanniemae.com/content/guide_exhibit/allowable-bankruptcy-attorney-fees.pdf">https://www.fanniemae.com/content/guide_exhibit/allowable-bankruptcy-attorney-fees.pdf</a>

<b>Document Name</b>	<b>Location</b>
Approved Mortgage Insurers and Related Identifiers	<a href="https://www.fanniemae.com/content/tool/approved-mortgage-insurers-related-identifiers.pdf">https://www.fanniemae.com/content/tool/approved-mortgage-insurers-related-identifiers.pdf</a>
Asset Management Network (AMN)	<a href="https://www.fanniemae.com/singlefamily/asset-management-network">https://www.fanniemae.com/singlefamily/asset-management-network</a>
Bankruptcy Cramdown Template	<a href="https://www.fanniemae.com/content/tool/bankruptcy-cramdown-template.xls">https://www.fanniemae.com/content/tool/bankruptcy-cramdown-template.xls</a>
Borrower Notification Sample Letter	<a href="https://www.fanniemae.com/content/guide_exhibit/borrower-notification-sample-letter.pdf">https://www.fanniemae.com/content/guide_exhibit/borrower-notification-sample-letter.pdf</a>
Cash Remittance System User Guide	<a href="https://www.fanniemae.com/content/user_guide/cash-remittance-system-user-guide.pdf">https://www.fanniemae.com/content/user_guide/cash-remittance-system-user-guide.pdf</a>
Elimination/Rescission Request Template	<a href="https://www.fanniemae.com/content/tool/elimination-rescission-request-template.xls">https://www.fanniemae.com/content/tool/elimination-rescission-request-template.xls</a>
Evaluation Notices	<a href="https://www.fanniemae.com/content/guide_exhibit/evaluation-model-clauses.doc">https://www.fanniemae.com/content/guide_exhibit/evaluation-model-clauses.doc</a>
Fannie Mae Guide Forms	<a href="https://www.fanniemae.com/singlefamily/selling-servicing-guide-forms">https://www.fanniemae.com/singlefamily/selling-servicing-guide-forms</a>
Fannie Mae Legal Documents	<a href="https://www.fanniemae.com/singlefamily/legal-documents">https://www.fanniemae.com/singlefamily/legal-documents</a>
Fannie Mae Single-Family Reverse Mortgage Loan Servicing Manual	<a href="https://www.fanniemae.com/content/guide/reverse-mortgage-loan-servicing-manual.pdf">https://www.fanniemae.com/content/guide/reverse-mortgage-loan-servicing-manual.pdf</a>
Fannie Mae Standard Modification Interest Rate	<a href="https://www.fanniemae.com/content/guide_exhibit/fannie-mae-standard-modification-interest-rate.pdf">https://www.fanniemae.com/content/guide_exhibit/fannie-mae-standard-modification-interest-rate.pdf</a>
Fannie Mae Workout Hierarchy	<a href="https://www.fanniemae.com/content/guide_exhibit/loan-workout-hierarchy.pdf">https://www.fanniemae.com/content/guide_exhibit/loan-workout-hierarchy.pdf</a>
Forbearance Extension Request Template	<a href="https://www.fanniemae.com/content/tool/servicer-forbearance-extension-template.xls">https://www.fanniemae.com/content/tool/servicer-forbearance-extension-template.xls</a>
Foreclosure Time Frames and Compensatory Fee Allowable Delays Exhibit	<a href="https://www.fanniemae.com/content/guide_exhibit/foreclosure-timeframes-compensatory-fees-allowable-delays.pdf">https://www.fanniemae.com/content/guide_exhibit/foreclosure-timeframes-compensatory-fees-allowable-delays.pdf</a>
HomeSaver Solutions™ Network	<a href="https://www.fanniemae.com/singlefamily/technology-manager">https://www.fanniemae.com/singlefamily/technology-manager</a>

Document Name	Location
How to Obtain Access to HomeTracker	<a href="https://www.fanniemae.com/content/tool/hometracker-how-obtain-access.pdf">https://www.fanniemae.com/content/tool/hometracker-how-obtain-access.pdf</a>
Imminent Default Indicator Data Submission File Template	<a href="https://www.fanniemae.com/content/technology_requirements/idi-data-submission-file-template.xls">https://www.fanniemae.com/content/technology_requirements/idi-data-submission-file-template.xls</a>
Investor Reporting Manual	<a href="https://www.fanniemae.com/content/guide/investor-reporting-manual.pdf">https://www.fanniemae.com/content/guide/investor-reporting-manual.pdf</a>
Lender Record Information	<a href="https://mortgagebusinesstech.efanniemae.com/LRI/control">https://mortgagebusinesstech.efanniemae.com/LRI/control</a>
Mortgage Insurer Annual Certification of Compliance	<a href="https://www.fanniemae.com/content/eligibility_information/mortgage-insurer-exhibit-3-annual-certificate-compliance.pdf">https://www.fanniemae.com/content/eligibility_information/mortgage-insurer-exhibit-3-annual-certificate-compliance.pdf</a>
Mortgage Insurer Confidentiality and Non-Disclosure Agreement	<a href="https://www.fanniemae.com/content/eligibility_information/mortgage-insurer-exhibit-2-confidentiality-non-disclosure-agreement.pdf">https://www.fanniemae.com/content/eligibility_information/mortgage-insurer-exhibit-2-confidentiality-non-disclosure-agreement.pdf</a>
Non-Eligible List	<a href="https://www.fanniemae.com/singlefamily/non-eligible-list#">https://www.fanniemae.com/singlefamily/non-eligible-list#</a>
Property Maintenance and Management: Property Preservation Matrix and Reference Guide	<a href="https://www.fanniemae.com/content/tool/property-preservation-matrix.pdf">https://www.fanniemae.com/content/tool/property-preservation-matrix.pdf</a>
Requirements for Document Custodians	<a href="https://www.fanniemae.com/content/eligibility_information/document-custodians-requirements.pdf">https://www.fanniemae.com/content/eligibility_information/document-custodians-requirements.pdf</a>
Standard ARM Plan Matrix	<a href="https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf">https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf</a>
STAR Reference Guide	<a href="https://www.fanniemae.com/content/tool/star-reference-guide.pdf">https://www.fanniemae.com/content/tool/star-reference-guide.pdf</a>
Streamlined Modification Post-Disaster Forbearance Solicitation Letter	<a href="https://www.fanniemae.com/singlefamily/servicing-guide-exhibits">https://www.fanniemae.com/singlefamily/servicing-guide-exhibits</a>
Streamlined Modification Solicitation Letter	<a href="https://www.fanniemae.com/singlefamily/servicing-guide-exhibits">https://www.fanniemae.com/singlefamily/servicing-guide-exhibits</a>
Valuation Management System (VMS)	<a href="https://www.fanniemae.com/singlefamily/valuation-management-system#">https://www.fanniemae.com/singlefamily/valuation-management-system#</a>

Document Name	Location
VMS User Setup Template	<a href="https://www.fanniemae.com/content/forms/vms-user-setup-template.xlsx">https://www.fanniemae.com/content/forms/vms-user-setup-template.xlsx</a>
VMS Valuation Order Template	<a href="https://www.fanniemae.com/content/forms/vms-order-template.xlsx">https://www.fanniemae.com/content/forms/vms-order-template.xlsx</a>



## F-4-02, Acronyms and Abbreviations (11/12/2014)

### Introduction

This topic contains definitions of acronyms and abbreviations used throughout this Guide and Servicing Guide Procedures.

### Acronyms and Abbreviations

The table below provides a list of acronyms and abbreviations defined by Fannie Mae and used in this *Servicing Guide*.

Acronym or Abbreviation	Definition
2MP	Second Lien Modification Program
ACH	Automated Clearing House
ADS	Automated Drafting System
AMC	Experian Information Solutions Automated Media Control
AMN	Asset Management Network
APS	Automated Property Service™
ARM	Adjustable Rate Mortgage
ASAP Plus	As Soon As Pooled Plus
AVM	Automated Valuation Model
BPO	broker price opinion
BNY	Bank of New York
BRP	Borrower Response Package
BSA	Bank Secrecy Act
CDIA	Consumer Data Industry Association



<b>Acronym or Abbreviation</b>	<b>Definition</b>
CLTV	combined loan-to-value
Condo	condominium
Co-op	cooperative share loan
CPU	Central Processing Unit
CRS	Cash Remittance System
DDC	designated document custodian
DEA	Drug Enforcement Agency
DLA	Dislocation Allowance
DO	Fannie Mae's Desktop Originator®
DOJ	U. S. Department of Justice
DPO	Deferred Payment Obligation
DU	Fannie Mae's Desktop Underwriter
ECF	Electronic Case Files
EDI	electronic data interchange
ESIGN	Electronic Signatures in Global and National Commerce Act
FAIR	Fair Access to Insurance Requirements
FBI	Federal Bureau of Investigation
FDCPA	Fair Debt Collection Practices Act
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FICO	Fair, Isaac, and Company
FIN	financial institution number
GAAP	generally accepted accounting principles
GEM	growing-equity mortgage
GSE	government-sponsored enterprise
HAMP	Home Affordable Modification Program
HAP	Homeowners' Assistance Program

<b>Acronym or Abbreviation</b>	<b>Definition</b>
HECM	Home Equity Conversion Mortgage
HELOC	Home Equity Line of Credit
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
HHF	Hardest Hit Funds program
HOA	homeowner's association
HOPE	Home Owners Preserving Equity™
HSA	HomeSaver Advance
HSSN	HomeSavers Solutions™ Network
HUD	U.S. Department of Housing and Urban Development
IDI	Freddie Mac's Imminent Default Indicator™
IDC	International Data Corporation
IRS	Internal Revenue Service
ISO	International Office for Standardization
IVES	IRS Income Verification Express Service
Kroll	Kroll Bond Rating Agency, Inc.
LAR	Loan Activity Record
LMV	Loss Mitigation Valuations
LPI	last paid installment
LPOA	Limited Power of Attorney
LPS	Lender Processing Services
LTV	Loan to Value
MBS	mortgage-backed security
MERS	Mortgage Electronic Registration System, Inc.
MGIC	Mortgage Guaranty Insurance Corporation
MHA	Making Home Affordable
MI	mortgage insurer or mortgage insurance
MIN	membership identification number
MIP	mortgage insurance premium

<b>Acronym or Abbreviation</b>	<b>Definition</b>
MNR	minimum net required
MLS	Multiple Listing Service
MRS	Mortgage Related Securities
MSSC	Mortgage Selling and Servicing Contract
MTMLTV	mark-to-market loan-to-value
NCUA	National Credit Union Administration
NCUSIF	National Credit Union Share Insurance Fund
NFIP	National Flood Insurance Plan
NIST	National Institute for Standards and Technology
NMI	National Mortgage Insurance
NPI	non-public personal information
NPV	net present value
NSO	Fannie Mae's National Servicing Organization
NUC	National Underwriting Center
OCC	Office of the Controller of the Currency
OFAC	Office of Foreign Assets Control
P&I	principal and interest
PACER	Public Access to Court Electronic Records
PCS	Permanent Change of Station
PFP	Pooled from Portfolio
PII	personally identifiable information
PITI	principal, interest, taxes, and insurance
PITIA	principal, interest, taxes, insurance, and association dues
PMI	Private Mortgage Insurance
PMMS	Primary Mortgage Market Survey
PTR	pass-through rate
PUD	planned unit development
QAS	Quality Assurance System
QC	quality control

<b>Acronym or Abbreviation</b>	<b>Definition</b>
QRPC	quality right party contact
RD	U.S. Department of Agriculture, Rural Development
RDC	Requirements for Document Custodians
REAM	Real Estate Asset Management
REO	real estate owned
RESPA	Real Estate Settlement Procedures Act
RMIC	Republic Mortgage Insurance Company
RPM	Rapid Payment Method
SCRA	Servicemembers Civil Relief Act
SFHA	Special Flood Hazard Area
SMBS	Stripped mortgage-backed securities
STAR	Servicer Total Achievement & Rewards
SURF	Servicer's Reconciliation Facility
T&I	taxes and insurance
TILA	Truth in Lending Act
UCA	Uniform Condominium Act
UCC	Uniform Commercial Code
UCIOA	Uniform Common Interest Ownership Act
UETA	Uniform Electronic Transactions Act
UPB	unpaid principal balance
USPAP	Uniform Standards of Professional Appraisal Practice
UST	US Territories
VA	U.S. Department of Veterans Affairs
VIN	Vehicle Identification Number
VMS	Virtual Memory System



## F-4-03, List of Contacts (11/12/2014)

### Introduction

This topic contains contact information for Fannie Mae and other resources referenced in this Guide.

### Fannie Mae Contacts

The following table provides contact information for Fannie Mae and other resources for policies and requirements referenced in this Guide.

Name	Purpose	Contact Information
Cash Management Unit	for inquires and to submit <a href="#">Form 1072</a>	<a href="mailto:cash_processing@fanniemae.com">cash_processing@fanniemae.com</a> Fax (240) 699-3888
Centralized Repurchase Team	To obtain loss statements from Fannie Mae	<a href="mailto:crt_fm_loss_statement_requests@fanniemae.com">crt_fm_loss_statement_requests@fanniemae.com</a>
Credit Portfolio Management Operations	To report property acquisition to Fannie Mae	<a href="mailto:NPDC_REOgram@fanniemae.com">NPDC_REOgram@fanniemae.com</a>
Custodial Accounting Team	For submission of <a href="#">Form 1013</a> and <a href="#">Form 1014</a>	<a href="mailto:custodial_account@fanniemae.com">custodial_account@fanniemae.com</a>
Custodian Oversight and Monitoring Operations	To execute a <a href="#">Form 2003</a> ; notify Fannie Mae that a document custodian's rating falls below the minimum criteria; for submission of <a href="#">Form 2001</a> ; to notify Fannie Mae that a document custodian is no longer complying with Fannie Mae's eligibility or operational requirements; notify Fannie Mae of changes in a document custodian's organization or ownership	<a href="mailto:custodian_oversight@fanniemae.com">custodian_oversight@fanniemae.com</a>
	To request a limited power of attorney from Fannie Mae or execution of a mortgage loan satisfaction	<a href="mailto:custody_group@fanniemae.com">custody_group@fanniemae.com</a>

Name	Purpose	Contact Information
Exceptions Transaction Management Unit	To notify Fannie Mae of military indulgence or submit <a href="#">Form 1022</a>	<a href="mailto:sailors_and_soldiers@fanniemae.com">sailors_and_soldiers@fanniemae.com</a>
Fannie Mae Ethics	To report all instances of non-compliance, compliance failures, or sanctions related to anti-money laundering requirements	<a href="mailto:fm_ethics@fanniemae.com">fm_ethics@fanniemae.com</a> Tel: (888) 363-8442
Fannie Mae Washington, DC office	To indicate Fannie Mae ownership/trustee of a mortgage loan	3900 Wisconsin Avenue, NW Washington, DC 20016-2892 Tel: (800) 7FANNIE (732-6643)
Investor Reporting Representative	To discuss specifics related to P&I, remitting, account, reporting and ARM adjustment error corrections	New servicers not yet assigned an Investor Reporting Representative must call (888) 326-6438, option 1
Lender Eligibility and Compliance Unit	For submission of annual audited financial statements and <a href="#">Form 1001</a>	<a href="mailto:audited_financial@fanniemae.com">audited_financial@fanniemae.com</a>
Mortgage Fraud Division	To report suspicious activity related to Fannie Mae mortgage loans or business activity	<a href="mailto:mortgagefraud_tips@fanniemae.com">mortgagefraud_tips@fanniemae.com</a> Tel: (800) 732-6643
National Servicing Organization (NSO)	For questions related to and submission of the <a href="#">Bankruptcy Cramdown template</a>	<a href="mailto:bankruptcy_administration@fanniemae.com">bankruptcy_administration@fanniemae.com</a>
	To obtain excess fee training; obtain appropriate excess fee approval	<a href="mailto:excess_fee_request@fanniemae.com">excess_fee_request@fanniemae.com</a>
	For electronic submission of the <a href="#">Form 629</a>	<a href="mailto:servicing_transfers@fanniemae.com">servicing_transfers@fanniemae.com</a>
	To request information related to an HomeSaver Advance note	<a href="mailto:HSA_mailbox@fanniemae.com">HSA_mailbox@fanniemae.com</a>
	Form submission of the <a href="#">Elimination/Rescission Request Template</a>	<a href="mailto:elimination_requests@fanniemae.com">elimination_requests@fanniemae.com</a>
	To discuss partial releases with Fannie Mae; for submission of <a href="#">Form 236</a> ; submission of requests for substitution of property securing a mortgage loan; to forward requests to waive certain rights under the mortgage loan	Fannie Mae NSO, Loss Mitigation Department 14221 Dallas Parkway, Suite 1000 Dallas, TX 75254

Name	Purpose	Contact Information
	to Fannie Mae; for mortgage loan debt that will not be fully satisfied in connection with a property seizure.	<a href="mailto:partial_releases@fanniemae.com">partial_releases@fanniemae.com</a>
	For all valuation requests related to short sales, Mortgage Releases, and bidding instructions	<a href="mailto:valuation_operations@fanniemae.com">valuation_operations@fanniemae.com</a>
	To request a Deficiency Waiver Template and subsequent approval of a waiver from Fannie Mae	<a href="mailto:dj_waiver@fanniemae.com">dj_waiver@fanniemae.com</a>
	For questions regarding the preservation or waiver of deficiency claims	<a href="mailto:deficiency_judgment@fanniemae.com">deficiency_judgment@fanniemae.com</a>
	<ul style="list-style-type: none"> <li>• Quitclaim deeds for properties conveyed in error</li> <li>• Release of liability</li> <li>• Assignments of mortgage</li> <li>• Substitution of trustees</li> <li>• Conveyances or reconveyances of acquired properties</li> <li>• Loan Modifications</li> <li>• All other documents</li> </ul>	Fannie Mae Attn: NSO Documents P.O. Box 809007 Dallas, TX 75265 <a href="mailto:NSO_Documents@fanniemae.com">NSO_Documents@fanniemae.com</a>
	For submission of <a href="#">Form 200</a>	<a href="mailto:servicer_selection_form@fanniemae.com">servicer_selection_form@fanniemae.com</a>
	For submission of the <i>Forbearance Extension Request Template</i>	<a href="mailto:forbearance_ext_requests@fanniemae.com">forbearance_ext_requests@fanniemae.com</a>
Privacy Office	To request permission to use Fannie Mae's name; provide written notice of a data breach	<a href="mailto:privacy_workinggroup@fanniemae.com">privacy_workinggroup@fanniemae.com</a>
Regional Offices	For situations not covered in the <i>Servicing Guide</i> or when instructed in the <i>Servicing Guide</i> to contact the regional office	<b>Midwestern Regional Office</b> One South Wacker Drive, Suite 1400

Name	Purpose	Contact Information
		<p>Chicago, IL 60606-4667</p> <p>Tel: (312) 368-6200</p> <p><b>Northeastern Regional Office</b></p> <p>1835 Market Street, Suite 2300</p> <p>Philadelphia, PA 19103-2909</p> <p>Tel: (215) 575-1400</p> <p><b>Southeastern Regional Office</b></p> <p>950 East Paces Ferry Road, Suite 1800</p> <p>Atlanta, GA 30326-1161</p> <p>Tel: (404) 398-6000</p> <p><b>Southwestern Regional Office</b></p> <p>International Plaza II</p> <p>14221 Dallas Parkway, Suite 1000</p> <p>Dallas, TX 75254-2916</p> <p>Tel: (972) 773-4663</p> <p><b>Western Regional Office</b></p> <p>135 North Los Robles Avenue, Suite 300</p> <p>Pasadena, CA 91101-1707</p> <p>Tel: (626) 396-5100</p>



Name	Purpose	Contact Information
		For servicers that do not have an assigned lead Fannie Mae regional office, call (888) FANNIE8, option 4
National Underwriting Center (NUC) Responsible Party Resource Center	To confirm the responsible party for a title defect; for submission of a written offer to voluntarily repurchase a mortgage loan that Fannie Mae holds in its portfolio	<a href="#">Responsible Party Resource Center SharePoint site</a>
NUC File Receipt and Assignment team	To request approval and send mortgage loan file submissions in a form other than hard-copy	<a href="mailto:NUC_FRA@fanniemae.com">NUC_FRA@fanniemae.com</a>
Real Estate Asset Management (REAM) Division	To respond to post-foreclosure bankruptcy filings; obtain authorization to pay higher attorney fees	<a href="mailto:ar_questions@fanniemae.com">ar_questions@fanniemae.com</a>
	To obtain expense reimbursement	<a href="#">Invoice Management website</a>
	For inquiries regarding the Vacancy Report and cancellation of property (hazard) insurance	<a href="mailto:reo_hazard_claims@fanniemae.com">reo_hazard_claims@fanniemae.com</a>
	To correct an erroneous REOgram submission	<a href="mailto:npdc_completions@fanniemae.com">npdc_completions@fanniemae.com</a>
Servicing Representative	For questions or to report information as outlined in this <i>Servicing Guide</i>	Contact your designated Portfolio Manager, Servicing Consultant, or the NSO Servicer Support Center.  The Servicer Support Center may be reached at (888) FANNIE5 (326–6435)
Legal department	To provide Fannie Mae written notification of a decision to transfer Legacy Matters to law firms selected and retained; report escalated matters to Fannie Mae; provide written notice of the transfer of files from one law firm to another; obtain approval to exceptions to Fannie Mae’s policies and requirements related to law firm management and oversight	<a href="mailto:default_attorney@fanniemae.com">default_attorney@fanniemae.com</a>

Name	Purpose	Contact Information
	To inform Fannie Mae’s legal department that an HOA refuses a release of lien; notify Fannie Mae of non-routine litigations and certain matters requiring escalation	Submit a <a href="#">Form 20</a>
	To obtain specific instructions for reporting cross-border insolvency	Submit a <a href="#">Form 20</a> cc: <a href="mailto:bankruptcy_administration@fanniemae.com">bankruptcy_administration@fanniemae.com</a>
The Bank of New York Mellon Trust Company, NA	<p>The location to mail the executed Loan Modification Agreement if Fannie Mae’s DDC is custodian and</p> <ul style="list-style-type: none"> <li>• Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute this type of mortgage loan modification on Fannie Mae’s behalf, or</li> <li>• Mortgage Electronic Registration System, Inc. (MERS) is the mortgagee of record.</li> </ul>	<p>The Bank of New York Mellon Trust Company, NA</p> <p>Attn: Additional Custody Documents</p> <p>5730 Katella Ave.</p> <p>Cypress, CA 90630</p>



## F-4-04, List of Lender Contracts (11/12/2014)

### Introduction

The following list summarizes the major contracts lenders must have in order to do business with Fannie Mae. It is intended to assist lenders in knowing the Fannie Mae contractual requirements that exist, but is not inclusive of all contracts that may be required.

### Lender Contracts

The following table summarizes the major contracts lenders must have in order to do business with Fannie Mae:

Contract Name	Purpose	How to Obtain it
<p><i>Mortgage Selling and Servicing Contract</i> (MSSC) (and Addenda)</p>	<p>For all sellers/servicers that sell mortgage loans to Fannie Mae or service mortgage loans on Fannie Mae’s behalf.</p> <p>The MSSC may include special approvals for sellers/servicers to deliver certain types of mortgage loans (for example: second mortgages, HomeStyle, and co-op share loans).</p>	<p><a href="#">Becoming a Fannie Mae Customer</a></p>
<p><i>Software Subscription Agreement</i> (and applicable Schedules)</p>	<p>The <i>Software Subscription Agreement</i> is required for lenders to obtain access to any of Fannie Mae’s technology applications. Lenders must also sign one or more schedules to obtain access to specific applications.</p>	<p><a href="#">Registration &amp; Account Management</a></p>