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# Fannie Mae Single Family 2011 Servicing Guide

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June 10, 2011

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## ***Servicing Guide* Foreword**

This update of the *Servicing Guide (Guide)* includes the incorporation of all *Guide* announcements issued through August 31, 2010 and updates to servicing procedural requirements. Announcements issued after August 31, 2010 must be retained and referred to until they are incorporated into the *Guide* in a future update.

### **Conceptual Organization**

Conceptually, this *Guide* covers our standard requirements for servicing all Fannie Mae-owned or Fannie Mae-securitized one- to four-unit mortgages. In developing the *Guide*, we considered the various interrelationships that have an effect on how a particular requirement should be interpreted or on how a specific procedure should be implemented, recognizing that the interrelationships do not always conform to hard and fast rules.

### **Content Organization**

The *Servicing Guide* is organized into 12 parts; each part is summarized below:

- **Part One — *Lender Relationships*** — describes the process for becoming a Fannie Mae-approved servicer of residential home mortgage loans, describes the terms of the servicer’s contractual relationship with Fannie Mae, discusses the ongoing obligations a servicer must meet to maintain its eligibility as a Fannie Mae-approved servicer, and defines a servicer’s general business obligations.
- **Part Two — *Mortgage and Property Insurance*** — discusses a servicer’s responsibility for ensuring that any mortgage insurance, hazard or flood insurance, or any special insurance coverages Fannie Mae requires are maintained in a way that will at all times protect Fannie Mae’s interest in the mortgages serviced for Fannie Mae.
- **Part Three — *General Servicing Functions*** — discusses the general administrative functions involved in servicing first and second mortgage loans that occur on an ongoing basis, as well as a few functions that are unique to a particular type of mortgage loan or to a

special, nonrecurring circumstance. These functions may begin when mortgage loan payment records are established for a new mortgage loan and often continue until a mortgage loan is paid off, repurchased, or otherwise removed from Fannie Mae's records.

- **Part Four — *Special Adjustable-Rate Mortgage Functions*** — discusses those special loan administration functions related to the required periodic monthly payment and interest rate changes for adjustable-rate mortgages (ARMs) and graduated-payment adjustable-rate mortgages (GPARMs).
- **Part Five — *Special Reverse Mortgage Functions*** — discusses special servicer responsibilities for servicing the two reverse mortgage products Fannie Mae purchases: conventional Home Keeper mortgages and the FHA Home Equity Conversion Mortgage.
- **Part Six — *Mortgage Loan Removals or Reclassifications*** — discusses the servicer's responsibilities when a mortgage is removed from Fannie Mae's accounting records or an MBS pool because the borrower pays it off, the servicer or the originating lender repurchases it, Fannie Mae automatically reclassifies it as a portfolio mortgage (in order to remove a delinquent mortgage from an MBS pool), or Fannie Mae authorizes the servicer to assign it to HUD (under special assignment procedures available for certain FHA Section 221 mortgages).
- **Part Seven — *Delinquency Management and Default Prevention*** — describes Fannie Mae's requirements and procedures for servicing whole mortgage loans, participation pool mortgage loans, and MBS mortgage loans from the time they first become delinquent or default is deemed to be reasonably foreseeable (imminent) through the development of special relief measures or foreclosure prevention alternatives to avoid foreclosure proceedings.
- **Part Eight — *Foreclosures, Conveyances, and Claims and Acquired Properties*** — describes Fannie Mae's requirements and procedures for conducting foreclosure proceedings, conveying properties to the insurer or guarantor, filing claims under the insurance or guaranty contract, and disposing of acquired properties that Fannie Mae holds for sale. It does not address any special requirements that may have

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been imposed under the terms of a negotiated purchase transaction. The servicer is responsible for taking all steps necessary to ensure that the terms of a negotiated contract are followed.

- **Part Nine — *Custodial and Remittance Accounting*** — discusses the different accounting functions that relate to the financial aspects of servicing mortgage loans that are in either a first- or second-lien position. These functions are continuing processes from the time the mortgage loan is closed until it is liquidated.
- **Part Ten — *Fannie Mae Investor Reporting System*** — discusses Fannie Mae’s general requirements for the mortgage accounting system it uses for reporting on the status of regularly amortizing one- to four-unit mortgages it either holds in its portfolio or has pooled to back an MBS issue. It explains the turnaround documents Fannie Mae provides to the servicer, procedures for correcting reporting errors, the transactions the servicer must report to Fannie Mae, and any special requirements Fannie Mae has for specific remittance types.
- **Part Eleven — *Fannie Mae Reverse Mortgage Investor Reporting System*** — discusses Fannie Mae’s general requirements for reporting on the status of reverse mortgages it holds in its portfolio. It explains the transactions the servicer must report to Fannie Mae and the turnaround documents Fannie Mae provides to the servicer.
- **Part Twelve — *Glossary*** — defines words or phrases used throughout the *Servicing Guide*.

### **Effective Dates for the *Servicing Guide***

The effective date for each section is the date that is shown in parentheses next to each section title. If multiple changes with different effective dates were made to the same section, only the most recent effective date is shown.

### **Access Options**

Fannie Mae currently offers the current and previous versions of the *Servicing Guide*, related *Announcements*, *Lender Letters*, and *Notices* through a variety of mediums, including:

- using a free electronic version on the AllRegs Web site through a link from [eFannieMae.com](http://eFannieMae.com);
- a subscription paid directly to AllRegs for an enhanced electronic version with additional features and a higher degree of functionality (than the free version); and
- the current *Servicing Guide* is available in PDF format on [eFannieMae.com](http://eFannieMae.com).

### **Amendments to the Guide**

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

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

Fannie Mae notifies servicers of changes and updates to its *Servicing Guide* policies and procedures – as communicated in *Announcements*, *Lender Letters*, and *Notices* – in two ways:

- by posting the documents on [eFannieMae.com](http://eFannieMae.com) and the AllRegs Web sites,
- by e-mail notification of those postings to servicers that subscribe to Fannie Mae's e-mail subscription service and select the option "Servicing News."

Fannie Mae requires servicers to be informed of its *Guide* requirements and changes thereto, and servicers should select and rely on the manner of

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receiving notice of servicer communications that best meets their business needs.

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

Information about the specific forms that servicers must use in fulfilling the requirements contained in the *Servicing Guide* is provided in context within the *Guide*. Servicers can access the actual forms in several ways:

- on [eFannieMae.com](http://eFannieMae.com) via the Single Family Forms and Documents page, which provides a complete list of forms as interactive PDF files; and
- on the AllRegs Web site via embedded links in the free electronic version of the *Servicing Guide* (and through a searchable database with a full subscription to AllRegs Online).

Some materials are only referenced in the *Servicing Guide* and are posted in their entirety on [eFannieMae.com](http://eFannieMae.com). In addition, from time to time, Fannie Mae issues specific guidance, which is incorporated into its *Servicing Guide* by reference. Such specific information – whether it currently exists or is subsequently created – and the exhibits referenced in the *Guide* now or later are legally a part of this *Servicing Guide*.

### **Technical Issues**

In the event of technical difficulties or system failures with [eFannieMae.com](http://eFannieMae.com), the delivery of the “Servicing News” option of Fannie Mae’s e-mail subscription service, or the AllRegs Web site, users may contact the following resources:

- For [eFannieMae.com](http://eFannieMae.com) and Fannie Mae’s e-mail subscription service, use the “Contact Us” or “Legal” links on the Web site to ask questions or obtain more information.
- For the AllRegs Web site, submit an e-mail support request from the Web site or contact AllRegs Customer Service at (800) 848-4904.

### **When Questions Arise**

This *Servicing Guide* provides information about how to become an approved Fannie Mae servicer and about normal and routine servicing matters. If the servicer feels that a particular situation is not covered or that the procedures may not apply because of certain circumstances, it should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-FANNIE5 (888-326-6435). Also, servicers may need to contact other groups within Fannie Mae as specified in this *Guide*.



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## **Part I: Lender Relationships (06/10/11)**

This *Part*—Lender Relationships—describes the process for becoming a Fannie Mae–approved servicer of residential home mortgage loans, describes the terms of the servicer’s contractual relationship with Fannie Mae, discusses the ongoing obligations a servicer must meet to maintain its eligibility as a Fannie Mae–approved servicer, and defines a servicer’s general business obligations.

Servicers must be approved to do business with Fannie Mae. The application and approval process for servicers is identical to the requirements a lender must satisfy to become a Fannie Mae–approved seller of residential home mortgage loans. There is no separate approval process for servicers. Servicers must refer to the application and approval process set forth in the *Selling Guide* in order to become an approved lender/servicer. The *Selling Guide* refers to both the seller and the servicer as the lender. The *Servicing Guide*, however, will generally describe the relationship between Fannie Mae and the servicer. Terms not defined in the *Servicing Guide* shall have the meaning given them in the *Selling Guide*.

This *Part* consists of the following chapters:

- *Chapter 1—Approval Qualification*—describes the basic requirements for becoming an approved Fannie Mae lender/servicer and the lender/servicer approval process. For further information, refer to the *Selling Guide, A1-1-01, Application and Approval of Lender*.
- *Chapter 2—Contractual Relationship*—describes some of the contractual obligations a servicer takes on when it becomes an approved Fannie Mae servicer. It discusses the terms of the Mortgage Selling and Servicing Contract (MSSC); a servicer’s basic duties and responsibilities; the compensation a servicer receives for servicing mortgage loans; Fannie Mae’s policies and procedures related to subservicing arrangements, transfers of servicing, the imposition of compensatory fees, and repurchase or mortgage loan substitution requirements; the formal sanctions Fannie Mae may use if a servicer’s performance is unsatisfactory; a servicer’s right to terminate its

servicing portfolio at its will; and Fannie Mae's right to terminate a servicer's contract or its selling and/or servicing arrangements.

- *Chapter 3—Maintaining Eligibility*—discusses the requirements that must be met for an approved servicer to maintain its eligibility and the business obligations that a servicer must consider in the overall conduct of its mortgage loan operations, rather than those that relate to the servicing of a specific mortgage loan. It also includes Fannie Mae's requirements for complying with applicable laws and regulations, for maintaining confidentiality and avoiding conflicts of interest, and for the license Fannie Mae may grant to allow lenders to use Fannie Mae's name in advertising or promotional material.
- *Chapter 4—Mortgage Loan Files and Records*—describes Fannie Mae's requirements related to the ownership and custody of mortgage loan files and records, including the servicer's responsibility for establishing and maintaining individual mortgage loan files and for maintaining accurate accounting and mortgage loan payment records.

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## **Chapter 1. Approval Qualification (06/10/11)**

As set forth in the *Selling Guide*, Fannie Mae determines a lender's qualifications by reviewing the lender's financial condition, organization, staffing, servicing experience, and other relevant factors. Refer to the *Selling Guide* for specific eligibility and application requirements.

The requirements for becoming an approved lender encompass the requirements for becoming an approved servicer.

Note: Fannie Mae's standard lender approval is for the sale and/or servicing of single-family mortgage loans (excluding those loans delivered under a negotiated contract). Lenders must obtain special approval to sell and service certain mortgage loans with unique requirements, such as mortgage loans secured by co-op shares or second mortgage loans. Refer to "Special Lender Approval" in the *Selling Guide, A1-1-01, Application and Approval of Lender*.

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Approval Qualification

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## Chapter 2. Contractual Relationship (01/31/03)

Once Fannie Mae approves a servicer to do business with it, both parties execute the Lender Contract to establish the terms and conditions of their contractual relationship. The continuation of that relationship depends on both parties honoring the mutual promises in the Lender Contract and on the lender's satisfying the requirements of the *Selling Guide*, the *Servicing Guide*, the *Guide to Delivering eMortgage Loans to Fannie Mae*, and the *Multifamily Guide(s)* (the "Guides").

### Section 201 Mortgage Selling and Servicing Contract (06/01/07)

The MSSC establishes the basic legal relationship between a lender/servicer and Fannie Mae. Details regarding contractual obligations for lenders are set forth in the *Selling Guide*. Specifically as to servicing, the MSSC:

- establishes the lender 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 other lender or servicing announcements, letters, and *Guide* changes, as well as Master Agreements, technology licensing agreements, and any other agreement entered into by Fannie Mae and the lender; and
- states the types of mortgage loans the lender may sell and service.

All types of agreements between a servicer and Fannie Mae are incorporated into the Lender Contract (the lender's and servicer's obligations under all of these agreements are referred to in the *Guides* in their entirety as the "Lender Contract") and 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 lender to another entity:

- A lender/servicer's benefits and obligations with respect to its contractual rights to service loans are, and were at the time of execution of the Lender Contract, fully integrated and non-divisible

from the lender's benefits and obligations with respect to its contractual rights and obligations to sell 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 a lender/servicer providing for the contractual right to sell or to service loans for Fannie Mae.
- When Fannie Mae consents to a transfer of servicing by a lender or servicer, it relies on the integration and non-divisibility of the Lender Contract. Fannie Mae requires that the transferor or lender remain obligated for all selling and servicing representations and warranties and recourse obligations upon the transfer of servicing, and requires that the transferee servicer, whether the original seller or a transferee servicer, undertake and assume joint and several liability for all selling and servicing representations and warranties and recourse obligations related to the loans it services unless explicitly agreed to the contrary in writing by Fannie Mae.

Section 201.01  
Contractual  
Representations and  
Warranties (06/10/11)

In order to sell loans to Fannie Mae or deliver pools of loans to Fannie Mae for mortgage-backed securities (MBS), the lender makes certain representations and warranties concerning both the lender itself as well as the mortgage loans it is selling or delivering. These representations and warranties are set forth in the *Selling Guide*. Provisions that are specific to servicing are contained herein. A lender 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 mortgage loan seller made when the mortgage loan was sold to Fannie Mae. Lenders that acquire the servicing of Fannie Mae mortgage loans are required to service the mortgage loans in accordance with the servicing obligations of the lender that assigned or transferred the servicing of the mortgage loan.



Section 201.02  
Representation and  
Warranty Requirements  
for the Servicing of All  
Mortgage Loans  
(06/10/11)

By submitting any loan to Fannie Mae under any execution, including MBS, whole mortgage loan, or a participation pool mortgage loan to Fannie Mae as a whole loan, the lender 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 (including but not limited to the *Selling Guide, A3-3-03, Subservicing*) or any prior servicing agreement is made expressly to Fannie Mae's rights as owner of the mortgage loans.

The party that was servicing for the lender prior to such date may become a servicer for Fannie Mae, if there is full compliance with all the *Guide* requirements that provide for assignment of servicing from the lender concurrent with conveyance of the mortgage loan to Fannie Mae. (For more information, refer to the *Selling Guide, A3-3-02, Concurrent Servicing Transfers*.)

Section 201.03  
Nature of Mortgage Loan  
Transactions (06/10/11)

Each transaction in which mortgage loans and/or participation interests, whether whole loan or for securitization, are delivered to Fannie Mae is expressly intended, by both Fannie Mae and the lender, to be the lender's true, absolute, and unconditional sale to Fannie Mae of the mortgage loans and/or participation interests, and not the lender's pledge thereof to secure a debt or other obligation owed to Fannie Mae. (For more information, refer to the *Selling Guide, A2-1-02, Nature of Mortgage Transaction*.)

Section 201.04  
Indemnification for  
Losses (06/10/11)

Fannie Mae requires a lender that sells mortgage loans to Fannie Mae (or that assumes selling warranties in connection with an acquisition of servicing) 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, claims, legal actions, and legal fees that are based on, or result from, the lender's breach or alleged breach of its selling warranties or representations or its origination or selling activities related to Fannie Mae-owned or Fannie Mae-securitized mortgage loans. Similarly, Fannie Mae requires a servicer to make the same indemnification for all losses, damages, judgments, claims, legal actions, and legal fees that are based on, or result from, the lender'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, the *Guides*, any additional requirements that may have been imposed, or any additional

obligations the lender has assumed with respect to such mortgage loans or MBS pools.

If a claim is made or a suit or other proceeding that is based on a lender's or servicer's alleged acts or omissions in originating, selling, or servicing mortgage loans or MBS pools; in trading MBS; or in disposing of acquired properties is started against Fannie Mae (or if Fannie Mae subsequently becomes a party to such a claim, suit, or proceeding or is served a subpoena for any purpose in connection with a suit to which Fannie Mae is not a party), the lender's or servicer's responsibility to indemnify Fannie Mae from losses and to hold Fannie Mae harmless must be met regardless of whether the claim, suit, or proceeding has merit. However, the lender's or servicer's obligation does not apply if Fannie Mae gives the lender or servicer written instructions during a claim, suit, or proceeding and Fannie Mae suffers a loss because the lender or servicer follows its instructions.

Fannie Mae will manage its defense for any claim, suit, or proceeding in accordance with its own judgment, keeping the option to decide whether (or when) to retain its own separate counsel. If Fannie Mae chooses its own counsel, the lender or servicer will still be obligated to pay Fannie Mae's legal fees and costs. If Fannie Mae decides that its interests and the lender's or servicer's coincide, Fannie Mae may decide to cooperate with the lender or servicer in a joint defense. (Refer to the *Selling Guide, A2-1-03, Indemnification for Losses*.)

Section 201.05  
Concurrent Servicing  
Transfers (07/20/06)

In a concurrent servicing transfer, the servicing lender is under the same contractual obligations under the MSSC as the selling lender. (Also see *Section 205, Post-Delivery Transfers of Servicing (09/30/06)*.)

A concurrent servicing transfer (also known as a transfer of servicing concurrent with delivery) occurs when a selling lender transfers the servicing rights for a mortgage loan to a Fannie Mae-approved servicer at the same time it sells the loan to Fannie Mae. This is an "automatic" transfer because Fannie Mae's prior approval of the transaction is not required.

If the selling lender is servicing the mortgage loans prior to delivery and will not be servicing the mortgage loans after delivery, the selling lender may automatically transfer servicing to a lender 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 lender must notify Fannie Mae at the time of mortgage loan delivery that servicing has been transferred.

Additionally, if:

- the selling lender is not servicing the mortgage loans prior to delivery because it has contracted with another lender (the “servicing lender”) to service the mortgage loans for the selling lender;
- the selling lender will not be servicing the mortgage loans after delivery;
- the servicing lender is eligible to service the mortgage loans for Fannie Mae; and
- the servicing lender agrees to service the mortgage loans for Fannie Mae, which requires the contractual servicing relationship be with Fannie Mae instead of with the seller,

the selling lender may designate the servicing lender as Fannie Mae’s servicer for the mortgage loans by notifying Fannie Mae at the time of delivery.

If the servicing lender wants the contractual servicing relationship to be with the selling lender instead of with Fannie Mae, even after delivery of the mortgage loans to Fannie Mae, the selling lender must become Fannie Mae’s servicer (as “master servicer”), and the servicing lender must become a “subservicer.” (See *Section 206, Subservicing (06/24/04)*.)

After Fannie Mae has purchased or securitized a mortgage loan, it must approve all subsequent assignments of servicing related to that mortgage loan before the servicing can be transferred.

Section 201.05.01  
Notification of Concurrent  
Servicing Transfers  
(06/10/11)

The lender must notify Fannie Mae of the transferee servicer by entering the nine-digit seller/servicer number that Fannie Mae has assigned to the transferee servicer on one of the following forms:

- *FRM/GEM Loan Schedule* ([Form 1068](#))

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- *ARM/GPARM Loan Schedule* ([Form 1069](#))
- *Schedule of Mortgages* ([Form 2005](#))

If required, the lender must also include in its delivery package mortgage loan assignments prepared in accordance with the *Selling Guide, B8-6-02, Mortgage Assignment to Fannie Mae*.

#### Section 201.05.02 Termination of Concurrent Servicing Transfers (06/10/11)

If a concurrent servicing transfer does not meet Fannie Mae's eligibility standards as stated in this *Guide* and in the *Selling Guide*, Fannie Mae is entitled to terminate the transferee's servicing with respect to the affected mortgage loans in order to transfer servicing of the mortgage loans to another servicer. The lender is obligated for all costs, expenses, and/or losses resulting from its designation of an ineligible servicer.

#### Section 201.06 Pledge of Servicing Rights (03/29/10)

As provided in the *Selling Guide, A3-3-01, Outsourcing of Mortgage Processing and Third-Party Originations*, a lender or servicer may pledge the servicing rights to all or part of its Fannie Mae one- to four-unit mortgage loan 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 lender or servicer must request Fannie Mae's prior approval of a specific pledging transaction at least 30 days in advance of the proposed effective date. The transaction between the lender or servicer and the secured creditor must be documented by a security agreement in a form determined by the lender or servicer. Both the lender or 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 lender or servicer, the secured party, and Fannie Mae.

**A. Security agreement.** The lender or 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 agreement. However, since the terms and provisions of the acknowledgment agreement (which is executed by the lender or 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 pledging transaction must include a copy of the related proposed security agreement. The security agreement may be amended after Fannie Mae approves the transaction (without obtaining Fannie Mae's prior consent), as long as all representations and warranties made by the lender or servicer and the secured party (or parties) will apply to such amendment.

The secured creditor must insert the following language in any financing statement it files for recordation in connection with the security agreement:

The security interest created by this financing statement is subject and subordinate to all rights, powers, and prerogatives of Fannie Mae under, and in connection with, the Lender Contract and all applicable Pool Purchase Contracts between Fannie Mae and (*\*insert name of lender or servicer named in acknowledgment agreement*) and the *Selling Guide, Servicing Guide, and other Guides*, as each of such *Guides* is amended from time to time (collectively, the "Fannie Mae Contract"), which rights, powers, and prerogatives include, without limitation, the right of Fannie Mae to terminate the Fannie Mae Contract with or without cause and the right to sell, or have transferred, the Servicing Rights as therein provided.

The secured creditor must provide a copy of any recorded financing statement to the lender's or servicer's appropriate Fannie Mae regional office. If the security interest is released or extinguished or if the servicing rights are transferred to the secured creditor as the result of the lender or servicer's default under the security agreement (or in accordance with the terms of the acknowledgment agreement), the secured creditor must file for recording a proper release of the recorded security interest within five working days after the effective date of the termination, transfer, or

extinguishment, notifying the appropriate Fannie Mae regional office of the filing.

**B. Acknowledgment agreement.** Fannie Mae will not approve any request for the pledging of a lender or servicer's servicing rights unless the lender or servicer and the secured creditor execute a standard Fannie Mae acknowledgment agreement. (Two separate agreements—one for use when there is a single secured party and one for use when there are multiple secured parties—are available through Fannie Mae's regional offices.) 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 MSSC, individual commitment or pool purchase contracts, and the *Selling Guide* and *Servicing Guide*. 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 for those specified in the acknowledgment agreement. The acknowledgment agreement does recognize that the secured party may sell one or more participation interests in portfolio mortgage loans that are subject to the security agreement and provides for the purchasers of the participation interests to be entitled to the benefits of both the security agreement and the acknowledgment agreement. Both the secured creditor and the lender and/or servicer must indemnify and hold Fannie Mae harmless against all losses, claims, lawsuits, actions, 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, 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 it elects to enforce its security interest or any remedy for the lender or servicer's default under the security agreement. The secured creditor may request that the servicing be transferred to it (if it is an approved Fannie Mae servicer) or it may request that the servicing be transferred to another lender or servicer that is a Fannie Mae-approved servicer, if it has a valid power of attorney authorizing it to make the

transfer request on the lender or servicer's behalf. The secured creditor must present the power of attorney to the Fannie Mae regional office with its request that Fannie Mae transfer the servicing to another lender or servicer. 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 servicer that is acceptable.

Fannie Mae has the right, under the terms of its contracts with the lender or servicer, to terminate, sell, or transfer the servicing that has been pledged and, if Fannie Mae exercises that right, it has the further right to receive all proceeds from the termination, sale, or transfer of the servicing. Under the terms of the acknowledgment agreement, the servicing rights that have been pledged can be terminated, sold, or transferred free and clear of the secured creditor's security interest when the termination, sale, or transfer takes place in accordance with Fannie Mae's contractual provisions with the lender or servicer.

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 lender or 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 sale or transfer and for any and all amounts it is due for unmet obligations under its Lender Contract, Fannie Mae will notify the secured creditor of its right to claim all or part of any remaining sales proceeds or any applicable contract termination fees—if it has a valid power of attorney from the lender or servicer authorizing it to request distribution of the sales proceeds or any applicable contract termination fees. The secured creditor must present the power of attorney to the Fannie Mae regional office with its request that Fannie Mae distribute 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 or any applicable contract termination fees if Fannie Mae terminates the lender or servicer's contract and sells the servicing

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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 lender or servicer defaults under the security agreement. A lender or 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.

Section 201.07  
Termination of Servicing  
Arrangement Without  
Cause (04/01/09)

The servicer or Fannie Mae may terminate the servicing arrangement without cause.

Section 201.07.01  
Servicer's Termination  
(09/30/06)

By giving Fannie Mae advance written notice, a servicer may terminate its contractual rights to the servicing of mortgage loans 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. The termination will become effective on the last business day of the third month following the month in which the notice is given. 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. 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.

Section 201.07.02  
Fannie Mae's  
Termination (04/01/09)

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 MSSC. Fannie Mae will give the servicer a termination notice. Any responsibilities or liabilities related to specific portfolio mortgage loans 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.



The following procedures apply to the termination of a servicer's servicing of any or all mortgage loans by Fannie Mae when it is done without cause:

- 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 Fannie Mae's termination notice. 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 will be subject to the following conditions:
  - The servicer will be entitled to all the proceeds of the sale of servicing, but it must pay all costs and expenses related to the sale or the transfer. Fannie Mae will not pay a termination fee.
  - The purchaser will have to assume warranties that were made to Fannie Mae when it purchased or securitized the mortgage loans being transferred, and must assume all of the transferor servicer's contractual obligations covering the servicing of the transferred mortgage loans, including (but not limited to) any outstanding claims. Similarly, once the transfer becomes effective, the purchaser will be granted the same contractual rights and servicing compensation that the transferor servicer had received. The transferee servicer's assumption of these warranties and obligations does not, in any way, release the transferor servicer from its obligations related to selling warranties and servicer indemnifications.
- If, at the end of the 90-day period following Fannie Mae's termination notice, the servicer has not arranged to sell its servicing and given Fannie Mae the required notice, or if Fannie Mae does not approve the proposed transfer, Fannie Mae may terminate the servicer's Lender Contract on the 15th day following the end of the 90-day period. Fannie Mae may then transfer the servicing to a 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 functions 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 functions to the highest satisfactory bidder. Regardless of whether Fannie Mae publicly solicits bids, it must pay the transferor servicer a termination fee (reduced by a processing fee of the greater of \$500 or 1/100th of 1% of the aggregate UPB of all of the affected mortgage loans on which servicing is transferred).

- The termination fee would 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 example, assume that a mortgage loan has a UPB of \$100,000, a 0.375% servicing fee, and 0.125% in excess yield. Servicing compensation for the mortgage loan would be 0.5% (0.375% + 0.125%). To determine the termination fee, multiply the UPB by the servicing compensation percentage to develop the annualized servicing fee ( $\$100,000 \times 0.005 = \$500$ ), then multiply the result by two ( $\$500 \times 2 = \$1,000.00$ ).

In any termination of a servicer’s servicing arrangement without cause, Fannie Mae is required to provide the servicer an opportunity to sell the servicing for its own account (as described above). Fannie Mae would not be required to provide that opportunity if, for instance, it was to sell mortgage loans from its portfolio to a third party. (Fannie Mae cannot sell mortgage loans from an MBS trust to a third party.) If Fannie Mae does not provide the servicer that opportunity, Fannie Mae must pay the servicer the termination fee, calculated as described immediately above.

Section 201.08  
Breach of Contract  
(09/16/08)

The following events constitute a breach of the servicer’s contractual obligations:

- the servicer’s failure to comply with any provision of this *Guide* 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 *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 pools (including those Pooled from Portfolio, or PFP) are in compliance with this *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; and
  - 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 an attorney, trustee, or other person or entity the servicer chooses to effect such foreclosure.
- the servicer’s insolvency, the adjudication of the servicer as a bankrupt, the appointment of a receiver for the servicer, the servicer’s execution of a general assignment for the benefit of its creditors, or any other 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

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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 this *Guide*;
- 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; and
- 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.

Section 201.09  
Remedies for Breach of  
Contract and  
Nonperformance  
(12/31/08)

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

Section 201.09.01  
Fannie Mae's  
Termination For Cause  
(04/01/09)

When Fannie Mae terminates a lender's servicing arrangement for cause based on the lender's breach of its Lender Contract related to its servicing arrangement or in connection with the termination of the entire Lender Contract, the lender 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.

When Fannie Mae transfers the servicing of mortgage loans in connection with a termination for cause, Fannie Mae generally will pay the new servicer a servicing fee equal to a percentage of the UPBs of the mortgage loans being transferred. For portfolio mortgage loans and participation pool mortgage loans, this percentage will be the one that is currently applicable for the different mortgage loan products in the servicing portfolio being transferred. For MBS mortgage loans, the percentage will be the one applicable to each specific MBS pool if the servicing fee is established at the pool level; otherwise, it will be the percentage applicable to the individual mortgage loans in the pool. Generally, for participation pool mortgage loans, Fannie Mae's *pro rata* share of the servicing fee will be taken from its participation interest and the remainder from the participating lender's participation interest. However, if the participation certificate yield is such that Fannie Mae would not receive its required yield after Fannie Mae had adjusted for its share of the servicing fee, then whatever amount is necessary to make up the difference will be taken from the participating lender's participation interest. The participating lender also must continue to pay its proportionate share of any necessary cash outlays for the mortgage loans. If it does not, the money will be deducted from future remittances that are sent to the lender for its share of collections.

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 servicer's overall performance. Possible remedies, which are discussed in detail later in this *Chapter*, include requiring the servicer to indemnify Fannie Mae for losses, requiring the lender to repurchase a mortgage loan or an acquired property, imposing a compensatory fee, or imposing a suspension or some other formal sanction against the lender. Generally, Fannie Mae pursues these remedies 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 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. If Fannie Mae decides not to take action against a servicer at any point in time, it does not mean that it condones any action or inaction by the servicer that would be grounds for suspension or termination or that Fannie Mae is waiving its right to take action in the future.

Section 201.09.02  
Alternatives to Contract  
Termination (12/31/08)

The Lender Contract provides remedies to Fannie Mae for the lender or servicer's nonperformance. 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. These requirements are set forth in the *Selling Guide*, including the following conditions that apply to servicers:

- requiring the servicer to indemnify Fannie Mae for actual and prospective losses;
- requiring the servicer to repurchase a mortgage loan or an acquired property;
- imposing a compensatory fee;
- imposing a suspension or some other formal sanction against the servicer;
- 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 lender from acquiring additional Fannie Mae servicing (over and above its existing servicing) in either its servicing or its subservicing portfolio;

- modifying or suspending any contract or agreement with a servicer, such as a Master Agreement, including termination, suspension, or rescission of any variance approved under the terms thereof; and
- requiring the servicer 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.

Fannie Mae may offset any obligations that it may owe the lender against any obligations the lender 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 is willing to work with servicers 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 a servicer does not mean that Fannie Mae condones any action or inaction by the lender, or that Fannie Mae is waiving its right to take action in the future.

Section 201.10  
Imposition of  
Compensatory Fees  
(01/31/03)

If Fannie Mae believes that a 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.

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#### Section 201.10.01 Delayed Remittance of Claim Proceeds (01/31/03)

In some cases, mortgage insurance claim settlements related to whole mortgage loans, participation pool mortgage loans, or MBS mortgage loans serviced under the special servicing option are sent directly to the servicer in error. Mortgage insurance claim settlements must be remitted to Fannie Mae immediately if the servicer receives them. However, HUD settlements for FHA coinsured mortgage loans, which are supposed to be sent directly to the servicer, must be remitted within 15 days after they are received. If the servicer does not remit the claim proceeds to Fannie Mae within these time frames, 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 *The Wall Street Journal's* prime rate index), plus 3%.

#### Section 201.10.02 Disallowed Foreclosure Costs or Curtailed Interest (01/31/03)

On occasion, the mortgage insurer or guarantor may disallow from the claim a specific foreclosure expense or may curtail the amount of interest paid as part of the claim settlement. If that happens because the servicer did not follow the required procedures, Fannie Mae will require the servicer to reimburse it for the disallowed expense or the curtailed interest if the mortgage loan is a whole mortgage loan or a participation pool mortgage loan that Fannie Mae holds in its portfolio or an MBS special servicing option pool mortgage loan.

#### Section 201.10.03 Late Submission of REOgram (01/31/03)

To assist Fannie Mae in marketing an acquired property, the servicer must notify Fannie Mae of the property acquisition by submitting an REOgram within 24 hours after the date of the foreclosure sale (or the date a deed-in-lieu of foreclosure was executed). If Fannie Mae does not receive the REOgram when it is due, 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.

#### Section 201.10.04 Unauthorized Transfers of Servicing (01/31/03)

A servicer must obtain Fannie Mae's prior approval of any transfers of servicing (including one that results from a change in the servicer's name or corporate ownership or structure). If a servicer fails to obtain Fannie Mae's prior approval of a proposed transfer—or does not submit its request for approval at least 30 days in advance of the effective date for the transfer of servicing—Fannie Mae may assess a compensatory fee and



exercise any other available remedy. The fee Fannie Mae charges can vary depending on the circumstances; however, it will not exceed 1% of Fannie Mae's share of the UPBs of the mortgage loans that are being transferred.

Section 201.10.05  
Late Remittance of  
Monthly Collections  
(01/31/03)

Fannie Mae has established schedules for remitting the money that is due to it each month. These schedules vary in accordance with the remittance type under which the mortgage loans are reported. If the servicer does not remit the funds that are due when they are due, Fannie Mae may (in addition to exercising its other available remedies) charge the following compensatory fee:

- **For the first instance of delayed remitting:** a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in *The Wall Street Journal's* prime rate index and 3% (however, in no instance would the compensatory fee for late remittances for any given month be less than \$250);
- **For the second instance of late remitting** (if it occurs within one year of the first instance): a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in *The Wall Street Journal's* prime rate index and 3% (however, in no instance would the compensatory fee for late remittances for any given month be less than \$500); and
- **For subsequent instances of late remitting** (if they occur within one year of the most recent instance): a fee that is determined by multiplying the calculated late remittance by the number of days the remittance is late and then multiplying that product by the sum of the prime interest rate published in *The Wall Street Journal's* prime rate index and 3% (however, in no instance would the compensatory fee for late remittances for any given month be less than \$1,000).

Section 201.10.06  
Excessive Amount of  
Delinquent Installments  
(01/31/03)

Fannie Mae evaluates a 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

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to establish a goal for improvement and a time frame for accomplishing the goal. 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 *The Wall Street Journal's* prime rate index), plus 3%. 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.

#### Section 201.10.07 Delays in Liquidation Process (01/31/03)

Periodically, Fannie Mae reviews the servicer's handling of seriously delinquent whole mortgage loans, participation pool mortgage loans, or MBS mortgage loans serviced under the special servicing option to determine that specific actions—such as referral for foreclosure, foreclosure sale, conveyance, or claim filing—are being taken in a timely manner. If the review discloses that the servicer has an unsatisfactory number of delays considering the size and composition of its portfolio, Fannie Mae may charge a compensatory fee that relates to the costs it is incurring as a result of those delays. Any compensatory fee will be based on the unpaid principal balance (UPB) of the mortgage loan, the applicable pass-through rate(s), the length of the delay(s), and any additional costs that are directly attributable to the delay(s).

#### Section 201.10.08 Late Submission of Annual Financial Statements/Reports (01/31/03)

The servicer must submit its annual financial statements to Fannie Mae within 90 days of its fiscal year-end. If it does not do so, Fannie Mae may charge a compensatory fee of \$100 per month until it receives them. 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 servicing arrangements rather than to impose this fee. Fannie Mae also requires a servicer that is a mortgage banker to provide special reports related to the financial condition of its operations. If Fannie Mae does not receive the requested reports when they are due, it may suspend or terminate the lender's selling and servicing arrangements.

Section 201.10.09  
Late Submission of  
Fannie Mae Investor  
Reporting System  
Reports (01/31/03)

The servicer must submit the various monthly reports that are due each month in time to reach Fannie Mae by the third business day of the month following the servicer's cut-off date (or, if the report is the preliminary "snapshot" report for actual/actual remittance type mortgage loans, within three business days after the 25th day of the month in which the cut-off date occurs). A servicer that fails to submit its Fannie Mae investor reporting system reports by the required deadlines or that fails to report using the correct data and formats may be subject to the following compensatory fees:

- \$500, for the first instance of late or inaccurate reporting,
- \$750, for the second instance of late or inaccurate reporting (if it occurs within one year of the first instance), and
- \$1,000, for each subsequent instance of late or inaccurate reporting (if any subsequent instance occurs within one year of the most recent previous instance).

Section 201.10.10  
Late or Inaccurate  
Reporting of MBS  
Security Balances  
(01/31/03)

Fannie Mae requires the servicer to report the aggregate security balance for each MBS pool that it is servicing no later than 5:00 p.m. (eastern time) on the second business day of each month. The first time the servicer is late or inaccurate in reporting its security balances to Fannie Mae, Fannie Mae may charge the servicer a compensatory fee equal to the greater of \$250 or \$50 per MBS pool (up to a maximum of \$1,000). For the second instance of late or inaccurate reporting, Fannie Mae may charge the servicer the greater of \$500 or \$100 per MBS pool (up to a maximum of \$10,000). For subsequent instances of late reporting or repeated instances of inaccurate reporting, Fannie Mae may charge the servicer the greater of \$1,000 or \$100 per pool.

Section 201.10.11  
Multiple Wire Transfers of  
MBS Pool Remittances  
(01/31/03)

When a servicer wire transfers its MBS pool remittances, it must send only one wire transfer each month, regardless of the number of MBS pools it is servicing. The first time a servicer makes multiple wire transfers in a given month, Fannie Mae will charge a \$50 compensatory fee for each additional wire transfer. 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.

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Section 201.10.12  
Failure to File or Correct  
IRS Forms 1099-A  
(01/31/03)

A servicer that fails to file an *Acquisition or Abandonment of Secured Property* (IRS Form 1099-A) when it is due or that files an incorrect return must reimburse Fannie Mae for any penalty fees the IRS assesses (unless the servicer can document that it met the filing requirements). In addition, a servicer that prepares the IRS Form 1099-A manually and submits it to Fannie Mae for forwarding to the IRS must return any requested corrections to Fannie Mae by the date Fannie Mae specifies. If it does not, Fannie Mae may assess a \$100 compensatory fee for each incomplete or incorrect IRS Form 1099-A (although Fannie Mae will not penalize a servicer that does not include the borrower's taxpayer's identification number on the form).

Section 201.10.13  
Late Filing of Final  
Request for  
Reimbursement  
(01/31/03)

A servicer must submit its final *Cash Disbursement Request* ([Form 571](#)) to request reimbursement of its advances within 30 days after completion of a loss mitigation alternative, filing a mortgage insurance claim for a property that will be conveyed to the insurer or guarantor, acquisition of a property by a third party at a foreclosure sale, or disposition of an acquired property. 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.

Section 201.11  
Imposition of Sanctions  
(06/30/02)

When Fannie Mae determines that a 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 will generally give the servicer notice of the contemplated action so the servicer can submit a written response or request a meeting with the Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435. 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 a 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 a 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.

**Section 201.12**  
**Suspension of New**  
**Servicing (06/30/02)**

Fannie Mae may suspend a 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 Fannie Mae-securitized mortgage loans that would be transferred from another servicer. The suspension of new servicing may apply 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.

**Section 202**  
**Servicer's Basic Duties**  
**and Responsibilities**  
**(12/08/08)**

Servicers service Fannie Mae loans as independent contractors and not as agents, assignees, or representatives of Fannie Mae; thus most of the policies and standards described in this *Guide* are intended to set forth the broad parameters under which servicers should exercise their sound

professional judgment as mortgage 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* a servicer should implement it. Fannie Mae generally will not object to the practices a 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.

As a general matter, servicers should have sufficient properly trained staff, and adequate controls and quality control procedures in place, to carry out all aspects of their servicing duties; to protect against fraud, misrepresentation, or negligence by any parties involved in the mortgage servicing processes; to protect Fannie Mae's investment in the security properties; and to provide borrowers with assistance when it is requested. Servicers should 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 to avoid possible tax liens;
- maintaining adequate 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;
- maintaining accurate mortgage 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 *Part VIII: Foreclosures, Conveyances and Claims, and Acquired Properties*);
- performing certain administrative functions related to an acquired property when Fannie Mae so requests;
- 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.

To facilitate performance of the servicer's contractual responsibilities to Fannie Mae and the borrower, the servicer ordinarily appears in the land records as the mortgagee. For example, this ensures that the servicer receives legal notices that may impact Fannie Mae's lien, such as notices of foreclosure of 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.

In addition to these responsibilities, the servicer of a second mortgage loan is responsible for coordinating with the servicer of the first mortgage loan on any actions it takes to protect Fannie Mae's (or an MBS trust's) investment. The servicer must begin this coordination by notifying the servicer of the first mortgage loan as soon as Fannie Mae purchases or securitizes the second mortgage loan and requesting it to provide notice whenever any circumstance that might jeopardize Fannie Mae's investment in the second mortgage loan occurs. This close coordination should continue through the disposition of an acquired property or satisfaction of the mortgage debts.

Fannie Mae's basic servicing policies do not change on the basis of its lien position. Fannie Mae requires the servicer to service all mortgage loans in a sound, businesslike manner; to use good judgment; and to follow the procedures in this *Guide*.

A servicer cannot transfer its responsibility for servicing Fannie Mae-owned or Fannie Mae-securitized mortgage loans unless Fannie Mae approves the transfer. However, Fannie Mae does allow a servicer to assign servicing concurrent with delivery of a mortgage loan or an MBS pool (as discussed in *Section 201.05, Concurrent Servicing Transfers (07/20/06)*), to use subservicing arrangements (as discussed in *Section 206, Subservicing (06/24/04)*), or to pledge its servicing rights under certain conditions (as discussed in *Section 201.06, Pledge of Servicing Rights (03/29/10)*). In performing its servicing duties, a servicer must take whatever action is necessary to protect Fannie Mae's interest in the security property, as long as it is authorized by the terms of the security instrument.



Section 202.01  
Servicer's Duties and  
Responsibilities for MBS  
Mortgage Loans  
(12/08/08)

The MBS Trust Agreements and the Trust Indentures clarify and document the relationships between Fannie Mae and servicers of MBS mortgage loans.

- Under the Trust Agreements (or the Trust Indentures), mortgage loans and the proceeds of those 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 a servicer and Fannie Mae relating to the servicing of MBS mortgage loans.

By servicing MBS mortgage loans, the servicer agrees that (1) 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 (2) the 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, with the authority to enforce such contract.

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 herein as PFP mortgage loans) must be serviced as MBS mortgage loans. This requirement does not change a 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 servicers of loans that have been securitized into an MBS pool. Servicers 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 servicer's duties and responsibilities and its obligations under the Lender Contract do not change on the basis of whether Fannie Mae purchased a mortgage loan for its portfolio as a whole mortgage loan or a participation pool mortgage loan, or whether Fannie Mae securitized a mortgage loan (or a participation interest in a mortgage loan) as part of an MBS pool. 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). Specifically, a servicer may **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 *Section 207, Repurchase or Mortgage Substitution Requirements (09/30/05)*;
- 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 modification as a means of preventing foreclosure of the mortgage loan, or the servicer releases the borrower from liability in compliance with *Part III, Section 408.02, Exempt Transactions (01/31/03)*;
- 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 this *Guide* specifically permits or requires repurchase or reclassification, or unless Fannie Mae specifically agrees;
- defer the exercise of any right to accelerate the mortgage 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 modifications for delinquent borrowers;

- 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;
- 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 deed-in-lieu under any conditions, other than those Fannie Mae allows for, for mortgage loans in its portfolio;
- 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; or
- change an ARM index or the manner in which the index values are selected.

All mortgage loans that have been (or may be in the future) sold to Fannie Mae for cash and subsequently securitized into MBS pools have to be serviced as MBS mortgage loans. This requirement does not change a 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.

MBS mortgage loans may be part of a Trust Indenture or a Trust Agreement (“MBS trust documents”). 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 documents, mortgage loans and the proceeds of those 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 MBS trust documents, as applicable. Daily servicing operations are performed by the 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. The Trust Agreement uses the term “Servicing Contract” to refer to any of the agreements between a servicer and Fannie Mae relating to the servicing of MBS mortgage loans.

By servicing MBS mortgage loans, the servicer agrees that, when the loans are in MBS pools: (1) 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 (2) the trustee (on behalf of the MBS trusts) and Fannie Mae as guarantor are third-party beneficiaries of the Servicing Contract between that servicer and Fannie Mae, with the authority to enforce such contract.

Section 202.01.01  
Trust Agreements and  
Indentures (12/08/08)

The servicing requirements of a MBS trust agreement or indenture vary depending on the MBS trust documents under which a particular MBS mortgage loan was pooled. Accordingly, it is important to identify and distinguish among the following three categories of MBS trust documents:

- **1980’s Indentures:** The various fixed-rate or ARM Trust Indentures (each, a “1980’s Indenture”) for pools of mortgage loans in MBS with issue dates up to and including May 1, 2007;
- **2007 Amended Trust Agreement:** The 2007 Amended Trust Agreement for pools of mortgage loans in MBS with issue dates from June 1, 2007 through December 1, 2008; and
- **2009 Trust Agreement:** The 2009 Trust Agreement for pools of mortgage loans in MBS with issue dates on or after January 1, 2009.

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. Although the 2009 Trust Agreement allows certain loan modifications while a defaulted loan is in an MBS pool, all modifications are unavailable for MBS mortgage loans while they are in MBS pools.

The executed 2009 Trust Agreement and the 2007 Amended Trust Agreement are available on [fanniemae.com](http://fanniemae.com).

Section 202.01.02  
Identification of the  
Applicable MBS Trust  
(12/31/08)

Currently, foreclosure prevention alternatives with respect to mortgage loans in MBS pools are applied across all pools, regardless of which MBS trust documents apply to the loan. The availability of certain of the newly expanded loss mitigation alternatives will vary, depending on the MBS issue date and the applicable MBS trust documents for a particular loan.

Fannie Mae is expanding the timing and use of foreclosure prevention alternatives to provide servicers with more flexibility to design a loss mitigation strategy best suited to help a particular borrower bring a mortgage loan current within a specified period of time. The use of one type or a combination of foreclosure prevention alternatives is determined by:

- whether the foreclosure prevention alternative 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 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.

To the extent possible, Fannie Mae has attempted to make the expanded remedies available for loans in any MBS trust. Not all remedies, however, will be available for all MBS mortgage loans. Since the availability of a particular remedy for an MBS mortgage loan depends on the MBS trust

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documents under which that mortgage loan was pooled, the servicer must identify the issue date of the MBS in order to determine whether an expanded loss mitigation alternative is available to a borrower.

#### Section 202.02 Processing of Funds (01/31/03)

The servicer's authorization to receive, handle, or dispose of funds representing mortgage loan payments (for principal, interest, and tax and insurance escrows) 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 this *Guide* or in the Lender Contract. Since these funds and assets are owned by Fannie Mae and other parties (such as the borrower, a participating lender, or an MBS holder), 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—and not 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 this *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.

#### Section 202.03 Delinquency Advances (09/30/05)

Because scheduled/actual and scheduled/scheduled remittance types require that the servicer remit funds to Fannie Mae when they are scheduled to be remitted rather than when they are actually collected, a servicer may have to advance its own funds to cover funds due for delinquent mortgage loans. Funds advanced for this purpose are referred to as “delinquency advances.”

A servicer of whole mortgage loans 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.

A servicer of portfolio mortgage loans or 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. 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 must make a delinquency advance by depositing to the P&I custodial account enough of its own funds to make the total on deposit equal the full amount of the remittance Fannie Mae is due. The servicer may reimburse itself for its delinquency advances from borrower collections that are subsequently deposited to the P&I custodial account.

Section 202.04  
Servicing Advances  
(01/31/03)

A servicer must pay all out-of-pocket costs and expenses incurred in performing its servicing obligations—such as those related to the preservation and protection of the security property, the enforcement of judicial proceedings, and the 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 provided below. When the expense relates to protection of the security or foreclosure costs 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, Fannie Mae will reimburse the servicer for unrecovered losses—except 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 a 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.

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Section 202.05  
Written Procedures  
(01/31/03)

To ensure that its staff is knowledgeable in all aspects of mortgage servicing, the servicer must have fully documented written procedures and must have implemented measures to determine that its officers and employees adhere to those procedures. Occasionally, certain areas of a servicer's performance may show poor results despite the servicer's efforts—such as continuing high delinquencies attributable to economic problems. When that happens, the fact that the servicer has sound written procedures that are faithfully followed by its employees will be a positive factor in Fannie Mae's overall evaluation of the servicer's performance.

Section 202.06  
Execution of Legal  
Documents (01/31/03)

The servicer may execute legal documents related to payoffs, foreclosures, releases of liability, releases of security, 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 relating to a single-family property requires the use of an address for Fannie Mae, including assignments of mortgage loans, foreclosure deeds, REO deeds, and lien releases, the following address must be used:

Fannie Mae  
P.O. Box 650043  
Dallas, TX 75265-0043

When Fannie Mae is the owner of record for a mortgage loan, it also permits a servicer that has Fannie Mae's limited power of attorney to execute these types of documents on Fannie Mae's behalf. To request a limited power of attorney, the servicer should prepare and execute the form that appears in *Exhibit 1: Limited Power of Attorney to Execute Documents* for each jurisdiction in which it is servicing mortgage loans for Fannie Mae. (The servicer may reformat this document to make it recordable in specific jurisdictions, change the notary acknowledgment, or make other minor wording changes; however, it may not amend the list of transactions for which the document will be used.) The servicer should attach the document(s) to a cover letter that (1) states the jurisdiction(s) for which the limited power of attorney is being requested, (2) explains any changes that were made to the document(s), and (3) provides any special



instructions necessary to make the document recordable in a specific jurisdiction. This request package should be sent to the following address:

Fannie Mae  
Attn: Limited Powers of Attorney  
13150 Worldgate Drive  
Herndon, VA 20170

Once the servicer receives an executed limited power of attorney from Fannie Mae, it must have the document recorded in the proper jurisdiction. The servicer may submit the limited power of attorney for recordation immediately or wait to record it until such time as it is actually needed to process a covered transaction.

Generally, a servicer that does *not* have a limited power of attorney to execute documents on Fannie Mae's behalf (or that has a power of attorney that does not authorize it to execute documents for a specific type of transaction) should send the documents to Fannie Mae's Designated Document Custodian (DDC) for execution in any instance in which Fannie Mae is the owner of record for the mortgage loan. (There are some exceptions to this—for example, documents related to the conveyance or reconveyance of an acquired property should be sent to Fannie Mae's National Property Disposition Center and documents related to the types of releases of security that must be approved by Fannie Mae should be sent to the appropriate Fannie Mae regional office.)

Section 202.07  
Note Holder Status for  
Legal Proceedings  
Conducted in the  
Servicer's Name  
(05/23/08)

This section discusses the note holder status for legal proceedings conducted in the servicer's name.

Section 202.07.01  
Ownership and  
Possession of Note by  
Fannie Mae (05/23/08)

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 below. 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

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document custodian, the document custodian has custody of the note for Fannie Mae's exclusive use and benefit.

#### **Section 202.07.02 Temporary Possession by the Servicer (05/23/08)**

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, the servicer becomes the holder of the note as follows:

- If a note is held at Fannie Mae's DDC, Fannie Mae 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.
- If the note is held by a document custodian on Fannie Mae's behalf, the custodian also 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.

#### **Section 202.07.03 Physical Possession of the Note by the Servicer (05/23/08)**

In most cases, a servicer will have a copy of the mortgage note. If a servicer determines that it needs physical possession of the original 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 note.

If Fannie Mae's possession of the original note is direct because the custodial documents are at its DDC, the servicer should submit a request to obtain the original note and any other custodial documents that are

needed to the Custody Department through the Loan Document Request System (LDRS) on [eFannieMae.com](http://eFannieMae.com).

If Fannie Mae possesses the original note through a third-party document custodian that has custody of the note, the servicer should 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 should specify whether the original note is required or whether the request is for a copy.

Section 202.07.04  
Reversion of Possession  
to Fannie Mae (05/23/08)

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.

**Section 203  
Servicing  
Compensation  
(01/31/03)**

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

A 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 *Section 201.06, Pledge of Servicing Rights (03/29/10)*.

Section 203.01  
Servicing Fees (09/30/05)

Servicing fees are payable to the servicer from the time Fannie Mae purchases or securitizes a mortgage loan until it is paid in full (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. *Exhibit 2: Servicing Fees for Portfolio Mortgage Loans and MBS Mortgage Loans* includes the current minimum (and, if applicable,

maximum) allowable servicing fees for various types of mortgage loans. Historically, the servicing fees Fannie Mae paid for first and second mortgage loans could vary, based on the delivery method, ownership interest, remittance type, amortization type, and purchase date. 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 *Part X, Chapter 5, Fannie Mae-Generated Reports*).

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 should be based on the interest amount that is accrued, rather than on the amount that was actually collected.

For loans where military indulgence is warranted or required under the Servicemembers Civil Relief Act, see *Part III, Exhibit 1: Military Indulgence*, for calculation of servicing fees.

The servicer can obtain its servicing fee compensation by:

- deducting its fee from each borrower's payment before it is deposited to the custodial account,
- writing itself a check against its custodial account for the amount of servicing fee that is due each month,
- deducting its fee from the amount sent to Fannie Mae when the borrower pays off his or her mortgage loan, and
- deducting its fee from the proceeds of a third-party foreclosure sale or from the amount remitted to redeem an acquired property.

The servicer also retains as additional servicing compensation for a portfolio mortgage loan the amount by which the mortgage coupon rate exceeds Fannie Mae's pass-through rate for a whole mortgage loan or Fannie Mae's required yield for a participation pool mortgage loan. The servicer of an MBS mortgage loan retains as additional servicing compensation the amount by which the mortgage coupon rate exceeds the pass-through rate (or the pool accrual rate for a stated-structure ARM

MBS pool or the accrual rate for the mortgage loan if it is in 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.

Section 203.02  
Yield Differential  
Adjustments (01/31/03)

When the interest rate of an actual/actual remittance type fixed-rate whole 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 ARMs when the mortgage margin—or net mortgage margin for net yield commitments—exceeds Fannie Mae's required commitment margin. In addition, ARMs 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. 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 appear in *Exhibit 3: Historical Yield Differential Adjustment Provisions*.

The servicer can determine the yield differential adjustment applicable to each monthly payment the same way it calculates servicing fees.

Yield differential adjustments may be changed, or eliminated altogether, under these conditions:

- If Fannie Mae 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.
- If Fannie Mae terminates the servicer's right to service the mortgage loan (either with cause or without cause) or 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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- If Fannie Mae purchased an ARM at a *discount*, the yield differential adjustment will be eliminated when the first interest rate adjustment occurs. (See *Exhibit 3: Historical Yield Differential Adjustment Provisions* for an exception to this policy.)
- If Fannie Mae purchased an ARM at *par*, the yield differential adjustment may be reduced when the first interest rate change occurs. (See *Exhibit 3: Historical Yield Differential Adjustment Provisions* for an explanation of how the new yield differential adjustment is determined.)

#### Section 203.03 Late Charges (07/10/09)

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. For specific information about the assessment of late charges, refer to *Part VII, Section 301, Assessing Late Charges (07/10/09)*.

To assist Fannie Mae in complying with IRS reporting requirements, the servicer should 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.

#### Section 203.04 Fees for Special Services (11/01/04)

Fannie Mae expects that every servicer will have in place clearly written policies regarding fee assessment, and that those policies will ensure that fees comply with applicable laws and regulations, are consistent with the governing mortgage documents or are otherwise agreed upon by the borrower, and address four points in particular:

- 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;
- 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, and may not entail compensation to third parties for work or services not performed;
- 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), or as may be required by applicable law. (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 should be explained to the borrower before the service is provided.); and

- 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 loan (e.g., charging a delinquent borrower's account for monthly property inspections generally would not be a permissible practice unless the servicer determines that the circumstances warrant multiple inspections).

As described in the Lender Contract, the lender 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 a 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. Fees relating to the following activities should not be charged to the borrower:

- 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 loan that has been brought current.

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 loan documents, accepting a "phone pay" payment, and consummating the assumption or modification of a loan. 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 loss mitigation activities for which Fannie Mae has agreed to compensate the servicer, or engaging in property preservation activities).

The following additional guidelines apply to fee assessment:

**ARM adjustments.** The servicer may not charge fees for the interest rate or payment changes that are required periodically for ARMs, although it may charge a processing fee to cover the administrative costs of converting an ARM or GPARM 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.** A servicer is expected to follow HUD or VA requirements regarding the maximum allowable assumption fees for these government mortgage loans. Fannie Mae limits the assumption fee that the servicer may charge for conventional mortgage loans, 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 servicer's costs do not warrant these fees, it should charge lower fees:

- \$100 if the change of ownership does not require a review of the purchaser's credit, or
- 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.



**Modifications.** For allowable servicing fees, costs, or charges, refer to *Part VII, Section 602.02, Modifying Conventional Mortgage Loans (04/21/09)*.

**Section 203.05**  
**Prepayment Premiums**  
**(01/31/03)**

A servicer may 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 may 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.

To assist Fannie Mae in complying with IRS reporting requirements, a servicer that collects prepayment premiums under the terms of a negotiated contract should 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.

**Section 204**  
**Changes in Servicer’s**  
**Organization (04/01/09)**

The servicer must send Fannie Mae written notice of any contemplated major change in its organization. The servicer must follow all requirements in the *Selling Guide, A4-3-01, Report of Changes in the Lender’s Organization*.

In addition, in those situations in which a servicer either is involved in a merger or acquisition or is changing its name, undergoing a corporate reorganization, experiencing either a direct or an indirect change of control, or having a majority interest in its stock change hands, Fannie Mae will treat the action as a transfer of servicing that must be approved and processed in accordance with the requirements of *Section 205, Post-Delivery Transfers of Servicing (09/30/06)*. If the lender fails to provide adequate notice of, or obtain approval for, such contemplated actions, Fannie Mae may impose a compensatory fee and exercise any other available remedies

**Section 205**  
**Post-Delivery Transfers**  
**of Servicing (09/30/06)**

Subsequent to the delivery of mortgage loans to Fannie Mae, a servicer cannot transfer its responsibility for servicing any such mortgage loans unless Fannie Mae approves the transfer. Fannie Mae will not recognize unauthorized transfers of servicing. In fact, any such action may be the basis for terminating the contractual relationships Fannie Mae has with

both the transferor and transferee servicers. Instead of terminating the contractual relationship(s), Fannie Mae may choose to impose sanctions, compensatory fees, or other available remedies when a servicer fails to give Fannie Mae adequate notice of a proposed transfer, obtain its approval for a transfer, or fulfill any conditions of Fannie Mae's approval of a given transfer of servicing. (The amount of any compensatory fee Fannie Mae imposes can vary depending on the circumstances; however, it will not be greater than 1% of Fannie Mae's share of the aggregate UPB of the mortgage loans being transferred.) Fannie Mae will hold any transferor or transferee servicer that enters into an unauthorized transfer of servicing liable for any losses, liabilities, or other expenses Fannie Mae incurs as the result of the unauthorized transfer.

The servicer must obtain Fannie Mae's prior written consent for any transfer of servicing involving Fannie Mae-owned or Fannie Mae-securitized mortgage loans. Fannie Mae generally will consider requests for transfers of either all or a portion of the mortgage loans that a lender services for it. However, if the transfer involves mortgage loans in a regular servicing option MBS pool or a shared-risk special servicing option MBS pool for which the servicer's shared-risk liability is still in effect, individual loan-level servicing transfers are not permitted; rather, the servicing of all of the mortgage loans in the pool must be transferred. The transferor servicer may use a CPU-to-CPU electronic file transfer or any other electronic means that Fannie Mae specifies to notify Fannie Mae about a full transfer of its servicing portfolio or to provide it with a list of mortgage loans that will be included in a partial transfer of servicing (see *Part X, Section 206, Transaction Type 80 (Subservicer Arrangement Record) (01/31/03)*). The servicer's electronic notification may be submitted as early as six months and as late as fifteen days before the proposed effective date for the transfer of servicing.

The proposed transferee servicer must be an approved servicer that is in good standing with Fannie Mae. The servicer also must have in place appropriate controls and adequate procedures relating to the boarding of new loans (subsequent either to origination or acquisition of servicing pursuant to a servicing transfer) to avoid any delayed application of borrower payments of principal, interest, taxes, or insurance (when applicable). In particular, servicing errors and disputes may occur as a result of servicing transfers. Accordingly, before Fannie Mae approves a transfer, it will evaluate the transferee servicer's performance in the

following areas (although it may consider additional factors if it chooses to do so):

- overall servicing performance, including the servicing of special mortgage loan products, accounting, and remitting;
- capacity to service the number and types of mortgage loans that are to be included in the proposed transfer;
- 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, or other outstanding claims; and
- financial condition.

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); therefore, Fannie Mae encourages a servicer that is contemplating the purchase of another servicer's portfolio to contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center 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 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 for which servicing will 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 two 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 will use appropriate business practices to permit both the transferor servicer and the transferee servicer (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.

To ensure that Fannie Mae has sufficient time to review a proposed transaction and to give the two servicers time to receive Fannie Mae's consent before the proposed effective date for the transfer (and before notices of the transfer are given to borrowers), the transferor servicer must submit a *Request for Approval of Servicing Transfer* ([Form 629](#)) in an electronic format to the appropriate Fannie Mae regional office at least 30 days (and no more than 180 days) before the proposed effective date. At the same time, the transferor servicer should submit a check for a nonrefundable \$500 processing fee (which should note the names of both servicers and the proposed effective date of the transfer). (The proposed effective date of the transfer must be the last business day of the last month for which the transferor servicer will be responsible for reporting loan-level detail activity to Fannie Mae.)

If any of the mortgage loans for which servicing is to be transferred are in MBS pools that are part of a Fannie Majors® multiple pool and the transferee servicer is already servicing mortgage loans in the same Majors pool, it may report the transferred mortgage loans under the same nine-digit Fannie Mae lender identification number that it currently uses, as long as the mortgage loans have the same remittance type and date as the

mortgage loans that it is already reporting under that number. If the transferred mortgage loans have a different remittance type or date, the transferee servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to request a new branch lender identification number for reporting on the transferred mortgage loans.

If Fannie Mae consents to a proposed transfer of servicing, it will deliver its consent to the two servicers using the same format in which it received the Form 629. Fannie Mae's consent will state that, by implementing the related transfer of servicing, both the transferor servicer and the transferee servicer agree to the provisions of the MSSC, this *Guide* (and any amendments made to this *Guide* with respect to servicing transfers or to the servicing of the transferred mortgage loans), and any other provisions set forth in the consent and acknowledge that all such obligations become effective as of the effective date of the transfer of servicing (although some of the obligations, such as those for notifying borrowers, will have begun or will have been completed prior to the effective date). 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.

The following *Sections* discuss Fannie Mae's standard conditions for approval of a servicing transfer. Fannie Mae also may impose additional terms and conditions on its consent to a servicing transfer if it deems it to be appropriate under the particular circumstances. If it does, it will describe those conditions in its consent statement.

Section 205.01  
Portfolio Definition  
(01/31/03)

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. This means that delinquent mortgage loans and foreclosed mortgage loans 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 has repurchased a mortgage loan under the terms of the regular servicing option or a negotiated shared-risk servicing option.

Fannie Mae will approve the transfer of servicing for an FHA coinsured mortgage loan only if the proposed servicer is a HUD-approved coinsurer

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that is willing to assume the coinsurance obligations for the mortgage loan.

#### Section 205.02 Servicing Fee (01/31/03)

Generally, the transferee servicer will receive the same servicing compensation that the transferor servicer was receiving. For actual/actual and scheduled/actual remittance type mortgage loans held in Fannie Mae's portfolio, the transferee servicer will receive as its servicing fee the same amount—the base servicing fee plus any excess yield—that the transferor servicer had been receiving. For MBS mortgage loans and for scheduled/scheduled remittance type mortgage loans held in Fannie Mae's portfolio, the transferee servicer will receive 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 and the guaranty fee rate.

#### Section 205.03 Assumption of Warranties and Other Obligations (01/31/03)

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 obligations" (as that term is used in *Section 201.02, Representation and Warranty Requirements for the Servicing of All Mortgage Loans (06/10/11)*). 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).

Fannie Mae requires a servicer to provide special notification to the new servicer when it includes eMortgages in a transfer of servicing. Specifically, the transferor servicer must advise the transferee servicer that eMortgages are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for eMortgages required by Fannie Mae's *Guide to Delivering eMortgage Loans to Fannie Mae*, but also agrees to assume the additional responsibilities associated with servicing eMortgages.

Fannie Mae requires the servicer to provide special notification to the new servicer when mortgage loans subject to resale restrictions (whether or not the restrictions survive foreclosure or acceptance of a deed-in-lieu) are included in the portfolio being transferred. The servicer must identify each mortgage loan subject to resale restrictions on the *Request for Approval of Servicing Transfer* ([Form 629](#)). The transferee servicer must be aware of its duties and obligations related to the servicing of mortgage loans subject to resale restrictions.

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 negotiated shared-risk 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 effective date for an approved transfer of servicing, 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 effective date of the transfer, unless Fannie Mae has agreed to release one of the servicers from a specific responsibility). For the most part, Fannie Mae will look first to the transferee servicer for fulfilling any financial or other obligations related to the warranties, repurchase, and special obligations, but Fannie Mae does reserve the right to hold the transferor servicer to these obligations. In fact, both 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.

Section 205.04  
Notifying Borrowers  
(01/31/03)

The transferor and transferee servicers must work together closely to ensure that borrowers receive not only prompt and accurate notification of a pending transfer, but also prompt and courteous responses to their inquiries about the servicing transfer. Both servicers are responsible for sending specific notices to the borrowers whose servicing is being

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transferred. All notices provided to borrowers must be made in accordance with applicable law, including the provisions of the Real Estate Settlement Procedures Act (RESPA) and any state law requirements.

#### **Section 205.05 Notifying Third Parties (01/31/03)**

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, either the transferor servicer or the transferee servicer must take the following actions:

- Fulfill all requirements of each mortgage insurance policy that insures any of the 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 mortgage insurance coverage. Some mortgage insurers provide for a continuation of insurance coverage in connection with a transfer of servicing if the new servicer meets certain conditions—such as having a master policy with that mortgage insurer or being a Fannie Mae–approved lender—but others require notice or prior approval of the new servicer as a condition of continued coverage. If the current mortgage insurer will not provide continuing coverage, the transferee servicer must find another mortgage insurer to provide mortgage insurance 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, Rural Development (RD), or HUD—including, but not limited to, the requirements for providing timely notification or requesting prior approval—to ensure the continuation of the mortgage insurance or loan guaranty;
- Notify the hazard, flood, and earthquake insurance carriers 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 services the transferor servicer uses and any accident and health insurers that are providing coverage for any of the mortgage



loans that are being transferred to indicate whether the transferee servicer will continue using their services; and

- Send appropriate notices of the transfer (providing the transferee servicer's name and address) to taxing authorities, holders of leaseholds, HOAs, and other lienholders. Any public utilities that levy mandatory assessments for which funds are being escrowed also must be notified.

Both the transferor servicer and the transferee servicer must notify the document custodian(s) that are maintaining possession of custodial documents for any mortgage loans included in the transfer to advise them of the pending transfer and to make arrangements for the prompt and safe transfer of the documents to any new document custodian(s) designated by the transferee servicer. If the transferor servicer had been acting as the 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.

The document custodian designated by the transferee servicer is required to recertify the documents regardless of whether the documents themselves are moved. If the documents are not moved, the document custodian must change the servicer associated with the loan files in its tracking system. The document custodian is required to track the mortgage loan 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.

Section 205.06  
Transfer of Individual  
Mortgage Files and  
Portfolio Information  
(02/01/05)

The transferor servicer must deliver to the transferee servicer the individual mortgage files and records for each mortgage loan included in the transfer. The individual mortgage loan files should include all original documents related to the origination and servicing of the mortgage loans being transferred as well as all files, reports, books, and other records that pertain to the mortgage loans. If both servicers agree (and applicable law permits) and if it is not one of the documents Fannie Mae requires to be maintained in its original paper form, this information may be provided in a form other than hard copy (such as microfiche, magnetic tape, or other

electronic media)—as long as the transferor servicer relinquishes all information and documents related to the transferred servicing.

Specific information that should be delivered to the transferee servicer includes the following:

- 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;
- a list of any conventional mortgage loans that have lender-purchased mortgage insurance (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;
- a list of any eMortgages that are part of the portfolio being transferred;
- copies of any tax service contracts that will remain in effect, or notification that the contracts will be transferred to the transferee servicer by a tape process;
- a list of tax bills, assessments, hazard insurance premiums, mortgage insurance premiums, etc., that are due to be paid from escrow funds, but that are still unpaid as of the effective date of the transfer;
- a list of the expiration dates and premium payment frequencies for the hazard, flood, earthquake, and mortgage insurance policies related to each mortgage loan being transferred, whether or not premiums for these policies are escrowed;
- a list of mortgage loans that have optional mortgage loan life or accident and health insurance that will remain in effect;
- a list of mortgage loans that are subject to automatic drafting of the periodic payments;

- a list of ARMs, 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 conversion to fixed-rate mortgage loan option may be exercised, and the current status of any changes in process;
- ledger records, showing activity for the current year and the previous two years (or any shorter time frame that is appropriate for a particular mortgage loan);
- trial balances, as of the close of business on the day immediately preceding the day the records are transferred, showing:
  - the remittance type for each mortgage loan (actual/actual, scheduled/actual, or scheduled/scheduled), the remittance cycle for each MBS mortgage loan (standard, Rapid Payment Method (RPM®), or MBS Express®), Fannie Mae’s applicable ownership interest if it holds only a participation percentage in the mortgage loan, and the applicable pool number for MBS mortgage loans;
  - delinquencies, foreclosures, bankruptcies, and acquired properties;
  - transfers of ownership, payoffs, and other exception transactions that are in process;
  - escrow balances, escrow advances, curtailments; and
  - buydown account balances for mortgage loans subject to temporary interest rate buydown plans;
- a copy of the custodial bank reconciliation for each custodial bank account maintained as of the close of the bank’s last business day that immediately precedes the day the records are transferred to the transferee servicer (if the transferor servicer is unable to complete this reconciliation by the effective date of the transfer, it should complete the reconciliation as promptly as possible and send it to the transferee servicer within five business days after the effective date of the transfer);

- copies of all investor accounting reports that were filed with Fannie Mae for the three months that immediately precede the date the records are transferred to the transferee servicer;
- an explanation of any outstanding “shortage/surplus” items related to the mortgage loans being transferred that existed as of the last reporting period of Fannie Mae’s investor reporting system; and
- definitions of codes used in ledger records, trial balances, or any other documents that are being forwarded to the transferee servicer.

The transferor servicer also must deliver to the transferee servicer information and records for any mortgage loans that are in a foreclosure, bankruptcy, or loss mitigation status and for any properties that Fannie Mae acquired by foreclosure or acceptance of a deed-in-lieu (if Fannie Mae has not sold them by the effective date of the servicing transfer).

- The transferor servicer must provide the transferee servicer a list of each mortgage loan that is in the process of foreclosure or for which the borrower has filed bankruptcy, showing the Fannie Mae loan number and the name and address of the attorney (or trustee) handling the foreclosure or bankruptcy.
- The transferor servicer must provide the transferee servicer all pertinent information related to the status of a mortgage loan for which loss mitigation is being pursued. 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.
- The transferor servicer must provide the transferee servicer a list of any acquired properties for which it is performing administrative functions—such as paying taxes and insurance premiums, performing property maintenance functions, etc.—if the responsibilities for these functions will be transferred to the transferee servicer. The list should 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 any appropriate documentation.

- The transferor servicer must inform the transferee servicer if any of the mortgage loans (or acquired properties) being transferred are the subject of litigation at the time of the transfer, and must turn over all records pertaining to such litigation (including court filings, disclosure requests and responses, and preliminary rulings).

The books and records that the transferor servicer turns over to the transferee servicer should be complete so the transferee servicer will be able to service the transferred mortgage loans without interruption as of the effective date of the transfer of servicing. 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. In addition, the transferee servicer should ensure that it understands borrower account histories (including the amount and nature of all servicing advances and fees assessed to the borrower) as of the effective date of the transfer, that it reviews its subsequent collection of funds from borrowers to ensure accurate accounting for recovery of advances charged to the borrower, and that it honors 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).

In all instances, fees and charges improperly assessed to a borrower must be promptly refunded or credited to the borrower's account. Therefore, Fannie Mae strongly recommends that the transferee servicer obtain all documents related to the transferred mortgage loans that are in the possession of the transferor servicer, and that the two servicers agree to procedures that can be implemented after the transfer that will enable the transferee servicer to obtain any other information related to the transferred mortgage loans that was not turned over as of the effective date of the transfer. Both the transferor servicer and the transferee servicer should maintain adequate records—such as lists, cards, records, computer tape, or microfilm—of the portfolio transfer in their corporate records so that they can easily identify the mortgage loans included in the transfer, the effective date of the transfer, the parties involved in the transfer, and the documents and information turned over to the transferee servicer.

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Section 205.07  
Transfer of P&I and T&I  
Funds (05/01/00)

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, accruals on deposit for the payment of future renewal premiums for lender-purchased mortgage insurance, curtailments, and buydown funds). If the transferor servicer has advanced delinquent interest or scheduled P&I to Fannie Mae, the transferee servicer should reimburse the transferor servicer as soon as it receives a final accounting of all monies from the transferor servicer. All net amounts owed must be paid to the appropriate party on the effective date of the transfer.

Section 205.08  
Submission of Final  
Accounting  
Reports/Remittances  
(01/31/03)

The transferor servicer is responsible for submitting the monthly reports for Fannie Mae's investor reporting system package (and making the related security balance call-ins, if any of the transferred mortgage loans are in MBS pools) for the month in which the transfer becomes effective. For example, if the servicing transfer is effective as of May 31, the transferor servicer must submit to Fannie Mae's investor reporting system reports for the May reporting period and make the June call-in of security balances for any MBS pools included in the transfer.

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 in which the servicing transfer becomes effective, the transferor servicer will be responsible for reporting Fannie Mae's investor reporting system transactions for all activity that took place for *all* of the mortgage loans in the original pool, for making that month's MBS call-in transmission, and for ensuring that sufficient funds to satisfy that month's remittance obligation are available for drafting on the scheduled remittance date for the pool. Then, in the month following the effective date of the servicing transfer, the transferor servicer will be responsible for reporting Fannie Mae's investor reporting system transactions related to the mortgage loans remaining in the original MBS pool after the transfer, and the transferee servicer will be responsible for reporting Fannie Mae's investor reporting system transactions for the supplemental MBS pool that was created for the transferred mortgage loans. Each of the servicers will be responsible for making that month's security balance call-in for their respective share of the original MBS pool(s).

The transferor servicer is contractually responsible for all remittances due Fannie Mae (including MBS pool guaranty fees) for the final monthly accounting period. However, the transferor servicer and the transferee servicer may agree that the transferee servicer will make the actual remittance to Fannie Mae. If it has any questions about making this remittance to Fannie Mae, the transferee servicer should contact its Fannie Mae investor reporting system Business Analyst.

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 owed Fannie Mae or security holders. (Any questions regarding resolution of these issues should be directed to the transferor servicer’s Fannie Mae investor reporting system Business Analyst.) Within 30 days after the effective date of the servicing transfer, the transferor servicer must send its Fannie Mae investor reporting system Business Analyst a copy of the completed shortage/surplus reconciliation related to the transferred mortgage loans (so it can be used to support any adjustment that may need to be made to the transferor servicer’s shortage/surplus balance). The transferee servicer will be responsible for any Fannie Mae investor reporting system shortages or security balance deficiencies related to mortgage loans or pools included in the transfer that are not resolved by the transferor servicer.

Section 205.09  
Preparing Mortgage  
Assignments (01/31/03)

The need to prepare new mortgage assignments in connection with a transfer of servicing will depend on whether Fannie Mae is the owner of record for the mortgage loan and, if Fannie Mae is not, on whether the mortgage loan is registered with MERS.

In those instances in which Fannie Mae holds the custodial documents, any required assignments that are submitted to Fannie Mae 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;

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- 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 effective date of the transfer;
- 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);
- the transfer log number provided by the Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center when the transfer was approved; and
- the name and telephone number of a person Fannie Mae can contact if it has any questions about the documents.

**Fannie Mae is the owner of record.** A new mortgage 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 MERS. (Blanket assignments may be used for the assignment, as long as the coverage for each blanket assignment is restricted to a single recording jurisdiction.) The transferee servicer has full responsibility for recording an assignment from the transferor servicer to itself, regardless of which servicer prepares and records the assignment. Then, 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 should be an individual assignment. The unrecorded assignment to Fannie Mae must be delivered to Fannie Mae or the applicable document custodian within *six* months of the effective date of the servicing transfer.

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. However, there are two situations in which an assignment of the mortgage loan (or a similar document) will need to be prepared and recorded:

- For a “direct” mortgage loan (one that is documented by a single instrument that combines the terms of the note and the mortgage loan), a deed of assignment of the mortgage loan must be prepared and recorded to advance the chain of title through the transferee servicer’s name. (This deed of assignment can be an individual assignment or a blanket assignment, as permitted by the jurisdiction.) The transferee servicer will then need to execute an individual unrecorded assignment of the mortgage loan to Fannie Mae and submit it to Fannie Mae (or the applicable document custodian) within *six* months after the effective date of the servicing transfer.
- For any other mortgage loan for which Fannie Mae (or the applicable document custodian) does not have in its possession an unrecorded assignment to Fannie Mae that was executed by the lender that originated the mortgage loan, such an assignment must be obtained

from the mortgage loan originator. If that is not possible, the transferee servicer must prepare an individual unrecorded assignment of the mortgage loan from itself to Fannie Mae and submit it to Fannie Mae (or the applicable document custodian) within *six* months of the effective date of the servicing transfer. When the transfer of servicing includes a large number of mortgage loans secured by properties in Puerto Rico, one or more blanket assignments may be used if it is not practical to execute individual assignments.

**Fannie Mae is not the owner of record and the mortgage loan is registered with MERS.** Generally, 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 when the servicing of a MERS-registered mortgage loan is transferred to a servicer that is a MERS member (if the transferee servicer intends to continue the MERS registration for the mortgage loan). In some situations, Fannie Mae may indicate that it wants to obtain these assignments.

However, 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,
- the transferor servicer to “deactivate” the mortgage loan in MERS,
- the transferor servicer or the transferee servicer (at their choice) to record the assignment of the mortgage loan from MERS to the transferee servicer, 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 Fannie Mae or the applicable document custodian.

When the originator of the mortgage placed the MERS Mortgage Identification Number (MIN) on the note when the mortgage was registered with MERS (and the mortgage loan is still registered with

MERS), the document custodian will be able to tell whether an assignment of the mortgage loan needs to be required in connection with the transfer of servicing. When the MIN is on the note, but the mortgage loan is no longer registered with MERS, either the transferor servicer or the transferee servicer must notify the document custodian to delete the MIN from the note (with the servicer that is responsible for the deactivation providing the notice). When the MIN does not appear on the note, other actions must be taken to ensure that the custodian is aware of whether or not the mortgage loan is registered with MERS. This can be accomplished by (1) providing the custodian with a copy of the original *Schedule of Mortgages (Form 2005)* that has been appropriately annotated to indicate that a mortgage loan originally registered with MERS is no longer registered (by deleting the MIN that was originally reported) or to indicate the subsequent registration with MERS (by inserting the applicable MIN); or (2) providing the custodian with a listing of all MERS-registered mortgage loans that are included in the transfer, along with a certification that any and all other mortgage loans included in the transfer are not currently registered with MERS. (If there are more MERS-registered mortgage loans included in the transfer than there are unregistered mortgage loans, the listing may instead identify the unregistered mortgage loans and then the certification should state that any and all other mortgage loans included in the transfer are currently registered with MERS.)

Section 205.10  
Transfer of Custodial  
Documents (09/30/05)

When the transfer of servicing includes MBS mortgage loans, the transferee servicer may choose to use the existing document custodian (if it meets all of Fannie Mae's eligibility criteria for document custodians), to make arrangements for a different document custodian (including Fannie Mae's DDC), or to retain custody of the documents itself (if it satisfies Fannie Mae's eligibility criteria for document custodians and the additional criteria Fannie Mae imposes on lenders that act as the document custodian). If the transferee servicer chooses to use the existing document custodian, it will need to have a *Master Custodial Agreement (Form 2003)* executed—unless it already has a master custodial agreement on file for that custodian—and ask the document custodian to complete an *MBS Custodian Recertification (Form 2002)* in connection with the servicing transfer within six months of the effective date of the transfer. 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.

If the transferee servicer chooses to change document custodians (or decides to hold the documents itself), the transferor servicer is responsible for controlling the documents until they are released to the new document custodian. 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 effective date of the transfer.

- If Fannie Mae's DDC will need to transfer custodial documents 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—stating its intent to transfer the documents to a new custodian as the result of a transfer of servicing, specifying the approximate number of mortgage loans for which documents will be transferred, indicating the desired date for shipping the documents to the new custodian, and providing the names and telephone numbers of the contact persons for the transferee servicer and the new document custodian. This advance notification should be sent to Fannie Mae; MBS Bulk-Out Transfer; 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.
- 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—stating its intent to transfer the documents to the DDC as the result of a transfer of servicing, specifying whether the transfer relates to an entire servicing portfolio or to only certain individual mortgage loans, indicating the desired date for delivering the documents to the DDC, and providing the names and telephone

numbers of the contact persons for the transferee servicer and the current document custodian. This advance notification should be sent to Fannie Mae; Region Code (enter 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.

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 effective date of the transfer. To ensure that the transferred documents are appropriately identified, a label showing the Fannie Mae loan number should 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.

**Section 205.11**  
**Transitional**  
**Responsibilities**  
**(01/31/03)**

The transferor servicer and the transferee servicer must 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. Both the transferor servicer and the transferee servicer must assume responsibility for responding to borrower inquiries that are received after the effective date of the transfer.

During the transition period, the transferee servicer must give special consideration to the borrower's needs and 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. In particular, late charges must be waived and, if necessary, appropriate adjustments must be made 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.

**Section 206**  
**Subservicing (06/24/04)**

A 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 a 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 lender sells and assigns servicing to another lender, unless the originating lender continues to be the contractually responsible servicer.

Section 206.01  
General Requirements  
for Subservicing  
Arrangements (06/24/04)

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.

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.

Whenever a servicer enters into a subservicing arrangement with respect to any particular mortgage loans:

- 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:
  - 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
  - the subservicing agreement does not conflict with Fannie Mae's servicing requirements.

A 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.

In addition, the subservicing arrangement must satisfy the following requirements:

- 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 will be terminated should Fannie Mae have to transfer the master servicer's servicing portfolio for any reason. In some cases, Fannie Mae may transfer the portfolio to a servicer that is willing to continue the existing subservicing arrangement. However, if the master servicer does not retain a master servicing spread, most transferee servicers will have no incentive for agreeing to continue the arrangement (or, at least, to continue it without reducing the subservicer's servicing fees).
- 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–owned or Fannie Mae–securitized) that it services for the master servicer.

- Generally, the master servicer and the subservicer should use the same remittance type—that is, the subservicer should report each mortgage loan to the master servicer under the same remittance type that the master servicer uses in reporting activity for that mortgage loan to Fannie Mae. However, Fannie Mae will not object to the master servicer allowing the subservicer to report activity to the master servicer under a different remittance type as long as the master servicer is able to report to Fannie Mae under the correct remittance type and to ensure that Fannie Mae receives the proper remittance amount.
- The master servicer should receive all mortgage loan funds in sufficient time to meet Fannie Mae’s remittance requirements, unless the master servicer agrees to accept collections from the subservicer at a later date. When the subservicer uses a remittance date that is later than the one Fannie Mae prescribes, the master servicer will have to advance any funds necessary to ensure that Fannie Mae receives the correct remittance amount when it is due.
- The master servicer must submit a single monthly activity report for each remittance type to Fannie Mae under its name and Fannie Mae identification number. However, it may designate the subservicer to report under the master servicer’s identification number, or, if it uses several subservicers, it may authorize one of the subservicers to consolidate monthly activity reports from all subservicers and to report to Fannie Mae under the master servicer’s identification number.

A servicer does not need 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* ([Form 1013](#) for a P&I custodial account and [Form 1014](#) for a T&I custodial account) indicating that it has established the required custodial accounts.

Each mortgage loan that is subject to a subservicing arrangement must be identified in Fannie Mae’s records. The lender 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 lender services for it, the lender 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. Lenders should report loan-level detail for their subservicing arrangements to Fannie Mae through Fannie Mae's investor reporting system.

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

**Section 207  
Repurchase or  
Mortgage Substitution  
Requirements  
(09/30/05)**

A servicer may initiate a request for Fannie Mae's approval to repurchase portfolio mortgage loans that it is servicing when it wishes to discontinue its contractual relationship with Fannie Mae or if it is discontinuing its overall operations and plans to place its servicing portfolio with a lender that does not do business with Fannie Mae. There may be other reasons for a servicer-initiated repurchase—such as the servicer's decision to remove a delinquent regular servicing option mortgage loan from an MBS pool or to remove a mortgage loan from an MBS pool to allow an assumption of the mortgage loan, when permitted by *Section 207.04, Servicer's Optional Repurchase of Certain MBS Mortgage Loans (09/30/05)*.

As part of the quality control system, the National Underwriting Center reviews a percentage of the mortgages Fannie Mae purchases or securitizes to ensure that they meet Fannie Mae's eligibility criteria and underwriting standards. Fannie Mae also reviews the underwriting of mortgages that have early payment defaults or those for which Fannie Mae acquired the property by foreclosure.

- Fannie Mae will not require the immediate repurchase of a mortgage when Fannie Mae identifies significant underwriting deficiencies during a post-purchase review—as long as the mortgage is current, was not originated based on fraud or misrepresentation, and is not in violation of Fannie Mae's mortgage eligibility requirements (including

any applicable selling warranties) *and* the lender that sold the mortgage (or is now servicing it) 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 later become delinquent, Fannie Mae will review the individual circumstances to determine whether repurchase is warranted at that time.

- Fannie Mae may request the immediate repurchase of a mortgage when an early payment default underwriting review reveals significant underwriting deficiencies (even if the mortgage has subsequently been brought current).
- 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 underwriting review reveals significant underwriting deficiencies.

Fannie Mae will require the immediate repurchase of a mortgage—or of an acquired property—as a result of the lender's breach of any selling warranty (including instances of fraud or misrepresentation) or Fannie Mae's determination that a selling warranty the lender made is untrue; under the terms of any applicable contract provisions; or because of servicing deficiencies that have had a materially adverse effect on the value of the mortgage or the property. However, in some instances in which the lender has breached its warranties or representations, Fannie Mae may allow the lender to correct the warranty violation or, in the case of an MBS mortgage, to substitute a qualified mortgage in lieu of repurchasing a mortgage (or a participation interest in a mortgage).

Section 207.01  
Mortgage Loan  
Repurchases Requested  
by Fannie Mae (09/30/05)

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 property. Fannie Mae is also required to repurchase a mortgage loan (or its participation interest in it), or cause the mortgage loan to be repurchased, from an MBS pool under the circumstances set forth below; therefore, a servicer should 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 loan or a court or agency requires that the loan be repurchased;
- upon notice that any of the following events will occur or at least before it does: (i) the borrower exercises an option in the mortgage documents to convert from an ARM to a fixed interest rate; (ii) the borrower exercises an option in the mortgage documents to change from one index to another; or (iii) if the maximum or minimum interest rate or the margin used in calculating the rate changes as a result of a loan assumption;
- as soon as practicable, if any governmental agency or court requires a transfer of the property securing a loan (other than to a co-borrower or in connection with a divorce or other transfer excepted from due-on-sale enforcement);
- if the mortgage loan becomes or remains delinquent (without regard to any grace period or cure period) for 24 consecutive months (not including forbearance or repayment plan periods), unless an exception exists (see *Section 207.05, Servicer's Mandatory Repurchase of Certain MBS Mortgage Loans (12/08/08)*, and *Section 207.06, Substitution in Lieu of Repurchase of MBS Mortgage Loans (01/31/03)*); or
- if any mortgage insurer or the FHA or VA requires transfer of the loan or the property to it in order to obtain the benefits of the insurance or guaranty, or requires a longer period of time in addressing certain foreclosure prevention alternatives.

As an alternative to the repurchase of a delinquent special servicing option MBS mortgage loan, Fannie Mae provides for the automatic reclassification of the mortgage loan to a portfolio mortgage loan.

Whenever Fannie Mae's *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 *Guide* will be applied to require purchase of Fannie Mae's interest in the property. The

purchase price will be the same as if the servicer were 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). The purchase price is not based on the market value of the property at the time of the purchase. Further, when the servicer purchases the property, Fannie Mae also will convey all rights as owner of the loan (e.g., deficiency rights), if any, that it may still have pursuant to applicable state law, but it has no obligation to the servicer to have preserved such rights. (Refer to *Part VIII: Foreclosures, Conveyances and Claims, and Acquired Properties*.)

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 a servicer to promptly resolve any repurchase request(s), regardless of the presence of tenant(s) in the related property.

The servicer must pay Fannie Mae the funds that are due in connection with a repurchase within 30 days (or with its next scheduled remittance following the completion of the 30-day period). Should Fannie Mae have to take legal action to enforce its right to require repurchase of a mortgage loan (or property), the lender also will be liable to Fannie Mae for Fannie Mae's attorney's fees, costs, and related expenses, as well as for any applicable consequential damages.

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

Fannie Mae may require the immediate repurchase of a mortgage loan, or of an acquired property, if the lender breaches any selling warranty (including instances of fraud or misrepresentation), or if Fannie Mae determines that a selling warranty the lender made is untrue, under the terms of any applicable contract provisions, or because of servicing deficiencies that have had a materially adverse effect on the value of the mortgage loan or the property.

In some instances in which the lender or servicer has breached its warranties or representations, Fannie Mae may allow the lender or servicer to correct the warranty violation or, in the case of an MBS mortgage loan, to substitute a qualified mortgage loan in lieu of repurchasing a mortgage loan (or a participation interest in a mortgage loan).

If a post-foreclosure underwriting review reveals significant underwriting deficiencies, Fannie Mae may request either the immediate repurchase of a property or an indemnification against any losses Fannie Mae may subsequently incur.

Section 207.02  
Repurchase as Result of  
Improper Servicing  
(01/31/03)

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. If Fannie Mae determines that a portfolio mortgage loan was not properly serviced in accordance with the requirements of this *Guide* and the improper servicing had materially adverse effects on the value of the mortgage loan or the property, Fannie Mae may require the servicer to repurchase the mortgage loan or the property.

Section 207.03  
Servicer's Optional  
Repurchase of Portfolio  
Mortgage Loans  
(01/31/03)

When the servicer wishes to repurchase a mortgage loan(s) that Fannie Mae holds in its portfolio for any reason other than those discussed above, it must submit a written offer to its lead Fannie Mae regional office. (Fannie Mae will not approve requests to repurchase an MBS mortgage loan for any reason other than those stated in *Section 207, Repurchase or Mortgage Substitution Requirements (09/30/05)* (including its subsections), nor will Fannie Mae 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.) The offer to repurchase portfolio mortgage loans must explain the reason for the request; identify the mortgage loans to be repurchased, by coupon rate and participation certificate yield (if applicable); set forth the specific terms and conditions of the repurchase; and specify the purchase price the servicer is offering. After evaluating the offer, Fannie Mae will notify the servicer of its acceptance or declination of any counteroffer it proposes.

Section 207.04  
Servicer's Optional  
Repurchase of Certain  
MBS Mortgage Loans  
(09/30/05)

Under certain circumstances, the servicer of an MBS mortgage loan must repurchase the mortgage loan (or Fannie Mae's participation interest in it) from the pool. Under the following circumstances, the servicer has the option to repurchase the mortgage loan (or Fannie Mae's participation interest in it) from the pool.

- **Optional repurchase of a delinquent regular servicing option MBS mortgage loan.** The servicer may repurchase a mortgage loan that has four consecutive payments past due. (Note that the Fannie Mae/Freddie Mac uniform first 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.) If the servicer chooses not to repurchase the mortgage loan at this time, it must continue to advance scheduled P&I payments for the mortgage loan until it is removed from the MBS pool.
- **Optional repurchase related to due-on-sale enforcement.** 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. 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 may 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.

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.

Section 207.05  
Servicer's Mandatory  
Repurchase of Certain  
MBS Mortgage Loans  
(12/08/08)

Under certain circumstances, the servicer of an MBS mortgage loan must repurchase a mortgage loan (or Fannie Mae's participation interest in it) from the pool.

The servicer must repurchase from an MBS pool any convertible ARMs for which the borrower exercises the option to convert to a fixed-rate mortgage loan. If the take-out post-conversion disposition option was specified in the original MBS Pool Purchase Contract, the servicer must redeliver the converted mortgage loan to Fannie Mae as a whole mortgage loan cash purchase. However, if the market rate option was specified in the original contract, the servicer is not required to redeliver the mortgage loan to Fannie Mae—although, if the servicer chooses to do so, it may redeliver the mortgage loan as part of a new MBS pool of fixed-rate mortgage loans or as a whole mortgage loan cash delivery.

An MBS mortgage loan must be removed from its MBS pool if the MBS mortgage loan is at least 24 months past due, as measured from the last paid installment (LPI), unless one of the following has occurred or is occurring:

- 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 preforeclosure sale or a deed-in-lieu,
- the foreclosure process on the 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 mortgaged property or other legal remedy against the borrower or the related mortgaged 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 mortgages, regardless of the servicing option or recourse arrangement under which they were purchased or securitized. However, a special servicing option delinquent MBS mortgage normally will be removed from its MBS pool much earlier pursuant to Fannie Mae's procedures for automatic reclassification of delinquent MBS mortgages as portfolio mortgages.

If a special servicing option delinquent MBS mortgage loan triggers the purchase requirement under the 24-month rule, Fannie Mae will automatically reclassify the delinquent MBS mortgage loan to Fannie Mae's portfolio.

In order to facilitate the timely removal of regular servicing option delinquent MBS mortgage loans under the 24-month rule, Fannie Mae will continue to provide each servicer with an advance listing through HomeSaver Solutions® Network (HSSN) of all regular servicing option delinquent MBS mortgage loans that meet the criteria for purchase. A 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 loss mitigation alternative, or bankruptcy. A 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.

Section 207.06  
Substitution in Lieu of  
Repurchase of MBS  
Mortgage Loans  
(01/31/03)

If a mortgage loan in an MBS pool is found to have been in breach of any of the lender's selling warranties or representations, Fannie Mae may require the servicer to substitute a qualified substitute mortgage loan (or a participation interest in one) for the defective mortgage loan instead of requiring the servicer to repurchase it—if the servicer owns a qualified mortgage loan that is reasonably available for substitution within the two-year period following the original issuance of the securities backed by mortgage loans (or participation interests) in the related MBS pool.



A mortgage loan (or a participation interest in one) is considered as a “qualified substitute mortgage” if it:

- is of the same loan type and amortization type as the defective mortgage loan—FHA mortgage loans must replace FHA mortgage loans, conventional mortgage loans must replace conventional mortgage loans, fixed-rate mortgage loans must replace fixed-rate mortgage loans, ARMs must replace ARMs, etc.;
- has the same participation interest share as that of the defective mortgage loan, if only a participation interest in the defective mortgage loan had been transferred to Fannie Mae;
- provides for similar percentage and frequency of payment adjustments effective on similar dates as the defective mortgage loan (if the two mortgage loans are growing-equity mortgage (GEM) loans);
- has the same ARM plan number as the defective mortgage loan (if the two mortgage loans are both ARMs), and has a first payment date, mortgage margin, mortgage interest rate ceiling or floor, interest rate change dates, and payment change dates on the date of substitution that are within the ARM pool parameters established on the original MBS issue date;
- has a final maturity that is not later than the final maturity of any mortgage loan in the related MBS pool and that is not more than two years earlier than the original final maturity of the defective mortgage loan;
- has an interest rate that is higher than the applicable pass-through rate for the MBS pool by, at least, the greater of 0.5% or the sum of the applicable guaranty fee and servicing fee, but does not exceed the maximum rate permitted by the pool parameters, if the mortgage loan is a fixed-rate mortgage loan; had an original interest rate identical to the original interest rate of the defective mortgage loan and has the same interest rate as the defective mortgage loan on the date of substitution, if the mortgage loan is an ARM; or has the same interest rate as the defective mortgage loan, if only a participation interest in a fixed-rate defective mortgage loan had been transferred to Fannie Mae;

- has a UPB on the first day of the month of substitution—after application of all payments due on or before that date—that is not greater than the security balance of the defective mortgage loan (or the replaced participation interest); and
- meets other specific eligibility requirements for mortgage loans (or participation interests in mortgage loans)—such as the limitation on the amount of negative amortization for an ARM—that are included in MBS pools.

When the servicer substitutes a qualified substitute mortgage loan for a defective MBS mortgage loan, it must prepare an amended *Schedule of Mortgages* ([Form 2005](#)) to reflect the withdrawal of the defective mortgage loan (or participation interest) and the assignment of the substitute mortgage loan (or participation interest) to Fannie Mae. If the lender had transferred only a participation interest in the defective mortgage loan to Fannie Mae, it also must issue a new participation certificate to assign the substitute participation interest to Fannie Mae. If necessary to effect the substitution, Fannie Mae will make an appropriate assignment of the replaced participation interest in the defective mortgage loan to the servicer.

By delivering a substitute mortgage loan (or participation interest), a servicer makes the required selling warranties and representations for the substitute mortgage loan (or participation interest) as of the first day of the month of substitution. See the *Selling Guide, A2-2.1-02, Delivery Information and Delivery-Option Specific Representations and Warranties*.

## **Chapter 3. Maintaining Eligibility (02/24/09)**

To maintain eligibility as a 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.

The Lender Contract with the servicer also requires that it protect Fannie Mae's investment in the mortgage loans it services for Fannie Mae by performing its functions in a businesslike manner. Servicers must implement and maintain a viable business continuity plan that ensures the servicer's ability to regain critical business operations in the event of a disaster, or an unforeseen disturbance that would otherwise hinder the company's ability to do business.

The business continuity plan should ensure that the servicer has adequate facilities and staff to continue operations in the event of a business disruption or disaster; has 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; and ensures that the servicer's affiliates, any subservicers, and third-party vendors have business continuity plans as well. The plan should be comprehensive, written, and accessible to critical staff in addition to periodically being tested and updated.

This *Chapter* concentrates on the servicer's specific administrative responsibilities and business obligations that must be covered in the overall conduct of its mortgage operations.

### **Section 301 Internal Audit and Management Control Systems (11/01/04)**

Fannie Mae expects the servicer to monitor its compliance with Fannie Mae's requirements through regular quality control procedures it establishes and conducts. The servicer must maintain adequate internal audit and management control systems to ensure that the mortgage loans are serviced in accordance with sound mortgage banking and accounting principles; guard against dishonest, fraudulent, or negligent acts; and guard against errors and omissions by officers, employees, or other authorized persons. During Fannie Mae's regular interactions with servicers and any reviews or audits it may undertake, Fannie Mae may ask to review the servicers' written policies and procedures, as well as examples of the application of those policies and procedures to specific

instances. A servicer that fails to maintain adequate quality control measures will be in breach of its Lender Contract. This *Section* discusses the quality control measures that relate to a servicer's servicing activities.

Section 301.01  
Servicer's Audit and  
Control Systems  
(01/31/03)

The servicer must design its audit and control systems to ensure that its staff complies not only with Fannie Mae's requirements, but also with the legal requirements of each jurisdiction in which it operates and with the requirements of any other party that may have an interest in the way the mortgage loan is serviced. Although Fannie Mae does not specify the particular types of audit and control systems a servicer must have, it is concerned that the servicer develop a well-documented control system for those areas that represent the greatest risk exposure and potential for losses. Therefore, Fannie Mae requires the servicer to provide for at least the following:

- a delinquent loan servicing system,
- a system to control and monitor bankruptcy proceedings, and
- a foreclosure monitoring system.

If these systems identify a problem area, the servicer must promptly take appropriate corrective action. The servicer must keep a record of any activity under these internal systems. If Fannie Mae requests, the servicer must make these records available for Fannie Mae's review.

Section 301.02  
Fannie Mae's Quality  
Control Reviews  
(09/30/05)

Fannie Mae's National Underwriting Center reviews mortgage loans Fannie Mae has purchased or securitized (including those with early payment defaults and those that have been foreclosed) to ensure that its underwriting and eligibility requirements have been met. Fannie Mae performs a risk assessment for the selected mortgage loans, which is similar to the process used by Desktop Underwriter®, 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 underwriting review for any mortgage loan that becomes three or more months delinquent within the two years after Fannie Mae purchases it. 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 underwriting 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. Generally, when Fannie Mae requests the servicer to submit a post-foreclosure underwriting file, it expects the servicer to submit the entire file (as described in *Part VIII, Chapter 3, Exhibit 1: Servicing Review File*). However, Fannie Mae may request fewer documents if the borrower had satisfactorily paid at least 36 payments between the date of origination and the date of default. In such cases, Fannie Mae will advise the servicer about which documents to deliver to it when it notifies the servicer that the mortgage loan has been selected for a post-foreclosure underwriting review.

To assist Fannie Mae with its quality control underwriting reviews, the servicer of any whole mortgage loan or participation pool mortgage loan in its portfolio or any MBS mortgage loan must maintain a complete mortgage loan file for the mortgage loan and be able to produce copies of the file if Fannie Mae requests them. Fannie Mae will give the servicer written notice of all mortgage loans that it selects for review. When Fannie Mae requests that copies of the mortgage loan files be delivered to Fannie Mae's National Underwriting Center, it requires the servicer to submit the requested documentation to the following address as soon as possible:

Fannie Mae  
International Plaza II  
14221 Dallas Parkway  
Suite 1000  
Dallas, TX 75254-2916

Fannie Mae generally requires the servicer to submit paper documents to it in connection with a quality control review. However, on a case-by-case basis, Fannie Mae will work with a servicer to enable it to deliver (or otherwise make available to Fannie Mae) any of the documents Fannie Mae requires in the format in which it has them stored, as long as Fannie Mae is able to receive and reproduce them in a manner, cost, and time frame that it considers acceptable.

Servicers must respond promptly to Fannie Mae's requests for files. Fannie Mae expects a servicer to submit the requested documentation within 45 days after Fannie Mae notifies the servicer that it has selected a mortgage loan for an early payment default or post-foreclosure underwriting review. If the servicer is unable to deliver the files within 45 days, it should contact the National Underwriting Center to explain the reasons for the delay. Fannie Mae will make every effort to work with the servicer when extenuating circumstances prevent it from delivering documentation to Fannie Mae in a timely manner. Fannie Mae much prefers to receive an underwriting file that will enable it to review the underwriting documentation and decision, rather than to take action because it did not receive the documentation needed to conduct its review. However, if a servicer delays in sharing underwriting information with Fannie Mae for no apparent reason (or for a reason that is not acceptable to Fannie Mae), Fannie Mae has little choice but to ask the servicer for indemnification or repurchase (depending on the circumstances of the individual case). When a servicer has a pattern of extensive delays or unresponsiveness, Fannie Mae expects the servicer to either (1) repurchase the mortgage loan or agree to indemnify Fannie Mae for any loss it might incur should it later foreclose the mortgage loan and acquire the property; (2) purchase the property from Fannie Mae (if an acquired property has not yet been sold); or (3) "make Fannie Mae whole" for any loss it incurred (if an acquired property has been sold).

**Section 302**  
**Net Worth and Liquidity**  
**Requirements**  
**(12/31/09)**

Approved lenders/servicers must have and maintain a net worth of at least \$2.5 million, plus a dollar amount that represents 0.25% of the outstanding principal balance of the lender's/servicer's total portfolio of mortgage loans serviced for Fannie Mae.

- Lender or servicer net worth, as defined and calculated by Fannie Mae, is the lender or servicer's Total Equity Capital as determined by Generally Accepted Accounting Principles (GAAP), less goodwill and

other intangible assets (excluding mortgage 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" ("Lender Adjusted Net Worth").

- A lender or servicer's total Fannie Mae servicing portfolio includes mortgage loans or participation interests in MBS pools, first and second whole mortgage loans held in Fannie Mae's portfolio, Fannie Mae's participation interest in first and second mortgage loans in participation pools held in its portfolio, and multifamily mortgage loans.

**Note:** For entities such as nonprofit corporations whose financial reporting requirements or standards do not facilitate calculation of lender or servicer Adjusted Net Worth, as discussed above, Fannie Mae will determine equivalent financial data to monitor compliance with the minimum net worth requirements.

Minimum lender or servicer Adjusted Net Worth requirements may be indexed to future conforming loan limits. Fannie Mae will announce new net worth requirements and their effective dates when applicable.

Section 302.01  
Decline in Net Worth  
(09/16/08)

Fannie Mae imposes additional requirements to protect itself against the material and adverse impact of rapid declines in a servicer's net worth. Fannie Mae considers a decline in a lender or servicer's Adjusted Net Worth by more than 25% over a quarterly reporting period, or more than 40% over a two-consecutive-quarter reporting period, to be a material and adverse change in the lender or servicer's financial condition that constitutes a breach of the Lender Contract.

Section 302.02  
Profitability (09/16/08)

If a servicer records four or more consecutive quarterly losses and experiences a decline in its Adjusted Net Worth of 30% or more during the same period, the servicer will be considered in breach of the Lender Contract, and Fannie Mae may pursue any of its available remedies, including suspension or termination.

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#### Section 302.03 Minimum Capital Requirements (09/16/08)

A lender or servicer's capital position is a critical factor in maintaining eligibility. A lender or servicer must at all times maintain minimum acceptable levels of capital as follows:

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 or servicer Adjusted Net Worth/Total Assets ratio of 6%, or equivalent, as determined by Fannie Mae, for entities/peer groups

\* For commercial banks and thrifts, as reflected in call reports and thrift financial reports.

Failure to maintain such capital levels shall constitute a failure to meet Fannie Mae's standards for eligible lenders or servicers.

#### Section 302.04 Cross Default Provisions (09/16/08)

The following events constitute a servicer's breach of the Lender Contract, to the extent permitted by applicable law or regulation:

- a breach by a servicer on a credit or funding facility, including warehouse lines;
- a breach by any 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 lender or servicer's Adjusted Net Worth and which extends beyond any applicable cure period provided the lender or servicer in such agreement.

Lenders or 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. Such notice must be provided to Fannie Mae electronically (refer to the Form 582 instructions).

#### Section 302.05 Recourse Obligation (09/16/08)

For a lender or servicer to be permitted to take on unsecured credit recourse obligations, with credit recourse defined to include any lender or



servicer contractual credit enhancement to Fannie Mae (over and above the standard selling and servicing representations and warranties) such as an automatic repurchase requirement upon loan default, unconditional indemnification, or loss participation obligation, for either a limited time period, or for life of 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 lender or servicer must have internal ratings, as determined and assigned by Fannie Mae, equivalent to AA- or higher.

For lenders or servicers who do not meet this requirement, Fannie Mae may require collateral posting or other forms of risk reduction measures.

Section 302.06  
Repurchase Limitation  
(09/16/08)

The total UPB of all outstanding Fannie Mae repurchase requests cannot exceed 25% of the lender or servicer's Adjusted Net Worth as of the latest quarter end. If a breach of this requirement occurs, the lender or servicer will have 30 days to reduce the outstanding repurchase requests to a level that complies with this requirement.

**Section 303**  
**Financial Statements**  
**and Reports (09/16/08)**

In addition to meeting Fannie Mae's net worth and liquidity requirements, the lender or servicer must otherwise demonstrate financial adequacy to Fannie Mae. To determine financial adequacy, Fannie Mae requires the lender or servicer to submit—within 90 days after its fiscal year-end—audited annual financial statements and an *Authorization for Verification of Credit and Business References* ([Form 1001](#)) (to identify the presence of any new principal officers, partners, or other owners who hold more than a 5% interest), electronically to [audited\\_financial@fanniemae.com](mailto:audited_financial@fanniemae.com) or via hard copy to the following address:

Fannie Mae  
Attn: Counterparty Risk Monitoring Unit  
One South Wacker, Suite 1400  
Chicago, IL 60606

Untimely submission of financial statements, as well as untimely submissions of the [Form 1001](#), the *Mortgage Bankers' Financial Reporting Form* ([Form 1002](#)), and the *Lender Record Information* ([Form 582](#)) as referenced in this *Chapter*, constitutes an inadequate

verification of the lender or servicer's ability to meet Fannie Mae's financial and eligibility requirements. Therefore, one or more of the following may occur:

- Fannie Mae may suspend the lender or 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.
- Fannie Mae may exercise any other available and appropriate remedy, including charging a compensatory fee of \$1,000 per month until Fannie Mae receives the requested reports.
- Fannie Mae may also require lenders or servicers to provide special reports related to financial information about their operations.

In addition, Fannie Mae may, at any time, require the servicer to submit 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. Fannie Mae also has the right to require more frequent and more detailed financial reporting from a lender or servicer so that it can better monitor the continuing eligibility of the lender or servicer. Based on applicable circumstances, Fannie Mae also may impose specific liquidity requirements, and require increased reporting on a lender or servicer's liquidity at any time. A lender or 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.

Section 303.01  
Financial Statements  
(09/30/00)

The servicer's year-end financial statements must be prepared under GAAP and must include the opinion of an independent public accountant. They also must be comparative with the previous year's reports. If the 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 servicer's financial data separately from that of the other companies.

The financial statements must include:

- 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.

A servicer that is a state or federally supervised depository institution may submit a copy of its latest published financial statements if audited statements are not available every year. When the servicer does this, it must include a written certification that it does not get yearly audited statements and that the published statements are identical to those that were submitted to its supervising authority. The servicer must submit a balance sheet, an income statement, and a statement of changes in financial position, if they are not included in its published statements.

A servicer that is not a supervised depository institution, but is a HUD-approved mortgagee, may submit a copy of the annual financial audit report required by HUD instead of sending separate financial statements.

Section 303.02  
Special Financial Reports  
(07/02/08)

A servicer that is a mortgage banker (including one that is a subsidiary of a federally supervised financial institution), housing finance agency, or real estate investment trust must submit a *Mortgage Bankers' Financial Reporting Form* ([Form 1002](#)) following the end of each calendar quarter. Each report should include only the financial data related to the quarterly reporting period for which the report is being submitted. A servicer that operates under an accounting cycle other than the standard calendar quarterly cycle 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. The 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.

Incomplete, inaccurate, or late submissions may affect the servicer's ability to conduct business with Fannie Mae. Should extenuating circumstances prevent a servicer from filing on time, it must provide timely notification to Fannie Mae. Because the information on this form will be used by Fannie Mae, Freddie Mac, Ginnie Mae, and the Mortgage Bankers' Association, the servicer must submit its data electronically, as specified in Form 1002.

**Section 303.03**  
**Failure to Submit**  
**Required Financial**  
**Reports (07/02/08)**

Untimely submission of financial statements, as well as untimely submissions of the [Form 1001](#), the *Mortgage Bankers' Financial Reporting Form (Form 1002)*, and the *Lender Record Information (Form 582)* as referenced in this *Chapter*, constitutes an inadequate verification of the servicer's ability to meet Fannie Mae's financial and eligibility requirements. Therefore, if a servicer fails to timely submit required financial reports and information, one or more of the following may occur:

- Fannie Mae may suspend the servicer's privileges for servicing mortgage loans or terminate the Lender Contract if Fannie Mae does not receive the requested financial reports and information when they are due.
- Fannie Mae may exercise any other available and appropriate remedy, including charging a compensatory fee of \$1,000 per month until Fannie Mae receives the requested reports.
- Fannie Mae may also require servicers to provide special reports related to financial information about their operations.

**Section 304**  
**Required Servicer**  
**Rating (09/16/08)**

If the servicer has external servicer ratings as a primary servicer for prime residential mortgage loans, it must maintain at least the following ratings, from each of the rating agencies providing the ratings, as applicable:

- Moody's: SQ3-
- Standard & Poor's: Average
- Fitch: RPS3-

If the servicer services Alt-A or non-prime products for Fannie Mae and does not have any required minimum servicer ratings in its Lender Contract for those products, the servicer must maintain equivalent servicer ratings for such products. If servicer ratings are available from fewer than three agencies, all available rating(s) must comply with the standards above.

**Section 305  
Lender Record  
Information (09/30/00)**

The *Lender Record Information* ([Form 582](#)) provides information needed to verify that the servicer continues to meet Fannie Mae's basic eligibility requirements as well as certifications regarding compliance with Fannie Mae requirements, such as insurance, compliance with laws, and the servicer's authority to transact business with Fannie Mae. Refer to Form 582 for the specifics of the required information and certifications.

Section 305.01  
Submitting the Lender  
Record Information Form  
(09/30/00)

The 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 via [eFannieMae.com](http://eFannieMae.com).

After the initial report submission, the servicer may submit updates as changes to its status occur. Servicers that submit updates throughout the year can substantially reduce their fiscal year-end reporting. The servicer, however, may choose to wait until after its fiscal year-end to update all of its information at once.

Section 305.02  
Fidelity and Errors and  
Omissions Coverages  
(12/04/98)

The servicer must certify that it has the required fidelity bond and errors and omissions coverages and that none of its principal officers has been removed from coverage—or if one has been, that a direct surety bond has been obtained to cover him or her. It must report the amount and type of coverages, the names of the insurance carriers, the policy numbers, and the effective dates and expiration dates of the coverages. Fannie Mae will notify the servicer if it wants any adjustments to the coverage. (See *Section 305, Lender Record Information (09/30/00)*, for more specific information about the servicer's responsibilities for maintaining adequate fidelity bond or errors and omissions coverage.)

Section 305.03  
Compliance With IRS  
Requirements (09/30/05)

The servicer must certify that it has complied with IRS requirements for reporting the receipt of \$600 or more of interest payments from a borrower, for filing *Statements for Recipients of Miscellaneous Income* (IRS Form 1099-MISC) to report payments of fees to attorneys for

handling liquidation proceedings, for filing notices of *Acquisition or Abandonment of Secured Property* (IRS Form 1099-A) to report the acquisition of a property by foreclosure or acceptance of a deed-in-lieu or by a borrower's abandonment of a property, and for filing notices of *Cancellation of Debt* (IRS Form 1099-C) to report the cancellation of any part of a borrower's indebtedness. (See *Part III, Section 101.05, Notice to IRS (01/31/03)*, and *Part VIII, Section 104.05, Prohibition Against Servicer-Specified Vendors for Fannie Mae Referrals (09/01/10)*; *Section 115, Notifying IRS About Abandonments or Acquisitions (09/30/05)*; *Section 116, Notifying IRS About Cancellations of Indebtedness (09/30/05)*; and, for more specific discussions about the servicer's responsibilities for notifying the IRS about the receipt of interest, payment of fees, acquisition of properties, or cancellation of debt.)

Section 305.04  
Escrow Deposit Accounts  
(06/30/02)

The servicer must certify that it is complying with any laws, regulations, or contracts related to a borrower's escrow deposit accounts and other collateral accounts (including those that require it to pay interest on a borrower's escrow deposit accounts). (See *Part III, Section 103.02, Interest on Escrows (01/31/03)*, for a more specific discussion of the servicer's responsibility for paying interest on a borrower's escrow account.)

Section 305.05  
ARM Interest Rate and  
Payment Changes  
(05/01/07)

The servicer must certify that it has made all of the required interest rate and/or monthly payment adjustments for the ARMs and GPARMs that it services, and that all adjustments were made in accordance with the mortgage loan terms. (See *Part IV: Special Adjustable-Rate Mortgage Loan Functions* for a more specific discussion of the servicer's responsibilities related to making interest rate and monthly payment changes for ARMs and GPARMs.)

Section 305.06  
Eligibility of Document  
Custodians/Custodial  
Depositories (06/30/02)

The servicer must certify that any document custodian it uses to hold custodial documents (including its own trust department, if applicable) satisfies all of the eligibility criteria and operating standards Fannie Mae has in place for document custodians or that Fannie Mae has agreed to waive any eligibility criteria and operating standards that have not been satisfied. (See *Section 404.02, Other Document Custodians (10/30/09)*, for specific information about the eligibility criteria and operating standards for document custodians.) The servicer must provide the names and addresses of all third-party document custodians it uses. In addition, the servicer must indicate whether Fannie Mae has authorized it to hold

documents in connection with cash deliveries that Fannie Mae purchases for its portfolio.

The servicer also must certify that any depository institution in which it has established custodial accounts for the deposit of either P&I or T&I funds (including the servicer itself if it is a depository institution) satisfies the financial rating eligibility criteria Fannie Mae has in place for custodial depositories (or that Fannie Mae has agreed to waive any eligibility criteria that have not been satisfied). (See *Part IX, Section 103, Eligible Custodial Depositories (06/01/07)*, for specific information about the financial eligibility criteria for custodial depositories.)

Section 305.07  
Compliance with  
Applicable Law  
(04/09/01)

The servicer must certify that the performance of its obligations under the Lender Contract (and any related addenda), all applicable Fannie Mae *Guides*, any announcements or letters to servicers that are issued to amend the *Guides*, and all transactional contracts with Fannie Mae do not (and will not) violate any applicable law, regulation, or court decree that applies to, or is binding on, the servicer and that such performance will not result in a breach (or constitute a default under) any material agreement or other instrument to which the servicer is a party or by which the servicer's assets or operations are bound.

Section 305.08  
Potential Adverse  
Changes (04/09/01)

The servicer must certify that there are no known actions, claims, inquiries, investigations, suits, or proceedings—such as any liquidation, dissolution, receivership, insolvency, bankruptcy, reorganization, or other similar proceedings—pending at law, in equity, or before (or by) a government agency or that are threatened against or affect the servicer and which might be reasonably expected to result in adverse changes to the servicer's business, operations, assets, or condition.

Section 305.09  
Authority to Transact  
Business with Fannie  
Mae (04/09/01)

A servicer that is a federally insured institution or a subsidiary or affiliate of a federally insured institution must certify that its selling and servicing transactions with Fannie Mae for the coming year have been specifically approved by its board of directors, general partner, or other management authority or by an individual who has been authorized by the servicer's management or organizational documents to enter into such transactions with Fannie Mae. The servicer also must certify that the applicable Fannie Mae *Guides*, the Lender Contract, and any other agreements relating to mortgage selling and servicing transactions (including any electronic transmission of such agreements) constitute the "written agreement" that

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governs its selling and servicing transactions with Fannie Mae and agree to continuously maintain all components of this “written agreement” as an official record. The servicer also must agree to notify Fannie Mae within ten days after any statement in its certification ceases to be true.

#### Section 305.10 “Full File” Reporting to Credit Repositories (01/31/03)

The servicer must certify as to whether it has procedures and controls in place to provide (on a monthly basis) the major credit repositories with a “full-file” status report on all of the mortgage loans it services for Fannie Mae, and must indicate the name of each repository to which it is submitting such reports. “Full-file” reporting means that the servicer must describe the exact status of each mortgage loan it is servicing as of the last business day of each month. Statuses that must be reported for any given mortgage loan include new origination, current, delinquent (30-, 60-, 90-days, etc.), foreclosed, and charged off. For more information on this reporting requirement, see *Part VII, Section 209, Notifying Credit Repositories (11/01/04)*.

#### Section 305.11 Subservicing Arrangements (01/31/03)

The servicer must certify as to whether it has reported the creation of any subservicing arrangement to which it is a party (or changes to existing arrangements) by submitting a Transaction Type 80 (Subservicer Arrangement Record) as part of its monthly Fannie Mae investor reporting system reports. The servicer must further certify that its electronic transmission of the *Lender Record Information (Form 582)* identified all subservicing arrangements to which it is a party. For more information on reporting this information through the Fannie Mae investor reporting system, see *Part X, Section 205, Transaction Type 83 (Payment/Rate Change Record) (09/01/98)*.

#### Section 306 Fidelity Bond and Errors and Omissions Coverage (01/31/03)

Each servicer must have a blanket fidelity bond and an errors and omissions insurance policy in effect at all times in an amount sufficient to protect it against losses that could impair its financial health or ability to perform its contractual duties to Fannie Mae. Fannie Mae’s minimum requirements for the amount of coverage are set forth in subsequent *Sections* of this *Chapter*, but servicers may not rely on these amounts as adequate for their own needs. (Fannie Mae’s requirements for the amount of coverage and the allowable deductibles for each of these required coverages are discussed in *Section 306.01, Fidelity Bond Coverage (06/30/02)*, and *Section 306.02, Errors and Omissions Coverage (01/31/03)*.) These policies must insure the servicer against losses resulting from dishonest or fraudulent acts committed by the servicer’s



personnel, any employees of outside firms that provide data processing services for the servicer, and temporary contract employees or student interns. The fidelity bond also should protect Fannie Mae against dishonest or fraudulent acts by the servicer's principal owner, if the servicer's insurance underwriter provides that type of coverage. The servicer must obtain a direct surety bond to cover any officers (including its principal owner) if they cannot be covered by the fidelity bond.

A servicer that is a subsidiary of another institution may use its parent's fidelity bond and errors and omissions insurance policy as long as it is named as a joint insured under the bond or policy. However, if the parent's deductible amount exceeds the maximum deductible that Fannie Mae would allow for the servicer's total servicing portfolio, the 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. For example, if Fannie Mae requires a servicer to maintain a fidelity bond of at least \$5 million (with a deductible amount of no more than \$250,000) and the servicer is named as a joint insured on its parent's bond of \$50 million (with a deductible amount of \$2.5 million), the servicer must maintain its own separate bond for at least \$2.5 million (with a maximum deductible of \$250,000).

For corporate servicers, Fannie Mae will accept coverage under the Mortgage Bankers Blanket Bond Policy, the Savings and Loan Blanket Bond Policy, or the Bankers Blanket Bond Policy. However, Fannie Mae requires individual coverage if the servicer is owned as a sole proprietorship or as a partnership. Fannie Mae will also accept coverage underwritten by an insurer that is affiliated with Lloyd's of London.

Each fidelity bond or errors and omissions insurance policy must include the following provisions (whenever they can be obtained):

- Fannie Mae must be named as a "loss payee" on drafts the insurer issues to pay for covered losses that Fannie Mae incurs;
- Fannie Mae must have the right to file a claim directly with the insurer if the servicer fails to file a claim for a covered loss that Fannie Mae incurs; and

- Fannie Mae must be notified at least 30 days before the insurer cancels, reduces, declines to renew, or imposes a restrictive modification to the 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 it receives a servicer's request to cancel or reduce any coverage.

Within 30 days after a 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. The insurance certificate should indicate the insurer's name, the bond or 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. If the servicer obtains an endorsement to the bond or 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 servicer must report certain events to Fannie Mae within ten business days after they occur. Specific events that must be reported include:

- the occurrence of a single fidelity bond or errors and omissions policy loss that exceeds \$100,000—even when no claim will be filed or when Fannie Mae's interest will not be affected; 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 send Fannie Mae a copy of the insurer's notice, describe in detail the reason for the insurer's action if it is not stated in the notice, and explain the efforts it has made to obtain replacement coverage or to otherwise satisfy Fannie Mae's insurance requirements.

In addition, even if Fannie Mae's funds are not involved, the servicer must promptly advise it of all cases of embezzlement or fraud in its organization even if no loss has been incurred. The servicer's report should indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

**Section 306.01  
Fidelity Bond Coverage  
(06/30/02)**

The fidelity bond coverage must be equal to a percentage of the total portfolio of residential mortgage loans that the servicer services for itself and all other investors, including Fannie Mae. (The amount of coverage required for a direct surety bond covering officers not included in a servicer's fidelity bond coverage is calculated the same way as fidelity bond coverage, except that the percentages are applied only to the 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:

<b>Coverage Required</b>	<b>Mortgage Loans Serviced</b>
\$300,000	\$ 100,000,000 or less
+0.15% of the next	\$ 400,000,000
+0.125% of the next	\$ 500,000,000
+0.1% of any amount over	\$1,000,000,000

The policy's deductible clause may be for any amount up to the greater of \$100,000 or 5% of the bond's face amount. A servicer must get Fannie Mae's permission for higher deductible amounts. The servicer's request for a higher deductible amount should explain the reason for the request and provide a copy of the servicer's most recent audited financial statements (prepared under GAAP).

**Section 306.02  
Errors and Omissions  
Coverage (01/31/03)**

The errors and omissions policy must, at least, protect the servicer against negligence, errors, and omissions in:

- maintaining 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.

The errors and omissions coverage generally should equal the amount of the servicer's fidelity bond coverage. However, Fannie Mae will not require errors and omissions coverage in excess of \$10 million if the servicer's portfolio consists only of loans secured by one- to four-unit properties. (See the formula in *Section 306.01, Fidelity Bond Coverage (06/30/02)*, to determine the amount of coverage.)

Fannie Mae will accept 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 for a residential mortgage loan that the servicer has in its portfolio. When the servicer's policy provides for coverage per mortgage loan, the servicer must review the balances of the mortgage loans it services before each premium renewal date to determine whether this limitation needs to be increased as the result of the origination of higher balance mortgage loans during the last coverage period.

The errors and omissions policy may place sublimits on the insurer's liability for the different types of losses, although the policy must provide for full liability on hazard insurance losses. Sublimits of liability must equal at least 15% of the liability that applies for property insurance. For example, if the highest unpaid balance in the servicer's portfolio is \$300,000, the property insurance liability would be \$300,000; thus the insurer could limit its liability for real estate tax losses to \$45,000—15% of \$300,000.

The deductible clause may be for any amount up to the greater of \$100,000 or 5% of the face amount of the policy if the policy provides for coverage per aggregate loss. If the policy provides for 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. This means that if a policy provides \$100,000 liability per mortgage loan, the deductible amount for each mortgage loan should be \$5,000—regardless of the actual principal balance of the mortgage loan.

As long as Fannie Mae receives substantially the same coverage that an errors and omissions policy would provide, it will accept a mortgage impairment or mortgagee interest policy as a substitute for an errors and omissions policy.

**Section 307  
Compliance with  
Applicable Laws  
(09/30/06)**

Fannie Mae requires each Fannie Mae–approved servicer (and any subservicer or third-party originator it uses) to be aware of, and in full compliance with, all federal, state, and local laws (including 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 servicer must comply with any applicable law that addresses fair housing, equal credit opportunity, truth-in-lending, wrongful discrimination, real estate settlement procedures, borrower privacy, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, terrorist activity, or the enforcement of any of the terms of the mortgage loan.

This also means that the servicer must comply with the Department of Treasury’s Office of Foreign Assets Control (OFAC) regulations. OFAC prohibits U.S. individuals or entities from engaging in financial transactions (including the receipt of mortgage loan payments) with third parties whom the federal government has determined to be terrorists, narcotics traffickers, or persons acting for countries posing a threat to the national security of the United States. Information on OFAC can be found on the Treasury Department’s Web site. Since applicable law can change quickly, sometimes without widespread notice, it is imperative that a servicer monitor federal requirements and the requirements of each state or locality in which it does business and take appropriate action to comply with any changes. If a change to applicable local or state law represents a potential conflict with Fannie Mae’s requirements, the servicer should advise its lead Fannie Mae regional office. When Fannie Mae considers it appropriate, it may request a servicer to provide evidence of its compliance with any requirement or applicable law of any jurisdiction.

**Section 308  
Compliance with  
Requirements of  
Insurer/Guarantor  
(01/31/03)**

A servicer must comply with all requirements that FHA, VA, HUD, RD, or the mortgage insurance companies have for mortgage loans that they insure or guarantee. The servicer must not take any action that might prevent Fannie Mae from recovering the full amount due under the guaranty or the full claim under the insurance contract.

**Section 309  
Conflict of  
Interest/Confidentiality  
(01/31/03)**

When performing its normal origination, selling, or servicing activities, a servicer often obtains confidential information about borrowers and security properties. The servicer must take appropriate steps to ensure the security, integrity, and confidentiality of such information. In addition, 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. However, the servicer may disclose information about a borrower's payment history to a third party if the borrower submits written authorization for the servicer to do so. The information disclosed in such cases must be accurate, complete, and easily understandable.

**Section 310  
Questionable Refinance  
Practices (09/30/05)**

A servicer may advertise its availability for handling refinancings of mortgage loans in its portfolio, as long as it does not specifically target borrowers whose mortgage loans are owned or securitized by Fannie Mae. Fannie Mae will not object to a servicer promoting the terms it has available for such refinancings by sending letters or promotional material to the borrowers for all of the mortgage loans in its servicing portfolio (those it owns as well as those serviced for others) or to all of the borrowers who have specific types of mortgage loans (such as FHA, VA, conventional fixed-rate, or conventional adjustable-rate) or to those whose mortgage loans fall within specific interest rate ranges. A servicer may not, however, 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. A 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 shall not, 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.

Questionable refinancing practices (such as those discussed below) can critically affect the integrity of Fannie Mae's portfolio and the MBS it issues. A 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. Fannie Mae considers the delivery of any mortgage loan that is in the process of being refinanced as unacceptable (even if no agreement for future refinancing was entered into at the time of origination). Therefore, a servicer must not deliver for Fannie Mae's purchase or securitization any mortgage loan that it (or its affiliates) has agreed to refinance or is currently in the process of refinancing. It is important that a servicer 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). 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 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 will analyze MBS pools that have high levels of prepayments. If these analyses raise serious concerns about a servicer's practices, Fannie Mae will conduct a review of the 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 a servicer has violated its policies and requirements—including, but not limited to, requiring the servicer to make it whole for any losses resulting from claims made by MBS certificate holders.

Section 310.01  
Prearranged Refinancing  
Agreements (06/30/02)

A 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 servicer obtains a negotiated contract from Fannie Mae that allows delivery of the mortgage loan in spite of its shortened prepayment expectation. A 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. Fannie Mae also considers the delivery of a

seasoned mortgage loan that is in the process of being refinanced as a form of targeting (even if no agreement for future refinancing was entered into at the time of origination). Therefore, a 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.

There may be other instances in which a 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 servicer should contact its lead Fannie Mae regional office to determine whether the mortgage loan(s) in question can be delivered to Fannie Mae.

Section 310.02  
Agreements to Advance  
Borrower Payments  
(01/31/03)

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 clearly are in conflict with the intent of Fannie Mae's refinancing policy and with the requirements of this *Guide*. The only provisions of this *Guide* that permit a servicer to advance funds on a borrower's behalf are those related to making advances to pay taxes, insurance premiums, and the costs of repairing a property to protect Fannie Mae's security or to remitting to Fannie Mae "advances" for scheduled payments related to a defaulted mortgage loan. Clearly, 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.

Section 310.03  
Conditional Tenders of  
Payment (01/31/03)

Some lenders use an alternative to refinancing mortgage loans in order to expedite the processing of a transaction. This alternative—called a conditional tender of payment—involves offering the borrower an opportunity to "refinance" his or her mortgage at minimal (or no) cost and requesting written authorization to present the refinancing proposal to the servicer of the mortgage loan. When the lender contacts the mortgage servicer, it offers to pay off the existing mortgage loan—subject to an endorsement of the original mortgage note, assignment of the original mortgage, receipt of an "in-force" title policy, and receipt of any applicable mortgage insurance certificate (or policy). In some instances, the existing mortgage servicer may make a similar offer to the borrower. To satisfy the conditions of the "refinance," the mortgage servicer must



repurchase the existing mortgage loan from the current mortgage holder, rather than paying it off and satisfying the debt. The lender making the conditional tender of payment then purchases the mortgage loan from the servicer (unless the lender itself is the mortgage servicer), modifies it, and either retains it in portfolio or sells it in the secondary market.

Conditional tenders of payment are not an acceptable alternative to refinancing for Fannie Mae–owned or Fannie Mae–securitized 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 for negotiated transactions involving seasoned mortgage loans held in a lender’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.)

A servicer should neither use conditional tenders of payment as a refinancing alternative nor honor requests it receives for conditional tenders of payment for any mortgage loan that it services for Fannie Mae. A 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 above-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 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 servicer.

**Section 311  
Responsible Lending  
Practices (01/31/03)**

Historically, many individuals or families who have blemished credit histories and limited savings have had to rely on the subprime market to meet their financing needs. While many have been well served by that market, far too many have had to pay higher costs than necessary and, even worse, have experienced abusive (or “predatory”) lending practices.

Among other things, practices that fall under the umbrella of abusive or predatory lending include (1) “steering” a borrower toward a mortgage loan with a higher interest rate and/or fees even when the borrower could qualify under a less costly financing alternative; (2) approving a mortgage loan based solely on the value of the property without considering whether the borrower has the ability to repay the debt (which could result in the borrower’s losing his or her home); (3) multiple refinancings of a mortgage loan without any real economic benefit to the borrower (for example, a refinancing that has no appreciable effect on the mortgage interest rate, payments, or term, but which results in the borrower’s having to pay another round of fees and points, which can result in the “stripping” away of the borrower’s equity in the property); (4) failing to disclose prepayment premiums to the borrower or using them as a method to prevent a victim of “steering” from being able to refinance to a lower-rate mortgage loan; and (5) charging a higher rate of interest after a mortgage loan goes into default.

Fannie Mae expects the servicer to 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. A servicer’s operating policies and procedures should provide for an effective means of identifying and avoiding predatory lending practices. Fannie Mae understands that it is difficult (and somewhat subjective) to establish specific definitions and/or limits to address the reasonableness and appropriateness of various lending costs, products, or practices. In view of this, Fannie Mae is willing to work with a servicer to help it put into place appropriate measures to avoid predatory lending practices.

Fannie Mae’s willingness to purchase mortgage loans made to borrowers who have blemished credit histories, notwithstanding their higher credit risk, is predicated on the use of underwriting standards that confirm that the borrower has a reasonable ability to make the mortgage loan payments and is likely to do so in a manner that will enable him or her to successfully maintain homeownership. Specific policies that Fannie Mae has established to promote lending to borrowers who have blemished credit histories and to avoid predatory lending practices are discussed in detail in the *Selling Guide, A3-2-02, Responsible Lending Practices*. Servicing-related policies also are discussed in the following sections:

**Section 312  
Borrower Inquiries  
(01/01/11)**

- *Part II, Section 207.04, Optional Coverages (01/31/03)* (use of single-premium credit life insurance policies);
- *Part II, Chapter 6, Lender-Placed Property Insurance*;
- *Part III, Section 103.01, Waiver of Escrow Deposits (01/01/05)*; and
- *Part VI, Section 102.02, Prepayment Premiums (09/28/04)*.

A servicer must promptly respond to all inquiries received from borrowers about the terms of their mortgage loans, the status of their accounts, or any actions the servicer took (or did not take) in servicing their mortgage loans (e.g., questions relating to servicing transfers, escrow deposits, due-on-sale clauses, ARM interest rate or payment changes, payoff charges, etc.).

Fannie Mae expects that this particularly will be the case in the event of a borrower dispute—such as a disputed late charge, lender placement of insurance, etc. Fannie Mae also expects that the servicer will ensure that borrowers have an effective means to communicate with the servicer about disputes and that, in return, the type and manner of the servicer’s communications with borrowers in such cases facilitate resolution of the dispute. Specifically, servicers should resolve disputes without imposing unnecessary additional fees on borrowers (e.g., charging for an escrow analysis during a dispute about escrow account balances). Further, to the extent there is an ongoing dispute with a borrower, Fannie Mae expects that a servicer generally will not commence foreclosure proceedings without a thorough review of the circumstances surrounding that dispute and reasonable efforts to resolve the dispute.

Finally, the delinquency management, dispute resolution, and customer service areas are ones in which many process improvements are being deployed in the industry. As servicers review their own operations, Fannie Mae suggests that servicers consider the potential merits of implementing such process improvements, including the following:

- Implement a “welcome call” or other program, which may include an oral or written process, to attempt to establish contact with all new borrowers and develop a robust database of borrower contact information.

- Designate a centralized point of contact (or database) to handle and track borrower inquiries or complaints and ensure continuity of communication with the borrower.
- Create a staff capability to research and attempt to resolve borrower payment or other disputes while the borrower is on the call, when feasible, as required in *Part VII, Section 103, Staffing and Training (01/01/11)*.
- Create 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. For further information, refer to *Part VII, Chapter 2, Collection Procedures*.
- Offer or encourage delinquent borrowers to seek free or low-cost consumer credit counseling services.
- Establish a business process (that may or may not include a formal committee) that ensures that all cases are reviewed before referral to foreclosure to ensure that all reasonable steps have been taken and concluded to prevent the referral and that no extenuating circumstances (such as a default triggered solely by unpaid escrow deposits) exist.

Since Fannie Mae's ownership of a mortgage loan is a key factor in certain servicing issues—such as canceling mortgage insurance, offering preforeclosure sales, offering special rate/term refinancing, etc.—the servicer should freely disclose Fannie Mae's interest in the mortgage loan in response to a borrower's inquiry (including the name, address, and telephone number of Fannie Mae's applicable regional office if the borrower requests this type of information). A servicer should not, however, refer borrowers to Fannie Mae for resolution of issues that are the servicer's responsibility.

**Section 313**  
**Fannie Mae Trade Name**  
**and Trademarks**  
**(04/01/09)**

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 further information, refer to the *Selling Guide, A2-6-01, Fannie Mae Trade Name and Trademarks*.

June 10, 2011

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## **Chapter 4. Mortgage Loan Files and Records (01/31/03)**

Mortgage loan files and records that may be required to be sent to Fannie Mae include individual mortgage loan files, permanent mortgage account records, and accounting system reports. The 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 loan is a portfolio or MBS mortgage loan.

The lender must establish the individual mortgage loan file when it originates a mortgage loan. If the lender does not service the mortgage loan, it must transfer the file 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 law 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. A 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.

The servicer also is responsible for implementing appropriate measures designed to:

- ensure the accuracy, security, integrity, and confidentiality of such files and records;
- protect against any anticipated threats or hazards to the security or integrity of such files and records; and

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## **Lender Relationships**

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### Mortgage Loan Files and Records

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- protect against unauthorized access to or use of such 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.

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, any and all accounting reports associated with those mortgage loans and borrower remittances, and any other reports, data, information, and documentation that it considers necessary to ensure that the servicer is in compliance with Fannie Mae's requirements.

### **Section 401 Ownership of Mortgage Loan Files and Records (01/31/03)**

All records pertaining to mortgage loans sold to Fannie Mae—including but not limited to the following—are at all times the property of Fannie Mae and any other owner of a participation interest in the mortgage loan:

- notes,
- security instruments,
- loan applications,
- credit reports,
- property appraisals,
- tax receipts,
- 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 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.

These documents and records are Fannie Mae's property regardless of their physical form or characteristics or whether they are developed or originated by the mortgage loan seller or servicer or others.

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.

**Section 402  
Electronic Records  
(10/31/08)**

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. Servicers (and/or, as applicable, document custodians) are 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 records that modify or supplement the promissory note, in which case the original ink-signed records of such instruments should be stored in the mortgage loan files. Where a lender has an eMortgage variance in place with Fannie Mae, these requirements may not apply.

Moreover, electronic records may be delivered as part of an electronic transaction by the lender 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 Global and National Commerce Act (ESIGN) and, if applicable, the Uniform Electronic Transactions Act (UETA) adopted by the state in which the subject property secured by the mortgage loan associated with an electronic record is located.

In addition, the electronic records provisions as set forth in the *Guides* apply to loan modifications. Any servicer submitting an electronic loan modification to Fannie Mae must ensure that the electronic record complies with all other requirements of the *Guides* and applicable law. Fannie Mae requires that electronic and non-electronic loan modifications be provided to a 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 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.

Section 402.01  
Transactions with Fannie  
Mae (01/31/03)

When Fannie Mae and a servicer or document custodian participate in an electronic transaction, 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, letters to servicers, 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. For example, if Fannie Mae specifies the type of medium that may be used for any particular electronic record, the servicer or document custodian may not use any other type of electronic communication to provide that record to Fannie Mae.

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, except that Fannie Mae will not consider an electronic record to have been received by Fannie Mae until it is able to access it during its regular business hours. If an electronic record requires (or permits) an electronic signature, the transmission of the electronic record, along with any passwords or other identification Fannie Mae requires (such as a servicer's nine-digit Fannie Mae lender identification number), will constitute the servicer's or the document custodian's electronic signature. In such cases, 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 it cannot be held responsible if it does not receive changes or corrections 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 a 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.

Section 402.02  
Transactions with Third  
Parties (01/31/03)

Fannie Mae expects a servicer to have in place appropriate measures to ensure the authenticity, integrity, security, and accuracy of all information that it uses to originate and service mortgage loans that Fannie Mae purchases or securitizes. The servicer may obtain the documents that are needed to originate a mortgage loan (such as the loan application, verifications of employment and income, and the appraisal report) through the use of an electronic record. Similarly, a document custodian may accept loan delivery data in an electronic format from a lender 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 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.

Fannie Mae requires a servicer (or document custodian) to satisfy certain conditions related to the use of electronic records received from third parties. Those conditions 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 record(s) in paper (or other) format if Fannie Mae so requests. These conditions represent Fannie Mae's minimum standards; however, since a 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 servicer should 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.

**Agreement (or consent) to use electronic records (or disclosures).**

A 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 ESIGN, UETA, and any other applicable laws. Fannie Mae requires a servicer to obtain the specific agreement of the borrower(s) to the use of any electronic record, making sure that it complies with the requirements of Section 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 origination of a mortgage loan. 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.

**Format for, and evidence of, electronic signatures.** A 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. For example, given the importance of the loan application to the mortgage loan transaction, the level of attribution for that document should be at the highest level to ensure that the signer will not have a reasonable basis on which to deny executing the electronic signature.

Regardless of the method used to attribute an electronic signature to a particular person, the servicer (or document custodian) must collect and retain appropriate evidence to document a signer's agreement to use an electronic signature, to demonstrate a signer's execution of a particular electronic signature, and to prove its attribution of the electronic signature to that signer. Any files that a servicer maintains must include the name of the person (and related entity, if applicable) who signed each document in the loan file, 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. A borrower's consent to use any electronic signature (or disclosure) also must be part of the individual loan file. When the servicer issues any disclosure electronically, the individual 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 selects for a post-purchase, early payment default, or post-foreclosure quality control review any 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. The evidence and attribution information must be sufficient to enable Fannie Mae to conduct a thorough quality control review. For example, the evidence of the borrower's signature with respect to a verification of employment must give Fannie Mae the ability to request (and receive) a reverification of the information from the borrower's employer.

**Integrity of the electronic record.** Electronic records must be generated, processed, stored, and transmitted in a manner that ensures that each

electronic record (1) 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 (2) remains accessible (in a form that can be adequately reproduced) 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 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 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 servicer (or document custodian) must be able to reproduce the electronic record(s) in paper (or other) format if Fannie Mae so requests.

**Section 403  
Document Custodians  
and Custody of  
Mortgage Documents  
(12/10/08)**

Fannie Mae has selected The Bank of New York Mellon Trust Company, N.A. (BNYM) as the DDC for portfolio and MBS mortgage loans. Fannie Mae requires that certain documents relating to all portfolio mortgage loans be certified and held by BNYM. This applies to the following:

- whole mortgage loans,
- As Soon As Pooled® Plus (ASAP Plus) mortgage loans,
- ASAP Plus mortgage loans that are redelivered as MBS pools,
- reverse mortgage loans, and
- E-notes (portfolio mortgages only).

For MBS mortgage loan deliveries, Fannie Mae requires that certain documents be held by Fannie Mae's DDC or another approved document custodian that meets the eligibility and operational requirements set out in the Fannie Mae *Guides* and in the [Fannie Mae Requirements for Document Custodians \(RDC Guide\)](#).

**Section 404  
Custody of Mortgage  
Documents (10/30/09)**

Custodial documents are the legal mortgage loan documents that Fannie Mae's DDC or a servicer-designated document custodian takes into physical possession when Fannie Mae purchases or securitizes a mortgage loan. The following documents are considered to be key custodial documents for portfolio mortgage loans. All other documents may be held in the individual mortgage loan file.

- original mortgage notes (and note addenda);
- other documents that are also delivered to the document custodian to assist in the certification of portfolio mortgage loans, such as any instruments that modify the terms of the note, powers of attorney, and interest rate buydown plans; and
- original, unrecorded assignments of the mortgage loans to Fannie Mae (or corresponding documents for co-op share loans).

Note: When mortgage loans are registered in MERS, assignments of the mortgage loans to Fannie Mae are not required custodial documents.

The following documents are considered to be key custodial documents for MBS mortgage loans. All other documents may be held in the individual mortgage loan file.

- original mortgage notes (and note addenda);
- other documents that are also delivered to the document custodian to assist in the certification of eligibility of the mortgage loans for inclusion in an MBS pool, such as instruments that modify the terms of the note, powers of attorney, and interest rate buydown plans; and
- original, unrecorded assignments of the mortgage loans to Fannie Mae (or corresponding documents for co-op share loans, if applicable).

Note: When mortgages are registered in MERS, assignments of the mortgages to Fannie Mae are not required custodial documents.

Fannie Mae's DDC maintains custody of all applicable custodial documents for most portfolio mortgage loans. (The only exceptions to this involve some mortgage loans Fannie Mae agrees to purchase under the

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terms of a negotiated contract that permits the servicer to designate another document custodian, as well as participation pool mortgage loans Fannie Mae purchased under commitments executed prior to October 30, 1991, which permitted the mortgage servicer or the participating lender to retain the custodial documents.)

A servicer-designated document custodian (which may be a third-party custodian, the seller or servicer itself, or an affiliate of the seller or servicer) or Fannie Mae's DDC generally maintains custodial documents for MBS mortgage loans. (The only exception to this involves some participation interests in MBS pools that were issued under contracts executed prior to October 30, 1991, which allowed the servicer to retain the documents even if it was not an eligible custodian.)

Fannie Mae allows the mortgage servicer to hold all other mortgage documents that are not designated as custodial documents in the individual mortgage loan file for each mortgage loan it services for Fannie Mae.

Section 404.01  
Fannie Mae's DDC  
(12/19/08)

Fannie Mae's DDC performs all of the standard custodial services for MBS mortgage loans, and it provides additional services that many servicers have requested. Interested servicers are encouraged to contact BNYM directly.

Fannie Mae requires servicers of portfolio mortgage loans to execute a *Designated Custodian Master Custodial Agreement* ([Form 2010](#)). Fannie Mae's DDC charges a fee for custodial services for MBS and cash mortgage loans. Please contact the BNYM for their fee structure.

If the servicer assigns the servicing of mortgage loans in an MBS pool to another servicer effectively concurrently with Fannie Mae's securitization of the pool, Fannie Mae will charge the transferor for the certification of the mortgage loans, but will charge the transferee for all subsequent fees.

Section 404.02  
Other Document  
Custodians (10/30/09)

A servicer that meets Fannie Mae's eligibility criteria for document custodians can act as the document custodian for mortgage loans in MBS pools it delivers to Fannie Mae or it can independently negotiate a custodial arrangement with an eligible financial institution. The servicer must pay all compensation the custodian is due for the performance of its duties under the custodial arrangement; Fannie Mae is under no obligation to pay any compensation to the document custodian.

Fannie Mae requires that each custodian arrangement for MBS pools be evidenced by the execution of a *Master Custodial Agreement* ([Form 2003](#)). A servicer that uses the same document custodian for all of the MBS pools it services (or acts as the document custodian) must ask that Fannie Mae establish master documents for its custodian arrangement. To do this, the servicer must send an original of the Form 2003—showing original signatures of the custodian and servicer—to the following address:

Fannie Mae  
Director, Custodian Oversight and Monitoring  
13150 Worldgate Drive  
Herndon, VA 20170

The document custodian must review and examine all required custodial documents that the lender or servicer delivers to it to ensure that all required documents are received and that they conform to the data and documentation provisions of this *Guide* 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 lender or servicer to resolve the issues. The document custodian is acting on behalf of the servicer and Fannie Mae when certifying loan documents/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.

Section 404.03  
Monitoring the Financial  
Rating of Document  
Custodians (10/30/09)

The servicer is responsible for the safekeeping of Fannie Mae custody documents at all times. Therefore, the servicer may be held liable for any and all losses incurred by Fannie Mae because the document custodian it selected failed to perform its fiduciary responsibilities, regardless of whether the document custodian meets Fannie Mae eligibility criteria.

However, if Fannie Mae incurs a loss because of the absence of, or defect in, a particular document, Fannie Mae also has the right to require the document custodian to make Fannie Mae whole if the document custodian breaches its fiduciary obligations to Fannie Mae with respect to the mortgages involved in the loss.

Therefore, Fannie Mae requires servicers to establish appropriate methods for monitoring the document custodian's financial viability and rating and operational capacities it uses to hold custody documents for Fannie Mae. At minimum, the servicer must require the document custodian to advise it each year about the results of internal audits so that the servicer can evaluate whether Fannie Mae documents are being properly managed and controlled.

If the custodian is not a regulated institution and is relying upon its parent's or subsidiary's rating, then the 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 servicer must immediately notify their Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center and send an e-mail notification to [thirdparty\\_custody@fanniemae.com](mailto:thirdparty_custody@fanniemae.com). Fannie Mae will determine, in its sole discretion, whether it will allow the documents to remain with the current document custodian or require them to be transferred to an acceptable document custodian.

Section 404.04  
Eligibility Requirements  
for Document Custodians  
(02/01/09)

In order to serve as a Fannie Mae document custodian, an institution must meet all of the following criteria:

- The institution must be one of the following:
  - a financial institution that is subject to supervision and regulation by the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), or the National Credit Union Administration (NCUA);
  - a subsidiary or parent of a financial institution or holding company that is supervised and regulated by one of these entities; or



- a Federal Home Loan Bank.
- Be in good standing with its regulator, if the custodian itself is the regulated institution, or, if the document custodian is not a regulated institution, the document custodian's parent or subsidiary must be in good standing with its regulator. 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.

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 is an organization that has previously acted as a document custodian for Fannie Mae documents.

- The institution must satisfy Fannie Mae's financial rating requirements, as applicable:
  - A third-party document custodian must have one of the following ratings:
    - C/D or better Individual Rating from Fitch, Inc. (Fitch),
    - 125 or better rating from IDC Financial Publishing, Inc. (IDC),  
or
    - C or better rating from LACE.
  - A document custodian that is the servicer or an affiliate of the servicer must have one of the following ratings:
    - C or better Individual Rating from Fitch,
    - 130 or better rating from IDC, or
    - C+ or better rating from LACE.

When the document custodian is not a regulated financial institution, the document custodian's parent or subsidiary must, itself, meet the financial

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rating standards. A document custodian does not need to meet all three ratings to qualify. However, if the document custodian (or its parent or subsidiary) is rated by Fitch and is also rated by IDC and/or LACE, then it is the Fitch rating that will determine whether the institution satisfies Fannie Mae's rating criteria (provided that the IDC rating is not below 75 and/or the LACE rating is not below D).

If the regulated entity is rated by IDC and LACE, 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 for IDC or a D from LACE).

In addition to the custodial institution meeting the eligibility criteria above, a servicer that serves as a Fannie Mae document custodian or designates an affiliated entity as a Fannie Mae document custodian should 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 Baa.

If the servicer is not a rated institution, then the nearest parent that has a rating should have a financial rating that meets or exceeds at least one of the criteria immediately above. If the servicer fails to meet the recommended financial rating, Fannie Mae, in its sole discretion, may restrict the 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 servicer and/or on the affiliated document custodian.

Section 404.05  
Operational  
Requirements for All  
Document Custodians  
(02/01/09)

All document custodians must meet at least the following minimum operating standards with respect to staffing, written procedures, disaster recovery plans, document tracking capabilities, and physical storage facilities:

- 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 *Selling Guide* and *Servicing Guide* 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 loan 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, 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.

Section 404.06  
Independent Custody  
Department (02/01/09)

Fannie Mae requires that if a servicer wants to act as the document custodian for MBS mortgage loans it delivers to (or services for) Fannie Mae, it must have an independent custody department (which is established and operated under the trust powers granted by its primary

regulator). This requirement also applies to an affiliate of a servicer that is acting as Fannie Mae's document custodian.

The servicer's or affiliate's custody department must:

- 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 servicer's primary regulator, or by the primary regulator of the servicer's parent or subsidiary if the servicer is not a regulated institution; and
- have custodial officers who are duly authorized by corporate resolution or bylaws to act on behalf of the servicer in its trust capacity and are empowered to enter into the *Master Custodial Agreement (Form 2003)*.

Section 404.07  
Insurance Requirements  
for Document Custodians  
(10/01/06)

All document custodians must have a financial institution bond (or equivalent insurance) and errors and omissions insurance policies in effect at all times. The requirements described in this *Section* do not diminish or alter any current insurance requirements or obligations otherwise required by Fannie Mae for a servicer (in the instance where an eligible servicer is acting as a document custodian).

The required coverage must be underwritten by insurance carriers rated by either A.M. Best Company, Inc. or Standard and Poor's, Inc. as follows:

- Carriers rated by A.M. Best Company, Inc. must have a "B" or better rating.
- Carriers rated by Standard and Poor's, Inc. must have a "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 *Servicing Guide*.

The document custodian must notify the servicer and Fannie Mae's Director of Custodian Oversight and Monitoring 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.

The document custodian must also report to the servicer and to Fannie Mae's Director of Custodian Oversight and Monitoring 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—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 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 should indicate the total amount of any embezzlement or fraud loss regardless of whether a claim was or will be filed with an insurer.

### **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 custodian's premises or in transit while under the control of the 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.

### **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 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 bond.

#### Section 404.08 Commingling of Fannie Mae Custodial Documents (12/10/08)

Third-party document custodians may commingle Fannie Mae mortgage loan files with other investors' mortgage loan files as long as: the loans are identified as Fannie Mae mortgage loans; the 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 files.

All servicers or affiliates that serve as document custodians are required to segregate Fannie Mae mortgage loan files from those of other investors. All Fannie Mae mortgage loan files should be clearly identified as Fannie Mae assets.

#### Section 404.09 Change in Document Custodian's Organization or Ownership (12/10/08)

Fannie Mae requires official notice at least 30 days prior to any sale, merger, reorganization, or other major change in the document custodian's organization or ownership. The document custodian must provide e-mail notification at least 30 days prior to any such change to [thirdparty\\_custody@fanniemae.com](mailto:thirdparty_custody@fanniemae.com). 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.

Section 404.10  
Certification  
Requirements for  
Document Custodians  
(03/31/07)

All Fannie Mae document custodians are required to self-certify that they continue to meet Fannie Mae's eligibility and operational requirements for document custodians by submitting an *Annual Statement of Eligibility for Document Custodians* ([Form 2001](#)) no later than March 31st of each year. The document custodian must maintain a copy of the form for its records for seven years at all locations that are covered by the completed form (to be available for on-site reviews). The servicer must send the completed form via e-mail to Fannie Mae's third-party document custody department at [thirdparty\\_custody@fanniemae.com](mailto:thirdparty_custody@fanniemae.com) or mail to:

Fannie Mae  
Custodian Annual Eligibility  
13150 Worldgate Dr., Mailstop 5H-3W/01  
Herndon, VA 20170

Section 404.11  
Release of Custodial  
Documents (10/30/09)

The document custodian (DDC or servicer-designated) 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.

Section 404.12  
Transfer of Documents to  
Different Custodian  
(01/31/03)

The servicer of an MBS pool may transfer documents related to the pool to a different eligible document custodian if, at any time, it prefers to use a different custodian. When an MBS pool or individual mortgage loans in a pool are included in a transfer of servicing, the transferee servicer may choose to make arrangements with a different document custodian. The existing document custodian will be responsible for controlling and maintaining the integrity of the 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 documents to the new custodian's facilities and for the payment of all costs related to the transfer.

When documents are transferred to a new document custodian for any reason, the servicer (or, if applicable, the transferee servicer) also must give its lead Fannie Mae regional office at least 30 days prior written notice of the transfer of the documents. This notice should 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 documents are to be transferred (or, if applicable, makes a single notation to reflect that the 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 master 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 custodian arrangements when it sends the *Request for Approval of Servicing Transfer* ([Form 629](#)) to its lead Fannie Mae regional office.

When the existing servicer is transferring the documents to a new master document custodian or to several new custodians, it must include with its advance notification either a single *Master Custodial Agreement* ([Form 2003](#)) establishing a master custodian arrangement or separate *Agreements* for each document custodian it will be using. However, the servicer will not need to submit a Form 2003 if it is transferring the documents to Fannie Mae's DDC or to a master document custodian for which it already has an *Agreement* on file with Fannie Mae.

If the documents remain with the same document custodian, but the transferee servicer has entered into an arrangement with the transferor's custodian for the first time, the transferee servicer and that custodian must execute a Form 2003.

When a transferee servicer is transferring documents to a new custodian of its choice, it should not submit a Form 2003 executed by the new custodian(s) until after it receives notification that the servicing transfer has been approved. At that time, the transferee servicer will need to submit a Form 2003 for each custodian it will be using or a single *Agreement* to establish a new master custodian arrangement (unless it plans to use Fannie Mae's DDC or a master document custodian for which it already has an *Agreement* on file with Fannie Mae).

**Release of documents.** After the servicer notifies Fannie Mae of the pending transfer of the documents to a new custodian (or, in the case of



documents being moved in connection with a servicing transfer, after Fannie Mae approves the transfer), the existing document custodian can be instructed to release the legal 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 loan-level transfer of servicing) and executed *Request for Release/Return of Documents (Form 2009)* for any mortgage loans for which required documents will not be transferred because an attorney (or trustee) has possession of them in connection with a liquidation of the mortgage loan. Generally, the documents will be released directly to the new document custodian(s). However, if Fannie Mae's DDC will be the new custodian, the servicer should request the return of the documents to itself or, if a transfer of servicing is involved, authorize the custodian to send them to the transferee servicer—unless the DDC has agreed to accept the documents directly from the existing document custodian. Instructions to the existing document custodian should be provided on a Form 2009. The document custodian should include a copy of this form with the documents it releases. Once all of the documents have been released, the existing document custodian(s) should send the servicer a written notice of release (which, in turn, the servicer must forward to its lead Fannie Mae regional office). The release should be worded as follows:

[Name of existing document custodian] has released all of the documents being held for MBS Pool Number [enter the numbers for all pools for which documents were released] or for the following individual loans in such pool(s) [enter or attach a list of each mortgage for which documents were released, if documents for all of the loans in the pool(s) were not released] to [name of new document custodian, existing servicer, or transferee servicer (as applicable)]. The release was made to [name of the representative of the new document custodian, servicer, or transferee servicer who took actual possession of the documents] and completed on [date of the physical transfer of documents].

If Fannie Mae's DDC will be the new document custodian, the servicer (or, if applicable, the transferee servicer) must send the delivery facility a trial balance for the pool listing each mortgage loan remaining in the pool as of the date of the document transfer and identifying those for which documents are being transferred (which 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 Forms 2009 that were obtained from the existing document custodian (unless Fannie Mae agreed to accept them directly from the custodian), and an electronic tape that provides certain loan-level information for each mortgage loan for which documents are being transferred. (A servicer can obtain the record layout for this electronic “bulk-in” transfer tape from the DDC.) This documentation should be shipped to:

Fannie Mae  
Region Code (A, C, D, L, or P)  
Bulk-In Transfer  
13150 Worldgate Drive  
Herndon, VA 22070

The servicer can 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 DDC can associate the documents with the correct MBS pool.

**Recertification of documents.** The new document custodian will need to review the files it receives to verify that it received all of the files that were to be transferred and to ensure that all of the required documents are present and satisfactory. Generally, the required documents will include the same documentation that a servicer submits for mortgage loans included in a new MBS pool delivery (as described in the *Selling Guide*). However, additional documents may be required in connection with a transfer of servicing or at the servicer’s initiation. The new custodian should complete this required recertification as quickly as possible, but no later than six months after the date the documents were transferred (or the effective date of a transfer of servicing). When the new document custodian completes the recertification, it will send the servicer (or, if applicable, the transferee servicer) an *MBS Custodian Recertification (Form 2002)*. As soon as the servicer receives this notification, it should 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 *Schedule of Mortgages (Form 2005)*) that reflects the composition of the MBS pool on the date of the document transfer and identifies the mortgage loans for which documents were transferred. The document custodian

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must retain with its records for the applicable MBS pool, a copy of the Form 2002 and the trial balance (or annotated Form 2005) for the MBS pool. The servicer will not need to provide any recertification documentation if the new document custodian is Fannie Mae's DDC.

Mortgage loan files and records that may be required to be sent to Fannie Mae include individual mortgage loan files, permanent mortgage account records, and accounting system reports. 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.

The lender must establish the individual mortgage loan file when it originates a mortgage. If the lender does not service the mortgage, it must transfer the file 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.

Specifically, Fannie Mae's examination and audit of a servicer's records will consist of:

- monitoring all monthly accounting reports submitted to Fannie Mae;
- conducting periodic procedural reviews during visits to the 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 deposit accounts, and underwriting standards; and
- performing spot-check underwriting reviews of mortgage loans in the servicer's portfolio on a random sample basis.

State and federal law now recognizes electronic records as being equivalent to paper documents for legal purposes; therefore, Fannie Mae's

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requirements for record accessibility and retention apply equally to paper and electronic records.

#### Section 405.01 Individual Mortgage Loan Files (08/24/03)

The lender must establish an individual 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.

Files for participation pool loans must be clearly identified by the words "Fannie Mae participation" and Fannie Mae's percentage interest.

Files for MBS mortgage loans must identify the number of the related MBS pool.

Files must include any records that will be needed to service the mortgage loan as well as records that support the validity of the mortgage loan. The servicer should use the individual mortgage loan file established at the time of origination to accumulate other pertinent servicing and liquidation information, such as:

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

Among other things, the initial individual mortgage loan file must include:

- a copy of the Participation Certificate, if applicable;
- a copy of the related Schedule of Mortgages for a mortgage loan (or a participation interest in 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;

- a copy of the mortgage or deed of trust note and any related addenda;
- a 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;
- a copy of the FHA mortgage insurance certificate, VA loan guaranty certificate, RD loan note guarantee certificate, HUD Indian loan guarantee certificate, or conventional mortgage insurance certificate, if applicable;
- a copy of the underwriting documents, including any Desktop Underwriter reports;
- a copy of the title policy, 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's flood hazard determination form, title evidence, or survey); and
- a 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 lender is unable to have the final HUD-1 signed by the borrower and seller, the lender 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.

The servicer must retain any of these applicable documents 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 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 servicer's possession.

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

- in states where a manufactured home can become real property without first being titled as personal property, documentation (if it is available) indicating that no certificate of title (or similar ownership document) was ever issued;
- in states where the certificate of title (or similar ownership document) can be surrendered or retired when the home becomes real property, documentation evidencing such surrender or retirement;
- the certificate of title (or similar ownership document) if it has not been or cannot be surrendered;
- any Uniform Commercial Code (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 housing loans prior to August 24, 2003, must retain any such documents, but they are not required to seek these documents for such loans.

Generally, the only documents associated with the origination and servicing of a mortgage loan that the servicer needs to 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 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). All other documents in the individual mortgage loan file may be retained in an electronic format (as discussed in *Section 406, Record Retention and Data Integrity (01/31/03)*). When the 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 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.

Section 405.02  
Mortgage Loan Payment  
Records (01/31/02)

The servicer also 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 servicer uses. The servicer may develop its own system for maintaining these records, as long as it can produce an account transcript within a reasonable time after it is requested.

The servicer's accounting system must be able to produce detailed information on:

- 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);
- the financial status of the mortgage loan (the latest outstanding balances for principal, escrow deposits, advances, and unapplied payments); and
- any overdrafts in the escrow deposit account.

Section 405.03  
Identifying Manufactured  
Home Loans (03/28/11)

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

If it comes to the attention of a servicer that it is servicing a mortgage secured by a manufactured home that was delivered to Fannie Mae

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## **Lender Relationships**

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### Mortgage Loan Files and Records

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without notation of Special Feature Code 235 (which is required to identify that property type), the servicer must follow the process documented in [Initiating Post-purchase Adjustments](#).

Section 405.04  
Accounting Reports  
(03/31/02)

Unless Fannie Mae indicates otherwise, the servicer may destroy any accounting reports 18 months after such reports are filed with Fannie Mae.

**Section 406**  
**Record Retention and**  
**Data Integrity (01/31/03)**

Fannie Mae has established record retention and data integrity requirements.

Section 406.01  
Record Retention  
Requirements (01/31/03)

If the 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.

Section 406.02  
Data Integrity (01/31/03)

No matter which method the 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.

Servicers 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 a 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 servicer must accurately and authentically preserve any alterations, erasures, white-outs, or similar indications of changes. The 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 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.

**Section 406.03**  
**Record Storage Formats**  
**(01/31/03)**

Servicers may retain most of the records required to originate and service a mortgage loan in an other-than-paper format, regardless of whether the documentation was originally obtained in paper format or in some other type of format. Servicers may use photographic, microfilm, electronic (including digital), or other storage technology for storing this documentation.

**Section 407**  
**Access to Records**  
**(01/31/03)**

On Fannie Mae's written request, the servicer must deliver all mortgage loan records and documents to Fannie Mae or to whomever it designates. Each mortgage loan must be clearly identified. If the servicer is retaining any of the records in a format other than paper, it 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. However, in those instances in which Fannie Mae has only a participation interest in a mortgage loan, it will agree to provide proof of its ownership interest if it is requested to do so.

When a 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 servicer did not take certain actions that Fannie Mae requires. If that is not the case, the 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 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 its *Guides* for the servicer's breach of its requirements.

If Fannie Mae has to take legal action to obtain these records, the servicer will be liable for any legal fees, costs, and related expenses that Fannie Mae incurs in enforcing its right of access to the records unless it is determined that Fannie Mae had no legal right of access to them.

**Section 408  
MERS-Registered  
Mortgage Loans  
(01/31/03)**

MERS is an electronic system that assists in the tracking of mortgage loans, servicing rights, and security interests. To initiate the electronic tracking, a lender assigns a special MERS MIN to the mortgage loan, registers the mortgage loan in MERS, and then either (1) originates the mortgage loan with MERS appearing in the security instrument as nominee for the beneficiary and its successors and assigns or (2) records an assignment of the mortgage loan to MERS (thus making MERS the mortgagee of record).

When a MERS-registered mortgage loan is delivered to Fannie Mae, the lender reports the MIN on the *Loan Schedule* ([Form 1068](#) or [Form 1069](#)) or on the *Schedule of Mortgages* ([Form 2005](#)) and, after Fannie Mae purchases the mortgage loan, Fannie Mae notifies MERS to ensure that its records are updated to reflect Fannie Mae's ownership interest. If a mortgage loan is not registered with MERS until after Fannie Mae purchases it, the servicer must report Fannie Mae's ownership when it registers the mortgage loan.

A servicer that chooses to register its entire servicing portfolio with MERS may identify a few instances in which Fannie Mae is the owner of record for the mortgage loan (because an original assignment of the mortgage loan to Fannie Mae was recorded in the public records). When that is the case, the servicer will need to prepare an assignment of the mortgage loan from Fannie Mae to MERS and send it to Fannie Mae for execution (and subsequently record it in the public records) before it can complete the registration of the mortgage loan with MERS.

Registration of Fannie Mae-owned or Fannie Mae-securitized mortgage loans in MERS (as either an assignee or the nominee of the original mortgagee) does not change the lender's (or mortgage 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 lender or servicer's Master Agreement, or any negotiated contract that it has with Fannie Mae (unless Fannie Mae specifies otherwise), or other agreements that are part of the Lender Contract. 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, MERS' failure to perform any obligation with respect to a MERS-registered mortgage loan does not relieve the lender (or the mortgage servicer) from its

responsibility for performing any obligation required by the terms of its Lender Contract.

The lender or servicer is responsible for the accurate and timely preparation and recordation of security instruments, assignments, lien releases, and other documents relating to MERS-registered mortgage loans and must take all reasonable steps to ensure that the information on MERS is updated and accurate at all times. The lender or mortgage servicer also will be solely responsible for 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.

Section 408.01  
Termination of MERS  
Registration for Active  
Mortgage Loan  
(01/31/03)

A servicer may decide that it does not want a mortgage loan that it is actively servicing to remain registered in MERS for some reason. In such cases, the servicer will need to notify MERS to request that the mortgage loan be “deactivated” in MERS. (MERS will notify Fannie Mae about the deactivation of any mortgage loan in which it has an interest.) The servicer will need to prepare an assignment of the mortgage loan from MERS to itself and have it executed, and then record the executed assignment in the public land records. The servicer also must prepare (in recordable form) an unrecorded assignment of the mortgage loan from itself to Fannie Mae and submit the original of that assignment to Fannie Mae’s DDC or the applicable document custodian.

Section 408.02  
Termination of Servicer’s  
MERS Membership  
(01/31/03)

If, for any reason, a servicer’s membership in MERS is terminated, the servicer must notify Fannie Mae promptly. For each MERS-registered mortgage loan that it is servicing for Fannie Mae, the servicer must prepare an assignment of the mortgage loan from MERS to itself and have it executed, and then record the executed assignment in the public land records. The servicer also must prepare (in recordable form) an unrecorded assignment of the mortgage loan from itself to Fannie Mae and submit the original of that assignment to Fannie Mae’s DDC or the applicable document custodian.

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## **Exhibit 1: Limited Power of Attorney to Execute Documents (01/31/03)**

### 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

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- 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

June 10, 2011

Exhibit 1

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: \_\_\_\_\_

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## Exhibit 2: Servicing Fees for Portfolio Mortgage Loans and MBS Mortgage Loans (05/18/07)

A servicer's total servicing fee for a regularly amortizing mortgage 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 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.

A servicer's total servicing fee for a reverse mortgage is a specified dollar amount (rather than the difference between the mortgage interest rate and the rate at which the servicer passes through interest to Fannie Mae).

**A. Portfolio mortgage loans.** The following servicing fees apply for portfolio mortgage loans:

Product	Servicing Fee
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 mortgages with a fixed interest rate	0.25% minimum fee
Expanded Approval®/Timely Payment Rewards® (EA/TPR™)	0.25% minimum fee

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**Lender Relationships**

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**Mortgage Loan Files and Records**

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Exhibit 2

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<b>Product</b>	<b>Servicing Fee</b>
HomeStyle Construction-to-Permanent mortgages	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 loans	0.5% minimum fee 1.25% maximum fee
Fixed-rate second mortgage loans	0.5% minimum fee 1.25% maximum fee
Conventional fixed-rate, fully amortizing first mortgage loans with the scheduled/scheduled remittance type	0.25% minimum fee
All other fixed-rate monthly payment first 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 mortgage loans	Either 0.25% or 0.375% minimum fee (at lender's option)
FHA Home Equity Conversion Mortgages (HECMs)	No more than \$35.00 a month
Home Keeper® conventional reverse mortgages	Between \$25.00 and \$30.00 a month
All ARMs	0.25% minimum fee

**B. MBS mortgage loans.** The following servicing fees apply for 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 ARMs (5/1 Hybrid ARM Plan 3252)	0.125% minimum fee
All other ARMs	0.25% minimum fee

## Exhibit 3: Historical Yield Differential Adjustment Provisions (01/31/03)

When the interest rate of an actual/actual remittance type fixed-rate whole mortgage is greater than Fannie Mae's required yield, Fannie Mae allows the servicer to retain all or part of this difference. This also is the case when the mortgage margin for an ARM 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. Fannie Mae's present policy and a history of the various yield differential adjustment policies that may apply to mortgage loans in a servicer's portfolio are shown below.

### A. Provisions for Fixed-Rate Mortgage loans (except for co-op share loans)

Date of Commitment	Terms of Provision
March 31, 1980 through June 21, 1981	Servicer retains excess yield up to 0.625%. Fannie Mae retains any other excess. However, resale finance commitments dated between November 24, 1980 and May 29, 1981 did not provide for the servicer to retain any excess yield.
June 22, 1981 to Fannie Mae investor reporting system date <sup>1</sup>	<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. <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.
Fannie Mae investor reporting system date <sup>1</sup> to present	Servicer retains all excess yield.

Note:

<sup>1</sup>The date that the mortgage seller was converted to the Fannie Mae investor reporting system. The exact date is the date that the lender's lead Fannie Mae regional office implemented the Fannie Mae investor reporting system: Atlanta, November 26, 1984; Chicago, December 3, 1984; Dallas, December 3, 1984; Pasadena, December 10, 1984; and Philadelphia, November 5, 1984.

**B. Provisions for ARMs (except for co-op share loans)**

<b>Date of Commitment</b>	<b>Terms of Provision</b>
June 22, 1981 through May 8, 1983 <sup>1</sup>	The servicer retains the first 0.125% of the excess. The servicer and Fannie Mae each retain one-half of the next 0.25% excess. After that, the servicer retains one-fourth of any other excess and Fannie Mae retains three-fourths.
May 9, 1983 through August 14, 1983	If Fannie Mae purchased the mortgage at <i>par</i> , the servicer retains all excess yield until the first interest rate change. Then, the servicer may retain the amount by which the mortgage margin exceeds the commitment margin.  If Fannie Mae purchased the mortgage at a <i>discount</i> , the servicer retains all excess above the difference between the index disclosed to the borrower and Fannie Mae's commitment index until the first interest rate change. After that, the servicer receives no excess.
August 15, 1983 to present <sup>2</sup>	If Fannie Mae purchased the mortgage at <i>par</i> , the servicer retains until the first interest rate change any excess above the difference between the net mortgage rate <sup>3</sup> and Fannie Mae's required yield. After that, the servicer may retain the amount by which the net mortgage margin <sup>3</sup> exceeds Fannie Mae's required margin.  If Fannie Mae purchased the mortgage at a <i>discount</i> , 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.

Notes:

<sup>1</sup>Different provisions apply for *resale and refinance ARMs delivered under commitments dated on and after June 22, 1981*. Under those provisions, if Fannie Mae purchased the mortgage at *par*, the servicer retains all excess yield until the first interest rate change. Then, the servicer can retain the amount by which the mortgage margin exceeds the commitment margin—up to a 0.125% excess. If Fannie Mae purchased the mortgage at a *discount*, the servicer retains all excess above the base interest rate<sup>4</sup> until the first interest rate change. After that, the servicer receives no excess.

<sup>2</sup>Different provisions apply for *any interest rate-capped ARM or GPARM 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<sup>5</sup> and Fannie Mae's required yield. 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.<sup>6</sup>

<sup>3</sup>The net mortgage margin is determined by subtracting the 0.5% minimum servicing fee from the margin specified in the mortgage instrument.

<sup>4</sup>The base interest rate is determined by subtracting the margin differential—the difference between the commitment margin and the mortgage margin—from Fannie Mae’s required yield.

<sup>5</sup>The net mortgage rate is determined by subtracting the 0.5% minimum servicing fee from the mortgage interest rate.

<sup>6</sup>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.

### C. Provisions for Co-op Share Loans

Date of Commitment	Terms of Provision
May 11, 1984 through August 26, 1984	The servicer retains all excess yield for <b>ARMs</b> . After the excess for a <b>fixed-rate mortgage</b> is reduced by a minimum servicing fee of 0.375%, the remaining excess is shared as follows: Fannie Mae and the servicer 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.
August 27, 1984 to present	For both <b>ARMs</b> and <b>fixed-rate mortgage loans</b> , the servicer retains all excess yield.

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**Doing Business with  
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## **Part II: Mortgage and Property Insurance (02/01/05)**

This *Part*—Mortgage and Property Insurance—discusses a servicer’s responsibility for ensuring that any mortgage insurance, hazard or flood insurance, and any special insurance coverage Fannie Mae requires is maintained in a way that at all times will protect Fannie Mae’s interest in the mortgage loans serviced for Fannie Mae.

The requirements or procedures in this *Part* generally apply to all mortgage loans serviced for Fannie Mae. If Fannie Mae’s requirements vary for a particular lien type, mortgage loan type, or ownership interest, those variations are specifically stated. However, any special requirements imposed under the terms of a negotiated contract are not discussed in this *Part*. A servicer is totally responsible for taking all steps necessary to ensure that the terms of a negotiated contract are followed.

This *Part* consists of six chapters:

- *Chapter 1*—Mortgage Insurance—discusses Fannie Mae’s policy regarding the continuation of FHA or conventional mortgage insurance coverage and the conditions under which the coverage may be terminated or canceled.
- *Chapter 2*—Hazard Insurance—discusses Fannie Mae’s requirements for maintaining appropriate property and casualty insurance for the mortgage loans serviced for Fannie Mae, describes the criteria for acceptable policies, and provides procedures for paying premiums or changing the types of coverages provided.
- *Chapter 3*—Flood Insurance—discusses Fannie Mae’s requirements for maintaining flood insurance coverage for mortgage loans serviced for Fannie Mae.
- *Chapter 4*—Special Coverage for Project Developments—describes the special requirements imposed by Fannie Mae on the fidelity insurance coverage and general liability insurance coverage that the homeowners’ association (HOA) of a condo or PUD project or the co-op corporation for a co-op project must maintain for a project when

mortgage loans (or share loans) on units in the project are sold to Fannie Mae.

- *Chapter 5—Insurance Losses*—provides procedures for handling insurance losses, as well as the steps to take when an uninsured loss occurs.
- *Chapter 6—Lender-Placed Property Insurance*—provides guidelines for lender-placed property insurance.



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## **Chapter 1. Mortgage Insurance (07/27/10)**

The servicer is responsible for ensuring that the mortgage insurance coverage Fannie Mae requires when it purchases or securitizes a mortgage loan remains in effect for as long as Fannie Mae requires it, by paying all renewal premiums promptly. There are special situations that may affect the continuation of the mortgage insurance coverage.

The servicer must obtain mortgage insurance from companies that Fannie Mae has determined to be qualified mortgage insurers. The list of acceptable conventional mortgage insurers and their associated mortgage insurance codes can be accessed on [eFannieMae.com](http://eFannieMae.com).

Servicers must instruct mortgage insurers to release data to Fannie Mae (at Fannie Mae's request) for any mortgage loans that Fannie Mae currently owns or securitizes or may own or securitize in the future. In addition, each servicer must provide any Fannie Mae-approved mortgage insurer with which it may begin doing business in the future the same written instructions at the outset of the relationship.

These instructions do not relieve servicers of their obligations under the *Selling Guide* and *Servicing Guide* to report mortgage insurance coverage terms completely and accurately to Fannie Mae, nor do they imply that the mortgage insurer rather than the servicer will be the initial source of this data for Fannie Mae. Rather, these instructions will facilitate Fannie Mae's ability to validate such terms directly with the mortgage insurer, including but not limited to confirming whether the coverage has been rescinded, terminated, or cancelled.

The servicer's instructions must:

- apply to all mortgage loans insured by, or that may be insured by, the mortgage insurer and serviced on behalf of Fannie Mae now or in the future, including mortgage loans held in MBS or portfolio; and

- instruct each mortgage insurer to provide to Fannie Mae any information, data, and materials requested by Fannie Mae, including but not limited to information regarding the origination, servicing, and coverage, including any cancellation or rescission of coverage and the reasons and all supporting documentation for such actions.

A disclosure template and release instructions are posted on [eFannieMae.com](http://eFannieMae.com). The servicer may use this form or any other form that is acceptable to the mortgage insurer and that results in the release of the requested data to Fannie Mae. The disclosure instructions and release must be returned to each mortgage insurer using the contact information posted on [eFannieMae.com](http://eFannieMae.com). 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.

**Section 101  
FHA Mortgage  
Insurance (01/31/03)**

The servicer must keep in effect the FHA mortgage insurance that existed when Fannie Mae acquired the mortgage loan unless the conditions Fannie Mae or HUD imposes for canceling the coverage (as discussed in *Section 101.03, Borrower-Initiated Cancellation of FHA Mortgage Insurance Based on Current Property Value (01/31/03)*) are met.

The mortgage insurance premium (MIP) for some FHA mortgage loans will have been paid in full (or financed in the mortgage loan) when the mortgage loan was originated. Some FHA mortgage loans are subject to both an upfront MIP and an annual insurance premium (which is calculated annually and paid monthly). The premium for other FHA mortgage loans must be paid each year. When payment of an annual MIP is required, the servicer should use the funds in the borrower's escrow deposit account to pay the premium. If the deposit account balance is not sufficient to pay the MIP, the servicer should advance its own funds.

When a servicer agrees to the cancellation of the annual FHA MIP (in accordance with *Section 101.01, Automatic Cancellation of FHA MIP (01/31/03)*, through *Section 101.03, Borrower-Initiated Cancellation of FHA Mortgage Insurance Based on Current Property Value (01/31/03)*), it

must reduce the borrower's payment by any monthly escrow deposit that was being collected to pay the premium.

Section 101.01  
Automatic Cancellation of  
FHA MIP (01/31/03)

HUD provides for the automatic cancellation of the annual FHA MIP for an FHA-insured mortgage loan that was closed on or after January 1, 2001, if the mortgage loan is insured under the Mutual Mortgage Insurance Fund. For mortgage loans insured under the Mutual Mortgage Insurance Fund, FHA will make available to the servicer the date at which the annual MIP will end based on the automatic cancellation. Even though the annual MIP is canceled, the mortgage insurance contract will remain in force for the full term of the mortgage loan.

Section 101.02  
Borrower-Initiated  
Cancellation of FHA MIP  
Based on Partial  
Prepayment (01/31/03)

HUD provides for a borrower-initiated cancellation of the annual FHA MIP for an FHA-insured mortgage loan that was closed on or after January 1, 2001 if the mortgage loan is insured under the Mutual Mortgage Insurance Fund and the borrower has made additional principal payments (curtailments) that result in the mortgage loan reaching a 78% loan-to-value (LTV) ratio earlier than it would have under the original amortization schedule. (The LTV ratio will be determined by using the lesser of the property's initial sales price or appraised value.) If the mortgage loan term is greater than 15 years, the borrower must have been paying annual FHA MIPs for at least 5 years in order to take advantage of this option.

For mortgage loans insured under the Mutual Mortgage Insurance Fund, FHA will make available to the servicer the amount that the mortgage loan balance (excluding any upfront MIP) must reach in order to cancel the annual MIP. The servicer should use this information as part of the annual disclosure notice that it sends to the borrower so the borrower will be aware of his or her option to cancel the MIP in advance of the projected cancellation date by making additional principal payments for the mortgage loan.

If a borrower who has made additional principal payments requests an early cancellation of the FHA MIP, the servicer will need to verify that the 78% LTV ratio has been reached, that the borrower has paid annual FHA MIPs for the required time period (if applicable), and that the borrower has not been more than 30 days delinquent on the mortgage loan during the previous 12 months. If the borrower satisfies these criteria, the servicer should submit the required cancellation information to the FHA.

**Section 101.03  
Borrower-Initiated  
Cancellation of FHA  
Mortgage Insurance  
Based on Current  
Property Value (01/31/03)**

Fannie Mae allows the FHA mortgage insurance for certain FHA-insured mortgage loans that it holds in its portfolio to be terminated, specifically those that are *not* insured under the Mutual Mortgage Insurance Fund (regardless of when they were closed) and those that are insured under the Mutual Mortgage Insurance Fund and were closed before January 1, 2001. The servicer may not cancel FHA mortgage insurance for any FHA-insured mortgage loan that is in an MBS or other Fannie Mae-issued mortgage security pool.

A borrower who wishes to cancel FHA mortgage insurance based on the current appraised value of the property must submit a written request to the servicer. The servicer should handle such requests in accordance with Fannie Mae's provisions for cancellation of conventional mortgage insurance based on current property value (see *Section 102.06, Borrower-Initiated Cancellation Based on Current Property Value (12/21/07)*).

If the criteria are satisfied, the servicer must notify the FHA to cancel the FHA mortgage insurance. The servicer must notify Fannie Mae about the cancellation by reporting the appropriate Action Code and Action Date on the Fannie Mae investor reporting system Loan Activity Report as discussed in *Part X, Section 309, Reporting Discontinuance of Mortgage Insurance (01/31/03)*. The servicer also must retain appropriate supporting documentation in the individual mortgage loan file.

**Section 101.04  
Termination of  
Coinsurance Period  
(01/31/03)**

FHA coinsured mortgage loans are automatically converted to full insurance when the 60th monthly payment is made, if the mortgage loan is current. The servicer does not have to notify Fannie Mae of this automatic change, but should contact Fannie Mae in cases in which the conversion does not occur. For example, when a mortgage loan is under a special relief provision on the date the 60th monthly payment is scheduled to occur, the servicer should request HUD to convert it to full insurance if the mortgage loan is current under the terms of the relief provision. If HUD agrees to the conversion, the servicer should then notify Fannie Mae.

If the servicer cannot continue its coinsurance obligations because of its dissolution or bankruptcy, it should notify HUD and provide a list of all coinsured mortgage loans in its Fannie Mae portfolio. When HUD acknowledges that the mortgage loans will be converted to full insurance, the servicer should send Fannie Mae the list of mortgage loans and a copy of HUD's acknowledgment.

**Section 102  
Conventional Mortgage  
Insurance (01/31/03)**

The servicer must keep in effect any borrower-purchased conventional mortgage insurance that existed when Fannie Mae acquired the mortgage loan, unless the conditions Fannie Mae imposes for replacing or canceling the coverage are met (see *Section 102.01, Replacement Policies (08/02/07)*, through *Section 102.06, Borrower-Initiated Cancellation Based on Current Property Value (12/21/07)*). The servicer must keep **lender-placed** mortgage insurance coverage for conventional mortgage loans in effect until the mortgage loan is paid in full. However, the servicer may retain any premium refund it receives in connection with a policy cancellation that results from a payoff of the mortgage loan debt.

The mortgage insurance for conventional mortgage loans may have been paid for by the borrower or by the lender. The borrower may have paid for the mortgage insurance coverage by paying a lump-sum premium at settlement to purchase life-of-the-mortgage coverage, by combining an initial payment at closing for the first year's premium with renewal premiums paid (either monthly or annually) from accumulated escrow deposits, or by paying premiums monthly from accumulated escrow deposits (with no initial payment at closing). A borrower also may have paid for the mortgage insurance coverage by financing the premium in the mortgage loan amount.

When the lender pays for the mortgage insurance coverage, it generally uses its own funds to pay the first year's premium at closing and agrees to pay renewal premiums (either monthly or annually) for each subsequent period of coverage. (In a few cases, the lender may pay a lump-sum life-of-the-mortgage premium at closing.)

When the payment of an annual renewal premium is required for conventional mortgage loans that have borrower-purchased mortgage insurance, the servicer should use the funds in the borrower's escrow deposit account to pay the mortgage insurance premium. If the deposit account balance is not sufficient to pay the premium, the servicer should either get the necessary funds from the borrower or advance its own funds. On the other hand, when the mortgage insurance policy requires monthly premium payments, the servicer should collect the premium amount from the borrower as part of his or her regular mortgage loan payment. If the borrower fails to make a monthly payment (or does not include the mortgage insurance premium amount with a payment), the servicer must

advance its own funds to keep the mortgage insurance coverage in force (and then subsequently collect the funds from the borrower).

Payment of the renewal premium for lender-placed mortgage insurance for conventional mortgage loans is the servicer's corporate responsibility. As such, the premium must be paid from the servicer's own funds (which may be obtained from any source)—even if the borrower does not make his or her mortgage loan payments. Fannie Mae strongly encourages a servicer to set aside monies for the payment of these renewal premiums each month so that it will have accumulated the full premium amount by the applicable due date. (These monies may be kept in one of the servicer's internal operating accounts or in a specially designated account. A servicer may not deposit these funds in a Fannie Mae custodial account unless Fannie Mae authorizes the use of a separate custodial account that is designed solely for this purpose.)

Section 102.01  
Replacement Policies  
(08/02/07)

Generally, a servicer may not replace existing mortgage insurance policies (with policies from a different mortgage insurer or with different policies from the same 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. For example, to ensure that all borrowers have the same opportunity for choice with respect to insurance providers, Fannie Mae allows the servicer to replace a mortgage insurance policy issued by one mortgage insurer with a policy issued by another mortgage insurer when a new homebuyer assumes an existing mortgage loan. In such cases, the servicer should permit the new borrower to choose generally equivalent mortgage insurance coverage issued by one of the acceptable mortgage insurers (as long as the mortgage insurer is authorized to provide the type of coverage Fannie Mae requires in the jurisdiction in which the security property is located). The list of acceptable conventional mortgage insurers and their associated mortgage insurance codes can be accessed on [eFannieMae.com](http://eFannieMae.com).

In any other instance in which it is appropriate for the servicer to replace the mortgage insurance policies that were issued by a particular mortgage insurer with those of one or more different mortgage insurers—as might be the case when a specific mortgage insurer stops issuing renewal policies or when Fannie Mae removes an insurer from its list of approved mortgage insurers—Fannie Mae will advise the servicer accordingly.

**Section 102.02  
Disclosures Required by  
Homeowners Protection  
Act of 1998 (01/31/03)**

The Homeowners Protection Act of 1998 requires a servicer to make annual disclosures to (1) a borrower who has a mortgage loan closed on or after July 29, 1999, if the mortgage loan is subject to the termination and cancellation provisions of the Act, and (2) a borrower who has a mortgage loan closed before July 29, 1999, if the mortgage loan is secured by the borrower's one-unit principal residence. The Act also requires a servicer to make a one-time disclosure to a borrower who has lender-placed mortgage insurance for a mortgage loan closed on or after July 29, 1999, if the proceeds of the mortgage loan were used for the purchase, initial construction, or refinancing of the borrower's one-unit principal residence.

**A. Annual disclosures to the borrower.** The required annual disclosures may be made at any time and may be included in other notices (such as the annual escrow analysis or the year-end tax and interest payments statement) as long as the servicer discloses the information to the borrower at least once during each 12-month period. The initial annual disclosure must be made within one year of the closing date of the mortgage loan. A servicer that wants to schedule its future disclosures on a calendar year basis may schedule its first disclosure for the same calendar year in which the mortgage loan is originated and then make another disclosure shortly after the first of the next calendar year.

The content of the annual disclosures differs slightly depending on when the mortgage loan was closed (and, in some cases, on the use of the mortgage loan proceeds). The servicer's annual disclosure must not imply that any particular borrower has already satisfied the conditions necessary for automatic termination or borrower-initiated cancellation or that the borrower has an absolute right to termination or cancellation. The servicer also may include in the annual disclosures information about the possibility that the borrower may have to pay certain fees—such as those for obtaining a broker's price opinion (BPO), a certification of value, or a new appraisal—before a request for cancellation of the mortgage insurance can be granted.

- For a mortgage loan closed on or after July 29, 1999, for which the mortgage loan proceeds were used for the purchase, initial construction, or refinancing of the borrower's one-unit principal residence, the servicer's written disclosure must state the borrower's right to automatic termination and/or borrower-initiated cancellation of mortgage insurance under the Act. The servicer also must provide an

address and telephone number that the borrower may use when contacting the servicer to obtain information about cancellation of the mortgage insurance.

- For a mortgage loan closed before July 29, 1999, that is secured by the borrower's one-unit principal residence (regardless of the use of the mortgage loan proceeds), the servicer's written disclosure must state that the requirement for mortgage insurance may be canceled at the borrower's request if certain conditions are met or as required by applicable state law. The servicer also must provide an address and telephone number that the borrower may use when contacting the servicer to obtain information about whether, when, and how the mortgage insurance can be canceled. Fannie Mae also requires the servicer to state that, unless cancellation is otherwise required by state law, the conditions for canceling mortgage insurance for these mortgage loans may be changed at any time since they are not statutory under federal law.

**B. One-time disclosure to the borrower.** The one-time disclosure to a borrower who has lender-placed mortgage insurance for a mortgage loan closed on or after July 29, 1999, the proceeds of which were used for initial construction, purchase, or refinancing of the borrower's one-unit principal residence, must be made no later than 30 days after the date that mortgage insurance would have been terminated had the mortgage loan had borrower-purchased mortgage insurance. The disclosure must state that the borrower may wish to review refinancing options that could eliminate the requirements for mortgage insurance.

Section 102.03  
Automatic Termination of  
Mortgage Insurance  
(06/01/05)

All conventional mortgage loans serviced for Fannie Mae are subject to the automatic termination of mortgage insurance. (See *Exhibit 1: Automatic Termination of Conventional Mortgage Insurance*, for a summary of Fannie Mae's automatic termination policy.) The borrower does not have to take any action to initiate an automatic termination of the mortgage insurance, nor may the servicer charge the borrower for processing an automatic termination.

The servicer must establish appropriate monitoring procedures that provide for an ongoing review of all mortgage loans in its portfolio (on at least a monthly basis) to ensure that borrower-purchased mortgage insurance is automatically terminated when required by Fannie Mae or



applicable federal or state law. The servicer's review must determine not only 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), but also on whether the borrower's payments are current on that date. (The timing of the automatic termination will vary for different categories of mortgage loans. A servicer should use the occupancy status of the security property when the mortgage loan was closed to determine how the mortgage loan should be categorized when applying specific eligibility criteria related to an automatic termination.)

- **A mortgage loan closed on or after July 29, 1999 that is secured by a one-unit principal residence or second home.** The servicer must automatically terminate the mortgage insurance on the applicable termination date—provided the borrower's payments are current on the termination date. The applicable termination date is the date that the principal balance of the mortgage loan is *first scheduled* to reach a level that is 78% of the original value of the property. (For a refinance mortgage loan, the servicer may use as the "original value" whatever appraised value it relied on for the refinance transaction.) If the scheduled LTV ratio for the mortgage loan does not reach 78% before the mid-point of the mortgage loan amortization period, the first day of the month following the date the mid-point is reached must be used as the termination date.
  - For fixed-rate mortgage loans, the applicable termination date will be determined based solely on the initial amortization schedule, without regard to the actual outstanding mortgage loan balance.
  - For adjustable-rate mortgage loans, the applicable termination date will be determined based solely on the then-current amortization schedule, without regard to the actual outstanding mortgage loan balance.
- **A mortgage loan closed before July 29, 1999 (regardless of the type of security property) or mortgages closed on or after July 29, 1999 secured by a one- to four-unit investment property or a two- to four-unit principal residence.** The servicer must automatically terminate the mortgage insurance 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. However, if the property is located in the state of New York, the servicer must automatically terminate the mortgage insurance as soon as the actual outstanding mortgage loan balance becomes 75% of the original "appraised value" of the property. (A New York State statute provides that after that date, the borrower may "not be required to pay, directly or indirectly, the cost of continuing" mortgage insurance.)

- The mid-point of the original amortization period for adjustable-rate mortgage loans and most fixed-rate mortgage loans occurs upon expiration of 7½ years, if the mortgage loan had an original amortization period of 15 years; upon expiration of 10 years, if the mortgage loan had an original amortization period of 20 years; upon expiration of 15 years, if the mortgage loan had an original amortization period of 30 years; and upon expiration of 20 years, if the mortgage loan had an original amortization period of 40 years.
- The mid-point of the original amortization period for a balloon mortgage loan that has a conditional right to refinance is determined based on the then-current amortization schedule, which means that the mid-point will take place after the date on which the conditional refinance option must be exercised. The new refinance mortgage loan is not treated as a separate transaction; rather, the original balloon mortgage loan and the new refinance mortgage are treated as one continuous mortgage financing. Therefore, it is the amortization term of the original balloon mortgage that determines whether mortgage insurance can be automatically terminated rather than the amortization term of the refinance mortgage. For example, a 7-year balloon mortgage that is amortized over 30 years reaches its mid-point after 15 years; therefore, the mortgage insurance for the new refinance mortgage loan that results from the exercise of the conditional refinance option at the end of the 7-year balloon term must be canceled eight years after the refinancing (which would be the beginning of the 16th year after the balloon mortgage loan was originated) instead of at the mid-point of the amortization term for the new refinance mortgage loan.
- The mid-point of the amortization period for any mortgage loan that has been modified by changing the interest rate, payment

amount, or mortgage loan term in a way that changes the original amortization schedule of the mortgage loan is determined based on the new terms of the modified mortgage loan. (Fannie Mae does not consider either an adjustable-rate mortgage that has undergone an interest rate change or a payment change or a balloon mortgage loan for which the conditional refinance option has been exercised to be a modified mortgage loan.) For example, if a mortgage loan that had an original term of 30 years was modified after 10 years and the terms of the modification called for payments to be reamortized over a 30-year period, the mid-point for the modified mortgage loan would be after payments had been made for 15 years under the terms of the modified mortgage loan (even though the borrower will have actually had an outstanding mortgage loan against the property for 25 years at that point).

A borrower's payments will be 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. For example, if the scheduled termination date for a mortgage loan is October 1, 2002, the borrower's mortgage payments will be considered current if the amount due on September 1, 2002 (which includes the payment and all outstanding late charges) is paid by September 30, 2002.

- If the borrower's payments are current and the mortgage loan is eligible for automatic termination ***based on its scheduled amortization***, the servicer must terminate the mortgage insurance immediately. However, if the mortgage loan is eligible for automatic termination ***based on the mid-point of the amortization period***, the servicer must terminate the mortgage insurance not later than the first day of the month following the mid-point date.
- If the borrower's payments are not current, the servicer must not terminate the mortgage insurance (even if the other eligibility criteria for automatic termination are met). The servicer must notify the borrower within 30 days after the ***scheduled*** termination date (or the mid-point of the amortization period, as applicable) that the mortgage insurance was not automatically terminated because the payments were not current. The servicer should re-evaluate the status of the borrower's payments as part of its next portfolio review (and

subsequent reviews, if necessary). If, at the time of the re-evaluation, the borrower's payments have become current, the servicer must terminate the mortgage insurance immediately.

When the mortgage insurance is automatically terminated, the servicer may not collect mortgage insurance premiums as part of the borrower's mortgage loan payment more than 30 days after the later of (1) the scheduled termination date (or the mid-point of the amortization period, as applicable) or (2) the date after the scheduled termination date (or mid-point date, as applicable) on which the borrower's payments become current. The servicer must reduce the borrower's mortgage loan payment (within the required time frame) by the amount that was being collected to pay the mortgage insurance premium. (When the mortgage insurance premium was financed as part of the mortgage loan amount, the servicer must not reduce the borrower's payment.) Within 30 days after the termination occurs, the servicer must notify the borrower 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. If the servicer does not perform a new escrow analysis at the time the mortgage insurance is terminated, it also must advise the borrower that any escrow deposits that had accumulated for the payment of the next mortgage insurance premium that was to come due will be taken into consideration in the borrower's next escrow account analysis. However, if the servicer does perform a new escrow analysis at the time the mortgage insurance is terminated and determines that other escrow items need to be adjusted, the resulting change in the mortgage loan payment may not equal the amount previously escrowed for the mortgage insurance premium.

The servicer must forward any unearned mortgage insurance premium refund (including one that is related to a financed mortgage insurance premium) to the borrower as soon as it is received from the mortgage insurer. The servicer should establish appropriate follow-up procedures with the mortgage insurer to ensure that it receives the unearned premium refund in sufficient time to send it to the borrower by no later than 45 days after the date the mortgage insurance is terminated.

The servicer must report an automatic termination to Fannie Mae with the next Fannie Mae investor reporting system reports that it submits after the

termination date, as discussed in *Part X, Section 309, Reporting Discontinuance of Mortgage Insurance (01/31/03)*.

Section 102.04  
Termination for Loan  
Modifications (06/01/05)

For all mortgage loan modifications, mortgage insurance cancellation 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 value of the property at the time of the modification. To determine the value of the property at modification, the servicer may order a broker price opinion or a new appraisal, or use an AVM as long as the AVM provides a reliable confidence score. In some states, a new appraisal may be required, and the servicer must follow applicable state law.

Section 102.05  
Borrower-Initiated  
Cancellation Based on  
Original Property Value  
(01/31/03)

On the date that the mortgage loan balance for an adjustable-rate mortgage loan that was closed on or after July 29, 1999 (and is secured by the borrower's one-unit principal residence or second home) is first scheduled to reach (based on the then-current amortization schedule) or actually reaches 80% of the original value of the property, the servicer must notify the borrower that he or she may be eligible for cancellation of the mortgage insurance based on the original value of the property. This notification is not required for a fixed-rate mortgage loan.

A borrower may request cancellation of borrower-purchased mortgage insurance for any conventional mortgage loan (regardless of its closing date) based on the original value of the property. (See *Exhibit 2: Borrower-Initiated Cancellation of Conventional Mortgage Insurance Based on Original Value*, for a summary of Fannie Mae's policy for borrower-initiated cancellations based on the original value of the property.) If the borrower's written request for cancellation includes all of the information necessary to reach a decision about the cancellation, the servicer should determine whether the LTV ratio of the mortgage loan meets Fannie Mae's eligibility criterion and whether the borrower has an acceptable payment record. The servicer must cancel the mortgage insurance if the borrower has an acceptable payment record, the value of the property is not less than its value at origination, and the servicer is satisfied that the mortgage loan meets the applicable LTV ratio eligibility criterion (as evidenced by the servicer's warranty, a BPO, a certification of value, or a new appraisal). Fannie Mae will not require the servicer to obtain evidence about the title status of the property.

The LTV ratio (or, if applicable, the combined LTV, or CLTV, ratio) eligibility criterion varies depending on the lien position of the mortgage loan, the closing date of the mortgage loan, and the number of dwelling units and the occupancy status for the property. (A servicer should use the occupancy status of the security property when the mortgage loan was closed to determine how the mortgage loan should be categorized.)

- **A first mortgage loan closed on or after July 29, 1999, secured by a one-unit principal residence or second home.** The LTV ratio eligibility criterion is met on the date that the mortgage loan balance is *first scheduled* to reach 80% of the original value of the property (or the date that the mortgage loan balance actually reaches 80%).
- **A first mortgage loan closed before July 29, 1999, secured by a one-unit principal residence or second home** (and delivered under a negotiated contract that prohibited the cancellation of mortgage insurance until a specified term had elapsed). The LTV ratio eligibility criterion is met on the date that the mortgage loan balance actually reaches 75% of the original property value, if the mortgage loan is seasoned for two or more years (even if the original specified term has not elapsed). This two-year seasoning requirement may be waived if the borrower is the original borrower and has, since the mortgage loan was originated, made improvements to the property that resulted in an increase in the value of the property.
- **All other first mortgage loans.** The LTV ratio eligibility criterion is met on the date that the outstanding principal balance of the mortgage loan reaches the applicable percentage of the original value of the property. The applicable percentages are 80% for a mortgage loan secured by a one-unit principal residence or second home and 70% for a mortgage loan secured by a one- to four-unit investment property or a two- to four-unit principal residence.
- **All second mortgage loans.** The CLTV eligibility criterion is met on the date that 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 mortgage loan was originated.

A borrower has an acceptable payment record if he or she is current at the time the cancellation is requested (which means that the mortgage loan

payment due for the month preceding the date of the cancellation request and all outstanding late charges must have been paid) and has had no payment 30 days or more past due in the last 12 months and no payment 60 days or more past due in the last 24 months. For mortgage loans secured by one-unit principal residences or second homes that were originated on and after July 29, 1999, the 12- and 24-month payment histories should be measured backward from the date that is the later of (1) the date that the balance is *first scheduled* to reach (or actually reaches) 80% of the original property value or (2) the date the borrower actually requests the cancellation. For all other mortgage loans, these payment histories should be measured backward from the date on which the mortgage insurance will be canceled.

- When assessing the 24-month payment history for a mortgage loan that has been outstanding for fewer than 24 months (or for a current borrower that assumed a mortgage loan within the last 23 months), the servicer should apply the payment record acceptability criterion to the length of time that the mortgage loan has been outstanding (or that has elapsed since the current borrower assumed the mortgage loan).
- When assessing the 24-month payment history for a modified mortgage loan, the servicer does not need to consider the borrower's payment history before the modification took place, unless the modification occurred within the 24 months preceding the cancellation request. Depending on the timing of the request for cancellation, the 24-month payment history period may include only payments made before the modification, payments made both before and after the modification, or only payments made after the modification. (If a borrower has had the mortgage loan for fewer than 24 months, the servicer must review the borrower's payment history for the length of time the borrower has had the mortgage loan.)

*To illustrate this treatment, assume that a borrower who obtained a modification under Fannie Mae's loss mitigation policy 18 months ago requests cancellation of the mortgage insurance because the unpaid principal balance (UPB) of the mortgage loan has been reduced to 80% or less of the original value of the property. In this case, the borrower must have had no payment 30 days or more past due in the 12 months preceding the cancellation date and must have had no payment 60 or more days*

*past due in the 24 months preceding the cancellation date. This means that the previously delinquent borrower must re-establish an acceptable payment history for the modified mortgage loan before the mortgage insurance can be canceled. If the modification had occurred one year earlier, the servicer would not need to consider all of the borrower's payment history before the modification took place, but could look instead at the most recent 24-month payment history.*

If Fannie Mae's applicable LTV (or CLTV) ratio eligibility criterion is met and the borrower has an acceptable payment record, a servicer that is satisfied that the property has not declined in value since the mortgage loan was closed must approve the request for cancellation. A servicer that approves a borrower-initiated request for cancellation based on the original value of the property warrants that the current value of the property is at least equal to the original value of the property.

When the servicer is concerned about its ability to make the required property value warranty for any reason, it may delay the decision on the borrower's request for cancellation until after it obtains a BPO, certification of value, or new appraisal. The servicer may choose any of these alternatives for verifying that the current value of the property is at least equal to the original value of the property and may pass the applicable fee on to the borrower (although the servicer must select the broker or appraiser; order the BPO, certification of value, or appraisal; and receive the results directly from the broker or appraiser). Generally, a BPO or a certification of value will be sufficient to confirm the property value. However, the servicer may want to require a new appraisal when the property is located in an area in which values have declined since the mortgage loan was originated, particularly if the borrower has made additional principal payments to reduce the mortgage loan balance. As soon as the servicer receives the applicable fee for the confirmation of value from the borrower, it should request the BPO, certification of value, or new appraisal.

- If the current value of the property is confirmed as being at least equal to the original property value, the servicer must cancel the mortgage insurance and notify the borrower accordingly.



- If the current value of the property is confirmed as being less than the original property value, the servicer generally should deny the borrower's request for cancellation. However, when the value of the property was determined based on a new appraisal, the servicer can approve the request for cancellation if the borrower has paid down the balance of the mortgage loan (or agrees to pay it down) to the point that it satisfies Fannie Mae's applicable LTV (or CLTV) ratio eligibility criterion based on the actual principal balance of the mortgage loan and the new appraised value of the property. In this case, the servicer warrants that it has reviewed the new appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data.

If Fannie Mae's requirements for cancellation based on original property value are not satisfied, the servicer must notify the borrower that the request for cancellation has been denied and provide the grounds for the 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 on which the servicer received the borrower's request for cancellation or, if the servicer requested a BPO, certification of value, or new appraisal, within 30 days of the date on which the servicer received the applicable confirmation of value.

When the mortgage insurance is canceled based on the original value of the property, the servicer may not collect mortgage insurance premiums as part of the borrower's mortgage loan payment more than 30 days after the later of (1) the date on which the servicer received the borrower's request for cancellation or (2) the date on which all eligibility criteria for cancellation were satisfied. The servicer must reduce the borrower's mortgage loan payment (within the required time frame) by the amount that was being collected to pay the mortgage insurance premium. (When the mortgage insurance premium was financed as part of the mortgage loan amount, the servicer must not reduce the borrower's payment.) Within 30 days after the cancellation occurs, the servicer must notify the borrower that the mortgage insurance has been canceled and, if applicable, indicate that no further escrow deposits for mortgage insurance will be due from the borrower. If the servicer does not perform a new escrow analysis at the time the mortgage insurance is canceled, it also must advise the borrower that any escrow deposits that had accumulated for the payment

of the next mortgage insurance premium that was to come due will be taken into consideration in the borrower's next escrow account analysis. However, if the servicer does perform a new escrow analysis at the time the mortgage insurance is canceled and determines that other escrow items need to be adjusted, the resulting change in the mortgage loan payment may not equal the amount previously escrowed for the mortgage insurance premium.

The servicer must forward any unearned mortgage insurance premium refund (including one that is related to a financed mortgage insurance premium) to the borrower as soon as it is received from the mortgage insurer. The servicer should establish appropriate follow-up procedures with the mortgage insurer to ensure that it receives the unearned premium refund in sufficient time to send it to the borrower no later than 45 days after the date the mortgage insurance is canceled.

The servicer must report a borrower-initiated cancellation of mortgage insurance based on the original property value to Fannie Mae with the next Fannie Mae investor reporting system reports that it submits after the cancellation date, as discussed in *Part X, Section 309, Reporting Discontinuance of Mortgage Insurance (01/31/03)*.

Section 102.06  
Borrower-Initiated  
Cancellation Based on  
Current Property Value  
(12/21/07)

A borrower may request cancellation of borrower-purchased mortgage insurance for any conventional mortgage loan (regardless of its closing date) based on the current appraised value of the property. (See *Exhibit 3: Borrower-Initiated Cancellation of Conventional Mortgage Insurance Based on Current Value*, for a summary of Fannie Mae's policy for borrower-initiated cancellations based on the current appraised value of the property.) If the borrower's written request for cancellation includes all of the information necessary to reach a decision about the cancellation, the servicer should determine whether the LTV ratio of the mortgage loan meets Fannie Mae's eligibility criterion and whether the borrower has an acceptable payment record. The servicer must cancel the mortgage insurance if the borrower has an acceptable payment record and the servicer is satisfied that the mortgage loan meets the applicable LTV ratio eligibility criterion (as evidenced by the new appraisal). Fannie Mae will not require the servicer to obtain evidence about the title status of the property.

The LTV ratio for a first mortgage loan is determined by dividing the outstanding balance of the mortgage loan by the current appraised value of the property; the CLTV ratio for a second mortgage loan is determined by dividing the sum of the outstanding balances of all mortgage loans secured by the property by the current appraised value of the property. To determine the current appraised value of the property, the servicer must select an appraiser, order a new appraisal (which must be based on an inspection of both the interior and exterior of the property and be prepared in accordance with Fannie Mae's appraisal standards for new mortgage loan originations), and receive the results of the appraisal. (The borrower is entitled to receive a copy of the appraisal.) The use of the appraisal provides a real-time analysis of market activity, including a physical inspection of the subject property, to arrive at an accurate valuation. Fannie Mae does not permit the cancellation of mortgage insurance based on the estimated value provided by an AVM.

The LTV (or CLTV) ratio eligibility criterion varies depending on the lien position of the mortgage loan, the number of dwelling units and occupancy status for the property, and the seasoning of the mortgage loan. (A servicer should use the current occupancy status of the security property, as provided by the borrower, to determine how the mortgage loan should be categorized.) Mortgage insurance generally cannot be canceled for any mortgage loan that has been seasoned for fewer than two years. However, if a borrower who is the original borrower on the mortgage loan has made property improvements since the mortgage loan was originated and the property value has increased as a result of the improvements, Fannie Mae will waive the minimum two-year seasoning requirement.

- **A first mortgage loan secured by a one-unit principal residence or second home.** The LTV ratio must be 75% or less, if the seasoning of the mortgage loan is between two and five years; and 80% or less, if the seasoning of the mortgage loan is greater than five years.

If Fannie Mae's minimum two-year seasoning requirement is being waived because the property improvements made by the borrower resulted in an increase in the value of the property, the LTV ratio for the first mortgage loan must be 75% or less.

- **A first 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.
- **Second mortgage loans.** The CLTV ratio must be 70% or less, regardless of the seasoning of the mortgage loan.

A borrower has an acceptable payment record if he or she is current at the time the cancellation is requested (which means that the mortgage loan payment due for the month preceding the date of the cancellation request and all outstanding late charges must have been paid), has had no payment 30 days or more past due in the 12 months preceding the date that the mortgage insurance will be canceled, and has had no payment 60 days or more past due in the 24-month period preceding that date. If Fannie Mae's minimum two-year seasoning requirement is being waived because the property improvements made by the borrower resulted in an increase in the value of the property, Fannie Mae also will limit the borrower's payment history requirement to the length of time that has elapsed since the mortgage loan was originated.

- When assessing the 24-month payment history for a mortgage loan that has been assumed, the servicer should not agree to the cancellation unless the current borrower has a 24-month payment history for the mortgage loan.
- When assessing the 24-month payment history for a modified mortgage loan, the servicer does not need to consider the borrower's payment history before the modification took place, unless the modification occurred within the 24 months preceding the cancellation request. Depending on the timing of the request for cancellation, the 24-month payment history period may include only payments made before the modification, payments made both before and after the modification, or only payments made after the modification.

*To illustrate this treatment, assume that a borrower who obtained a modification under Fannie Mae's loss mitigation policy 18 months ago requests cancellation of the mortgage insurance because he or she believes that the UPB of the mortgage loan has been reduced to 80% or less of the current appraised value of the property. In this case, the borrower must have had no payment*

*30 days or more past due in the 12 months preceding the cancellation date and must have had no payment 60 or more days past due in the 24 months preceding the cancellation date. This means that the previously delinquent borrower must re-establish an acceptable payment history for the modified mortgage loan before the mortgage insurance can be canceled. If the modification had occurred one year earlier, the servicer would not need to consider all of the borrower's payment history before the modification took place, but could look instead at the most recent 24-month payment history.*

If Fannie Mae's applicable LTV (or CLTV) ratio eligibility criterion is met and the borrower has an acceptable payment record, the servicer must approve the request for cancellation. The effective cancellation date should be the date on which the servicer determines that all eligibility criteria for cancellation have been satisfied. A servicer that approves a borrower-initiated request for cancellation based on the current appraised value of the property warrants that it has reviewed the appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data.

If Fannie Mae's requirements for cancellation based on the current appraised value of the property are not satisfied, the servicer must notify the borrower that the request for cancellation has been denied and provide the grounds for the denial (including the results of the appraisal that the servicer ordered). This notice must be sent within 30 days after the later of (1) the date on which the servicer received the borrower's request for cancellation, or (2) the date on which the servicer received the appraisal.

When the mortgage insurance is canceled based on the current appraised value of the property, the servicer may not collect mortgage insurance premiums as part of the borrower's mortgage loan payment more than 30 days after the later of (1) the date on which the servicer received the borrower's request for cancellation or (2) the date on which all eligibility criteria for cancellation were satisfied. The servicer must reduce the borrower's mortgage payment (within the required time frame) by the amount that was being collected to pay the mortgage insurance premium. (When the mortgage insurance premium was financed as part of the mortgage loan amount, the servicer must not reduce the borrower's payment.) Within 30 days after the cancellation occurs, the servicer must

notify the borrower that the mortgage insurance has been canceled and, if applicable, indicate that no further escrow deposits for mortgage insurance will be due from the borrower. If the servicer does not perform a new escrow analysis at the time the mortgage insurance is canceled, it also must advise the borrower that any escrow deposits that had accumulated for the payment of the next mortgage insurance premium that was to come due will be taken into consideration in the borrower's next escrow account analysis. However, if the servicer does perform a new escrow analysis at the time the mortgage insurance is canceled and determines that other escrow items need to be adjusted, the resulting change in the mortgage loan payment may not equal the amount previously escrowed for the mortgage insurance premium.

The servicer must forward any unearned mortgage insurance premium refund (including one that is related to a financed mortgage insurance premium) to the borrower as soon as it is received from the mortgage insurer. The servicer should establish appropriate follow-up procedures with the mortgage insurer to ensure that it receives the unearned premium refund in sufficient time to send it to the borrower by no later than 45 days after the date the mortgage insurance is canceled.

The servicer must report a borrower-initiated cancellation of mortgage insurance based on the current appraised value of the property to Fannie Mae with the next Fannie Mae investor reporting system reports that it submits after the cancellation date, as discussed in *Part X, Section 309, Reporting Discontinuance of Mortgage Insurance (01/31/03)*.

**Exhibit 1: Automatic Termination of Conventional Mortgage Insurance (07/29/99)**

The following chart summarizes Fannie Mae’s policy related to the automatic termination of conventional mortgage insurance. For more detailed information on this policy, see *Section 102.03, Automatic Termination of Mortgage Insurance (06/01/05)*.

Eligibility Criteria	Mortgage Loans Closed On or After July 29, 1999	Mortgage Loans Closed Before July 29, 1999
Earliest Date for Automatic Termination	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>Earlier of (1) the date that the mortgage loan balance is <i>first scheduled</i> to reach 78% of the original value of the property or (2) the first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>The first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>
	<p><i>Second mortgage loans secured by one- to four-unit principal residences</i></p> <p>The first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>	<p><i>Second mortgage loans secured by one- to four-unit principal residences</i></p> <p>The first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>
	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The first day of the month after the date that is the mid-point of the mortgage loan amortization period</p>
Payment Status	<p>The payment due in the month before the termination date and any outstanding late charges must have been paid by the end of the month before the termination date. If this is not the case, the mortgage insurance must be canceled later if, and when, the payments become current.</p>	<p>The payment due in the month before the termination date and any outstanding late charges must have been paid by the end of the month before the termination date. If this is not the case, the mortgage insurance must be canceled later if, and when, the payments become current.</p>

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**Mortgage and Property  
Insurance**

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Mortgage Insurance

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Exhibit 1

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**Exhibit 2: Borrower-Initiated Cancellation of Conventional Mortgage Insurance Based on Original Value (12/01/00)**

The following chart summarizes Fannie Mae’s policy related to a borrower-initiated cancellation of conventional mortgage insurance based on the original value of the property. For more detailed information on this policy, see *Section 102.05, Borrower-Initiated Cancellation Based on Original Property Value (01/31/03)*.

Eligibility Criteria	Mortgage Loans Closed On or After July 29, 1999	Mortgage Loans Closed Before July 29, 1999
Earliest Date for Borrower-Initiated Cancellation Requests	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>Earlier of (1) the date that the mortgage loan balance is <i>first scheduled</i> to reach 80% of the original property value or (2) the day that the mortgage loan balance actually reaches 80% of the original property value</p>	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>The date that the mortgage loan balance actually reaches 80% of the original property value; for mortgage loans delivered under contracts that originally prohibited cancellation until a specified term had elapsed, the date that the mortgage loan balance actually reaches 75% of the original property value (even if the specified term has not elapsed), provided the minimum seasoning requirement specified below is satisfied</p>
		<p><i>Second mortgage loans secured by one- to four-unit principal residences</i></p> <p>The date that the combined balances of all outstanding mortgage loans actually reaches 70% of the property value at the time the second mortgage loan was originated</p>
	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The date that the mortgage loan balance actually reaches 70% of the original property value</p>	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The date that the mortgage loan balance actually reaches 70% of the original property value</p>
Minimum Seasoning Requirement	None	Generally none, but two years’ seasoning required for mortgage loans secured by one-unit principal residences/second homes delivered under contracts that originally prohibited cancellation until a specified period had elapsed; requirements waived for original borrowers who make improvements that increased the property value

# Mortgage and Property Insurance

## Mortgage Insurance

Exhibit 2

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Eligibility Criteria	Mortgage Loans Closed On or After July 29, 1999	Mortgage Loans Closed Before July 29, 1999
Evidence of Property Value	<p>Servicer's warranty that the current property value is at least equal to the original property value</p> <p>If the servicer is not comfortable with making this warranty, it may require a BPO, a certification of value, or a new appraisal to confirm the value. The servicer may charge the borrower for the cost of the applicable confirmation of value.</p>	<p>Servicer's warranty that the current property value is at least equal to the original property value</p> <p>If the servicer is not comfortable with making this warranty, it may require a BPO, a certification of value, or a new appraisal to confirm the value. The servicer may charge the borrower for the cost of the applicable confirmation of value.</p>
Payment Status	<p>Borrower's mortgage loan payments must be current at the time cancellation is requested (which means that the payment due for the month preceding the date of the cancellation request and any outstanding late charges must have been paid).</p>	<p>Borrower's mortgage loan payments must be current at the time cancellation is requested (which means that the payment due for the month preceding the date of the cancellation request and any outstanding late charges must have been paid).</p>
	<p>Borrower must have had no payment 30 days or more past due in the last 12 months and no payment 60 days or more in the last 24 months. For mortgage loans secured by one-unit principal residences or second homes closed on or after July 29, 1999, the payment history should be measured backward from the date that is the later of (1) the date that the mortgage balance is first scheduled to reach (or actually reaches) 80% of the original value of the property or (2) the date the borrower actually requests the cancellation. For all other mortgage loans, the payment history should be measured backward from the date on which the mortgage insurance will be canceled.</p>	<p>Borrower must have had no payment 30 days or more past due in the 12 months preceding the date on which the mortgage insurance will be canceled and must have had no payment 60 days or more past due in the 24 months preceding that date.</p>
	<p>If the borrower has had the mortgage loan for less than 24 months, the payment history requirement will be based on the length of time the borrower has had the mortgage.</p>	<p>If the borrower has had the mortgage loan for less than 24 months, the payment history requirement will be based on the length of time the borrower has had the mortgage.</p>

**Exhibit 3: Borrower-Initiated Cancellation of Conventional Mortgage Insurance Based on Current Value (12/01/00)**

The following chart summarizes Fannie Mae’s policy related to a borrower-initiated cancellation of conventional mortgage insurance based on the current appraised value of the property. For more detailed information on this policy, see *Section 102.06, Borrower-Initiated Cancellation Based on Current Property Value (12/21/07)*.

<b>Eligibility Criteria</b>	<b>Mortgage Loans Closed On or After July 29, 1999</b>	<b>Mortgage Loans Closed Before July 29, 1999</b>
<p>Earliest Date for Borrower-Initiated Cancellation Requests</p>	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>The date that the mortgage loan balance actually reaches (1) 80% of the current property value, if the seasoning of the mortgage loan is greater than 5 years; (2) 75% of the current property value, if the seasoning of the mortgage loan is between 2 and 5 years; or (3) 75% of the current property value if the seasoning of the mortgage loan is less than 2 years, but Fannie Mae waived its minimum seasoning requirements (as discussed below)</p>	<p><i>First mortgage loans secured by one-unit principal residences/second homes</i></p> <p>The date that the mortgage loan balance actually reaches (1) 80% of the current property value, if the seasoning of the mortgage loan is greater than 5 years; (2) 75% of the current property value, if the seasoning of the mortgage loan is between 2 and 5 years; or (3) 75% of the current property value if the seasoning of the mortgage loan is less than 2 years, but Fannie Mae waived its minimum seasoning requirement (as discussed below)</p> <p><i>Second mortgage loans secured by one- to four-unit principal residences</i></p> <p>The date that the combined balances of all outstanding mortgage loans actually reaches 70% of the current property value</p>
	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The date that the mortgage loan balance actually reaches 70% of the current property value</p>	<p><i>First mortgage loans secured by two- to four-unit principal residences or one- to four-unit investment properties</i></p> <p>The date that the mortgage loan balance actually reaches 70% of the current property value</p>
	<p>Minimum Seasoning Requirement</p>	<p>Generally, cancellation is not permitted unless the mortgage loan has at least two years of seasoning. This requirement is waived if the borrower is the original borrower on the mortgage loan and has, since the mortgage loan was originated, made improvements to the property that resulted in an increase in property value.</p>

# Mortgage and Property Insurance

## Mortgage Insurance

Exhibit 3

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Eligibility Criteria	Mortgage Loans Closed On or After July 29, 1999	Mortgage Loans Closed Before July 29, 1999
Evidence of Property Value	<p>Servicer must obtain a new appraisal that is based on an inspection of both the interior and exterior of the property. Servicer warrants that it has reviewed the appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data.</p> <p>The servicer may charge the borrower for the cost of the appraisal.</p>	<p>Servicer must obtain a new appraisal that is based on an inspection of both the interior and exterior of the property. Servicer warrants that it has reviewed the appraisal and is satisfied that the opinion of value is both reasonable and adequately supported by market data.</p> <p>The servicer may charge the borrower for the cost of the appraisal.</p>
Payment Status	<p>Borrower's mortgage loan payments must be current at the time cancellation is requested (which means that the payment due for the month preceding the date of the cancellation request and any outstanding late charges must have been paid).</p> <p>Borrower must have had no payment 30 days or more past due in the 12 months preceding the date on which the mortgage insurance will be canceled and must have had no payment 60 days or more past due in the 24 months preceding that date.</p> <p>If Fannie Mae's two-year mortgage seasoning requirement is waived because a borrower who is the original borrower made improvements to the property, then the borrower's payment history requirement will be based on the length of time that has elapsed since the mortgage was originated. However, if a borrower who assumed the mortgage after it was originated does not have a 24-month payment history for the mortgage, the mortgage insurance may not be canceled until he or she achieves that history.</p>	<p>Borrower's mortgage loan payments must be current at the time cancellation is requested (which means that the payment due for the month preceding the date of the cancellation request and any outstanding late charges must have been paid).</p> <p>Borrower must have had no payment 30 days or more past due in the 12 months preceding the date on which the mortgage insurance will be canceled and must have had no payment 60 days or more past due in the 24 months preceding that date.</p> <p>If Fannie Mae's two-year mortgage seasoning requirement is waived because a borrower who is the original borrower made improvements to the property, then the borrower's payment history requirement will be based on the length of time that has elapsed since the mortgage was originated. However, if a borrower who assumed the mortgage after it was originated does not have a 24-month payment history for the mortgage, the mortgage insurance may not be canceled until he or she achieves that history.</p>

## Chapter 2. Hazard Insurance (01/31/03)

Each borrower has the right to select his or her own insurance carrier to provide hazard insurance for the security property. The servicer of a *first* mortgage loan must make sure the selected insurer, the insurance policy, and the amount and type of coverage meet Fannie Mae's requirements. Fannie Mae requires the types of hazard insurance policies that are commonly acceptable to mortgage loan investors. The policies must meet the specific requirements described in this *Chapter*. In some cases, Fannie Mae may require additional coverage or consider coverage that differs from these requirements.

The servicer of a *second* mortgage loan must make sure that the amount of the existing hazard insurance coverage for the first mortgage loan meets Fannie Mae's requirements. To do this, the servicer must obtain a copy of the policy for the first mortgage loan and review it carefully to determine that the coverage is adequate to protect the security of both the first and second mortgage loans. If the existing hazard insurance policy does not provide the amount of coverage Fannie Mae requires, the servicer must require the borrower to obtain appropriate endorsements that will bring the coverage into line with Fannie Mae's requirements. The servicer should send a copy of these endorsements to the servicer of the first mortgage loan.

### Section 201 Payment of Insurance Premiums (02/01/05)

The servicer of a *first* mortgage loan must see that the premiums required to ensure the continuation of insurance coverage are paid. To do this, the servicer should use the funds in the borrower's escrow deposit account. If the deposit account balance is not sufficient to pay the premiums, the servicer should either get the necessary funds from the borrower or advance its own funds. When the servicer has waived the escrow deposit account for a specific borrower, it remains responsible for the timely payment of the insurance premiums. Therefore, if the borrower fails to pay a premium, the servicer must advance its own funds to pay the past due premium (or to obtain substitute coverage, if necessary), revoke the waiver, and begin escrow deposit collections to pay future premiums. (also see *Chapter 6, Lender-Placed Property Insurance*)

The servicer of a *second* mortgage loan generally does not pay hazard insurance renewal premiums because they are usually paid from an escrow

deposit account that the servicer of the first mortgage loan maintains. However, if that servicer does not maintain an escrow deposit account, either the borrower or the second mortgage loan servicer must pay the renewal premiums. When the borrower is responsible for paying the renewal premiums, the second mortgage loan servicer must obtain satisfactory evidence that the premium has been paid. If the borrower fails to pay the premium (or if the second mortgage servicer is maintaining an escrow deposit account, but the account balance is not sufficient to pay the full amount due), the second mortgage loan servicer may have to advance its own funds to pay the premium to ensure the continuation of the coverage. The second mortgage loan servicer should immediately begin requiring escrow deposits to cover future renewal premiums whenever the borrower fails to pay premiums he or she is obligated to pay. In addition, should the second mortgage loan servicer discover, at any time, that the property is not covered by a hazard insurance policy, it must obtain the required coverage to protect Fannie Mae's interests. In this case, all of Fannie Mae's insurance requirements that relate to coverage for a first mortgage loan must be met.

**Section 202  
Acceptable Policies  
(06/30/02)**

Unless acceptable alternative arrangements are in effect, each hazard insurance policy for a *first* mortgage loan must be written by an insurance carrier that has an acceptable rating from either the A.M. Best Company, Inc.; Demotech, Inc.; or Standard and Poor's. Fannie Mae does not require the insurance carrier for a pre-existing hazard insurance policy for a reverse mortgage loan to meet Fannie Mae's rating requirement. However, should a reverse mortgage loan borrower obtain a new hazard insurance policy, the carrier of that policy must satisfy Fannie Mae's rating requirement.

Fannie Mae does not require that the hazard insurance policy for a property that secures a *second* mortgage loan be written by an insurance carrier that meets Fannie Mae's criteria for acceptable policies (unless Fannie Mae has an interest in the first mortgage loan) since the policy was already in existence when the second mortgage loan was originated. However, if the second mortgage loan servicer has occasion to obtain a new hazard insurance policy for the property, it must ensure that the new policy will meet all of Fannie Mae's criteria for acceptable policies.

Section 202.01  
Rated Insurance  
Underwriters (09/30/05)

A hazard insurance carrier for a regularly amortizing *first* mortgage loan needs to meet only one of the following rating categories (even if it is rated by more than one of the rating agencies):

- Carriers rated by the A.M. Best Company, Inc. must have either:
  - a “B” or better Financial Strength Rating in Best’s Insurance Reports, or
  - an “A” or better Financial Strength Rating **and** a Financial Size Category of “VIII” or greater in Best’s Insurance Reports—Non-US Edition.
  - Carriers providing coverage for co-op projects must have a general policyholder’s rating of “A” and a Financial Size Category of “V” in Best’s Insurance Reports.
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech’s *Hazard Insurance Financial Stability Ratings*.
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in Standard and Poor’s *Ratings Direct Insurance Service*.

Section 202.02  
Other Acceptable  
Insurance Underwriters  
(08/31/06)

Fannie Mae also will accept hazard insurance policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan if it is the only coverage that can be obtained. In addition, Fannie Mae will accept coverage obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-managed windstorm and beach erosion insurance pools—if that is the only coverage that is available. Fannie Mae will accept a separate windstorm and earthquake insurance policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii)—as long as the companion noncatastrophic fire and extended coverage (or homeowner’s) policy is obtained from a hazard insurer that satisfies Fannie Mae’s rating criteria.

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## Mortgage and Property Insurance

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### Hazard Insurance

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#### Section 202.03 Mortgage Impairment Coverage (09/30/05)

If the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy, Fannie Mae does not require it to confirm that the borrower's hazard insurance coverage is with a firm that meets Fannie Mae's rating requirements. Instead, the servicer may rely on its impairment policy as a type of reinsurance arrangement. However, the issuer of the mortgage impairment (or mortgagee interest) policy must meet either one of the A.M. Best's Financial Strength Ratings or Standard and Poor's Insurer Financial Strength Rating mentioned in *Section 202.01, Rated Insurance Underwriters (09/30/05)*.

#### Section 202.04 Reinsurance Arrangements (09/30/05)

Fannie Mae will accept the policies of an insurer that does not meet Fannie Mae's rating requirement if this insurer is covered by reinsurance with a company that meets either one of the A.M. Best's Financial Strength Ratings or Standard and Poor's Insurer Financial Strength Rating mentioned in *Section 202.01, Rated Insurance Underwriters (09/30/05)*.

The primary insurer and the reinsuring company must be authorized (or licensed, if that is required) to transact business within the state where the property is located. The reinsurance agreement must have 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 insurance carriers must execute an *Assumption of Liability Endorsement* ([Form 858](#)). Fannie Mae will accept any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to advise Fannie Mae of the termination of the reinsurance arrangement. Form 858 (or the equivalent endorsement) must be attached to each insurance policy that is covered by the reinsurance agreement—unless the servicer is covered by a mortgage impairment (or mortgagee interest) insurance policy.

A reinsurer can limit its coverage exposure by specifying a dollar limitation in the reinsurance endorsement. However, Fannie Mae will not accept a contract that allows 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. If the reinsurance endorsement includes a dollar limitation, the insurance written under the policy cannot exceed that amount.



**Section 203  
Coverage Required for  
Home Mortgage Loans  
(01/31/03)**

Property insurance for home mortgage loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. (For reverse mortgage loans, Fannie Mae will accept coverage that includes provisions for inflation adjustments in lieu of settling claims on a replacement cost basis.) Fannie Mae will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement. A servicer should advise borrowers that they may not obtain hazard insurance policies that include such limitations or exclusions—unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

**Section 203.01  
Amount of Coverage  
(01/31/03)**

*Exhibit 1: Formula for Determining Amount of Required Hazard Insurance Coverage*, provides a formula for determining the amount of hazard insurance coverage generally required for a first mortgage loan. (Fannie Mae does not require hazard insurance coverage for FHA Title I loans or for some construction-to-permanent mortgage loans that are covered by construction site insurance during the construction period, although Fannie Mae's standard hazard insurance requirements will apply for these construction-to-permanent mortgage loans as soon as the borrower occupies the property or the construction is completed.) Although the hazard insurance requirement for most home renovation or construction mortgage loans is initially based on the as-is value of the property, the amount of coverage must be increased, if necessary, following the completion of the renovation or construction work to ensure that Fannie Mae's standard coverage requirement is satisfied. (also see *Section 207.03, Construction Site Insurance (01/31/03)*)

The amount of coverage Fannie Mae requires for a reverse mortgage loan is 100% of the insurable value of the improvements. For any other first-lien home mortgage loan, Fannie Mae requires coverage equal to the lesser of:

- 100% of the insurable value of the improvements—as established by the property insurer, or

- the UPB of the mortgage loan, as long as it at least equals the minimum amount—usually 80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

When the existing coverage for a property that secures a second-lien home mortgage loan does not provide coverage equal to the lesser of 100% of the insurable value of the property improvements or the combined UPBs of the first and second mortgage loans (as long as they equal 80% of the insurable value of the improvements), the second mortgage loan servicer must require the borrower to obtain the additional coverage needed to bring the coverage into line with Fannie Mae's requirements. A copy of any endorsements should be sent to the first mortgage loan servicer.

Section 203.02  
Deductible Amount  
(05/25/06)

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a home mortgage loan is 5% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

**Section 204**  
**Coverage Required for**  
**Units in PUD Projects**  
**(01/31/03)**

Fannie Mae requires individual insurance policies for each first mortgage loan that it purchases or securitizes in a PUD project. If the constituent documents for the project allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will consider the blanket policy as satisfying its insurance requirements for the units and the project.

Section 204.01  
Coverage for the Unit  
Mortgage Loan  
(05/25/06)

Property insurance for PUD units must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. (For reverse mortgage loans, Fannie Mae will accept coverage that includes provisions for inflation adjustments in lieu of settling claims on a replacement cost basis.) Fannie Mae will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement. A servicer should advise borrowers that they may not obtain

hazard insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

**A. Amount of coverage.** The amount of coverage Fannie Mae requires for a PUD unit that secures a reverse mortgage loan is 100% of the insurable value of the improvements. For any other first mortgage loan that is secured by a PUD unit, Fannie Mae requires coverage equal to 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 the combined UPB of the first and second mortgage loans, if applicable), as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

**B. Deductible amount.** Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a PUD unit mortgage loan is 5% of the face amount of the policy. However, if the coverage is provided under a blanket policy, the percentage limit must be based on the replacement cost of the PUD unit rather than on the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy (or 5% of the replacement cost of the PUD unit if the coverage is provided under a blanket policy).

Section 204.02  
Coverage for the  
Common Areas  
(05/25/06)

The HOA for a PUD project must maintain a policy of property insurance, with premiums being paid as a common expense. The policy must cover all of the common elements, except for those that are normally excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be

covered. The insurance policy must at least protect against loss or damage by fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all of the perils customarily covered for similar types of projects, including those covered by the standard “all risk” endorsement. If the policy does not include an “all risk” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss.

**A. Amount of coverage.** Insurance should cover 100% of the current replacement cost of the project improvements. An insurance policy that includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- a *Guaranteed Replacement Cost Endorsement* (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement* (which waives the requirement for coinsurance); or
- a *Replacement Cost Endorsement* (under which the insurer agrees to pay up to 100% of the property’s insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement* (which waives the requirement for coinsurance).

**B. Special endorsements.** The following special endorsements also are required for a PUD project:

- 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.); and
- a *Steam Boiler and Machinery Coverage Endorsement*, if the project has central heating or cooling. (This endorsement should 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. In lieu of obtaining this as an endorsement to the

commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.)

**C. Deductible amount.** Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for policies covering the common elements in a PUD project is 5% of the policy face amount. If the policy is a blanket policy that also covers individual PUD units, the deductible related to the individual units must be no greater than 5% of the replacement cost of the unit(s). If the blanket policy (or a separate endorsement to it) provides for a separate wind-loss deductible, the wind-loss deductible that relates to the individual units may be no greater than 5% of the replacement cost of the unit(s).

**D. Named insured.** All insurance policies for the PUD common areas and elements must show the HOA as the named insured. The insurance policies also must include the standard mortgage loan clause and must name as mortgagee either Fannie Mae or the servicers for the mortgage loans Fannie Mae holds on units in the project. When a servicer is named as mortgagee, its name should be followed by the phrase “its successors and assigns.”

**Section 205  
Coverage Required for  
Units in Condo Projects  
(12/16/08)**

Even though Fannie Mae does not require an individual insurance policy on a condo unit that secures a first mortgage loan, the servicer must verify that any coverage Fannie Mae requires for the HOA is being maintained.

Servicers must review the entire condo project insurance policy to ensure that the HOA maintains a master or blanket type of insurance policy with premiums being paid as a common expense for only the project in which the individual condo unit is financed. The policy must cover all of the general and limited common elements that are normally included in coverage. This includes fixtures and building service equipment and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and other personal property inside individual units if they will be financed by a mortgage loan that Fannie Mae purchases or securitizes, whether or not the property is part of the common elements (including improvements and betterment coverage to cover any improvements that the borrower may have made).

If the master or blanket policy does not cover any improvements that the borrower has made, then the servicer must ensure that all units in a condo

project have a “walls-in” coverage policy (commonly known as HO-6 policy). The HO-6 insurance policy must provide coverage in an amount that is no less than 20% of the condo unit’s appraised value. The standard requirement for a 5% deductible applies. In the event such coverage cannot be obtained, the servicer should contact Fannie Mae’s Project Standards team via e-mail at [project\\_standards@fanniemae.com](mailto:project_standards@fanniemae.com).

Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The insurance policy must at least protect against loss or damage by fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” endorsement. If the policy does not include an “all risk” endorsement, Fannie Mae will accept a policy that includes the “broad form” covered causes of loss.

Servicers must verify hazard insurance (including wind and flood insurance, if applicable) coverage at the project level as part of their review of a project. Servicers must ensure that each condo association is covered by an individual policy.

The following project insurance practices are prohibited:

- A blanket policy that covers multiple unaffiliated condo associations or projects, or
- A self-insurance arrangement whereby the HOA is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations.

Section 205.01  
Amount of Coverage  
(06/30/02)

Insurance for a condo association project should cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. An insurance policy that includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- a *Guaranteed Replacement Cost Endorsement* (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement* (which waives the requirement for coinsurance); or
- a *Replacement Cost Endorsement* (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement* (which waives the requirement for coinsurance).

Section 205.02  
Special Endorsements  
(09/30/96)

The following special endorsements are required for condo projects:

- 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.);
- a *Steam Boiler and Machinery Coverage Endorsement*, if the project has central heating or cooling (This endorsement should 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.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage; and
- a *Special Condominium Endorsement*, which must provide that
  - any Insurance Trust Agreement will be recognized;
  - the right of subrogation against unit owners will be waived;
  - the insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the HOA; and

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- the policy will be primary, even if a unit owner has other insurance that covers the same loss.

Section 205.03  
Deductible Amount  
(05/25/06)

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for policies covering condo projects is 5% of the policy face amount.

Section 205.04  
Named Insured  
(06/30/02)

Insurance policies for condo projects should show the HOA as the named insured. If the condo's legal documents permit, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The "loss payable" clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of the mortgage loan for each unit.

The insurance policy also must include the standard mortgage loan clause and must name as mortgagee either Fannie Mae or the servicers of the mortgage loans Fannie Mae holds on units in the project. When a servicer is named as the mortgagee, its name should be followed by the phrase "its successors and assigns."

Section 205.05  
Notices of Changes or  
Cancellation (06/30/02)

The insurance policy for a condo project should require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage lienholder named in the mortgage loan clause at least ten days before it cancels or substantially changes the coverage for the project.

**Section 206**  
**Coverage Required for**  
**Units in Cooperative**  
**Projects (06/30/02)**

Even though Fannie Mae does not require an individual insurance policy on a co-op unit, the servicer of a first mortgage loan must verify that any coverage Fannie Mae requires for the co-op corporation is being maintained for the co-op project.

The co-op corporation must maintain a policy of property insurance, with premiums being paid as a common expense. The policy must cover the entire project, including the units. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The insurance policy must at least protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard "all risk" endorsement. If the policy does not include an "all risk" endorsement,



Fannie Mae will accept a policy that includes the “broad form” covered causes of loss.

Section 206.01  
Amount of Coverage  
(01/31/03)

Insurance for a co-op project should cover 100% of the insurable replacement cost of the project improvements, including the individual units. An insurance policy that includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- a *Guaranteed Replacement Cost Endorsement* (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement*; or
- a *Replacement Cost Endorsement* (under which the insurer agrees to pay up to 100% of the property’s insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an *Agreed Amount Endorsement* (which waives the requirement for coinsurance).

Section 206.02  
Special Endorsements  
(01/31/03)

The following special endorsements are required for co-op projects:

- 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.); and
- a *Steam Boiler and Machinery Coverage Endorsement*, if the project has central heating or cooling. (This endorsement should provide for the insurer’s maximum 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.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

Section 206.03  
Deductible Amount  
(05/25/06)

Unless a higher maximum amount is required by state law, the maximum deductible amount for a co-op project is 5% of the policy face amount. For losses related to individual units, the deductible must be no greater than

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5% of the replacement cost of the unit(s). The deductible for the individual unit also must be no greater than 5% of the replacement cost of the unit—if the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement).

Section 206.04  
Named Insured  
(01/31/03)

All insurance policies for co-op projects must show the co-op corporation as the named insured. The insurance policy also must include the standard mortgage loan clause and must name as mortgagee either Fannie Mae or the servicers for the share loans Fannie Mae holds on units in the project. When a servicer is named as mortgagee, its name should be followed by the phrase “its successors and assigns.”

Section 206.05  
Notices of Changes or  
Cancellation (01/31/03)

The insurance policy for a co-op project should require the insurer to notify in writing the co-op corporation and each share loan holder named in the mortgage loan clause at least 30 days in advance of a cancellation or any substantial reduction in the coverage for the project.

**Section 207**  
**Additional Coverages**  
**(01/31/03)**

In some instances, Fannie Mae requires that the borrower obtain certain types of additional property insurance coverage. Fannie Mae also permits optional types of coverage to be included in a borrower’s hazard insurance policy. If the servicer believes that a property that secures a first mortgage loan is exposed to hazards that a fire and extended coverage policy does not protect against, it should contact Fannie Mae to determine whether additional coverage is necessary in the particular circumstances.

Section 207.01  
Earthquake (or Typhoon)  
Insurance (01/31/03)

Fannie Mae requires earthquake insurance for all buildings in Puerto Rico. In Guam, it is required only for buildings of masonry construction. A typhoon endorsement is also required in Guam. The amount of required coverage and the deductible limitations are the same for these policies as they are for fire and extended coverage policies.

Section 207.02  
Rent Loss Insurance  
(08/31/04)

Fannie Mae requires servicers to ensure that rent loss insurance coverage is maintained on any investment property that secures a conventional mortgage loan that was originated under Fannie Mae’s Enhanced Eligibility Criteria. Fannie Mae’s Enhanced Eligibility Criteria permitted maximum allowable LTV ratios for cash-out refinance transactions, purchase transactions, and limited cash-out refinance transactions. Rent loss insurance covers rental losses that are incurred during the period that a property is being rehabilitated following a casualty. The rent loss

insurance coverage must be equal to a minimum of six months of the gross monthly rent.

Fannie Mae also requires continued rent loss insurance coverage to be maintained for co-op projects that had fewer than 70% of the units sold to owner-occupants at the time the co-op project was approved by Fannie Mae. In this case, the coverage must protect the co-op corporation against six months of lost rent due under proprietary leases if the project is a garden-type project of three or fewer stories, and twelve months of rent loss if the project is more than three stories high.

When rent loss coverage is required for investment property mortgage loans originated pursuant to Fannie Mae's Enhanced Eligibility Criteria or in co-op projects, coverage must be maintained at specified levels for as long as the mortgage loan is outstanding.

Section 207.03  
Construction Site  
Insurance (01/31/03)

When Fannie Mae purchases—under either its standard guidelines for conversions of construction-to-permanent financing or the guidelines for its Native American Housing Initiatives—a mortgage loan that combines construction and permanent financing into a single transaction before the construction of the property improvements is completed, Fannie Mae requires that the property (and any partially completed improvements) be covered by construction site insurance. Construction site insurance covers any losses during the construction period that result from theft, vandalism, and acts of nature (including fire, flood, and wind damage). The amount of the construction site insurance coverage must be equal to the original mortgage loan amount. The construction site insurance may be canceled once the borrower obtains hazard (and, if applicable, flood) insurance that meets Fannie Mae's standard requirements once the improvements are completed or the borrower occupies the property (whichever comes first). (also see *Section 203.01, Amount of Coverage (01/31/03)*)

Section 207.04  
Optional Coverages  
(01/31/03)

Hazard insurance policies that include optional coverage that Fannie Mae does not require are acceptable. For example, a "homeowner's" or "package" policy is acceptable as long as Fannie Mae is not obligated to renew any part of the coverage that exceeds its required coverage. Fannie Mae will not pay costs arising from disputes with insurance carriers in settling claims that relate only to this optional coverage.

The servicer may act as a broker or agent in the sale of mortgage loan (or credit) life insurance to the borrower subsequent to origination, as well as any similar insurance policy that provides for payment of mortgage loan installments if the borrower becomes disabled. (A credit life insurance policy must require separately identified premium payments on a monthly or annual basis.) In such cases, 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 mortgage life insurance carrier.

*Example: Acting as broker, a servicer sells a borrower an insurance policy that will make payments if the borrower becomes disabled. Eventually, the borrower is disabled, but mortgage loan payments are not made because the servicer allowed the insurance policy to lapse. When Fannie Mae attempts to foreclose on the mortgaged property, the borrower defends on the ground that the servicer is responsible for the default. In these circumstances, Fannie Mae will not pay for any extra attorney's fees or costs that result from the defense just described.*

**Section 208  
Mortgage Clauses  
(01/31/03)**

All insurance policies that cover individual properties that secure **first** mortgage loans must include (or have attached) a "standard" or "union" mortgage clause (without contribution) in the form customarily used in the area in which the property is located. A mortgage clause that amounts to a mere loss-payable clause is not acceptable. Fannie Mae does not require that it be named in the mortgage clause, unless the coverage would be impaired by its not being named. If Fannie Mae is named, the clause should read "Fannie Mae, in care of (insert servicer's name and address here)." This will ensure that all matters related to the policy will be referred directly to the servicer.

When Fannie Mae purchases or securitizes a **second** mortgage loan, the mortgage clause in the hazard insurance policy for the first mortgage loan must be amended to recognize the existence of the second mortgage loan and Fannie Mae's interest must be clearly set out in the policy. Fannie Mae does not require that it be named as the second mortgagee in the

mortgage clause, unless that is required to have its interest recognized. If Fannie Mae is named, the clause should read “Fannie Mae, in care of (insert servicer’s name and address here).”

When Fannie Mae is not named in the mortgage clause, the servicer’s name, followed by the phrase “its successors and assigns,” should be shown as the mortgagee (or second mortgagee, as the case may be). In all cases, the insurer should be instructed to send all correspondence, policies, bills, etc., to the servicer, rather than to Fannie Mae. For second mortgage loans, the insurer should be instructed to send this material to both the servicer of the first mortgage loan and the second mortgage loan servicer.

**Section 209  
Evidence of Insurance  
(01/31/03)**

The servicer of a *first* mortgage loan must keep the original insurance policy for the mortgage loan in its custody—unless it is covered by a mortgage impairment or mortgagee interest insurance policy or uses other evidence of insurance that Fannie Mae considers acceptable. When the mortgage loan covers an individual unit in a PUD and coverage for the unit is provided under an individual policy, the servicer also must have in its possession a copy of any insurance policy covering the common areas of the PUD project. The servicer of a second mortgage loan does not need to keep the original policy in its possession if it is not responsible for paying the renewal premiums; however, it should retain in its files a copy of the insurance policy, any endorsements to it, and evidence of premium payments.

The servicer may microfilm (or otherwise condense) any of the forms used as evidence of insurance. However, the servicer must be able to provide a legible copy of the individual insurance policy if Fannie Mae ever has need to request one.

**Section 209.01  
Short-Form Certificate of  
Insurance (01/31/03)**

Instead of providing a full insurance policy for each mortgage loan, some insurers will issue a short-form certificate of insurance. A servicer may accept a short-form certificate of insurance in lieu of an original policy if the certificate shows all of the necessary information and is signed by the insurer. In this case, a complete text of the full policy must be retained in the servicer’s office.

**Section 209.02  
“Master” or “Blanket”  
Policies (01/31/03)**

Many units in condo or co-op projects are covered by master or blanket policies instead of by individual policies. This also is true for some PUD units. In these cases, the servicer should maintain a copy of the current

master or blanket policy and a certificate of insurance showing that the individual unit that secures the mortgage loan or co-op share loan is covered under the policy. As an alternative, the servicer may obtain from an authorized representative of the insurer individual evidence of insurance for each unit. This evidence must:

- provide for at least 10 days' notice—30 days' notice for co-ops—to the servicer if the policy is canceled or not renewed, or if any other change that adversely affects Fannie Mae's interests is made;
- include the types and amounts of coverage provided; and
- describe any endorsements that are part of the master policy.

Section 209.03  
Data Files in Lieu of  
Policies (01/31/03)

With the increased usage of electronic data transfer for any number of transactions, some insurance carriers no longer issue original hazard insurance policies to mortgage loan servicers. Instead, they provide a data file that includes essential information about the insurance policies they have issued for mortgage loans serviced by the servicer. Because this data file is the source that the insurance carrier uses to issue actual policy documents, Fannie Mae will not object to a servicer accepting data files in lieu of original policies, as long as the following controls exist to ensure that Fannie Mae's interests are protected:

- The data file must include sufficient information about the insurance policy, the property, and the borrower to ensure that the servicer will be able to comply with Fannie Mae's requirements for maintaining and monitoring hazard insurance (such as reviewing the policy terms, amount of coverage, and deductible amounts; confirming that premiums have been paid; processing loss drafts; etc.).
- The servicer's errors and omissions insurance policy must acknowledge electronic data transfers (and fully protect the servicer and Fannie Mae against losses incurred as the result of erroneous data files or transfers).
- The insurance carrier must provide the servicer with written assurance that the data file is equivalent to a printed policy (typically through a detailed agreement between the two parties).

- The servicer must have in place appropriate procedures to mitigate the risks associated with not possessing an original hard copy policy (which may include obtaining certifications from the insurance carrier as to the accuracy of certain information that the servicer is required to verify).
- The servicer must be able to produce legible, hard copies of the actual insurance policies and proof of premium payments if Fannie Mae ever requests them.

**Section 210  
Replacement Policies  
(01/31/03)**

The borrower can modify the existing insurance coverage (provided that the modified coverage complies with Fannie Mae's requirements) or replace it with a policy from another acceptable company. If the borrower allows the insurance coverage to lapse, the servicer should immediately obtain new coverage that meets Fannie Mae's basic requirements. If necessary, the servicer should advance its own funds to pay the premium.

An HOA or a co-op corporation also may have its existing insurance coverage modified or replaced with a policy from another insurance company. In this case, the HOA or co-op corporation must give the servicer notice of the change so that the servicer can determine if the coverage adequately protects Fannie Mae's interests.

**Section 211  
Changes in Coverage  
(01/31/03)**

Certain things may happen to make the existing insurance coverage for a first mortgage loan inadequate to protect Fannie Mae's interests or to cause Fannie Mae to be overinsured in some cases. When either situation occurs, the coverage should be changed.

Examples of situations that require changes in coverage include the following:

- When a property becomes vacant, the servicer should add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy.
- When the renovation or construction work is completed for a home renovation mortgage loan, any hazard insurance that was based on the as-is value of the improvements undergoing renovation must be increased to meet Fannie Mae's standard insurance requirements.

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- When the construction is completed for a combination construction/permanent mortgage loan—or when the borrower occupies the property, if that occurs before completion of construction—construction site insurance must be replaced by hazard (and, if applicable, flood) insurance coverage that satisfies Fannie Mae’s standard insurance requirements.



## **Exhibit 1: Formula for Determining Amount of Required Hazard Insurance Coverage (09/30/96)**

1. Compare the insurable value of the improvements (as established by the property insurer) to the UPB of the mortgage loan.
  - a. If the insurable value of the improvements is less than the UPB, the insurable value will be the amount of coverage required.
  - b. If 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.
  - a. If the result of this calculation is equal to or less than the UPB of the mortgage loan, the UPB will be the amount of coverage required.
  - b. If the result of this calculation is greater than the UPB of the mortgage loan, this calculated figure will be the amount of coverage required.

Examples:

<b>Category</b>	<b>Property A</b>	<b>Property B</b>	<b>Property C</b>
Insurable Value	\$90,000	\$100,000	\$100,000
Unpaid Balance	\$95,000	\$ 90,000	\$ 75,000
80% Insurable Value	-----	\$ 80,000	\$ 80,000
Required Coverage	\$90,000	\$ 90,000	\$ 80,000
Calculation Method	Step 1a	Step 2a	Step 2b

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**Mortgage and Property  
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Exhibit 1

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## **Chapter 3. Flood Insurance (01/31/03)**

Fannie Mae requires that any mortgage loan secured by a property located in a Special Flood Hazard Area have adequate flood insurance when the mortgage loan is originated and that the coverage be maintained for as long as the mortgage loan is outstanding or as long as the property is in a Special Flood Hazard Area. Fannie Mae also requires flood insurance coverage for a mortgage loan if the remapping of a flood zone results in the security property being in a Special Flood Hazard Area (even though no flood insurance would have been required when the mortgage loan was originated). This means that a servicer must actively monitor all flood map and community status changes and take appropriate action as changes occur. A servicer does not have to review all of the mortgage loans it services for Fannie Mae for each flood map it changes, but needs to review only those mortgage loans affected by the remapping. A servicer may choose to monitor flood zone remappings itself or may use a flood zone determination company to perform the monitoring.

A servicer must make sure that the properties that secure mortgage loans it services for Fannie Mae are adequately protected by flood insurance when it is required, with no lapses of coverage for any reason. Because the maximum level of coverage available under the National Flood Insurance Program (NFIP) may increase from time to time, a servicer will need to review the coverage of the mortgage loans it services for Fannie Mae when such changes occur to determine whether additional coverage needs to be obtained for mortgage loans that are under-insured as the result of the coverage amount having been capped by the previous maximum limitations.

It is also important for a servicer that acquires Fannie Mae–owned or Fannie Mae–securitized mortgage loans through a transfer of servicing to have in place appropriate procedures for performing due diligence with respect to flood insurance coverage and the monitoring of changes in flood maps and community designations.

### **Section 301 Payment of Flood Insurance Premiums (01/31/03)**

The servicer of a first mortgage loan must ensure that the premiums required to ensure the continuation of flood insurance coverage are paid. To do this, the servicer should use the funds in the borrower's escrow deposit account. If the deposit account balance is not sufficient to pay the

premiums, the servicer should either get the necessary funds from the borrower or advance its own funds. When the servicer has waived the escrow deposit account for a specific borrower, it remains responsible for the timely payment of the flood insurance premiums. Therefore, if the borrower fails to pay a premium, the servicer must advance its own funds to pay the past-due premium (or to obtain substitute coverage, if necessary), revoke the waiver, and begin escrow deposit collections to pay future premiums. (also see *Chapter 6, Lender-Placed Property Insurance*)

The servicer of a second mortgage loan generally does not pay flood insurance renewal premiums because the renewal premiums are usually paid from an escrow deposit account that the servicer of the first mortgage loan maintains. However, if that servicer does not maintain an escrow deposit account, either the borrower or the second mortgage loan servicer must pay the renewal premiums. When the borrower is responsible for paying the renewal premiums, the second mortgage loan servicer must obtain satisfactory evidence that the premium has been paid. If the borrower fails to pay the premium (or if the second mortgage loan servicer is maintaining an escrow deposit account, but the account balance is not sufficient to pay the full amount due), the second mortgage loan servicer may have to advance its own funds to pay the premium to ensure the continuation of the coverage. The second mortgage loan servicer should immediately begin requiring escrow deposits to cover future renewal premiums whenever the borrower fails to pay premiums he or she is obligated to pay. In addition, should the second mortgage loan servicer discover, at any time, that the property is not covered by a flood insurance policy, it must obtain the required coverage to protect Fannie Mae's interests. In this case, all of Fannie Mae's insurance requirements that relate to coverage for a first mortgage loan must be met.

**Section 302  
Special Flood Hazard  
Areas (01/31/03)**

Fannie Mae generally requires flood insurance for any property that has any of its improvements located in a Special Flood Hazard Area. A servicer may determine whether the property improvements are located in one of these areas by using a *Standard Flood Hazard Determination* (FEMA Form 81-93). Special Flood Hazard Areas—those designated as A, AE, AH, AO, AR, AI-30, A-99, V, VE, VO, or VI-30—are shaded on a Flood Hazard Boundary Map and identified on a Flood Insurance Rate Map (FIRM). The location of the principal structure is of most importance in determining whether flood insurance is required:

- If *any* part of the principal structure is located within a Special Flood Hazard Area, flood insurance is required. Detached buildings—such as stand-alone garages, sheds, or greenhouses—are not considered part of the principal structure, although flood insurance may be required for them if they also serve as a part of the security for the mortgage loan.
- If the principal structure on a property is *not* located in a Special Flood Hazard Area, flood insurance generally will not be required even if another detached structure is located within the Special Flood Hazard Area. However, if the detached structure is attached to the land and serves as part of the security for the mortgage loan, flood insurance will be required for the detached structure (and may be purchased through a separate policy on a general property insurance form)—unless the servicer determines that the principal structure represents sufficient security for the mortgage loan and releases the detached dwelling from the security.

**Section 303  
Acceptable Flood  
Insurance Policies  
(01/31/03)**

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of flood insurance coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP’s “Write Your Own” program—will be acceptable.

**Section 304  
Coverage for First  
Mortgage Loans  
(05/25/06)**

The minimum amount of flood insurance required for most first mortgage loans secured by one- to four-unit properties, individual PUD units, and individual condo units (such as those in detached condos, townhouses, or rowhouses) is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the NFIP, which is currently \$250,000 per dwelling; or
- the UPB of the mortgage loan.

For a HomeStyle Renovation mortgage or a HomeStyle Construction-to-Permanent mortgage, the flood insurance coverage should be in an amount equal to the as-is value of the property. This coverage must be increased,

if necessary, following completion of the renovation or construction work to ensure that the coverage meets Fannie Mae's standard coverage requirements.

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a first mortgage loan is the maximum deductible available from the NFIP, which is currently \$5,000.

Fannie Mae generally does not require separate flood insurance policies for the individual units in a condo project. Instead, the HOA is required to obtain a Residential Condominium Building Association Policy for each building that is located in a Special Flood Hazard Area. If an HOA refuses to obtain the required coverage, Fannie Mae requires the unit owner to obtain a separate policy to cover his or her individual unit. The coverage required for the individual unit should be based on the coverage requirement for first mortgage loans secured by one- to four-unit properties specified above. Fannie Mae does not require the owners of co-op units to obtain individual flood insurance policies.

**Section 305  
Coverage for Second  
Mortgage Loans  
(05/25/06)**

The amount of flood insurance required for a second mortgage loan depends on whether the property is already covered by a flood insurance policy or, if it is not, on whether Fannie Mae has an ownership interest in the first mortgage loan.

- If a property is already covered by a flood insurance policy because the holder of the first mortgage loan required the coverage, the servicer should review the coverage to ensure that it provides the minimum amount of coverage for first mortgage loans specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)* (using the combined UPBs of both the first and second mortgage loans to make the determination). If the existing coverage does not meet this requirement, the servicer must require the borrower to obtain appropriate endorsements to bring the coverage into line with Fannie Mae's requirements and name Fannie Mae (or the second mortgage loan servicer) as the second mortgagee. The servicer should then send a copy of the endorsements to the servicer of the first mortgage loan.
- If a property is not covered by a flood insurance policy because the holder of the first mortgage loan did not require flood insurance

coverage (and Fannie Mae does not have an interest in the first mortgage loan), the servicer should require the borrower to obtain a flood insurance policy that will cover at least the UPB of the second mortgage loan (or the maximum coverage available under the NFIP) and name Fannie Mae (or the second mortgage loan servicer) as the mortgagee.

- If a property for which Fannie Mae has an interest in the first mortgage loan is not covered by flood insurance because none was required when Fannie Mae purchased or securitized the first mortgage loan, and the property improvements are now considered to be in a Special Flood Hazard Area, the servicer must require the borrower to obtain flood insurance coverage in the minimum amount specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)* (using the combined UPBs of both the first and second mortgage loans to make the determination) and name Fannie Mae (or the first and second mortgage loan servicers) as mortgagee.

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a flood insurance policy for a second mortgage loan is the maximum deductible available from the NFIP, which is currently \$5,000.

**Section 306  
Coverage for Project  
Developments  
(01/31/03)**

If a first mortgage loan is secured by a unit in a PUD, condo, or co-op project and any part of the improvements are in a Special Flood Hazard Area, 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.

Section 306.01  
PUD Projects (05/25/06)

The policy for a PUD project should cover any common element buildings and any other common property located within the designated hazard area. The amount of insurance should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the NFIP.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering PUD common areas and elements is the maximum deductible available from the NFIP, which is currently \$25,000.

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## Mortgage and Property Insurance

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### Flood Insurance

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#### Section 306.02 Condo Projects (05/25/06)

The policy for a condo project should cover common element buildings and any other common property located within the designated hazard area. For most condo projects, the amount of coverage should be at least equal to the lesser of 100% of the insurable value of each insured building (including all common elements and property) or the maximum coverage available under the NFIP. Fannie Mae requires the HOA to obtain a Residential Condominium Building Association policy for each building that is located in a Special Flood Hazard Area. This policy must cover all of the common elements and property, as well as each of the individual units in the building. The amount of this required coverage consists of three components—(1) building coverage, which should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building), (2) contents coverage, which should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members, and (3) coverage for each unit, which should be the lesser of \$250,000 or the amount of its replacement cost. If the total required coverage exceeds the maximum coverage available for condo projects under the NFIP, Fannie Mae will accept coverage equal to the maximum amount that is available. When an HOA refuses to obtain a Residential Condominium Building Association policy, a separate policy must be obtained for each dwelling unit that secures a Fannie Mae–owned or Fannie Mae–securitized mortgage loan. The coverage required for the individual unit should be based on the coverage requirement for first mortgage loans secured by one- to four-unit properties specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)*.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering condo common elements or each building in a high-rise or vertical condo project is the maximum deductible available from the NFIP, which is currently \$25,000.

#### Section 306.03 Co-op Projects (05/25/06)

The policy for a co-op project should cover the buildings and any common elements and property located within a Special Flood Hazard Area. A separate policy must be obtained for each building. The policy must cover the building and any common elements and property (including machinery and equipment) that are owned in common by the shareholders of the co-op corporation. The amount of insurance should be at least equal to the lesser of 100% of the insurable value of each insured building (including



all common elements and property) or the maximum coverage available under the NFIP. If the amount of required coverage exceeds the maximum coverage available under the applicable NFIP, Fannie Mae will accept coverage equal to the maximum amount that is available.

Unless a higher maximum deductible amount is required by state law, the maximum deductible amount for policies covering each co-op building and its common elements and property is the maximum deductible available from the NFIP, which is currently \$25,000.

**Section 307  
Properties Located in  
the Coastal Barrier  
Resources System or  
Otherwise Protected  
Area (05/25/06)**

Properties that are located within the Coastal Barrier Resources System (CBRS) or are within an Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act, may not be eligible for Federal flood insurance. When a servicer (or a flood zone determination company) determines that a property is located within the CBRS or is within an OPA, private flood insurance is acceptable. The servicer must work with the borrower to obtain the required flood insurance as quickly as possible.

Fannie Mae will accept flood insurance policies from private insurance carriers when a property securing a mortgage loan within the CBRS or within an OPA is not eligible for Federal flood insurance. The amount of the flood insurance required must meet Fannie Mae's minimum coverage requirements for the appropriate property type as specified in *Section 304, Coverage for First Mortgage Loans (05/25/06)*; *Section 305, Coverage for Second Mortgage Loans (05/25/06)*; and *Section 306, Coverage for Project Developments (01/31/03)*.

The flood insurance carrier providing coverage for a property within the CBRS or within an OPA must meet Fannie Mae's minimum rating requirements for insurance underwriters specified in *Section 202.01, Rated Insurance Underwriters (09/30/05)*.

The deductible amounts for private flood insurance policies must be no greater than the NFIP maximums based on the property type (i.e., currently a maximum of \$5,000 for one- to four-unit properties and a maximum of \$25,000 for condo, co-op, and PUD projects).

**Section 308  
Flood Zone  
Remappings (01/31/03)**

Fannie Mae permits the borrower to discontinue flood insurance coverage if the principal structure on his or her property is no longer included in a flood zone because the flood plain has been redefined in a recent flood

zone remapping. If the new flood maps are not available, the borrower must obtain a letter from the Federal Emergency Management Agency (FEMA) stating that its maps have been amended so that the principal structure is no longer in a Special Flood Hazard Area.

When a servicer (or a flood zone determination company) determines that a property has been remapped into a Special Flood Hazard Area, the servicer must work with the borrower to obtain the required flood insurance as quickly as possible—the flood insurance policy should be in place within 120 days after the effective date of the remapping.

- If the community in which the property is located is a “participating” community under the NFIP, the servicer must obtain the required coverage even if the borrower refuses to obtain the required coverage or to pay a disputed premium. The servicer should make every effort to collect the applicable premium from the borrower, but, if it is unable to do so, Fannie Mae will reimburse the servicer for the cost of the flood insurance policy. Fannie Mae will then advise the servicer about whether any of the remedies permitted under the mortgage loan should be pursued against the borrower.
- If the community in which a remapped property is located is not a “participating” community under the NFIP, the servicer should assist the borrower in locating a private insurance carrier that can underwrite an acceptable flood insurance policy. If acceptable insurance coverage cannot be obtained, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to determine the course of action Fannie Mae wants taken.

## **Chapter 4. Special Coverage for Project Developments (01/31/03)**

When a first mortgage loan is secured by a PUD, co-op, or condo unit, Fannie Mae requires that the project development be covered by liability insurance and, in most cases, fidelity insurance. Fannie Mae does not require fidelity insurance coverage for Type A condo projects; for Type E established PUD projects; for 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 for any other PUD, condo, or co-op project that consists of 20 or fewer units.

### **Section 401 Liability Insurance (01/31/03)**

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. For PUD or condo projects, the policy also should cover all common areas and elements, public ways, and any other areas that are under the supervision of the HOA. The insurance also should cover commercial spaces that are owned by the HOA (or co-op corporation), even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The amount of coverage should be at least \$1 million for bodily injury and property damage for any single occurrence. However, the minimum coverage that Fannie Mae requires for co-op projects that consist of elevator buildings is \$3 million. Fannie Mae may require higher amounts of coverage if similar amounts usually are required by mortgage investors in other projects in the area.

If the policy does not include "severability of interest" in its terms, Fannie Mae requires 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 should provide for at least ten days' written notice to the HOA (or co-op corporation) before the insurer can cancel or substantially modify it. For condo and co-op projects, similar notice also must be given

to each holder of a first mortgage loan or share loan on an individual unit in the project.

**Section 402  
Fidelity Insurance  
(01/31/03)**

The HOA (or co-op corporation) for any PUD, co-op, or condo project development for which Fannie Mae requires fidelity insurance coverage must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA or co-op corporation, whether or not that individual receives compensation for services. The insurance policy should name the HOA (or co-op corporation) as the insured and the premiums should be paid as a common expense by the HOA (or co-op corporation). The policy for a condo project must include a provision that calls for ten days' written notice to the HOA (or its insurance trustee) before the policy can be canceled or substantially modified for any reason. This same notice must also be given to each servicer that services a Fannie Mae-owned or Fannie Mae-securitized mortgage loan in the condo project.

A management agent that handles funds for the HOA (or co-op corporation) should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA (or co-op corporation).

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA (or co-op corporation) or its management agent at any time while the policy is in force. A lesser amount of fidelity insurance coverage is acceptable for a project if the project's legal documents require the HOA (or co-op corporation) and any management company to adhere to certain financial controls. Even then, the fidelity insurance coverage must at least equal the sum of three months of assessments on all units in the project. In those states that have statutory fidelity insurance requirements, Fannie Mae will accept the state fidelity insurance requirements in place of Fannie Mae's.

If reduced coverage based on greater financial controls is accepted, 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 any checks written on the reserve account.

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**Mortgage and Property  
Insurance**

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Special Coverage for Project  
Developments

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## Chapter 5. Insurance Losses (08/24/05)

A servicer is responsible for taking prompt action to protect the interests of Fannie Mae and the borrower(s) when a hazard or flood insurance loss occurs. This involves working closely with the insurance carrier (for insured losses), the borrower, repair contractors, and other lienholders.

The servicer of a *first* mortgage loan is responsible for helping the borrower determine the nature of the needed repairs, getting the necessary bids, and reviewing and approving the final plans for repair. As repairs are made, the servicer must inspect the repairs to see that they comply with the final plans and obtain the proper lien releases.

The servicer of a *second* mortgage loan is responsible for ensuring that all of these same actions are taken—either by performing the required actions itself, by relying on the first mortgage loan servicer to take the necessary actions, or by working jointly with the first mortgage loan servicer to share the responsibility.

Fannie Mae's requirements for casualty losses due to natural disasters are discussed in *Part III, Chapter 11, Assistance in Disasters*.

### Section 501 Insurance Claim Settlements (08/24/05)

As soon as the servicer learns of a casualty loss, it must get complete details on the damage, determine whether the borrower has filed the proof of loss claim, and discuss with the borrower any plans that he or she has for repairing the property. If the borrower has not filed a proof of loss claim, the servicer should take appropriate action to ensure that the proof of loss claim is filed within the time period specified in the insurance policy in order to avoid a delay in receiving payment of the claim. The servicer must then closely monitor the filing of the proof of loss claim with the insurance carrier, the repairs to the property, and the disbursement of the insurance proceeds. Disbursement of insurance proceeds for natural disasters is discussed in *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.

When the servicer is unable to contact the borrower (or it appears that the property has been abandoned), the servicer should determine the general extent of the damage and the required repairs, take appropriate measures to protect the property from further damage, and contact the insurance

carrier to determine whether the borrower has submitted a claim. If the borrower has not filed a claim, the servicer should file a proof of loss under the standard mortgage clause and collect the insurance proceeds on Fannie Mae's behalf. Occasionally, an insurance carrier will assert a questionable legal defense to avoid paying an insurance claim related to a Fannie Mae-owned or Fannie Mae-securitized mortgage loan. If a servicer experiences unusual difficulty in collecting an insurance claim from an insurance carrier and the servicer's legal counsel has not been able to expeditiously resolve the matter with the carrier, the servicer should contact its Portfolio Manager, Servicing Consultant, or Fannie Mae's National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 for assistance.

Section 501.01  
Disposition of Insurance  
Proceeds Other Than for  
Natural Disasters  
(08/24/05)

Fannie Mae expects a servicer to employ procedures for handling insurance loss drafts that will not only protect Fannie Mae's interest in the mortgage loans, but will also consider the effect that any delays in restoring the property or in repairing damages will have on individual borrowers. Generally, hazard and flood insurance proceeds should be applied to the restoration and repair of the damaged property—unless the borrower and the servicer enter into a written agreement to apply them in a different manner or Fannie Mae directs that they should be applied differently.

The servicer is responsible for making the decision on the disposition of hazard and flood insurance proceeds for both current and delinquent mortgage loans for losses not related to a natural disaster—as long as the property is occupied and the insured improvements have not suffered a significant loss that makes restoration infeasible or that lessens Fannie Mae's security. (Disbursement of insurance proceeds for disasters is discussed in *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.) However, the servicer must recommend to Fannie Mae an appropriate action if the mortgage loan is in foreclosure, the property has been abandoned, or the property has suffered a significant loss. The servicer also must recommend to Fannie Mae appropriate action related to flood insurance loss proceeds for any acquired property.

In most instances, the servicer should disburse the insurance proceeds to the borrower or the repair contractor when the restoration or repairs have been completed, although progress payments can be made as portions of the work have been completed and inspected. However, if the property has



suffered a total or near-total loss, it may not be possible to complete the reconstruction within 90 days. When that is the case for a current mortgage loan—and the borrower has never been more than 30 days delinquent in the preceding 12 months—the servicer must first determine whether the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances. If the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances, the servicer must issue the borrower a check for the amount by which the insurance loss draft exceeds the UPB of the mortgage loan.

If the insurance proceeds do not exceed the sum of the UPB, accrued interest, and any advances, the servicer should:

- release up to 20% of the total claim proceeds to the borrower and contractor,
- review the contractor's estimate, and
- make a determination on how to disburse the remaining funds.

In all instances, the servicer must deposit the funds not disbursed in an interest-bearing account for the borrower's benefit. The account must yield an amount of interest that is equivalent to the interest that the borrower could expect to obtain from a passbook savings account or a money market account. The servicer does not have to pay the accumulated interest to the borrower until the end of the reconstruction period, unless he or she requests an earlier disbursement.

The servicer may use its T&I custodial account for the deposit of the remaining loss draft proceeds (if that account is interest-bearing) or it may establish a separate account in a federally insured institution that meets Fannie Mae's requirements for custodial depositories (as long as the account reflects the interests of both the borrower and Fannie Mae). If the servicer does not use its T&I custodial account, it must nevertheless include adequate documentation for the account it uses—such as bank statements that show the Fannie Mae loan number and amount of proceeds deposited for each mortgage loan covered by the account—with its reconciliation of its T&I custodial account so that Fannie Mae can be assured that the proceeds are being adequately controlled.

**Section 501.02  
Report of Hazard  
Insurance Loss  
(08/24/05)**

The servicer—including the servicer of a second mortgage loan that is relying on the first mortgage loan servicer to handle the insurance loss settlement—should submit a *Report of Hazard Insurance Loss* ([Form 176](#)) to Fannie Mae, with its recommendation for disposition of the insurance loss proceeds, if:

- the mortgage loan is in foreclosure (or, if the proceeds relate to flood damage, the property has been acquired through foreclosure or the acceptance of a deed-in-lieu of foreclosure),
- the insured improvements have suffered a significant loss and the servicer believes that the repair or restoration is not economically feasible or that Fannie Mae's security would be lessened because the fair market value of the property after restoration to its original condition would be less than the total indebtedness,
- the property is vacant and the servicer has filed a proof of loss with the insurance carrier on Fannie Mae's behalf under the terms of the standard mortgage clause, or
- the property has sustained damage caused by a disaster. Refer to *Part III, Section 1103, Insurance Claim Settlements (08/24/05)*.

Each Form 176 that the servicer submits to Fannie Mae must provide the following information:

- the status of the mortgage loan (or the status of both the first and second mortgage loans when the servicer is servicing a second mortgage loan for Fannie Mae)—current, delinquent, in foreclosure, property acquired;
- Fannie Mae's interest in the mortgage loan—whole mortgage loan or participation pool mortgage loan that Fannie Mae holds in its portfolio (including its percentage interest); or MBS mortgage loan serviced under the special servicing option or the shared-risk special servicing option, if Fannie Mae is responsible for disposing of the acquired property (including Fannie Mae's percentage interest if it securitized only a participation interest in the mortgage loan);
- the nature of the loss—partial, near-total, total;

- photographs of the damaged property;
- complete accounting of outstanding monies—UPB, advances, total delinquent installments, etc.;
- cost of repairs or restoration;
- any effect that a total loss would have on conveyance of the property to the insurer or guarantor or on the claim settlement;
- a recommendation on the disposition of the loss proceeds; and
- a recommendation on whether Fannie Mae should consider accepting a payoff of less than the total indebtedness in order to minimize its losses.

The Form 176 must be submitted electronically to Fannie Mae using its dedicated mailbox, [hazard\\_loss@fanniemae.com](mailto:hazard_loss@fanniemae.com).

**Section 502  
Uninsured Losses  
(08/24/05)**

Uninsured losses related to disasters are discussed in *Part III, Section 1104, Uninsured Losses (08/24/05)*.

When there are other uninsured losses to the property, the servicer of a *first* mortgage loan should

- determine the extent of the damage,
- secure the property, if it is abandoned,
- develop plans for repairing the property, and
- send a complete report of the damage to its Fannie Mae Portfolio Manager, Servicing Consultant, or the National Servicer Organization's Servicer Solutions Center.

The servicer for a *second* mortgage loan should work with the first mortgage loan servicer in determining the extent of the damage, securing an abandoned property, and developing plans for repairing the property. The second mortgage loan servicer should then send a complete report of the damage and any repair plans that were developed to its Fannie Mae

Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

The servicer should help the borrower file for any disaster relief aid that may be available. If the damage is extensive, the servicer should consider any reasonable forbearance plan or modification agreement that the borrower proposes.

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## Chapter 6. Lender-Placed Property Insurance (02/01/05)

Part of a servicer's responsibility for protecting Fannie Mae's interest in the security property is to ensure that hazard insurance (including flood insurance), under the terms specified in Fannie Mae's *Guides*, is in place at all times. If the servicer is unable to obtain evidence of acceptable hazard insurance for a property, the servicer should obtain alternative insurance coverage (so-called "force-placed" or "lender-placed" insurance) to protect Fannie Mae's interests. In this instance, there are several guidelines that servicers should apply, subject to the provisions of and in compliance with applicable law and the mortgage loan documents.

- Lender-placed insurance coverage should only be issued after the servicer makes attempts to contact the borrower to obtain evidence of insurance. The servicer may contact the borrower's insurance agent but must attempt to contact the borrower if it fails to obtain evidence of insurance from the agent. At least one borrower communication should be by letter. Fannie Mae expects the servicer to have (or provide for) adequate resources and facilities for receiving and processing evidence of insurance that is submitted by borrowers. Typically, the borrower should have a period of at least 60 days to provide evidence of coverage before a charge for lender placement is assessed to the borrower. It may be appropriate for this period to be extended if an apparent lapse in insurance coverage coincides with a servicing transfer. However, in all cases the servicer is responsible for ensuring that—whether through borrower-placed or lender-placed hazard insurance—there is no lapse in coverage.

The contacts with the borrower should include information explaining the ramifications of the borrower's failure to obtain coverage, including: (1) the potential that lender-placed coverage may be substantially more expensive (and that the borrower nevertheless will be required to pay for such coverage or risk being in default under the terms of the mortgage loan documents), (2) that any lender-placed coverage might not cover the borrower as an insured, the borrower's equity, or provide the same scope of coverage as the borrower's normal homeowner's insurance (for instance, no coverage for personal effects or premises liability), and (3) that the servicer or one of its affiliates may be paid a

commission for its placement of the replacement insurance coverage, if applicable.

- Any lender-placed coverage must be provided in compliance with Fannie Mae's insurance requirements. Fannie Mae recognizes that lender-placed insurance premiums typically are paid on an annual basis in advance so that a borrower would be assessed a year's lump-sum premium. If the servicer becomes aware that the borrower may not be able to fulfill that lump-sum payment obligation, the servicer should advance the payments and establish a schedule for the pro rata recovery of the premium from the borrower over the succeeding 12 months, or longer if the servicer so elects. The servicer also should provide for the collection of the premium installment for the next renewal period based on the required rescission of the escrow account waiver (see *Part III, Section 103.01, Waiver of Escrow Deposits (01/01/05)*). If, however, it appears that the borrower will not be able to meet even this obligation, other loss mitigation options should be pursued to arrange for the collection of outstanding amounts owed. (see *Part VII, Chapter 5, Bankruptcy Proceedings*, for Fannie Mae's loss mitigation alternatives)
- In the event the borrower provides evidence of acceptable insurance coverage, the total amount of any premiums for lender-placed insurance attributable to the period of time after the effective date of the borrower-placed coverage (along with any late charges assessed due to the nonpayment of any lender-placed insurance premium) must be refunded or credited to the borrower within a reasonable time frame.

## **Part III: General Servicing Functions (01/31/03)**

This *Part*—General Servicing Functions—discusses the general administrative functions involved in servicing first and second mortgage loans that occur on an ongoing basis, as well as a few functions that are unique to a particular type of mortgage loan or to a special, nonrecurring circumstance. These functions may begin when mortgage loan payment records are established for a new mortgage loan and often continue until a mortgage loan is paid off, repurchased, or otherwise removed from Fannie Mae’s records.

The procedures in this *Part* describe Fannie Mae’s requirements for servicing whole mortgage loans, participation pool mortgage loans, and MBS mortgage loans. However, they do not address special servicing requirements that may have been imposed under the terms of a negotiated purchase transaction. The servicer is totally responsible for taking all steps necessary to ensure that the terms of a negotiated contract are followed.

The requirements or procedures in this *Part* generally apply to all mortgage loans that are serviced for Fannie Mae. Insofar as possible, Fannie Mae sets out instances when its servicing requirements vary for a particular lien type, mortgage loan type, amortization method, remittance type, servicing option, or ownership interest. Unless stated otherwise, the servicer may assume that the same procedure or requirement applies for any mortgage loan.

This *Part* consists of 13 chapters:

- *Chapter 1—Mortgage Loan Payments*—discusses the methods for applying and accounting for both scheduled and unscheduled mortgage loan payments, the administration of escrow deposit accounts, Fannie Mae’s requirements for providing annual mortgage loan account statements, and TPR note rate reductions.
- *Chapter 2—Taxes and Assessments*—discusses Fannie Mae’s requirements for maintaining accurate records on the status of any taxes, ground rents, or special assessments for a property—and the servicer’s responsibility for advancing funds to protect Fannie Mae’s interests.

- *Chapter 3—Property Inspections*—discusses the different circumstances under which a servicer is expected to inspect the properties that secure Fannie Mae–owned or Fannie Mae–securitized mortgage loans.
- *Chapter 4—Transfers of Ownership*—discusses the procedures for handling transfers of ownership for FHA, VA, conventional, and RD mortgage loans and the conditions under which due-on-sale or due-on-transfer provisions should be enforced.
- *Chapter 5—Notices of Liens or Legal Actions*—discusses the servicer’s responsibility for keeping new liens that would be superior to Fannie Mae’s lien from being attached to the property and for notifying Fannie Mae when such liens are attached or when any other legal action that affects the property or the borrower occurs.
- *Chapter 6—Property Forfeitures and Seizures*—includes procedures designed to facilitate communication, coordination, and cooperation among servicers, Fannie Mae, and the Department of Justice when the forfeiture provisions of the Controlled Substances Act are enforced.
- *Chapter 7—Releases of Security*—discusses the conditions under which a servicer may approve the release of all or a portion of a property that serves as security for a Fannie Mae–owned or Fannie Mae–securitized mortgage loan.
- *Chapter 8—Balloon Mortgage Loan Maturity*—includes procedures for offering refinancing for a maturing balloon mortgage loan, including actions to take when a borrower accepts or declines an offer.
- *Chapter 9—Call Provision Enforcement*—discusses some of the circumstances under which a mortgage loan may be called due and payable even though there is no monetary default.
- *Chapter 10—Conversions to Biweekly Payments*—describes the procedures that a servicer should follow if a borrower wants to make mortgage loan payments every two weeks instead of monthly.
- *Chapter 11—Assistance in Disasters*—discusses the steps a servicer should take to assist victims of disasters to avoid delinquencies and



foreclosures, including actions to take to ensure that Fannie Mae's ability to recover damage under a property or mortgage insurance policy is not jeopardized.

- *Chapter 12—Completion of Property Rehabilitation Work*—discusses the documentation governing home improvements and the servicer's responsibilities for monitoring the completion of the rehabilitation or construction work.
- *Chapter 13—Second Mortgage Loans*—discusses a second mortgage loan servicer's responsibility for coordinating its servicing efforts with the servicer of the first mortgage loan and the circumstances under which the servicer must advance funds to protect Fannie Mae's investment.

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Introduction

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Part III

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## **Chapter 1. Mortgage Loan Payments (10/31/08)**

Ordinarily, the borrower's monthly payment consists of interest, principal, and escrow deposits for the payment of insurance and taxes. However, escrow deposits usually are not required for a second mortgage loan and generally may be waived for an individual first-lien mortgage loan. When the mortgage loan instrument provides for late charges, they also should be included whenever the payment is received after the date on which late charges become due. In other instances, the payment may include additional funds to be applied toward the UPB or to repay monies advanced by the servicer. Some FHA mortgage loans also may include an additional amount for FHA service charges.

All funds tendered by the borrower for application to a first-lien mortgage loan that Fannie Mae owns or securitizes (whether such loan is current or delinquent) must be applied as intended by the borrower and should not be reallocated as payment towards any subordinate lien.

It is the servicer's responsibility to ensure that its payment collection and posting processes enable the timely crediting of borrowers' accounts (including borrowers in bankruptcy) so that late charges are not inappropriately assessed or other actions, such as inaccurate reporting of delinquencies to credit bureaus, are not taken. Although most servicers use automated processes to ensure that borrower payments are posted effective on the date received, servicers are encouraged to periodically audit those mechanisms to ensure their efficient performance, particularly with respect to contingencies such as borrowers' payment by certified mail or borrowers' inclusion of currency/coinage in payment envelopes. The servicer must account for each portion of the borrower's payment in its records as the payments are received.

### **Section 101 Scheduled Mortgage Loan Payments (03/01/06)**

A scheduled payment includes funds to be applied toward principal, interest, and any required escrow deposits. It also may include late charges if the payment is past due.

The interest portion of the fixed installment must be determined by computing 30 days' interest (or 14 days' interest for a biweekly payment mortgage loan) on the outstanding principal balance as of the LPI date. For this calculation, always use the current interest accrual rate for the

mortgage loan. (Interest for second-lien mortgage loans may be determined by a payment-to-payment calculation method if the security instrument requires it.) When multiple payments are received, each payment should be applied separately. For ARMs and GPARMs, there may be instances in which different interest accrual rates apply to the payments. In those cases, the interest calculation must be based on the interest accrual rate in effect for each of the payments.

The servicer should apply scheduled payments in the order specified in the applicable security instrument. For example, different versions of the uniform security instruments provide for different ways of applying the borrower's payment.

**Mortgage loans closed on instruments dated March 1999 and later.**

Payments must be applied in the following order for a mortgage loan closed on one of the uniform security instruments that has a date of March 1999 or later:

- first to interest,
- then to principal,
- then to any required deposits for escrow items (which include taxes and assessments, property or mortgage insurance premiums, leasehold payments or ground rents, and community association dues, fees, and charges, as applicable).

When the payment includes late charges, the late charges should be applied only after all of the scheduled payment has been applied.

**Mortgage loans closed on instruments dated before March 1999.**

Payments must be applied in the following order for a mortgage loan closed on one of the uniform security instruments that has a revision date prior to March 1999:

- first to any required deposits for insurance and taxes,
- then to FHA service charges (if applicable),

- then to interest, and
- finally to principal.

When the payment includes late charges, the order in which the late charges are applied will depend on the security instrument. Most security instruments call for the late charges to be applied after all of the scheduled payment has been applied, although some of Fannie Mae's older instruments permitted the late charges to be applied first.

Section 101.01  
Negative Amortization  
(01/31/03)

When an ARM or GPARM is undergoing negative amortization, the monthly fixed installment cannot be allocated between principal and interest. In fact, the fixed installment will not cover all of the accrued interest. When this interest shortfall occurs, the UPB of the mortgage loan should be increased by the amount of the shortfall.

Section 101.02  
Buydown Funds  
(01/31/03)

As long as a mortgage loan is under an interest rate buydown plan, the servicer should treat the portion of the payment received from the borrower as a full installment. If the servicer is holding the buydown funds, it should reflect the application of those funds, along with those received from the borrower, on the individual loan record. The servicer must remit to Fannie Mae the full amount due each month.

Fannie Mae holds the buydown funds for some first-lien mortgage loans that it purchased for its portfolio. Fannie Mae automatically applies funds that it holds toward the interest due each month; therefore, the servicer should adjust its individual loan records to reflect the application of Fannie Mae's portion of the payment. In such cases, if the servicer's accounting system cannot handle partial payments, Fannie Mae allows the servicer to hold an amount equal to one month's interest buydown for each mortgage loan it services under an interest rate buydown plan. The servicer must return this money to Fannie Mae when the buydown term ends or the mortgage loan is liquidated, whichever is earlier.

Section 101.03  
Payment Shortages  
(01/31/03)

Sometimes payments received from the borrower are less than the total amount due. The servicer should not automatically return these payments to the borrower. Instead, the servicer should base its decision to process partial payments on the amount of the shortage and on any special circumstances that might justify the lesser amount. If the servicer decides to accept the payment, any portion of it that equals one or more full

installments should be applied. Any remaining portion should be held as unapplied funds until enough money to make a full installment is received.

The total amount due for a conventional mortgage loan includes any late charges or prepayment charges. Therefore, if a servicer chooses to do so, it may hold as unapplied a payment that does not include late charges (or any allowable prepayment premiums) that are due. The servicer may then use a portion of the subsequent payment to make up the shortage so that the payment can be applied. However, the servicer may not impose any late fee or delinquency charge in connection with that payment or any subsequent payment held as unapplied from which funds are drawn to make a full payment. Payments that cover the full mortgage obligation without the late charge may not be returned to the borrower to the extent that acceptance would not jeopardize the servicer's position in legal proceedings (e.g., foreclosure). The borrower should be fully informed of the actions taken, the reasons for the specific action, and the total amount that he or she owes and is expected to pay.

A servicer must follow HUD or VA requirements related to the acceptance of payments for FHA, VA, or HUD mortgage loans that do not include late charges and the treatment of partial payments in general.

Regardless of the specific action the servicer takes when it receives a payment for less than the full amount due, it is still responsible for including the scheduled amount due in its next remittance to Fannie Mae if the mortgage loan is a scheduled/actual or scheduled/scheduled remittance type. If the mortgage loan is an actual/actual remittance type, the servicer is required to remit only the funds that were actually applied.

Section 101.04  
Payment Overages  
(01/31/03)

Sometimes payments received from the borrower are more than the total amount due. If the borrower does not explain the extra amount, the servicer should base its procedures for processing these payments on the amount of the overage. The servicer may establish either a specific dollar amount or a percentage of the mortgage loan payment as a guideline for determining how these payments should be handled. Amounts under these guidelines can be deposited to the borrower's escrow account if the servicer is maintaining one; otherwise, they should be held as unapplied funds until the servicer is able to determine their proper disposition. Amounts exceeding these guidelines should be held as unapplied funds until the servicer determines why the larger payment was submitted.

**Section 101.05  
Notice to IRS (01/31/03)**

If the servicer receives \$600 or more of mortgage loan interest payments from the borrower for a calendar year, it must file an information return with the IRS (using its own name and employer's tax identification number). The servicer also must notify the borrower of the amount of interest it received and reported to the IRS. (Also see *Section 104, Mortgage Account Statements (01/31/03)*.)

**Section 101.06  
Automatic Drafting  
(01/31/03)**

A servicer may automatically draft a borrower's mortgage loan payment from his or her designated bank account—as long as it has received the borrower's written agreement to use this payment method. Each payment must be drafted from the borrower's account no later than the latest date that it would otherwise accept (without penalty) a mortgage loan payment made by some other means (including other nontraditional payment methods). When agreeing to the use of automatic drafting or other nontraditional payment methods, the servicer should make sure that the borrower understands that the payment remains due and payable on the applicable due date (for example, the first day of the month) and that acceptance of the payment at any time between that due date and the date that a late charge would be applicable is not a waiver of the borrower's obligation to make the payment on that due date. Rather, it is an accommodation that the servicer is making for the borrower. The servicer also should advise the borrower that it has the right to withdraw this accommodation at any time by giving the borrower reasonable notice of its intent to do so.

A servicer that uses automatic drafting arrangements or allows other nontraditional payment methods 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 (as discussed in *Part IX: Custodial and Remittance Accounting*).

**Section 102  
Unscheduled Mortgage  
Loan Payments  
(01/31/03)**

On occasion, the borrower's mortgage loan payment may include additional funds to be applied toward the debt or other amounts due the servicer. In other instances, the borrower's payment may have been reduced for a period of time based on an agreement with the servicer or under the provisions of a statute or law that requires such a reduction. The most common types of these unscheduled mortgage loan payments are discussed below.

Section 102.01  
Additional Principal  
Payments (01/31/03)

Additional principal payments identified by the borrower as such (curtailments) must be deposited to the P&I custodial account by the next business day after they are received; they may not be held in an unapplied funds account. The servicer must accept and immediately apply additional principal payments it receives for a **current** mortgage loan. If the borrower includes a curtailment with his or her mortgage loan payment, the servicer should first apply the scheduled payment, then the curtailment. If the borrower submits a curtailment at any other time during the month, the servicer should apply the curtailment before it applies the next scheduled mortgage loan payment to ensure that the borrower receives the benefit of having the next interest due computed on the lower, reduced UPB. However, the servicer may—if not prohibited by the terms of the mortgage loan documents—charge the borrower interest (at the current note rate) on the then outstanding mortgage loan balance from the first day of the month in which the curtailment is received to the date it is actually applied to reduce the mortgage loan balance.

When a borrower makes a substantial principal curtailment, he or she may request that the mortgage loan balance be reamortized to reduce the mortgage loan payment. If this happens, the servicer should treat the request as a request for a formal mortgage loan modification, requiring the borrower to complete an *Agreement for Modification or Extension of Mortgage* ([Form 181](#)). The servicer may agree to such requests for any current portfolio mortgage loan or for a current first-lien mortgage loan that is in an MBS pool—by reducing the P&I payment only (based on a reamortization of the current principal balance using the current interest rate and remaining mortgage loan term). (Also see *Part VII, Section 205, Payment Change Notification (01/01/11)*.)

In the case of a **delinquent** mortgage loan, any funds submitted must be applied toward curing the delinquency. If there are any remaining funds, the servicer may then apply them as an additional principal payment.

Occasionally, Fannie Mae may request that the UPB of the mortgage loan be reduced by payments received for a partial release of security, condemnation award, or insurance proceeds. When Fannie Mae does so, the servicer should process the payment as an additional principal payment.



**Section 102.02  
Repayment of Advances  
(01/31/03)**

The borrower must reimburse the servicer for advances made for emergency repairs of the property or to cover advances made because the escrow deposit account did not include sufficient funds to cover a particular expense. For these reimbursements, the servicer may either increase the borrower's next payment to cover all of the advance or schedule the repayment over several months.

Should the borrower not repay the advance as agreed, the servicer may apply the mortgage loan payment against the advance if the mortgage loan terms and applicable law allow it. The payments should be applied in this order:

- first to any reimbursable expenses—such as the costs for repairing or securing the property and late payment penalties imposed by tax authorities (if the borrower was a factor in delaying the payment);
- then to interest on the amount advanced—calculated at the current interest accrual rate, from the date of the advance to the date the payment is received;
- then to the advance or to the amount agreed on as a periodic payment toward the total advanced; and
- finally to the scheduled mortgage loan payment. If the remainder is not equal to a full payment, it should be processed as any other payment shortage would be. (Also see *Section 301, Properties in Disrepair (01/31/03)*, and *Section 303.02, Need for Emergency Repairs (11/29/99)*.)

**Section 102.03  
Payments in Full  
(01/31/03)**

Some borrowers may remit an amount equal to the outstanding principal balance in order to pay off their mortgage loan. Others will base their remittance on a statement of account issued by the servicer. In either case, the servicer must ensure that the total amount required to satisfy the indebtedness—principal, interest, outstanding advances, etc.—is received and remitted to Fannie Mae. (Also see *Part VI, Section 101, Notification of Mortgage Loan Payoff (01/31/03)*.)

**Section 102.04  
Repayment Plans  
(06/01/07)**

A servicer may allow a deserving borrower to resolve his or her delinquency by entering into some type of repayment plan under one of Fannie Mae's relief provisions. Forbearance plans allow the borrower to

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pay smaller than usual payments for a period of time before he or she begins to pay larger payments to eliminate the accumulated delinquency. The servicer must ensure that the borrower faithfully follows any repayment plan and remits all funds when they are due. (Also see *Part VII, Section 404, Repayment Plan (01/01/09)*.)

Section 102.05  
Military Indulgence  
(09/30/05)

In order to facilitate servicers' taking appropriate action in cases where military indulgence is warranted or required, *Exhibit 1: Military Indulgence*, provides a consolidated presentation of all of the relevant material on Fannie Mae's specific procedures for providing relief to U.S. servicemembers under the Servicemembers Civil Relief Act and Fannie Mae's additional forbearance policies.

Section 102.06  
Pending Modifications  
(01/31/03)

Until a request for modification of the mortgage loan is approved, the servicer should hold as unapplied funds any amounts received for lump-sum payments, interest, or installments. Once the request is approved, the servicer should apply any installment held as unapplied funds as a scheduled payment and remit the funds to Fannie Mae. If the request is not approved, the servicer should apply any scheduled installments that are due and should contact the borrower to determine what should be done with any remaining funds. (Also see *Part VII, Section 602, Mortgage Modifications (01/01/09)*.)

Section 102.07  
Waiver of Principal  
Collections (01/31/03)

When a borrower has made large additional principal payments to reduce the mortgage loan balance for a whole mortgage loan or a participation pool mortgage loan held in Fannie Mae's portfolio, the servicer may agree to let the borrower make interest-only payments for a while. These payments must end by the date that the reduced balance would have been reached had the mortgage loan amortized according to its original schedule.

The interest portion of the reduced installment should be computed on the basis of 30 days' interest (or 14 days' interest for a biweekly payment mortgage loan) on the UPB, in the usual manner specified in the mortgage loan instruments. The servicer should consider this amount as the fixed installment during the period that the principal portion is waived. The servicer should not accept any principal payments during this period because they would affect the next amount of interest due.

**Section 103  
Escrow Deposit  
Accounts (01/31/03)**

Generally, the first-lien mortgage loans Fannie Mae purchases or securitizes require that a portion of the borrower's payment be put into an escrow deposit account so that funds will be available to pay taxes, special assessments, hazard and flood insurance premiums, premiums for borrower-purchased mortgage insurance, ground rents, and similar items when they come due. However, second-lien mortgage loans usually do not require an escrow deposit account because the servicer of the first-lien mortgage loan generally maintains such an account. When that is not the case, the servicer of the second-lien mortgage loan may choose to require an escrow deposit account (if the mortgage loan documents permit the collection of escrow deposits) to ensure that these items are paid when they come due.

The servicer of a first-lien mortgage loan must assume full responsibility for administering the borrower's escrow deposit account in accordance with the mortgage loan documents and all applicable laws and government regulations. It must estimate the periodic escrow deposit required to ensure that funds will be available to pay each expense as it comes due. Each year, it should analyze the account to determine that the balance is adequate and, if necessary, make any adjustments required to meet the estimated future charges. The servicer of a second-lien mortgage loan that chooses to require escrow deposit accounts must take on these same responsibilities. (Also see *Part I, Section 307, Compliance with Applicable Laws (09/30/06)*.)

**Section 103.01  
Waiver of Escrow  
Deposits (01/01/05)**

Generally, the servicer of a first-lien mortgage loan may waive the escrow deposit account requirement for an individual VA, RD, or conventional mortgage loan. (However, if the mortgage insurance premiums for a conventional mortgage loan are paid on a monthly basis, the servicer may not waive the escrow deposit account requirement as it relates to those premiums. In addition, the servicer may not waive any escrow deposits for construction site insurance, taxes, or mortgage insurance for a construction-to-permanent mortgage originated under Fannie Mae's Native American housing initiative.) Fannie Mae also suggests that the servicer not grant a waiver to a borrower who has a blemished credit history and few cash reserves since the borrower may have difficulty in making the required tax and insurance payments in a lump sum. Similarly, in connection with a workout arrangement to address a P&I delinquency, Fannie Mae expects a servicer to consider the merits of also addressing any impending T&I payment associated with a non-escrowed mortgage as

part of the workout and determine whether establishing an escrow account would be advisable.

Borrowers who have been paying into an escrow deposit account and whose loan is current will sometimes request that the escrow requirement be discontinued. If a servicer permits escrow waivers, then (subject to the mortgage loan documents and applicable law) the waiver must not be based solely on the LTV ratio of a loan, but also on whether the borrower has the financial ability to handle the lump-sum payment of T&I. Financial ability could be found to exist, for example, when the borrower has had an acceptable payment history on his or her mortgage loan.

The waiver of escrow deposits should be in writing and should clearly state that it may be revoked at the servicer's option. When a waiver request has been granted, Fannie Mae encourages servicers to provide the borrower with a timely, clearly written disclosure that advises him or her of the implications of waiving the escrow account, particularly:

- informing the borrower of any applicable fees associated with the waiver of escrows;
- advising the borrower that he or she is responsible for personally and directly paying the non-escrowed items, in addition to paying the mortgage loan payment; and
- explaining the consequences of a failure to pay non-escrowed items, including the requirement for lender placement of insurance and the potentially higher cost (including any potential commission payments to the servicer) or reduced coverage for the borrower of lender-placed insurance.

Servicers also must include in the borrower's record (and make available for Fannie Mae's inspection, if requested) the borrower's request and the basis for the decision to approve any such waiver.

Even when the escrow deposit account requirement has been waived, the servicer remains responsible for the timely payment of the taxes and insurance premiums. If the borrower fails to pay the taxes or does not keep the insurance in force, the servicer must advance its own funds to pay any outstanding bills, revoke the waiver, and begin collecting deposits for the

escrow deposit account to pay future bills. In such cases, Fannie Mae will reimburse the servicer for any funds it has to advance (including those for late fees and tax penalties). (Also see *Part VIII, Section 108.01, Delinquent Tax Late Fees or Penalties (01/31/03)*.) When a waiver is revoked, if the borrower appears unable to pay any outstanding amounts due, the servicer should advance the payment and schedule out the repayment of that amount over as much as 12 months (or longer if the servicer deems appropriate). If, however, it appears that the borrower will not have the ability to become current on taxes and/or insurance even with the benefit of such “scheduling-out,” other loss mitigation steps should be pursued to arrange for the collection of the outstanding amounts owed.

Section 103.02  
Interest on Escrows  
(01/31/03)

Some jurisdictions require that interest be paid on the funds in the borrower’s escrow deposit account. When these requirements apply to mortgage loans that Fannie Mae owns or securitizes, the servicer must pay interest. The servicer also may voluntarily pay interest even if there is no law that requires such payment. Fannie Mae will not reimburse the servicer for required or voluntary interest payments.

Section 103.03  
Additional Deposits  
(01/31/03)

The servicer may collect deposits for items that Fannie Mae does not require (such as disability, credit life, or other optional insurance). If it does, the servicer must:

- identify in its records the purpose and the recipient of the additional deposits, and
- accept the mortgage loan payment even if it does not include these additional deposits.

Section 103.04  
Advances to Cover  
Expenses (01/31/03)

When the borrower’s deposit account does not have enough funds to cover a particular expense, the servicer should notify the borrower and then advance the funds necessary to pay the particular expense in a timely manner. The borrower may be billed for the amount the servicer advanced, if (and in the manner) permitted by the mortgage loan documents, applicable law, and government regulations. The amount billed to the borrower may include any reimbursable expenses that the servicer incurred, as well as interest on the advance. If the advance involves \$500 or more and was necessary to protect Fannie Mae’s interest in the property, the servicer of a whole mortgage, a participation pool mortgage, or an MBS mortgage serviced under the special servicing option may

submit a *Cash Disbursement Request* ([Form 571](#)) to request reimbursement for Fannie Mae's share of its advance. When Fannie Mae reimburses the servicer for an advance, any repayments subsequently made by the borrower should be used to repay Fannie Mae for any funds it disbursed.

**Section 103.05**  
**Annual Analysis**  
**(01/31/03)**

The servicer must analyze the account each year to determine its status and to estimate the funds needed for the coming year. After analyzing the account, the servicer can adjust the borrower's deposits to the account in accordance with the mortgage loan documents, applicable law, or government regulations. The servicer must send the borrower an escrow account statement within 30 days after the end of each escrow account computation year, unless the mortgage loan documents, applicable law, or government regulations specify otherwise.

**Section 104**  
**Mortgage Account**  
**Statements (01/31/03)**

At the beginning of each year, the servicer must send the borrower a statement of activity in his or her mortgage account during the past year. This statement can be used to satisfy the IRS requirement for notifying borrowers of the total interest received from them and reported to the IRS for the preceding year. This annual statement must be furnished to the borrower by January 31. The information included in the statement will vary depending on whether the mortgage is a regularly amortizing mortgage or a reverse mortgage.

The servicer also must provide a detailed analysis of all transactions relating to a borrower's payments or escrow deposit account whenever the borrower requests it. The servicer cannot charge the borrower for the annual statement or the detailed analysis. (Also see *Section 101.05, Notice to IRS (01/31/03)*.)

**Section 104.01**  
**Regularly Amortizing**  
**Mortgages (01/31/03)**

The annual statement that the servicer sends to a borrower who has a regularly amortizing mortgage (including one that provides for negative amortization) should provide the following information:

- the escrow deposit account balance at the beginning of the year, the total deposits to or withdrawals from the account during the year, and the account balance at year-end;
- the amount of interest that the borrower paid during the year;

- the amount of real estate taxes paid during the year;
- the UPB of the mortgage at the end of the year;
- the amount by which the mortgage balance increased during the year as a result of negative amortization (when applicable); and
- the amount of interest paid (or credited) to the borrower as “interest on escrow.”

Section 104.02  
Reverse Mortgage Loans  
(01/31/03)

The annual statement that the servicer sends to a borrower who has a reverse mortgage (a Home Keeper mortgage or an FHA HECM) should advise the borrower to seek advice about the tax consequences of a reverse mortgage. The statement should provide detailed information about:

- all payments made to the borrower (whether they were scheduled payments or unscheduled draws from a line of credit);
- all payments for taxes, hazard insurance, mortgage insurance (if applicable), and repair charges the servicer made on the borrower’s behalf;
- the total servicing fees paid to the servicer and any other fees the borrower paid or financed for payment plan changes;
- any payments made by the borrower;
- the total accrued interest (and, if the borrower made any payments, the total interest he or she actually paid);
- the mortgage loan balance at the end of the year;
- the original principal limit and the current net principal limit at year-end; and
- the original line of credit, the current net line of credit at year-end, and any outstanding cash balance due the borrower.

**Section 104.03  
TPR (05/18/07)**

The TPR® feature provides for a one-time rate reduction to eligible borrowers who have demonstrated creditworthiness by maintaining a timely mortgage loan payment record for the most recent 24 consecutive monthly payments before the second, third, or fourth year anniversary date of the first full installment payment due under the note (i.e., before the date on which the next payment is due). Eligible borrowers with the TPR feature may receive an automatic one percentage point mortgage rate reduction for loans delivered as EA-III or a one-half percentage point mortgage rate reduction for loans delivered as EA-II. The new note rate will take effect on the earliest anniversary date on which the borrower is eligible for the rate reduction.

The servicer is responsible for all activities required for the rate reduction, including but not limited to:

- identifying TPR mortgages,
- tracking the borrower's payment performance, and
- determining which mortgages are eligible for the rate reduction.

Once the borrower has met the eligibility criteria for the TPR rate reduction, the borrower's new monthly payment must be determined by calculating the amount required to pay the UPB of the mortgage as of the date when the new rate goes into effect in equal payments over the remaining term of the mortgage at the new reduced fixed interest rate. The borrower will commence payment of the new reduced monthly amount the month immediately following the earliest anniversary date on which the borrower has become eligible for the rate reduction. If the borrower fails each test for a note rate reduction, or becomes three months delinquent during the resting period at any time before a rate reduction, then the original note rate will remain in effect for the life of the loan. The rate reduction is not available if the note has previously been modified.

Ten days before the new monthly payment becomes effective, the servicer must provide written notification to the borrower regarding the new reduced interest rate, the new payment amount, and the date the new payment is effective. Early notification to the borrower provides the servicer with time to work with the borrower to address any questions or concerns about the new payment. If the borrower does not meet the



eligibility criteria for the rate reduction, the servicer must inform the borrower about any applicable retest period, the timing of any subsequent retests, and the borrower's responsibilities during the retest period.

In case of an adjustment error, the servicer must comply with the guidelines described in *Part IV, Chapter 5, Correction of Adjustment Errors*. In addition, the servicer must comply with all standard servicing guidelines applicable to fixed-rate mortgages.

Fannie Mae's investor reporting system requires lenders to use Transaction Code 83: Monthly Rate/Payment Change to report a transaction for TPR loans where the rate is being reduced. A transaction must be reported by the reporting month following the month in which the new payment becomes effective. Failure to report a Transaction Code 83 for a TPR loan will result in a "hard reject" on the system.

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## **Exhibit 1: Military Indulgence (07/30/08)**

The Servicemembers Civil Relief Act provides protection and relief to civilians who enter the U.S. military, including members of the National Guard who are called to active duty by federal authorities. Mortgage debts are covered under the Act if the borrower was a civilian when he or she became obligated under the mortgage and subsequently entered the military service, either voluntarily or involuntarily. The relief begins when the individual reports for active duty and ends a short period of time after he or she is separated from active duty.

One of the provisions of the Act requires the mortgage interest rate to be reduced to 6% during the servicemember's active duty period, unless the creditor applies to the court for permission not to reduce the interest rate because it can demonstrate that the servicemember's ability to repay the mortgage obligation has not been materially affected by his or her military service. Another provision allows for a complete stay in the enforcement of the mortgage loan terms if the servicemember obtains a court order finding that his or her ability to maintain the obligation has been materially affected by entry into the military service. Rather than granting a complete stay, the court could require the servicemember to make regular partial payments during his or her period of military service.

Fannie Mae's military indulgence relief provisions (which refer collectively to the statutory interest rate reduction, any forbearance Fannie Mae grants, protection against foreclosure, and extension of redemption periods) follow the intent of the Servicemembers Civil Relief Act, except that Fannie Mae will apply most forbearance terms without the servicemember having to petition the court. Fannie Mae encourages the servicemember to pay as much as possible toward the mortgage obligation during his or her active duty tour to keep the accumulated arrearages manageable. If a servicemember is unable to repay accumulated arrearages within 90 days after his or her separation from active duty, Fannie Mae will consider entering an appropriate repayment plan or modifying the mortgage if that is necessary. Arrearages do not include any amounts attributable to the excess of the note rate over 6% during the time of active duty.

Members of the National Guard are covered by the Act and by Fannie Mae's military indulgence policies if they are called up by the President or Secretary of Defense in connection with a national emergency, the deployment is supported by federal funds, and they serve for at least 30 consecutive days. If a state governor calls members of the National Guard or other state-supported military unit to active duty—and those individuals are eligible for state-mandated relief provisions—the servicer should also follow Fannie Mae's guidelines for military indulgence. When adapting these guidelines to accommodate the provisions of the state-mandated relief, the servicer must comply with all of the provisions of the applicable state law—such as those related to eligibility criteria, specific forms of relief, the extent of the relief, etc.—even if the provisions are at variance with Fannie Mae's usual requirements.

When the servicer places a mortgage under military indulgence, it agrees to accept payments of less than the usual monthly installment. Pursuant to the Servicemembers Civil Relief Act, if the fixed mortgage interest rate exceeds 6%, or whenever the adjusted rate exceeds 6%, the monthly installment of P&I owed must be reduced to reflect interest at 6% while the borrower is in active U.S. military service (provided that the loan obligation was incurred prior to such service), regardless of whether military service is voluntary or involuntary. Once the borrower's active duty status is terminated, the 6% rate cap will be extended twelve months after the termination of active duty. Further, pursuant to Fannie Mae's additional forbearance policy, the amount actually paid by the servicemember on a current basis may be less than the amount owed, and will vary according to his or her ability to pay.

**Initiating Relief** — Before granting military indulgence, the servicer should ask the borrower to provide a copy of his or her orders to military duty and to complete Fannie Mae's *Request for Military Indulgence* ([Form 180](#)). If the borrower is being deployed immediately, the servicer should prepare and sign the form with as much of the information as the servicemember can provide over the telephone, requesting that additional information be provided as soon as possible. The servicer may accept a servicemember's orders to report to full-time active duty as the only evidence of his or her eligibility to receive the reduced interest rate of 6%, but if the servicemember needs additional relief, the servicer will need to obtain more information about his or her financial capabilities using the Form 180.

The reduction in the interest rate to 6% should be automatic. It must be granted to any eligible servicemember whose first-lien or second-lien mortgage is secured by a one- to four-unit property, regardless of his or her occupancy status or percentage of ownership interest in the property. The servicer does not need to determine whether the servicemember's entry into active duty materially affected his or her ability to pay interest at the note rate (or rates, in the case of an ARM). Fannie Mae will not exercise its right to petition the court to reinstate the higher mortgage interest rate.

The Servicemembers Civil Relief Act does not specify the actions that a servicemember must take to notify a mortgage holder that he or she qualifies for the reduced interest rate. Most mobilization instructions advise the servicemember to notify his or her mortgage holder before beginning to make payments at a reduced rate. Most individuals will probably do that to make sure that they can determine the exact payment they should make. However, some may reduce their payments without notifying the servicer in advance. To confirm a borrower's eligibility under the Act, the servicer should consider including with any partial payments that are returned to borrowers a form letter explaining the provisions of the Act and providing instructions on how eligible persons can obtain benefits. The servicer also may be able to obtain information from its origination files that will help it determine a borrower's military status.

**Reduction of Interest Rate** — The reduction in the mortgage interest rate to 6% is required regardless of whether the mortgage status is prepaid, current, delinquent, or in foreclosure. Any prepaid installments with due dates during the period of active duty must be reapplied at the 6% rate. Installments that are delinquent when the servicemember enters active duty status must be paid with interest at the rate that was in effect when the payments came due. If the servicemember fails to notify the servicer when he or she initially enters active duty status, but subsequently provides evidence of the active duty status, the servicer must reapply, using the reduced 6% interest rate, any payments made after military service began. The servicemember should be given an option regarding the treatment of any remaining funds after the reapplication—application as a monthly payment (if sufficient), application as a principal curtailment, or a refund to the borrower.

The reduced 6% interest rate becomes effective when the servicemember reports for active duty. Rather than change the mortgage interest rate during the month, the servicer should make the new interest rate effective with the first payment due after the servicemember enters active duty. Since interest is paid in arrears, a servicemember will receive the benefit of the lower interest rate for the entire month, including any part of the month that precedes the date he or she entered active duty.

If the mortgage was delinquent when the servicemember entered active duty status, and the loan is serviced under the actual/actual, scheduled/actual, or scheduled/scheduled cash remittance types, prior to calculating the new payment using the standard amortization method, the delinquent interest may be capitalized by increasing the UPB and advancing the LPI date to bring the mortgage to a current status. This balance then is used to calculate the servicemember's new payment based on the 6% interest rate.

If the mortgage is part of an MBS pool, the delinquent interest cannot be capitalized. The only way to advance the LPI date is to hold payments that are collected, after the payment is recalculated based on 6% interest, as unapplied funds until such funds are sufficient to pay the oldest delinquent installment (P&I) in full, with interest at the rate that was in effect when the installment came due. This process continues until all the delinquent installments have been paid. After that, payments must be applied to the 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.

Under the terms of the Servicemembers Civil Relief Act, the difference between the full mortgage interest rate and 6% is not deferred; rather, it is forgiven. Fannie Mae, as the mortgage holder, will absorb the cost of this interest rate reduction.

The servicer must retain in its records copies of any written correspondence with the servicemember that indicates the new payment amount, the date it becomes effective, and the date it will be discontinued. Fannie Mae does not specify a particular form or document for this notification. If the servicemember also is being granted additional military indulgence, the servicer should have a copy of the repayment plan in its records.

Although the reduction in the interest rate to 6% changes the terms of the mortgage, Fannie Mae does not require the servicemember to execute an addendum to the note and a rider to the mortgage, or a formal loan modification agreement, to reflect the reduced interest rate. Of course, if the mortgage is modified once the servicemember is no longer on active duty, a loan modification agreement will be required at that time.

Fannie Mae expects the servicer to follow up with the servicemember periodically to determine when his or her active duty status will end, or whether there has been a change in his or her financial situation (if additional military indulgence was granted). At a minimum, the servicer should contact the servicemember or his or her family every three months to obtain a status report.

**Determining Monthly Payment Amounts** — There are two methods for determining monthly payment amounts owed for loans for which the interest rate is reduced to 6%:

- **Standard amortization method and payments:** The standard method is based upon a recalculated amortization schedule with interest at the rate of 6% and the actual remaining term of the mortgage.
- **Interest subsidy amortization method and payments:** The interest subsidy 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. 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). This method for payment calculation 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%. Further, 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. Accordingly, failure to recalculate

the payment periodically will result in a borrower interest payment at less than 6%.

The servicer must change the installment to reflect the full interest rate (either the premilitary fixed rate or the latest applicable interest rate for an ARM) as of the second payment due after the borrower is no longer on active duty. This will ensure that the borrower is charged interest at 6% during whatever portion of the month he or she was on active duty.

If the standard amortization method is used, the borrower's monthly payment after military service is calculated by reamortizing the UPB that is scheduled to be outstanding immediately following the last payment that is owed at the reduced rate of 6%, using the full mortgage interest rate (either the premilitary fixed rate, or the latest applicable interest rate for an ARM) and the actual remaining term of the mortgage.

However, if the interest subsidy amortization method was used, in the case of a fixed-rate mortgage, the borrower's monthly payment after military service will be the payment he or she had before the interest rate reduction. For an ARM, the borrower's monthly payment after military service will be 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.

ARMs placed under military indulgence require special treatment while an eligible servicemember is on active duty. Pursuant to the Servicemembers Civil Relief Act, the mortgage must be treated as a fixed-rate mortgage bearing interest at 6% (unless the applicable adjustable rate would be lower), in accordance 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 foregone during the period of active duty. However, the borrower may never be charged a higher rate than he or she would have been charged if he or she had remained a civilian. Once the servicemember's active duty ends, the new interest rate will be the interest rate that would have been applicable beginning on the scheduled interest rate change date that most recently precedes the servicemember's release from active duty.



**Servicing Fee** — Once the interest rate has been reduced to 6%, the servicer should calculate its servicing fee on the UPB of the mortgage at the beginning of each month (and not use a percentage-of-interest factor to determine the fee). This will ensure that the servicer 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%. (With the standard amortization method, there will be a slight difference because principal will amortize faster.)

**Additional Forbearance Measures** — If, after the mortgage interest rate is reduced to 6%, the servicemember is still unable to make the full monthly payment based on the lower interest rate, the servicer can agree to accept lesser payments. Whenever possible, the servicer should request the servicemember to pay an amount that is at least equal to the amount needed to cover escrow deposits for tax and insurance payments. However, since the extent of the servicemember's ability to pay will vary from individual to individual, Fannie Mae does not have a minimum amount that must apply in all situations. The servicer should 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 servicemember does not have to have a court order to obtain this relief.

Additional relief under military indulgence can be offered to a servicemember whose mortgage was in either a current or delinquent status before he or she reported for active duty. If the mortgage was delinquent, the servicer will need to make sure its records can account for unapplied payments that became due before the interest rate reduction to 6% took effect, as well as payments that are to be based on the 6% interest rate. All late charges coming due after the servicemember was called to active duty should be waived.

If Fannie Mae's mortgage loan is in a second-lien position and the first-lien mortgage loan is under military indulgence, the second-lien mortgage loan also should be placed under military indulgence. The servicer of the second-lien mortgage loan should request a copy of the military indulgence plan for the first-lien mortgage loan to make sure that the indulgence period for the second-lien mortgage loan will end at the same time that it ends for the first-lien mortgage loan.

Forbearance under military indulgence 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. Within that time, the servicemember will generally be expected to repay all delinquent installments under the mortgage loan. However, when the servicemember is unable to do that, the servicer should work out a repayment plan that cures the delinquency as soon as possible. If circumstances warrant, Fannie Mae will consider modifying the mortgage loan terms once the servicemember's active duty has been completed.

As long as the servicemember remits the agreed-upon amount under the terms of the military indulgence forbearance agreement, the mortgage should be considered current. However, in some instances, a servicemember who has been granted additional forbearance under military indulgence may become 90 days delinquent under the terms of the relief. If that happens, the servicer should not initiate foreclosure proceedings, but should investigate the reasons for the delinquency and arrange additional forbearance, if appropriate. If the servicemember cannot make any payments, the servicer should instruct him or her to request a stay in enforcement of the mortgage loan terms from the court. If a servicemember obtains a court-ordered stay of enforcement of the mortgage loan terms, he or she will not have to make any payments until such date as may be specified in the court order, or until the term of active duty ends.

**Reporting to Fannie Mae** — The servicer must notify Fannie Mae when it places a mortgage loan under military indulgence by submitting a *Special Information Worksheet (for Military Indulgence)* (see *Exhibit 2: Special Information Worksheet (for Military Indulgence)*) to the Manager, Portfolio Processing Management Unit in Fannie Mae's Herndon, VA, office by e-mailing the form to [sailors\\_and\\_soldiers@fanniemae.com](mailto:sailors_and_soldiers@fanniemae.com). The worksheet may be submitted at the end of the month with all of the other worksheets prepared in that month, or at the end of each quarter with all of the other worksheets prepared for that quarter. If relief was granted in addition to reduction of the interest rate to 6%, the servicer should attach to each worksheet a copy of the Form 180 that was prepared by the servicemember. If the borrower was deployed before he or she could sign Form 180, the servicer should prepare and sign the form as evidence of the granting of the additional relief. The servicer should retain the

servicemember's orders and the completed Form 180 in the individual mortgage loan file as long as the military indulgence remains in effect.

The servicer should prepare a *Special Information Worksheet* when it (1) reduces the servicemember's interest rate to 6%, (2) puts other forms of military indulgence into effect for the servicemember, or (3) changes the servicemember's payment, if the interest subsidy amortization method is used, and (4) changes the interest rate back to its premilitary interest rate (or the applicable adjusted rate, for an ARM). Fannie Mae will use these forms to keep track of the number of mortgage loans the servicer is servicing subject to the interest rate reduction, to adjust Fannie Mae's investor reporting system records to reflect the 6% interest rate (if applicable), and to verify the servicer's request for reimbursements of advances (as applicable).

If military indulgence (in addition to reduction of interest to 6%) is granted in connection with a delinquency, the servicer also will need to 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. In addition, if the mortgage loan is an ARM, the servicer should report through Fannie Mae's investor reporting system a Transaction Code 83: Monthly Rate/Payment Change as each scheduled interest rate adjustment is due in order to advise Fannie Mae what the new rate would be if the 6% interest rate reduction were not in force (even though interest will not be accruing at the adjusted rate).

**Requesting Reimbursement for Advances** — For loans serviced under actual/actual, scheduled/actual, or scheduled/scheduled cash remittance types, Fannie Mae will adjust its investor reporting system records to reflect the 6% interest rate and new P&I payments (calculated in accordance with either the standard method or the interest subsidy method) upon receipt of the *Special Information Worksheets*. Since Fannie Mae's loan-level records will be in agreement with its servicers' records, servicers will not have to advance any interest due to the interest rate reduction, and no request for reimbursement is necessary. If the interest subsidy amortization method is used, the servicer will have to notify Fannie Mae (using the worksheet) of any change in the monthly installment while the mortgage loan is under military indulgence.

For loans serviced under scheduled/scheduled MBS, Fannie Mae will not adjust its investor reporting system records to reflect the 6% interest rate and new P&I payments. The servicer of scheduled/scheduled MBS loans under military indulgence will have to advance interest due to the interest rate reduction, regardless of the method (standard or interest subsidy) utilized in calculating the new payments. Fannie Mae will reimburse servicers for the amount of the interest reduction. The interest reimbursement is calculated by first deducting the servicer's compensation rate from the interest at 6% and then deducting this result from the pass-through rate that would be applicable if the borrower had not entered military service.

- If the servicer uses 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 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). However, 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.) However, the principal curtailment must be identified on all pool reconciliations and must be reported during security balance call-in as unscheduled principal. (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.) 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.

- If the servicer uses the interest subsidy method (which uses the amortization schedule, or schedules in the case of an ARM, that would have applied if the borrower had remained a civilian), no reconciling principal curtailment needs to be reported. However, 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. Further, the servicer must apply payments to principal before interest (so that amortization stays on the applicable schedule). Accordingly, the servicer must recalculate the payment periodically (at least annually) to avoid a material underpayment of interest. The servicer should not request reimbursement, and 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.

The servicer should submit a *Cash Disbursement Request* ([Form 571](#)) to the Manager, Portfolio Processing Management Unit in Fannie Mae's Herndon, VA, office by e-mailing the form to [sailors\\_and\\_soldiers@fanniemae.com](mailto:sailors_and_soldiers@fanniemae.com) at the end of each month to request reimbursement for its interest advances for scheduled/scheduled MBS mortgages for that month (capped at the amount calculated by first deducting the servicer's compensation rate from the interest at 6% and then deducting this result from the pass-through rate that would be applicable if the borrower had not entered military service). Fannie Mae will accept a single Form 571 to cover all mortgages for which the servicer is due reimbursement in any given month. The servicer should show the total reimbursement it is due on the Form 571, attaching a back-up schedule listing each mortgage covered by the request. The back-up schedule should provide the following information for each mortgage: (1) the 10-digit Fannie Mae loan number, (2) the pool number, (3) the scheduled principal balance used to determine the amount of interest reduction advanced (principal balance scheduled to be outstanding immediately prior to the due date), (4) the premilitary principal amount, (5) the premilitary interest amount, (6) the new interest amount (computed at 6%), (7) the new P&I amount (actually collected from the borrower),

and (8) the difference between the premilitary interest amount and the new interest amount.

**Foreclosure** — Under the Servicemembers Civil Relief Act, foreclosure proceedings cannot be commenced (or continued) against an eligible servicemember (with respect to a mortgage incurred prior to the period of active duty) unless he or she has given written consent to the proceedings, the court authorizes commencement of proceedings as a result of its determination that military service has not materially affected the servicemember's ability to repay the debt, or the court authorizes the recommencement of proceedings that were authorized previously.

Additionally, the Act requires a stay of foreclosure proceedings and other legal proceedings on eligible mortgage loans for nine months following the termination of a servicemember's active duty effective through December 31, 2010, unless extended by Congress. After the expiration date, servicers are required to limit the granting of a stay of foreclosure or other legal proceedings to a maximum of 90 days after termination of active duty.

A servicer should attempt to ascertain the military status of the mortgagors before initiating foreclosure proceedings for any mortgage to make sure it does not begin proceedings against a servicemember who is eligible for relief under the Act without his or her written permission. Some jurisdictions may require affidavits from mortgagors regarding their active-duty military service before proceedings can be commenced. The servicer is responsible for determining and complying with specific state or local laws that address the Act's effect on the foreclosure process, or that impose other restrictions or limitations on foreclosure for members of the military.

In some cases, a servicemember's mortgage may have already been in the process of foreclosure when he or she commenced active duty. In others, a servicer may be ready to institute proceedings but has not done so. Since these defaults were not related to the servicemember's entry into active-duty status, the servicer should attempt to obtain the servicemember's written agreement to continue or commence the foreclosure proceedings. If the servicemember does not provide his or her written agreement, the servicer must either stay any foreclosure proceedings that were already in process or postpone the institution of foreclosure proceedings until it can

petition the court to allow the continuation or commencement of proceedings because the servicemember's entry into the service occurred after the mortgage default and could not have materially affected his or her ability to pay the past-due debt. If permission to foreclose is granted, the servicer should permit the servicemember's family to continue occupying the property during the redemption period, paying a reasonable rent, if they are occupying the property at the time of the foreclosure sale.

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**General Servicing  
Functions**

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Mortgage Loan Payments

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Exhibit 1

June 10, 2011

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## Exhibit 2: Special Information Worksheet (for Military Indulgence) (01/31/03)

Check One:  Initial Submission  Supplemental Submission

Servicer's Fannie Mae Identification Number (9-digits): \_\_\_\_\_

Fannie Mae Loan Number (10-digits): \_\_\_\_\_

Lender Loan Number: \_\_\_\_\_

Remittance Option (Check one):

Actual/Actual (A/A)

Scheduled/Actual (S/A)

Scheduled/Scheduled (Portfolio), also called MRS or MBS-Acquired

Scheduled/Scheduled (MBS), also called MBS Swaps

Amortization Method (Check one):

Standard

Interest Subsidy

Other (Prior Approval Required)

Military Interest Rate: \_\_\_\_\_ percent

Military P&I Installment \_\_\_\_\_

Effective Start Date (MMYY): \_\_\_\_\_

Current Pass-Through Rate: \_\_\_\_\_ percent

LPI Date (MMYY): \_\_\_\_\_

UPB: \$ \_\_\_\_\_

Expected End Date (MMYY): \_\_\_\_\_

Actual End Date (MMYY): \_\_\_\_\_

Next Scheduled ARM Adjustment Date, if applicable (MMYY): \_\_\_\_\_

Has additional forbearance been extended?  Yes  No

If so, describe the terms of the agreement, including when it begins and ends. [Attach *Request for Military Indulgence* (Form 180) if one was obtained.]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Servicer Name & Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signed:

\_\_\_\_\_

Typed Name and Title:

\_\_\_\_\_

Contact Phone No.:

\_\_\_\_\_

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**General Servicing  
Functions**

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Mortgage Loan Payments

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Exhibit 2

June 10, 2011

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## Chapter 2. Taxes and Assessments (07/01/99)

### Section 201 Taxes and Ground Rents (08/24/03)

Part of a servicer's responsibility for protecting the priority of Fannie Mae's lien on a property securing a mortgage Fannie Mae has purchased or securitized is the maintenance of accurate records on the status of taxes, ground rents, or other assessments that could become a lien against the property—and paying the related bills if it maintains an escrow deposit account for that purpose.

The servicer must maintain accurate records on the status of real estate taxes and ground rents. The servicer of a *first-lien mortgage loan* usually accomplishes this by paying the bills itself using funds in the borrower's escrow deposit account. When the servicer has waived the escrow deposit account for a specific borrower, it still remains responsible for the timely payment of taxes and ground rents. Therefore, if the borrower fails to pay the taxes or ground rents, the servicer must advance its own funds to pay them, revoke the waiver, and begin escrow deposit collections to pay future bills. (Also see *Section 103.01, Waiver of Escrow Deposits (01/01/05)*.)

The servicer of a *second* mortgage does not have to pay the bills for taxes and ground rents, but it must satisfy itself that these items are paid when due—either by the borrower or the first-lien mortgage loan servicer. If the second-lien mortgage loan servicer wishes (and the mortgage loan documents permit), it may establish an escrow deposit account to ensure that these expenses are paid promptly.

When the property securing the mortgage loan is a manufactured home, servicers must take the appropriate steps to ensure that both the manufactured home and land are taxed as real property and that a single tax bill is issued. In most cases, manufactured homes that have been converted to real property also will be taxed as real property. If this is not possible under applicable law and the dwelling must be taxed separately as personal property, the servicer's escrow systems must be adjusted to escrow for both real and personal property taxes. Further, in this event, all of Fannie Mae's requirements relating to real estate taxes apply equally to personal property taxes applicable to the dwelling.

The servicer should use the funds in the borrower's escrow deposit account to pay taxes and other related charges before any penalty date. Whenever funds are available, the servicer must pay these expenses early enough to take advantage of the maximum discounts allowed. If the deposit account balance is not sufficient to pay these obligations, the servicer should notify the borrower and then advance its own funds. The borrower may be billed for the amount the servicer advanced if (and in the manner) permitted by the mortgage loan documents, applicable law, and government regulations. If a penalty is incurred for late payments of taxes—and the borrower was a factor in delaying the payment—the servicer may bill the borrower for the penalty. Otherwise, the servicer must pay the penalty from its own funds. In such cases, Fannie Mae will reimburse the servicer for any funds it has to advance (including those for late fees and tax penalties). (Also see *Part VIII, Section 108.01, Delinquent Tax Late Fees or Penalties (01/31/03)*.)

**Section 202  
Special Assessments  
(01/31/03)**

Special assessments may be imposed by special tax, municipal utility, or community facilities districts in some states; by the HOA of a PUD or condo project; or by the co-op corporation of a co-op project. The servicer must maintain accurate records on the status of any special assessments that could become a lien against a property. Generally, the borrower will pay special assessments directly, but if he or she fails to do so, the servicer must advance its own funds to pay them if that is necessary to protect the priority of Fannie Mae's lien. In a few instances, deposits to pay special assessments will be collected as part of the mortgage loan payment.

When the HOA of a PUD or condo project notifies the servicer that a borrower is 60 days' delinquent in the payment of assessments or charges levied by the association, the servicer should advance the funds to pay the charges if necessary to protect the priority of Fannie Mae's mortgage lien. If the project is located in a state that has adopted the Uniform Condominium Act (UCA), the Uniform Common Interest Ownership Act (UCIOA), or a similar statute that provides for up to six months of delinquent regular condo assessments to have lien priority over the mortgage lien, Fannie Mae will reimburse the servicer for up to six months of such advances. However, Fannie Mae will not reimburse the servicer for any fees or costs related to attempts to collect the delinquent assessments.

## Chapter 3. Property Inspections (01/31/03)

Part of a servicer's responsibility for safeguarding the integrity of the property securing a mortgage Fannie Mae has purchased or securitized may include making periodic inspections of the property (including its interior) to prevent unnecessary deterioration that may result from neglect or vandalism—and advancing funds for repairs if necessary to protect Fannie Mae's investment.

The servicer of a *first-lien* mortgage loan usually does not need to inspect the property that is security for a current mortgage as long as the mortgage loan remains current. The servicer of a *second-lien* mortgage loan also does not have to inspect a property if it can obtain evidence that the first-lien mortgage loan servicer has performed a recent inspection.

This *Chapter* addresses unusual circumstances that may result in the need for the servicer to inspect a property when the mortgage loan is current, as well as Fannie Mae's requirements for inspecting properties that secure delinquent mortgage loans and for inspecting acquired properties. Generally, a *Property Inspection Report* ([Form 30](#)) should be used to document the inspection, although the servicer may use its own form if it provides equivalent information.

### Section 301 Properties in Disrepair (01/31/03)

If the servicer believes that the value of a property may be in jeopardy because of the condition of the property, it should inspect the property immediately. Before the servicer of a second mortgage conducts this inspection, it should contact the first-lien mortgage loan servicer to determine when the property was last inspected and to avoid a potential duplication of effort.

When an inspection discloses any condition detrimental to the value of the property or the need for urgent repairs, the servicer should remind the borrower of his or her obligation to maintain the property. The servicer of a *first-lien* mortgage loan should take one of the following actions:

- If the borrower agrees to arrange for the necessary repairs, the servicer should follow up until the repairs have been completed.

- If the borrower is willing to make the repairs, but is unable to do so, the servicer of a whole mortgage loan, participation pool mortgage loan, or MBS mortgage loan serviced under the special servicing option may ask Fannie Mae to advance the necessary funds by submitting a *Cash Disbursement Request* ([Form 571](#)). Appropriate arrangements should be made for the borrower to repay the advance.
- If the borrower refuses to make the necessary repairs and they are of an emergency nature, the servicer must make them. Fannie Mae will repay the servicer for any funds it has to advance for a whole mortgage loan, a participation pool mortgage loan, or an MBS mortgage loan serviced under the special servicing option. If the borrower refuses to make arrangements to repay the advance, the servicer may apply the mortgage loan payment against the advance if the mortgage loan terms, local law, and government regulations allow it to do so.

The servicer of a second-lien mortgage loan should notify the first-lien mortgage loan servicer of the results of the inspection and the borrower's plans regarding any needed repairs. If the borrower agrees to arrange for the repairs, the second-lien mortgage loan servicer should follow up until the repairs have been completed. However, if the borrower cannot (or will not) make the repairs, the servicer should 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 should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

**Section 302  
Vacant or Abandoned  
Properties (01/31/03)**

The servicer must inspect a property as soon as possible after it becomes aware of the possibility that the borrower may have abandoned the property. When the inspection reveals that the property is vacant, the servicer should try to locate the borrower to determine the reason for the vacancy. The servicer of a second-lien mortgage loan also should contact the first-lien mortgage loan servicer to see if it is aware of the reason for the vacancy and to determine if it has taken any action. The servicer (or the first- and second-lien mortgage loan servicers acting jointly) also must make immediate arrangements to protect the property from vandalism and the elements to the extent that local laws allow such action.

The servicer should contact any junior lienholders to determine their intentions, and notify the hazard insurance carrier about the vacancy to ensure that appropriate insurance coverage is being maintained.

If the mortgage loan is current, the servicer must summarize its attempts to locate the borrower and its discussions with any junior lienholders (and the servicer of the first mortgage if Fannie Mae's mortgage is in the second-lien position) and submit to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center a recommendation for further action. If the mortgage loan is delinquent and the borrower cannot be found, the servicer may consider instituting foreclosure proceedings (or, in the case of certain FHA Section 235 first-lien mortgage loans, assigning them to HUD).

The servicer must continue inspecting the property at 60-day intervals, although if any inspection reveals evidence of vandalism or major damage to the property (or vandalism in the vicinity of the property), the servicer should schedule the subsequent property inspections at more frequent intervals. More frequent property inspections in such cases—and prompt action to correct any problems discovered during an inspection—can help avoid deterioration in the overall appearance of the neighborhood and remove potential safety hazards. There also may be other instances in which a servicer needs to schedule its subsequent property inspections more frequently. For example, if the servicer is aware of a local ordinance related to vacant or abandoned properties (such as the imposition of daily fines) that could significantly increase costs or Fannie Mae's risk of loss, it should inspect the property more frequently. Furthermore, if a vacant or abandoned property is located in an area that has severe weather conditions during the winter months, the servicer may want to inspect the property more frequently to confirm the effectiveness of its previous winterization efforts or to take additional action, if necessary.

When the decision is made to initiate foreclosure proceedings or to accept a deed-in-lieu, the servicer should schedule its property inspections in a way that will ensure that the final comprehensive property inspection is completed at least 30 days prior to the date of the foreclosure sale (or the acceptance of the deed-in-lieu).

**Section 303  
Properties Securing  
Delinquent Mortgages  
(11/29/99)**

Generally, the servicer does not have to inspect a property that secures a delinquent mortgage if it has made contact with the borrower and is working with the borrower to resolve the delinquency (unless the mortgage insurer or guarantor requires a property inspection). However, the servicer must inspect the property if it (1) is unable to contact a delinquent borrower to discuss some type of relief or loss mitigation alternative; (2) is able to contact the borrower, but discovers that the borrower has a disregard for the mortgage obligation; or (3) is able to contact the borrower, but the borrower fails to keep promises he or she made with respect to bringing the mortgage current or working with the servicer to develop a repayment plan.

When a property inspection is required, the servicer should schedule its property inspections as follows:

- For a ***first-lien*** mortgage loan, the servicer must make its initial property inspection by the 135th day of delinquency or by the date it decides to initiate foreclosure proceedings (if that decision is made earlier than the 135th day of delinquency). The servicer must schedule any subsequent property inspections that may be required at 60-day intervals until it establishes contact with the borrower (and is working with him or her to resolve the delinquency) or, if it has decided to initiate foreclosure proceedings or accept a deed-in-lieu, until the date of the comprehensive property inspection report that Fannie Mae requires prior to the foreclosure sale date or the date a deed-in-lieu is executed.
- For a ***second-lien*** mortgage loan, the servicer must make its initial property inspection by the 45th day of delinquency or by the date it decides to initiate foreclosure proceedings (if that decision is made earlier than the 45th day of delinquency). The servicer should schedule subsequent property inspections as often as necessary to protect Fannie Mae's interests. When the servicer decides to initiate foreclosure proceedings, it must inspect the property every 30 days thereafter up until it makes the comprehensive property inspection that is required prior to the foreclosure sale date.

If one of the servicer's inspections reveals that the property is vacant or abandoned, the servicer should schedule its subsequent inspections in



accordance with the provisions of *Section 302, Vacant or Abandoned Properties (01/31/03)*.

**Section 303.01**  
**Delinquency under**  
**Repayment Plan**  
**(11/29/99)**

A servicer must inspect a property as soon as it becomes aware of a borrower's delinquency under a repayment plan, and continue inspecting the property at 60-day intervals. If an inspection reveals evidence of vandalism or major damage to the property (or vandalism in the vicinity of the property), the servicer should schedule the property inspections at more frequent intervals. The inspections should continue to be made until such time as the mortgage is brought current or, if the servicer decides to initiate foreclosure proceedings or accept a deed-in-lieu, until the date that the servicer makes the required comprehensive property inspection prior to the foreclosure sale or the date the deed-in-lieu is executed.

If one of the servicer's inspections reveals that the property is vacant or abandoned, the servicer should schedule its subsequent inspections in accordance with the provisions of *Section 302, Vacant or Abandoned Properties (01/31/03)*.

**Section 303.02**  
**Need for Emergency**  
**Repairs (11/29/99)**

If, at any time, the servicer determines that emergency repairs are required to protect Fannie Mae's security, it must advance the funds necessary to pay for repairs to a property that secures a delinquent mortgage. The servicer of a second-lien mortgage loan should first verify whether the first-lien mortgage loan servicer has arranged to pay for the needed repairs. The servicer should arrange for the borrower to repay this 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 has not repaid the advance, Fannie Mae will reimburse the servicer for Fannie Mae's share of the advance when the claim is settled (unless the mortgage loan is an MBS mortgage loan serviced under the regular servicing option).

**Section 304**  
**Preforeclosure**  
**Inspections (08/24/03)**

Servicers are required to make several preforeclosure property inspections: a thorough inspection of the property before they initiate foreclosure proceedings (the pre-referral inspection), additional inspections at least every 60 days thereafter, and a comprehensive inspection 30 days before a foreclosure sale (the comprehensive inspection).

The servicer must make a thorough pre-referral inspection of the property before it decides to liquidate the mortgage loan by initiating foreclosure

proceedings or by accepting a deed-in-lieu. The pre-referral inspection is required to include an assessment of whether the property is improved with a manufactured home. If the inspection reveals that the property type is manufactured housing, the servicer must so indicate in its records used to document the pre-referral inspection.

Once the mortgage loan has been referred for foreclosure, the servicer must inspect the property at least every 60 days (or, for a second-lien mortgage loan, every 30 days), and more often if the property is vacant or is located in an area with a high rate of vandalism. If the inspection immediately preceding the foreclosure sale reveals that the property has been damaged, the servicer must determine whether the sale should be postponed to allow time for resolving any claim with the hazard insurance carrier. This is particularly important for a second mortgage if the first mortgage is not in default.

The servicer must perform a comprehensive property inspection 30 days before the foreclosure sale—or the anticipated date that a deed-in-lieu will be sent for recordation—for:

- all conventional mortgage loans,
- any FHA mortgage loan that cannot be conveyed to HUD,
- 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 comprehensive property inspection should be summarized on a *Property Inspection Report* ([Form 30](#)), which should be included in the individual mortgage loan file to ensure that it will be readily available should Fannie Mae request that it be sent to Fannie Mae. A comprehensive property inspection report should address the following:

- occupancy data, if the property is occupied by a tenant, including the term of the lease and the amount of the monthly rental income that is being collected;

- the condition of the property, including the estimated costs of any repairs that are 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.

If the inspection reveals that it is, the servicer must so indicate in the general comments section of the Property Inspection Report and include:

- any identifying number(s) related to the manufactured home—for example, Vehicle Identification Number, serial number that must appear on the HUD Data Plate, etc. (in the case of multi-width units, there may be multiple numbers); and
  - the manufacturer's name and model, year of manufacture, length and width of the unit(s);
- 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 of the property or its sale; and
  - the location of the keys to the property.

Fannie Mae will reimburse the servicer for the costs of this comprehensive preforeclosure property inspection, as well as for the costs of any other preforeclosure property inspection required by HUD or VA (to the extent that the expenses are includable in the insurance or loan guaranty claim). Fannie Mae will not reimburse the servicer for other preforeclosure property inspections for a conventional or RD mortgage loan.

When the servicer learns further information (whether obtained at the time of the pre-referral inspection or in any subsequent preforeclosure inspection) that Fannie Mae requires to be recorded on Form 30 that relates to the status of the property as manufactured housing, it also should provide that information to the foreclosure attorney, trustee, or bankruptcy attorney, as applicable. (Also see *Part VIII, Chapter 1, Exhibit 1: Mortgage Loan Status Data for Foreclosure Proceedings* and *Exhibit 2: Expected Servicer/Attorney (or Trustee) Interaction.*)

**Section 305  
Post-foreclosure  
Inspections (01/31/03)**

After the servicer notifies Fannie Mae about an acquired property, Fannie Mae designates a broker or agent to handle property maintenance functions and to assume certain property management responsibilities. Fannie Mae will rely on these brokers or agents to conduct most post-foreclosure property inspections. The servicer will need to conduct a post-foreclosure inspection for one of these acquired properties only if Fannie Mae requires one in connection with cancellation of a flood insurance policy or if Fannie Mae specifically requests the servicer to inspect a particular property. A servicer also must conduct any post-foreclosure property inspections that HUD and VA require for properties that will be conveyed to them. (Also see *Part VIII, Section 112, Flood Insurance Coverage (04/01/99).*)

Fannie Mae will reimburse a servicer for the costs of any post-foreclosure property inspection Fannie Mae requires it to make. Fannie Mae also will reimburse the servicer for any post-foreclosure inspection required by HUD and VA (to the extent that the expenses are legitimate to include includable in the insurance or loan guaranty claim).

June 10, 2011

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## **Chapter 4. Transfers of Ownership (01/31/03)**

When a mortgage loan does not contain a due-on-sale (or due-on-transfer) provision, ownership of the security property can be transferred without restriction. However, when the mortgage loan includes a due-on-sale (or due-on-transfer) provision, that provision may either prohibit a transfer of ownership of the mortgage loan altogether or allow it only under certain conditions. In addition, the ability to enforce the due-on-sale (or due-on-transfer) provision may depend on whether the mortgage loan is a whole mortgage loan, a participation pool mortgage loan, or an MBS mortgage loan.

When the servicer receives a request for a statement of account in connection with a possible transfer of ownership for a property—or learns after the fact that a transfer has occurred—it must review the mortgage instruments to determine whether the mortgage loan is subject to enforcement of the due-on-sale (or due-on-transfer) provision. When the servicer issues the statement of account, it should clearly state Fannie Mae's right to enforce the due-on-sale provision (if applicable), describe Fannie Mae's policy, and point out any exceptions or limiting conditions to the policy. In addition, the servicer should establish procedures to monitor requests for changes in mailing addresses for the borrower or changes of the borrower's name or mailing address on hazard insurance policies or tax notices. The servicer should investigate any questionable changes to determine whether a transfer of ownership has occurred, and whether any action needs to be taken to enforce the due-on-sale provision.

A servicer may charge a fee for processing transfers of ownership for FHA and VA mortgage loans, as long as the fee is within the limits established by HUD and the VA. Generally, the servicer's fee for processing a transfer of ownership for a conventional mortgage loan or an RD mortgage loan should be \$100. However, if 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 provision that permits an assumption under certain conditions, the servicer may charge a fee equal to 1% of the UPB of the mortgage loan—subject to a \$400 minimum and a \$900 maximum—as long as its costs warrant these fees. If they do not, the servicer should charge lower fees.

In addition, out-of-pocket expenses may be passed on to either the property seller or purchaser. To assist Fannie Mae in complying with IRS reporting requirements, a servicer should advise Fannie Mae of the fees it collects for a transfer of ownership related to a given mortgage loan as part of the monthly activity information it provides through the Fannie Mae investor reporting system. (Also see *Part I, Section 203.01, Servicing Fees (09/30/05)*.)

**Section 401  
FHA Mortgage Loans  
with No Due-on-Sale  
Provision (01/31/03)**

When a transfer of ownership occurs for an FHA mortgage loan that is not subject to a due-on-sale provision, the servicer must notify the hazard (and, if applicable, flood) insurance company, tax authorities, FHA, and any other interested parties. If the new borrower does not provide his or her own hazard (and, if applicable, flood) insurance policy, the servicer should request the insurer to prepare an endorsement to the existing 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 whole mortgage that is subject to an FHA Escrow Commitment and the transfer of ownership occurs during the first 18 months of the mortgage loan term. (As soon as Fannie Mae is notified, it will return any escrow funds it is holding so the servicer can release them to the original borrower.), or
- the previous borrower requests a release from personal liability. Fannie Mae will agree to release the borrower when a credit-worthy purchaser assumes the mortgage loan. If Fannie Mae is the owner of record for the mortgage loan, the servicer should either execute the assumption and release agreement on Fannie Mae's behalf (if it has Fannie Mae's limited power of attorney to execute such agreements) or send the assumption and release agreement along with proof that FHA approved the release of liability to Fannie Mae – Vendor Oversight, 13150 Worldgate Drive, Herndon, VA 20170 (if it does not have Fannie Mae's limited power of attorney or has one that does not permit it to execute such agreements). If the servicer is the owner of record for the mortgage loan, it should execute the assumption and release agreement, sending a copy of the executed agreement to the applicable document custodian; either Fannie Mae's DDC or an

approved third-party custodian who holds the original mortgage note on Fannie Mae's behalf.

The ownership of a property that secures an FHA Section 248 mortgage loan may be transferred to a purchaser who is not a Native American as long as the current property owner's tribe agrees to the transfer. The new purchaser must qualify for the mortgage loan under the standard FHA Section 248 credit guidelines. When the property is not purchased subject to the existing mortgage loan, the purchaser must execute a new lease that has a term equal to the remaining term of the existing lease. When the property is purchased subject to the existing mortgage loan, the purchaser may either assume the existing lease or execute a new lease (as determined by the borrower's tribe). If the purchaser assumes the existing mortgage loan, the servicer must execute an assumption and release agreement to release the borrower from liability and submit that agreement and any other agreement that evidences the assignment of the lease to the purchaser to the appropriate Bureau of Indian Affairs Land Title and Records Office for recordation. The servicer must also notify FHA of the transaction in accordance with the requirements for a standard transfer of ownership that involves a release of liability.

**Section 402  
FHA Mortgage Loans  
with Due-on-Sale  
Provision (01/31/03)**

When an FHA mortgage loan is subject to enforcement of a due-on-sale provision, a servicer that is a HUD-approved direct endorsement lender must evaluate the prospective purchaser's credit and financial capacity if the transfer of a principal residence occurs within the first 12 months after the mortgage loan is executed (or within the first 24 months, if the property is an investment property and the mortgage loan was insured prior to 12/15/89). If the prospective purchaser is credit-worthy, the servicer must approve the transfer and release the borrower from personal liability under the mortgage loan; however, if the prospective purchaser is not credit-worthy, the servicer must inform the property seller to seek another purchaser that meets HUD's credit requirements. (If the servicer is not a HUD-approved direct endorsement lender, it must submit a credit analysis package to HUD for review.) Should the servicer learn that the transfer has taken place in spite of its notification that the proposed purchaser was not credit-worthy, the servicer must notify HUD as promptly as possible, providing a recommendation on whether the mortgage loan should be accelerated.

When a servicer finds out about a transfer of ownership after it has occurred, the servicer must request a credit application package from the property purchaser. If the purchaser submits an application package, the servicer must perform a credit analysis (or send the package to HUD if it is not authorized to make the final decision on the transaction). The servicer must authorize the transfer if the purchaser is credit-worthy and release the borrower from personal liability under the mortgage loan; however, the servicer must send any application it rejects to HUD for review, along with its recommendation on whether the mortgage loan debt should be accelerated. If the purchaser refuses (or fails) to submit the requested credit application, the servicer should notify HUD, providing any credit information that it has been able to obtain from other sources. In all cases, HUD will make the final decision on whether the mortgage loan debt should be accelerated.

**Section 403  
VA Mortgage Loans  
with No Due-on-Sale  
Provision (01/31/03)**

When a transfer of ownership occurs for a VA mortgage that is not subject to a due-on-sale provision, the servicer must notify the hazard (and, if applicable, flood) insurance company, tax authorities, VA, and other interested parties. If the new borrower does not provide his or her own hazard (and, if applicable, flood) insurance policy, the servicer should request the insurer to prepare an endorsement to the existing policy to name the new borrower.

The servicer does not need to notify Fannie Mae when ownership of a property is transferred, unless the borrower requests a release from personal liability. Fannie Mae will agree to release the borrower when a creditworthy purchaser assumes the mortgage loan. If Fannie Mae is the owner of record for the mortgage loan, the servicer should either execute the assumption and release agreement on Fannie Mae's behalf (if it has Fannie Mae's limited power of attorney to execute such agreements) or send the assumption and release agreement (if it does not have Fannie Mae's limited power of attorney or has one that does not permit it to execute such agreements), along with proof that VA approved the release of liability, to Fannie Mae – Vendor Oversight, 13150 Worldgate Drive, Herndon, VA 20170 for execution. If the servicer is the owner of record for the mortgage loan, it should execute the assumption and release agreement, sending a copy of the executed agreement to the applicable document custodian; either Fannie Mae's DDC or an approved third-party custodian that holds the original mortgage note on Fannie Mae's behalf.



**Section 404  
VA Mortgage Loans  
with Due-on-Sale  
Provision (01/31/03)**

When a VA mortgage loan is subject to enforcement of a due-on-sale provision, a servicer that is a VA “automatic” lender must evaluate the creditworthiness of the prospective purchaser, unless the transfer involves a transaction for which VA does not require review or approval of the transfer. (If the servicer is not a VA automatic lender, it must submit the proposed transfer to VA for approval.) If the prospective purchaser is creditworthy, the servicer should approve the transfer and release the borrower from liability under the mortgage loan on behalf of VA. If Fannie Mae is the owner of record for the mortgage loan, the servicer will need to either execute the assumption and release agreement on Fannie Mae’s behalf (if it has Fannie Mae’s limited power of attorney to execute such agreements) or send the assumption and release agreement to Fannie Mae – Vendor Oversight, 13150 Worldgate Drive, Herndon, VA 20170 for execution (if it does not have Fannie Mae’s limited power of attorney or has one that does not permit it to execute such agreements). If the servicer is the owner of record for the mortgage loan, it should execute the assumption and release agreement, sending a copy of the executed agreement to the applicable document custodian; either Fannie Mae’s DDC or an approved third-party custodian that holds the original mortgage note on Fannie Mae’s behalf. When the transfer actually occurs, the servicer must send VA a notice regarding the status of the mortgage loan.

The servicer does not need to review or approve the following types of transfers:

- a transfer of the property to the surviving party on the death of a joint tenant or a tenant by the entirety;
- a transfer of the property to a relative of a deceased borrower;
- a transfer of the property to make the borrower’s spouse or children joint owners of the property;
- a transfer of the property to a spouse under a divorce decree or legal separation agreement or from an incidental property settlement agreement;
- a transfer of the property into an *inter vivos* trust, as long as the borrower remains a beneficiary and the trust does not relate to the transfer of occupancy rights;

- 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;
- the creation of a purchase money security interest for household appliances; or
- the creation of a subordinate lien that does not relate to a transfer of occupancy rights.

When the servicer evaluates a prospective purchaser and determines that he or she is not creditworthy, the servicer must inform the property seller to seek another purchaser who meets VA's credit requirements. Should the sale to this purchaser be completed despite the servicer's instructions, the servicer may declare the mortgage loan due and payable, notifying VA of the mortgage loan default.

When the servicer learns about a transfer of ownership after the fact, it should consider the possibility of a retroactive approval of the transfer in most cases. If title to the property was transferred "subject to" the mortgage lien, the servicer should attempt, during the retroactive approval process, to have the property purchaser formally assume liability for repayment of the mortgage loan, in which case the property seller can be released from personal liability under the mortgage loan. The servicer may declare the mortgage loan due and payable if the purchaser fails to cooperate in the approval process or is determined not to be creditworthy (although special consideration should be given to a borrower who has been making the mortgage loan payments for some time even if he or she does not appear to be creditworthy; however, in this case, the property seller should not be released from personal liability under the mortgage loan).

A borrower (or a purchaser when a transfer has already occurred) has the right to appeal to VA about any application for approval of a property transfer that is denied, as long as the appeal takes place within 30 days of the declination letter. VA may then agree to approve the transfer of ownership or to confirm the denial (but specifying conditions under which a special approval may be granted). If VA subsequently agrees to a special approval, the servicer must not release the property seller from his or her liability under the mortgage debt.

When a transfer of ownership occurs, the property purchaser must pay a VA funding fee. If the servicer does not (or is unable to) collect this fee during the approval process, VA requires the servicer to advance the funds necessary to pay this fee and to remit them to VA with the notice that the transfer has been approved. A servicer that is unable to recover an “advanced” VA funding fee from the property purchaser should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to discuss other options that are available for recovering this fee.

**Section 405  
RD Mortgage Loans  
(03/01/06)**

Servicers must service Fannie Mae’s mortgage loans in accordance with the borrower’s mortgage loan instruments. If an RD mortgage loan has the due-on-sale clause of Fannie Mae’s conventional mortgage instruments, then such clause must be enforced upon transfer of ownership of the property—unless the transfer is one of the exempt transactions described in *Section 408.02, Exempt Transactions (01/31/03)*. The procedures for accelerating the debt are the same as those related to conventional mortgage loans, which are discussed in *Section 408.06, Accelerate the Debt for Due-on-Sale Provision (06/01/07)*. It is not necessary to notify the RD of the acceleration.

**Section 406  
HUD Section 184  
Mortgage Loans  
(03/01/06)**

HUD Section 184 Native American mortgages must be assumable. The assumability provision requires that the new purchaser be a Native American, qualify for the mortgage under the Section 184 credit guidelines, and be approved by both the borrower’s tribe and the HUD Indian Loan Guarantee Processing Center.

When a property that is held as a leasehold estate is purchased subject to the existing mortgage, the purchaser may either assume the existing lease or execute a new lease (as determined by the borrower’s tribe). If the purchaser assumes the existing mortgage, the servicer must execute an assumption and release agreement to release the borrower from liability and submit that agreement and any other agreement that evidences the assignment of the lease to the purchaser to the appropriate Bureau of Indian Affairs Land Title and Records Office for recordation. The servicer also must notify the HUD Indian Loan Guarantee Processing Center of the transaction by sending it a copy of the final settlement statement.

When the property will *not* be purchased subject to the existing mortgage, the purchaser must execute a new lease that has a term equal to the

remaining term of the existing lease. No lease is required in connection with a transfer of ownership when title to the property is held as a restricted fee estate or as a fee simple estate.

**Section 407  
Conventional Mortgage  
Loans with No Due-on-  
Sale Provision  
(04/21/09)**

If a mortgage loan that is not subject to a due-on-sale provision is modified under the Home Affordable Modification Program (HAMP), the borrower agrees that the HAMP modification will cancel the assumability feature of that mortgage loan.

For all other conventional 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. The servicer must notify the hazard (and, if applicable, flood) insurance company, tax authorities, the mortgage insurer, and any other interested parties. When the property purchaser does not provide a new hazard (and, if applicable, flood) insurance policy, the servicer should request the insurer to prepare an endorsement to the existing policy to name the new borrower. The servicer does not need to review the purchaser's credit and financial capacity unless the previous borrower requests a release of liability. The servicer may approve a release of liability if it believes that the purchaser is capable of assuming the mortgage obligations (and the mortgage insurer agrees to the release, if the mortgage loan is insured). If the mortgage insurer does not agree to the release for an insured mortgage loan, Fannie Mae will not grant a release of liability, although the transfer can still be processed without a release of liability. Fannie Mae's denial of the release of liability should recite the mortgage insurer's decision as its reason for not approving the request.

If the release of liability is approved, the servicer should prepare an assumption and release agreement and, if Fannie Mae is the owner of record for the mortgage loan, either execute the assumption and release agreement on Fannie Mae's behalf (if it has Fannie Mae's limited power of attorney to execute such agreements) or send it to Fannie Mae – Vendor Oversight, 13150 Worldgate Drive, Herndon, VA 20170 for execution (if it does not have Fannie Mae's limited power of attorney or has one that does not permit it to execute such agreements). If the servicer is the owner of record for the mortgage loan, it should execute the assumption and release agreement, sending a copy of the executed agreement to the applicable document custodian; either Fannie Mae's DDC, or an approved third-party custodian that holds the original mortgage note on Fannie Mae's behalf. The servicer also must obtain a new mortgage insurance

policy for an insured mortgage loan or an agreement that extends the previous insurance coverage to the new borrower.

**Section 408  
Conventional Mortgage  
Loans with Due-on-Sale  
Provision (01/31/03)**

If a conventional mortgage loan includes a due-on-sale (or due-on-transfer) provision, the conditions and terms under which it will be enforced can vary. For purposes of enforcing the due-on-sale (or due-on-transfer) provision, Fannie Mae considers 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, and
- any exchange of possession of property under a land sales contract 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.

Fannie Mae’s policy for enforcing the due-on-sale (or due-on-transfer) provision may vary based on the type of ownership interest it has in the mortgage loan, the type of mortgage loan product, the location of the property, when Fannie Mae purchased or securitized the mortgage loan, or the type of transaction. The different methods of enforcement are discussed below.

**Section 408.01  
Participating Lender’s  
Policy Applies (09/30/96)**

**Fannie Mae’s policy for enforcing the due-on-sale (or due-on-transfer) provision does not apply to participation pool mortgage loans held in its portfolio that were purchased from a supervised lender under commitments dated before August 1, 1983 or to the concurrent sales participation pool mortgage loans in which it holds a majority interest. The participating lender’s policy and procedures for enforcing due-on-sale (or due-on-transfer) provisions for mortgage loans in its own portfolio apply to all of these mortgage loans. The servicer should contact the participating lender directly to clarify any questions about its policy.**

**Section 408.02  
Exempt Transactions  
(01/31/03)**

Fannie Mae does not require the servicer to enforce the due-on-sale (or due-on-transfer) provision for certain types of transfers or related transactions. Generally, the servicer must process these exempt transactions without reviewing or approving the terms of the transfer:

- a transfer of the property to the surviving party on the death of a joint tenant or a tenant by the entirety;
- a transfer of the property to all related and unrelated natural persons, 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 to a junior lienholder as the result of a foreclosure or acceptance of a deed-in-lieu for the subordinate mortgage loan;
- 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 a 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 will occupy the property;
- 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 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 will occupy the property;
- 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 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;

- a transfer of a property that is jointly owned by unrelated co-borrowers from one of the borrowers to the other, as long as the borrower who is gaining full ownership of the property will continue to occupy it and the transfer occurs after at least 12 months have elapsed since the mortgage loan was closed;
- a transfer of the property (or, if the borrower is an *inter vivos* revocable trust, a transfer of a beneficial interest in the trust) into 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; or
- the creation of a purchase money security interest for household appliances.

However, if the individual transferring the property requests a release of liability, the servicer must review the credit and financial capacity of the individual receiving the property. The servicer may approve the release of liability if it believes the recipient is capable of assuming the mortgage obligations (and the mortgage insurer agrees to the release, if the mortgage loan is insured). If the servicer does not believe that the property recipient is creditworthy or if the mortgage insurer does not approve the release for an insured mortgage loan, the servicer should deny the request for the release of liability, although the transfer may still be processed without the release. If the request is denied based solely on the mortgage insurer's decision, the denial letter should state that fact.

The servicer should advise the hazard (and, if applicable, flood) insurance company, the tax authorities, the mortgage insurer, and other interested parties (including the first mortgage loan servicer if the transaction relates to a second mortgage loan) when it processes any of these transactions.

Fannie Mae does not need to be notified unless the servicer agrees to a release of liability and Fannie Mae is the owner of record for the mortgage loan. In that case, the servicer should prepare an assumption and release agreement and either execute the agreement on Fannie Mae's behalf (if it has Fannie Mae's limited power of attorney to execute such agreements) or send it to Fannie Mae – Vendor Oversight, 13150 Worldgate Drive, Herndon, VA 20170 for execution (if it does not have Fannie Mae's limited power of attorney or has one that does not permit it to execute such agreements). If the servicer is the owner of record for the mortgage loan, it should execute the assumption and release agreement, sending a copy of the executed agreement to the applicable document custodian; either Fannie Mae's DDC or an approved third-party custodian that holds the original mortgage note on Fannie Mae's behalf.

Section 408.03  
Transfer under Existing  
Terms (07/31/03)

At the present time, Fannie Mae does not enforce the due-on-sale (or due-on-transfer) provision for first mortgage loans in certain instances (even when the transaction is not an exempt transaction) as long as the property purchaser is creditworthy. The servicer (subject to the applicable provisions of the note and any negotiated contract) may allow transfers of ownership for:

- ARMs and GPARMs, except for those closed under ARM Plans 975, 1029, 1103, and 1104; 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; and
- fixed-rate whole mortgage loans that Fannie Mae purchased under commitment contracts dated before November 10, 1980, except that Fannie Mae will accelerate the debt if:
  - the purchase of the property is financed (either 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.)

**Mortgage insurer approval.** Some mortgage insurance policies have specific provisions regarding assumptions. When that is the case, obtaining the mortgage insurer's approval of the transfer is part of the credit review process. Under other policies, the mortgage insurer does not need to approve the transfer unless the borrower requests a release of liability. If the mortgage insurer's approval is required, the transaction must satisfy any conditions the mortgage insurer specifies. When the mortgage insurer's approval of the transfer is not required, the servicer should allow a transfer of ownership without requiring any changes to the existing mortgage loan terms, although it may deny a request for a release of liability if the mortgage insurer does not agree to it.

If the mortgage insurer's approval is required and it refuses to approve the transfer, the assumption must be denied. In addition, if the mortgage insurer conditions its approval on the occurrence of certain events—such as a reduction in the LTV ratio or the property purchaser occupying the property—the servicer should not agree to the transfer unless those conditions are met. In either situation, the parties involved in the transaction must be informed that the denial, or the imposition of conditions for approval, is based solely on the mortgage insurer's decision regarding the transfer.

**Acceptable transactions.** If the purchaser is creditworthy, the servicer may approve a transfer of ownership. However, before approving a transfer of ownership for a pledged-asset mortgage loan, the servicer must determine that the pledged asset will remain in place, either through the assignment of the original pledged asset or the substitution of a new asset of equivalent value. The servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to discuss the acceptability of a proposed substitute asset or any other alternative the purchaser proposes.

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: "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.” In addition, if the mortgage loan is convertible to a fixed-rate mortgage loan, the servicer also must include the following sentence: “This limitation also applies if I exercise my option to convert to a fixed-rate mortgage loan.” 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.

The agreement must include a release of liability if the borrower requests a release and the mortgage insurer agreed to it. If Fannie Mae is the owner of record for the mortgage loan, the servicer should either execute the assumption and release agreement on Fannie Mae’s behalf (if it has Fannie Mae’s limited power of attorney to execute such agreements) or send it to Fannie Mae’s DDC for execution (if it does not have Fannie Mae’s limited power of attorney or has one that does not permit it to execute such agreements).

If the servicer is the owner of record for the mortgage loan, it should execute the assumption (and release) agreement. The servicer should have the executed transfer documents recorded, then should send the original recorded assumption (and release) agreement to Fannie Mae’s DDC. The servicer also should 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. The servicer should also notify the hazard (and, if applicable, flood) insurance company, tax authorities, and any other interested parties. If the purchaser did not provide a new hazard (and, if applicable, flood) insurance policy, the servicer should request the insurer to prepare an endorsement to the existing policy to name the new borrower.

**Unacceptable transactions.** If the purchaser is not creditworthy, the mortgage insurer does not approve the transfer, or the mortgage insurer’s specified conditions are not met, the servicer must take all steps that are necessary to accelerate the mortgage loan debt—if the transfer of ownership actually occurs. If the funds required to satisfy the debt are not received after the mortgage loan has been accelerated, the servicer should initiate foreclosure proceedings.

**Default under second mortgage loan.** Since second mortgage loans are not assumable under their existing terms, when the servicer of a second mortgage loan is notified that a prospective purchaser wishes to assume a second mortgage loan, it should advise the servicer of the first mortgage loan, the borrower, and the proposed property purchaser that the second mortgage loan debt will be accelerated if the transfer takes place. This is true even if Fannie Mae holds the first 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 mortgage loan is in default and that steps will be taken to accelerate the debt. The servicer should then contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 for approval of the acceleration.

Section 408.04  
Transfer Subject to State  
Law Restrictions  
(01/31/03)

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 mortgage loan or a second 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 should verify whether a mortgage loan secured by a property located in any of these states is a window-period mortgage loan and, if it is, may authorize a transfer of ownership—as long as the purchaser’s credit and financial capacity are acceptable under Fannie Mae’s current underwriting guidelines. 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 may not increase the interest rate if the mortgage loan is in an MBS pool, even though the state law restrictions would permit an increase.

**Mortgage insurer approval.** If the mortgage insurance policy has a specific provision regarding assumptions, obtaining the mortgage insurer’s approval of the transfer is part of the credit review process. Under other policies, the mortgage insurer does not need to approve the transfer unless the borrower requests a release of liability. If the mortgage insurer refuses to approve the transfer, the assumption must be denied. In addition, if the mortgage insurer conditions its approval on the occurrence of certain events—such as a reduction in the LTV ratio or the property purchaser occupying the property—the servicer should not agree to the transfer unless those conditions are met. In any of these situations, the parties involved must be informed that the denial, or the imposition of conditions for approval, is based solely on the mortgage insurer’s decision regarding the transfer.

**Acceptable transactions.** When the servicer approves the transfer of ownership and Fannie Mae is the owner of record for the mortgage loan, the servicer should either execute the appropriate transfer documents—an assumption agreement if there is no change in the interest rate or a modification and assumption agreement if the rate changes—on Fannie Mae’s behalf (if it has Fannie Mae’s limited power of attorney to execute such agreements) or send them to Fannie Mae’s DDC for execution (if it does not have Fannie Mae’s limited power of attorney or has one that does not permit it to execute such agreements). Otherwise, the servicer may

execute the appropriate documents. 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.

The servicer should have the executed transfer documents recorded and should request a title bring-down from the title insurer. The bring-down should change the effective date of the mortgage title policy to the date the transfer instruments were recorded, and should insure the mortgage loan as modified by the recorded agreement. The servicer should send the original recorded agreement to the applicable document custodian—either Fannie Mae’s DDC or an approved third-party custodian that holds the original mortgage note on Fannie Mae’s behalf

The servicer also should notify the hazard (and, if applicable, flood) insurance company, tax authorities, and other interested parties (including the first mortgage loan servicer if the transaction involves a second mortgage loan). If the purchaser did not provide a new hazard (and, if applicable, flood) insurance policy, the servicer should obtain an endorsement to the existing policy. The servicer of a second mortgage loan should check with the first mortgage loan servicer to see what action it has taken. If Fannie Mae’s interest in a second mortgage loan is not clearly set out in any new hazard (or flood) insurance policy or in any endorsement the first mortgage loan servicer obtained, the second mortgage loan servicer must obtain an appropriate endorsement.

**Unacceptable transactions.** If the purchaser is not creditworthy, the mortgage insurer does not approve the transfer, or the mortgage insurer’s specified conditions are not met, the servicer must take all steps that are necessary to accelerate the mortgage debt—if the transfer of ownership actually occurs. If the funds required to satisfy the debt are not received after the mortgage loan has been accelerated, the servicer should initiate foreclosure proceedings.

Section 408.05  
Title Transfers through  
Grant Deeds (01/31/03)

Occasionally, a delinquent borrower who owns property that has a current market value that is less than the mortgage indebtedness may be contacted by some outside party. The outside party is promoting its services as a way for the borrower to be relieved of his or her mortgage obligation—without having to go through foreclosure or bankruptcy proceedings, damaging his or her credit rating, and incurring any tax liability related to the cancellation of the debt—through the simple process of executing a grant

deed to the property and paying a fee (of approximately 1% of the original amount of the mortgage loan). Once one of these outside parties receives title to the property, it will contact the mortgage loan servicer, indicate that no additional payments will be made on the mortgage loan (because it did not assume the mortgage loan), and offer to market the property if the servicer will agree to accept a payoff of less than the total indebtedness.

Fannie Mae will consider any transfer of a property to one of these outside parties to be a violation of the due-on-sale (or due-on-transfer) provision of the mortgage instrument if the transfer occurs without its permission. Therefore, a servicer should not grant permission on Fannie Mae's behalf for any transfer involving one of these companies. Should a borrower transfer his or her property to one of these companies (without requesting or receiving permission), Fannie Mae will not relieve the borrower of the mortgage obligation.

If a borrower mentions to the servicer that he or she has received a proposal from a third party suggesting the execution of a grant deed as the best way to get out from under a delinquency, the servicer should advise the borrower about the pitfalls of working with such companies. The servicer should make it absolutely clear to the borrower that the transfer will not be acknowledged and that foreclosure proceedings may be initiated against him or her should the servicer become aware that the property was transferred to the third party. The servicer should offer to work with a cooperative borrower who has experienced a financial hardship to develop an acceptable repayment plan, or if such plans are not workable, to determine whether any of the other loss mitigation alternatives Fannie Mae has available will work. However, Fannie Mae is aware that some borrowers will transfer the property to the third-party company without investigating the potential solutions the servicer is offering.

If one of these third-party companies contacts the servicer about accepting a short payoff for a property it has obtained through the borrower's execution of a grant deed, the servicer should immediately contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 for instructions on the action Fannie Mae wants taken. Under no circumstances should the servicer negotiate the short payoff. Fannie Mae generally will advise the servicer either to accept a deed-in-lieu or to

initiate foreclosure proceedings. When a servicer becomes aware of one of these property transfers, it should:

- Continue to report credit information related to a mortgage loan delinquency (including the acceptance of a deed-in-lieu 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 *Acquisition or Abandonment of Secured Property* (IRS Form 1099-A) if it accepts a deed-in-lieu 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 *Cancellation of Debt* (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.

Section 408.06  
Accelerate the Debt for  
Due-on-Sale Provision  
(06/01/07)

The servicer must accelerate the debt for the following types of mortgage loans, without consideration for the property purchaser's credit and financial capacity—unless the transfer is an exempt transaction or involves a property located in Michigan, New Mexico, or Utah that secures a window-period mortgage loan:

- any fixed-rate whole first mortgage loan, if the purchase of the property is financed by obtaining a wraparound or second mortgage loan from an institutional lender (regardless of the date of the commitment under which it was purchased);
- any fixed-rate whole first mortgage loan that Fannie Mae purchased under a commitment contract dated November 10, 1980, or later, regardless of the manner in which the purchase is financed;
- any adjustable-rate or graduated-payment adjustable-rate first mortgage loan that has been converted to a fixed-rate mortgage loan;
- an adjustable-rate first mortgage loan originated as an ARM Plan 975, 1029, 1103, or 1104;

- an ARM that has an extended fixed-rate period (ARM Plans 659, 660, 661, 750, 751, 1423, 1437, 2724, 2725, 2726, 2727, 2728, 2729, 3223, 3224, 3225, 3226, 3227, 3228, or 3252), if the transfer occurs during the fixed-rate period or relates to a Texas Section 50(a)(6) mortgage loan;
- a fixed-rate participation pool first mortgage loan that Fannie Mae purchased from an unsupervised lender;
- a fixed-rate participation pool first mortgage loan that Fannie Mae purchased from a supervised lender under a commitment dated on or after August 1, 1983;
- a concurrent sales participation pool first mortgage loan in which Fannie Mae has a minority interest;
- any whole second mortgage loan or any participation pool second mortgage loan that Fannie Mae purchased under a commitment dated on and after August 1, 1983 (even if Fannie Mae has an ownership interest in the first mortgage loan and allows it to be assumed);
- any whole first mortgage loan that Fannie Mae initially held in its portfolio, but subsequently pooled to back an MBS. (Fannie Mae will notify the servicer when it places a portfolio mortgage loan into an MBS pool. If a transfer of ownership is in process when the servicer receives Fannie Mae's notification, the servicer should immediately notify its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center and Fannie Mae's investor reporting system operations so it can obtain further instructions.); and
- any fixed-rate conventional mortgage loan that Fannie Mae initially purchased as part of an MBS pool (unless the terms of a negotiated contract specified otherwise).



***Regardless of the state location of the property***, the servicer also should accelerate the debt for:

- any fixed-rate mortgage loan that was originated by a federally chartered savings and loan association or credit union and sold to Fannie Mae under a commitment dated November 10, 1980, or later;
- any fixed-rate mortgage loan originated after October 15, 1982, when the Garn-St. Germain Depository Institutions Act of 1982 was signed into law; and
- any fixed-rate mortgage loan (including one that has been converted from an ARM) or any ARM originated as an ARM Plan 975, 1029, 1103, or 1104 (or as a Plan 659, 660, 661, 750, 751, 1423, 1437, 2724, 2725, 2726, 2727, 2728, 2729, 3223, 3224, 3225, 3226, 3227, 3228, or 3252 if the initial fixed-rate period is still in effect) that has an *inter vivos* revocable trust as the borrower, if a beneficial interest in the trust is transferred to an unrelated third party (or, if ownership of the property itself is transferred and the transaction is not considered as an exempt transaction).

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 of a transfer of ownership after the fact, 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 may give the purchaser 30 days in which to pay the mortgage loan balance in full or to apply and qualify for a new mortgage loan. If neither the funds nor a credit application is received within the 30 days, the servicer may institute foreclosure proceedings. Under certain circumstances, Fannie Mae may consider the following alternatives:

**A. Waiver for mortgage loans in default.** If a whole mortgage loan or a participation pool mortgage loan that is subject to Fannie Mae's due-on-sale policy is in default, it may be in Fannie Mae's best interest to allow the mortgage assumption rather than to accelerate the mortgage debt. In

such cases—as long as the proposed property purchaser is creditworthy—the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to determine whether Fannie Mae is willing to forego the enforcement of the due-on-sale (or due-on-transfer) provision to avoid a property acquisition. A seriously delinquent MBS mortgage loan cannot be assumed unless the servicer first repurchases it from the MBS pool. (Also see *Part VII, Section 503, Managing Chapter 7 Bankruptcies (01/01/11)*.)

**B. Optional repurchase of certain mortgage loans.** The servicer may repurchase the mortgage loan as an alternative to enforcing the due-on-sale (or due-on-transfer) provision for a participation pool mortgage loan, a concurrent sales participation pool mortgage loan, or an MBS mortgage loan serviced under the regular servicing option. 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. After removing the mortgage loan from the MBS pool, the servicer can allow the assumption after it repurchases the mortgage loan. If the new borrower is creditworthy and the mortgage loan meets all of Fannie Mae’s current eligibility requirements, the servicer may subsequently submit the assumed mortgage loan to Fannie Mae for purchase under any of its standard commitments for cash deliveries or as part of an MBS pool delivery.

**C. Potential litigation.** Although Fannie Mae authorizes the servicer to enforce due-on-sale (or due-on-transfer) provisions, there may be some instances in which the issue of enforceability or the legality of the provision may come into question and may be expected to be litigated. When this happens and the mortgage loan is a whole mortgage loan, a participation pool mortgage loan, or an MBS mortgage loan serviced under the special servicing option, the servicer should promptly contact Fannie Mae to obtain its written approval to undertake any enforcement proceedings or to determine whether Fannie Mae wants to pursue a different course of action. If the mortgage loan is in a regular servicing option MBS pool, the servicer must make the decision to undertake any enforcement proceedings (and to incur all resulting costs).

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## **Chapter 5. Notices of Liens or Legal Actions (01/31/03)**

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. When it becomes aware that any new superior lien has been attached, the servicer must notify Fannie Mae immediately. Fannie Mae also requires the servicer of a second mortgage loan to record a request for a notice of default and a notice of foreclosure, if state law permits a junior lienholder to do so.

As the mortgagee of record for a mortgage loan registered with MERS, MERS may receive information about liens or legal actions instead of the servicer. When these notices provide information that identifies the servicer (or enables MERS to identify the servicer), MERS will forward the notice directly to the servicer. However, some notices will not include enough information to enable MERS to identify either the mortgage loan or the servicer. In such cases, MERS will electronically notify all MERS members about any unidentified notice(s) it has received. Therefore, any servicer that services MERS-registered mortgages must establish procedures to ensure that it checks (on a daily basis) all electronic messages it receives from MERS. Should an unidentified notice relate to a mortgage loan that the servicer is servicing for Fannie Mae, the servicer must take appropriate and timely action based on the notice (and advise MERS that the mortgage loan is one that it is servicing so that MERS can update its records).

When Fannie Mae purchases or securitizes a mortgage loan secured by a condo, co-op, or PUD unit, the HOA or co-op corporation of the project agrees to give the servicer prompt notice of any change in its insurance coverage or of any condemnation or casualty loss that may have a material effect on the project or on Fannie Mae's security. Therefore, the servicer should send a notice, identifying the units it is servicing, to the HOA of each condo or PUD project and the co-op corporation of each co-op project in which it services mortgage loans or share loans.

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**General Servicing  
Functions**

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**Notices of Liens or Legal  
Actions**

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Section 501

June 10, 2011

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Should the HOA of a condo or PUD project advise the servicer of any proposed action that requires the consent of a specified percentage of the mortgage loan holders in the project, the servicer should contact Fannie Mae immediately with its recommendation regarding the proposed action. The servicer of a *second* mortgage loan should first contact the servicer of the first mortgage loan to determine the action it intends to take and then should immediately contact Fannie Mae to submit its recommendation regarding the proposed action. The servicer of a co-op share loan is responsible for protecting Fannie Mae's interest in the share loan under the terms of any recognition agreement.

The servicer also must give Fannie Mae immediate notice of any legal or financial action—bankruptcy, condemnation, probate proceedings, tax sale, partition, etc.—affecting the property or the borrower's ability to repay the debt.

**Section 501  
Uncontested Routine  
Legal Actions (01/31/03)**

At times, a servicer may be served with a summons and complaint for various routine legal actions—such as condemnations, partition suits, quiet title actions, building code violations, subordinate lien foreclosure actions, etc. The servicer should retain legal counsel to represent Fannie Mae's interest in such matters; it generally is not necessary to obtain Fannie Mae's prior approval to do so. However, if it appears that the matter will not be routine or that the fees and costs will become Fannie Mae's responsibility, the servicer must immediately contact the regional counsel in its lead Fannie Mae regional office for guidance before it retains its own legal counsel. The servicer should not forward routine papers, pleadings, or other notices related to these cases to Fannie Mae, unless the case becomes contested or Fannie Mae requests that it do so.

In instances in which the deed of trust or mortgage loan provides for the borrower to reimburse any legal service fees and costs incurred by the servicer, the servicer should instruct its counsel to notify the borrower about his or her responsibility for such expenses. The servicer's legal counsel should attempt to handle such matters by stipulation or any other expeditious manner that will reduce the fees and costs that the borrower has to pay.

**Section 502  
Contested Routine  
Legal Actions (01/31/03)**

When any routine legal proceeding is contested, a servicer must obtain the prior approval of the regional counsel in its lead Fannie Mae regional office before it files any appeal, motion for rehearing, or similar procedure. (The servicer also must notify Fannie Mae if the defendant in any proceeding files an appeal, motion for rehearing, or similar procedure.) Fannie Mae will provide guidance and approval for any excess legal fees that may be incurred.

In any other instance in which the servicer believes that excess legal fees and costs may be justified, the servicer also may send a written request to the regional counsel in its lead Fannie Mae regional office to obtain Fannie Mae's approval before it incurs the additional fees. If the servicer pays such fees and costs without obtaining Fannie Mae's prior approval, Fannie Mae has the right not to reimburse it for the payments. (Also see *Part VIII, Section 104.03, Servicer-Retained Attorneys/Trustees and Special Rules for Nevada (10/01/08)*.)

Requests for reimbursement of approved excess fees must be submitted with a detailed billing prepared by the servicer's legal counsel, which must include a concise statement about the reason for the excess fees and set forth the services rendered, the date each service was rendered, the amount of time the attorney is billing for each service rendered, the identity of the attorney, and the attorney's hourly billing rate. (This detailed billing is not necessary if Fannie Mae approved a flat fee when it authorized the additional fees.)

**Section 503  
Nonroutine Legal  
Actions (01/31/03)**

A servicer may *not* initiate litigation on Fannie Mae's behalf, other than for routine foreclosures and possessory actions for certain mortgages (as provided for in *Part VIII, Chapter 1, Foreclosures*), unless it obtains prior written consent from the regional counsel in its lead Fannie Mae regional office. This will enable Fannie Mae to concur in the necessity of the action and selection of the legal counsel, as well as to approve the requested legal fees and costs.

When a servicer receives notice of a nonroutine legal action that involves a Fannie Mae-owned or Fannie Mae-securitized mortgage or that will otherwise affect Fannie Mae's interests—regardless of whether Fannie Mae is named as a party to the action—the servicer must immediately contact Fannie Mae via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) to seek approval for any decisions that need to be made about the conduct of

the litigation, including the choice of defense counsel, a litigation strategy, and the settlement terms. Fannie Mae reserves the right to select counsel to handle nonroutine litigation and may select attorneys who are not on the [Retained Attorney List](#). One example of a nonroutine legal action is a bankruptcy in which there is a request to modify the mortgage loan or to sell the security property. Such nonroutine bankruptcies could require Fannie Mae to substantially reduce its mortgage loan interest rate, increase the mortgage loan term beyond that which Fannie Mae generally accepts, or accept a stipulated amount as full satisfaction of the debt. Another example of a nonroutine legal action is a class-action suit that involves a Fannie Mae–owned or Fannie Mae–securitized mortgage—or any other mortgage that is originated on Fannie Mae’s uniform mortgage loan documents, if the meaning of those documents will be decided by the court. (Also see *Part VII, Chapter 4, Special Relief Measures*, and *Part VIII, Section 101, Routine vs. Nonroutine Litigation (10/01/08)*.)

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## **Chapter 6. Property Forfeitures and Seizures (01/31/03)**

Various federal statutes (including the Controlled Substances Act) provide for the civil or criminal forfeiture of certain types of property (including real estate) that are used, or are intended to be used, to commit or to facilitate the commission of certain violations of federal law.

- Under the *criminal* forfeiture provision of the Controlled Substances Act, the property owner must be convicted of a violation in order for the property to be forfeited.
- Under the *civil* forfeiture provision of the Controlled Substances Act, conviction is not a prerequisite for forfeiture. The federal government must prove that the property was used in connection with, or was purchased with the proceeds from, certain criminal offenses. A property owner's entire interest in the seized property (as well as that of any lienholder) may be forfeited unless the property owner or lienholder can prove that the alleged violation occurred without his or her knowledge or consent (in other words, the property owner or lienholder is an "innocent" party).

After a complaint for forfeiture is filed and an arrest warrant is issued, the U.S. Marshals Service takes possession of the property by posting the complaint or arrest warrant in a conspicuous place on the property. Notice of a forfeiture is served on all interested parties whose identities are known or can be reasonably ascertained. Generally, the persons and entities listed on a title report for a property receive notice of the forfeiture proceedings. Since Fannie Mae does not require that it be named in the title report and the assignment of the mortgage loan to Fannie Mae generally is not recorded, Fannie Mae may not receive immediate notice of such proceedings (although the servicer should).

The entire property, including all liens on it, is subject to forfeiture to the federal government if the property owner and lienholder do not file a response in the requisite time. A lienholder that proves it was not aware of (and did not consent to) the alleged violation, files a timely claim, and meets certain other requirements will be considered an "innocent lienholder."

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Fannie Mae must rely on its innocent lienholder status to ensure that its interests in a seized property are protected. After the court confirms the forfeiture, the U.S. Marshals Service will attempt to sell the property. An owner or lienholder who is deemed by the courts to be innocent will be reimbursed (to the extent of his or her interest in the property) from the proceeds of any sale of the property that is accomplished by the U.S. Marshals Service, although the courts have not been uniform in granting post-seizure interest and certain costs and expenses.

#### **Section 601 Controlling the Process (01/31/03)**

A servicer must control and monitor all proceedings and actions related to property forfeitures and seizures. The servicer should keep a detailed record of all contacts, requests, and actions taken with respect to each property. All information regarding any forfeiture contacts should be kept confidential and the number of persons having access to the information should be limited. For that reason, a servicer may want to designate a specific employee to be responsible for handling all forfeiture contacts and requests.

#### **Section 602 Justice Department's Pre-Seizure Contacts (01/31/03)**

When the Department of Justice identifies a property that might be subject to seizure under the federal forfeiture provisions, it orders a title report to determine whether there are any liens on the property. If there are mortgage liens, a representative from the Drug Enforcement Agency (DEA) or the Federal Bureau of Investigation (FBI) may call the servicer listed in the title report to determine whether the servicer is the lienholder or whether it is servicing the mortgage loan for an investor. (If the title report shows Fannie Mae as the lienholder, the DEA/FBI representative will probably contact Fannie Mae directly.)

Before releasing any information related to a Fannie Mae–owned or Fannie Mae–securitized mortgage loan, the servicer should verify that the caller is an authorized representative of the Department of Justice. To do this, the servicer should contact either the Forfeiture Analyst (if the caller identified himself or herself as an FBI representative) or the Asset Removal Team (if the caller identified himself or herself as a DEA representative) at the specific FBI or DEA regional office that the caller indicated. The servicer should use the telephone number published in the telephone directory, rather than the number provided by the caller. After confirming the caller's identity, the servicer should provide the name, address, and telephone number of its Portfolio Manager, Servicing



Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

The servicer should not provide any information about the borrower, the mortgage loan, or the property unless the DEA, FBI, or U.S. Marshals Service representative provides one of the following: an administrative subpoena or summons, a search warrant, a judicial subpoena (such as a grand jury subpoena), or a formal written request (in those instances in which an administrative summons or subpoena is not available to the Department of Justice). The servicer should inform the requesting agency that it also must 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). The servicer should then disclose the information required by the subpoena, summons, search warrant, or formal written request. However, 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 deed-in-lieu), the servicer should refer the caller to Fannie Mae's National Property Disposition Center. In these cases, the servicer also should send the National Property Disposition Center the documents presented by the requesting agency.

The above requirements regarding disclosure of information are mandated by federal law. The servicer should consult with its local counsel to determine whether any provisions of state bank secrecy laws also would apply to a specific request. Under federal law, the agency requesting the information generally has a duty to notify the servicer's customer about the request for the release of records or information; the servicer also should request its counsel to determine whether state laws impose this duty on the servicer as well.

The servicer should report its contact with the Department of Justice's representatives by calling its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435. The servicer should follow up its telephone call by sending a letter that describes the nature of the contact, the information that was requested and provided, and the date of the referral to Fannie Mae and transmits the individual mortgage loan file for the property in question.

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Once Fannie Mae receives the individual mortgage loan file, it will assume the responsibility for handling all inquiries related to the property.

The servicer should not have any other direct contacts with the DEA/FBI representative, or provide any additional information about the property or the borrower to the DEA/FBI, without first contacting Fannie Mae. The servicer should promptly notify its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 about all contacts related to the property that are initiated by DEA/FBI representatives.

### Section 603 Justice Department's Contacts during Forfeiture Proceedings (01/31/03)

If the Department of Justice 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 should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 as soon as it receives the notice. The servicer should inform Fannie Mae about all deadlines and requirements specified in the notice, and promptly send Fannie Mae a copy of the notice and any accompanying documents.

### Section 604 Justice Department's Post-Seizure Contacts (01/31/03)

After a property is seized under the federal forfeiture provisions, the U.S. Marshals Service takes custody of the property. At this point, any contacts with the servicer will be initiated by either the DEA, the FBI, or the U.S. Marshals Service. In most cases, post-seizure contact with the servicer will be the first contact that is attempted. In some cases, the servicer may have been contacted during the pre-seizure stage and again after the seizure of the property.

- If the post-seizure contact is a *follow-up contact*, the servicer should report it to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.
- If the post-seizure contact is the *initial contact*, the servicer should verify the identity of the Department of Justice representative, provide the requested information, and notify its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center following the procedures described in *Section 602, Justice Department's Pre-Seizure Contacts (01/31/03)*, for pre-seizure contacts.

**Section 605  
Contacts by Other  
Parties (01/31/03)**

When the Department of Justice seizes a property, the servicer must keep its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center informed about the status of the mortgage loan and the property, reporting such things as the source of any mortgage loan payments (from the U.S. Marshals Service, the borrower, a tenant, etc.), any default under the payment terms of the mortgage loan, a sale (or other disposition) of the property, the amount of any property disposition proceeds, etc.

When a servicer receives information about a possible connection between illegal drug activity and a specific property from a source other than a law enforcement official (such as a neighbor), the servicer should promptly call the Asset Removal Team in the closest DEA office. In this circumstance, the federal Right to Financial Privacy Act permits the disclosure of only limited information to the DEA. The servicer may reveal only the names of any individuals or corporate entities that are involved in the suspicious activity, their home and business addresses, their Social Security numbers, and the location of the property. If the contacting source provides the servicer information about the nature of the alleged offense and a description of the activities giving rise to the suspicion, the servicer also may advise the DEA about this information. The servicer may not reveal any other information (such as credit information) to the DEA. Since state bank secrecy laws may impose restrictions on the information about a customer that a servicer may communicate to law enforcement officials, the servicer also should consult with its local counsel regarding the applicability of state laws to the particular situation. The servicer should maintain a record of the office contacted, the name of the DEA representative with whom the servicer spoke, the date of the contact, and other relevant details.

The servicer should promptly contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 when it receives any information about a possible connection between illegal drug activity and a specific property—providing information about the type of information that was received, the source of the information, the specific DEA regional office and DEA representative that the servicer contacted, and other relevant details.

If the federal government decides to proceed with the seizure of the property, representatives of the DEA, the FBI, or the U.S. Attorney will

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notify the servicer of the seizure in accordance with the Department of Justice's notification practices. As soon as the servicer receives information about a seizure, it should advise its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center. If any information is requested at this stage, the servicer should follow the procedures for pre-seizure or post-seizure contacts (described in *Section 602, Justice Department's Pre-Seizure Contacts (01/31/03)*, and *Section 604, Justice Department's Post-Seizure Contacts (01/31/03)*), whichever are applicable based on the timing of the contact.

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## **Chapter 7. Releases of Security (01/31/03)**

The security property for 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 (including, in some cases, personal property) that are part of the property or the improvements. Occasionally, certain events may occur that make it necessary or desirable to release all or a portion of the security for the mortgage loan, or the release may be requested by a borrower. A request for a release of security can involve the release or grant of an easement, or the subordination of the mortgage lien to an easement; a release of oil, gas, or mineral rights to the property; the exclusion of personal property from the security; the release of a portion of the real property from the security; the partition (or division) of a property; a substitution of security property; the removal or disposition of all or part of the structures on a property as the result of condemnation; the full or partial taking of a property by the exercise of eminent domain; or the waiver of certain rights under the mortgage loan.

To request a release of security for any reason, a borrower must submit an *Application for Release of Security* ([Form 236](#)) to the servicer. Under certain circumstances, Fannie Mae gives the servicer the authority to approve the release of security on its behalf. Under all other circumstances, Fannie Mae requires the servicer to submit the borrower's application (along with its recommendation) to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center for approval. In either instance, the servicer must first obtain any required approval from the mortgage insurer or guarantor and, if Fannie Mae's interest is in a second-lien position, from the servicer of the first mortgage loan.

If the servicer maintains an escrow deposit account to pay property taxes, it also should notify the tax collector or assessor when a release of any portion of a security property that will subsequently affect the amount of taxes levied against the property is approved (or when an authorized substitution of security property will affect either the taxing jurisdiction or the tax assessment).

**Section 701  
Release or Grant of an  
Easement (01/31/03)**

Easements permit an individual, a group of individuals, or the general public to use a portion of a property for a specific purpose—such as utility rights of way, drainage rights, joint driveways, rights of ingress and egress, access to water supply, etc.—that is not inconsistent with the property owner’s general property rights. The property owner may or may not receive cash consideration for releasing or granting an easement. An easement automatically becomes part of the security under the terms of the mortgage loan, whether it exists before the mortgage loan is originated or is granted after the date of the mortgage loan origination. An easement will either benefit or burden the security property; a beneficial easement is one that allows the property owner to use property that he or she does not own, whereas a burdensome easement is one that allows someone other than the property owner to have some use of the owner’s property.

An easement that exists before the mortgage loan was originated can later be released from the security, or a new easement can be created after the mortgage loan was originated. A new easement that benefits the property usually increases the value of the security property, while a new easement that burdens the property usually reduces the value of the security property. Conversely, the release of an existing easement that burdens the property usually increases the value of the property, while the release of an existing easement that benefits the property generally decreases the value of the security property.

The borrower’s *Application for Release of Security* ([Form 236](#)) must explain the purpose for granting the easement (or the justification for releasing the easement) and the intended use of the easement, indicate the anticipated effects of granting or releasing the easement, include a plat or survey showing the location of the easement that is being proposed or released, state the amount of any cash consideration that will be paid for granting or releasing the easement, and indicate whether the subordination of Fannie Mae’s lien to an easement is being requested.

**Section 701.01  
Releasing a Beneficial  
Easement (01/31/03)**

A beneficial easement is one 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. On occasion, the reason for which a beneficial easement was granted may no longer exist. This may prompt the party who granted the easement to the security property to request that the easement be released as security for the mortgage loan. If the servicer believes that releasing such an easement will have no material effect on

the value of the security property (and will not restrict the borrower's use of the property), it may agree to the release of the easement and approve the borrower's *Application for Release of Security* ([Form 236](#)) on Fannie Mae's behalf. Other requests for the release of a beneficial interest must be evaluated based on whether or not the release will have a detrimental effect on the value of the security property.

- If the servicer believes that releasing of a beneficial easement will not have a detrimental effect on the value of the property, it should approve the borrower's Form 236 on Fannie Mae's behalf. In this instance, Fannie Mae will 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 mortgage loan payments.
- If the servicer believes that releasing of a beneficial easement will have a detrimental effect on the value of the security property, it may grant the borrower's request for the release only if the borrower agrees to apply part of the cash consideration to make any past-due mortgage loan payments (if the mortgage loan is delinquent) and any additional amount required to reduce the mortgage loan balance to an amount that will result in the mortgage loan retaining its current LTV ratio.

The servicer should decline a request to release an easement if it believes that agreeing to release the easement has potential long-term negative implications that could affect the value of the property at a later date. The servicer does not need to obtain Fannie Mae's concurrence to deny a request for the release of an easement, but it may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center if it prefers to discuss the situation with Fannie Mae before making a final decision or if it believes that there are mitigating circumstances that suggest that the easement should be released.

Section 701.02  
Granting a Burdensome  
Easement (01/31/03)

A burdensome easement is one that may be detrimental to the use or value of the security property. If the easement exists before the property is mortgaged, it was taken into consideration in establishing the original value of the property. If the easement is granted after the mortgage loan is originated, the value of the property may be affected, although the extent to which the value is affected will depend on any number of factors. The

servicer must determine the extent to which granting a burdensome easement will interfere with either the use or value of the property. The effect that such an easement will have on the value of a property depends on 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 may approve any request for a customary public utility subsurface easement as long as the easement does not extend under the house or other improvements to the property. Similarly, the servicer can approve above-surface utility easements for distribution purposes that run along any of the property lines or easements for drainage purposes that run along the rear property line—as long as 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 circumstances of the request.

When the servicer believes that granting a burdensome easement will not adversely affect the value of the property, it should approve the *Application for Release of Security* ([Form 236](#)) on Fannie Mae's behalf. Because a post-origination easement is eliminated by a foreclosure (unless the mortgage lienholder agrees to subordinate its lien to the easement), the servicer also should consider whether the Form 236 includes a request 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, the servicer may agree on Fannie Mae's behalf to subordinate the mortgage lien to the easement. In any other instance, the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to determine whether Fannie Mae is willing to subordinate the mortgage lien to the easement.

Generally, there is no need to require the borrower to apply any cash consideration he or she receives for granting the easement to the mortgage loan debt, although the servicer may require that it be used to pay any past-due mortgage loan payments. However, if the value of the property will be affected or if the application includes a request to subordinate the mortgage lien to the easement, the servicer should not agree to the easement or the subordination of Fannie Mae's lien unless any cash



consideration is applied to the outstanding mortgage loan debt (either to pay past-due installments or to make an additional principal payment).

The servicer should decline a request to grant a burdensome easement if it believes that the easement has potential long-term negative implications that could affect the value of the property or hamper Fannie Mae's ability to foreclose the mortgage loan. The servicer does not need to obtain Fannie Mae's concurrence to deny a request to grant a burdensome easement, but if it prefers to discuss the situation before making a final decision, it may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

**Section 702  
Release of Oil, Gas, or  
Mineral Rights  
(01/31/03)**

A property owner may want to lease oil, gas, or mineral rights to a property to a drilling firm or partnership in return for a royalty interest equal to a designated percentage of the value of the oil, gas, or other minerals that are removed from the property. When requesting Fannie Mae's approval of the leasing of oil, gas, or mineral rights, the borrower must submit a copy of the proposed lease agreement to the servicer for review. Before agreeing to a release of oil, gas, or mineral rights, the servicer must consider the extent to which the 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.

As long as the granting of oil, gas, or mineral leases is customary in the area and the exercise of the lease will not have a material effect on the value of the property, prevent use of the property as a residence, or expose the residents to serious health or safety hazards, the servicer may approve the lease on Fannie Mae's behalf and waive Fannie Mae's interest in any royalties under the current terms of the lease. If some, but not all, of these conditions are met, the servicer must submit the *Application for Release of Security* ([Form 236](#)) and its recommendation to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center. If none of these conditions are met, the servicer should deny the request. The servicer does not need to obtain Fannie Mae's concurrence to deny a request to approve a lease of oil, gas, or mineral rights, but if it prefers to discuss the situation before making a final decision, it may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

**Section 703  
Release of Personal  
Property (01/31/03)**

In the past, Fannie Mae may have purchased a few mortgage loans that have personal property as part of the security. (Fannie Mae no longer does so.) The borrower may subsequently request that some or all of the personal property be released from the security. Since Fannie Mae does not assign any value to personal property in determining whether a property adequately secures a mortgage, there is no reason to withhold Fannie Mae's approval for requests to release personal property from the security. The servicer must approve all such requests—unless the mortgage insurer considers the personal property to be part of the security for the mortgage loan.

**Section 704  
Partial Release of Real  
Property (01/31/03)**

A borrower may request a partial release of real property from the security for any number of reasons. Some of the more frequent requests relate to the release of a lot or acreage from the original secured parcel so that it can be used for other purposes and the release of some portion of the property

to resolve a lot line dispute or to otherwise adjust the lot line. The property owner may or may not receive cash consideration for releasing a portion of the security. The servicer may agree to partial releases of security on Fannie Mae's behalf if:

- The borrower is current in making his or her mortgage loan payments and has not been more than 30 days past due more than once in the most recent 12-month period, and has not otherwise been in default under the terms of the mortgage loan;
- The priority of Fannie Mae's mortgage lien will not be affected by any claims of subordinate lienholders;
- The reduction in the value of the remaining property is not greater than the amount of the cash consideration (The servicer also may consider a request for a partial release that involves no consideration if the value of the remaining property is enhanced, or is at least not diminished, by the release. The servicer generally may rely on a BPO or its own estimate of the value of the property to be released. However, if the estimated value of that property is \$10,000 or more, the servicer must obtain an appraisal that shows the value of the security property before and after the release.);
- Any cash consideration paid for the release (less the expenses of obtaining the release) either will be applied to the outstanding debt (if required to satisfy Fannie Mae's LTV ratio requirements, as discussed below) or used for proposed property improvements after the release (When a substantial consideration will be used to make improvements to the property, the servicer may collect the entire amount of the consideration from the borrower and disburse the funds as specific improvements are completed.); and
- The ratio of the UPB (as reduced by any available cash consideration) to the value of the property after the release is not higher than the LTV ratio of the mortgage loan immediately before the release. If the application of the entire consideration to the UPB results in a LTV ratio that is less than the previous ratio, the servicer should 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 should require that the total consideration be applied to the mortgage loan debt.

The servicer must decline a request for a partial release of security if these conditions are not satisfied. The servicer does not need to obtain Fannie Mae’s concurrence to deny the request, but if it is uncertain about whether all of the conditions have been met or if it believes that there are mitigating circumstances for permitting the release even though all of the conditions have not been met, the servicer may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center.

**Section 705  
Partition of Real  
Property (01/31/03)**

Occasionally, joint owners of real property may be subject to a judicial decree that partitions (or divides) the property into separately owned parcels according to each owner’s proportionate share in the property. Generally, neither owner receives any cash consideration in connection with the partition.

When a security property is partitioned, the borrowers may request that part of the security for the mortgage loan be released to reflect the partition. The servicer may agree on Fannie Mae’s behalf to release part of the security for a mortgage loan in connection with a partition of real property if:

- the mortgage loan is current and has not been more than 30 days past due more than once in the most recent 12-month period, and there has been no default in any of its terms over this same time period;
- the priority of Fannie Mae’s mortgage lien will not be affected by any claims of subordinate lienholders;
- the reduction in the value of the remaining property is such that the ratio of the UPB of the mortgage loan to the new value of the property is not higher than the original LTV ratio of the mortgage loan (If necessary, the borrower can contribute funds to achieve this LTV ratio.); and

- the partition of the property satisfies the subdivision laws of the county (if it is subject to them) and complies with all zoning requirements.

The request for the partition may be accompanied by a request to release from liability under the mortgage loan the borrower who has possession of the land that is to be released from the security. The servicer should agree to this only if the borrower who retains possession of the security property has the financial ability to make the mortgage loan payments.

The servicer should decline a request for a partial release of security in connection with the partition of a property if the above conditions are not satisfied. The servicer does not need to obtain Fannie Mae's concurrence to deny the request, but if it is uncertain about whether all of the conditions have been met or if it believes that there are mitigating circumstances for permitting the release even though all of the conditions have not been met, the servicer may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

**Section 706  
Substitution of Security  
(01/31/03)**

There may be a few situations in which the value of a security property can be protected (or even enhanced) by moving the improvements to a new lot or to a new location on the lot where it is currently situated. Some of the more common reasons for such moves include:

- the condemnation of a property so that the land can be used in connection with a public purpose (such as to create or expand highways or water reservoirs), which would allow improvements that are in good condition to be moved to another lot or location if it is economically feasible to move them;
- the discovery of a title defect, zoning, or a setback restriction or any other problem not previously known (such as soil condition or drainage) that adversely affects the value of the property, which means that the improvements might become more valuable if they were moved to another lot or location; or
- the occurrence of an earthquake or another disaster (such as a mudslide or the appearance of a sinkhole) that makes continued occupancy of the residence hazardous (even though the structure itself sustained little or no damage from the disaster), which means that the

improvements would either sustain their value or become more valuable after they are relocated.

The *Application for Release of Security* ([Form 236](#)) must include a plat map that shows the proposed location of the improvements, walks, driveways, utilities, as well as footings, foundations, and slab details, after the relocation. Drawings of the existing structure are not required unless they are needed to illustrate proposed alterations or repairs.

The servicer will need to determine if the release and substitution of security will be subject to subdivision laws of the jurisdiction. The servicer must obtain an appraisal for the security property as it will exist following completion of the move of the improvements to the new location (which should be based on the assumption that all requirements of the move have been met).

The servicer must refer all requests for substitution of security to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center, along with its recommendation. If Fannie Mae agrees to a substitution of security, the servicer must:

- advise the borrower that he or she will be solely responsible for financing the costs of the relocation (unless Fannie Mae agrees to absorb some of the costs) and will bear all risks of damage to the house or failure to complete the move;
- require the borrower to obtain flood insurance coverage, if the new lot or location is in a Special Flood Hazard Area for which Fannie Mae requires flood insurance;
- verify that all building code and zoning requirements are met in connection with the relocation; and
- ensure that the lien of Fannie Mae's mortgage will remain a good and valid lien of the same priority during and after the move to a new lot, that the lien of Fannie Mae's mortgage is extended to cover the new lot before the move and will be a good and valid lien of the same priority on the new lot, and that the old lot is released from the lien of Fannie Mae's mortgage after the move.

**Section 707  
Condemnation or  
Taking by Eminent  
Domain (01/31/03)**

When the federal government or a state or local government exercises its right of eminent domain by taking all or part of a privately owned property for a public purpose (such as for use as a street, road, highway, school, park, or railroad), it generally pays the property owner “just compensation” if the two following conditions are met: (1) the public use physically encroaches on the actual use or occupancy of the property, and (2) the property owner’s use of the land is denied or substantially restricted by the action. A government can also condemn a building if it determines that the building is not fit for use and must be destroyed (and may or may not pay compensation to the property owner) or damage or destroy a property under its police power if it decides that such action is necessary to protect the public interest (and pay no compensation to the property owner).

When there is a legal proceeding that may significantly affect Fannie Mae’s rights in the property (such as a condemnation), the servicer is authorized to do and pay for whatever is necessary to protect Fannie Mae’s interest in the property and Fannie Mae’s rights under the security instrument, including appearing in court and paying reasonable attorney fees. For example, the servicer should determine the amount of the proposed award or compensation to be paid to the property owner and the method that the government instrumentality used to establish the property value on which the compensation is based. If it does not appear that the borrower is being fairly compensated, the servicer may pursue any legal remedies that are available. If the mortgage loan has been referred to an attorney for foreclosure action (or the borrower has filed for bankruptcy protection), the servicer should advise the foreclosure attorney (or trustee) or the bankruptcy attorney about the proposed condemnation or taking by eminent domain so that attorney (or trustee) can assume responsibility for any necessary legal action.

The terms of the security instrument dictate how compensation awards are to be distributed in the event of either a partial or total taking of a property. However, they do permit some flexibility in deciding 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 may agree on Fannie Mae’s behalf to an *Application for Release of Security* ([Form 236](#)) related to a partial taking of the property or to a 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 (either its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center or, if the mortgage loan is in foreclosure or bankruptcy status, the National Property Disposition Center) to determine the action Fannie Mae wants it to take.

**Section 707.01  
Partial Taking of Property  
(01/31/03)**

In the event of a partial taking of a property by condemnation or exercise of eminent domain, the disposition of the proceeds of any compensation award depends on the relationship between the fair market value of the property immediately before the taking and Fannie Mae's total mortgage loan debt as of the same date.

- If the fair market value of the property was less than Fannie Mae's total mortgage loan debt, all of the proceeds must be applied to reduce the mortgage loan debt.
- If the fair market value of the property was equal to or greater than Fannie Mae's total mortgage loan debt, a percentage of the proceeds must be applied to reduce the mortgage loan debt and the borrower will be entitled to the remainder. The percentage of the proceeds that must be applied against Fannie Mae's mortgage loan debt is determined by dividing the total mortgage loan debt by the fair market value of the property.

**Section 707.02  
Total Taking of Property  
(01/31/03)**

In the event of a total taking of a property by condemnation or exercise of eminent domain, the disposition of the proceeds of any compensation award differs depending on their relationship to Fannie Mae's total debt.

- If the proceeds are equal to or greater than Fannie Mae's total mortgage loan debt, they must be used to reduce the mortgage loan debt to zero (and then the borrower can retain any excess).
- If the proceeds are less than Fannie Mae's total mortgage loan debt, they must be applied toward reduction of the mortgage loan debt.

**Section 707.03  
Borrower's Abandonment  
of Property or Failure to  
Respond to Offer  
(01/31/03)**

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, Fannie Mae



requires that the proceeds be applied to reduce the mortgage loan debt. However, when there is only a partial taking of the property and foreclosure proceedings have been initiated, Fannie Mae will have an acquired property to sell. In such cases, Fannie Mae may prefer to use the proceeds to restore or repair the property (or even to move the improvements to a new lot); therefore, the servicer should contact Fannie Mae's National Property Disposition Center to determine how to apply the proceeds.

**Section 708  
Waiver of Certain  
Rights under the  
Mortgage Loan  
(01/31/03)**

The servicer may not waive, release, or consent to any changes in the covenants or restrictions in the security instrument or consent to the borrower's postponement of any obligation he or she has under the note or security instrument. Furthermore, the servicer may not waive any of the noteholder's rights to receive certain notifications or to consent to any changes in the provisions of the legal documents for a condo, PUD, or co-op project. The servicer should refer all such requests to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

**Section 709  
Executing Legal  
Documentation  
(09/30/06)**

When the servicer is the owner of record for the mortgage loan, it should execute any legal documentation needed for release of security, regardless of whether the release was approved by the servicer or Fannie Mae.

When Fannie Mae is the owner of record, the party executing the legal documentation can vary, depending on whether or not the servicer has a limited power of attorney from Fannie Mae (and, in some cases, on whether Fannie Mae's approval of the release is required).

- A servicer that has a limited power of attorney to execute certain legal documents on Fannie Mae's behalf (including partial releases of security) may execute the documents for releases of security for which it has the approval authority (as stated in this *Chapter*), as well as the documents for releases that have been approved by Fannie Mae's regional office.
- A servicer that does not have a limited power of attorney to execute documents on Fannie Mae's behalf (or that has a limited power of attorney that does not authorize it to execute documents for releases of security) should send the documents for any release of security that must be approved by the Fannie Mae regional office to the regional

office so that they can be executed when the regional office approves the *Application for Release of Security* ([Form 236](#)).

- A servicer that does not have a limited power of attorney to execute documents on Fannie Mae's behalf (or that has a limited power of attorney that does not authorize it to execute documents for releases of security) should send the documents for any release of security that it approves to Fannie Mae's DDC for execution. The documents should be identified by the Fannie Mae loan number and, if applicable, the MERS MIN. The servicer should attach the documents and a copy of the approved Form 236 to a letter that provides any special instructions related to execution of the documents and indicates the address to which the executed documents should be returned. The documents should be mailed to:

Fannie Mae – Vendor Oversight  
Attn: Legal Document Execution  
13150 Worldgate Drive  
Herndon, VA 20170

**Section 710  
Reporting Application  
of Cash Consideration  
to Debt (01/31/03)**

For most types of releases of security, any consideration received will be less than the total mortgage debt and should, therefore, be applied to pay any past-due installments or to make an additional principal payment (curtailment) and appropriately reported in the next Fannie Mae investor reporting system reporting period. However, when compensation awards are received in connection with a condemnation or a full taking of the property by eminent domain, the proceeds often are sufficient to satisfy the mortgage loan debt. If the proceeds will fully satisfy the debt—or if they do not fully satisfy the debt, but Fannie Mae has agreed to charge off the difference—the servicer should remove the mortgage loan from Fannie Mae's investor reporting system by reporting an Action Code 71 and remit the proceeds as a “special remittance” (Remittance Type 370).

June 10, 2011

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## **Chapter 8. Balloon Mortgage Loan Maturity (03/30/10)**

A borrower who has a balloon mortgage that was closed on Fannie Mae's standard balloon mortgage loan documents typically has a conditional right to refinance the balloon mortgage loan at maturity into a fixed-rate mortgage loan. The notifications and procedures discussed in this *Chapter* apply to this type of balloon mortgage loan.

The balloon mortgage loan documents generally require the following conditions to be met before a balloon mortgage loan can be conditionally refinanced when it reaches maturity:

- the borrower must submit a written request for the refinancing of the mortgage loan to the servicer no later than 45 days before the balloon maturity date,
- the borrower's monthly payments must be current and the borrower cannot have been 30 days or more late in making any of the 12 scheduled monthly payments that immediately precede the effective date of the refinancing or modification of the balloon mortgage loan,
- the borrower must still own the property and occupy it as his or her principal residence,
- the property must not have any liens against it other than the lien of the balloon mortgage loan (except for liens for taxes and special assessments that are not yet due and payable), and
- the interest rate of the new refinance mortgage loan balloon mortgage loan must not be more than 500 basis points (5%) higher than the interest rate of the original balloon mortgage loan.

Conventional mortgage insurance for a balloon mortgage loan remains in force only if the servicer offers the borrower a refinancing of the outstanding mortgage loan balance by the balloon maturity date. This is true even if the borrower declines the offer and the mortgage loan is subsequently foreclosed. To ensure that any conventional mortgage loan insurance coverage for an existing balloon mortgage loan is not jeopardized—and that the coverage will be extended to a new refinance

mortgage loan—a servicer must be knowledgeable about, and comply with, the specific requirements of the conventional mortgage insurers that provide coverage for the balloon mortgage loans it services. Some of the mortgage insurers take the position that the above-mentioned conditions make an offer for refinancing too conditional for the mortgage insurance coverage on the balloon mortgage loan to be preserved. When that is the case, Fannie Mae permits the servicer to offer the refinancing without requiring the borrower to satisfy the conditions that the mortgage insurer finds objectionable. However, the mortgage insurer cannot instruct the servicer to make the refinancing offer subject to other conditions that are not set out in the balloon mortgage loan documents. Should other requirements or procedures discussed in this *Chapter* conflict with those of a conventional mortgage insurer, the servicer must comply with the insurer's requirements.

The servicer has two ways of handling the refinancing of a balloon mortgage loan closed on Fannie Mae's standard balloon mortgage loan documents: (1) refinancing the balloon mortgage loan and submitting the new refinance mortgage loan to Fannie Mae as either a cash delivery or an MBS pool delivery, if the eligibility criteria specified in the mortgage loan documents (or any authorized variances to them) are met or (2) refinancing the balloon mortgage loan and retaining the new refinance mortgage loan in its own portfolio. (If Fannie Mae purchased or securitized a balloon mortgage loan as a negotiated transaction, the individual contract will specify the exact conditions of any refinancing to which the borrower is entitled.)

A servicer's procedures and practices for servicing balloon mortgage loans—including those related to refinancing the mortgage loan—must comply with all laws applicable to balloon mortgage loans, as well as with all requirements of state and local jurisdictions and all applicable federal laws (including, but not limited to, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Reform Act of 1994, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act).

The servicer should include in the individual mortgage loan file copies of all notifications that it sends to the borrower about the balloon maturity and the conditional refinance option; any correspondence it receives from the borrower; documents used to process or execute a refinancing of the balloon mortgage loan, including disclosures, letters, or other notices it sends to the borrower; the title report and evidence of title insurance; any documentation it uses to verify a borrower's eligibility or to approve an ineligible borrower for a refinancing under one of Fannie Mae's authorized variances; evidence of the applicable net yield that is used to calculate the borrower's new interest rate; and evidence of the continuation of mortgage insurance coverage, if applicable.

**Section 801  
Notifying Borrower  
before Balloon Maturity  
Date (05/15/97)**

At least 60 days before the balloon maturity date (or earlier, if required by applicable state law), the servicer must notify the borrower about the due date and amount of the balloon payment. Whenever possible, the servicer should send this notice earlier, as much as 12 months before the balloon maturity date. Providing early notification will give the servicer extra time to work with the borrower should any eligibility issues need to be resolved. However, if the servicer wants to deliver the new refinance mortgage loan to Fannie Mae, it cannot actually refinance the mortgage loan until six or fewer months before the balloon maturity date. To assist a servicer in identifying balloon mortgage loans that are approaching maturity, the Final Maturity Due Report (which is a monthly report generated by the Fannie Mae investor reporting system) will list all balloon mortgage loans that Fannie Mae's records indicate will reach their final maturity in the next 12-month period.

If the mortgage loan is delinquent when the servicer schedules its mailing of the balloon maturity notice, the servicer must nevertheless send the required notice (appropriately tailored to fit the circumstances)—as long as the balloon mortgage loan debt has not been accelerated. Sending the required balloon maturity notice should not, however, in any way interfere or conflict with any other collection-related or foreclosure-related activity. The fact that the servicer sends the required balloon maturity notice does not eliminate the need to send an acceleration letter if the servicer finds it necessary to accelerate the debt before the balloon maturity date. On the other hand, if the balloon mortgage loan has already been accelerated, it may not be necessary to send the balloon maturity notice since the balance is already due and payable. The servicer should consult with its legal

counsel for guidance about accelerating the balloon mortgage loan debt and providing notice to a borrower whose debt has been accelerated.

Section 801.01  
Content of Balloon  
Maturity Notice  
(05/15/97)

When the servicer notifies the borrower of the balloon maturity date and balloon payment amount, it should explain the eligibility conditions that must be met to exercise the conditional refinance option. If the mortgage insurer has eligibility conditions that are less restrictive than Fannie Mae's, the servicer should instead disclose to the borrower the eligibility conditions of the mortgage insurer (to the extent that the restrictions are required to preserve the insurance coverage for the balloon mortgage loan).

The balloon maturity notice must provide all of the following information (tailored to the borrower's individual circumstances), as well as any other information or language that is required by applicable law:

- a. The borrower's payment history for the previous 12 months, along with a statement that the borrower must not be 30 days or more late on the payments that become due before the effective date of the refinancing or modification (The servicer does not need to give the payment history to the borrower if it includes payment history in the monthly account statements it sends to the borrower or if the borrower has not been 30 days or more delinquent in the previous 12 months.);
- b. An explanation of how the interest rate for the new refinance mortgage loan balloon mortgage loan will be calculated and any factors that are pertinent to the determination of the receipt date and time for the borrower's request. (Some mortgage insurers may also require that the servicer give the borrower an estimate of the new interest rate. This estimate can be based on Fannie Mae's required net yield that is in effect on the date the servicer sends the notification to the borrower, or on some other date that is in proximity to the notification date.);
- c. A statement that the servicer will calculate the new interest rate after receipt of the borrower's written request to exercise the conditional refinance option and will provide information about the interest rate and monthly payment for the new refinance mortgage loan to the borrower before the balloon maturity date;

- d. A requirement for the borrower to send the servicer—at least 45 calendar days before the balloon maturity date—written notification of his or her intention to exercise the conditional refinance option (The servicer can send the borrower the Declaration of Intent that appears in *Exhibit 1: Declaration of Intent*, or an equivalent document);
- e. The address and telephone number of the department in the servicer's organization to which the borrower must submit the written request to exercise the conditional refinance option, and this same information for the department the borrower may contact if he or she has any questions (if the two departments are different);
- f. A requirement for the borrower to submit evidence of the occupancy status of the property (such as a copy of a recent utility bill or a driver's license showing the borrower as residing at the property address, a copy of a lease or rental agreement, or other evidence the servicer deems acceptable) no later than 30 days after the written request for the refinancing is submitted;
- g. An explanation of the process for completing the refinancing—including the borrower's responsibilities, the dates by which specific actions must be taken (and the consequences of not meeting those dates), the documents that need to be executed (and how the execution is to be accomplished), etc. (The servicer also must provide information about the balloon payment amount (including the UPB, accrued interest, and any unpaid late charges) that will be due on the balloon maturity date, and explain the consequences of the borrower's not paying the final payment on the balloon maturity date if he or she chooses not to exercise the conditional refinance option.); and
- h. An estimate of the transaction costs that the borrower must pay in connection with the refinancing. (The servicer should advise the borrower that accrued interest is the only transaction cost that can be capitalized and added to the balance of the new refinance mortgage loan. In addition, the servicer should make sure that the borrower is aware that he or she must pay for the cost of obtaining a title report in advance since the title report is needed to verify two of the eligibility conditions—the ownership and lien status of the property—for the conditional refinance option.)

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**General Servicing  
Functions**

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**Balloon Mortgage Loan  
Maturity**

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Section 801

June 10, 2011

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If the servicer is aware that one or more of the eligibility conditions for refinancing the balloon mortgage loan has not been satisfied, it should inform the borrower that he or she is not eligible under the original terms of the conditional refinance option, but that refinancing may nevertheless be available under other terms. It is important for the servicer to avoid discouraging an ineligible borrower by merely stating that he or she is not eligible for the refinancing and then providing a telephone number to call for more information. Instead, the servicer should (whenever possible) make it clear to the borrower that refinancing may still be available under certain circumstances and fully explain the circumstances under which the borrower might be considered. However, if it is not practical to include a full explanation of the circumstances, the servicer should provide as much information as possible and give the borrower the name and telephone number of a person or department to contact to discuss the terms under which the refinancing will be offered.

**Section 801.02  
Borrower's Declaration of  
Intent (05/15/97)**

To exercise a conditional refinance option, a borrower must send the servicer a written request no later than 45 calendar days before the balloon maturity date. To avoid any misunderstandings, the servicer must specifically determine whether a borrower intends to satisfy the mortgage loan by paying the full amount of the balloon payment on or before the maturity date or to exercise the conditional refinance option. The requirement that the borrower submit a written request can be satisfied by the borrower's completing and returning the Declaration of Intent that appears in *Exhibit 1: Declaration of Intent* (or some other form of written request) within the specified time frame. There may be some instances in which a borrower sends a written request to exercise the conditional refinance option before the servicer has sent out the balloon maturity notice (and thus may not have included all of the necessary language in his or her request). In such cases, the servicer may request that the borrower also execute a Declaration of Intent; however, the servicer must use the required net yield Fannie Mae had in effect at the date and time that the borrower's initial request was received when it calculates an eligible borrower's new interest rate. The servicer does not need to send Fannie Mae a copy of (or otherwise notify it about) any "declaration of intent" it receives for a balloon mortgage loan.

The servicer may send an advance warning to notify a borrower about the forthcoming deadline for submitting a request for a balloon refinancing to make it clear that the borrower must submit the final balloon payment on



or before the balloon maturity date. The servicer must establish appropriate follow-up procedures that provide for making at least one telephone call or mailing a reminder letter (or both) to a borrower who does not submit—by the 45th day before the balloon maturity date—a written request to exercise the conditional refinance option.

Section 801.03  
Quoting the New Interest  
Rate (05/15/97)

When the borrower exercises the conditional refinance option, the interest rate for the new refinance mortgage loan will be based on the applicable Fannie Mae required net yield in effect for the date and time that the servicer receives the borrower's Declaration of Intent (or other form of written request). Because Fannie Mae's required yields change, and more than one yield may be in effect on any given day, it is important that the servicer 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. This policy must be communicated in the balloon maturity notice that the servicer sends to a borrower and the borrower must acknowledge acceptance of this policy as part of his or her declaration of intent.

After receiving the borrower's declaration of intent, the servicer should determine the required net yield Fannie Mae had in effect for 60-day mandatory delivery actual/actual commitments for 30-year conventional fixed-rate first mortgage loans on the effective receipt date and time of the borrower's request to exercise the conditional refinance option. Fannie Mae's required net yield can be obtained from a number of sources—[eFannieMae.com](http://eFannieMae.com) and four financial wire services: Telerate Systems, The Reuters Mortgage Service, The Bloomberg, and Knight-Ridder MoneyCenter Index.

Generally, the servicer should quote the new interest rate to the borrower shortly after it receives the borrower's declaration of intent. The interest rate for the new refinance mortgage loan will be the sum of Fannie Mae's applicable required net yield in effect for the date and time that the servicer received the borrower's declaration of intent and 0.5%, rounded to the nearest 0.125%. The servicer should document its individual loan file with the information about the required net yield (value, time, and date) that was used to calculate the borrower's new interest rate.

When the servicer does not know whether all of the eligibility conditions have been satisfied, it may either quote the new interest rate to the

borrower “conditioned on all eligibility criteria (or Fannie Mae’s authorized variances to them) being satisfied before the balloon maturity date” or quote the new rate only after it determines that the eligibility criteria (or Fannie Mae’s authorized variances to them) have been met. When the servicer’s preliminary review of the borrower’s payment history or other information indicates that the borrower is not eligible for the refinancing, the servicer does not need to quote a new interest rate to the borrower until after it completes its determination of the borrower’s eligibility under Fannie Mae’s authorized variances to the eligibility conditions. If the servicer then decides to approve the borrower using Fannie Mae’s authorized variances, it should advise the borrower of the new interest rate. Since the borrower is technically ineligible for the refinancing in this case, the new interest rate should be calculated in a different way—by using the higher of (1) Fannie Mae’s applicable required net yield that was in effect on the effective receipt date and time of the borrower’s request or (2) the applicable required net yield that Fannie Mae had posted at 10:00 a.m. (eastern time) on the date the servicer approves the borrower for the refinancing.

**Section 802  
Determining Eligibility  
for Refinancing  
(05/15/97)**

When the servicer receives a written request to exercise the refinance option for a balloon mortgage loan, it must verify that all of the eligibility conditions (or Fannie Mae’s authorized variances to them) have been satisfied before it approves the refinancing. The mortgage insurer for an insured balloon mortgage loan may require that an unconditional refinancing option be offered to the borrower in order for the insurance coverage on the balloon mortgage loan to be continued. When that is the case, the servicer may approve the refinancing even if not all of Fannie Mae’s eligibility conditions (or the authorized variances to them) are satisfied.

The servicer should first determine whether the borrower submitted the declaration of intent at least 45 days before the balloon maturity date. If the borrower submitted the request in a timely manner, the servicer should evaluate each of the eligibility conditions discussed in the following *Sections* to determine whether they have been (or will be) satisfied. When one (or more) of the eligibility conditions has not been satisfied, the servicer should discuss with the borrower any conditions that have not been met in order to determine whether some alternative arrangements might be acceptable. If the servicer believes that it is appropriate to

approve the borrower's request under one of Fannie Mae's authorized variances, it may do so without obtaining Fannie Mae's prior approval.

When the borrower submits the written request to exercise the conditional refinance option before the balloon maturity date—but fails to meet the 45-day deadline—the servicer may still approve the request, as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. (Since the borrower is technically ineligible for the refinancing because of the late submission of his or her request, the servicer should base the interest rate of the new refinance mortgage loan on the higher of (1) Fannie Mae's applicable required net yield as of the effective receipt date and time of the borrower's request or (2) the applicable required net yield Fannie Mae had posted at 10:00 a.m. (eastern time) on the date that is 45 calendar days before the balloon maturity date.) The servicer may grant temporary forbearance to the borrower to allow additional time for paying off the balloon mortgage loan or for refinancing the mortgage loan, if the effective date of the refinancing will not occur until after the end of the balloon maturity month.

If the borrower is exercising a conditional refinance option, the servicer must obtain a title report to verify ownership of the property and the status of any liens on the property. Generally, a title report is the only acceptable form of verification of ownership and lien status; however, if an attorney's opinion of title was obtained (instead of a title policy) when the balloon mortgage loan was originated, the servicer may obtain an updated attorney's opinion. (Since the conditional refinance option requires the borrower to provide evidence that Fannie Mae's property ownership and lien status eligibility conditions have been satisfied—and the title report is such evidence—the servicer may charge the borrower for the cost of the title report even if the refinancing does not take place.)

Section 802.01  
Borrower's Payment  
History (05/15/97)

In order for a borrower to qualify for the conditional refinancing of a balloon mortgage loan, he or she must be current in making the monthly payments for the mortgage loan as of the effective date of the refinancing, and cannot have been 30 days or more late in making any of the 12 scheduled monthly payments that immediately precede the effective date.

The payment history that the servicer reviewed at the time it prepared the required balloon maturity notice will reflect the borrower's payment pattern during the 12 months that preceded the date of the notice. The

servicer should check recent account activity to ensure that any other payments that came due after the notice was sent were made on time. If the borrower's payment record is still acceptable, the servicer may approve the refinancing as long as all of the other eligibility conditions (or authorized variances to them) are satisfied. The servicer should make sure that the borrower understands that he or she must continue to pay all additional monthly payments that become due before the effective date of the refinancing (without having any 30-day delinquency).

The fact that a borrower has filed for bankruptcy protection does not necessarily mean that the borrower is automatically ineligible for the conditional refinance option. The determining factors will be the borrower's payment history, the provisions of any proposed reorganization plan, and the mortgage insurer's position on the continuation of mortgage insurance coverage if a reorganization plan modifies the mortgage loan or extends the balloon maturity date. If the balloon maturity date will occur while a bankruptcy action is pending, the servicer should (1) inform the bankruptcy attorney of that fact and (2) contact the mortgage insurer to confirm whether the bankruptcy proceedings will have an effect on the mortgage insurance coverage. When the borrower satisfies Fannie Mae's payment history eligibility condition (or the authorized payment history variance described below), he or she may be approved for the refinancing despite the bankruptcy filing, provided the terms of the bankruptcy reorganization plan and Fannie Mae's other eligibility conditions (or the authorized variances to them) are satisfied and, if necessary, the mortgage insurer agrees to the continuation of mortgage insurance beyond the balloon maturity date.

There are some circumstances in which the servicer may approve a request for a refinancing of the balloon mortgage loan even though the borrower is technically ineligible because he or she does not satisfy Fannie Mae's payment history eligibility condition. However, doing so may affect the servicer's ability to deliver a new refinance mortgage loan to Fannie Mae as part of an MBS pool (see *Section 803.01, Terms of New Refinance Mortgage (03/30/10)*).

- If the mortgage loan is **current** when the servicer reviews the eligibility criteria, but the borrower does not satisfy Fannie Mae's payment history eligibility condition because of previous delinquencies that have been reinstated, the servicer may authorize the

refinancing as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

- If the mortgage loan is *delinquent* when the servicer reviews the eligibility criteria, but it has not been accelerated, the servicer may authorize the refinancing if the balloon mortgage loan is reinstated (in accordance with the provisions of *Part VIII, Section 103, Reinstatements (01/31/03)*) and all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. If the borrower is unable to reinstate the mortgage loan or the mortgage loan has been referred to an attorney to initiate foreclosure proceedings, the servicer's loss mitigation staff should determine whether an appropriate workout plan can be arranged for the balloon mortgage loan.

Section 802.02  
Property Ownership  
(05/15/97)

In order for the borrower to qualify for the conditional refinancing of a balloon mortgage loan, he or she must still own the property.

If the title report (or the attorney's opinion) that the servicer obtains indicates that the borrower still owns the property, the servicer may approve the refinancing as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. However, if the title report (or attorney's opinion) indicates that the borrower is no longer the owner of the property, the servicer will need to look into the circumstances behind the transfer of ownership. Certain types of transfer-of-ownership transactions—which are discussed in *Section 408.02, Exempt Transactions (01/31/03)*—are exempt from the enforcement of the due-on-sale (or due-on-transfer) provision. Since these “exempt” transfers are acceptable under Fannie Mae's property ownership eligibility condition, the new property owner is eligible for the refinancing. The servicer must obtain copies of all documents that show the terms of the transfer of ownership. If the borrower still owns the property or the documentation confirms that any transfer of ownership was the result of an exempt transaction, the servicer may approve the refinancing as long as all of the other eligibility conditions (or authorized variances to them) are satisfied.

It is sometimes permissible to approve a request for the refinancing of a balloon mortgage loan even though the current property owner is technically ineligible because he or she was not the original borrower

when the balloon mortgage loan was originated. In such cases, the servicer may approve the request provided all of the following conditions are met: (1) the new property owner will have at least a 12-month payment history for the balloon mortgage loan by the effective date of the refinancing, (2) the payments are current when the servicer reviews the eligibility criteria and there will have been no payments 30 days or more late in the 12-month period ending with the effective date of the refinancing, and (3) all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. When the new property owner cannot satisfy these requirements, the servicer may still consider approving the request if it determines the borrower's creditworthiness by applying Fannie Mae's standard underwriting guidelines.

Section 802.03  
Borrower's Occupancy  
Status (03/30/10)

In order for a borrower to qualify for the conditional refinancing of a balloon mortgage loan, he or she generally must occupy the property as a principal residence or second home. The borrower usually will provide proof of occupancy with the declaration of intent. However, if the borrower does not include evidence of occupancy with the declaration of intent, he or she has 30 calendar days from the date the servicer received the declaration of intent in which to provide evidence of occupancy. Acceptable evidence includes a copy of one of the borrower's recent utility bills (such as telephone, electric, or gas), a copy of the borrower's driver's license indicating that the property address is the borrower's address, or any other evidence that the servicer considers acceptable. If the borrower submits evidence of occupancy, but the servicer does not believe that it adequately confirms that the borrower occupies the property as a principal residence or second home, the servicer should ask the borrower to provide additional information. Once the borrower has provided acceptable evidence of occupancy, the servicer may approve the refinancing as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

It is sometimes permissible for the servicer to approve a request for a refinancing of the balloon mortgage loan even though the borrower is technically ineligible because he or she no longer occupies the property as a principal residence or second home. When the borrower still owns the property, but uses it as an investment property, the servicer may authorize the refinancing in accordance with the following:

- For an uninsured balloon mortgage loan or for an insured balloon mortgage loan for which the mortgage insurer permits the charging of a loan-level price adjustment (LLPA) as a condition of approval to offset the higher risk of such properties, the servicer generally should require the borrower to pay a 1.5% LLPA. (The LLPA is determined by multiplying the original principal balance of the new refinance mortgage loan by 1.5%.) Fannie Mae will net this LLPA out of the purchase proceeds for a new refinance mortgage loan that is submitted as a cash delivery. However, if a new refinance mortgage loan is part of an MBS pool delivery, Fannie Mae will draft the fee from the servicer's designated custodial drafting account after the pool is delivered.
- For an insured balloon mortgage loan for which the mortgage insurer does not permit the charging of an LLPA as a condition of the approval, the servicer must not require the borrower to pay an LLPA.

When a cooperative borrower who is experiencing a financial hardship is unable to pay the LLPA, the servicer may still approve the refinancing—as long as some alternative arrangement for paying the LLPA can be worked out. If the borrower is currently unable to pay the LLPA, but could pay it over time, the servicer may advance the LLPA on the borrower's behalf and develop a repayment plan through which the borrower can reimburse the servicer's advance. If it appears that the borrower will not be able to pay the LLPA over time, the servicer should consider waiving some or all of the LLPA, particularly if requiring the borrower to pay the LLPA would result in a mortgage loan default that could lead to acquisition of the property. To verify that the borrower is unable to make a lump-sum payment of the LLPA and cannot afford to reimburse the servicer's advance through a repayment plan, the servicer should require the borrower to submit documentation that substantiates the hardship—such as a financial statement, recent pay stub(s), or bank statements. The servicer should document its decision to waive all or part of the LLPA in the individual mortgage loan file.

When the servicer waives some or all of the LLPA in connection with the refinancing of either a portfolio mortgage loan or an MBS mortgage loan, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center before delivering the new refinance mortgage loan to Fannie Mae. This will

enable Fannie Mae to make appropriate arrangements to adjust or prevent the deduction or drafting of the LLPA in connection with the mortgage loan delivery.

**Section 802.04  
Property Lien Status  
(01/31/03)**

In order for a borrower to qualify for the conditional refinancing of a balloon mortgage loan, the security property must not have any liens against it other than the lien of the balloon mortgage loan (and any liens for taxes and special assessments that are not yet due and payable).

The title report (or the attorney's opinion) that the servicer obtains must show that the property is free from any liens (other than the lien of the balloon mortgage and a lien for taxes and special assessments that are not yet due and payable), defects, encumbrances, or other adverse matters (such as delinquent real estate tax payments for which a lien has not been recorded) that arose after the security instrument was recorded and could affect the title to the property. If the title report shows that there are no other liens, defects, encumbrances, or other adverse matters—or the borrower pays off or otherwise removes them—the servicer may approve the refinancing as long as all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. If the title report indicates that there are defects, encumbrances, or adverse matters (other than a junior lien) that affect the title to the property, the servicer generally should not approve the refinancing unless the borrower cures the identified defects. However, the servicer may approve the refinancing without the defects being cured if it determines (1) that the defects will not negatively affect the value or marketability of the property and (2) that the title insurer is willing to insure the new refinance mortgage loan as a first lien despite any uncured title defects—and all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

There are some circumstances in which the servicer may approve a request for a refinancing of a balloon mortgage loan even though the property is technically ineligible because of its lien status:

- When the title report indicates that the property is subject to liens other than the first mortgage lien, the servicer may approve the refinancing if all other lienholders agree to subordinate their liens to the lien of the new refinance mortgage, provided all of the other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. However, if a junior lienholder refuses to subordinate its lien, the servicer must



determine whether the title insurer is willing to issue either an endorsement to the current title policy or a new title policy that shows the new refinance mortgage loan as a first lien.

- If the title insurer will insure the new refinance mortgage loan as a first lien without an executed subordination agreement from the junior lienholder, the servicer may approve the refinancing as long as all other eligibility conditions (or Fannie Mae’s authorized variances to them) are satisfied.
- If the title insurer will **not** insure the new refinance mortgage loan as a first lien without an executed subordination agreement from the junior lienholder, the servicer must contact the junior lienholder to explain that foreclosure proceedings for the balloon mortgage loan will have to be initiated unless the junior lienholder agrees to subordinate its debt (or the borrower pays off the junior lien). If the junior lienholder still refuses to subordinate its debt, the servicer may approve the refinancing only if the borrower pays off the junior lien and satisfies all other eligibility conditions (or Fannie Mae’s authorized variances to them). If the borrower is unable to pay off the junior lien, the servicer should initiate foreclosure proceedings if the balloon payment is not received by the balloon maturity date (or by the date specified in a forbearance agreement that allows the payment to be made after the balloon maturity date). However, the servicer’s loss mitigation staff should determine whether a loss mitigation alternative can be considered in lieu of a foreclosure of the balloon mortgage loan.
- When the title report indicates that the real estate taxes for the current tax period are delinquent (although they do not yet appear in the land records as a lien against the property), the servicer should verify whether the taxes have been paid. If the servicer maintains an escrow deposit account for the balloon mortgage loan, it should check its records to confirm that the payments were made and, if necessary, check with the taxing jurisdiction to determine if the payments simply have not been posted or were incorrectly credited to a different account. If the servicer does not maintain an escrow deposit account for the mortgage loan, it must check with the borrower to verify whether the taxes have been paid. If the borrower has not paid the

taxes, the servicer must advise the borrower that he or she must pay them immediately.

Although most title companies verify the status of the borrower's tax payments as part of the title search, delinquent taxes may not always appear on the title report. Delays in updating the tax jurisdiction's records to reflect receipt of tax payments may result in a lien for delinquent taxes not being recorded against a particular borrower in a timely manner. Therefore, the servicer should not always rely on the title report to verify that a borrower's real estate tax payments are current. If the status of current taxes is not addressed on the title report, the servicer should independently verify that the taxes have been paid (either by checking its records, talking to the borrower, or contacting the taxing jurisdiction). If the servicer determines that the real estate taxes are delinquent (but are not yet a recorded lien), it should inform the borrower that he or she will not be approved for a refinancing unless he or she satisfies the following conditions: (1) bringing the delinquent taxes current, (2) providing proof of payment, (3) authorizing the servicer to establish an escrow deposit account from which future real estate taxes can be paid, and (4) including as part of future monthly mortgage loan payments escrow accruals toward the payment of the next real estate taxes. If the borrower agrees to these conditions, the servicer may approve the refinancing provided all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. The evidence of payment must show that the delinquent tax bill has been paid in full; a plan that obligates the borrower to pay the delinquent taxes by making periodic payments to the taxing authority is not acceptable evidence that the delinquent taxes have been paid.

When a borrower is unable to pay the delinquent property taxes, the servicer must decide whether it is willing to advance funds to pay the delinquent taxes on the borrower's behalf.

- If the servicer chooses to advance the funds to pay the delinquent taxes, it should establish a repayment plan through which the borrower can repay the advance. When the delinquent taxes have been paid and a repayment plan finalized, the servicer may

approve the refinancing, as long as all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

- If the servicer chooses *not* to advance the funds to pay the delinquent taxes, the servicer should deny the request for the refinancing and initiate foreclosure proceedings if the balloon payment is not received by the balloon maturity date (or by the date specified in a forbearance agreement that allows the payment to be made after the balloon maturity date). However, the servicer's loss mitigation staff should determine whether an appropriate workout plan can be considered in lieu of a foreclosure of the balloon mortgage loan.

Section 802.05  
Acceptability of New Note  
Rate (05/15/97)

In order for a borrower to qualify for the conditional refinancing of a balloon mortgage loan, the interest rate of the new refinance mortgage loan must not be more than 500 basis points (5%) higher than the interest rate of the original balloon mortgage loan.

When the interest rate that the servicer calculates for the new refinance mortgage loan is lower—or not more than 500 basis points (5%) higher—than the interest rate on the original balloon mortgage loan, the servicer may approve the refinancing, as long all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied. However, if the borrower indicates that he or she cannot afford the new monthly payment, the servicer's loss mitigation staff should determine whether a workout plan for the balloon mortgage loan can be developed to assist the borrower.

Should the interest rate the servicer calculates for the new refinance mortgage loan be more than 500 basis points higher than the interest rate of the original balloon mortgage loan, the servicer may still approve the refinancing—provided it re-underwrites the borrower to determine that he or she satisfies Fannie Mae's current underwriting guidelines. The servicer also must determine that a new refinance mortgage loan satisfies the mortgage eligibility requirements Fannie Mae currently has in place for fully amortizing conventional fixed-rate refinance mortgage loans. If the borrower and, if applicable, the mortgage loan are acceptable under Fannie Mae's current guidelines, the servicer may approve the refinancing as long as all other eligibility conditions (or Fannie Mae's authorized variances to them) are satisfied.

**Section 803  
Processing an  
Approved Transaction  
(09/30/06)**

The servicer may process an approved transaction through the mail or it may require the borrower to appear in person to execute any required documents. Once the servicer approves a conditional refinancing of the balloon mortgage loan, it must prepare a refinancing package for delivery to the borrower. This package should consist of the legal documents that the borrower must execute, all notices or disclosures that the servicer and its legal counsel deem necessary, and an instruction letter to the borrower (which not only complies with the requirements in the balloon mortgage loan documents and all applicable laws, but also provides information and instructions about the actions the borrower must take to finalize the transaction).

The instruction letter to the borrower generally must include the information listed below. In addition, if the servicer's approval of the transaction is based on the use of authorized variances to the eligibility conditions for the refinancing, the servicer should tailor its instruction letter to fit the individual circumstances (such as the charging of different transaction costs, requiring conditions for approval, or use of a different yield to calculate the new interest rate).

- The terms of the new refinance mortgage loan—the new principal amount, interest rate, monthly P&I payment, monthly escrow deposit accruals (if any), due date and amount of the first monthly payment, and maturity date.
- A caution that all scheduled monthly payment(s) that come due before the effective date of the refinancing must be paid (without any of them becoming 30 days late) in order for the refinancing to be finalized.
- Specific instructions about the completion and execution of the legal documents required to complete the refinancing. If the borrower must appear in person to sign the documents, the servicer must indicate the date, time, and address at which the borrower must appear. (The servicer should make sure that it gives the borrower sufficient time to make arrangements to attend the closing on the specified date.)
- An itemized breakdown of the transaction costs that the borrower must send to the servicer (or bring to closing if he or she is required to appear in person). The servicer also should indicate the forms of

payment that will be accepted—personal check, cashier’s check, certified check, etc.

- The date by which the borrower must return the executed legal documents and funds for the transaction costs, and the address to which the documents and funds should be sent (if the transaction is being completed though the mail).
- An explanation of the actions that will take place after the servicer receives the executed documents and the payment for the transaction costs from the borrower.
- An explanation of the consequences of the borrower’s not returning the executed documents and funds for the transaction costs on time (or failing to appear at the closing if the servicer requires the borrower’s personal appearance). The servicer also should advise the borrower of the process for notifying the servicer if he or she decides not to go through with the refinancing.
- The telephone number of the department in the servicer’s organization that the borrower can contact if he or she has any questions about the refinancing package.

Section 803.01  
Terms of New Refinance  
Mortgage (03/30/10)

Generally, the only differences between the balloon mortgage loan and the new refinance mortgage loan will be in the interest rate, principal amount, monthly payment, first payment due date, the maturity date, and (possibly) the borrower(s). The servicer may make changes to other terms or to the language in the mortgage loan instruments for a new refinance mortgage loan—as long as all of the changes are fully disclosed to the borrower and the new refinance mortgage loan can still satisfy Fannie Mae’s eligibility criteria. However, when the borrower qualifies for the refinancing by satisfying all of the eligibility conditions (without relying on any of Fannie Mae’s authorized variances), the servicer cannot make changes to the mortgage loan terms or the language in the mortgage loan instruments without the borrower’s consent, unless the changes are required by law or are needed to make a legal duty to the borrower effective. (The servicer must inform the borrower that he or she has the right to agree to or reject any proposed changes for which borrower consent is required.)

The new refinance mortgage loan must satisfy the following terms and conditions:

- If the servicer grants the borrower a temporary forbearance period in which to pay off the original balloon mortgage loan or to finalize a refinancing, the effective date for a refinancing may be the balloon maturity date, the first day of any of the six months preceding the balloon maturity date, or the first day of a month that is after the balloon maturity date.
- The new refinance mortgage loan must be a fully amortizing fixed-rate, level-monthly-payment first mortgage.
- The principal amount of the new refinance mortgage loan must not exceed the sum of the UPB of the balloon mortgage that is outstanding on the effective date of the refinancing and accrued interest (calculated at the interest rate of the balloon mortgage loan) covering the period from the LPI date for the balloon mortgage loan up to, but not including, the effective date of the refinancing. (Fannie Mae will permit the principal amount to be rounded up to the next \$50 in order to avoid having an odd “dollars and cents” loan amount.)
- The term of the new refinance mortgage loan may not exceed 23 years if the term of the balloon mortgage loan was 7 years, and may not exceed 20 years if the balloon mortgage was one for which Fannie Mae negotiated a 10-year balloon term. (These term requirements apply even if a refinance option is exercised and made effective before the maturity date of the balloon mortgage loan.)
- The interest rate for the new refinance mortgage loan must be calculated in accordance with *Section 801.03, Quoting the New Interest Rate (05/15/97)* (and the provisions of the balloon note addendum and rider). Interest must begin accruing at the new interest rate on the effective date of the refinancing.
- The monthly P&I payments for the new refinance mortgage loan must result in the new UPB (plus interest) being fully paid through equal monthly installments that are made over the term of the new refinance mortgage. The monthly payments must be due on the first day of each

month, with the first payment due on the first day of the month following the effective date of the refinancing.

- A single original of the applicable legal documents for the refinancing must be executed by all living borrowers, endorsers, guarantors, sureties, grantors, and other parties who signed the original balloon note and/or security instrument.
- It is possible to remove one or more of the original parties to the balloon mortgage loan transaction if the remaining parties are re-underwritten to verify that they have the financial ability to make the new mortgage loan payments on their own. However, the servicer will not need to re-underwrite the remaining parties when the removal relates to an “exempt” transfer of ownership. If ownership of the property has been transferred to an individual who was not one of the original parties to the balloon mortgage loan transaction—and the new property owner is approved in accordance with the authorized variances described in *Section 802.02, Property Ownership (05/15/97)*—the original parties to the transaction do not have to execute any of the legal documents for the refinancing. However, a “co-grantor” (any party who did not sign the original balloon documents, but who currently has an interest in the property) must sign documentation that subjects his or her interest in the property to the lien that secures the new refinance mortgage (even if he or she will not be assuming liability for the debt as a “borrower”).
- If the balloon mortgage loan was originally insured, the new refinance mortgage must continue to be covered by conventional mortgage insurance unless the coverage has been terminated or canceled (or can be canceled in connection with the refinancing) under Fannie Mae’s applicable mortgage insurance termination or cancellation provisions. (Generally, it will not be necessary to obtain new mortgage insurance coverage because the mortgage insurers allow the existing coverage to be extended to the new refinance mortgage. The servicer should contact the mortgage insurer for its specific approval and notification requirements.)
- The new refinance mortgage loan must be covered by title insurance that insures its priority as a first lien.

- The security property must continue to be covered by hazard insurance and, if applicable, flood insurance that satisfies the requirements of *Part II, Chapter 2, Hazard Insurance*, and *Chapter 3, Flood Insurance*. If the balloon mortgage loan was not covered by flood insurance when it was sold to Fannie Mae because the property improvements were not located in a Special Flood Hazard Area, the servicer must verify that the area in which the property is located has not been reclassified as a Special Flood Hazard Area. If the area has been reclassified, Fannie Mae requires flood insurance coverage for the new refinance mortgage loan.

For the most part, any new refinance mortgage loan can be delivered to Fannie Mae as a cash delivery or as part of an MBS pool delivery. However, the mortgage loan may not be included in an MBS pool if its LTV ratio is more than 100%. In addition, if the refinancing was approved under an authorized variance to one of Fannie Mae's eligibility criteria, the mortgage loan may be included in an MBS pool only if the borrower has no more than one payment that was 30 days late in the last 12 months.

Section 803.02  
Required Legal  
Instruments (03/30/10)

Once the servicer has verified that a borrower is eligible for the refinancing of a balloon mortgage loan (or approves the borrower based on Fannie Mae's authorized variances), it should prepare the necessary legal instruments for the borrower's execution.

When the servicer receives the executed documents, it should verify that (1) all borrowers signed their names exactly as they were typed on the document(s), (2) all borrowers indicated the date of their signatures, and (3) a notary public notarized (and properly completed the acknowledgment section of) the document that will be recorded.

There are several ways to document the refinancing of a balloon mortgage loan: (1) the execution of a new fixed-rate note and the execution and recordation of a new mortgage (or deed of trust) or (2) the execution and recordation of a *Balloon Loan Refinancing Instrument* ([Form Series 3269](#)), which combines into a single document the terms of a new fixed-rate note and a refinance of the existing balloon mortgage loan (or deed of trust). A third alternative—Fannie Mae's standard *Consolidation, Extension, and Modification Agreement* ([Form 3172](#)), which is commonly used to document refinance transactions in New York—is available for balloon mortgage loans secured by properties located in New York, provided the



servicer ensures that the use of this document for the refinancing of a balloon mortgage loan is enforceable and consistent with customary practice in that state. The servicer may not under any circumstances use Fannie Mae's *Loan Modification Agreement* ([Form 3179](#)) to document the conditional refinancing of a balloon mortgage loan.

A servicer that uses the *Balloon Loan Refinancing Instrument* ([Form Series 3269](#)) to document the refinancing of a balloon mortgage loan should acknowledge its acceptance on the last page of the document (in the area marked "Accepted by Lender:") since some recorders may require that for recordation of the document. The servicer should then forward the original executed document and the applicable recordation fees to the appropriate land records office, and establish follow-up

procedures to ensure that the land records office returns the original recorded document. If the servicer encounters difficulties in recording the document because it is a novel form of documentation for a refinancing transaction, it must notify its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

When the servicer receives a recorded *Balloon Loan Refinancing Instrument* ([Form Series 3269](#)) back from the land records office, it must endorse the document "in blank" if it delivered the new refinance mortgage note to Fannie Mae for purchase or securitization. (Space for the endorsement is provided on the last page of the form. The servicer must prepare the endorsement in accordance with the requirements for endorsing mortgage notes that appear in the *Selling Guide, B8-3-04, Note Endorsement*.) The servicer must then submit the original recorded document to Fannie Mae (or the applicable document custodian), and retain a copy of the recorded document in the individual mortgage loan file. (Also see *Section 805.03, Delivery Documentation (03/30/10)*.)

Section 803.03  
Title Insurance Coverage  
(05/15/97)

After a balloon mortgage loan is refinanced, Fannie Mae needs assurance that the borrower's title to the security property is generally acceptable and that the new refinance mortgage loan constitutes a first priority lien on the property. This assurance can take the form of a new title insurance policy or an endorsement to the existing title insurance policy. (Fannie Mae does not require that title insurance coverage be obtained from the same title insurer that issued the existing policy for the balloon mortgage.)

The title policy (or endorsement) must comply with Fannie Mae's standard coverage requirements and be issued by a title insurance company that meets Fannie Mae's requirements for acceptable title insurers (which are discussed in the *Selling Guide, B7-2-02, Title Insurer Requirements*). When multiple methods for providing the required coverage are available, the servicer should always use the least expensive method.

**Section 803.04  
Transaction Costs  
(03/30/10)**

The balloon mortgage loan documents address the transaction costs that can be charged to a borrower who satisfies the conditions for exercising a conditional refinance option. They do not, however, address the costs that may be charged to a borrower who is approved for the refinancing under one or more of the authorized variances to the eligibility conditions. This means that, when a request for a refinancing is approved, the transaction costs that have to be paid may differ depending on whether the borrower is considered an "eligible" borrower or an "ineligible" borrower. (When the transaction costs that may be charged to an eligible and an ineligible borrower differ, Fannie Mae clearly makes this differentiation in its discussions of the specific transaction cost.)

- An eligible borrower is one who satisfies all of the conditions for exercising a conditional refinance option or one who may be eligible based on an exception to a specific eligibility condition (without having to utilize one of Fannie Mae's authorized variances). Borrowers who can be approved as an eligible borrower under exceptions to Fannie Mae's eligibility conditions include those who acquired the security property through an exempt transfer-of-ownership transaction; those who have a previous bankruptcy filing, but otherwise satisfy the acceptable payment history condition; those who pay off or otherwise remove a lien, defect, encumbrance, or other adverse matter affecting the security property; or those who are not required to cure a title defect because the defect will not negatively affect the value or marketability of the security property.
- An ineligible borrower is one who is unable to satisfy all of the eligibility conditions for exercising a conditional refinance option (including any allowable exceptions to them) and who can only be approved for the refinancing under one or more of the authorized variances to the eligibility conditions.

Borrowers who can be approved as ineligible borrowers include:

- those who do not submit a request to exercise the conditional refinancing option within the allowable time period;
- those who do not satisfy Fannie Mae’s payment history requirement, but who reinstate their mortgage loan;
- those who acquired the security property in violation of Fannie Mae’s due-on-sale policy, but who either satisfy certain payment history criteria or are underwritten to determine their eligibility for the mortgage loan;
- those who use the security property as an investment property instead of occupying it as a principal residence or second home;
- those who have junior liens on the security property for which the junior lienholder agrees to subordinate its debt;
- those who have unpaid real estate taxes, but who agree to pay the taxes and allow the servicer to escrow for future tax payments; and
- those for which their new interest rate will exceed the existing interest rate by more than the allowed tolerance, but who are underwritten to determine that they meet Fannie Mae’s current underwriting guidelines.

When a borrower exercises the conditional refinance option for a balloon loan, the transaction costs will include charges related to the satisfaction of the balloon mortgage loan (the unpaid balance, accrued interest, and any required late charges) and may include some of the charges that are typically associated with the closing of a new mortgage loan (escrow accruals, processing fees, costs for a title policy endorsement or a new title policy, recordation fees, etc). If a borrower does not pay all of the transaction costs that he or she is required to pay, the servicer should not finalize the refinancing transaction. However, the servicer should refer the case to its loss mitigation staff to determine whether a workout plan can be developed for the balloon mortgage loan.

If the refinancing transaction is conducted through the mail, the servicer should require the borrower to send the funds for all applicable transaction costs (except for any accrued interest that is included in the balance of the new refinance mortgage loan) at the same time he or she returns the executed legal documents to the servicer. If the borrower will be required to appear personally to finalize a refinancing transaction, the applicable transaction costs can be paid at loan closing.

Transaction costs that may apply to the refinancing of a balloon mortgage loan include the following:

**A. Accrued (but unpaid) interest.** On the effective date of the refinancing, the borrower will owe accrued interest on the balloon mortgage loan covering the period from the LPI date up to, but not including, the effective date of the refinancing. If the balloon mortgage loan has a conditional refinance option, the borrower may choose to either pay some or all of the accrued interest directly or have some or all of it added to the UPB of the new refinance mortgage loan.

**B. Late charges.** On the effective date of the refinancing, the borrower will owe any unpaid, accrued late charges for the balloon mortgage loan. If the borrower cannot afford to pay late charges directly, the servicer must still finalize the refinancing transaction. In this case, the servicer may continue to reflect these charges in its records as a due and payable item for the new refinance mortgage loan. (However, should the borrower subsequently fail to pay the past-due late charges, the servicer will not be able to initiate foreclosure proceedings for the new refinance mortgage loan if the only delinquency is the unpaid late charges.)

**C. Escrow accruals.** On the effective date of the refinancing, the borrower will owe escrow accruals for the period between the LPI date of the balloon mortgage loan and the effective date of the refinancing. The funds must be deposited into an escrow deposit account. To avoid the extra steps of refunding any escrow balance for the balloon mortgage loan to the borrower and then requiring the borrower to repay that amount (plus the accrual that is due for the balloon maturity month) to establish a new escrow deposit account for a new refinance mortgage loan, the servicer may keep in place the borrower's existing escrow deposit account (if permitted by applicable law).

**D. Processing fees and title policy charges.** If the balloon mortgage loan was closed on Fannie Mae’s standard balloon mortgage loan documents, the servicer may charge an eligible borrower a \$250 processing fee for an approved transaction. For an ineligible borrower, the servicer may charge a \$350 processing fee to compensate for the additional work involved with approving the borrower under Fannie Mae’s authorized variances process.

The standard balloon mortgage loan documents also permit the servicer to charge an eligible borrower for the costs of updating the title insurance coverage (a title report and either an endorsement to the existing title insurance policy or a new title insurance policy) since the borrower is obligated to provide acceptable proof of the ownership and lien status of the property. An ineligible borrower also may be charged for these costs.

If the balloon documents were revised at origination to allow for the charging of “reasonable fees and costs associated with exercising the refinance option” or “a \$250 processing fee and the costs associated with updating the title insurance policy, if any, and any reasonable third-party costs, such as documentary stamps, intangible tax, survey, recording fees, etc.,” the servicer may charge an eligible borrower those fees and charges that are specifically covered by the language in the revised balloon mortgage loan documents—or, if specific fees and charges are not itemized in the revised documents, only those “reasonable” fees and charges that are customarily charged in the jurisdiction for the particular type of transaction.

**A. Recordation costs.** For a refinancing transaction involving an eligible borrower, the servicer generally must pay any recordation costs associated with recording the legal documents (a new mortgage loan or a refinancing instrument). However, if the language in the balloon mortgage loan documents was changed at origination to allow the servicer to charge “reasonable fees and costs” or “specific itemized costs, including recordation costs” in connection with a refinancing of a balloon mortgage loan, the servicer may charge an eligible borrower for any necessary recordation costs.

For a refinancing transaction involving an ineligible borrower, the servicer may charge the borrower for any necessary recordation costs (including those for the recordation of a subordination agreement, if an existing junior lienholder agrees to subordinate its interest to the new refinance

mortgage loan) and any reasonable third-party costs (such as documentary stamps, intangible tax, survey, etc). This is true whether the mortgage loan was closed on Fannie Mae's standard or revised balloon mortgage loan documents.

**B. Flood Insurance.** When the servicer has to obtain a flood zone certification to determine whether flood insurance will be required for the new refinance mortgage loan, the servicer may be able to charge an eligible or an ineligible borrower for the certification—and, if flood insurance must be purchased, for the insurance premium, even though the balloon mortgage loan documents do not specifically address these costs. In such cases, the servicer must consult Section 526 of the National Flood Insurance Reform Act of 1994 (see 42 USC, Sections 4012a(e) and (h)) to determine whether the cost of the certification (and, if applicable, the insurance premium) may be charged to the borrower.

**C. Investment property LLPA.** Because a borrower who uses a property as an investment property is not eligible for the conditional refinance option under Fannie Mae's balloon refinancing policies, he or she must be approved under one of Fannie Mae's authorized variances. To offset the increased risk of an investment property, the servicer may charge this ineligible borrower a 1.5% LLPA (which is calculated against the original unpaid balance of a new refinance mortgage loan).

**Section 804  
Final Accounting for  
the Balloon Mortgage  
Loan (05/15/97)**

The procedures for the servicer's final accounting to Fannie Mae for a balloon mortgage loan may differ based on (1) whether the borrower elects to exercise the refinance option or to otherwise pay off the balloon mortgage loan; (2) the type of option exercised; (3) whether a refinancing or payoff of the mortgage loan occurs before, on, or after the balloon maturity date; and (4) the remittance type for the mortgage loan. The final accounting entails remitting the proceeds received to satisfy the balloon mortgage loan (when they are received from the borrower or from the proceeds of a refinancing); advancing funds for the balloon payment (as required by the applicable remittance type), if the mortgage loan is not paid off or refinanced on or before the balloon maturity date; and reporting a removal transaction through the Fannie Mae investor reporting system when the mortgage loan is either paid off or refinanced or otherwise removed from an MBS pool.

**Section 804.01  
Borrower Elects to  
Exercise Refinance  
Option (06/01/07)**

If the borrower elects to exercise the conditional refinance option, the balloon payment (including accrued interest and any unpaid late charges) must be made on or before the balloon maturity date, unless the servicer agrees to a forbearance period that allows it to be made after the balloon maturity date. The servicer may not extend the forbearance period beyond the balloon maturity date if the mortgage loan is in an MBS pool issued on or after June 1, 2007. (The forbearance period for a balloon mortgage loan in an MBS pool cannot go beyond the balloon's maturity date.)

The funds can come jointly from the proceeds of the new refinance mortgage loan and the borrower (if the borrower chooses to pay some or all of the accrued interest directly rather than adding it to the balance of the new refinance mortgage loan, contributes funds to reduce the UPB being refinanced, or owes any late charges) or entirely from the proceeds of the new refinance mortgage loan (if the borrower owes no late charges, contributes no principal reduction, and chooses to have all of the accrued interest capitalized). The accrued interest that is charged to the borrower (or is included in the balance of the new refinance mortgage loan) should be calculated based on the interest rate of the balloon mortgage loan and must cover the period from the LPI date of the mortgage loan up to, but not including, the effective date of the refinancing.

Funds to pay off the balloon mortgage loan generally must be remitted to Fannie Mae under its standard procedures for remitting payoffs for mortgage loans that have the same remittance type as the balloon mortgage loan (as discussed below).

**A. Actual/actual remittance type balloon mortgage loans.** When the servicer receives the funds for the balloon payment for an actual/actual remittance type balloon mortgage loan (regardless of whether they are received before, on, or after the balloon maturity date), the servicer's remittance to Fannie Mae should be made in accordance with the remittance schedule for actual/actual payoffs (and must take place no later than the effective date of the refinancing if the payment is received before that date). The remittance should consist of the UPB of the mortgage loan and interest (calculated at the pass-through rate for the balloon mortgage loan) from the LPI date of the mortgage loan up to, but not including, the effective date of the refinancing. (If the servicer does not receive the funds for the balloon payment until after the balloon maturity date, it is not

required to advance the funds for the balloon payment on the balloon maturity date.)

To remove the balloon mortgage loan from Fannie Mae's accounting records, the servicer must report an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month following the effective date of the refinancing, using the effective date of the refinancing as the related Action Date. Once the servicer removes the balloon mortgage loan from Fannie Mae's accounting records, it has the option of retaining the new refinance mortgage loan in its own portfolio or delivering it to Fannie Mae under the delivery procedures appropriate for the selected delivery method (cash or MBS).

**B. Scheduled/actual remittance type balloon mortgage loans.** When the servicer receives the funds for the balloon payment for a scheduled/actual remittance type balloon mortgage loan (regardless of whether they are received before, on, or after the balloon maturity date), the servicer's remittance to Fannie Mae should be made in accordance with the remittance schedule for scheduled/actual payoffs, which will be the 20th calendar day of the month following the effective date of the refinancing. (However, when the servicer does not receive the funds for the balloon payment until after the balloon maturity date, it must remit scheduled interest to Fannie Mae each month until the effective date of the refinancing.) The remittance related to the refinancing should consist of the UPB of the mortgage loan and one-half of one month's interest (calculated by multiplying the prior month's UPB on the Fannie Mae investor reporting system records by the pass-through rate of the mortgage loan and dividing by 24).

To remove the balloon mortgage loan from Fannie Mae's accounting records, the servicer must report an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month following the effective date of the refinancing, using the effective date of the refinancing as the related Action Date. Once the servicer removes the balloon mortgage loan from Fannie Mae's accounting records, it has the option of retaining the new refinance mortgage loan in its own portfolio or delivering it to Fannie Mae under the delivery procedures appropriate for the selected delivery method (cash or MBS). (This will enable the servicer to recover from the purchase proceeds for the new refinance mortgage loan any funds it had to advance for scheduled interest.)



**C. Scheduled/scheduled remittance type balloon mortgage loans.**

When the servicer receives the funds for the balloon payment before the balloon maturity date for a scheduled/scheduled remittance type balloon mortgage loan that is in an MBS pool, the servicer's remittance to Fannie Mae should be made in accordance with the remittance schedule for an unscheduled payoff for an MBS mortgage loan that has the same remittance cycle as the balloon mortgage loan, which will be the applicable remittance day in the month in which the effective date of the refinancing occurs. (The applicable remittance day for an unscheduled payment for an MBS pool that has a standard remittance cycle is the 18th calendar day of the month; for a pool that has the RPM remittance cycle, it is generally the 10th calendar day, unless an earlier or later day was specified in a negotiated contract; and for a pool that has an MBS Express remittance cycle, it is the 4th business day.) The remittance should consist of the scheduled principal balance of the balloon mortgage loan and one month of interest (calculated at the pass-through rate for the pool).

To remove the balloon mortgage loan from the MBS pool, the servicer must report an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month in which the effective date of the refinancing occurs, using the last day of the month that precedes the effective date of the refinancing as the related Action Date. The servicer also must reflect this payoff in the security balance report that must be made by the second business day of the month in which the effective date of the refinancing occurs. Once the servicer removes the balloon mortgage loan from the MBS pool, it has the option of retaining the new refinance mortgage loan in its own portfolio or delivering it to Fannie Mae under the delivery procedures appropriate for the selected delivery method (cash or MBS).

The balloon payment is a scheduled payment for an MBS mortgage loan; therefore, the scheduled principal balance of the mortgage loan (plus accrued interest) is due to Fannie Mae on the balloon maturity date. This means that if the servicer does not receive the funds for the balloon payment until *after* the balloon maturity date, it must advance the funds for the full balloon payment *on* the balloon maturity date. When the servicer receives the funds for the balloon payment on the balloon maturity date—or has to advance the funds for the balloon payment on the maturity date—the servicer's remittance must be submitted to Fannie Mae by the applicable remittance day for the month in which the balloon

maturity date occurs. (The applicable remittance day for a scheduled payment for an MBS pool that has a standard or MBS Express remittance cycle is the 18th calendar day of the month; for a pool that has the RPM remittance cycle, it is generally the 10th calendar day, unless an earlier or later day was specified in a negotiated contract.) The remittance should consist of the scheduled principal balance of the mortgage loan and interest (calculated at the pass-through rate for the pool) for the month preceding the balloon maturity date. Although the application of the scheduled balloon payment will reduce the balance of the mortgage loan to zero, it will not remove the mortgage loan from the MBS pool; therefore, the servicer must report an Action Code 60 (for a “mortgage payoff”) through the Fannie Mae investor reporting system by the second business day of the month in which the balloon maturity date occurs, using the last day of the month that precedes the balloon maturity date as the related Action Date. The servicer also must reflect this payoff in the security balance report that must be made by the second business day of the month in which the balloon maturity date occurs. The options the servicer has available after removing the balloon mortgage loan from the MBS pool will differ depending on the effective date of the refinancing.

- If the refinancing is effective on the balloon maturity date, the servicer has the option of retaining the new refinance mortgage loan in its own portfolio or delivering it to Fannie Mae under the delivery procedures appropriate for the selected delivery method (cash or MBS). (Delivering the new refinance mortgage loan to Fannie Mae will enable the servicer to recover any funds it had to advance for the balloon payment from the purchase proceeds for the new refinance mortgage loan.)
- If the refinancing is effective after the balloon maturity date, the servicer can redeliver the past-due balloon mortgage loan to Fannie Mae as an actual/actual remittance type portfolio mortgage loan if it had been serviced under the special servicing option. (This will result in the servicer’s receiving reimbursement for the advance it made to remove the mortgage loan from the MBS pool). The servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to obtain more information

and instructions about the redelivery of past-due balloon mortgage loans that were in special servicing option MBS pools.

- A past-due balloon mortgage loan that had been serviced under the regular servicing option cannot be redelivered to Fannie Mae. However, if the mortgage loan is subsequently refinanced after the servicer removes it from the MBS pool, the servicer has the option of retaining the new refinance mortgage loan in its own portfolio or delivering it to Fannie Mae under the delivery procedures appropriate for its selected delivery method (cash or MBS). (Delivering the new refinance mortgage loan to Fannie Mae will enable the servicer to recover any funds it had to advance for the balloon payment from the purchase proceeds for the new refinance mortgage loan.)

Section 804.02  
Borrower Does Not Elect  
to Exercise Available  
Option (03/30/10)

If a borrower does not elect to exercise the conditional refinance option for a balloon mortgage loan for any reason, he or she must pay off the mortgage loan by sending the servicer the amount of the required balloon payment (the UPB of the mortgage loan on the balloon maturity date, plus interest and any required late charges). The borrower's balloon payment must reach the servicer no later than the balloon maturity date, unless the servicer agrees to grant a temporary forbearance that allows the borrower to pay off or to refinance the mortgage loan after the balloon maturity date. The servicer may not agree to extend the forbearance period beyond the balloon maturity date if the mortgage loan is in an MBS pool issued on or after June 1, 2007.

**A. Payoff funds received on or before maturity date.** When the balloon payment is received *on* or *before* the balloon maturity date, the servicer should treat it as a mortgage payoff, charging the borrower interest up to the date it receives the payoff funds. The servicer must remit the funds to Fannie Mae in accordance with its regular remittance schedule for payoffs that occur in the reporting period in which the payoff funds are received.

- When the funds are received *before* the balloon maturity date, the servicer should remove the mortgage loan from Fannie Mae's accounting records or the MBS pool by reporting an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month following the month in which the payoff funds are received, using the date the funds were received as the

related Action Date. The servicer also must reflect the payoff in the security balance report that must be made by the second business day of the month following the month in which the payoff funds are received.

- When the funds are received *on* the balloon maturity date, the servicer must remove the mortgage loan from the MBS pool by reporting an Action Code 60 through the Fannie Mae investor reporting system by the second business day of the month in which the balloon maturity date occurs, using the balloon maturity date as the related Action Date. The servicer also must reflect the payoff in the security balance report that must be made by the second business day of the month in which the balloon maturity date occurs.

**B. Payoff funds not received by balloon maturity date.** When the balloon payment is *not* received by the balloon maturity date, the actions the servicer needs to take will depend on whether the mortgage loan is in an MBS pool or is one that Fannie Mae holds in its portfolio. When the balloon mortgage loan is in an MBS pool, the servicer must advance the balloon payment (P&I), remit it to Fannie Mae as a scheduled payment on the applicable remittance date for the month in which the balloon maturity date occurs, report an Action Code 60 (for a payoff transaction) by the second business day of the balloon maturity month (indicating the last day of the month that precedes the balloon maturity date as the Action Date), and reflect the application of the balloon payment in the security balance report for the balloon maturity month. However, when the balloon mortgage loan is a portfolio mortgage loan, the servicer does not need to advance funds for the remittance of the balloon payment (but it will have to advance scheduled interest for a scheduled/actual remittance type mortgage loan until it is paid off, refinanced, or modified).

The servicer must make every effort to contact the borrower during the first five business days after the balloon maturity date to determine why the balloon payment was not made. If the borrower attempts to continue making his or her regular monthly payments, the servicer should hold the funds as unapplied and notify the borrower that the full balloon payment (including all other amounts owed for accrued interest, unpaid late charges, etc) is due.

- If the servicer is *not* able to contact the borrower by the tenth business day after the balloon maturity date—or if it contacts the borrower and finds that he or she is unwilling to make the balloon payment—the servicer should initiate foreclosure proceedings (and may consider appropriate loss mitigation alternatives).
  - When the past-due balloon mortgage loan is a *portfolio mortgage loan*, the servicer’s loss mitigation staff should determine whether a workout plan can be developed to cure the default. (If the mortgage loan has a scheduled/actual remittance type, the servicer must continue to advance scheduled interest to Fannie Mae for up to 120 days, even if a workout plan is being developed.) Should the borrower subsequently make the balloon payment, the servicer must remit the funds and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae’s portfolio (following the applicable procedures from *Section 804.02A* and using the date the funds are received as the related Action Date).
  - When the past-due balloon mortgage loan is an *MBS mortgage loan* (but will be removed from the pool as the result of the servicer’s advancing the balloon payment), the servicer’s loss mitigation staff should determine whether a workout plan can be developed to cure the default. For a special servicing option MBS mortgage loan, the servicer may redeliver the past-due balloon mortgage loan to Fannie Mae as an actual/actual remittance type portfolio mortgage loan. (This will result in the servicer’s receiving reimbursement for the advance it makes to remove the mortgage loan from the MBS pool.) The servicer should contact its Customer Account Manager in its lead Fannie Mae regional office to obtain more information and instructions about the redelivery of a past-due balloon mortgage loan that was in an MBS pool. Should the borrower subsequently make the balloon payment after the past-due balloon mortgage loan is redelivered to Fannie Mae, the servicer must remit the funds for the mortgage payoff to Fannie Mae and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae’s portfolio accounting records (following the applicable procedures from *Section 804.02, Borrower Does Not Elect to Exercise Available Option (03/30/10)* and using the date the funds are received as the related Action Date).

- If the servicer contacts the borrower by the tenth business day after the balloon maturity date and determines that the borrower intends to make the balloon payment or that the borrower is unable to make the balloon payment, but is eligible for the refinancing (or can be approved using Fannie Mae's authorized variances), the servicer should agree to accept the balloon payment (and treat it as a mortgage payoff) or to complete the refinancing. (The refinancing can be made effective as of the balloon maturity date as long as the transaction can be completed by the end of the balloon maturity month.) If the borrower's balloon payment will not be received before the end of the balloon maturity month—or if the refinancing cannot be completed until after the end of the balloon maturity month—the servicer may grant temporary forbearance to enable the borrower to make the payment or complete the transaction (as discussed in *Section 804.03, Forbearance (03/30/10)*). When the past-due balloon mortgage loan is an **MBS mortgage loan**, the servicer will need to advance funds for the remittance of the scheduled balloon payment by the applicable remittance day in the month in which the balloon maturity date occurs, report an Action Code 60 (for a payoff transaction) by the second business day of the balloon maturity month to remove the past-due mortgage loan from the MBS pool, and reflect the application of the balloon payment in the security balance report for the balloon maturity month (as discussed in *Section 804.01C*). If the past-due balloon mortgage loan was in a special servicing option MBS pool, the servicer may redeliver it to Fannie Mae as an actual/actual remittance type portfolio mortgage loan. (The servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to obtain redelivery instructions.) In such cases, when the servicer subsequently receives the balloon payment **from the proceeds of a new refinance mortgage loan**, it will need to remit the balloon payment to Fannie Mae and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae's portfolio accounting records (following the procedures from *Section 804.01A*). On the other hand, if the servicer subsequently receives the balloon payment **from the borrower**, it will need to remit the balloon payment to Fannie Mae and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae's portfolio accounting records (following the procedures from *Section 804.02, Borrower Does Not Elect to Exercise Available Option*

(03/30/10), and using the date the funds are received as the related Action Date).

- When the past-due balloon mortgage loan is a *portfolio mortgage loan*, the servicer does not need to advance funds for the remittance of the balloon payment (although it will have to continue advancing scheduled interest if the mortgage loan has a scheduled/actual remittance type). Once the servicer receives the balloon payment *from the proceeds of a new refinance mortgage loan*, it will need to remit the payment and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae's portfolio accounting records (following the applicable procedures from *Section 804.01B* above). On the other hand, if the servicer receives the balloon payment *from the borrower*, it will need to remit the payment and report an Action Code 60 to remove the past-due balloon mortgage loan from Fannie Mae's portfolio accounting records (following the applicable procedures from *Section 804.02, Borrower Does Not Elect to Exercise Available Option (03/30/10)*, and using the date the funds are received as the related Action Date).

Section 804.03  
Forbearance (03/30/10)

There may be some situations in which a borrower who is not exercising the conditional refinance option is unable to make the balloon payment by the balloon maturity date. The two most common situations are those in which (1) the borrower is refinancing the balloon mortgage loan through a source other than the servicer, but the proceeds from the refinancing are not yet available because the loan closing will occur after the balloon maturity date, and (2) the borrower will be using the proceeds from the sale of his or her property to satisfy the balloon mortgage loan, but the closing for a pending sales contract is not scheduled to take place until after the balloon maturity date. Two other situations in which the use of forbearance is warranted involve those instances in which the servicer's follow-up with the borrower determines that the borrower will be able to make the past-due balloon payment, but not until some time after the end of the balloon maturity month, and those in which the servicer agrees to refinance the past-due balloon mortgage loan, but cannot finalize the transaction until some time after the end of the balloon maturity month. In any of these situations, the servicer may grant forbearance that allows the borrower to make the balloon payment after the balloon maturity date.

The granting of forbearance does not relieve the servicer of its responsibility for advancing on the original balloon maturity date the balloon payment (including scheduled interest) for an MBS mortgage loan or for advancing scheduled interest for a scheduled/actual portfolio mortgage loan until the balloon mortgage loan is paid off or refinanced, as discussed in *Section 804.02, Borrower Does Not Elect to Exercise Available Option (03/30/10)*.

A servicer may grant forbearance—without obtaining Fannie Mae’s prior approval—if the borrower provides proof (such as an executed sales contract or an unconditional loan commitment) that other financing has been secured or the property has been sold and is scheduled for settlement, or if the servicer’s follow-up efforts have otherwise confirmed the need for forbearance. The servicer may grant forbearance no longer than six consecutive months, but in no event past the balloon maturity date. The servicer and the borrower must execute a written forbearance agreement that includes the following provisions:

- The granting of forbearance that will enable the borrower to either (1) pay the full amount required to satisfy the balloon mortgage loan or (2) complete the refinancing, even though the balloon maturity date has passed. (The funds to pay off a balloon mortgage loan can come directly from the borrower, from the proceeds of a sale of the property, or from the proceeds of a new refinance mortgage loan.)
- The accrual of interest on the balloon payment at the interest rate of the balloon mortgage loan for the period from the date of the borrower’s LPI up to, but not including, the date the balloon mortgage loan is paid off (or, if the conditional refinance option is exercised, to the effective date of the refinancing). (When the servicer advances the funds to remove a past-due balloon mortgage loan from an MBS pool—and does not redeliver the mortgage loan to Fannie Mae—it will be able to retain all of the interest collected from the borrower. However, if the servicer redelivers the past-due balloon mortgage loan to Fannie Mae as an actual/actual portfolio mortgage loan, it will need to remit to Fannie Mae the interest charged to the borrower (less its servicing fee). When the servicer advances scheduled interest for a scheduled/actual portfolio mortgage loan, it may reimburse itself for interest it advanced, remitting to Fannie Mae only the amount of



interest due in connection with the removal of the mortgage loan from Fannie Mae's portfolio.)

- An acknowledgment that the servicer is authorized to initiate foreclosure proceedings immediately on expiration of the forbearance period if the refinancing has not been completed or the full amount required to satisfy the balloon mortgage loan has not been received.

**Section 805  
Delivering a Refinanced  
Mortgage (03/30/10)**

After a refinancing transaction is finalized, the servicer has the choice of retaining the new refinance mortgage loan in its portfolio or submitting it to Fannie Mae as either a cash delivery or as part of an MBS pool delivery. If the servicer decides to deliver the new refinance mortgage loan to Fannie Mae, it must do so within 60 days of the effective date of the refinancing. The servicer should obtain a negotiated cash contract or MBS pool purchase contract to cover the delivery of the new refinance mortgage loan.

By delivering a new refinance mortgage loan that is originated in connection with the exercise of a conditional refinance option for a balloon mortgage loan, the servicer warrants that (1) the eligibility criteria (with respect to borrower payment history; property ownership, occupancy status, and lien status; and mortgage interest rate) for approving a conditional refinancing transaction either have been satisfied or the transaction was approved based on Fannie Mae's authorized variances to those eligibility criteria; (2) the legal documents used for the new refinance mortgage loan are valid and enforceable in the jurisdiction in which the security property is located; (3) the mortgage loan meets Fannie Mae's other eligibility (and, if applicable, underwriting) requirements for such new refinance mortgage loans; and (4) the LTV ratio for the mortgage loan does not exceed 100%, if the mortgage is being included in an MBS pool. In addition, when the transaction was approved under one or more of the authorized variances to Fannie Mae's eligibility criteria for approving a conditional refinancing and the new refinance mortgage loan is included in an MBS pool, the servicer further warrants that the borrower made no more than one payment that was 30 days late in the last 12 months.

**Section 805.01  
Cash Deliveries  
(05/15/97)**

For cash deliveries, the servicer may obtain a negotiated mandatory delivery commitment for the delivery of an actual/actual remittance type new refinance mortgage loan by calling Fannie Mae's Capital Markets

Sales Desk at 1-800-752-0257. The commitment may have a 10-, 30-, 60-, or 90-day term and may specify either the standard, premium, or discount pricing option. The servicer must specify a minimum servicing fee—either 0.25% or 0.375%—when it requests the commitment.

When the lender requests a cash commitment with a standard pricing option, Fannie Mae will base its price for the delivery of a new refinance mortgage loan that has a 23-year term on the required net yield in effect for the specified commitment term at the time and date that the servicer obtains the commitment to deliver the mortgage—and will purchase the mortgage loan at a discount if the net note rate of the mortgage loan is less than Fannie Mae’s required net yield for the commitment under which it is delivered. To minimize this interest rate risk, the servicer may obtain the negotiated mandatory delivery cash contract at the same time and date that it determines the applicable required net yield that is used to calculate the borrower’s interest rate for the new refinance mortgage loan. If the servicer prefers to wait until later to request its contract to deliver the new refinance mortgage loan, it may select the standard, discount, or premium pricing options. (See the *Selling Guide, C1-1-01, Execution Options*, for more information about these pricing options.)

On occasion, situations that arise may prevent the servicer from delivering a new refinance mortgage loan under the terms of its mandatory delivery contract. Fannie Mae generally charges a pair-off fee if a lender does not deliver enough mortgage loans under its mandatory delivery commitment to satisfy Fannie Mae’s minimum delivery requirement. However, if a servicer is unable to deliver the new refinance mortgage loans covered by a specific mandatory delivery commitment, it should contact Fannie Mae’s Capital Markets Sales Desk at 1-800-752-0257 before the expiration date of the commitment to request a pair-off of its commitment or to discuss other possible alternatives (such as extending the expiration date). During the telephone conversation, the servicer should indicate that the request relates to deliveries of mortgages that have refinanced Fannie Mae–owned or Fannie Mae–securitized balloon mortgage loans.

Section 805.02  
MBS Pool Deliveries  
(06/01/05)

For MBS pool deliveries, the servicer may deliver new refinance mortgage loans that have 23-year terms under any existing standard pool purchase contract it has for 30-year, fixed-rate, level-payment, conventional first mortgage loan deliveries. Balloon mortgage loans are not eligible for terms greater than 30 years. If the servicer does not have an outstanding

pool purchase contract, it should contact its Portfolio Manager, Servicing Consultant, or the National Servicer Organization's Servicer Solutions Center at 1-888-326-6435 to obtain one. All of the options generally available for standard fixed-rate pool purchase contracts—including both the special and regular servicing options and the standard, RPM, and MBS Express remittance cycles—also are available for pools that include new refinance mortgage loans with 23-year terms. A servicer also may elect to buy up or buy down the guaranty fee. (The servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to obtain the latest guaranty fee buyup and buydown ratios.)

A servicer may deliver new refinance mortgage loans that have 23-year terms. Fannie Mae also will create a 23-year Fannie Majors pool if it anticipates the delivery of a sufficient number of new refinance mortgage loans that have specific coupon rates and original terms between 241 and 276 months. A servicer should contact Fannie Mae's Capital Markets Sales Desk (at 1-800-752-0257) if it is interested in delivering new refinance mortgage loans into a 23-year Fannie Majors pool.

Section 805.03  
Delivery Documentation  
(03/30/10)

For the most part, Fannie Mae's standard delivery documentation requirements apply to new refinance mortgage loans (see the *Selling Guide, E-2-02, Document Submission Packages for All Mortgages*). However, when a refinancing transaction is documented by a *Balloon Loan Refinancing Instrument* ([Form Series 3269](#)), the servicer should include in the delivery package a certified copy of the executed document that was sent to the land records office for recordation (instead of the original mortgage note that Fannie Mae usually requires).

A servicer must have in place a process to track documents that are sent for recordation to ensure that the original recorded documents are returned to the servicer and forwarded to the applicable document custodian in a timely manner.

When the servicer receives a recorded *Balloon Loan Refinancing Instrument* ([Form Series 3269](#)) back from the land records office, it must endorse the original document "in blank" and indicate the Fannie Mae loan number in the top right-hand corner. If the new refinance mortgage loan was submitted as a cash delivery or as part of an MBS pool delivery, the servicer should send this document, under cover of a *Delivery*

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## General Servicing Functions

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### Balloon Mortgage Loan Maturity

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Section 805

June 10, 2011

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*Transmittal* ([Form 278](#)), to Fannie Mae's DDC. If the new refinance mortgage loan was submitted to Fannie Mae as part of an MBS pool delivery and some other document custodian is retaining the custody documents, the servicer should send the recorded document to that custodian under cover of a *Request for Release/Return of Documents* ([Form 2009](#)).

#### Section 805.04 Loan Delivery Data (05/15/97)

The servicer should use a combination of special feature codes to properly identify a new refinance mortgage loan on the *Loan Schedule* ([Form 1068](#)) for cash deliveries or the *Schedule of Mortgages* ([Form 2005](#)) for MBS pool deliveries—SFC 007 to indicate that the new refinance mortgage loan is a refinance transaction and SFC 236 to indicate that the new refinance mortgage loan was originally a balloon mortgage loan with a conditional refinance option.

When preparing the Form 1068 or Form 2005, the servicer should pay close attention to the following data fields to ensure that they reflect the terms of the new refinance mortgage loan as of the effective date of the refinancing (rather than the terms of the original balloon mortgage)—original term, note rate, first payment date, original loan amount, and constant P&I. The servicer should provide the original LTV ratio for the balloon mortgage loan since it will not have the current LTV ratio for a new refinance mortgage loan.

Because the refinancing process does not require a new loan application, a new appraisal, or the re-underwriting of the borrower (except under the circumstances discussed in *Section 802.02, Property Ownership* (05/15/97), and *Section 802.05, Acceptability of New Note Rate* (05/15/97)), certain information that usually is required as part of the loan delivery data for a mortgage loan may need to be obtained from the individual mortgage file for the original balloon mortgage loan. This information includes: borrower race, co-borrower race, borrower gender, co-borrower gender, number of borrowers, year built (optional), number of bedrooms, eligible rents, appraisal amount, age of borrower, age of co-borrower, monthly housing expense, monthly debt expense, monthly income, and purchase price.

June 10, 2011

Exhibit 1

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## **Exhibit 1: Declaration of Intent (01/31/03)**

### Declaration of Intent

**A. Check one of the following boxes:**

1.  I will pay my mortgage in full on or before the balloon maturity date.
2.  I intend to exercise the conditional refinancing option provided for in my Balloon Note Addendum and Balloon Rider and I certify that I meet the ownership, occupancy, and lien status conditions contained in my Balloon Note Addendum and Balloon Rider, or will meet those conditions within 30 days.
3.  I cannot pay off my mortgage in full and I do not meet all of the eligibility conditions for the conditional refinancing option provided for in my Balloon Note Addendum and Balloon Rider. However, I want to be considered for the conditional refinancing option even though I do not qualify under the terms of my mortgage loan documents.

**B. If you checked Box #2 or #3 above, check each of the following boxes that apply to your circumstances:**

1.  I currently own the property securing the balloon mortgage loan.
2.  I currently use the property securing the balloon mortgage loan as my
  - a. Primary residence
  - b. Second home
  - c. Investment property
3.  I do not have any lien, defect, encumbrances or adverse matter affecting the title to the property except any that predate the lien of the balloon mortgage loan.
4.  I do have another lien, defect, encumbrance or adverse matter affecting the title to the property that postdates the lien for the balloon mortgage loan and
  - a.  I will pay off or resolve the lien, defect, encumbrance, or adverse matter and provide you with proof of such resolution within the next 30 days.
  - b.  I cannot pay off or resolve the lien, defect, encumbrance, or adverse matter within the next 30 days.
5.  If I directly pay my real estate taxes (i.e., no escrow deposit account is maintained for real estate taxes), as of the date of this declaration my real estate tax payments are current.

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**General Servicing  
Functions**

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Balloon Mortgage Loan  
Maturity

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Exhibit 1

June 10, 2011

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**C. By signing this Declaration of Intent, I certify and acknowledge the following:**

1. I certify that all information provided in this declaration is true and correct as of the date set forth opposite my signature and I acknowledge my understanding that any intentional or negligent misrepresentation of the information contained in this statement may result in civil liability and/or criminal penalties. Additionally, false and incorrect information will make any conditional offer to refinance the balloon mortgage null and void and I will be required to pay off my mortgage loan in full not later than the balloon maturity date.

2. I understand and agree that, if I meet all of the eligibility conditions for the conditional refinance option, you will obtain the Fannie Mae required net yield to calculate my new interest rate and monthly payment for the refinancing as follows:

[Insert your policy for determining when the borrower's declaration of Intent will be considered to have been received.]

3. I understand and agree that, if I do not meet all of the eligibility conditions for the conditional refinance option, I am not eligible for the refinancing under the original terms provided for in the Balloon Note Addendum and Balloon Rider. I acknowledge that should you offer me refinancing, the costs of the transaction will be higher than those permitted in the Balloon Note Addendum and Balloon Rider and that my new interest rate does not have to be based on the Fannie Mae required net yield in effect on the date and time of the day you receive this declaration.

\_\_\_\_\_

Date

\_\_\_\_\_

Borrower's Signature

\_\_\_\_\_

Date

\_\_\_\_\_

Borrower's Signature

**NOTE: We must receive this declaration no later than the 45th calendar day before the balloon maturity date for you to be eligible to exercise the conditional refinance option.**

## **Chapter 9. Call Provision Enforcement (01/31/03)**

Some mortgage instruments include provisions that allow the servicer to call a mortgage loan due and payable if certain events occur. These provisions include call options—which were often used when a due-on-sale (or due-on-transfer) provision could not be enforced—and cross-default provisions in land leases. A servicer must maintain the integrity of Fannie Mae’s rights under the mortgage loan by the appropriate enforcement of such provisions.

### **Section 901 Call Options (01/31/03)**

When a conventional mortgage includes a call option provision, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center 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.

### **Section 902 Cross-Default Provisions (01/31/03)**

A conventional first mortgage loan that involves a leasehold estate may be considered in default if the borrower fails to make his or her lease payment and the lease contains a cross-default provision. When this happens and the mortgage loan is current, the servicer may advance its own funds to cure the default. 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. However, the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center if it believes that the cross-default provision should be exercised instead.

When a borrower becomes delinquent under both the mortgage loan and the lease—and the servicer does not believe that the defaults can be cured—the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicer Organization’s Servicer Solutions

Center to recommend 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.



## **Chapter 10. Conversion to Biweekly Payments (01/31/03)**

Some borrowers may want to accelerate the amortization of their mortgage loan by converting from a monthly payment schedule to a biweekly payment schedule. Although they can achieve the same results by making an additional principal payment each month, some prefer the discipline imposed when the additional payments are required rather than voluntary. This need for discipline may result in a borrower seeking out a formal biweekly payment schedule from the servicer or agreeing to participate with outside parties in establishing such a schedule. Fannie Mae will not object to a servicer offering biweekly payment plans or participating with firms that do offer them.

### **Section 1001 Disclosures to Borrower (01/31/03)**

If a borrower agrees to make biweekly payments to a third party without contacting the servicer, the servicer must accept the payments when they are submitted—subject, of course, to the payments being made on time and in a sufficient amount. Should a borrower contact the servicer before he or she enters into a biweekly payment arrangement with a third party, the servicer should provide sufficient information to ensure that the borrower understands that:

- The mortgage loan can be prepaid in whole or in part at any time, so the borrower is already able to submit an additional amount directly to the servicer each month (or on some other periodic schedule) to reduce the mortgage loan balance, without having to pay a fee. (If the servicer offers a biweekly payment plan, and the borrower expresses a preference for the discipline that such plans require, the servicer should encourage the borrower to participate in its plan by pointing out the pitfalls of submitting mortgage loan payments through a third party.)
- The mortgage loan payment must be made to the servicer on time each month. If, for any reason, it is not, the borrower will be responsible for any late charges incurred. Thus, the borrower could be liable for any default that occurs because the company that he or she contracted with failed to make the payment to the servicer.
- A delinquent mortgage loan may be foreclosed if the borrower fails to submit funds to the servicer to bring it current, even if he or she has

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taken legal action to recover any payments a third-party contractor failed to remit to the servicer after it received them from the borrower.

**Section 1002  
Remittances to Fannie  
Mae (01/31/03)**

A servicer that offers (or participates in) a biweekly payment plan must deposit the 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 is an eligible financial institution). If the servicer deposits the funds in its regular custodial accounts, it must remit them to Fannie Mae when a full installment of P&I has accumulated for a mortgage loan that has an actual/actual remittance type, or when the payment is scheduled to be remitted for a mortgage loan that has a scheduled/actual or scheduled/scheduled remittance type. If the servicer wants to remit the funds as an additional payment once a year, it may deposit them in a special interest-bearing custodial account for biweekly payments.

## **Chapter 11. Assistance in Disasters (12/08/08)**

Extensive disasters—caused by earthquakes, floods, hurricanes, or other catastrophes caused by a person or event beyond the borrower’s control—result in devastation not only in terms of property damage and destruction but also in terms of human suffering. Homeowners who are victims of disasters are not only faced with the task of rebuilding or repairing their properties, but also with extraordinary expenses related to alternative living accommodations and possible unemployment as the result of damage to their workplace.

Fannie Mae expects a servicer to use the procedures discussed in this *Chapter* in a way that will not only protect Fannie Mae’s interest in a mortgage loan secured by a property damaged by the disaster, but also will consider the effect the damages will have on the borrower’s ability to maintain a reasonable standard of living and to meet his or her financial obligations. These procedures are basic to most instances of disasters. However, because some disasters result in widespread destruction and disorder, extraordinary actions are sometimes required. In such cases, there can be no hard-and-fast rules—instead compassion, flexibility, and common sense must be used to determine how a policy should best be applied.

Since decisions about the proper action may need to be handled on a case-by-case basis, a servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center if it needs assistance in determining how a policy should be applied or if it believes that a departure from Fannie Mae’s policies is warranted. Fannie Mae’s requirements for insurance losses other than those related to disasters are discussed in *Part II, Chapter 5, Insurance Losses*.

### **Section 1101 Evaluating the Damage (06/01/07)**

When a servicer becomes aware that a property has incurred damage as the result of a disaster, it should:

- determine the extent and nature of the damage and its effect on the borrower’s ability to continue making his or her mortgage loan payments;

- ascertain whether the property is adequately insured against the damage (including the existence of flood or earthquake insurance policies, if applicable);
- counsel the borrower on the availability of appropriate relief provisions (such as temporary indulgence or forbearance plans that are executed in accordance with the requirements of *Part VII, Chapter 4, Special Relief Measures*, and federal disaster relief that might be available through FEMA);
- waive any late payment charges if the borrower's payment is late because he or she has incurred added expenses or loss of income due to the disaster or if the borrower needs additional time to receive a pending insurance settlement; and
- ensure that hazard (and, if applicable, flood or earthquake) insurance claims are filed and settled promptly, and that the properties are repaired fully (subject to the exceptions described below).

Fannie Mae expects a servicer to make every effort to assist a borrower who is affected by the disaster in minimizing delinquencies and avoiding foreclosure. The servicer temporarily must not report delinquencies to the credit bureaus if it is aware that a borrower's delinquency is attributable to hardships he or she has incurred as the result of the disaster. (Also see *Part VII, Section 406, Disaster Relief (01/01/09)*.)

**Section 1102  
Special Relief Measures  
(12/08/08)**

The servicer must evaluate on an individual case basis a mortgage loan that is (or becomes) seriously delinquent as the result of the borrower's incurring extraordinary damages or expenses related to the disaster. Although relief can be granted to any borrower whose property is damaged or whose income is affected by the disaster, the servicer should concentrate its efforts on borrowers whose mortgage loans are secured by properties located within federally defined disaster areas. When determining the appropriate relief provisions to offer, the servicer should take into consideration any uninsured losses, extended unemployment, or extraordinary expenses related to the disaster and their potential effect on the borrower's ability to pay his or her mortgage loan payment. Fannie Mae has several types of special relief provisions to help borrowers affected by a disaster (see *Part VII, Chapter 3, Delinquency Prevention*). The servicer must be familiar with the terms of each of these provisions.

A relief measure that is very appropriate in disasters is forbearance. Under forbearance, the servicer can agree to reduce or suspend the borrower's monthly payments for a specified period. After that, the borrower must agree to resume his or her regular monthly payments and to pay additional money toward the delinquency at scheduled intervals. Generally, the term of forbearance should end no later than 18 months from the date of the first reduced or suspended payment. Fannie Mae's approval is not required for longer periods if, by doing so, the forbearance can prevent a mortgage loan default.

The servicer should make sure that any action it takes to enter into relief provisions or to postpone foreclosure proceedings will not affect Fannie Mae's right to file a mortgage insurance or guaranty claim in the future. Specifically, a servicer should obtain the prior approval of a conventional mortgage insurer before delaying any foreclosure proceedings. In addition, a servicer should check with the local FHA, VA, or RD office to determine appropriate procedures for extending relief to a borrower who has a government-insured or government-guaranteed mortgage loan. The servicer should document its individual mortgage loan file regarding all servicing actions taken during this time period to ensure that any future insurance or guaranty claims will not be adversely affected.

When a servicer grants relief provisions, it remains responsible for making delinquency advances to Fannie Mae if the mortgage loan is accounted for as a scheduled/actual or scheduled/scheduled remittance type (see *Part VII, Chapter 4, Special Relief Measures*).

Section 1102.01  
Special Relief  
Requirements (12/08/08)

A servicer may grant a borrower disaster relief during the period needed to ascertain the facts if a disaster, terrorist attack, or other catastrophe that was caused by either nature or a person other than the borrower and that the servicer reasonably believes may adversely affect either the value or habitability of a mortgaged property or the borrower's ability to make further payments or payment in full on a mortgage loan.

Generally, servicers should consult with Fannie Mae before granting disaster-related relief that exceeds 90 days. When a 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 the servicer attempts to establish contact to ascertain the facts, the servicer must report a Delinquency Status Code 42 (Delinquent, No Action) until the servicer

is able to contact the borrower and determine an appropriate course of action. Fannie Mae expects, however, that the servicer will be able to establish contact with the borrower within the first 90 days after the disaster occurs.

After determining the facts and circumstances related to a borrower and the mortgaged property, a servicer may determine that a foreclosure prevention alternative is appropriate even though the borrower's mortgage loan is current, if the servicer determines that a payment default is reasonably foreseeable. For example, a servicer may determine that a period of forbearance, consisting of reduced or suspended payments, is appropriate.

Section 1102.02  
Status of Mortgage Loan  
(01/31/03)

When a disaster significantly damages a property and the borrower's employment or income (including rental income from an investment property) is seriously affected as the result of the disaster, a servicer should base its actions on the status of the mortgage loan:

- If the mortgage loan was **current** or **less than 90 days delinquent** before the disaster occurred, the servicer generally should not begin (or continue) any foreclosure action during the next 90 days. Instead, it should work closely with the borrower to develop a formal relief provision that will cure the delinquency as soon as possible without imposing undue hardship on the borrower. The servicer also should grant relief to a borrower who is unable to continue scheduled payments under an existing bankruptcy payment plan. If a viable repayment plan cannot be worked out, the servicer may consider accepting a deed-in-lieu when it is offered or agreeing to a preforeclosure sale that will result in a short payoff, following Fannie Mae's standard procedures for foreclosure avoidance and loss mitigation. When foreclosure appears to be the only alternative, the servicer may begin (or continue) foreclosure proceedings. No matter which direction the servicer takes, it must make sure that the specific action will not jeopardize Fannie Mae's ability to recover damages under the hazard (or, if applicable, flood or earthquake) insurance policy. (Also see *Part VII, Chapter 5, Bankruptcy Proceedings*.)
- If the mortgage loan was **seriously delinquent** (by 90 or more days) when the disaster occurred and was not under some form of repayment plan, the borrower's chances of curing the default may not have been

greatly affected, particularly if whatever damages or expenses he or she has incurred are relatively minor. In such cases, the servicer must weigh the relative merits of each case. Whenever possible, the servicer may consider accepting a deed-in-lieu or offering one of Fannie Mae's other alternatives for mitigating losses. However, if the servicer believes that the foreclosure is warranted, it may begin (or continue) foreclosure proceedings.

Section 1102.03  
Discontinuance of Legal  
Action (08/24/05)

If a 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 should discontinue any legal action in process until it can determine the true status, and then make its final decision on the appropriate course of action based on its findings. Fannie Mae expects that servicers will be able to determine the true status within 90 days following the date of the disaster declaration. In reaching its final decision about a specific delinquency, the servicer should *not*:

- take any action (including the initiation or completion of foreclosure proceedings) if it will jeopardize the full recovery of a hazard, flood, or earthquake insurance settlement; or
- initiate (or complete) foreclosure proceedings related to a property that has been destroyed until it evaluates the economic feasibility of pursuing the foreclosure. If the insurance loss settlement will exceed the outstanding indebtedness for the mortgage loan, it may be more practical to use the proceeds to satisfy the debt and let the borrower retain title to the lot.

If, as the result of the disaster, there is a lack of comparable alternative housing available (at reasonable rates) in the immediate vicinity of the borrower's current residence, the servicer should contact the designated eviction attorney to discuss whether or not to begin (or complete) eviction proceedings. If Fannie Mae and the eviction attorney agree not to pursue eviction proceedings, the servicer may be authorized to 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. In such cases, the borrower must execute a lease agreement stipulating that all legal rights to the property have vested in Fannie Mae and waiving his or her right to an advance notice of eviction (if state law allows the borrower to grant such a waiver).

A 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.

**Section 1103  
Insurance Claim  
Settlements (08/24/05)**

Because of the extent of the damage caused by many disasters, contractors may require homeowners to advance funds for materials needed to repair property damages. When a homeowner asks a servicer to immediately release hazard (or, if applicable, flood or earthquake) insurance proceeds for this purpose, the servicer should first determine whether the restoration or repair is economically feasible and Fannie Mae's security is not lessened. If a property cannot be legally rebuilt, any insurance proceeds must be used to reduce the amount of the outstanding mortgage loan debt. If a property can be legally rebuilt, the servicer's actions should be based on the status of the mortgage loan at the time of the disaster and the extent of the damages. (Also see *Part II, Chapter 5, Insurance Losses.*)

To categorize the extent of the damages for this purpose, Fannie Mae uses the phrase "total or near-total loss" to describe a loss that is greater than 80% of the coverage amount of the insurance policy. The application of the following procedures for mortgage loans in bankruptcy is to be implemented only to the extent permitted by applicable bankruptcy law.

**Section 1103.01  
Current Mortgage Loans  
(08/24/05)**

When the mortgage is current before the disaster, the servicer's action is based on the extent of the damages.

**When the property securing the mortgage loan has not suffered a total or near-total loss:**

The servicer must use its discretion to determine the amount of insurance proceeds to disburse and the timing of the disbursements in a manner that is consistent with these procedures. Any funds not immediately disbursed to the borrower should be deposited in an interest-bearing account for the borrower's benefit. There are no limitations on the amount of funds that the servicer can disburse. Thus, a servicer may choose to disburse proceeds for the repairs and restoration in a single payment, regardless of the amount, or in a series of progress payments as work is completed. Fannie Mae expects that the servicer will make its decision after taking appropriate steps to assess the extent and impact of the damage and after consulting with the borrower to ensure that the damage will be appropriately repaired.



The servicer must document its actions and the basis for its decisions, including, at a minimum, its consideration of the following:

- the amount of the insurance loss proceeds,
- a contractor's estimate,
- the prevailing down payment amount being requested by contractors in the affected disaster area,
- the length of time for repairs to be completed,
- the preservation of mortgage insurance coverage, and
- requiring the borrower to utilize licensed and insured contractors to perform all repairs.

Fannie Mae suggests that, as part of the evaluation, the servicer also should consider, based upon the cost and time to complete the repairs, whether it is necessary to monitor the progress of the repair work through periodic property inspections and whether it is necessary to conduct a final inspection to ensure all repairs are completed. When performing property inspections, the servicers should document each inspection on a *Property Inspection Report* ([Form 30](#)) or on the property inspection report forms provided by property inspectors to document property inspections. A servicer must, however, ensure that, at a minimum, each property inspection report includes an accurate assessment of the current condition of the property, is dated, and clearly identifies the mortgagor and the property address.

**When the property securing the mortgage loan has suffered a total or near-total loss:**

The servicer must discuss with the borrower any plans that the borrower has for repairing the property. If the borrower is unwilling to repair the property or if the property is vacant or abandoned, the servicer must submit a *Report of Hazard Insurance Loss* ([Form 176](#)) to Fannie Mae to recommend an appropriate disposition of the remaining proceeds. The servicer must recommend either that the proceeds be used to repair the property or that the proceeds be applied to reduce the outstanding

mortgage loan debt. If the borrower is willing to repair the property and the restoration or repair is economically feasible (and so long as Fannie Mae's security is not lessened), the servicer must follow either option (I) or (II) below:

I. If the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances, the servicer should issue a check to the borrower for the amount by which the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances.

II. If the insurance proceeds do not exceed the sum of the UPB, accrued interest, and any advances, the servicer should:

- release up to 20% of the total claim proceeds, but not more than \$15,000, to the borrower and contractor;
- review the contractor's estimate; and
- make a determination on how to disburse the remaining funds.

In both options, the servicer must:

- require the borrower to utilize a licensed and insured contractor to perform all repairs;
- deposit the funds not disbursed in an interest-bearing account for the borrower's benefit;
- closely monitor the progress and completion of the repair work through periodic property inspections, ensuring that, at a minimum, the property inspection report includes an accurate assessment of the current condition of the property, is dated, and clearly identifies the mortgagor and the property address;
- conduct a final inspection to ensure all repairs are completed;
- issue final payment payable to both the borrower and the contractor or to the borrower if the servicer can obtain lien waivers from the contractor(s); and
- document its actions in the mortgage loan file.

Section 1103.02  
Mortgage Loans 30 Days  
to Less Than 90 Days  
Delinquent or That Are  
Current Under the Terms  
of a Bankruptcy Plan  
(08/24/05)

**When the property securing the mortgage loan has not suffered a total or near-total loss, generally the servicer should:**

- release up to 20% of the total claim proceeds, but not more than \$15,000, to the borrower;
- require the borrower to utilize a licensed and insured contractor to perform all repairs;
- review the contractor's estimate and determine the method of disbursement for the remaining funds;
- deposit the funds not disbursed to the borrower in an interest-bearing account for the borrower's benefit;
- monitor the progress and completion of the repair work through periodic property inspections, ensuring that, at a minimum, the property inspection report includes an accurate assessment of the current condition of the property, is dated, and clearly identifies the mortgagor and the property address;
- conduct a final inspection to ensure all repairs are completed;
- issue final payment payable to both the borrower and the contractor; and
- document its actions in the mortgage loan file.

**When the property securing the mortgage loan has suffered a total or near-total loss:**

The servicer must discuss with the borrower any plans that the borrower has for repairing the property. If the borrower is unwilling to repair the property or if the property is vacant or abandoned, the servicer must submit a *Report of Hazard Insurance Loss* ([Form 176](#)) to Fannie Mae to recommend an appropriate disposition of the remaining proceeds. The servicer must recommend either that the proceeds be used to repair the property or that the proceeds be applied to reduce the outstanding mortgage loan debt. If the borrower is willing to repair the property and the restoration or repair is economically feasible (and so long as Fannie

Mae's security is not lessened), the servicer must follow either option (I) or (II) below:

I. If the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances, the servicer should issue a check to the borrower for the amount by which the insurance proceeds exceed the sum of the UPB, accrued interest, and any advances.

II. If the insurance proceeds do not exceed the sum of the UPB, accrued interest, and any advances, the servicer should:

- release up to 20% of the total claim proceeds, but not more than \$15,000, to the borrower and contractor;
- review the contractor's estimate; and
- make a determination on how to disburse the remaining funds.

In both options, the servicer must:

- require the borrower to utilize a licensed and insured contractor to perform all repairs;
- deposit the funds not disbursed in an interest-bearing account for the borrower's benefit;
- closely monitor the progress and completion of the repair work through periodic property inspections, ensuring that, at a minimum, the property inspection report includes an accurate assessment of the current condition of the property, is dated, and clearly identifies the mortgagor and the property address;
- conduct a final inspection to ensure all repairs are completed;
- issue final payment payable to both the borrower and the contractor, or to the borrower if the servicer can obtain lien waivers from the contractor(s); and
- document its actions in the mortgage loan file.

Section 1103.03  
Mortgage Loans 90 Days  
or More Delinquent,  
Mortgage Loans That Are  
Delinquent Under the  
Terms of a Bankruptcy  
Plan, and Mortgage  
Loans in Foreclosure  
(08/24/05)

Regardless of the extent of the damages for mortgage loans that are 90 days or more delinquent before the disaster, for mortgage loans that are delinquent under the terms of a bankruptcy plan before the disaster, or for mortgage loans in foreclosure before the disaster, the servicer:

- may release up to 10% of the insurance proceeds, but not more than \$10,000, jointly to the borrower and the contractor to cover the cost of materials needed to repair property damages, and must deposit the funds not disbursed in an interest-bearing account for the borrower's benefit;
- must require the borrower to utilize a licensed and insured contractor to perform all repairs; and
- must submit a *Report of Hazard Insurance Loss* ([Form 176](#)) to Fannie Mae to recommend an appropriate disposition of the remaining proceeds. The servicer must recommend either that the proceeds be used to repair the property or that the proceeds be applied to reduce the outstanding mortgage loan debt. The Form 176 must be submitted electronically to Fannie Mae using Fannie Mae's dedicated mailbox, [hazard\\_loss@fanniemae.com](mailto:hazard_loss@fanniemae.com).

Section 1103.04  
Deposit of the Insurance  
Proceeds (08/24/05)

In all instances in which the servicer deposits insurance loss proceeds in an interest-bearing account, the account must be for the borrower's benefit, must yield an amount of interest that is equivalent to the interest that the borrower could expect to obtain from a passbook savings account or a money market account, and must be in a depository institution that meets Fannie Mae's eligibility criteria for custodial depositories. The depository account also must provide for all interest earned on the funds to be credited to the account at least quarterly. The servicer must pay the accumulated interest to the borrower at the end of the reconstruction period for the property, unless the borrower requests an earlier disbursement. Additionally, 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 amount of the claim proceeds attributable to these items should be immediately released to the borrower.

**Section 1104  
Uninsured Losses  
(08/24/05)**

When a disaster results in an uninsured loss (for example, an uninsured flood loss) to the property, the servicer of a *first* mortgage loan should:

- determine the extent of the damage;
- secure the property, if it is abandoned;
- develop plans for repairing the property; and
- send a complete report of the damage to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

The servicer for a *second* mortgage loan should work with the first mortgage loan servicer in determining the extent of the damage, securing an abandoned property, and developing plans for repairing the property. The second mortgage loan servicer should then send a complete report of the damage and any repair plans that were developed to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

The servicer should help the borrower file for any disaster relief aid that may be available. If the damage is extensive, the servicer should agree to any reasonable forbearance plans or modification agreements that the borrower proposes.

## Chapter 12. Completion of Property Rehabilitation Work (06/30/02)

When Fannie Mae purchases a rehabilitation or renovation mortgage loan before completion of the home improvements or repair work, the servicer is responsible for monitoring the completion of the work and managing the release of funds to pay for the completed work. The servicer must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained. If any action the servicer takes (or fails to take) in overseeing the rehabilitation or renovation work affects Fannie Mae's ability to acquire clear title to the property, Fannie Mae may require the servicer to repurchase the mortgage loan.

The servicer must maintain a copy of all of the documentation that supports the rehabilitation or renovation work—plans and specifications, “as completed” appraisal, rehabilitation or construction contract, rehabilitation or construction loan agreement, certificate of completion, title insurance endorsement or updates, etc—in the individual mortgage loan file.

The requirements in this *Chapter* are common to all of the conventional rehabilitation or renovation mortgage loans that a servicer is monitoring. In general terms, they also describe the servicer's responsibilities for monitoring government-insured home improvement loans—although the servicer should follow the precise requirements discussed in the Rehabilitation Home Mortgage Insurance (HUD Handbook 4240.4 REV-2) and the *Title I Property Improvement and Manufactured Home Loan Regulations* (HUD Handbook 1060.2, REV-6), depending on which type of government-insured home improvement loan it is servicing.

### Section 1201 Terms of Rehabilitation or Renovation Work (06/30/02)

All rehabilitation or renovation work must be performed by licensed contractors. The cost of the rehabilitation will be based on the plans and specifications for the work and on the contractor's bids for all of the work to be done. Three key documents are used to document the terms of the rehabilitation work:

- The *plans and specifications* 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). The

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servicer should use the plans and specifications to evaluate the quantity, quality, and cost of the remodeling work. Before approving any change a borrower wants to make to the original plans and specifications, the servicer must require the borrower to submit a *HomeStyle Change Order Request* ([Form 1200](#)) or a similar form to provide a detailed description of the change(s), the cost of the change(s), and the estimated completion date(s).

- The ***rehabilitation or construction contract*** between the borrower and the contractor 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).
- The ***rehabilitation or construction loan agreement*** between the borrower and the lender states the terms and conditions of the loan prior to the completion of the work. It includes the details about the timetable for completing the rehabilitation or construction work; explains how the proceeds of the rehabilitation or renovation loan (and any amount the borrower has to provide from his or her own funds) will be used and how and when the funds will be paid to the contractor and the borrower; includes procedures for documenting requests for disbursements, establishing and maintaining contingency reserves, and processing change orders; and states the conditions that apply to repayment of the loan, completion requirements, and resolution of disputes.

### Section 1202 Rehabilitation or Renovation Escrow Account (06/30/02)

Rehabilitation or renovation costs include the amount required to pay for the repairs or improvements, as well as other allowable expenses—a contingency reserve, construction-related costs, and an escrow for mortgage loan payments that come due during the rehabilitation or construction period (if the borrower is unable to occupy the property during that time).



- A **contingency reserve** equal to 10% of the total costs for the repairs and rehabilitation work must be established (and funded) for some renovation or rehabilitation mortgage loans to cover required unforeseen repairs or deficiencies that are discovered during the rehabilitation or renovation. (Establishing a contingency reserve is always an option for any rehabilitation or renovation mortgage loan.) The contingency reserve may be considered as part of the total rehabilitation or renovation costs or the borrower may fund it separately. The contingency reserve will be released only if required, necessary, and unforeseen repairs or deficiencies are discovered during the remodeling work. All unused contingency funds (unless they were received directly from the borrower) generally will be used to reduce the outstanding balance of the rehabilitation or renovation mortgage loan after all of the renovation work has been completed and the certification of completion has been obtained. However, in some cases, unused contingency funds can be used to make additional improvements or repairs to the property.
- **Construction-related costs** that may be considered as part of the total rehabilitation or renovation costs include property inspection fees, costs and fees for the title update, architectural and engineering fees, independent consultant fees, costs for required permits, and other documented charges (such as fees for review of rehabilitation or renovation plans, appraisal fees, and fees charged for processing construction draws).
- An **escrow for mortgage loan payments** that will become due during the rehabilitation or construction period generally may be included as part of the total rehabilitation or renovation costs for a principal residence, if the property cannot be occupied during the rehabilitation or renovation period. This mortgage loan payment escrow must represent only those payments that come due during the period that the property cannot be occupied. The maximum amount that can be escrowed is six full mortgage loan payments (of PITI).

At closing, all of the rehabilitation costs (including the contingency reserve and, if applicable, any escrowed mortgage loan payments or other funds that the borrower provides) must be deposited into an interest-bearing rehabilitation or renovation escrow account. (A servicer may

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commingle the rehabilitation or renovation escrow accounts for different borrowers in the same custodial account.) All interest earned on the rehabilitation or renovation escrow account, less any administrative expenses involved in maintaining the account, must be paid or credited to the borrower. The rehabilitation or renovation escrow account must be a custodial account that satisfies Fannie Mae's criteria for custodial accounts. It must be established in a depository institution that is insured by the FDIC or the NCUA and that otherwise satisfies Fannie Mae's eligibility requirements for custodial depositories.

The funds in the rehabilitation or renovation escrow account must be used to complete the repair and rehabilitation work and, if applicable, to pay any mortgage loan payments that come due during the rehabilitation or renovation period. The servicer (or its agent) will be responsible for administering this account and ensuring that the repairs and rehabilitation are completed in a timely manner and in accordance with the plans and specifications and the contractor's estimated bids. The servicer will release funds from this account to the contractor and the borrower only when any given renovation work has been completed (and then only in accordance with the agreed-upon schedule and after receipt of a specific request). Should there be 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.)

Once the rehabilitation or renovation has been completed, all funds remaining in the rehabilitation or renovation escrow account (including any mortgage loan payment reserves) generally must be used to reduce the UPB of the mortgage loan (unless they represent funds deposited separately by the borrower). In some cases, the servicer may agree for the remaining funds to be used to make additional improvements or repairs to the property.

**Section 1203  
Completion of  
Rehabilitation or  
Renovation (06/30/02)**

Following completion of the rehabilitation or renovation work, the servicer must obtain a *HomeStyle Completion Certificate* ([Form 1036](#)) 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. (For government-insured home improvement loans, the servicer should obtain the form of completion certification that HUD requires.)

On completion of the rehabilitation or renovation of the property and concurrent with the date of the last disbursement of funds, the servicer must obtain an endorsement to the title insurance policy to extend its effective date through the date the rehabilitation or renovation was completed, thus ensuring the continuance of Fannie Mae's first lien priority and the absence of any mechanics' or materialmen's liens. 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. Fannie Mae's *Lien Waiver* ([Form 3739](#)) may be used for all lien releases, as long as the servicer changes it as needed to comply with applicable law.

The servicer also must obtain for retention in the individual mortgage loan file a certification regarding the adequacy of the property insurance following completion of the rehabilitation or renovation. The certification must confirm that the coverage has been increased (if necessary) to comply with Fannie Mae's standard hazard and flood insurance requirements. (Also see *Part II, Chapter 2, Hazard Insurance*, and *Chapter 3, Flood Insurance*.)

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## **Chapter 13. Second Mortgage Loans (01/31/03)**

The servicer of a second mortgage loan must coordinate its servicing efforts for the second mortgage loan with those of the first mortgage loan servicer and, if necessary, advance funds to protect Fannie Mae's second mortgage loan investment. The first step in meeting this responsibility is sending a written notice of Fannie Mae's ownership interest to the servicer of the first mortgage loan as soon as Fannie Mae purchases or securitizes the second mortgage loan. This notice should include a request for the first mortgage loan servicer to provide immediate notice to the second mortgage loan servicer on the occurrence of any event or situation that might jeopardize the second mortgage loan security.

### **Section 1301 Coordination with First Mortgage Loan Servicer (01/31/03)**

The servicer should work with the first 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. This is especially true when Fannie Mae also has an ownership interest in the first mortgage loan because the servicer of that mortgage loan is already obligated to take certain actions on Fannie Mae's behalf. Any agreement that is reached should concentrate on eliminating duplication of effort and avoiding unnecessary expenses. Both servicers should have a clear understanding of their specific responsibilities.

### **Section 1302 Advances to Protect Second Mortgage Loan Investment (01/31/03)**

The servicer of a second mortgage loan must advance reasonable amounts for expenditures that are required to protect Fannie Mae's investment in the second mortgage loan. These advances usually relate to the second mortgage loan, but occasionally they may be required for the first mortgage loan. Generally, when Fannie Mae also has an ownership interest in the first mortgage loan, the servicer of that mortgage loan will make all of the advances required for protection of the security—however, if the second mortgage loan is insured by a conventional mortgage insurer, the servicer may have to advance funds to reinstate or satisfy the first mortgage loan should the mortgage insurer require that as a condition for claim filing.

**Section 1302.01  
Advances for the Second  
Mortgage Loan  
(01/31/03)**

The servicer of a second mortgage loan may need to advance funds for a second mortgage loan that is current or for one that is delinquent. The servicer should 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,
- the payment of hazard or flood insurance premiums,
- the prevention of waste,
- maintenance on the property,
- repairs to the property,
- capital improvements to the property, and
- property management expenses.

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 borrower cannot (or will not) repay the advance in a lump-sum payment or in installments, the servicer may make the advance ***as long as the mortgage loan is current***. Then, if the mortgage loan instrument, local laws, and government regulations allow the capitalization of advances and Fannie Mae holds the mortgage loan in its portfolio, the servicer should capitalize its advance. To do this, the servicer should increase the UPB of the mortgage loan by the amount of its advance. The servicer should then request Fannie Mae to reimburse it for Fannie Mae's share of the advance by submitting a *Cash Disbursement Request* ([Form 571](#)). If the advance cannot be capitalized, the servicer may still follow this same procedure to obtain reimbursement for Fannie Mae's share of the advance. If the mortgage loan is in an MBS pool, the servicer may apply subsequent mortgage loan payments against the advance if the mortgage loan terms, local laws, and government regulations allow it to do so.

***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 if the mortgage loan is insured by a conventional mortgage insurer, when the insurance claim is settled.

**Section 1302.02  
Advances for the First  
Mortgage Loan  
(01/31/03)**

When Fannie Mae holds both the first and second mortgage loans, the servicer of the second mortgage loan generally 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 mortgage loan in connection with the second mortgage loan foreclosure. If Fannie Mae does not hold the first mortgage loan, the servicer must advance funds to pay delinquent payments, taxes, hazard or flood insurance premiums, and any other charges related to the first mortgage loan if that is required to protect Fannie Mae's investment.

The servicer must obtain approval from its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center—even when Fannie Mae holds the first mortgage loan—before it advances funds:

- to pay more than three monthly installments,
- to pay off the first mortgage loan, or
- to pay any expense if its advances for the first mortgage loan have reached \$7,500.

To request reimbursement for Fannie Mae's share of any advances made on the first mortgage loan, the servicer of a whole mortgage loan, participation pool mortgage loan, or MBS mortgage loan serviced under the special servicing option should submit a *Cash Disbursement Request (Form 571)* to Fannie Mae.

**Section 1303  
Subordination of  
Second Mortgage Loan  
(09/30/96)**

When a first mortgage loan is being refinanced, the second mortgage loan holder may be asked to execute a subordination agreement. In effect, this agreement keeps the second mortgage loan in its original lien position even though it will predate the new first mortgage loan. Generally, Fannie Mae

will agree to subordinate its interest in a second mortgage loan—however, the servicer should restrict the degree of subordination as much as possible. For example, if Fannie Mae is not providing the funds to refinance the first mortgage loan, the servicer should not agree to subordinate Fannie Mae’s interest unless the combined unpaid balances of the second mortgage loan and the new first mortgage loan represent 80% or less of the current appraised value of the property. In addition, 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 mortgage loan.

On the other hand, if Fannie Mae is providing the funds to refinance the first mortgage loan, it would prefer that the two mortgage loans be consolidated or that its second mortgage loan be paid in full. If that is not possible, the servicer may agree to subordinate Fannie Mae’s interests as long as the combined unpaid balances of the second mortgage loan and the new first mortgage loan do not exceed Fannie Mae’s statutory limits for single-family first 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 mortgage loan debt, to reduce the amount of the new first mortgage loan, or both.

When a borrower who has an FHA Title I home improvement loan refinances his or her existing first 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 HUD’s prior written consent) as long as the amount of the new refinance mortgage loan is not greater than the sum of the existing first mortgage loan and reasonable financing or closing costs. If the borrower is refinancing for any other reason, the servicer must obtain HUD’s written authorization to subordinate the Title I loan to the new first mortgage loan in order to ensure that the security value of the Title I loan is not impaired or reduced.



## **Part IV: Special Adjustable-Rate Mortgage Loan Functions (01/31/03)**

This *Part*—Special Adjustable-Rate Mortgage Loan Functions—discusses those special loan administration functions related to the required periodic monthly payment and interest rate changes for adjustable-rate mortgage loans (ARMs) and graduated-payment adjustable-rate mortgage loans (GPARMs).

The servicer must enforce each ARM or GPARM according to its terms (and according to any additional terms specified in a negotiated contract issued in relation to Fannie Mae's purchase or securitization of the mortgage loan). This includes making periodic interest rate and payment adjustments, as well as ensuring that any negative amortization does not exceed the maximum amount allowed. The servicer must change the mortgage loan interest rate and monthly payment to the fullest extent permitted or required, maintaining at all times the mortgage loan margin specified in the mortgage loan documents. If the servicer fails to make a timely interest rate or payment adjustment, it must use its own funds to satisfy any shortage until the next scheduled change date. If the servicer's error results in the amount of negative amortization exceeding the maximum allowed, the servicer must reimburse Fannie Mae for any loss it incurs if Fannie Mae has to liquidate the mortgage loan before the excess is eliminated and Fannie Mae's claim is affected by this breach of the mortgage loan terms.

A servicer's ARM portfolio may be composed of mortgage loans closed under any of the standard ARM or GPARM plans that Fannie Mae has had in effect from time to time or mortgage loans closed under any of the negotiated ARM or GPARM plans that Fannie Mae has agreed to purchase or securitize.

The procedures in this *Part* apply to mortgage loans closed under any of the standard plans Fannie Mae may have offered and to some of the more common negotiated plans Fannie Mae has purchased or securitized. The servicer must establish its own procedures to ensure that it follows the terms of other negotiated plans when it makes interest rate and payment change adjustments. Fannie Mae's policies and procedures regarding the correction of adjustment errors apply to all mortgage loans serviced for

Fannie Mae, regardless of whether they were originated under standard or negotiated ARM plans.

This *Part* consists of five chapters:

- *Chapter 1—Conversions to Fixed-Rate Mortgage Loans*—discusses the eligibility criteria for converting an adjustable-rate first mortgage loan to a fixed-rate mortgage loan, the terms of the conversion, the types of conversion options that are available, instructions for determining the new interest rate and monthly payment, and procedures for notifying Fannie Mae about conversions.
- *Chapter 2—Interest Rate Changes*—discusses the need for monitoring the various indexes that are used for determining interest rates and provides the correct method for determining an interest rate change under the various ARM plans that Fannie Mae has purchased or securitized.
- *Chapter 3—Payment Changes*—provides the correct method for determining monthly payments under the various ARM plans that Fannie Mae has purchased or securitized.
- *Chapter 4—Notices to the Borrower*—discusses the timing for, and content of, notices that are sent to advise borrowers of pending interest rate and/or payment changes.
- *Chapter 5—Correction of Adjustment Errors*—discusses the procedures Fannie Mae requires a servicer to follow when it reviews interest rate and payment adjustments for the ARM plans it services for Fannie Mae, regardless of whether the review is undertaken as part of a full audit of its ARM portfolio, as part of a routine spot-check of its ARM adjustments, or as the result of an inquiry by a third party.

## **Chapter 1. Conversions to Fixed-Rate Mortgage Loans (01/31/03)**

Some ARM and GPARM plans offer the borrower the option of converting to a fixed-rate mortgage loan at specified times during the early years of the mortgage loan, as long as certain eligibility criteria are met.

A servicer should notify Fannie Mae about the conversion of an adjustable-rate whole mortgage loan or participation pool mortgage loan to a fixed-rate mortgage loan when it submits its monthly accounting reports. ARMs that are being converted to fixed-rate mortgage loans and are in MBS pools must be removed from the MBS pool in the month that precedes the month in which the mortgage loan would begin accruing interest at the new fixed rate. The servicer may redeliver to Fannie Mae a converted ARM that it has removed from an MBS pool. (Also see the *Selling Guide, C2-1.1-07, Standard ARM and Converted ARM Resale Commitments*, and *C3-5-06, Pooling ARMs with a Conversion Option*.)

### **Section 101 Eligibility Criteria (01/31/03)**

To be eligible for conversion to a fixed-rate mortgage loan, an adjustable-rate first mortgage loan must be current (or must be brought current by the conversion date) and must have an LTV ratio of 95% or less. If the mortgage loan has negatively amortized, a new appraisal must be obtained to determine the current value of the property, and if necessary the borrower will have to pay any funds required to reduce the UPB to an amount equal to 95% of the current value of the property. Some negotiated contracts may specify other conditions for exercising the conversion option.

The most common ARM plans that have a conversion option feature, along with the interest rate change dates on which the option may be exercised, are listed below:

- On the first day of any month beginning with the first interest rate change date and ending with the fifth interest rate change date—ARM Plans 57, 682, 841, 851, 861, and 2720.
- On the first day of any month beginning with the second interest rate change date and ending with the tenth interest rate change date—ARM Plans 761, 1030, 1317, 1319, 1444, and 1446.

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- On the first interest rate change date—ARM Plans 13 and 14; GPARM Plans 16 and 17.
- On the first or second interest rate change date—ARM Plan 650.
- On the first, second, or third interest rate change date—ARM Plans 652, 661, 751, 1437, 2724, 2726, and 2728.
- On the third, fourth, or fifth interest rate change date—ARM Plans 501, 511, 521, 711, 721, 776, 791, and 2722; GPARM Plans 503, 513, and 523.

### Section 102 Election to Convert (01/31/03)

The conversion process must take place within the time periods allowed under the terms of the mortgage loan instruments. Timing is very critical for those plans that allow the borrower to exercise the conversion option in any month during the early years of the mortgage loan term. Therefore, the servicer may limit the time period within which the borrower may call to obtain the applicable conversion rate (for example, by accepting calls only within the first five business days of each month) for this type of conversion option (including ARM Plans 57, 682, 761, 841, 851, 861, 1030, 1317, 1319, 1444, 1446, or 2720) and the time period within which the borrower must return the executed conversion documents and processing fee. (For example, by allowing a specified number of days after the borrower's telephone call that will give the borrower enough time to complete the documents and get them and any funds that are due for a portfolio mortgage loan back to the servicer between 5 and 45 days before the effective date of the new converted interest rate. If the servicer services both portfolio mortgage loans and MBS mortgage loans, it may be more practical to use the time frame that applies to MBS pool mortgage loans for all mortgage loans—which is “no later than the 15th day of the month in which the borrower gives his or her election notice.”). For portfolio mortgage loans that were closed as other convertible ARM plans, the borrower must notify the servicer that he or she intends to exercise the conversion option at least 15 days before the conversion date.

*Exhibit 1: Exercising/Reporting ARM Conversions for Portfolio Mortgage Loans*, 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.

**Section 103  
Terms of Conversion  
(01/31/03)**

The servicer must make sure that the borrower understands that once the mortgage loan is converted to a fixed-rate mortgage loan, it will no longer be freely assumable by a creditworthy applicant (unless Fannie Mae agreed otherwise under the terms of a negotiated contract). The usual requirements for transfers of ownership of fixed-rate mortgage loans will apply. In addition, the servicer should inform the borrower that the conversion will not be considered as final until the following actions (as well as any others specified in a negotiated contract) have been taken:

- the servicer has received any required appraisal report and the borrower has paid the appraisal fee and any amount required to reduce the UPB;
- the servicer has arranged to modify any special ARM features in the mortgage insurance coverage to provide for standard coverage;
- the borrower has signed and returned to the servicer an agreement acknowledging the changes to the mortgage note that are necessary to provide for the new fixed interest rate (If Fannie Mae is holding the original note as a custody document, the servicer must send Fannie Mae's DDC the original of this agreement.); and
- the borrower has paid the required processing fee—\$100 for most plans, \$250 for plans that have a monthly conversion feature—to cover the servicer's administrative costs for the transaction.

**Section 104  
Determining the New  
Fixed Rate (01/31/03)**

If the borrower chooses to convert an ARM to a fixed-rate mortgage loan, the new interest rate will be based on Fannie Mae's required net yield that was in effect as of a specified time for mortgage loans that have similar terms and remittance types.

To assist the servicer in determining the yield that should be used for a conversion to a fixed-rate mortgage loan, Fannie Mae makes its *current* yield requirements available on [eFannieMae.com](http://eFannieMae.com) and on various wire services. A servicer also may obtain *recent* yields from four of the wire services: Telerate, the Reuter Mortgage Service, Knight-Ridder's MoneyCenter Index, and The Bloomberg. In addition, a servicer may access Fannie Mae's historical yields for 30-year fixed-rate mortgage loans through [eFannieMae.com](http://eFannieMae.com). To obtain historical daily required net yields for 15- and 30-year fixed-rate mortgage loans or other products and

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terms, the servicer should call Fannie Mae's Capital Markets Desk (at 1-800-752-0257). The servicer will be responsible for choosing from the information Fannie Mae provides the appropriate yield that should be used to establish the new interest rate—based on the mortgage loan term, the remittance type under which the mortgage loan is reported, the property type, and any other factors specified in the mortgage loan instruments.

#### Section 104.01 Monthly Conversion Options (01/31/03)

For the convertible ARM plans that have a monthly conversion option—including but not limited to Plans 57, 682, 761, 841, 851, 861, 1030, 1317, 1319, 1444, 1446, and 2720—Fannie Mae's "required net yield" generally is the yield that was in effect for 60-day mandatory delivery commitments for comparable term conventional fixed-rate first mortgage loans accounted for as the actual/actual remittance type when Fannie Mae's Capital Markets Desk opened on the first business day of the month in which the borrower requested the conversion. However, if the mortgage loan is part of an MBS pool, the definition of Fannie Mae's required net yield varies depending on which post-conversion disposition option the mortgage loan seller designated when it delivered the MBS pool to Fannie Mae.

If the mortgage loan seller selected the market rate post-conversion disposition option, Fannie Mae's required yield will be 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.

When the mortgage loan seller selected the take-out post-conversion disposition option, it must use as Fannie Mae's required net yield the yield that Fannie Mae has posted for the actual/actual remittance type when Fannie Mae's Capital Markets Desk opens 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.

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 new calculated interest rate should always be compared with the original note rate. If it exceeds that 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.

**Section 104.02  
Other Conversion  
Options (01/31/03)**

For convertible ARM plans that provide for periodic (rather than monthly) conversion options, Fannie Mae's required net yield is the one that was in effect 45 days before the conversion date. 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. For mortgage loans purchased under commitments dated on and after December 9, 1987, it would be 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 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.

These plans also apply the limit on the amount by which the interest rate can change over the term of the mortgage loan to the new rate established for the fixed-rate mortgage loan at the time of the conversion. Therefore, the new calculated interest rate should always be compared with the original note rate. If it exceeds that 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.

**Section 105  
Determining the New  
Monthly Payment  
(01/31/03)**

When an ARM is converted to a fixed-rate mortgage loan, the new monthly payment is calculated by determining the amount required to repay the UPB of the mortgage loan in substantially equal payments over the remaining term of the mortgage loan 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, if the mortgage loan has a payment due date other than the first of the month, on the applicable due date.

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#### Section 106 Reporting Conversions for Portfolio Mortgage Loans (01/31/03)

A servicer does not need to give Fannie Mae advance notification about any request to exercise a conversion to fixed-rate option. However, the servicer must provide information about the conversion when it submits its monthly Fannie Mae investor reporting system reports (hereinafter referred to as “Investor Reporting reports”) to Fannie Mae.

The servicer *may* transmit a Transaction Type 83 to report the conversion in the first Investor Reporting reports that it transmits after it knows the effective date of the conversion and the new converted interest rate and monthly payment.

The servicer *must* transmit a Transaction Type 83 to report the conversion by no later than the due date of the Investor Reporting reports for the reporting period that includes the effective date for the new monthly payment.

Fannie Mae may charge a compensatory fee to servicers who fail to report an ARM conversion to it in a timely manner. When Fannie Mae charges a compensatory fee, it will notify the servicer of the total fee due and the date it will draft the fee from the bank account the servicer has designated for drafting funds payable to Fannie Mae. Fannie Mae’s notice will be sent approximately one month after the servicer reports a Transaction Code 83: Payment/Rate Change Record to update the Fannie Mae investor reporting system records with the conversion data.

#### Section 107 Repurchase of Converted MBS Mortgage Loan (01/31/03)

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 before the month in which the mortgage loan begins accruing interest at the new fixed rate. The borrower must have executed all of the required conversion documents before the servicer repurchases the mortgage loan. After the servicer repurchases the converted mortgage loan from the MBS pool, its next action will depend on which post-conversion disposition option was specified in the original MBS contract:

**Option 1: Market Rate Option.** Under this option, the servicer decides whether or not it will redeliver the converted mortgage loan to Fannie Mae. Since the servicer determines how, when, and in what manner it will dispose of the converted mortgage loan, it retains 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.



If the servicer chooses to redeliver the mortgage loan to Fannie Mae, it may deliver the mortgage loan as part of a new MBS pool of fixed-rate mortgage loans or as a whole mortgage loan cash purchase that may be either an actual/actual or a scheduled/actual remittance type. The servicer must verify that the mortgage loan meets the specific eligibility requirements for converted ARMs that are specified in the *Selling Guide*. The servicer may 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.** Under this option, the servicer redelivers the converted mortgage loan to Fannie Mae as a whole mortgage loan cash purchase. Fannie Mae will not require the servicer to re-qualify the borrower or to verify that the mortgage loan still meets Fannie Mae's eligibility requirements. Procedures for obtaining a take-out option commitment appear in the *Selling Guide, C3-5-01, Creating Stated-Structure ARM MBS*.

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Exhibit 1

**Exhibit 1: Exercising/Reporting ARM Conversions for Portfolio  
Mortgage Loans  
(09/01/98)**

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>2</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	<p>First<sup>1</sup> day of the second month following the election notice.</p> <p>New converted interest rate is determined as follows:</p> <p>For mortgage loans with terms greater than 15 years—60*-day mandatory delivery yield for 30-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%.</p> <p>For mortgage loans with terms of 15 years or less—60*-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%.</p>	<p>Scheduled interest rate change date.</p> <p>New converted interest rate is determined as follows:</p> <p>For mortgage loans with terms greater than 15 years—60*-day mandatory delivery yield for 30-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%.</p> <p>For mortgage loans with terms of 15 years or less—60*-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%.</p>
Effective Date for New Payment	First <sup>1</sup> day of the month following the effective date of the new converted interest rate.	First <sup>1</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.

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## **Special Adjustable-Rate Mortgage Loan Functions**

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### **Conversions to Fixed-Rate Mortgage Loans**

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<b>Action Date</b>	<b>Monthly Conversion Option</b>	<b>Periodic Conversion Option</b>
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).

Notes:

1. Timeline assumes that the mortgage loan payments are due on the first day of each month. If they are not, these references should be changed to reflect the day of the month on which payments are actually due.
  2. To ensure consistent treatment of borrowers, lenders that service both portfolio mortgage loans and MBS pool mortgage loans should consider using the time frame required for MBS pool mortgage loans—which is “no later than the 15th day of the month in which the election notice is given.”
- \* 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.

## Chapter 2. Interest Rate Changes (09/30/05)

A number of factors come into play in establishing the new interest rate for an ARM on each scheduled interest rate change date—the index on which the rate is to be based, the lookback period, any applicable interest rate change limitations, the mortgage loan margin, any specified interest rate rounding technique, and the applicability of the Servicemembers Civil Relief Act.

For all standard Fannie Mae ARM plans:

- the mortgage loan interest rate may never decrease to less than the ARM's margin, regardless of any downward interest rate cap;
- there is no lifetime interest rate floor other than the ARM's margin, and
- to be pooled as a standard Fannie Mae ARM plan without a special disclosure, the ARM must (1) have a monthly payment that is due on the first day of the month, (2) have an original maturity no longer than 30 years, and (3) provide for calculation of the new interest rate by rounding the sum of the index plus the ARM's margin up to the nearest 1/8th of 1 percentage point.

The interest adjustment interval and the applicable index for each of Fannie Mae's standard plans and the most common negotiated plans are described in *Exhibit 1: Interest Rate Change Characteristics for Certain ARM/GPARM Plans*.

### Section 201 Monitoring the Index (11/16/09)

Fannie Mae has used several different indexes for its standard ARM plans—the 6-month Treasury bill, the 6-month “auction high” Treasury bill security, the 1-year Treasury security, the 3-year Treasury security, the 5-year Treasury security, the 10-year Treasury security, the monthly Federal Home Loan Bank Board (FHLBB) series of closed loans, the “cost of funds” for members of the 11th District of the Federal Home Loan Bank of San Francisco, secondary market interest rates on 6-month negotiable certificates of deposit (CDs), and an average of the London Interbank Offered Rate (LIBOR) index rates for 6 month or 1 year. The servicer must establish procedures to monitor these indexes—and any

others it has used for negotiated ARM plans—to ensure that it uses the latest available value for the index to determine an interest rate change.

- Treasury indexes and CD indexes for Fannie Mae ARM/GPARM plans generally go into effect and become the “most recently available index” on the release date of the Federal Reserve Board’s Statistical Release H.15 (519). However, the “auction high” Treasury bill security index goes into effect and becomes the “most recently available index” on the date of the Public Debt News release (which the Bureau of Public Debt makes available in the afternoon of the day of the treasury auction).
- The “cost of funds” index goes into effect and becomes the “most recently available index” on the day the Federal Home Loan Bank of San Francisco’s Information Bulletin is released, which is generally the last business day of each month.
- The LIBOR index, as published in the print edition of *The Wall Street Journal*, goes into effect when it is published. The “most recently available index” is the one published on the first day of the month immediately preceding the month in which an interest rate change date occurs.

In any instance in which the terms of a negotiated contract specifically call for the “most recently available” index to be determined in a manner other than those described above, the terms of the negotiated contract will govern. A note that specifies the use of the LIBOR index as posted by Fannie Mae should refer to the LIBOR index in the print edition of *The Wall Street Journal*.

To assist a servicer in monitoring indexes, Fannie Mae offers an ARM Indexes service through [eFannieMae.com](http://eFannieMae.com). Fannie Mae adds the value for the “auction high” Treasury bill security index (as well as the value for any other indexes that are derived by averaging different values of this index) to its service on the day of the Treasury auction. For other Treasury indexes, Fannie Mae will add each week’s applicable value to its service on the day the latest available H.15 (519) appears on the Department of Commerce’s Economic Bulletin Board. Fannie Mae adds other indexes immediately following their release. A servicer that uses Fannie Mae’s

**Section 202  
Lookback Period  
(01/31/03)**

ARM Indexes service is expected to independently verify the values Fannie Mae publishes.

An interest rate change occurs at established intervals based on the value in effect for the applicable index on a specified date before the interest rate change date (called the “lookback” period). For most of Fannie Mae’s standard plans, the new interest rate will be based on the index value in effect 45 days before the interest rate change date. (Most of Fannie Mae’s eight original plans provided for the new interest rate to be based on the index value in effect on a date that precedes the interest rate change date by the number of days specified in the mortgage note. Generally that was 30 to 45 days, but some mortgage notes may have specified other numbers.) The mortgage notes that use the LIBOR index, as published in the print edition of *The Wall Street Journal*, specify that the new interest rate will be based on the index value in effect on the first day of the month preceding the interest rate change date. In addition, the new interest rate for FHA ARM Plan 515 must be based on the index value in effect 30 days before the interest rate change date.

The lookback period is transmitted by the lender at the mortgage loan level as a three-digit code and is located in position 503-505 of the 2000 character format file. The lookback period is shown at the pool level in field 23 on the *Schedule of Mortgage loans*.

In addition to Fannie Mae’s document certification requirements, the document custodian must certify that the lookback period transmitted by the lender matches the information contained in the individual mortgage loan documents for each loan in the pool.

If the lookback periods do not match all the mortgage loan documents that Fannie Mae requires the custodian to review, the custodian may not certify the pool. The document custodian must notify the lender of each exception. To remedy the exception(s), one of the following must take place:

- the lender must correct the lookback code and/or loan documentation, and the custodian must verify each correction before certifying the pool;

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- the lender must resubmit the pool without mortgage loans that have uncorrected exceptions and the custodian must review the resubmitted pool before recertifying the pool; or
- the lender must provide (and the custodians must maintain in the pool file) documentation that allows for such commingling.

In cases where the mortgage note does not state the lookback period as a given number of days (for example, “the first business day of the previous month”), the custodian may rely on the lender’s transmitted data. However, the custodian must ensure that all the mortgage loans for a given pool have the same lookback period language.

### Section 203 Interest Rate Based on Latest Index Value (01/31/03)

There are two different methods for calculating the new interest rate for ARM plans that provide for the mortgage loan interest rate to be based on the value of the latest available index, based on whether the plan has interest rate change limitations. The method that should be used is described specifically in each mortgage loan instrument. In addition, each of the methods is discussed in detail below.

#### Section 203.01 Plans With No Rate Caps (01/31/03)

For those plans that do not have interest rate change limitations, the new interest rate is determined by adding the margin specified in the mortgage note to the applicable index value. If the mortgage loan instrument provides for rounding, this result should be rounded to the nearest percentage specified in that document.

The following plans use this method of establishing the new interest rate:

- ARM 2
- ARM 9
- ARM 10
- ARM 11
- GPARM 2
- GPARM 4
- GPARM 6

#### Section 203.02 Plans With Rate Caps (07/31/03)

For most plans that have interest rate change limitations, the new interest rate is determined by adding the margin specified in the mortgage note to the applicable index value. The result is then rounded to the nearest 0.125% (if specified in the mortgage note) except that rounding may not be used for ARM Plan 515 unless the borrower agreed to it at loan closing. When this calculation results in an interest rate that differs from the latest



interest rate by more than any specified allowable variance—the “per-change” interest rate change limitation—the new interest rate should be determined by adjusting the latest mortgage loan interest rate up (or down) by the appropriate percentage limitation. (This calculation method also applies to ARMs that can be converted to fixed-rate mortgage loans on specified change dates, as long as the borrower does not choose to exercise the conversion option. The method for determining the new interest rate when the borrower chooses to convert is described in *Chapter 1, Conversions to Fixed-Rate Mortgage Loans.*)

Some plans that use this method of establishing the new interest rate and their related per-change interest rate limitations are shown below:

• ARM 57	±2%	• ARM 520	±2%
• ARM 346	±1%	• ARM 521	±2%
• ARM 383	±1%	• ARM 649	±2%
• ARM 421	±2%	• ARM 650	±2%
• ARM 500	none	• ARM 651	±2%
• ARM 501	none	• ARM 652	±2%
• ARM 510	±1%	• ARM 659	±2%
• ARM 511	±1%	• ARM 660	±2%
• ARM 515	±1%	• ARM 661	±2%
• ARM 711	±1%	• ARM 681	±2%
• ARM 714	±1.5%	• ARM 682	±2%
• ARM 720	±2%	• ARM 710	±1%
• ARM 721	±2%	• ARM 1319	±1%
• ARM 722	±1%	• ARM 1443	±1%
• ARM 746	±1%	• ARM 1444	±1%
• ARM 760	±1%	• ARM 1445	±1%
• ARM 761	±1%	• ARM 1446	±1%
• ARM 776	±1%	• ARM 2720	±2%
• ARM 791	±2%	• ARM 2721	±2%
• ARM 841	±1%	• ARM 2722	±2%

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• ARM 851	±1%	• ARM 2723	±2%
• ARM 861	±1%	• ARM 2724	±2%
• ARM 975	+6%	• ARM 2725	±2%
• ARM 1029	+6%	• GPARM 502	none
• ARM 1030	±1%	• GPARM 503	none
• ARM 1031	±1%	• GPARM 512	none
• ARM 1316	±1%	• GPARM 513	±1%
• ARM 1317	±1%	• GPARM 522	±2%
• ARM 1318	±1%	• GPARM 523	±2%

Some plans—including ARM Plans 750, 751, 1423, 1437, 2726, 2727, 2728, 2729, 3224, 3225, 3227, 3228, and 3252—have one per-change limitation ( $\pm 5\%$ ) that applies to the first interest rate change and a different per-change limitation ( $\pm 2\%$ ) that applies to all subsequent interest rate changes.

Some of these plans also limit the amount by which the interest rate can change over the term of the mortgage loan. (Any mortgage loan originated since December 9, 1987, must include a “lifetime” limitation.) Therefore, the new calculated interest rate should always be compared with the original note rate. If it differs from that rate by more than the specified percentage, the new interest rate will be the rate derived by adjusting the original note rate by the specified lifetime limitation percentage. The lifetime limitations for these plans are:

• ARM 515	±5%
• ARM 383, 421, 776, 791, 841	+4%
• ARM 346, 500, 501, 510, 511, 520, 521, 660, 661, 681, 682, 714, 722, 750, 751, 760, 761, 851, 1316, 1317, 1423, 1437, 1443, 1444, 2726, 2727, 2728, 2729, 3223, 3224, 3225, 3226, 3227, 3228, 3252; GPARM 502, 503, 512, 513, 522, 523	+5%
• ARM 57, 649, 650, 651, 652, 659, 710, 711, 720, 721, 746, 861, 1030, 1031, 1318, 1319, 1445, 1446, 2720, 2721, 2722, 2723, 3270, 3271	+6%
• ARM 2724, 2725	+5% or +6%

The resale/refinance versions of two plans also used this method for their first interest rate change dates. After that, they became plans with no rate caps. Those plans and their related interest rate change limitations are:

- ARM 6 R/R       $\pm 2.5\%$
- GPARM 6 R/R       $\pm 2.5\%$

Two plans that are based on a fractional Treasury securities index—the STABLE home mortgage loan plans (ARM Plans 1103 and 1104)—have both per-change (2%) and lifetime (6%) interest rate change limitations. The new interest rate for these mortgage loans is determined by adding the margin specified in the mortgage note to the product of the applicable index value and the fractional percentage related to the specific plan (50% for Plan 1103 and 25% for Plan 1104), then rounding the resulting rate to the nearest 0.125%. When this rate is equidistant between two 0.125% incremental rates, the lender should round up to the higher rate. When this calculation results in an interest rate that differs from the latest interest rate by more than the specified per-change limitation, the new interest rate should be determined by adjusting the latest mortgage loan interest rate up (or down) by the appropriate percentage limitation. This rate must be compared to the original note rate and, if it differs from that rate by more than the specified lifetime change limitation, the new interest rate will be the rate derived by adjusting the original note rate by the lifetime limitation.

**Section 204  
Interest Rate Based on  
Change in Index Value  
(01/31/03)**

Some of Fannie Mae's original plans used a method for calculating the new mortgage loan interest rate that reflected a change in the index value over time. In such cases, the new rate is determined by comparing the latest available index value with the original index value disclosed to the borrower at loan closing. If the index value has increased, the difference is added to the original interest rate for the mortgage loan. If the index value has decreased, the difference is subtracted from the original mortgage loan interest rate. The result is rounded to the nearest 0.125% and becomes the new interest rate for the mortgage loan. This is not always the case because some plans have limitations on the amount the interest rate may change on any change date. In those cases, if this calculation results in a rate that exceeds the last mortgage loan interest rate by more than the specified percentage, the new mortgage loan interest rate is determined by adding the appropriate percentage to the last mortgage loan interest rate. If the index value has decreased, this percent is subtracted.

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## Special Adjustable-Rate Mortgage Loan Functions

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### Interest Rate Changes

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Some of the plans that use this method and their related interest rate limitations are listed below:

- |         |      |         |      |
|---------|------|---------|------|
| • ARM 1 | none | • ARM 7 | none |
| • ARM 3 | none | • ARM 8 | ±2%  |
| • ARM 4 | none |         |      |

### Section 205 Effect of Servicemembers Civil Relief Act (09/30/05)

In order to facilitate servicers' taking appropriate action in cases where military indulgence is warranted or required, *Part III, Chapter 1, Exhibit 1: Military Indulgence* provides a consolidated presentation of all of the relevant material on Fannie Mae's specific procedures for providing relief to U.S. servicemembers under the Servicemembers Civil Relief Act and Fannie Mae's additional forbearance policies.

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Exhibit 1

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**Exhibit 1: Interest Rate Change Characteristics for Certain  
ARM/GPARM Plans  
(01/30/07)**

<b>Plan Number</b>	<b>Index<sup>1</sup></b>	<b>Frequency of Change</b>	<b>Per-Change Limits<sup>2</sup></b>	<b>Lifetime Limits<sup>3</sup></b>	<b>Conversion to Fixed-Rate Option</b>
ARM 1	6-month Treasury Bill	6 months	None	None	No
ARM 2	6-month Treasury Bill	6 months	None	None	No
GPARM 2	6-month Treasury Bill	6 months	None	None	No
ARM 3	1-year Treasury Security	12 months	None	None	No
ARM 4	3-year Treasury Security	30 months	None	None	No
GPARM 4	3-year Treasury Security	36 months	None	None	No
ARM 6	5-year Treasury Security	60 months	None	None	No
GPARM 6	5-year Treasury Security	60 months	None	None	No
ARM 6 R/R	5-year Treasury Security	60 months	±2.5% <sup>4</sup>	None	No
GPARM 6 R/R	5-year Treasury Security	60 months	±2.5% <sup>4</sup>	None	No
ARM 7	FHLBB Closed Loans	12 months	None	None	No
ARM 8	FHLBB Closed Loans	12 months	±2%	None	No
ARM 9	1-year Treasury Security	12 months	None	None	No
ARM 10	3-year Treasury Security	36 months	None	None	No
ARM 11	5-year Treasury Security	60 months	None	None	No
ARM 57	1-year Treasury Security	12 months	±2%	+6%	Yes <sup>10</sup>
ARM 346	6-month Treasury Bill (AH)	6 months	±1%	+5%	No
ARM 383	1-year Treasury Security	12 months	±1%	+4%	No
ARM 421	1-year Treasury Security	12 months	±2%	+4%	No
ARM 500	1-year Treasury Security	12 months	None	+5%	No
ARM 501	1-year Treasury Security	12 months	None	+5%	Yes <sup>5</sup>
GPARM 502	1-year Treasury Security	12 months	None	+5%	No

## Special Adjustable-Rate Mortgage Loan Functions

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Plan Number	Index <sup>1</sup>	Frequency of Change	Per-Change Limits <sup>2</sup>	Lifetime Limits <sup>3</sup>	Conversion to Fixed-Rate Option
GPARM 503	1-year Treasury Security	12 months	None	+5%	Yes <sup>5</sup>
ARM 510	1-year Treasury Security	12 months	±1%	+5%	No
ARM 511	1-year Treasury Security	12 months	±1%	+5%	Yes <sup>5</sup>
GPARM 512	1-year Treasury Security	12 months	±1%	+5%	No
GPARM 513	1-year Treasury Security	12 months	±1%	+5%	Yes <sup>5</sup>
ARM 515	1-year Treasury Security	12 months	±1%	±5%	No
ARM 520	1-year Treasury Security	12 months	±2%	+5%	No
ARM 521	1-year Treasury Security	12 months	±2%	+5%	Yes <sup>5</sup>
GPARM 522	1-year Treasury Security	12 months	±2%	+5%	No
GPARM 523	1-year Treasury Security	12 months	±2%	+5%	Yes <sup>5</sup>
ARM 649	3-year Treasury Security	36 months	±2%	+6%	No
ARM 650	3-year Treasury Security	36 months	±2%	+6%	Yes <sup>8</sup>
ARM 651	1-year Treasury Security	12 months <sup>7</sup>	±2%	+6%	No
ARM 652	1-year Treasury Security	12 months <sup>7</sup>	±2%	+6%	Yes <sup>9</sup>
ARM 659	1-year Treasury Security	12 months <sup>11</sup>	±2%	+6%	No
ARM 660	1-year Treasury Security	12 months <sup>11, 18</sup>	±2%	+5%	No
ARM 661	1-year Treasury Security	12 months <sup>11</sup>	±2%	+5%	Yes <sup>9</sup>
ARM 681	1-year Cost of Funds	12 months	±2%	+5%	No
ARM 682	1-year Cost of Funds	12 months	±2%	+5%	Yes <sup>10</sup>
ARM 710	1-year Treasury Security	12 months	±1%	+6%	No
ARM 711	1-year Treasury Security	12 months	±1%	+6%	Yes <sup>5</sup>
ARM 714	1-year Cost of Funds	12 months	±1.5%	+5%	No
ARM 720	1-year Treasury Security	12 months	±2%	+6%	No
ARM 721	1-year Treasury Security	12 months	±2%	+6%	Yes <sup>5</sup>
ARM 722	1-year Cost of Funds	12 months	±1%	+5%	No
ARM 746	6-month Treasury Bill (AH)	6 months	±1%	+6%	No

## Special Adjustable-Rate Mortgage Loan Functions

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Plan Number	Index <sup>1</sup>	Frequency of Change	Per-Change Limits <sup>2</sup>	Lifetime Limits <sup>3</sup>	Conversion to Fixed-Rate Option
ARM 750	1-year Treasury Security	12 months <sup>12, 19</sup>	±2% <sup>13</sup>	+5%	No
ARM 751	1-year Treasury Security	12 months <sup>12</sup>	±2% <sup>13</sup>	+5%	Yes <sup>9</sup>
ARM 760	6-month Cost of Funds	6 months	±1%	+5%	No
ARM 761	6-month Cost of Funds	6 months	±1%	+5%	Yes <sup>14</sup>
ARM 776	1-year Treasury Security	12 months	±1%	+4%	Yes <sup>5</sup>
ARM 791	1-year Treasury Security	12 months	±2%	+4%	Yes <sup>5</sup>
ARM 841	1-year Treasury Security	12 months	±1%	+4%	Yes <sup>10</sup>
ARM 851	1-year Treasury Security	12 months	±1%	+5%	Yes <sup>10</sup>
ARM 861	1-year Treasury Security	12 months	±1%	+6%	Yes <sup>10</sup>
ARM 975	10-year Treasury Security	84 months <sup>15</sup>	None	+6%	No
ARM 1029	10-year Treasury Security	60 months <sup>15</sup>	None	+6%	No
ARM 1030	6-month Cert. of Deposit	6 months	±1%	+6%	Yes <sup>14</sup>
ARM 1031	6-month Cert. of Deposit	6 months	±1%	+6%	No
ARM 1103	50%/1-year Treasury Security	12 months	±2%	+6%	No
ARM 1104	25%/1-year Treasury Security	12 months	±2%	+6%	No
ARM 1316	6-month LIBOR (WSJ)	6 months	±1%	+5%	No
ARM 1317	6-month LIBOR (WSJ)	6 months	±1%	+5%	Yes <sup>14</sup>
ARM 1318	6-month LIBOR (WSJ)	6 months	±1%	+6%	No
ARM 1319	6-month LIBOR (WSJ)	6 months	±1%	+6%	Yes <sup>14</sup>
ARM 1423	1-year Treasury Security	12 months <sup>16, 20</sup>	±2% <sup>13</sup>	+5%	No
ARM 1437	1-year Treasury Security	12 months <sup>16</sup>	±2% <sup>13</sup>	+5%	Yes <sup>9</sup>
ARM 1443	6-month LIBOR (WSJ)	6 months	±1%	+5%	No
ARM 1444	6-month LIBOR (WSJ)	6 months	±1%	+5%	Yes <sup>14</sup>
ARM 1445	6-month LIBOR (WSJ)	6 months	±1%	+6%	No
ARM 1446	6-month LIBOR (WSJ)	6 months	±1%	+6%	Yes <sup>14</sup>
ARM 2720	1-year LIBOR (WSJ)	12 months	±2%	+6%	Yes <sup>10</sup>

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Plan Number	Index <sup>1</sup>	Frequency of Change	Per-Change Limits <sup>2</sup>	Lifetime Limits <sup>3</sup>	Conversion to Fixed-Rate Option
ARM 2721	1-year LIBOR (WSJ)	12 months	±2%	+6%	No
ARM 2722	1-year LIBOR (WSJ)	12 months <sup>7</sup>	±2%	+6%	Yes <sup>5</sup>
ARM 2723	1-year LIBOR (WSJ)	12 months <sup>7</sup>	±2%	+6%	No
ARM 2724	1-year LIBOR (WSJ)	12 months <sup>11</sup>	±2%	+5% <sup>17</sup>	Yes <sup>9</sup>
ARM 2725	1-year LIBOR (WSJ)	12 months <sup>11, 18</sup>	±2%	+5% <sup>17</sup>	No
ARM 2726	1-year LIBOR (WSJ)	12 months <sup>11</sup>	±2% <sup>13</sup>	+5%	Yes <sup>9</sup>
ARM 2727	1-year LIBOR (WSJ)	12 months <sup>12, 19</sup>	±2% <sup>13</sup>	+5%	No
ARM 2728	1-year LIBOR (WSJ)	12 months <sup>16</sup>	±2% <sup>13</sup>	+5%	Yes <sup>9</sup>
ARM 2729	1-year LIBOR (WSJ)	12 months <sup>16, 20</sup>	±2% <sup>13</sup>	+5%	No
ARM 3223	1-year LIBOR (WSJ)	12 months <sup>21</sup>	±2%	+5%	No
ARM 3224	1-year LIBOR (WSJ)	12 months <sup>22</sup>	±2% <sup>13</sup>	+5%	No
ARM 3225	1-year LIBOR (WSJ)	12 months <sup>23</sup>	±2% <sup>13</sup>	+5%	No
ARM 3226	1-year Treasury Security	12 months <sup>21</sup>	±2%	+5%	No
ARM 3227	1-year Treasury Security	12 months <sup>22</sup>	±2% <sup>13</sup>	+5%	No
ARM 3228	1-year Treasury Security	12 months <sup>23</sup>	±2% <sup>13</sup>	+5%	No
ARM 3252	1-year LIBOR (WSJ)	12 months <sup>11</sup>	±2% <sup>13</sup>	+5%	No
ARM 3270	1-year LIBOR (WSJ)	12 months <sup>24</sup>	±2%	+6%	No
ARM 3271	1-year Treasury Security	12 months <sup>24</sup>	±2%	+6%	No

Notes:

- Treasury indexes are weekly averages, adjusted to a constant maturity.
- Per-change limitations apply to increases or decreases of the current interest accrual rate.
- Lifetime limitations generally apply to increases above the original interest accrual rate. However, the interest rate limitation for ARM Plan 515 applies to increases and decreases.
- The per-change limitation for the resale/refinance version of ARM/GPARM Plan 6 applies only on the first interest rate change date.
- Borrowers may choose to convert to a fixed-rate mortgage loan only on the third, fourth, or fifth interest rate change date. At that time, the amount of the interest rate change is restricted to the lifetime limit.
- Borrowers may choose to convert to a fixed-rate mortgage loan only on the first interest rate change date.
- The first adjustment occurs after 36 months; however, subsequent adjustments are at 12-month intervals.
- Borrowers may choose to convert to a fixed-rate mortgage loan only on the first or second interest rate change date.



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9. Borrowers may choose to convert to a fixed-rate mortgage loan on the first, second, or third interest rate change date.
10. Borrowers may choose to convert to a fixed-rate mortgage loan on the first day of any month beginning with the first interest rate change date and ending with the fifth interest rate change date.
11. The first adjustment occurs after 60 months; however, subsequent adjustments are at 12-month intervals.
12. The first adjustment occurs after 84 months; however, subsequent adjustments are at 12-month intervals.
13. The per-change limitation is  $\pm 5\%$  for the first interest rate adjustment.
14. Borrowers may choose to convert to a fixed-rate mortgage loan on the first day of any month beginning with the second interest rate change date and ending with the tenth interest rate change date.
15. This plan provides for only one interest rate change; after that, the mortgage loan is a fixed-rate mortgage loan for its remaining term.
16. The first adjustment occurs after 120 months; however, subsequent adjustments are at 12-month intervals.
17. A lifetime limit of  $+6\%$  is also acceptable.
18. For loans with an interest-only feature, the first adjustment occurs after 54–66 months; however, subsequent adjustments are at 12-month intervals.
19. For loans with an interest-only feature, the first adjustment occurs after 78–90 months; however, subsequent adjustments are at 12-month intervals.
20. For loans with an interest-only feature, the first adjustment occurs after 114–126 months; however, subsequent adjustments are at 12-month intervals.
21. For loans with an interest-only feature, the first adjustment occurs after 43–66 months; however, subsequent adjustments are at 12-month intervals.
22. For loans with an interest-only feature, the first adjustment occurs after 67–90 months; however, subsequent adjustments are at 12-month intervals.
23. For loans with an interest-only feature, the first adjustment occurs after 91–150 months; however, subsequent adjustments are at 12-month intervals.
24. For loans with an interest-only feature, the first adjustment occurs after 19–42 months; however, subsequent adjustments are at 12-month intervals.

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## Chapter 3. Payment Changes (01/31/03)

A payment change occurs at established intervals and usually corresponds to an interest rate change. However, some plans call for the payment to change more often than the interest rate while others call for less frequent payment changes. Some plans have the same payment and interest change intervals, but the payment change does not directly correspond to the interest rate change because the borrower can limit the amount by which a payment changes on any change date. Those plans also may call for periodic payment changes to offset the effects of negative amortization. The payment also may change for any ARM or GPARM plan if that is necessary to stop further negative amortization when the maximum limit is reached. The payment adjustment intervals and any payment change limitations for each of Fannie Mae's standard plans and the more common negotiated plans that Fannie Mae purchases or securitizes are described in *Exhibit 1: Payment Change Characteristics for Certain ARM/GPARM Plans*.

Fannie Mae uses several different methods for calculating the new monthly payment. The method that should be used is described specifically in each mortgage loan instrument. In addition, each of the methods Fannie Mae uses is discussed in detail below.

### Section 301 Fully Amortizing ARM Plans (07/31/03)

The new monthly payment for a fully amortizing ARM plan is calculated by determining the amount required to repay the UPB of the mortgage loan in substantially equal payments over the remaining term of the mortgage loan at the interest rate in effect following the latest interest change date. The new monthly payment becomes effective in the month following the interest rate change date—either on the first day of the month or, if the payment due date is other than the first of the month, on the applicable due date.

The following plans are among those that use this method of establishing the new monthly payment:

- ARM 6
- ARM 8
- ARM 383
- ARM 6 R/R
- ARM 57
- ARM 421
- ARM 7
- ARM 346
- ARM 510

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- ARM 511
- ARM 515
- ARM 520
- ARM 521
- ARM 649
- ARM 650
- ARM 651
- ARM 652
- ARM 659
- ARM 660
- ARM 661
- ARM 681
- ARM 682
- ARM 710
- ARM 711
- ARM 714
- ARM 720
- ARM 721
- ARM 722
- ARM 746
- ARM 750
- ARM 751
- ARM 760
- ARM 761
- ARM 776
- ARM 791
- ARM 841
- ARM 851
- ARM 861
- ARM 975
- ARM 1029
- ARM 1030
- ARM 1031
- ARM 1103
- ARM 1104
- ARM 1316
- ARM 1317
- ARM 1318
- ARM 1319
- ARM 1423
- ARM 1437
- ARM 1443
- ARM 1444
- ARM 1445
- ARM 1446
- ARM 2720
- ARM 2721
- ARM 2722
- ARM 2723
- ARM 2724
- ARM 2725
- ARM 2726
- ARM 2727
- ARM 2728
- ARM 2729
- ARM 3223
- ARM 3224
- ARM 3225
- ARM 3226
- ARM 3227
- ARM 3228
- ARM 3252
- ARM 3270
- ARM 3271

### Section 302 ARM Plans Amortized at a Payment Rate (01/31/03)

Some plans use a payment rate instead of the interest accrual rate for calculating the new monthly payment. The actual monthly payment that must be paid is calculated by determining the amount required to repay the UPB of the mortgage loan in substantially equal payments over the remaining term of the mortgage loan at a specified payment rate, rather than at the mortgage loan interest rate. The payment rate is calculated as specified in the mortgage note.

**Section 302.01  
Adjustment for Negative  
Amortization Limit  
(01/31/03)**

When the 125% limit on negative amortization for ARM Plan 2 will be reached before the next interest rate adjustment, the monthly payment should be changed to an amount that will fully amortize the mortgage loan. The borrower must continue to pay this amount until the next payment change date.

**Section 302.02  
Optional Payment Caps  
(01/31/03)**

Although ARM Plan 2 did not originally offer a payment change limitation, Fannie Mae recognizes that very large payment increases can occur. Therefore, the servicer may offer payment change limitations under certain conditions. If the borrower accepts the servicer's offer, the servicer must forfeit until the next payment change date any excess mortgage loan margin it has been receiving. The servicer may offer an optional payment change limitation under the following circumstances:

- If the monthly payment will increase by more than 15% on any payment change date, the servicer may give the borrower the option of choosing to pay a limited payment amount that limits the payment increase to 15%. If the borrower chooses this option, the monthly payment will then increase by 7.5% each year until the next scheduled payment change date, unless the mortgage loan becomes fully amortizing sooner.
- When the expiration of an interest rate buydown plan coincides with the scheduled payment change date, the combination of the two required payment changes may cause the borrower's payment to increase or decrease by more than 7.5%. If that happens, the servicer may give the borrower the option of choosing to pay a limited payment amount that limits the payment increase to 7.5%. If the borrower chooses this option, the monthly payment will continue to increase or decrease by 7.5% each year until the next scheduled payment change date, unless the mortgage loan becomes fully amortizing sooner.

The limited payment amounts are determined by multiplying the present monthly payment by 1.150 when the limitation is 15% or by 1.075 when the limitation is 7.5%. If the use of a limited payment amount would result in the negative amortization limitation being reached before the next interest rate change date, a fully amortizing payment amount must go into effect in the month immediately preceding the month in which the limitation would be reached.

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### Section 303 ARM Plans with Payment Caps (01/31/03)

When an ARM plan has a payment change limitation, the monthly payment required to repay the UPB of the mortgage loan, plus interest at the new interest rate, in substantially equal payments over the remaining mortgage loan term should first be determined. If that payment exceeds the present monthly payment by more than the specified limitation, the borrower must be given the option of selecting a limited payment amount.

Some of the plans that use this calculation method and their related payment limitations are listed below:

- |         |         |           |       |
|---------|---------|-----------|-------|
| • ARM 1 | ±7.5%   | • ARM 500 | ±7.5% |
| • ARM 3 | ±7.5%   | • ARM 501 | ±7.5% |
| • ARM 4 | ±18.75% |           |       |
| • ARM 9 | ±7.5%   |           |       |

The limited payment amount should be determined by multiplying the present monthly payment by 1.075 for the plans with a 7.5% limitation (or by 1.1875 for ARM Plan 4).

The borrower's option to limit the payment change does not apply in these instances:

- The borrower may not choose a limited payment amount on the last interest rate change date, in order to avoid the possibility of a balloon payment when the mortgage loan reaches its maturity.
- The borrower also must pay the monthly payment required to fully amortize the mortgage loan on the payment change dates that coincide with the 5th, 10th, 15th, 20th, and 25th anniversaries of the mortgage loan to offset any negative amortization that may have occurred under ARM Plans 1, 3, and 4.
- A borrower who elects to convert an ARM Plan 501 to a fixed-rate mortgage loan may not choose the limited payment amount. The new monthly payment at the time of the conversion, as well as all future monthly payments, will be the amount required to fully amortize the mortgage loan.

- A borrower may not choose the limited payment amount under an ARM Plan 1, 3, or 4 if it would result in negative amortization that would cause the outstanding mortgage loan balance to exceed 125% of the original loan amount before the next interest rate change date. In this same situation under an ARM Plan 9, 500, or 501, the borrower may choose the limited payment amount (however, the borrower must begin paying a full monthly payment in the month before the negative amortization limitation—either 110% or 125%, as specified in the mortgage loan instruments—would be reached and must continue to pay the full payment until the monthly payment is recomputed on the next interest rate change date).

**Section 304  
ARM Plans with  
Optional Graduated-  
Payment Period  
(01/31/03)**

For those ARM plans that have an optional graduated-payment period, the monthly payment required to repay the UPB of the mortgage loan, plus interest at the new rate, in substantially equal payments over the remaining mortgage loan term, should be determined on the first payment change date—and on any other payment change date that coincides with an interest rate change date. If the new interest rate results in a payment increase of more than 7.5%, the borrower must be given the option of paying the full amount or choosing a lesser graduated-payment amount, which provides for annual 7.5% payment increases until the next interest rate change date (unless the mortgage loan becomes fully amortizing at an earlier date). The option of choosing a graduated-payment amount is not available to a borrower who elects to convert an ARM Plan 13 or 14 to a fixed-rate mortgage loan.

Plans that use this calculation method and the terms of their graduated-payment periods are listed below:

- ARM 10    3 years
- ARM 11    5 years
- ARM 13    3 years
- ARM 14    5 years

During the graduated-payment period, each yearly increase is determined by multiplying the present monthly payment by 1.075.

Whenever the payment of a graduated-payment amount would result in the mortgage loan balance exceeding the 125% negative amortization limitation before the next scheduled payment change, the borrower must begin paying a full monthly payment in the month before the limitation

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would be reached. The borrower must continue to pay the full payment until the monthly payment is recomputed on the next interest rate change date.

### Section 305 Graduated-Payment ARM Plans (01/31/03)

The calculation of the new monthly payment for GPARMs depends on whether the GPARM plan provides for subsequent amortization at a payment rate, optional payment caps, or optional additional graduated-payment periods. The different calculation methods are discussed below.

#### Section 305.01 Subsequent Amortization at a Payment Rate (01/31/03)

Some GPARM plans (e.g., GPARM Plan 2) use a payment rate instead of the interest accrual rate for calculating the new monthly payment. The actual monthly payment that must be paid during the graduated-payment period is determined by multiplying the latest monthly payment by 1.075. This method is used for the first two payment changes. At the end of the graduated-payment period—the third payment change date—and at each payment change date for the remaining term of the mortgage loan, a different calculation method must be used.

After the graduated-payment period, the actual monthly payment that must be paid is calculated by determining the amount required to repay the UPB of the mortgage loan at a specified payment rate, rather than at the mortgage loan interest rate. The payment rate is the sum of the index figures on the five interest change dates before the payment change date and the current index, divided by five, plus the number of percentage points specified as the margin in the mortgage note. The number is then rounded to the nearest 0.125%.

However, if the 125% limit on negative amortization will be reached before the next interest rate adjustment, the monthly payment should be changed to an amount that will fully amortize the mortgage loan. The borrower must continue to pay this amount until the next payment change.

Although this plan did not originally offer a payment change limitation, Fannie Mae recognizes that very large payment increases can occur after the graduated-payment period ends. Therefore, the servicer may offer payment change limitations under certain conditions. If the borrower accepts the servicer's offer, the servicer must forfeit until the next payment change date any excess mortgage loan margin it has been receiving. The servicer may offer an optional payment change limitation if the monthly payment will increase by more than 7.5% on any change date



after the graduated-payment period has ended. This option may be offered if the increase results solely from the scheduled payment change or in combination with another change caused by the expiration of an interest rate buydown plan. If the borrower chooses to limit the payment increase, the monthly payment will increase by 7.5% each year until the next scheduled payment change date, unless the mortgage loan becomes fully amortizing sooner.

The limited payment amount is determined by multiplying the present monthly payment by 1.075. If the use of a limited payment amount would result in the negative amortization limitation being reached before the next interest rate change date, a fully amortizing payment amount must go into effect in the month immediately preceding the month in which the limitation would be reached.

Section 305.02  
Optional Payment Caps  
(01/31/03)

For those GPARMs that have payment limitations after the graduated-payment period, the new monthly payment on the first two payment change dates is determined by multiplying the present monthly payment by 1.075. On the third and subsequent payment change dates, the monthly payment required to repay the UPB of the mortgage loan, plus interest at the new interest rate, in substantially equal payments over the remaining mortgage loan term should be determined. However, the borrower must be given the option of paying the full amount or choosing a limited payment amount.

Plans that use this calculation method are listed below:

- GPARM 502
- GPARM 503
- GPARM 512
- GPARM 513
- GPARM 522
- GPARM 523

The limited payment amount should be determined by multiplying the present monthly payment by 1.075.

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The borrower's option to limit the payment change does not apply in these instances:

- A borrower may not choose a limited payment amount on the last interest rate change date, in order to avoid the possibility of a balloon payment when the mortgage loan reaches its maturity.
- A borrower who elects to convert a GPARM Plan 503, 513, or 523 to a fixed-rate mortgage loan may not choose the limited payment amount. The new monthly payment at the time of the conversion, as well as all future monthly payments, will be the amount required to fully amortize the mortgage loan.
- A borrower with a GPARM Plan 512, 513, 522, or 523 mortgage loan may no longer choose the limited payment amount if, on any payment change date, he or she fails to choose the limited payment amount, or after a fully amortizing payment has been reached. All future monthly payments will be the amount required to fully amortize the mortgage loan over its remaining term, using the latest interest accrual rate.
- A borrower may choose the limited payment amount even though it would result in the mortgage loan balance exceeding the negative amortization limitation—either 110% or 125%, as specified in the mortgage loan instruments—before the next interest rate change date. However, the borrower must begin paying a full monthly payment in the month before the limitation would be reached and must continue to pay the full payment until the monthly payment is recomputed on the next interest rate change date. If this happens, the borrower will lose the right to limit future payment increases under a GPARM Plan 512, 513, 522, or 523.

Section 305.03  
Optional Second  
Graduated-Payment  
Period (01/31/03)

Three plans allow the borrower to choose a second graduated-payment period under certain conditions—GPARM Plans 4 and 6 and the resale/refinance version of GPARM Plan 6 (R/R). During the initial graduated-payment period, the new monthly payment for each payment change date is determined by multiplying the latest monthly payment by 1.075. Before the last payment change date in the graduated-payment period, a determination on a second graduated-payment period must be made. If the mortgage loan interest rate increased on the last interest rate

change date, there may be a second graduated-payment period. If it did not, the graduated-payment period ends.

When there is no second graduated-payment period, the new monthly payment is the amount required to fully amortize the mortgage loan over its remaining term, using the latest interest accrual rate. This method is then used to calculate the monthly payment for the remainder of the mortgage loan term.

When there will be a second graduated-payment period, the new monthly payment amount is determined by multiplying the latest monthly payment by 1.075. Then, on the next payment change date, the new monthly payment will be either the amount required to fully amortize the mortgage loan or a graduated-payment amount, which is reached by multiplying the latest monthly payment by 1.075. If the fully amortizing payment amount is smaller, it will become the monthly payment, until the next interest change date when a new payment must be calculated based on the new interest rate. If the graduated-payment amount is smaller, it will be the monthly payment until the next payment change date. On that date, this same process should be used to determine the monthly payment that will apply until the second graduated-payment periods ends.

At the end of the second graduated-payment period, the new monthly payment will be the amount required to fully amortize the mortgage loan over its remaining term, using the latest interest accrual rate. This method is used to calculate the monthly payment for the remainder of the mortgage loan term.

During the graduated-payment periods, the servicer should determine on each payment change date whether the limit on negative amortization—either 110% or 125%, as specified in the mortgage loan instruments—will be reached before the next payment change date. If it will, the monthly payment should not be changed immediately. However, the servicer should set up appropriate controls to ensure that one month before the negative amortization would go over the limit, the monthly payment is changed to a payment that will fully amortize the mortgage loan. This will be the monthly payment until the next interest change date when a new monthly payment will be calculated using the new interest rate.

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#### Section 305.04 Optional Multiple Graduated-Payment Periods (01/31/03)

For those plans that have optional multiple graduated-payment periods, a new monthly payment must be determined each year during the initial graduated-payment period. The new payment is developed by multiplying the present monthly payment by 1.075. Then, on the first payment change date—and on any other payment change date that coincides with an interest rate change date—the monthly payment required to repay the UPB of the mortgage loan, plus interest at the new rate, in substantially equal payments over the remaining mortgage loan term should be determined. However, if the new interest rate results in a payment increase of more than 7.5%, the borrower must be given the option of paying the full amount or choosing a lesser graduated-payment amount, which provides for annual 7.5% payment increases until the next interest rate change date (unless the mortgage loan becomes fully amortizing at an earlier date). The option of choosing this graduated-payment amount is not available to a borrower who elects to convert a GPARM Plan 16 or 17 to a fixed-rate mortgage loan.

Plans that use this calculation method and the terms of their graduated-payment periods are listed below:

- GPARM 10A      4 years
- GPARM 11A      5 years
- GPARM 16      3 years
- GPARM 17      5 years

During the subsequent graduated-payment periods, each yearly increase is determined by multiplying the present monthly payment by 1.075.

Whenever the payment of a graduated-payment amount would result in the mortgage loan balance exceeding the negative amortization limitation—either 110% or 125%, as specified in the mortgage loan instruments—before the next scheduled payment change, the borrower must begin paying a full monthly payment in the month before the limitation would be reached. The borrower must continue to pay the full payment until the monthly payment is recomputed on the next interest rate change date.

**Exhibit 1: Payment Change Characteristics for Certain  
ARM/GPARM Plans  
(07/31/03)**

<b>Plan Number</b>	<b>Initial Graduated Payment Period</b>	<b>Initial Payment Change Interval</b>	<b>Initial Payment Change Limits<sup>1</sup></b>	<b>Subsequent Payment Change Intervals</b>	<b>Subsequent Payment Change Limits<sup>1</sup></b>
ARM 1	None	6 months	±7.5%	6 months	±7.5%
ARM 2	None	36 months	None <sup>2</sup>	36 months	None <sup>2</sup>
GPARM 2	36 months	12 months	+7.5%	36 months	None <sup>3</sup>
ARM 3	None	12 months	±7.5%	12 months	±7.5%
ARM 4	None	30 months	±18.75%	30 months	±18.75%
GPARM 4	36 months	12 months	+7.5%	36 months <sup>4</sup>	None
ARM 6	None	60 months	None	60 months	None
GPARM 6	60 months	12 months	+7.5%	60 months <sup>4</sup>	None
ARM 6 R/R	None	60 months	None	60 months	None
GPARM 6 R/R	60 months	12 months	+7.5%	60 months <sup>5</sup>	None
ARM 7	None	12 months	None	12 months	None
ARM 8	None	12 months	None	12 months	None
ARM 9	None	12 months	±7.5%	12 months	±7.5%
ARM 10	None	36 months <sup>6</sup>	+7.5%	36 months	+7.5%
ARM 11	None	60 months <sup>7</sup>	+7.5%	60 months	+7.5%
ARM 57	None	12 months	None	12 months	None
ARM 346	None	6 months	None	6 months	None
ARM 383	None	12 months	None	12 months	None
ARM 421	None	12 months	None	12 months	None
ARM 500	None	12 months	±7.5%	12 months	±7.5%
ARM 501	None	12 months	±7.5%	12 months	±7.5%
GPARM 502	36 months	12 months	+7.5%	12 months	+7.5%

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Plan Number	Initial Graduated Payment Period	Initial Payment Change Interval	Initial Payment Change Limits <sup>1</sup>	Subsequent Payment Change Intervals	Subsequent Payment Change Limits <sup>1</sup>
GPARM 503	36 months	12 months	+7.5%	12 months	+7.5%
ARM 510	None	12 months	None	12 months	None
ARM 511	None	12 months	None	12 months	None
GPARM 512	36 months	12 months	+7.5%	12 months	+7.5% <sup>11</sup>
GPARM 513	36 months	12 months	+7.5%	12 months	+7.5% <sup>12</sup>
ARM 515	None	12 months	None	12 months	None
ARM 520	None	12 months	None	12 months	None
ARM 521	None	12 months	None	12 months	None
GPARM 522	36 months	12 months	+7.5%	12 months	+7.5% <sup>11</sup>
GPARM 523	36 months	12 months	+7.5%	12 months	+7.5% <sup>12</sup>
ARM 649	None	36 months	None	36 months	None
ARM 650	None	36 months	None	36 months	None
ARM 651	None	36 months	None	12 months	None
ARM 652	None	36 months	None	12 months	None
ARM 659	None	60 months	None	12 months	None
ARM 660	None	60 months	None	12 months	None
ARM 661	None	60 months	None	12 months	None
ARM 681	None	12 months	None	12 months	None
ARM 682	None	12 months	None	12 months	None
ARM 710	None	12 months	None	12 months	None
ARM 711	None	12 months	None	12 months	None
ARM 714	None	12 months	None	12 months	None
ARM 720	None	12 months	None	12 months	None
ARM 721	None	12 months	None	12 months	None
ARM 722	None	12 months	None	12 months	None
ARM 746	None	6 months	None	6 months	None

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<b>Plan Number</b>	<b>Initial Graduated Payment Period</b>	<b>Initial Payment Change Interval</b>	<b>Initial Payment Change Limits<sup>1</sup></b>	<b>Subsequent Payment Change Intervals</b>	<b>Subsequent Payment Change Limits<sup>1</sup></b>
ARM 750	None	84 months	None	12 months	None
ARM 751	None	84 months	None	12 months	None
ARM 760	None	6 months	None	6 months	None
ARM 761	None	6 months	None	6 months	None
ARM 776	None	12 months	None	12 months	None
ARM 791	None	12 months	None	12 months	None
ARM 841	None	12 months	None	12 months	None
ARM 851	None	12 months	None	12 months	None
ARM 861	None	12 months	None	12 months	None
ARM 975	None	84 months <sup>13</sup>	None	None <sup>13</sup>	None
ARM 1029	None	60 months <sup>13</sup>	None	None <sup>13</sup>	None
ARM 1030	None	6 months	None	6 months	None
ARM 1031	None	6 months	None	6 months	None
ARM 1103	None	12 months	None	12 months	None
ARM 1104	None	12 months	None	12 months	None
ARM 1316	None	6 months	None	6 months	None
ARM 1317	None	6 months	None	6 months	None
ARM 1318	None	6 months	None	6 months	None
ARM 1319	None	6 months	None	6 months	None
ARM 1423	None	120 months	None	12 months	None
ARM 1437	None	120 months	None	12 months	None
ARM 1443	None	6 months	None	12 months	None
ARM 1444	None	6 months	None	12 months	None
ARM 1445	None	6 months	None	12 months	None
ARM 1446	None	6 months	None	12 months	None
ARM 2720	None	12 months	None	12 months	None

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Plan Number	Initial Graduated Payment Period	Initial Payment Change Interval	Initial Payment Change Limits <sup>1</sup>	Subsequent Payment Change Intervals	Subsequent Payment Change Limits <sup>1</sup>
ARM 2721	None	12 months	None	12 months	None
ARM 2722	None	36 months	None	12 months	None
ARM 2723	None	36 months	None	12 months	None
ARM 2724	None	60 months	None	12 months	None
ARM 2725	None	60 months	None	12 months	None
ARM 2726	None	84 months	None	12 months	None
ARM 2727	None	84 months	None	12 months	None
ARM 2728	None	120 months	None	12 months	None
ARM 2729	None	120 months	None	12 months	None
ARM 3223	None	60 months	None	12 months	None
ARM 3224	None	84 months	None	12 months	None
ARM 3225	None	120 months	None	12 months	None
ARM 3226	None	60 months	None	12 months	None
ARM 3227	None	84 months	None	12 months	None
ARM 3228	None	120 months	None	12 months	None
ARM 3252	None	60 months	None	12 months	None
ARM 3270	None	36 months	None	12 months	None
ARM 3271	None	36 months	None	12 months	None

Notes:

1. Payment change limitations are at the borrower's option.
2. The servicer may choose to offer the borrower an option of limiting the payment increase when the payment increases by more than 15% on any change date or if the combination of a payment change and the expiration of an interest rate buydown period results in more than a 7.5% payment increase. If the borrower chooses the option, the first yearly increase will be 15%, or 7.5%, depending on the circumstances. After that, the payment will increase by 7.5% every 12 months for the next two years, unless the mortgage loan becomes fully amortizing sooner.
3. The servicer may choose to offer the borrower an option of limiting the payment increase if the payment increases by more than 7.5% after the graduated-payment period expires. The 7.5% increase may relate only to the scheduled payment change or to that change in combination with an increase caused by the expiration of an interest rate buydown period. If the borrower chooses the option, the payment will increase by 7.5% every 12 months over the next three years unless the mortgage loan becomes fully amortizing sooner.



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4. A borrower may choose a second graduated-payment period if the interest rate increases at the beginning of the fourth year. If so, the payment will increase by 7.5% every 12 months for the next three years. After that, unlimited payment changes can occur every 36 months.
5. A borrower may choose a second graduated-payment period if the interest rate increases at the beginning of the sixth year. If so, the payment will increase 7.5% every 12 months for the next five years. After that, unlimited payment changes can occur every 60 months.
6. If the borrower chooses to limit the payment increase, the payment will increase by 7.5% every 12 months for the next three years, unless the mortgage loan becomes fully amortizing sooner. After that, the payment change interval reverts to 36 months.
7. If the borrower chooses to limit the payment increase, the payment will increase by 7.5% every 12 months for the next five years, unless the mortgage loan becomes fully amortizing sooner. After that, the payment change interval reverts to 60 months.
8. A borrower may choose to continue graduated-payment periods whenever an interest rate increase causes the payment to increase more than 7.5%. When that happens, the payment will increase by 7.5% every 12 months for the next three years, unless the mortgage loan becomes fully amortizing sooner. If the borrower does not elect this option, payment changes can occur every 36 months.
9. A borrower may choose to continue graduated-payment periods whenever an interest rate increase causes the payment to increase more than 7.5%. When that happens, the payment will increase by 7.5% every 12 months for the next five years, unless the mortgage loan becomes fully amortizing sooner. If the borrower does not elect this option, payment changes can occur every 60 months.
10. If the borrower chooses to convert to a fixed-rate mortgage loan, the payment change limitation no longer applies.
11. A borrower may elect to limit any payment increase at the beginning of the fourth year. If so, the borrower must make a similar option each year to preserve the right to limit future increases. If the borrower fails to do that, or once the mortgage loan becomes fully amortizing, the borrower no longer has the option to limit future increases.
12. A borrower may elect to limit any payment increase at the beginning of the fourth year if the conversion to fixed-rate option has not been exercised or is not being exercised on that change date. If the borrower elects to limit the increase, a similar election must be made each year. If the borrower fails to do that, or when the mortgage loan becomes fully amortizing or is converted to a fixed-rate mortgage loan, the borrower no longer has the option to limit future increases.
13. This plan provides for only one payment change to correspond with the single interest rate adjustment; after that, the mortgage loan is a fixed-rate mortgage loan with level payments over its remaining term.

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**Special Adjustable-Rate  
Mortgage Loan Functions**

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Payment Changes

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Exhibit 1

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This page is reserved.

## Chapter 4. Notices to the Borrower (01/01/11)

The servicer of an ARM or GPARM must notify the borrower before the effective date of any change in the mortgage loan interest rate or the monthly payment. When the two change at different times, a notice is required before each of the changes. The notice of a payment change should always be mailed in time to reach the borrower 60 days before the new monthly payment becomes effective. All notices must include the name, title, and telephone number of a person who will be able to answer any inquiries the borrower may have about the notice. Other information will vary slightly for some of the plans, to recognize differences related to negative amortization, options for limited payment amounts, extensions of graduated-payment periods, or conversion to fixed-rate mortgage loan options. (For further information, refer to *Part VII, Section 205, Payment Change Notification (01/01/11)*.)

The following material describes Fannie Mae's requirements for notifying borrowers. In addition, the servicer must meet all of the notice requirements that its supervisory authorities may specify.

### Section 401 Interest Rate/Payment Change at Same Interval (01/31/03)

Only one notice is required when the interest rate and monthly payment changes occur at the same intervals. The content of the notice will vary depending on whether the mortgage loan will fully amortize at the new interest rate, whether the borrower has an option to choose a limited payment amount, or whether the borrower may choose to convert to a fixed-rate mortgage loan.

#### Section 401.01 Fully Amortizing Plans (07/31/03)

The simplest notice is the one that is sent for ARMs that will fully amortize at the new interest rate (including but not limited to ARM Plans 6, 7, 8, 57, 346, 383, 421, 510, 511, 515, 520, 521, 649, 650, 651, 652, 659, 660, 661, 681, 682, 710, 711, 714, 720, 721, 722, 746, 750, 751, 760, 761, 776, 791, 841, 851, 861, 975, 1029, 1030, 1031, 1103, 1104, 1316, 1317, 1318, 1319, 1423, 1437, 1443, 1444, 1445, 1446, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 3223, 3224, 3225, 3226, 3227, 3228, 3252, 3270, 3271, and the resale/refinance version of ARM Plan 6 (R/R)). This notice format also may be used for GPARM Plans 4, 6, and the resale/refinance version of GPARM Plan 6 after the graduated-payment periods have ended. The notice should explain:

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## Special Adjustable-Rate Mortgage Loan Functions

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Notices to the Borrower

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- any new mortgage loan interest rate and the date it becomes effective,
- any new monthly payment and the date it becomes effective,
- the method used to determine both the new interest rate and the new monthly payment amount, and
- the dates on which the interest rate and the monthly payment are scheduled for their next change.

The notice that is sent for those plans that have an option to convert to a fixed-rate mortgage loan also must include certain information related to the conversion option on the interest rate change dates that correspond to the conversion option dates—for example, the first and second change dates for ARM Plan 650; the first through the third change dates for ARM Plans 652, 661, 751, 1437, 2724, 2726, and 2728; the third, fourth, or fifth change dates for ARM Plans 511, 521, 711, 721, 776, 791, and 2722; the first through the fifth change dates for ARM Plans 57, 682, 841, 851, 861, and 2720 (even though these plans may be converted in any month, the only notices that need to be sent are those required on these specified change dates); and the second through the tenth change dates for ARM Plans 761, 1030, 1317, 1319, 1444, and 1446 (even though these plans may be converted in any month, the only notices that need to be sent are those required on these specified change dates). Information that needs to be provided in the notices for these ARM plans includes:

- the need to obtain a current appraisal—if negative amortization has occurred—to confirm that the LTV ratio is 95% or less or to determine the amount by which the UPB must be reduced to arrive at that percentage,
- the additional legal instruments that must be executed to effect the conversion,
- any changes required to eliminate any special ARM features from the mortgage insurance coverage,
- the need to bring the mortgage loan current (if it is delinquent) so that the conversion option can be exercised,

- the amount of the servicer's fee for processing the conversion, and
- Fannie Mae's intention to enforce the due-on-sale provision of the mortgage loan whenever a transfer of ownership of a converted mortgage loan occurs (unless Fannie Mae agreed otherwise under the terms of the negotiated contract).

The servicer should make every effort to include in its notice information about the date by which the borrower must make his or her decision to convert and the dates by which all required actions must be completed, the applicable interest rate if the borrower chooses to convert to a fixed-rate mortgage loan, the monthly payment developed for the new interest rate, and the effective dates for the new interest rate and monthly payment. However, considering the timing required for determining some of this information for certain ARM plans, it may not always be possible to include it in the borrower's notification. As an alternative, the servicer may include in the notice a telephone number that the borrower can call to obtain the information.

Section 401.02  
Plans With Payment  
Caps (01/31/03)

The notice required for plans that have payment change limitations is a bit more complex. These plans include, but are not limited to, ARM Plans 1, 3, 4, 9, 500, and 501 and GPARM Plans 502, 503, 512, 513, 522, and 523. The notice must include information related to:

- any new mortgage loan interest rate and the date it becomes effective;
- the method used to determine the new interest rate;
- the date on which the interest rate is scheduled for its next change;
- the monthly payment required to fully amortize the mortgage loan;
- the difference between a full payment amount and a limited payment amount;
- the borrower's option to choose the limited payment amount and
  - any limitations on his or her right to exercise this option under ARM Plan 501 and GPARM Plans 503, 513, and 523,

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## Special Adjustable-Rate Mortgage Loan Functions

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### Notices to the Borrower

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- the effect that his or her failure to exercise this option will have on future options under GPARM Plans 512, 513, 522, and 523, and
- the amount of negative amortization that will occur if he or she exercises the option;
- the date by which the borrower must notify the servicer if he or she chooses to pay the limited payment amount;
- the date on which the new monthly payment becomes effective; and
- the date on which the monthly payment is scheduled for its next change.

In addition, the notice that is sent for the plans that have an option to convert to a fixed-rate mortgage loan must include the following information on the third, fourth, or fifth interest rate change dates:

- the need to obtain a current appraisal—if negative amortization has occurred—to confirm that the LTV ratio is 95% or less or to determine the amount by which the UPB must be reduced to arrive at that percentage;
- the additional legal instruments that must be executed to effect the conversion;
- any changes required to eliminate any special ARM features from the mortgage loan insurance coverage;
- the need to bring the mortgage loan current (if it is delinquent) so that the conversion option can be exercised;
- the amount of the servicer's fee for processing the conversion; and
- Fannie Mae's intention to enforce the due-on-sale provision of the mortgage loan whenever a transfer of ownership of a converted mortgage loan occurs (unless Fannie Mae agreed otherwise under the terms of a negotiated contract).

The servicer should make every effort to include in its notice information about the date by which the borrower must make his or her decision to convert and the dates by which all required actions must be completed, the applicable interest rate if the borrower chooses to convert to a fixed-rate mortgage loan, the monthly payment developed for the new interest rate, and the effective dates for the new interest rate and monthly payment. However, considering the timing required for determining some of this information for certain ARM plans, it may not always be possible to include it in the borrower's notification. As an alternative, the servicer may include in the notice a telephone number that the borrower can call to obtain the information.

**Section 402  
Interest Rate/Payment  
Change at Different  
Intervals (01/31/03)**

When the interest rate and the monthly payment change at different intervals, separate notices are required for each change. Under some plans, the interest rate changes more frequently than the monthly payment. For others, the monthly payment may change more frequently than the interest rate. Occasionally, the two changes will coincide. The content of the notice will vary depending on whether it addresses an interest rate change, a payment change, or both.

**Section 402.01  
More Frequent Interest  
Rate Changes (01/31/03)**

Some ARM plans have interest rate changes more frequently than payment changes. Periodically, the interest rate and the monthly payment will change at the same time.

The notice of an interest rate change should explain:

- any new mortgage loan interest rate and the date that it becomes effective,
- the method used to determine the new interest rate,
- the method used to determine the full payment amount and why the monthly payment will not be changed to that amount,
- 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, and
- the dates on which the interest rate and the monthly payment are scheduled for their next change.

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## Special Adjustable-Rate Mortgage Loan Functions

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Notices to the Borrower

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When the notice also serves as notice of a payment change, it also should explain:

- the new monthly payment amount and the date it becomes effective, and
- the method used to determine the new monthly payment.

In addition, if the servicer gives the borrower an option of limiting the payment increase, the notice should include:

- 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,
- 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, and
- the date of the next payment change if the borrower chooses the limited payment amount.

Section 402.02  
More Frequent Payment  
Changes (01/31/03)

Under ARM Plans 10 and 11, the monthly payment changes more frequently than the interest rate. This is also true for GPARM Plans 4, 6, and the resale/refinance version of GPARM Plan 6 (R/R) during their graduated-payment periods. Periodically, the monthly payment and the interest rate will change at the same time. The notice of a payment change should explain:

- the amount of the new monthly payment and the date it becomes effective;



- the method used to determine the monthly payment;
- 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 on which the interest rate is scheduled for its next change, and the next date on which the monthly payment is scheduled to be changed; and
- 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 notice of an interest rate change, it also should explain:

- the new interest rate and the date it becomes effective;
- the method used to determine the new interest rate;
- 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;
- the date by which the borrower must notify the servicer if he or she chooses a graduated-payment amount;
- the need to obtain a current appraisal—if negative amortization has occurred—to confirm that the LTV ratio is 95% or less or to determine the amount by which the UPB must be reduced to arrive at that percentage;
- the additional legal instruments that must be executed to effect the conversion;

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## Special Adjustable-Rate Mortgage Loan Functions

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### Notices to the Borrower

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- any changes required to eliminate any special ARM features from the mortgage insurance coverage;
- the need to bring the mortgage loan current (if it is delinquent) so that the conversion option can be exercised;
- the amount of the servicer's fee for processing the conversion; and
- Fannie Mae's intention to enforce the due-on-sale provision of the mortgage loan whenever a transfer of ownership of a converted mortgage loan occurs (unless Fannie Mae agreed otherwise under the terms of a negotiated contract).

The servicer should make every effort to include in its notice information about the date by which the borrower must make his or her decision to convert, the dates by which all required actions must be completed, the applicable interest rate if the borrower chooses to convert to a fixed-rated mortgage loan, the monthly payment developed for the new interest rate, and the effective dates for the new interest rate and monthly payment. However, considering the timing required for determining some of this information for certain ARM plans, it may not always be possible to include it in the borrower's notification. As an alternative, the servicer may include in the notice a telephone number that the borrower can call to obtain the information.

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## **Chapter 5. Correction of Adjustment Errors (01/31/03)**

The best way of avoiding ARM adjustment errors is to have in place loan origination procedures to ensure that the characteristics of an ARM are properly disclosed to the borrower(s); that the mortgage loan documents are accurately prepared; that the servicer's loan records are correctly established; and that the data provided to Fannie Mae when the mortgage loan is delivered for purchase exactly matches the information that was disclosed to the borrower(s), reflected in the mortgage loan documents, and encoded in the servicer's loan records. However, even with the appropriate procedures and systems in place, adjustment errors may still occur.

Discovery of an ARM adjustment error may be the result of the servicer's internal audit of its ARM adjustments, an audit by the servicer's regulator, a due diligence review by a potential transferee servicer, notification from Fannie Mae, or an inquiry from the borrower. Once ARM adjustment errors are identified, Fannie Mae expects the servicer to take prompt action (within 60 days) to correct them and to notify the borrower about the effect of the correction. All actions taken to correct an ARM adjustment error must be made in accordance with federal law (including the Truth-in-Lending Act and its implementing regulations), state law, and the terms of the relevant mortgage loan instruments. If compliance with the procedures in this *Chapter* might trigger outcomes that would be contrary to Fannie Mae's interests because of the provisions of any law or regulation, the servicer must follow the applicable law or regulation (notwithstanding the procedures Fannie Mae has in place).

A servicer also should consult with its tax advisors regarding the effect that the correction of an ARM adjustment error may have and the information it may be required to report to a borrower or to the Internal Revenue Service (IRS) about the amount of interest paid by a borrower. (Treasury regulations (26 CFR, Section 1.6050H-2), which were promulgated under Section 6050H of the Internal Revenue Code, require that certain reimbursements of interest overcharges be reported to the IRS on the *Mortgage Interest Statement* (IRS Form 1098) and that a copy of this form (or a substitute information statement) be furnished to the borrower.)

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## Special Adjustable-Rate Mortgage Loan Functions

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Correction of Adjustment  
Errors

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### Section 501 Nature of Adjustment Errors (01/31/03)

Most ARM adjustment errors will involve an incorrect calculation of both the interest rate and the monthly payment; others may involve an incorrect calculation of the monthly payment only, an incorrect calculation of the interest rate only, or a failure to provide timely notification of the borrower's option to convert to a fixed-rate mortgage loan. Some errors will result only in the mortgage loan amortizing incorrectly, while others will result in the borrower's monthly payment having been higher or lower than it should have been.

- **Incorrect interest rate and monthly payment.** Most of the ARMs that Fannie Mae purchases have corresponding interest rate and payment adjustment periods. This means that the monthly payment is changed exactly one month following the interest rate change date, based on the new interest rate that goes into effect on the interest rate change date. Therefore, if the servicer incorrectly calculates the interest rate on an interest rate change date, the monthly payment generally also will be incorrect since it will be based on the erroneous interest rate.

Adjustment errors that result in both an incorrect interest rate and monthly payment may be caused by a simple mathematical error or by use of the wrong loan attributes including, but not limited to, index source and/or index value, mortgage loan margin, and interest rate and/or payment cap specified in the mortgage loan instrument.

- **Incorrect monthly payment only.** Some of the ARMs that Fannie Mae has purchased have graduated-payment periods, which means that the monthly payment can change more frequently than the mortgage loan interest rate. Therefore, it is possible for the servicer to calculate a monthly payment incorrectly without affecting the mortgage loan interest rate—as long as the error is discovered before an interest rate change occurs. In such cases, the payments will have been incorrectly applied between principal and interest. This type of error will be compounded if it is not discovered until after an interest rate change occurs since the new monthly payment calculated on the interest rate change date could have been based on an incorrect UPB.

An ARM adjustment error that results in an incorrect monthly payment may be caused by a simple mathematical error or by use

of a payment cap when the mortgage loan documents did not provide for a cap, use of an incorrect payment cap, or failure to apply a payment cap specified in the mortgage loan documents.

- **Incorrect interest rate only.** A few of the ARMs Fannie Mae has purchased call for the interest rate to change more frequently than the monthly payment, which may result in negative amortization. A servicer's adjustment error for one of these mortgage loans can affect the mortgage loan interest rate only—if the error is discovered before a payment change occurs. In such cases, the borrower will not have made incorrect payments, rather the payments will have been incorrectly allocated between interest and principal. However, if the error is not discovered until after a payment change occurs, the amount of the borrower's payment would have been too high or too low (because the new payment would have been based on an incorrect unpaid balance and, possibly, on an incorrect interest rate).

Adjustment errors that result in both an incorrect interest rate and monthly payment may be caused by a simple mathematical error or by use of the wrong loan attributes including, but not limited to, index source and/or index value, mortgage loan margin, and interest rate and/or payment cap specified in the mortgage loan instrument.

- **Failure to notify borrower of conversion option.** *Chapter 4, Notices to the Borrower*, requires a servicer to notify a borrower about an upcoming opportunity to convert an ARM to a fixed-rate mortgage loan only when the conversion option date corresponds to an interest rate change date. Generally, the servicer includes the notice about the conversion option in its notice explaining the determination of the new monthly payment and interest rate that will go into effect following the next interest rate change date. (A servicer does not need to provide notices of conversion opportunities when the option can be exercised on a date that does not correspond to the interest rate change date, unless the mortgage loan instruments provide for such notices or the lender agreed to provide them when it originated the mortgage loan.)

Adjustment errors related to a servicer's failure to notify a borrower of a conversion option may result from the servicer's having misunderstood Fannie Mae's requirements or having

incorrectly programmed the systems it uses to produce borrower notifications.

Some errors may involve an incorrectly prepared mortgage note, which could mean that the mortgage loan was not really eligible for delivery to Fannie Mae (or, at least, not eligible for inclusion in a given MBS pool). Because these errors could potentially result in a repurchase of the mortgage loan, they are not addressed here. Before making any adjustments for these types of errors (with the borrower or to the servicer's or Fannie Mae's records), the servicer should discuss the situation with its Investor Reporting representative. This will ensure that both the servicer and Fannie Mae agree that an error that warrants correction has occurred.

For the most part, Fannie Mae assumes that an ARM adjustment error will be reflected in the same manner in the servicer's records, the disclosure made to the borrower, and Fannie Mae's records. This may not always be the case. For example, a servicer may notify the borrower of the correct interest rate and/or monthly payment, but fail to update its records and/or Fannie Mae's (or update them erroneously). In such cases, the servicer can adjust its records by reamortizing the mortgage loan to allocate properly the P&I distribution for the incorrectly applied payments and to correct the UPB. Generally, the borrower would not have to be notified of the correction since it results in amortization of the mortgage loan under the terms that were disclosed to him or her; however, if the servicer is required to file a corrected *Mortgage Interest Statement* (IRS Form 1098) with the IRS, it must send appropriate notification to the borrower. On the other hand, the servicer might notify the borrower of an incorrect interest rate and/or monthly payment, but update its records and Fannie Mae's correctly. In this instance, it would appear that the borrower would have to be notified of the correction, but no changes would need to be made to Fannie Mae's or the servicer's records. However, this is not necessarily the case since the borrower's UPB after the correction of the adjustment error would most likely differ from the one Fannie Mae has in its records.

If the ARM adjustment errors are of the type that 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, depending on the exact nature of the errors. ARM adjustment errors also may have

resulted in the servicer's having made erroneous remittances to Fannie Mae. A servicer should not report the correction of an ARM adjustment error or make an effort to correct an erroneous remittance that resulted from an ARM adjustment error until it has discussed the specifics of the correction with its Fannie Mae investor reporting system representative. Fannie Mae may require the servicer to submit appropriate documentation—such as copies of the mortgage note and ARM rider; the payment history records; the corrected amortization schedule; the lender's negotiated contract, if it permitted ARM adjustments to be handled in a manner that differs from Fannie Mae's standard requirements; etc.—to support its proposed corrective action. (also see *Part X, Section 602, Correcting ARM Adjustment Errors (01/31/03)*)

**Section 502  
Legal Actions Related  
to Errors (01/31/03)**

Fannie Mae relies on the servicer to enforce each ARM according to its terms. This includes the correct determination of the periodic interest rate and payment adjustments. Should a servicer erroneously adjust one or more mortgage loans and become subject to legal action (either in the form of an individual lawsuit or a class action lawsuit), the servicer will be fully responsible for litigating the suit and for any and all losses that may result if its litigation is not successful. However, the servicer must notify Fannie Mae before responding to any class action lawsuit that involves Fannie Mae-owned or Fannie Mae-securitized mortgage loans so Fannie Mae can work with the servicer to ensure that the outcome of the litigation does not compromise Fannie Mae's interests or those of MBS security holders. Fannie Mae will advise the servicer about its position on the potential effect of the litigation on Fannie Mae and the action Fannie Mae expects it to take with respect to the possible outcome of the litigation. Fannie Mae's early involvement will enable the servicer to make an informed decision regarding the appropriate response to the complaint. If Fannie Mae also is named as defendant in any lawsuit, the servicer will be responsible for reimbursing Fannie Mae for any and all expenses it incurs (including attorney's fees), in accordance with its indemnification obligations under the MSSC.

**Section 503  
Identifying Adjustment  
Errors (01/31/03)**

Fannie Mae expects a servicer to have internal systems and procedures in place to verify (and audit) the accuracy of the ARM adjustments it makes. Although Fannie Mae does not prescribe the exact nature of these systems and procedures, it requires that they not only provide a routine check of all ARM adjustments, but also enable the servicer to respond to errors identified by the borrower, the servicer's regulatory agency, or Fannie

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### Correction of Adjustment Errors

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Mae. A servicer is expected to follow the procedures in this *Chapter* when it reviews adjustments it has made for the ARMs it services for Fannie Mae, regardless of whether the review is undertaken as part of a full audit, as part of a routine spot-check of its ARM adjustments, or as the result of an inquiry from a third party. (*Exhibit 1: Correction of ARM Adjustment Errors*, includes an easy-to-use reference chart of Fannie Mae's various policies related to the correction of ARM adjustment errors.) If a borrower takes issue with a previous audit the servicer performed based on different procedures, Fannie Mae suggests that the servicer employ Fannie Mae's procedures if they will address the borrower's concerns more effectively.

#### Section 503.01 ARM Audits (01/31/03)

Fannie Mae does not require a servicer to perform an audit of its entire portfolio of ARMs.

If a servicer chooses to conduct a full audit of its ARM portfolio, it does not have to include mortgage loans that have been paid in full or otherwise liquidated, unless it prefers to do so. If the servicer's records enable it to identify mortgage loans that have been assumed, the audit for an assumed mortgage loan may begin with the effective date of the last assumption, although the servicer can begin the audit with the first adjustment if it prefers to do so. When the servicer's records do not enable it to identify assumed mortgage loans (or if the servicer chooses to begin its review with the first adjustment), a full audit may reveal that adjustment errors occurred that affected the current borrower(s), the previous borrower(s), or both. Errors affecting previous borrowers are more difficult to correct because the proper corrective action may dictate a change to the UPB of the mortgage loan, which cannot take place because it would affect the current borrower(s) as well. If the servicer's ARM audit begins with the first adjustment and the previous borrower for an assumed mortgage loan is due a refund—and can be located—the servicer should make the refund in accordance with Fannie Mae's guidelines for correcting the particular type of error that occurred, except that all refunds to previous borrowers should be cash payments and the UPB of the mortgage loan must not be changed under any circumstances.

Fannie Mae does not require that the servicer's ARM audit include verification that the notifications the servicer sent to borrowers in connection with upcoming interest rate changes for convertible ARMs also addressed an upcoming opportunity for the borrower to exercise a conversion to fixed-rate mortgage loan option.



**Section 503.02  
Borrower Inquiries  
(01/31/03)**

When an ARM adjustment error is discovered as the result of a borrower inquiry, the servicer must send the borrower an interim response to his or her inquiry within 20 days after the servicer received the inquiry.

Although Fannie Mae does not require that the servicer correct adjustment errors related to a mortgage loan that has been paid in full or otherwise liquidated or to a mortgage loan that has been assumed if the error occurred before the effective date of the latest assumption, it expects the servicer generally to correct an error that it discovers as the result of an inquiry from a borrower who was affected by the error. The servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center, or its Fannie Mae investor reporting system representative, to obtain specific instructions related to correction of the error and the method of refunding any overcharge to the borrower(s).

If a borrower questions why the servicer did not provide notification of an upcoming opportunity to exercise a conversion to fixed-rate mortgage loan option (and the borrower was, in fact, entitled to such notification under Fannie Mae's policy), Fannie Mae expects the servicer to immediately offer the borrower the option of converting—if the borrower met the eligibility criteria for converting on the option date that he or she was not notified about.

**Section 504  
Determining Extent of  
Adjustment Errors  
(01/31/03)**

A servicer should not correct an identified adjustment error for a given mortgage loan until it verifies that all previous interest rate and/or payment adjustments were correctly handled for that mortgage loan. If the mortgage loan has been assumed, the review only needs to include those adjustments that took place after the effective date of the assumption, unless the review is being undertaken at the request of the previous borrower(s)—in which case the review would address only those adjustments that occurred prior to the effective date of the assumption. (The reason for using the effective date of an assumption as the cut-off for reviewing adjustments is that the current borrower based his or her purchase of the property on the UPB of the mortgage loan at the time of the assumption. That balance then becomes the current borrower's original loan amount and thus should not be adjusted for any reason.)

When a servicer identifies or confirms an individual ARM adjustment error (or the cumulative effect of several ARM adjustment errors) that

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resulted in the borrower's having been charged an incorrect interest rate and/or an incorrect monthly payment, the servicer must make arrangements immediately (within 60 days) to correct the error(s) in its and Fannie Mae's records, to change the borrower's current interest rate and/or monthly payment (taking into consideration Fannie Mae's policy on the applicability of any interest rate or payment caps specified in the mortgage loan documents), and to advise the borrower of the actions being taken (in full compliance with the requirements of Regulation Z and the Real Estate Settlement Procedures Act). The servicer must increase or decrease the borrower's interest rate and/or monthly payment to the correct rate and/or amount without waiting for the next scheduled interest rate and/or payment adjustment date—subject only to the disclosure requirements under Regulation Z and any specific advance notice requirements Fannie Mae specifies with regard to payment changes.

Section 504.01  
Verifying Interest  
Rate/Payment  
Adjustments (09/30/96)

When an ARM adjustment error involving an incorrect interest rate and monthly payment is identified, the servicer needs to verify the correct interest rate for each adjustment that has occurred. In verifying the correct interest rate for each adjustment period, the servicer should use the correct index value applicable for each adjustment date and apply any per-adjustment interest rate caps (rounding the resulting rate as specified in the mortgage loan instrument). However, if applying a per-adjustment cap to the final interest rate change that is being made to correct the previous adjustment error(s) would perpetuate the error(s), the servicer should not apply it. In no instance should the corrected interest rate exceed the original interest rate by more than the lifetime cap specified in the mortgage loan instruments. (For negotiated ARM plans that give the servicer the option of not making an interest rate increase on any given adjustment date, the servicer should not use an increased interest rate in its verification if it did not increase the mortgage loan interest rate on the original adjustment date.)

The following example illustrates the correct use of per-adjustment interest rate caps when verifying and correcting an ARM adjustment error:

Assume that a mortgage loan with a 1% per-adjustment cap was adjusted from 10% to 10.5% on the first adjustment date and from 10.5% to 11% on the second adjustment date. The servicer later discovers that incorrect index values were used for both adjustments and that the interest rate should have been increased to

10.25% at the first adjustment date and then reduced to 9.875% at the second adjustment date. Per-adjustment caps are generally applied to the last interest rate the borrower was paying. In this case, that would mean reducing the 11% rate to 10%. However, 10% is higher than the correct 9.875% rate. This means that the servicer should not apply the 1% per-adjustment cap but should instead reduce the borrower's previous interest rate by 1.125% to reflect the correct interest rate of 9.875%. This avoids perpetuating the previous errors.

This same procedure should 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.

A variation of this procedure should be used for ARM adjustment errors involving only incorrect payment changes that are identified before an interest rate change occurs. In these cases, the servicer will need to verify the correct monthly payment for each payment adjustment that has occurred. In verifying the correct monthly payment for each adjustment period, the servicer should apply any applicable payment caps for each payment adjustment date that occurred during the period for which the mortgage loan was incorrectly adjusted. However, if applying a per-adjustment cap to any payment change that is being made to correct the previous adjustment error(s) would perpetuate the error(s), the servicer should not apply it to the final, corrected payment.

The servicer should 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 by calculating 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. (This calculation should be made in accordance with the provisions of the mortgage loan instruments.) Generally, a borrower will not choose to exercise the conversion option unless it would result in a lower interest rate, but a borrower who prefers the predictability of a fixed-rate mortgage loan may choose to convert even if his or her interest rate will increase. In such cases, the corrected interest rate must not exceed the original interest rate

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by more than the lifetime interest rate cap specified in the mortgage loan instruments.

Section 504.02  
Reamortizing the  
Mortgage Loan  
(09/30/96)

Once the servicer verifies the correct interest rate (or monthly payment, if the error involved only an incorrect monthly payment) for each adjustment date that has occurred, it should reamortize the mortgage loan to determine whether the borrower has been overcharged or undercharged.

In reamortizing the mortgage loan, the servicer should use the correct interest rate for each interest rate adjustment date that occurred during the period for which the mortgage 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 mortgage loan should be reamortized for that adjustment period by using the correct interest rate and the correct monthly payment, rather than the actual payment the borrower had been making.) The mortgage loan should be reamortized for a period equal to the number of erroneous payments that were applied. Generally, this means the mortgage loan must be reamortized from the date of the first erroneous adjustment through the date the LPI was applied. The servicer should make sure that 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. The overcharge or undercharge to the borrower will be the difference between the reamortized UPB for the mortgage loan and the actual UPB that resulted from the incorrect payment application.

Section 504.03  
Identifying Borrower  
Overcharges and  
Undercharges (09/30/96)

The determination of whether the borrower has been overcharged or undercharged depends on the exact nature of the adjustment error. The extent of any overcharge or undercharge will be affected by the type of error, how quickly the error is identified, how many payments are misapplied, whether there have been subsequent adjustments, and, for a mortgage loan that has been assumed, whether the error occurred before or after the assumption. Since ARM adjustment errors may take place over a number of years or a single mortgage loan may have been incorrectly adjusted more than once before an error is identified, borrower undercharges for one adjustment period may be “netted” against borrower overcharges for another adjustment period—as long as the overcharges and undercharges relate to the same borrower. However, if there is a “net undercharge,” it cannot be collected from the borrower, nor can the UPB of the mortgage loan be changed to offset it. (If the mortgage loan has

been assumed, the servicer may limit its corrections to only those affecting the current borrower, unless it receives an inquiry from a previous borrower about an error that affected him or her. Even then, overcharges and undercharges affecting the previous borrower cannot be netted against those that affect the current borrower.)

To determine the amount of an undercharge or overcharge, the servicer should compare the reamortized principal balance to the actual principal balance of the mortgage loan. The difference between the two is the amount of the overcharge or undercharge.

- **If both the mortgage loan interest rate and the monthly payment were incorrect**, and the UPB that results from the reamortization is *lower* than the actual principal balance of the mortgage loan, the borrower was overcharged and is due a refund of (or a credit for) the overcharge.
- **If both the mortgage loan interest rate and the monthly payment were incorrect**, and the UPB that results from the reamortization is *higher* than the actual principal balance of the mortgage loan, the borrower was undercharged, although the servicer may not require the borrower to make up the difference between his or her actual payments and the correct payments, nor may it charge the borrower interest on the amount of the undercharge.
- **If the mortgage loan interest rate was incorrect, but the borrower's monthly payment was correct**, and the UPB that results from the reamortization is *lower* than the actual principal balance of the mortgage loan, the borrower was charged too much interest and is due a credit for the overcharge. Since the borrower's payments (although misapplied) were correct, the borrower is not due an actual cash refund of the interest overcharge. Instead, the payments received must be re-allocated between principal and interest, thus reducing the UPB by the amount of the interest overcharge.
- **If the mortgage loan interest rate was incorrect, but the borrower's monthly payment was correct**, and the UPB that results from the reamortization is *higher* than the actual principal balance of the mortgage loan, the borrower was charged too little interest. The servicer may not require the borrower to make up the interest

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undercharge, re-allocate the borrower's payments between principal and interest (thus increasing the UPB to the correct higher amount), or charge the borrower interest on the amount of the undercharge.

- **If the borrower's monthly payment was incorrect, but the mortgage loan interest rate was correct**, and the UPB that results from the reamortization is *higher* than the actual principal balance of the mortgage loan, the borrower was overcharged and is due a credit for (or, under certain conditions, a refund of) the overcharge.
- **If the borrower's monthly payment was incorrect, but the mortgage loan interest rate was correct**, and the UPB that results from the reamortization is *lower* than the actual principal balance of the mortgage loan, the borrower was undercharged, although the servicer may not require the borrower to make up the difference between his or her actual payments and the correct payments, nor may it charge the borrower interest on the amount of the undercharge.

Section 504.04  
Calculating New Monthly  
Payments (01/31/03)

Once the servicer has verified the correct interest rate (or monthly payment) for each previous adjustment and reamortized the mortgage loan using the correct interest rate (or monthly payment) to determine whether the borrower was overcharged or undercharged, it must determine whether the borrower's monthly payment and interest rate need to be changed.

- If the adjustment error involved ***both an incorrect interest rate and monthly payment***, the servicer generally will need to change the borrower's monthly payment. The interest rate of the mortgage loan may or may not need to be changed, depending on whether subsequent interest rate adjustments resulted in the borrower's being charged interest at the correct rate. To calculate the corrected monthly payment, the servicer should use the correct interest rate and the actual UPB and remaining mortgage loan term as of the LPI date, applying any applicable payment cap—except that it is not necessary to apply the cap if that would perpetuate the previous error(s).
- If the adjustment error involved ***an incorrect monthly payment only***, the servicer generally will need to change the borrower's monthly payment. The interest rate of the mortgage loan will not need to be changed. To calculate the corrected monthly payment, the servicer should use the monthly payment that should have become effective on

the last payment adjustment date, even if the difference between the payment and the payment the borrower had been making is greater than the applicable per-adjustment cap, since to do otherwise would perpetuate the error.

- If the adjustment error involved *an incorrect interest rate only*, the servicer will not need to change the borrower's monthly payment. The interest rate of the mortgage loan may or may not need to be changed, depending on whether subsequent interest rate adjustments resulted in the borrower's having been charged interest at the correct rate.

**Section 505  
Refunding (or  
Crediting) Overcharges  
(01/31/03)**

The servicer must give a borrower a cash refund (or credit) for any net overcharge that is equal to \$1.00 or more. Credits generally should be used instead of cash refunds when (1) the servicer has advanced funds to cure an escrow overdraft, (2) the mortgage loan is delinquent, (3) the adjustment error is an interest rate change error only, or (4) the adjustment error is a payment change error only (although the borrower may be given the option of receiving a cash refund under certain circumstances). The credit will result in either a reduction in the amount the borrower owes the servicer for advances it made to cure an escrow overdraft, a reduction in the UPB of the mortgage loan (to reflect the application of payments toward reducing or curing a delinquency or the reallocation of payments between principal and interest, depending on the type of adjustment error), or an increase in the UPB of the mortgage loan if the overcharge relates to a payment change error only and the borrower elects to receive a cash refund or is given credit toward repaying the servicer's advance to cure an escrow overdraft or toward reducing or curing a delinquency. However, in states that have "security first" or "one action" laws, the application of net overcharges to delinquent installments or the principal balance of the mortgage loan could jeopardize Fannie Mae's ability to obtain a legal judgment against the borrower or the property. In view of this, a servicer that is servicing mortgage loans secured by properties located in such states (or in other states that have laws with a similar effect) should consult with its legal counsel before it applies an overcharge to reduce the delinquency of a mortgage loan.

The method the servicer uses to give the borrower credit for a net overcharge depends on the type of adjustment error being corrected, the amount of the overcharge, whether the servicer advanced funds to cure an escrow overdraft, and the status of the mortgage loan.

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Section 505.01  
Incorrect Interest Rate  
Only (01/31/03)

Overcharges related to an incorrect interest rate only result in the need to credit the borrower's account, through the reallocation of the borrower's actual monthly payments between principal and interest and a reduction in the UPB of the mortgage loan. The borrower is not due a cash refund because his or her monthly payment was in a correct amount (although the servicer misapplied it).

Section 505.02  
Incorrect Interest Rate  
and Monthly Payment  
Only (01/31/03)

Overcharges related to both an incorrect interest rate and monthly payment result in the need for a cash refund (or credit) to the borrower if the net overcharge is more than \$1.00. Cases in which the servicer has advanced funds to cure an escrow overdraft will need to be handled differently from those for which no funds have been advanced.

If the mortgage loan is *current* (and the servicer has not advanced funds to cure an escrow overdraft), the borrower is entitled to a cash refund. However, when the servicer has advanced funds to cure an escrow overdraft for a current mortgage loan, the servicer should give the borrower credit for the net overcharge by applying it to reduce the amount of the servicer's outstanding advance. (If the servicer has already increased a borrower's monthly payment in order to recover its advance, it will need to reduce the payment accordingly.) If any of the net overcharge is still available after the servicer's advance has been repaid fully, the servicer should send the borrower a cash refund of the remaining net overcharge.

If the mortgage loan is *delinquent*, the borrower should receive credit (rather than a cash refund). When the servicer has advanced funds to cure an escrow overdraft for a delinquent mortgage loan, the servicer should give the borrower credit for the net overcharge by first applying it to reduce the amount of the servicer's outstanding advance and then, if any of the net overcharge remains after the advance has been fully repaid, by applying the remainder to reduce the borrower's delinquency—following the same procedure it would use for giving the borrower credit for a net overcharge when there has been no escrow advance.

If the servicer has not advanced funds to cure an escrow overdraft for a delinquent mortgage loan, the servicer should give the borrower credit for the net overcharge as follows. When the net overcharge is sufficient to bring the mortgage loan current, the servicer should apply the past-due installments and, if any of the net overcharge remains after all past-due



installments have been applied, the servicer should give the borrower a cash refund of the remainder. However, if the net overcharge is not equal to the full amount of the delinquent installments and application of only part of the delinquent installments will jeopardize the servicer's ability to continue foreclosure proceedings that are underway or to initiate them should they become necessary, the servicer should treat the net overcharge as unapplied until the borrower submits all of the remaining delinquent payments. If the servicer subsequently has to initiate foreclosure proceedings because the borrower did not submit any additional funds that were requested, it should apply the funds that are being held as unapplied toward reduction of the total indebtedness. On the other hand, if application of only part of the delinquent installments will not jeopardize the servicer's ability to foreclose, the servicer should apply them. If this application results in a mortgage loan that had been previously referred for foreclosure becoming fewer than 90 days delinquent, the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to determine whether it should discontinue or stay the foreclosure proceedings.

Section 505.03  
Incorrect Monthly  
Payment Only (01/31/03)

Overcharges related to an incorrect monthly payment only do not automatically result in the need to make a cash refund (or credit) to the borrower because the UPB of the mortgage loan is lower than it should be. Instead, the servicer should base its next action on the status of the mortgage loan, on whether it has advanced funds to cure an escrow overdraft, and, in some cases, on the amount of the overcharge.

If the mortgage loan is current—and the servicer has not advanced funds to cure an escrow overdraft—the servicer must give the borrower the choice of (1) receiving a cash refund and having the UPB of the mortgage loan increased to the correct amount or (2) having the previous overpayment of principal treated as the application of a curtailment and leaving the actual, lower UPB in effect. On the other hand, if the servicer has advanced funds to cure an escrow overdraft for a current mortgage loan, it should give the borrower the option of either (1) having the overcharge credited against the servicer's outstanding advance (in which case the UPB of the mortgage loan must be increased to the amount that it would have been if the payment adjustment had been correct, although the borrower's payment can be decreased by any amount that was previously added to the payment in order to repay the servicer for its advance) or

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(2) having the overcharge treated as the previous application of a curtailment (in which case the actual, lower UPB will remain in effect and the borrower will have to continue to repay the advance as part of his or her monthly payment).

If the servicer has advanced funds to cure an escrow overdraft for a delinquent mortgage loan, the borrower will not be given an option on how to credit the overcharge; the servicer may use the overcharge to repay its advance (increasing the UPB of the mortgage loan by the amount of the overcharge and reducing the borrower's payment accordingly if it had been previously increased to repay the advance), applying any remainder of the overcharge toward reducing or curing the delinquency. However, if the servicer has not advanced funds to cure an escrow overdraft for a delinquent mortgage loan, the method of giving the borrower credit for the overcharge depends on the amount of the overcharge. If the overcharge is less than a full installment of P&I, the servicer should leave the actual, lower UPB in effect, considering the overcharge as the application of a previous curtailment. However, if the overcharge is equal to one or more full installments of P&I, the servicer should give the borrower credit by first changing the UPB of the mortgage loan to the balance that would have been in effect if the adjustment error had not occurred and then reapplying the overcharge as P&I installments to advance the LPI date, with any remaining overcharge credited as a curtailment. If the reapplication of the payments to reflect a credit of the net overcharge results in a mortgage loan that had been previously referred for foreclosure becoming fewer than 90 days delinquent, the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to determine whether it should discontinue or stay the foreclosure proceedings.

### **Section 506 Notifying Borrowers About Corrections (01/31/03)**

Under Regulation Z (12 CFR 226), a lender must make certain disclosures to borrowers who have ARMs before the due date of any payment that is based on a new interest rate. The disclosures include the current and previous interest rates, the index values on which the current and previous interest rates were based, the new monthly payment amount, and the UPB of the mortgage loan. Thus, when a servicer miscalculates an ARM adjustment and discloses an erroneous interest rate, payment amount, or mortgage loan balance, it is in violation of Section 226.20(c) of Regulation Z. Since this violation will affect future disclosures, the servicer must either make a dollar adjustment with the borrower or to the

borrower's account to ensure that future disclosures will accurately reflect the borrower's legal obligation for the mortgage loan. To make sure that it is in full compliance with the recordkeeping requirements of Regulation Z, a servicer also should maintain for a period of at least two years a record of all adjustments that it makes to any ARM and documentation reflecting any corrective actions that it has taken.

The servicer must give the borrower at least 25 days' advance notice of any payment change that results from the correction of an adjustment error. For example: If the servicer makes an interest rate adjustment correction on April 10 for a mortgage loan that had an April 1 LPI date and sends the borrower notice of the change on this same day, the corrected payment cannot go into effect until the June payment (in order to give the borrower the full 25 days' advance notice of the payment change). This means that the May payment must be applied at the incorrect interest rate and/or payment amount, even though the borrower cannot be billed for an undercharge for the additional month and the servicer will need to make a subsequent adjustment to correct an overcharge for the additional month.

The servicer's notification to the borrower must advise him or her about the correct interest rate and/or monthly payment, the effective date for any change in the interest rate and/or monthly payment, and the amount of any overcharge that will be available for refunding or crediting to the borrower's account. The servicer's notification should include either a check for the amount of the overcharge or an explanation of how the overcharge will be credited to the borrower's account. The notification also should include a discussion of the borrower's option to return all or a portion of any cash refund to the servicer for application to the UPB of the mortgage loan.

- The servicer's notification also should advise the borrower about whether the amount of any refund (or credit) resulting from an interest overcharge will be reflected in the *Mortgage Interest Statement* (IRS Form 1098) that the servicer submits to the IRS to report the amount of interest that the borrower paid during the year that the refund (or credit) is being made and should suggest that the borrower may want to consult a tax advisor. (Treasury regulations also require that the borrower's copy of the IRS Form 1098 or any equivalent information return that the servicer uses include instructions that (1) the amount of

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the refund of an interest overcharge is not to be counted as an itemized deduction and (2) the amount of the refund (or credit) for the interest overcharge must be included in the borrower's gross income for the current tax year if the borrower deducted the reimbursed interest in a previous year in order to reduce his or her tax liability.)

- The servicer's notification should fully explain why no cash refund is being made in any instance in which the borrower is not due a cash refund for an overcharge (as would be the case for the correction of an incorrect interest rate only or as could be the case for the correction of an incorrect payment change only) and, if the error related to a payment change only, discuss any options that are available to the borrower. If the error related to an interest rate change only, the notification also should mention whether the servicer will reflect the amount of the credit resulting from the correction of the interest overcharge that is applied to reduce the UPB of the mortgage loan in the IRS Form 1098 that it submits to the IRS for the year in which the refund (or credit) is being made and suggest that the borrower may want to consult a tax advisor.

### Section 507 Effect on Remittances / Fannie Mae Investor Reporting System Reports (01/31/03)

The effect that an ARM adjustment error has on a servicer's remittances to Fannie Mae and/or preparation of its Fannie Mae investor reporting system reports will vary depending on whether Fannie Mae purchased the mortgage loan to hold in its portfolio or as part of an MBS pool. Adjustment errors for portfolio mortgage loans generally are easier to correct since the servicer needs to address only the individual mortgage loan that was incorrectly adjusted. If a mortgage loan is in an MBS pool, the servicer will have to address the effect of the error on both the individual mortgage loan and on the MBS pool (since the error may have resulted in an incorrect security balance and/or pool accrual rate or weighted-average pool accrual rate). ARM adjustment errors can affect a servicer's Fannie Mae investor reporting system reports and/or remittances in different ways, depending on whether the information reported to Fannie Mae agrees with the adjustment data provided to the borrower and on whether it passes or fails Fannie Mae's validation edits. Because of the numerous permutations that could occur, it is imperative that a servicer discuss the correction of ARM adjustment errors with its Fannie Mae investor reporting system representative before it takes any corrective action to adjust Fannie Mae's records or its previous remittances.

A servicer that has overremitted or underremitted interest for a portfolio mortgage loan as the result of an ARM adjustment error will not need to make a cash remittance to send the funds for an interest underremittance to Fannie Mae, nor will it necessarily receive the funds for an interest overremittance from Fannie Mae. Fannie Mae generally corrects portfolio remittance errors by adjusting the servicer's shortage/surplus account by the amount of its interest overremittance or underremittance. However, if the nature of the error or the cumulative effect of multiple errors makes it more practical to correct the error as a remittance correction instead of a shortage/surplus adjustment, Fannie Mae will advise the servicer to adjust its next remittance accordingly.

Additional information about how different types of ARM adjustment errors can affect Fannie Mae remittances for portfolio mortgage loans that are accounted for under the different remittance types and for MBS pool mortgage loans that are in stated-structure and weighted-average structure MBS pools is included in *Part X, Section 602, Correcting ARM Adjustment Errors (01/31/03)*.

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Exhibit 1

**Exhibit 1: Correction of ARM Adjustment Errors  
(09/30/96)**

<b>Action</b>	<b>Interest Rate/ Monthly Payment Error</b>	<b>Monthly Payment Error Only</b>	<b>Interest Rate Error Only</b>
Determination of Overcharges and Undercharges	Reamortize the mortgage loan, using the borrower’s actual payment(s) and the correct interest rate(s) and compare the resulting UPB to the actual UPB. — If the resulting UPB is higher, the borrower was undercharged. — If the resulting UPB is lower, the borrower was overcharged.	Reamortize the mortgage loan, using the correct payment(s) and the correct interest rate and compare the resulting UPB to the actual UPB. — If the resulting UPB is higher, the borrower was overcharged. — If the resulting UPB is lower, the borrower was undercharged.	Reamortize the mortgage loan, using the borrower’s actual payment and the correct interest rate(s) and compare the resulting UPB to the actual UPB. — If the resulting UPB is higher, the borrower was undercharged. — If the resulting UPB is lower, the borrower was overcharged.
Netting Overcharges and Undercharges	Allowed when there are multiple errors for the same mortgage loan and all relate to the same borrower.	Allowed when there are multiple errors for the same mortgage loan and all relate to the same borrower.	Allowed when there are multiple errors for the same mortgage loan and all relate to the same borrower.
Timing of Corrections	Within 60 days of discovery, subject to borrower notification requirements.	Within 60 days of discovery, subject to borrower notification requirements.	Within 60 days of discovery, subject to borrower notification requirements.
Applicability of Caps	Apply both interest rate and payment caps on each adjustment date, except that they should not be applied to the final corrected rate or payment, if that would perpetuate the error(s). Lifetime interest rate caps always apply.	Apply payment caps on each adjustment date, except that they should not be applied to the final corrected payment, if that would perpetuate the error(s).	Apply interest rate caps on each adjustment date, except that they should not be applied to the final corrected rate, if that would perpetuate the error(s). Lifetime interest rate caps always apply.
Correcting Overcharges	Only net overcharges of \$1.00 or more need to be corrected.  If the mortgage loan is <i>current</i> and the servicer has not advanced funds to cure an escrow overdraft, refund an overcharge to the borrower. The actual UPB remains in effect.	Only net overcharges of \$1.00 or more need to be corrected.  If the mortgage loan is <i>current</i> and the servicer has not advanced funds to cure an escrow overdraft, give the borrower the option of receiving a cash refund (and increasing the UPB) or credit for a curtailment (with no change to the UPB).	Only net overcharges of \$1.00 or more need to be corrected.  Regardless of the status of the mortgage loan or any advances the servicer made to cure an escrow overdraft, give the borrower credit for the overcharge by reducing the actual UPB by the amount of the overcharge.

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Action	Interest Rate/ Monthly Payment Error	Monthly Payment Error Only	Interest Rate Error Only
Correcting Overcharges (cont.)	<p>— <i>If the servicer advanced funds to cure an escrow overdraft (regardless of the status of the mortgage loan),</i> give the borrower credit for the overcharge by applying it toward repayment of the servicer’s advance (and reducing the monthly payment if it was increased to repay the advance), refunding any remainder to the borrower if the mortgage loan is current or, if the mortgage loan is delinquent, applying the remainder of the overcharge to reduce or cure the delinquency.</p> <p>If the mortgage loan is <i>delinquent</i>, give the borrower credit for the overcharge by reducing the delinquency by the amount of the overcharge and refunding any remainder to the borrower.</p>	<p>— <i>If the servicer advanced funds to cure an escrow overdraft for a current mortgage loan,</i> give the borrower the option of receiving credit for the overcharge by applying it toward repayment of the servicer’s advance if the UPB is increased to the “correct” UPB (and reducing the monthly payment if it was increased to repay the advance) or by having the overcharge treated as a previously applied curtailment (with no change in the UPB).</p> <p>— <i>If the servicer advanced funds to cure an escrow overdraft for a delinquent mortgage loan,</i> the borrower does not have an option on how the credit for the overcharge will be handled. The servicer should use it to repay its advances (increasing the UPB by the amount of the overcharge and reducing the borrower’s payment accordingly if it had been increased to repay the advance), applying any remainder toward reducing or curing the delinquency.</p> <p>If the mortgage loan is <i>delinquent</i> and the servicer has not advanced funds to cure an escrow overdraft, give the borrower credit for the overcharge by increasing the UPB to the “correct” amount, then applying the overcharge as full installments of P&amp;I in order to advance the LPI date, and applying any remainder as a curtailment.</p>	
Correcting Undercharges	The actual UPB remains in effect; the undercharge cannot be collected from the borrower.	The actual UPB remains in effect; the undercharge cannot be collected from the borrower.	The actual UPB remains in effect; the undercharge cannot be collected from the borrower.



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### Correction of Adjustment Errors

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Action	Interest Rate/ Monthly Payment Error	Monthly Payment Error Only	Interest Rate Error Only
Borrower Notification	25 days' advance notice before a payment change.	25 days' advance notice before a payment change.	No advance notice, other than any required Truth-in-Lending disclosure.
Effect of Overcharge on Remittance to Fannie Mae	<p>Principal Underremittance and Interest Overremittance</p> <p>— Since the actual UPB remains in effect, the principal underremittance will be recovered as the higher UPB amortizes.</p> <p>— The servicer's shortage/surplus account for a portfolio mortgage loan may be adjusted by the amount of the interest overremittance to give the servicer credit for it or Fannie Mae may instruct the servicer to reduce its next remittance.</p> <p>— The servicer will not receive credit for its interest overremittance for an MBS mortgage loan since Fannie Mae cannot recover it from the security holder.</p>	<p>Principal Overremittance and Interest Underremittance</p> <p>— If the actual UPB remains in effect, the principal overremittance will be treated as a curtailment that was previously applied.</p> <p>— If the UPB is increased, the principal overremittance will be treated as the reversal of a previously applied curtailment.</p> <p>— The servicer's shortage/surplus account for a portfolio mortgage loan may be adjusted by the amount of the interest underremittance or Fannie Mae may instruct the servicer to increase its next remittance.</p>	<p>Principal Underremittance and Interest Overremittance</p> <p>— Since the borrower's actual payment must be reallocated between principal and interest, the UPB must be curtailed by the principal underremittance.</p> <p>— The servicer's shortage/surplus account for a portfolio mortgage loan is not affected (and neither Fannie Mae nor the servicer owes the other money) since the principal underremittance and interest overremittance offset each other.</p> <p>— The servicer will not receive credit for its interest overremittance for an MBS mortgage loan since Fannie Mae cannot recover it from the security holder.</p>
Effect of Undercharge on Remittance to Fannie Mae	<p>Principal Overremittance and Interest Underremittance</p> <p>— Since the actual UPB remains in effect, the principal overremittance will be treated as a curtailment that was previously applied (or in the case of an MBS mortgage loan, the previous remittance of an unscheduled principal payment).</p>	<p>Principal Underremittance and Interest Overremittance</p> <p>— Since the actual UPB remains in effect, the principal underremittance will be recovered as the higher UPB amortizes.</p>	<p>Principal Overremittance and Interest Underremittance</p> <p>— Since the actual UPB remains in effect, the principal overremittance will be treated as a curtailment that was previously applied (or in the case of an MBS mortgage loan, as the previous remittance of an unscheduled principal payment).</p>

## Special Adjustable-Rate Mortgage Loan Functions

### Correction of Adjustment Errors

Exhibit 1

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Action	Interest Rate/ Monthly Payment Error	Monthly Payment Error Only	Interest Rate Error Only
Effect of Undercharge on Remittance to Fannie Mae (cont.)	— The servicer’s shortage/surplus account for a portfolio mortgage loan may be adjusted by the amount of the interest underremittance or Fannie Mae may instruct the servicer to increase its next remittance.	— The servicer’s shortage/surplus account for a portfolio mortgage loan may be adjusted by the amount of the interest overremittance to give the servicer credit for it or Fannie Mae may instruct the servicer to decrease its next remittance.	— The servicer’s shortage/surplus account for a portfolio mortgage loan may be adjusted by the amount of the interest underremittance or Fannie Mae may instruct the servicer to increase its next remittance.
	— The servicer will not increase its next remittance to make up its interest underremittance for an MBS mortgage loan.	— The servicer will not receive credit for its interest overremittance for an MBS mortgage loan since Fannie Mae cannot recover it from the security holder.	— The servicer must increase its next remittance to make up its interest underremittance for an MBS mortgage loan.
Effect of Adjustment Error on Fannie Mae Investor Reporting System Pass-Through (or Pool Accrual) Rates	The pass-through rate may be incorrect for a portfolio mortgage loan.  The pool accrual rate for a stated-structure MBS pool should be correct.  The weighted-average pool accrual rate for an ARM Flex® MBS pool will probably be affected.	The pass-through rate may be incorrect for a portfolio mortgage loan.  The pool accrual rate for a stated-structure MBS pool should be correct.  The weighted-average pool accrual rate for an ARM Flex MBS pool may be affected.	The pass-through rate may be incorrect for a portfolio mortgage loan.  The pool accrual rate for a stated-structure MBS pool should be correct.  The weighted-average pool accrual rate for an ARM Flex MBS pool will probably be affected.
Required Fannie Mae Investor Reporting System Corrections	Correction of interest rate monthly payment, and the pass-through rate for the mortgage loan (if applicable).          Correction of the MBS pool accrual rate or weighted-average pool accrual rate, if applicable.	Correction of the monthly payment for the mortgage loan.    Reporting the reversal of a curtailment if the borrower chooses a cash refund for a principal overcharge or if a principal overcharge is applied to reduce the servicer’s outstanding advance or to reduce a delinquency.  Correction of the MBS weighted-average pool accrual rate, if applicable.	Correction of the interest rate and pass-through rate for the mortgage loan (if applicable).    Reporting of a curtailment for the borrower’s principal undercharge.  Correction of the MBS pool accrual rate or weighted-average pool accrual rate, if applicable.

## **Part V: Special Reverse Mortgage Loan Functions (01/31/03)**

This *Part*—Special Reverse Mortgage Loan Functions—reflects the current reverse mortgage loan servicing guidelines for the two reverse mortgage loan products that servicers are servicing on behalf of Fannie Mae: conventional Home Keeper mortgage loans and FHA Home Equity Conversion Mortgages (HECMs). Reverse mortgage loan functions contained in this *Part* should be used in conjunction with the rest of the Fannie Mae *Servicing Guide*, applicable lender letters and/or announcements, and any other guidance related to the servicing of reverse mortgage loans. For HECMs, the servicer also should follow all applicable FHA servicing guidelines. Special rules apply in Texas for both HECMs and Home Keeper mortgage loans as noted in lender letters and HUD mortgage letters. Information on how to obtain these other referenced reverse mortgage loan items may be obtained through the servicer’s Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 or on [eFannieMae.com](http://eFannieMae.com).

Although many of Fannie Mae’s standard servicing requirements may be applied to the servicing of reverse mortgage loans, this *Part* concentrates on the servicing functions that are unique to reverse mortgage loans and any variations to Fannie Mae’s standard policies or procedures that are required to accommodate reverse mortgage loans. It does not address procedures for establishing custodial accounts (which are addressed in *Part IX, Chapter 1, Custodial Accounting*) or specific investor reporting functions (which are covered in *Part XI: Fannie Mae Reverse Mortgage Reporting System*). If Fannie Mae does not specifically address a particular servicing responsibility, a servicer may assume that Fannie Mae’s standard requirements also apply for reverse mortgage loans.

This *Part* consists of two chapters:

- *Chapter 1—Home Keeper Mortgages*—discusses specific requirements related to the servicing of conventional reverse mortgage loans. These requirements include disbursing payments to borrowers, making interest rate adjustments, changing a borrower’s payment plan, paying taxes and insurance premiums, inspecting the property and obtaining occupancy certifications, monitoring completion of repairs,

accepting partial repayments, providing account statements, and calling the mortgage loan due and payable.

- *Chapter 2—HECMs*—discusses specific requirements related to the servicing of FHA reverse mortgage loans. These requirements include disbursing payments to borrowers or HUD, making interest rate adjustments, changing a borrower's payment plan, paying taxes and insurance premiums, inspecting the property and obtaining occupancy certifications, monitoring completion of repairs, accepting partial repayments, providing account statements, assigning the mortgage loan to HUD, calling the mortgage loan due and payable, and filing a claim for insurance proceeds.

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## **Chapter 1. Home Keeper Mortgages (01/31/03)**

The Home Keeper mortgage is a conventional reverse mortgage loan that is designed to assist older homeowners in converting the equity in their homes to cash. The mortgage loan is usually repaid in one payment (from the proceeds of the sale of the home or from the settlement of the borrower's estate), rather than through periodic payments. The mortgage loan generally is not due and payable as long as the borrower occupies the property as his or her principal residence and does not violate any of the mortgage loan covenants.

The amount of cash that is available when a Home Keeper mortgage is originated (which is called the "principal limit") is a function of the age and number of borrowers, the value of the property, and (for some older mortgage loans originated before August 10, 2000) whether the borrower chose an equity share feature. The borrower's original principal limit is reduced by any allowable closing costs or third-party fees that the borrower wants to finance, an allocation for the expected servicing fees that will be paid over the life of the mortgage loan (based on a flat monthly servicing fee of between \$15 and \$30), and, if applicable, set-asides to reserve funds for the payment of the first year's property charges and the costs of property repairs that must be completed as a condition of granting the mortgage loan, as well as by any loan advances that will be made at loan closing. The principal limit that remains after these adjustments are made, which is called the "net principal limit at origination," is the amount used to determine the line of credit or scheduled payments that will be available to the borrower.

The Home Keeper mortgage offers three different types of payment plans through which a borrower can obtain loan advances:

- **Tenure payment plan.** Provides for scheduled equal monthly payments to be made to the borrower beginning on the first day of the month after the mortgage loan is closed and continuing until the borrower no longer occupies the property as his or her principal residence (or until the mortgage loan otherwise becomes due and payable).

- **Line of credit payment plan.** Provides for unscheduled payments to be made to the borrower whenever he or she requests a disbursement from the lender. The borrower specifies the amount of the disbursement each time he or she requests payment. (The borrower may request that the entire amount of the line of credit be disbursed at closing.) Payments will continue to be made to the borrower on request as long as the principal limit has not been reached and the borrower continues to occupy the property as his or her principal residence (and has not violated any of the mortgage covenants that would result in the mortgage loan becoming due and payable).
- **Modified tenure payment plan.** Combines the characteristics of a tenure payment plan and a line of credit payment plan. It provides for the borrower to set aside part of his or her principal limit as a line of credit when the mortgage loan is closed and to receive scheduled equal monthly installments (based on the reduced principal limit) under a tenure payment plan. The unscheduled line of credit payments can be requested at any time. The scheduled tenure payments will begin on the first day of the month after the mortgage loan is closed and continue until the borrower no longer occupies the property as his or her principal residence (or until the mortgage loan otherwise becomes due and payable).

The borrower selects a payment plan at closing. However, a borrower may change from one payment plan to another as often as he or she wishes. When a plan changes, a new monthly payment and/or line of credit is established; however, any funds in a set-aside account will not be affected. The servicer may charge the borrower up to \$50 to process each request for a payment plan change. A borrower also may choose to have the scheduled payments under his or her current payment plan suspended for a period of time and then restarted, without having to pay a plan change processing fee.

The beginning balance for this reverse mortgage loan will be the sum of all disbursements the lender made to, or on behalf of, the borrower at closing. The mortgage loan balance will then increase over time as payments to, or on behalf of, the borrower are made or as adjustments for accrued interest and servicing fees are capitalized at the end of each month. Increases related to interest and servicing fee accruals or the payment of set-aside funds on the borrower's behalf will take place even if the borrower's scheduled payments have been suspended or the borrower does not request a line of credit withdrawal for that month. The mortgage loan balance also may be increased if the borrower changes payment plans and chooses to finance the processing fee.

A borrower may obtain a loan advance (either as a scheduled payment or as an unscheduled line of credit draw), repay the loan advance, and then withdraw the same funds again. Any partial repayments of loan advances that a borrower makes will decrease the borrower's mortgage loan amount on a dollar-for-dollar basis and will be available for future withdrawal as long as the mortgage loan remains outstanding.

**Section 101  
Disbursement of  
Payments to Borrowers  
(01/31/03)**

Under the terms of the Home Keeper mortgage, the servicer is responsible for advancing its own funds to make any payments to the borrower. The servicer should add payments made to (or on behalf of) the borrower to the outstanding mortgage loan balance as the payments are made. At the end of each month, the servicer should increase the outstanding mortgage loan balance by the amount of its monthly servicing fee.

Fannie Mae will reimburse the servicer for all authorized advances. A servicer does not have to request Fannie Mae to reimburse it for scheduled tenure payments, but must request reimbursement for all unscheduled payments. To minimize the amount of funds the servicer has to advance, Fannie Mae will make two disbursements to the servicer each month, as well as additional disbursements when they are requested in connection with a borrower's unscheduled draw against a line of credit or the servicer's disbursement of other funds on behalf of the borrower:

- On the first business day of each month, Fannie Mae will deposit into the servicer's designated bank account funds to cover that month's scheduled payments for tenure and modified tenure payment plans. (Also see *Part IX, Section 101.05, Custodial Accounts—Reverse Mortgage Loans (01/31/03)*.)

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- On the third business day of each month, Fannie Mae will deposit into the servicer's designated bank account funds to cover the servicing fees due the servicer for the previous month and any adjustments that need to be made to scheduled payments that were paid in the previous month.
- Within two business days after receiving the servicer's request for a disbursement of funds related to an unscheduled payment (a line of credit draw, a disbursement from the set-asides for repairs or the first year's property charges, or a disbursement for the payment of tax assessments or insurance premiums on the borrower's behalf), Fannie Mae will deposit the requested funds into the servicer's designated bank account. (Also see *Part XI, Section 102.02, Unscheduled Payment Transactions (01/31/03)*.)

The servicer must advise Fannie Mae when a borrower requests the suspension of payments under a tenure or a modified tenure payment plan—and again when the borrower requests resumption of the payments—to ensure that Fannie Mae's regular scheduled monthly disbursements accurately reflect the payments due the borrower for that month. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03)*.)

The servicer may disburse payments to a borrower by sending them through the mail or by electronically transferring them into the borrower's bank account. A servicer should not disburse funds for draws against a line of credit until after it receives a written request from the borrower. It may, however, provide a borrower who has a line of credit "checks" that can be used both as the official request for funds and the means by which the funds are withdrawn from an account the servicer has established for the borrower. (Fannie Mae will not reimburse the servicer for draws against the line of credit that are in excess of the remaining balance of the borrower's credit line; therefore, a servicer that issues checks to a borrower must establish appropriate controls to monitor the borrower's use of the checks.)

The servicer must pay the borrower a late charge for any payment that it does not make to the borrower in a timely manner. (Fannie Mae will not reimburse the servicer for any late charges it pays.) A scheduled tenure payment is considered late if the servicer does not mail or electronically



transfer it to the borrower on the first business day of the month. An unscheduled line of credit payment is considered late if the servicer does not mail or electronically transfer it to the borrower within five business days after the date it receives the borrower's written request for the draw. The initial late charge will be 10% of the entire amount that should have been paid to the borrower. For each additional day that the servicer fails to make payment to the borrower, it also must pay interest on the late payment (which should be calculated by using the then-current interest rate for the mortgage loan).

**Section 102  
Interest Rate  
Adjustments (01/31/03)**

All Home Keeper mortgages are originated as ARMs, using ARM Plan 1526. ARM Plan 1526 is tied to the weekly average of secondary market interest rates for one-month negotiable CDs. It has monthly interest rate adjustments, no per-adjustment interest rate cap, and a lifetime interest rate adjustment cap of 12%. Adjustments to the mortgage loan interest rate will change the monthly interest accrual that is added to the mortgage loan balance, but will have no effect on the size of the borrower's scheduled payments or the amount available for withdrawal under a line of credit.

The servicer must adjust the mortgage loan interest rate on the first day of the month following the date of loan closing and on the first day of each subsequent month for the remaining term of the mortgage loan—as long as changes in the index value dictate such adjustments. (Values for the weekly average of secondary market interest rates for one-month negotiable CDs are published in the Federal Reserve's weekly Statistical Release H.15 (519), under the caption "CDs (Secondary Market).")

The new interest rate will be the sum of the index value that was in effect 30 days before the scheduled interest rate adjustment date and the mortgage loan margin specified in the note, rounded to the nearest 0.125%. When the cumulative interest rate adjustments result in a new interest rate that would be more than 12% above the initial mortgage loan interest rate, the interest rate must be the capped rate and no additional interest rate increases will be permitted for the remaining term of the mortgage loan (although downward adjustments can be made). If required by applicable law, the servicer must advise the borrower of the new interest rate (including the index value and the publication date on which the new rate is based) before each rate adjustment goes into effect.

The interest that accrues on any payments made to the borrower during the month, along with any interest that accrues on the mortgage loan balance that was outstanding on the first of the month, will be based on the interest rate that became effective on the first day of the month and will be included in the outstanding mortgage loan balance as of the end of the month.

The servicer does not need to notify Fannie Mae about interest rate changes. Fannie Mae will independently calculate each scheduled interest rate change and notify the servicer of its calculation by providing the Reverse Mortgage Rate Changes Report to the servicer on the second business day of the month before each interest rate adjustment date via the Fannie Mae Reverse Mortgage Reporting System. If the servicer disagrees with Fannie Mae's calculations, it should contact its reverse mortgage loan transaction analyst or its Customer Account Manager. (Also see *Part XI, Section 202, Monthly Reports (01/31/03)*.)

**Section 103  
Changes to Borrower's  
Payment Plan (01/31/03)**

The borrower may request a change from one payment plan to another at any time. The servicer may charge the borrower up to \$50 for each payment plan change it processes. The borrower may finance the payment of this fee, but if he or she does so, the new net principal limit used in the calculations of the payment terms for the new plans must be reduced accordingly. A change in payment plans will have no effect on the funds remaining in any set-aside accounts that have been previously established.

When a borrower requests a payment plan change, the servicer must determine the new payments and/or line of credit. To make this determination, the servicer must have access to two numbers that were developed when the mortgage loan was originated—the original net principal limit and a tenure conversion factor. The servicer should send its calculations of the new payment terms to the borrower, providing a standardized form of acceptance statement on which the borrower should indicate his or her agreement to the change to a new payment plan and acknowledge the effective date of the change. The borrower's signed acceptance of the payment plan change should be retained in the individual mortgage loan file.

The new payment plan will become effective on the first day of the month following the date the servicer reports the payment plan change to Fannie Mae. The servicer should process the payment plan change promptly. If,

for any reason, it fails to report the plan change to Fannie Mae in a timely manner, the servicer must nevertheless make payments to the borrower according to the terms of the new plan (even if it has to advance its own funds to do so). (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

Section 103.01  
Change to Line of Credit  
Plan (01/31/03)

When the borrower requests a change to a line of credit payment plan (from either a tenure payment plan or a modified tenure payment plan), the servicer must first determine a new net principal limit. This is done by reducing the original net principal limit by the sum of all payments that have been made to the borrower and then increasing it by any partial repayments of loan advances that the borrower has made. This new net principal limit will be the line of credit that is available to the borrower under the new line of credit payment plan.

Section 103.02  
Change to Tenure Plan  
(09/30/96)

When the borrower requests a change to a tenure payment plan (from either a line of credit payment plan or a modified tenure payment plan), the servicer must first determine a new net principal limit. This is done by reducing the original net principal limit by the sum of all payments that have been made to the borrower and then increasing it by any partial repayments of loan advances that the borrower has made. To determine the new tenure payments the borrower will be able to receive under the new tenure payment plan, the servicer must multiply this new net principal limit by the tenure conversion factor. (The tenure conversion factor is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available to the same borrower at origination.)

Section 103.03  
Change to Modified  
Tenure Plan (01/31/03)

When the borrower requests a change to a modified tenure payment plan (from either a tenure payment plan or a line of credit payment plan), the servicer must first determine a new net principal limit. The method for doing this will vary depending on whether the borrower specifies the size of the desired line of credit or the size of the desired tenure payments.

- If the borrower indicates that he or she wants a ***line of credit of a specified size***, the servicer determines the new net principal limit by reducing the original net principal limit by the sum of all payments that have been made to the borrower, then increasing it by any partial repayments of loan advances that the borrower has made, and finally deducting an amount equal to the desired line of credit. To determine

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the new tenure payments the borrower will be able to receive under the new modified tenure payment plan, the servicer must multiply this new net principal limit by the tenure conversion factor. (The tenure conversion factor is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available to the same borrower at origination.) The borrower's line of credit under the new payment plan will be the amount the borrower specified.

- If the borrower indicates that he or she wants *tenure payments of a specified size*, the servicer must first divide the desired payment amount by the tenure conversion factor. (The tenure conversion factor is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available to the same borrower at origination.) The servicer should then determine the new net principal limit by reducing the original net principal limit by the sum of the result of this division and the total payments that have been made to the borrower and then increasing it by any partial repayments of loan advances that the borrower has made. This new net principal limit will be the line of credit that is available to the borrower under the new modified tenure payment plan. The borrower's new tenure payments will be in the amount the borrower specified.

Section 103.04  
Change in Terms of  
Modified Tenure Plan  
(01/31/03)

When the borrower requests a change in the terms of a modified tenure payment plan, the net principal limit already will be allocated between the line of credit and the tenure payments. The method used to reallocate the net principal limit will differ, depending on whether the borrower wants to increase the size of the line of credit or the size of the tenure payments.

- If the borrower specifies that he or she wants to increase the *size of the line of credit*, the servicer determines the new net principal limit by reducing the original net principal limit by the sum of all payments that have been made to the borrower and the amount of the desired new line of credit and then increasing it by any partial repayments of loan advances that the borrower has made. To determine the new tenure payments the borrower will be able to receive under the revised modified tenure payment plan, the servicer must multiply this new net principal limit by the tenure conversion factor. (The tenure conversion factor is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available

to the same borrower at origination.) The borrower's line of credit under the revised payment plan will be the amount the borrower specified.

- If the borrower specifies that he or she wants to increase the *size of the tenure payments*, the servicer must first divide the desired payment amount by the tenure conversion factor. (The tenure conversion factor is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available to the same borrower at origination.) The servicer should then determine the new net principal limit by reducing the original net principal limit by the sum of the result of this division and the total payments that have been made to the borrower and then increasing it by any partial repayments of loan advances that the borrower has made. This new net principal limit will be the line of credit that is available to the borrower under the revised modified tenure payment plan. The borrower's revised tenure payments will be in the amount the borrower specified.

**Section 104  
Payment of Taxes and  
Insurance Premiums  
(01/31/03)**

Generally, the borrower is responsible for the timely payment of all applicable property taxes, ground rent, special assessments, hazard insurance premiums, and flood insurance premiums for a Home Keeper mortgage loan. If the servicer uses a third-party tax vendor to advise it about when a borrower is delinquent in making a property tax payment, the servicer must include a question as part of its annual occupancy verification form to ascertain whether the borrower has entered into a tax deferral program and also must include the same or a similar question on other documents it sends to the borrower—such as a notification of a change to the mortgage loan interest rate or an account activity statement—along with a reminder that the borrower should contact the servicer if it ever enters into a tax deferral program. When the borrower's response to such a question indicates that he or she has entered into a tax deferral plan, the servicer must obtain confirmation that the program is subordinate to the Home Keeper mortgage lien (and retain evidence of that confirmation in the individual mortgage loan file). (Also see *Section 105, Annual Occupancy Certification (01/31/03)*.)

A borrower who has a line of credit payment plan or a modified tenure payment plan may request the servicer to pay these expenses on his or her behalf from the proceeds of the reverse mortgage loan. (If the borrower initially selected a modified tenure payment plan, the lender will have

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created a set-aside at closing to cover that portion of the first year's property charges for taxes and insurance premiums that could not be withheld from the borrower's scheduled payments between the date of loan closing and the date that the property charges become due. The servicer must, therefore, pay these charges by withdrawing the funds from the set-aside account as payments are made.) Once all of the proceeds for the reverse mortgage loan have been exhausted, the borrower must again take on the responsibility for paying taxes and insurance premiums.

Section 104.01  
Servicer Payments  
(01/31/03)

When a borrower who has a line of credit payment plan or a modified tenure payment plan requests the servicer to pay taxes and insurance premiums on his or her behalf from the proceeds of the reverse mortgage loan, the servicer should request the borrower to sign a document that (a) explains how payment of the property charges will be handled, (b) states that such payments will be made only if funds are available in the borrower's "net principal limit," and (c) places the responsibility for payment of these expenses back with the borrower once all of the proceeds from the reverse mortgage loan have been exhausted. (Instead of providing the borrower with a separate document to execute, the servicer may refer him or her to the appropriate section in the loan agreement.)

The method the servicer uses to make payments for taxes and insurance premiums on a borrower's behalf will vary depending on the borrower's payment plan.

**A. Line of credit payment plans.** For a borrower who has a line of credit payment plan, the servicer should treat the payment of taxes and insurance premiums as an unscheduled payment for the month in which the payment is made. If there are sufficient funds remaining in the line of credit to cover the servicer's advance, the servicer should pay the tax or insurance bill and then request Fannie Mae to reimburse it for the payment(s) it made, using Fannie Mae's standard disbursement procedures. When the borrower's line of credit has sufficient funds to cover the tax or insurance bill just received, but will not be sufficient to pay the next bill that comes due, the servicer should advise the borrower that he or she will be responsible for the payment of all future bills. If the balance of the borrower's credit line is not sufficient to fund an unscheduled payment for the bills just received, the servicer should not pay them; rather it should send them to the borrower for payment. The servicer should explain why the bills are being forwarded to the borrower for payment, pointing out his

or her responsibility for making such payments and emphasizing that the failure to pay property taxes and hazard insurance premiums when they are due will be considered a default under the terms of the mortgage loan.

Should the borrower later decide that he or she prefers to pay the taxes and insurance premiums instead of the servicer, the servicer must forward any tax bills or insurance premium notices it receives to the borrower for payment. The servicer should make no further draws against the borrower's line of credit for the payment of taxes and insurance premiums (except as may be required by *Section 104.02, Borrower Payments (01/31/03)*).

**B. Modified tenure payment plans.** For a borrower who has a modified tenure payment plan, the servicer must perform an annual analysis of the amounts required to pay property taxes and insurance premiums for the coming year. The borrower's scheduled monthly payments for that year must be reduced by an amount equal to 1/12 of the servicer's estimate of those expenses. (Fannie Mae will withhold this estimated amount from the scheduled payments it disburses to the servicer each month and retain it in a special tax and insurance set-aside account; therefore, the servicer must add only the remaining payment that is actually paid to the borrower to the outstanding balance of the mortgage loan each month.) When the servicer pays the tax bill or insurance premium, it should increase the borrower's outstanding mortgage loan balance and request reimbursement for an unscheduled payment from Fannie Mae, following Fannie Mae's standard disbursement procedures.

- If the amount withheld from the borrower's scheduled payment *is not sufficient* to cover the actual payments to the taxing authorities or insurers, the servicer must pay the shortfall from its own funds. The servicer may then give the borrower the option of either repaying the servicer's advance in cash or adding the advance to the outstanding balance of the mortgage loan. If the borrower chooses to have the shortfall amount added to his or her mortgage loan balance, but there are not enough funds remaining in the borrower's line of credit to fund the shortfall, the servicer may recover its advance by reducing the borrower's scheduled payments for the next year by 1/12 of the additional amount it advanced. The servicer should advise the borrower that he or she will be responsible for the payment of all future tax and insurance bills, unless the payment plan can be

restructured to accommodate the servicer's continued payment of these bills. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

- If the amount withheld from the borrower's scheduled payment *is more than what is needed* to cover the actual tax bills and insurance premiums, the servicer should reduce the future withholding amount, add the actual payments made to the outstanding mortgage loan balance, and give the borrower an option for disposing of the excess that was withheld. The borrower may choose to receive a direct cash payment for the excess amount or to have the excess added to the net principal limit (to give him or her additional borrowing power). If the excess is added to the net principal limit, the borrower's payment plan may need to be changed (either to provide for a line of credit for the amount of the excess, to increase the balance of an existing line of credit, or to increase the amount of the scheduled tenure payments). (Also see *Part XI, Section 101.03, Change in Withholding Amount (01/31/03)*.)

Should the borrower later decide that he or she prefers to pay the taxes and insurance premiums instead of the servicer, the servicer should discontinue the withholding for taxes and insurance and refund any amount previously withheld from the scheduled monthly payments that has not as yet been used to pay tax bills and insurance premiums. To discontinue the withholding, the servicer should report a payment plan change to Fannie Mae, showing the appropriate scheduled monthly payment and indicating a "zero" taxes and insurance withholding amount. The borrower should be given the option of receiving any refund as a cash payment or as an addition to his or her line of credit. The servicer should then request an unscheduled payment from Fannie Mae equal to the amount of funds that had been withheld (and which will be added to the balance of the mortgage loan). (Also see *Part XI, Section 101.03, Change in Withholding Amount (01/31/03)*.)

Section 104.02  
Borrower Payments  
(01/31/03)

When the borrower decides to make the payments for taxes and insurance premiums for himself or herself, proof that a payment has been made must be sent to the servicer no later than 30 days after the due date of the payment. If the borrower does not provide this proof of payment—or if the servicer receives a delinquency notice from the taxing authority or insurer—the servicer should contact the applicable taxing authority or



insurer to determine whether the payment is still unpaid. The servicer must contact the borrower after verifying the delinquency with the taxing authority or insurance agent, but no more than 20 days after the date of the delinquency notice. (The contact with the borrower with respect to a delinquency in making property tax payments should be made both by telephone and by mail. Only written contact with the borrower is required for a delinquency in paying insurance premiums; however, the servicer should follow up with the insurance agent to make sure that the borrower's payment is received.) The written communication with the borrower should point out the seriousness of the borrower's failure to pay the taxes and/or insurance premium and the need to work with the servicer to avoid future delinquencies in making these payments. The letter also should refer the borrower to a counselor who can give the borrower information about agencies in the area that may be able to assist the borrower. (The counselor may be the counselor that advised the borrower about the Home Keeper mortgage at loan closing or a HUD-approved counseling agency.) In addition, the letter should describe the next action the servicer intends to take, which will depend on the terms and status of the borrower's payment plan:

- If the borrower has a *tenure payment plan*, the servicer must notify the borrower that his or her payment plan will have to be changed to either a line of credit payment plan or a modified tenure payment plan to ensure that there is a line of credit sufficient to fund the servicer's unscheduled payment. (The two payment plan options should be explained to the borrower.) The servicer must remind the borrower that the failure to make timely payment of these property-related charges can be considered a default under the terms of the mortgage loan. The servicer also should indicate to the borrower that it can handle the payment of these expenses on the borrower's behalf in the future if funds are available in the borrower's net principal limit. When the borrower asks the servicer to handle future payments on his or her behalf, the servicer should request the borrower to sign a document that (a) explains how payment of the property charges will be handled, (b) states that such payments will be made only if funds are available in the borrower's net principal limit, and (c) places the responsibility for payment of the expenses back with the borrower once all of the proceeds from the reverse mortgage loan have been exhausted. (Instead of providing the borrower with a separate document to

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execute, the servicer may refer him or her to the appropriate section in the loan agreement.) Once the borrower returns the executed document, if applicable, the servicer should make the appropriate changes to the borrower's payment plan. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

- If the borrower has a line of credit payment plan or a modified tenure payment plan (and there are sufficient funds remaining in the credit line to cover the servicer's advance), the servicer should inform the borrower that it will initiate a draw against the credit line for the amount it advanced to pay the tax or insurance bill. The servicer must remind the borrower that the failure to make timely payment of these property-related charges can be considered a default under the terms of the mortgage loan. The servicer also should indicate to the borrower that it can handle the payment of these expenses on the borrower's behalf in the future if funds are available in the borrower's net principal limit. When the borrower asks the servicer to handle future payments on his or her behalf, the servicer should request the borrower to sign a document that (a) explains how payment of the property charges will be handled, (b) states that such payments will be made only if funds are available in the borrower's net principal limit, and (c) places the responsibility for payment of the expenses back with the borrower once all of the proceeds from the reverse mortgage loan have been exhausted. (Instead of providing the borrower with a separate document to execute, the servicer may refer him or her to the appropriate section in the loan agreement.)
- If the borrower has a line of credit payment plan or a modified tenure payment plan (but the balance remaining in the credit line, if any, is not sufficient to cover the servicer's advance), the servicer should issue a demand for repayment of the advance. The servicer should advise the borrower that, if the advance is not repaid within 30 days, the servicer will use whatever funds that are still available to the borrower (either in the credit line or through scheduled tenure payments) to repay the advance and, if appropriate, will change the terms of the repayment plan to reallocate any remaining funds. Should there be no additional funds available to the borrower under the payment plan, the servicer must advise the borrower that he or she will be declared "in default under the terms of the mortgage loan" if the

advance is not promptly repaid. (Also see *Section 110, Acceleration of the Debt (01/31/03)*.)

When the borrower does not provide proof of payment or respond to the servicer's letter within 20 days, the servicer should make the payment (including any late charges or penalties) and add the amount it paid to the borrower's mortgage loan balance at the end of the month in which the payment is made. The servicer should then request Fannie Mae to reimburse it for the unscheduled payment under Fannie Mae's standard disbursement procedures.

If, after 30 days from the date of the servicer's initial letter, the borrower still has not responded to either the letter or repeated follow-up telephone calls, the servicer should send the borrower an occupancy verification request (with a copy of the servicer's initial letter attached). At the same time, the servicer should attempt to contact the borrower's nearest relative or third-party contact person (making sure that such communications are in compliance with the requirements of the Fair Debt Collections Practices Act). Then, if the servicer still does not hear from the borrower or the borrower's representative within 30 days of the date of the occupancy verification request, it should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to request approval to call the mortgage loan due and payable.

**Section 105  
Annual Occupancy  
Certification (01/31/03)**

Under the terms of the Home Keeper mortgage, the borrower does not have to repay the outstanding mortgage loan balance as long as he or she occupies the security property as a principal residence and is not absent from the property for more than 12 consecutive months. To verify that a borrower is complying with the terms of the mortgage loan, a servicer must mail the borrower an occupancy certification each year that the debt remains outstanding.

The servicer should send an occupancy certification to the borrower no later than 30 days after the anniversary date of the first month after loan closing and annually thereafter. The certification should include a statement that the property continues to be the borrower's principal residence, a reminder that the borrower must give the servicer written notice about any absences from the property that are greater than two consecutive months (and provide a temporary mailing address), and a

request for confirmation of the borrower's designated third-party contact. The servicer must advise the borrower that the certification must be signed and returned within 30 days.

From time to time, Fannie Mae may audit information that is available through national databases to confirm the borrower's residency. If Fannie Mae obtains information suggesting that a borrower no longer resides in the security property, it will forward that information to the servicer with a request that it take appropriate follow-up action to determine whether or not the borrower resides in the property.

**Section 106  
Completion of Repairs  
(01/31/03)**

A repairs set-aside is available for any Home Keeper mortgage that has a line of credit payment plan or a modified tenure payment plan, if the completion of certain repairs is required as a condition of the borrower's obtaining the mortgage loan and the borrower prefers not to pay for the repairs from his or her own funds.

When a repairs set-aside was established at loan closing, the servicer must monitor the progress of the repairs. The required repairs must be completed within 12 months of the date of loan closing. The servicer must have in place an early warning system to notify a borrower when the time frame for completing repairs is about to elapse, as well as "post-warning" procedures to encourage a borrower who falls behind in making repairs to begin complying with the repair schedule as soon as possible so that the work can be completed as required.

If repairs are not completed within the required time frame, the servicer generally should not make any scheduled or unscheduled payments to the borrower until the repairs are satisfactorily completed. However, the servicer should assess each borrower's situation individually and make every effort not only to avoid causing the borrower undue hardship, but also to ensure that Fannie Mae is not exposed to losses as the result of the borrower's failure to have the necessary repairs completed. If the servicer believes that the repairs will be completed in the near future—and cessation of the payments would create a severe hardship for the borrower—it may elect to continue making the payments. If appropriate, the servicer may discontinue making payments to the borrower and reserve the line of credit for funding repairs and other mandatory items (such as property charges, tax and insurance payments, etc.). In such cases, the servicer must provide the borrower with a written notice that

explains the deficiencies, includes a statement that the mortgage loan may be called due and payable if the repairs are not completed, and refers the borrower to a Fannie Mae Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center. Then, if the borrower does not begin the repairs within 30 days of the date of this notice, the servicer should contact Fannie Mae to obtain its approval to declare the mortgage loan due and payable. Within 45 days after the end of the time period allowed for completing the repairs, the servicer must have the property inspected (and may charge the borrower an inspection fee of \$50 or less, which the borrower may pay from personal funds or by adding the expense to the loan balance in connection with a change in the payment plan).

Once the servicer receives a certificate of completion or equivalent documentation indicating that the repairs have been completed as agreed (such as a punch list, contractor's sheet, or an inspection report), it should disburse the funds to pay for the completed work jointly to the borrower and the contractor(s). Payments may be made either as specific repairs are completed or after all of the required repairs have been completed. When the servicer disburses the funds to pay for completed work, it should use Fannie Mae's standard disbursement procedures to request an unscheduled payment from the repairs set-aside (and increase the mortgage loan balance accordingly):

- If the repairs set-aside has funds remaining after all of the contractors have been paid, the amount in the set-aside will be transferred to the borrower's net line of credit. The borrower may then choose either to receive a direct cash payment or to have the balance added to his or her net principal limit (thus gaining additional borrowing power). If a borrower who has a modified tenure payment plan chooses to increase the net principal limit, the borrower's payment plan will need to be changed if he or she wants to increase the amount of the scheduled tenure payments. There will be no charge for this payment plan change. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)
- If the repairs set-aside does not have sufficient funds to pay for the entire cost of the repairs, the servicer should advance funds to pay the additional amount and inform the borrower that it will initiate a draw against the borrower's line of credit for the amount of its advance.

Should the borrower's line of credit balance not be sufficient to cover the servicer's advance, the servicer should notify the borrower that his or her payment plan will have to be changed to a plan that provides for a line of credit that is sufficient to fund the amount of the servicer's advance for the additional repair costs—unless the borrower chooses to use his or her own funds to reimburse the servicer for the additional amount it advanced. (Also see *Section 110, Acceleration of the Debt (01/31/03)*, and *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

**Section 107  
Mortgage Loan  
Repayments (01/31/03)**

The servicer must accept partial repayments or payments-in-full from the borrower at any time during the month, without imposing a prepayment premium. Such payments will be applied to the mortgage loan balance on the date they are received so that any interest accrued for the month will be based on the reduced mortgage loan balance. The amount required to satisfy the mortgage loan in Fannie Mae's records is the total outstanding debt at the time of the mortgage loan payoff (see *Exhibit 1: Determination of Payoff Proceeds Due from Borrower*). Any payments the servicer receives for the partial prepayment or satisfaction of a Home Keeper mortgage must be remitted to Fannie Mae within 24 hours after the servicer receives them.

The mortgage loan balance for a reverse mortgage loan has three components—principal, interest, and fees. The servicer must track and account for each of these components separately. Partial repayments should be applied to the mortgage loan balance in the following order: first to interest, then to fees, and finally to principal.

Any partial repayments that a borrower makes will increase his or her borrowing power on a dollar-for-dollar basis. For example, a borrower who makes a \$500 partial repayment will be able to withdraw that \$500 at some point in the future. For a borrower who has a line of credit payment plan or a modified tenure payment plan, the amount of any partial repayment will be added to the available line of credit. (If the line of credit has been exhausted, a new credit line equal to the amount of the repayment will be established.) For a borrower who has a tenure payment plan, the servicer will create a line of credit in the amount of the partial repayment (which, in effect, changes the plan to a modified tenure payment plan). However, a borrower who has a tenure payment plan may request that, instead of creating a line of credit, the servicer recalculate his

or her tenure payments to take into consideration the partial repayment. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

When a mortgage loan is paid in full, the servicer should submit a release request to Fannie Mae's DDC. If Fannie Mae needs to release a separate satisfaction document, the servicer should send that document to the following address:

Fannie Mae  
Mortgage Satisfactions  
13150 Worldgate Drive  
Herndon, VA 22070

**Section 108  
Periodic Account  
Statements (01/31/03)**

Within 15 days after the end of each calendar quarter, the servicer must send a borrower who has a Home Keeper mortgage a statement summarizing all of the interest rates that were in effect during that quarter, as well as information about all other activity that occurred during the quarter. If required by applicable law, the servicer must send these statements more often. The loan activity that should be reported in these statements includes the following:

- all monthly payments and draws against a line of credit that were sent to the borrower;
- an itemized list of all payments that were made on the borrower's behalf for taxes, insurance premiums, repairs, fees for payment plan changes, and appraisal charges;
- total servicing fees paid to the servicer;
- total amount of interest that accrued;
- the balance of the mortgage loan at the end of the statement period;
- the original principal limit and the current net principal limit; and
- the original line of credit, the current net line of credit, and the remaining balance available for withdrawal.

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Following each year-end, the servicer also must send the borrower an annual statement of all activity in the account during the past year. (Also see *Part III, Section 104.02, Reverse Mortgage Loans (01/31/03)*.)

**Section 109  
Effect of Bankruptcy  
Filing (01/31/03)**

Generally, the provisions of *Part VII, Chapter 5, Bankruptcy Proceedings*, apply to Home Keeper reverse mortgage loans for which a bankruptcy has been filed (including the procedures for selecting and referring the case to a Fannie Mae–retained bankruptcy attorney). However, because of the unique features of a reverse mortgage loan, special procedures or requirements sometimes apply. Those procedures and requirements are discussed in this *Section*.

A bankruptcy filing by someone other than the borrower is a distinct possibility for a Home Keeper reverse mortgage, especially if the original borrower has died and the ownership of the property passed under a will or by intestacy. The surviving heirs may attempt to initiate a bankruptcy proceeding to delay or forestall a foreclosure or a forced sale of the property under the terms of the reverse mortgage loan documents. In such cases, the servicer must instruct the bankruptcy attorney to take all steps necessary to ensure that the reverse mortgage loan terms can be appropriately enforced.

The reverse mortgage loan agreement for a Home Keeper reverse mortgage includes a provision that allows the servicer to stop making periodic payments (or advances). Therefore, when a servicer learns that a borrower has filed for bankruptcy, the servicer should refer the mortgage loan to the selected bankruptcy attorney and seek guidance on whether to immediately stop making such payments in accordance with the provisions of the reverse mortgage loan agreement and, if not, on the next course of action that it should take. To determine the Fannie Mae selected bankruptcy attorney for reverse mortgage loans, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center.

**Section 109.01  
Chapter 7 Filings  
(01/31/03)**

The reverse mortgage loan agreement permits the servicer to cease making payments to, or advances on behalf of, the borrower when a bankruptcy is filed under Chapter 7. However, the agreement does not provide for a declaration of bankruptcy to be a default event that allows the servicer to declare the mortgage loan due and payable.



If the borrower has not reached his or her principal limit under the Home Keeper reverse mortgage, there is a possibility that the bankruptcy trustee will attempt to sell the property or allow the borrower to buy back from the servicer his or her equity in the property. If the bankruptcy attorney fails to respond to a motion to sell and instead demands a full payoff of the reverse mortgage loan debt, the servicer may be forced to accept a “short payoff” in the amount the bankruptcy attorney deems appropriate. Therefore, it is important that the bankruptcy attorney file an appearance in the case to ensure that he or she is served with (and can respond to) any notices related to a proposed sale of the property.

Should the bankruptcy proceedings be initiated by the borrower’s heirs or estate, the servicer’s referral to the bankruptcy attorney should request that immediate action be taken to file a Motion for Relief from the Automatic Stay in order to seek the court’s authorization to foreclose and/or otherwise dispose of the property in accordance with the reverse mortgage loan documents.

Generally, the bankruptcy attorney will not need to file a proof of claim unless the bankruptcy court directs him or her to do so. However, the attorney should review any statements and schedules the borrower files to make sure the servicer’s reverse mortgage loan claim is listed as a secured claim. The bankruptcy attorney also should review the borrower’s Statement of Intention to determine whether the borrower elected to retain or surrender the security property. If the borrower elects to retain the property, the bankruptcy attorney will not need to prepare a reaffirmation agreement since the Home Keeper reverse mortgage includes no recourse provisions in its terms and the servicer cannot hold the borrower personally liable for the debt.

If the bankruptcy trustee sends the bankruptcy attorney notice to file a claim or a request for specific documentation related to the mortgage loan, the attorney should respond promptly by filing the claim and/or providing copies of the mortgage note, the recorded security instrument, and the reverse mortgage loan agreement. However, if the trustee attempts to invalidate the servicer’s claim based on the borrower’s incapacity or otherwise tries to avoid the mortgage lien, the bankruptcy attorney should vigorously contest the action.

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The bankruptcy attorney should closely monitor a Chapter 7 bankruptcy case, particularly to watch for a discharge and trustee abandonment. Generally, once there has been a discharge and trustee abandonment, the mortgage loan may be released from bankruptcy. In such cases, the bankruptcy attorney should be prepared to demand a full payoff of the mortgage loan and, if necessary, to explain the nature of the Home Keeper reverse mortgage. If the servicer suspended periodic payments (or advances) as the result of the bankruptcy filing—and the mortgage loan is subsequently released from the bankruptcy—the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to determine whether (and in what manner) payments (or advances) can be resumed.

Section 109.02  
Chapter 13 Filings  
(01/31/03)

The reverse mortgage loan agreement does not provide for a declaration of bankruptcy to be a default event that allows the servicer to declare the mortgage loan due and payable when a bankruptcy is filed under Chapter 13. However, the agreement does authorize the servicer to suspend payments made to, or on behalf of, the borrower while the bankruptcy reorganization plan is in effect. In fact, making such payments is prohibited unless they are specifically authorized by the bankruptcy court.

Should the bankruptcy proceedings be initiated by the borrower's heirs or estate, the servicer's referral to the bankruptcy attorney should request that immediate action be taken to file an Objection to Confirmation of the bankruptcy reorganization plan to challenge the heirs' right to file the bankruptcy. The Objection should state that only borrowers who occupy the security property as a principal residence can modify the terms of the reverse mortgage loan agreement and that the actions of the heirs, therefore, constitutes an impermissible modification of the loan agreement. The Objection also should seek the court's authorization to foreclose and/or otherwise dispose of the property in accordance with the reverse mortgage loan documents.

The bankruptcy attorney should review any statements and schedules the borrower files to make sure the servicer's reverse mortgage loan claim is listed as a secured claim. The plan also should be reviewed to make sure that the borrower will pay the taxes and hazard (and, if applicable, flood) insurance premiums related to the security property, will not transfer or otherwise dispose of the property without satisfying the Home Keeper

mortgage, and will not attempt to repay the mortgage loan in a manner not permitted by the reverse mortgage loan agreement. Should the plan include any objectionable provisions, the bankruptcy attorney should file an Objection to Confirmation, citing as the basis for the objection an impermissible modification of the terms of the reverse mortgage loan agreement.

The bankruptcy attorney also should review the proposed budget to determine whether the borrower plans to use payments received from the servicer (and those the servicer makes on the borrower's behalf) to fund the bankruptcy reorganization plan and to otherwise pay the borrower's creditors. Since the reverse mortgage loan agreement authorizes the servicer to suspend such payments, the bankruptcy attorney should instruct the servicer to do so (and advise the borrower that such payments will cease). If the borrower does not amend the budget accordingly, the bankruptcy attorney should file an Objection to Confirmation. The attorney's objection should state that any claim by the borrower that the servicer should continue making payments to (or on behalf of) the borrower beyond the filing of the bankruptcy petition would require an impermissible modification of the reverse mortgage loan agreement and, as a result, the servicer has suspended making payments to (or for) the borrower and the payments will not be resumed unless the court instructs the servicer to do so. Should the borrower's response to the Objection to Confirmation cite a provision in the bankruptcy law that prohibits the servicer from modifying any right or obligation under the loan agreement based solely on a provision that is conditioned on the borrower's filing a bankruptcy petition, the bankruptcy attorney (and the servicer) should contact the Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to discuss and determine the most appropriate course of action.

The bankruptcy attorney must always file a proof of claim to provide the amount required to pay off the Home Keeper reverse mortgage (including accruing costs and interest) as of the date of the bankruptcy petition. The claim also should address the special characteristics of the mortgage loan and state that the servicer does not intend to make any future payments to the borrower (or on the borrower's behalf) unless the bankruptcy court orders it to do so. The bankruptcy attorney should attach copies of the note, the recorded security instrument, and the reverse mortgage loan agreement to the proof of claim.

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The servicer should closely monitor a Chapter 13 bankruptcy case. Since a Chapter 13 reorganization plan can last for several years, the servicer should immediately advise its selected bankruptcy attorney on the occurrence of any event that would otherwise be grounds for accelerating the debt. The bankruptcy attorney should then file an immediate Motion for Relief from the Automatic Stay in order to seek the court's authorization to foreclose and/or otherwise pursue other available remedies for the default in accordance with the reverse mortgage loan documents.

**Section 110  
Acceleration of the  
Debt (01/31/03)**

The debt for a Home Keeper mortgage may be accelerated by calling it due and payable when the last surviving borrower dies, sells the property, or ceases to occupy the property as a principal residence. The mortgage loan may be accelerated and the debt called due and payable if the borrower defaults under the terms of the mortgage loan. Defaults under the terms of the mortgage loan include the borrower's inability or unwillingness to maintain the property, failure to pay taxes and insurance premiums as they come due, or a violation of any other covenant of the mortgage loan. Generally, a servicer does not have to request Fannie Mae's permission to call the mortgage loan due and payable. However, before calling a mortgage loan due and payable for a default under the terms of the mortgage loan, a servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to determine whether Fannie Mae wants to consider some other alternative.

Once a mortgage loan has been called due and payable, the borrower may not receive any further scheduled or unscheduled payments for as long as the mortgage loan remains due and payable. The servicer may continue to make required payments for taxes and insurance premiums and add them to the borrower's mortgage loan balance (if it is responsible for making such payments or the borrower fails to meet his or her responsibility for making them). In addition, the servicer must continue to add servicing fees and accrued interest to the outstanding balance of the mortgage loan until the debt is satisfied or the default is otherwise cured.

Section 110.01  
Notice of Immediate  
Payment (01/31/03)

The servicer declares a Home Keeper mortgage due and payable by sending the borrower (or the borrower's estate) a Notice of Immediate Payment. The content of this notice will vary depending on the reason the mortgage loan debt is being accelerated.

- When the mortgage loan is being called due and payable because the last surviving borrower has died, sold the property, or no longer occupies the property as a principal residence, the notice must specify the outstanding mortgage loan balance, and the amount that must be repaid to satisfy the debt. The notice also should state that full repayment is due and payable immediately and that, if the payment is not received within 30 days, foreclosure proceedings will be initiated. If the borrower (or the borrower's estate) still owns the property, the servicer may indicate that it may be willing to extend the time allowed for the repayment if a good faith effort is currently being made to sell the property.
- When the mortgage loan is being called due and payable because the borrower has failed to maintain the property, has failed to pay taxes and insurance premiums (or to reimburse the servicer for advances it made to pay them), or has otherwise violated one of the mortgage covenants, the notice must specify the nature of the default, describe the action(s) required to cure the default, provide a period of not less than 30 days (from the date the notice is delivered or mailed) within which the borrower may cure the default, and indicate that, if the borrower fails to cure the default within the allowed time period, all sums the borrower owes will become due and payable. The servicer also should specify the amount that would have to be repaid to satisfy the debt. (Any advances the servicer made on the borrower's behalf that have not already been added to the borrower's outstanding mortgage loan balance or repaid by the borrower should be included in the mortgage loan balance that is used to determine the amount required to satisfy the debt.)

Section 110.02  
Curing the Default  
(01/31/03)

After receiving the Notice of Immediate Payment, the borrower may correct any covenant violations that led to the notice of acceleration or the borrower (or his or her estate) may sell the property to pay off the outstanding debt.

The borrower may cure a default of one of the mortgage covenants by taking appropriate corrective action—reoccupying the property, providing proof of adequate insurance coverage, paying outstanding tax bills or assessments, repairing the property, etc. When that happens, the servicer should notify Fannie Mae so that it can begin disbursing payments to the borrower again. The servicer should immediately disburse any scheduled payments that were due (but not paid) to the borrower during the period of default. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03)*.)

(Fannie Mae will automatically reimburse the servicer for these payments as soon as it reports the updated status of the mortgage loan to Fannie Mae.)

If the borrower (or his or her estate) sells the property to pay off the outstanding debt, the servicer must accept as the amount required to satisfy the indebtedness proceeds equal to the lesser of the outstanding debt or the current appraised value of the property, if Fannie Mae required an appraisal. (If the property is sold after the initiation of foreclosure proceedings, any foreclosure expenses that were incurred should be included in the outstanding debt amount.) If the current appraised value is the lesser of the two amounts, Fannie Mae may reduce the amount required to satisfy the debt by the sales commission that the real estate broker received for selling the property. The servicer should contact the Deed-In-Lieu Short Sale mailbox at [dil-shortsale\\_reverse@fanniemae.com](mailto:dil-shortsale_reverse@fanniemae.com) if it believes that such a reduction in the amount required to satisfy the debt is appropriate.

When the debt is satisfied, the servicer must report the payoff to Fannie Mae and request the release of any custody documents to Fannie Mae's DDC. If Fannie Mae required a property appraisal in connection with the satisfaction of the mortgage loan, the servicer should send a copy of the appraisal report to [dil-shortsale\\_reverse@fanniemae.com](mailto:dil-shortsale_reverse@fanniemae.com). Fannie Mae will draft the funds for satisfaction of the mortgage loan from the servicer's designated custodial account within 24 hours after the servicer notifies Fannie Mae that it has received the payoff proceeds. (Also see *Part XI, Section 102.04, Payoff and Repurchase Transactions (01/31/03)*.)

Section 110.03  
Acceptance of Deed-in-  
Lieu (01/31/03)

After the Notice of Immediate Payment is received, the borrower (or the borrower's estate) may offer the servicer a deed to the property in exchange for full satisfaction of the debt. Fannie Mae will consider accepting a deed-in-lieu as long as good and marketable title to the property can be conveyed. The servicer must refer any offer of a deed-in-lieu to the Deed-In-Lieu Short Sale mailbox at [dil-shortsale\\_reverse@fanniemae.com](mailto:dil-shortsale_reverse@fanniemae.com). If Fannie Mae agrees to accept the offer, the servicer should advise the borrower (or his or her estate) that a deed conveying title of the property to Fannie Mae should be executed. (Also see *Part VII, Section 606, Deeds-in-Lieu of Foreclosure (08/02/10)*.)

Within 24 hours after a borrower (or his or her estate) executes a deed-in-lieu, the servicer must submit an REOgram to notify Fannie Mae of the property acquisition. When the servicer receives the executed deed, it must immediately submit it for recordation. The servicer must inspect the property within 15 days after the conveyance deed is executed. (Also see *Part VIII, Section 114.01, Submitting the REOgram (05/01/06)*.)

For each completed deed-in-lieu, Fannie Mae will pay the servicer a \$250 incentive fee. To request payment of this fee, the servicer should submit a *Cash Disbursement Request (Form 571)* to Fannie Mae's National Property Disposition Center.

Section 110.04  
Initiation of Foreclosure  
Proceedings (01/31/03)

If the borrower does not respond to the Notice of Immediate Payment by paying off the mortgage loan, offering a deed-in-lieu, or otherwise curing the default, the servicer must begin foreclosure proceedings by no later than the 180th day after the Notice of Immediate Payment was issued. However, the servicer may initiate foreclosure proceedings:

- by the 30th day after the Notice of Immediate Payment was issued if the mortgage loan was called due and payable as the result of the borrower's death, sale of the property, or failure to occupy the property as a principal residence; or
- between the 30th and 45th days after the Notice of Immediate Payment was issued if the mortgage loan was called due and payable for any other reason and the borrower did not cure the default within the specified 30-day time period.

If appropriate, a servicer may tailor a foreclosure prevention workout plan to cure the default and avoid a foreclosure. The granting of an extension is often enough to cure the default. On the other hand, if a permanent solution is called for, Fannie Mae expects the servicer to consider proposing a preforeclosure sale or deed-in-lieu before it initiates foreclosure proceedings. However, when there is no practical alternative to foreclosure, Fannie Mae expects the servicer to foreclose the mortgage loan expeditiously by using attorneys in its Retained Attorney Network (RAN) for applicable jurisdictions. If in a jurisdiction not covered by the RAN, then the servicer must use competent and diligent local attorneys (or trustees) who are highly experienced in handling foreclosure proceedings. (Also see *Part VIII, Chapter 1, Foreclosures.*)

Generally, the servicer should instruct the foreclosure attorney (or trustee) to enter a foreclosure sale bid that is equal to the lesser of the borrower's outstanding mortgage loan balance (which should include any outstanding servicer advances) and the appraised value of the property. The servicer may instruct the attorney to bid the borrower's outstanding mortgage loan balance unless it believes that the property value is less than the borrower's outstanding balance. If that is the case, the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to determine whether Fannie Mae is willing to enter a "short" bid.

If a third party acquires the property at the foreclosure sale, the servicer must report the acquisition of the property (by removing the mortgage loan from Fannie Mae's accounting records), collect the sales proceeds, and remit the amount Fannie Mae is due immediately. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03).*)

When the servicer's foreclosure bid is successful, the servicer must notify Fannie Mae of the property acquisition by submitting an REOgram on the day of the foreclosure sale. Fannie Mae will then develop an appropriate marketing strategy for disposing of the property. (Also see *Part VIII, Section 114.01, Submitting the REOgram (05/01/06).*)

The servicer must record Fannie Mae's title to the property in the appropriate land records and must notify the credit bureaus about Fannie Mae's acquisition of the property. Fannie Mae also may request that the servicer perform certain other administrative functions in connection with



Fannie Mae's disposition of the acquired property. (Also see *Part VIII, Section 113, Notifying Credit Bureaus (04/01/99)*, and *Chapter 3, Acquired Properties*.)

The servicer may request reimbursement for any expenses incurred in connection with the foreclosure proceedings (including attorneys' or trustees' fees) or for expenses associated with any administrative functions it performs for an acquired property. To do this, the servicer should submit a *Cash Disbursement Request* ([Form 571](#)) to Fannie Mae's National Property Disposition Center. (Also see *Part VIII, Section 108, Expenses During Foreclosure Process (01/31/03)*, and *Section 304, Reimbursement for Expenses (01/31/03)*.)

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**Special Reverse  
Mortgage Loan Functions**

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Home Keeper Mortgages

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## Exhibit 1: Determination of Payoff Proceeds Due from Borrower (01/31/03)

To determine the amount required to satisfy a Home Keeper mortgage, use the following formula:

+	Ending Loan Balance from Prior Period
+	Interest on Ending Loan Balance from Prior Period <sup>1</sup>
+	Scheduled Payment Amount for Current Period (if applicable)
+	Interest on Scheduled Payment Amount for Current Period (if applicable) <sup>2</sup>
+	Unscheduled Payments for Current Period (if applicable)
+	Interest on Unscheduled Payments for Current Period (if applicable) <sup>3</sup>
-	Partial Repayments for Current Period (if applicable)
-	Interest on Partial Repayments for Current Period (if applicable) <sup>4</sup>
+	Servicing Fee for Current Period
=	Total Payoff Due Fannie Mae (NOTE: If this amount is greater than the current appraised value of the property, the borrower is required to pay Fannie Mae only the current appraised value of the property.)

Notes:

1.  $(\text{Beginning Balance} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between End of Prior Reporting Period and Payoff Date})$
2.  $(\text{Scheduled Payment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Scheduled Payment and Payoff Date})$
3.  $(\text{Unscheduled Payment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Unscheduled Payment and Payoff Date})$
4.  $(\text{Partial Repayment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Partial Repayment and Payoff Date})$

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**Special Reverse  
Mortgage Loan Functions**

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Home Keeper Mortgages

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Exhibit 1

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## **Chapter 2. HECMs (01/31/03)**

A HECM is an FHA-insured reverse mortgage loan that is designed to assist older homeowners in converting the equity in their homes to cash. Typically, the mortgage loan is repaid from the proceeds of the sale of the home or from the settlement of the borrower's estate. The mortgage loan generally is not due and payable unless the borrower ceases to occupy the property as his or her principal residence or violates one of the covenants of the mortgage.

The amount of cash that is available when an FHA HECM is originated (which is called the "principal limit") is a function of the maximum FHA claim amount, the expected average mortgage loan interest rate, and the age of the youngest borrower. (The maximum FHA claim amount is the lesser of the original appraised value of the property and the maximum mortgage loan that FHA will insure for a Section 203(b) mortgage loan that is secured by a single-family property in a given location at the time the FHA HECM is originated. The expected average mortgage loan interest rate is the sum of Fannie Mae's required mortgage loan margin and the (a) 10-year Treasury security index (H.15 report) or (b) 10-year LIBOR swap index (H.15 report) that is in effect when the mortgage loan is originated.) The borrower's original principal limit is reduced by a set-aside for the expected servicing fees that will be paid over the life of the mortgage loan (based on a flat monthly servicing fee, which is limited to \$30 if the mortgage loan interest rate adjusts annually and \$35 if the mortgage loan interest rate adjusts each month) and, if applicable, by a set-aside to reserve funds to cover the costs of property repairs that must be completed as a condition of granting the mortgage loan. The principal limit is increased each month by 1/12 of the sum of the expected average mortgage loan interest rate and the annual mortgage insurance premium rate of 0.5%. Generally, once the outstanding mortgage loan balance equals the principal limit, the borrower will not be able to receive any additional payments.

The FHA HECM offers five different types of payment plans through which a borrower can obtain loan advances:

- **Term payment plan.** Provides for scheduled equal monthly payments to be made to the borrower beginning as early as the first day of the

month after the mortgage loan is closed and continuing through the end of a fixed term that is mutually agreed to by the mortgage loan originator and the borrower (unless, at an earlier date, the borrower no longer occupies the property as his or her principal residence or violates one of the mortgage covenants that would result in the mortgage loan becoming due and payable).

- **Tenure payment plan.** Provides for scheduled equal monthly payments to be made to the borrower beginning on the first day of the month after the mortgage loan is closed and continuing until the borrower no longer occupies the property as his or her principal residence (or until the mortgage loan otherwise becomes due and payable).
- **Line of credit payment plan.** Provides for unscheduled payments to be made to the borrower whenever he or she requests a disbursement from the servicer. The borrower specifies the amount of the disbursement each time he or she requests payment. (The borrower may request that the entire amount of the line of credit—less \$50—be disbursed at loan closing.) Payments will continue to be made to the borrower on request as long as the principal limit has not been reached and the borrower continues to occupy the property as his or her principal residence (and has not violated any of the mortgage covenants that would result in the mortgage loan becoming due and payable).
- **Modified term payment plan.** Combines the characteristics of a term payment plan and a line of credit payment plan. It provides for the borrower to set aside part of his or her principal limit as a line of credit when the mortgage loan is closed and to receive scheduled equal monthly installments (based on the reduced principal limit) under a term payment plan. The unscheduled line of credit payments can be requested at any time. The scheduled term payments can begin as early as the first day of the month after the mortgage loan is closed and continue through the end of a fixed term that is mutually agreed to by the mortgage loan originator and the borrower (unless, at an earlier date, the borrower no longer occupies the property as his or her principal residence or violates one of the mortgage covenants that would result in the mortgage loan becoming due and payable).

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- **Modified tenure payment plan.** Combines the characteristics of a tenure payment plan and a line of credit payment plan. It provides for the borrower to set aside part of his or her principal limit as a line of credit when the mortgage loan is closed and to receive scheduled equal monthly installments (based on the reduced principal limit) under a tenure payment plan. The unscheduled line of credit payments can be requested at any time. The scheduled tenure payments would begin on the first day of the month after the mortgage loan is closed and continue until the borrower no longer occupies the property as his or her principal residence (or until the mortgage loan otherwise becomes due and payable).

The borrower selects a payment plan at loan closing. However, a borrower may change from one payment plan to another as often as he or she wishes. When a plan changes, a new monthly payment and/or line of credit is established; however, any funds in a set-aside account will not be affected. The lender may charge the borrower up to \$20 to process each request for a payment plan change. A borrower also may choose to have the scheduled payments under his or her current payment plan suspended for a period of time and then restarted without having to pay a plan change processing fee.

The beginning balance for a reverse mortgage loan will be the sum of all disbursements the lender made to, or on behalf of, the borrower at loan closing. The mortgage loan balance will then increase over time as payments to, or on behalf of, the borrower are made or as adjustments for servicing fees, interest, and the mortgage insurance premium accrual are capitalized at the end of each month. Increases related to interest, mortgage insurance premiums, and servicing fee accruals or the payment of repairs set-aside funds on the borrower's behalf will take place even if the borrower's scheduled payments have been suspended or the borrower does not request a line of credit withdrawal for that month. The mortgage loan balance also may be increased if the borrower changes payment plans and chooses to finance the processing fee.

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## Special Reverse Mortgage Loan Functions

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A borrower may obtain a loan advance (either as a scheduled payment or as an unscheduled line of credit draw), repay the loan advance, and then withdraw the same funds again. Since a partial repayment of loan advances will increase the borrower's net principal limit, the borrower may request a revised payment plan that enables him or her to receive higher monthly payments.

### Section 201 Disbursement of Payments to Borrowers or HUD (01/31/03)

Under the terms of an FHA HECM, the servicer is responsible for advancing its own funds to make any payments to the borrower and to make the mortgage insurance premium payments to HUD (in accordance with HUD's established procedures). The servicer should add payments made to (or on behalf of) the borrower to the outstanding mortgage loan balance as the payments are made. At the end of each month, the servicer should increase the outstanding mortgage loan balance by the amount of its monthly servicing fee and the monthly mortgage insurance premium.

Fannie Mae will reimburse the servicer for all authorized advances. A servicer does not have to request Fannie Mae to reimburse it for scheduled term or tenure payments, but must request reimbursement for all unscheduled payments. To minimize the amount of funds the servicer has to advance, Fannie Mae will make two disbursements to the servicer each month, as well as additional disbursements when they are requested in connection with a borrower's unscheduled draw against a line of credit or the servicer's disbursement of other funds on behalf of the borrower:

- On the first business day of each month, Fannie Mae will deposit into the servicer's designated bank account funds to cover that month's scheduled payments for term, tenure, modified term, and modified tenure payment plans. (Also see *Part IX, Section 101.05, Custodial Accounts—Reverse Mortgage Loans (01/31/03)*.)
- On the fourth calendar day of each month, Fannie Mae will deposit into the servicer's designated bank account funds to cover the servicing fees due the servicer for the previous month, the mortgage insurance premium accrual for the previous month, and any adjustments that need to be made to scheduled payments that were paid in the previous month.
- Within two business days after receiving the servicer's request for a disbursement of funds related to an unscheduled payment (a line of



credit draw, a disbursement from the repairs set-aside, or a disbursement for the payment of tax assessments or insurance premiums on the borrower's behalf), Fannie Mae will deposit the requested funds into the servicer's designated bank account. (Also see *Part XI, Section 102.02, Unscheduled Payment Transactions (01/31/03)*.)

The servicer must advise Fannie Mae when a borrower requests the suspension of payments under a term, tenure, modified term, or modified tenure payment plan—and again when the borrower requests resumption of the payments—to ensure that Fannie Mae's regular scheduled monthly disbursements accurately reflect the payments due the borrower for that month. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03)*.)

The servicer may disburse payments to a borrower by sending them through the mail or by electronically transferring them into the borrower's bank account. A servicer should not disburse funds for draws against a line of credit until after it receives a written request from the borrower.

The servicer must pay the borrower a late charge for any payment that it does not make to the borrower in a timely manner. The late charge will be 10% of the amount of any payment not made to the borrower by its due date, plus daily interest (at the then-current interest rate for the mortgage loan) for each additional day the payment is late. (The servicer also must pay HUD a late charge for any mortgage insurance premium payment that is made after the due date. Fannie Mae will not reimburse the servicer for any late charges it pays to either the borrower or HUD.)

**Section 202  
Interest Rate  
Adjustments (01/31/03)**

The FHA HECMs that Fannie Mae purchases are ARMs that are originated under three ARM plans. The plans are as follows:

- HECM ARM Plan 856 is a Constant Maturity Treasury (CMT)-indexed plan that provides for annual interest rate adjustments. It has an interest rate cap of 2% per adjustment. The interest rate for ARM Plan 856 may not increase or decrease by more than 5% over the term of the mortgage.
- HECM ARM Plan 857 is a CMT-indexed plan that provides for monthly interest rate adjustments. It has a lifetime interest rate cap that

is 10% above the initial mortgage loan interest rate. This plan has no floor.

- HECM ARM Plan 4287 is a LIBOR-indexed plan that provides for monthly interest rate adjustments. It has a lifetime interest rate cap that is 10% above the initial mortgage loan interest rate. This plan has no floor.

The initial interest rate—and all subsequent rate adjustments—for these plans may be rounded to the nearest 0.125% only if the lender specifies the rounding option at loan closing. If the lender decides not to round the initial interest rate, subsequent adjustments must not be rounded.

The servicer must adjust the mortgage loan interest rate in accordance with the terms of the ARM plan the borrower selected. The servicer must use the weekly average index value that is in effect for one-year Treasury securities or the LIBOR index on the day that is exactly 30 days before the interest rate adjustment date. (Values for the weekly average one-year Treasury securities index are published in the Federal Reserve's weekly Statistical Release H.15 (519) and LIBOR index that is published in the print edition of *The Wall Street Journal*.) If the 30th day falls on a Monday, the servicer must use the index value published in the H.15 (519) or *The Wall Street Journal* on that day (unless that Monday is a federal holiday, in which case the servicer must use the index value published in the H.15 (519) or *The Wall Street Journal* (LIBOR) for the previous Monday). If the 30th day falls on any other day of the week, the servicer must use the index value published in the H.15 (519) or *The Wall Street Journal* (LIBOR) on Monday of the same week.

The new interest rate will be the sum of the index value and the mortgage loan margin specified in the note, rounded to the nearest 0.125% if the borrower selected the rounding option at loan closing. If this calculated rate exceeds the previous interest rate for an ARM Plan 856 by more than 2%, the new interest rate will be the sum of the previous interest rate and 2%. If the calculated rate exceeds the original interest rate by more than a specified percentage—5% for ARM Plan 856 and 10% for ARM Plan 857—the new interest rate will be the sum of the original interest rate and 5% or 10% (as applicable) and no additional interest rate increases will be permitted for the remaining term of the mortgage loan (although downward adjustments may be made). On the other hand, if the calculated

rate for an ARM Plan 856 is less than the original interest rate, the borrower's interest rate must be reduced accordingly—although it does not have to be decreased by more than 5% (even if the difference is greater than that). The servicer must advise the borrower of the new interest rate (including the index value and the publication date on which the new rate is based) at least 25 days before the new interest rate becomes effective.

Adjustments to the mortgage loan interest rate will change the monthly interest accrual that is added to the borrower's mortgage loan balance, but will have no effect on the size of the borrower's scheduled payments or the amount available for withdrawal under a line of credit. The interest that accrues on any payments made to the borrower during a month, along with any interest that accrues on the mortgage loan balance that was outstanding on the first of the month, will be based on the interest rate in effect on the first day of the month and will be included in the outstanding mortgage loan balance as of the end of the month.

The servicer does not need to notify Fannie Mae about interest rate changes. Fannie Mae will independently calculate each scheduled interest rate change and notify the servicer of its calculation by providing the Reverse Mortgage Rate Changes Report to the servicer on the second business day of the month before each interest rate adjustment date via the Fannie Mae reverse mortgage reporting system. If the servicer disagrees with Fannie Mae's calculations, it should contact its reverse mortgage transaction analyst. (Also see *Part XI, Section 202, Monthly Reports (01/31/03)*.)

**Section 203  
Changes to Borrower's  
Payment Plan (01/31/03)**

A borrower may request a change to his or her payment plan at any time. The types of changes that a borrower may request include (1) changing the term within which payments will be made under a term or modified term payment plan, (2) receiving an unscheduled payment not previously provided for under a term or tenure payment plan, (3) suspending payments under a term, tenure, modified term, or modified tenure payment plan for a period of time, (4) changing from one payment plan to another, and (5) changing the size of the monthly payments received under a term, tenure, modified term, or modified tenure payment plan. A payment plan change will have no effect on the funds remaining in any set-aside accounts that have been previously established.

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The servicer may charge the borrower up to \$20 for each payment plan change that requires the recasting of the borrower's payments. (This fee should not be charged when the borrower requests the suspension of scheduled monthly payments for a period of time or when the payments are resumed at the end of the suspension period.) If the borrower finances the payment of the plan change processing fee, the servicer should treat it as an unscheduled payment, adding it to the borrower's outstanding mortgage loan balance at the time the payment plan change is made.

The servicer should send its calculations of the new payment terms to the borrower, providing a standardized form of acceptance statement on which the borrower should indicate his or her agreement to the change to a new payment plan and acknowledge the effective date of the change. The servicer should retain the borrower's signed acceptance of the payment plan change—and any legal agreement executed to acknowledge modification of the payment terms—in the borrower's individual mortgage loan file.

The new payment plan will become effective on the first day of the month following the day the servicer reports the payment plan change to Fannie Mae. The servicer should process the payment plan change promptly. If, for any reason, it fails to report the plan change to Fannie Mae in a timely manner, the servicer must nevertheless make payments to the borrower according to the terms of the new plan (even if it has to advance its own funds to do so). (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

**Section 204  
Payment of Taxes and  
Insurance Premiums  
(01/31/03)**

Generally, the borrower is responsible for the timely payment of all applicable property taxes, ground rent, special assessments, hazard insurance premiums, and flood insurance premiums for an FHA HECM. However, the borrower may request the servicer to pay these expenses on his or her behalf from the proceeds of the reverse mortgage loan. In such cases, the borrower must again take on this responsibility once all of the proceeds for the reverse mortgage loan have been exhausted.

**Section 204.01  
Servicer Payments  
(01/31/03)**

When the borrower chooses to have the servicer make payments for taxes and insurance premiums on his or her behalf, the method the servicer uses to make those payments will vary depending on the borrower's payment plan.

**A. Line of credit payment plans.** For a borrower who has a line of credit payment plan, the servicer should treat the payment of taxes and insurance premiums as an unscheduled payment for the month in which the payment is made. If there are sufficient funds remaining in the line of credit to cover the servicer's advance, the servicer should pay the tax or insurance bill and should then ask that Fannie Mae reimburse it for the payment(s) it made, using Fannie Mae's standard disbursement procedures. When the borrower's line of credit has sufficient funds to cover the tax or insurance bill just received, but will not be sufficient to pay the next bill that comes due, the servicer should advise the borrower that he or she will be responsible for the payment of all future bills. If the balance of the borrower's credit line is not sufficient to fund an unscheduled payment for the bills just received, the servicer should not pay them; rather, it should send them to the borrower for payment. The servicer should explain why the bills are being forwarded to the borrower for payment, pointing out his or her responsibility for making such payments and emphasizing that the failure to pay property taxes and hazard insurance premiums when they are due will be considered a default under the terms of the mortgage loan.

Should the borrower later decide that he or she prefers to pay the taxes and insurance premiums instead of the servicer, the servicer must forward any tax bills or insurance premium notices it receives to the borrower for payment. The servicer should make no further draws against the borrower's line of credit for the payment of taxes and insurance premiums (except as may be required by *Section 204.02, Borrower Payments (01/31/03)*).

**B. Term, tenure, or modified term or tenure payment plans.** For a borrower who has a term, tenure, or modified term or tenure payment plan, the servicer must perform an annual analysis of the amounts required to pay property taxes and insurance premiums for the coming year. (The servicer's estimate may not differ from the previous year's actual disbursements for these items by more than 10%.) The borrower's scheduled monthly payments for that year must be reduced by an amount equal to 1/12 of the servicer's estimate of those expenses. (Fannie Mae will withhold this estimated amount from the scheduled payments it disburses to the servicer each month and retain it in a special tax and insurance set-aside account; therefore, the servicer must add only the remainder of the scheduled payment that is actually paid to the borrower to the outstanding balance of the mortgage loan each month.) When the

servicer pays the tax bill or insurance premium, it should increase the borrower's outstanding mortgage loan balance and request reimbursement for an unscheduled payment from Fannie Mae, following Fannie Mae's standard disbursement procedures.

- If the amount withheld from the borrower's scheduled payment *is not sufficient* to cover the actual payments to the taxing authorities or insurers, the servicer must pay the shortfall from its own funds. The servicer may then give the borrower the option of either repaying the servicer's advance in cash or adding the advance to the outstanding balance of the mortgage loan. If the borrower chooses to have the shortfall added to his or her mortgage loan balance, but there are not enough funds remaining in the borrower's net principal limit to do so, the servicer may recover its advance by reducing the borrower's term or tenure payments for the next year by 1/12 of the additional amount it advanced. The servicer should advise the borrower that he or she will be responsible for the payment of all future tax and insurance bills, unless the payment plan can be restructured to accommodate the servicer's continued payment of these bills. (Also see *Part XI, Section 101.03, Change in Withholding Amount (01/31/03)*.)
- If the amount withheld from the borrower's scheduled payment *is more than what is needed* to cover the actual tax bills and insurance premiums, the servicer should reduce the future withholding amount, add the actual payments made to the outstanding mortgage loan balance, and give the borrower an option for disposing of the excess that was withheld. The borrower may choose to receive a direct cash payment for the excess amount or to have the excess added to the net principal limit (to give him or her additional borrowing power). If the borrower chooses to add the excess to the net principal limit, the borrower's payment plan may need to be changed—either to provide for a line of credit for the amount of the excess, to increase the balance of an existing line of credit, or to increase the amount of the scheduled term or tenure payments. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

Should the borrower later decide that he or she prefers to pay the taxes and insurance premiums instead of the servicer, the servicer should discontinue the withholding for taxes and insurance and refund any amount previously withheld from the scheduled monthly payments that

has not as yet been used to pay tax bills and insurance premiums. To discontinue the withholding, the servicer should report a payment plan change to Fannie Mae, showing the appropriate scheduled monthly payment and indicating a zero taxes and insurance withholding amount. The borrower should be given the option of receiving any refund as a cash payment or as an addition to his or her line of credit. (If the borrower has a term or tenure payment plan, it can be changed to a modified term or tenure payment plan—at no cost to the borrower—to create a line of credit equal to the amount of the borrower’s refund.) In either instance, the servicer (using Fannie Mae’s standard disbursement procedures) should then request an unscheduled payment from Fannie Mae equal to the amount of funds that had been withheld (which should then be added to the outstanding mortgage loan balance).

Section 204.02  
Borrower Payments  
(01/31/03)

When the borrower decides to make the payments for taxes and insurance premiums, proof that a payment has been made must be sent to the servicer no later than 30 days before any penalty date for the late payment. If the borrower does not provide this proof of payment—and fails to respond to the servicer’s written request for it within 20 days—the servicer should contact the applicable taxing authority or insurer to determine whether the payment is still unpaid. If it is, the servicer should make the payment (including any late charges or penalties) and add the amount it paid to the borrower’s mortgage loan balance at the end of the month in which the payment is made. The servicer should then request Fannie Mae to reimburse it for the unscheduled payment under Fannie Mae’s standard disbursement procedures. The servicer’s next action depends on the terms and status of the borrower’s payment plan:

- If the borrower has a ***term or tenure payment plan***, the servicer must notify the borrower that his or her payment plan will have to be changed to a plan that provides for a line of credit that is sufficient to fund the servicer’s unscheduled payment. The servicer may either permit the borrower to handle future payments of taxes and insurance premiums or decide to assume the responsibility for making all future payments on the borrower’s behalf. If the servicer elects to make future payments on the borrower’s behalf, it also must advise the borrower that it will deduct an estimated accrual for those payments from the borrower’s scheduled payments each month.

- If the borrower has a *line of credit payment plan or a modified term or tenure payment plan (and there are sufficient funds remaining in the credit line to cover the servicer's advance)*, the servicer should inform the borrower that it will initiate a draw against the credit line for the amount it advanced to pay the tax or insurance bill. The servicer may either permit the borrower to handle future payments of taxes and insurance premiums or decide to assume the responsibility for making all future payments on the borrower's behalf. If the servicer elects to make future payments on the borrower's behalf, it also must advise the borrower that it will deduct the payments from the borrower's credit line as they are made (and increase the outstanding mortgage loan balance accordingly).
- If the borrower has a *line of credit payment plan or a modified term or tenure payment plan (but the balance remaining in the credit line, if any, is not sufficient to cover the servicer's advance)*, the servicer should issue a demand for repayment of the advance. The servicer should advise the borrower that, if the advance is not repaid within 30 days, the servicer will use whatever funds that are still available to the borrower (either in the credit line or through scheduled term or tenure payments) to repay the advance and, if appropriate, will change the terms of the repayment plan to reallocate any remaining funds. Should there be no additional funds available to the borrower under the payment plan, the servicer must advise the borrower that he or she may be declared in default under the terms of the mortgage loan if the advance is not promptly repaid. (Also see *Section 212, Acceleration of the Debt (01/31/03)*.)

**Section 205  
Annual Occupancy  
Certification (01/31/03)**

Under the terms of an FHA HECM, the borrower does not have to repay the outstanding mortgage loan balance as long as he or she occupies the security property as a principal residence. To verify that a borrower is complying with the terms of the mortgage loan, a servicer must mail the borrower an occupancy certification each year that the debt remains outstanding.

The servicer should send an occupancy certification to the borrower no later than 30 days after the anniversary date of the first month after loan closing and annually thereafter. The servicer should instruct the borrower to execute and return the certification within 30 days. The certification should include a statement that the property continues to be the borrower's



principal residence, a reminder that the borrower must provide written notice about any absences from the property that are in excess of two months, and a request for confirmation of the borrower's designated third-party contact. The certification also must include the following language above the borrower's signature line:

“WARNING: Section 1001 of Title 18 of the United States Code makes it a criminal offense to make a willfully false statement or misrepresentation to any department or agency of the United States government as to any matter within its jurisdiction.”

**Section 206  
Property Inspections  
(01/31/03)**

In certain instances the servicer should make property inspections to ensure that the borrower is maintaining the property in a way that ensures that it will continue to meet the FHA minimum property standards. Should an inspection reveal any damages or deteriorating conditions (or should the servicer otherwise become aware of such conditions), the servicer should notify the borrower of the problem, identify the repairs needed to make the condition of the property acceptable, and indicate the actions that can be taken if the deteriorating conditions are not corrected (including calling the mortgage loan due and payable, if necessary). If the borrower does not have the financial ability to make the required repairs or is unwilling to do so, the servicer may change the borrower's payment plan to create a new line of credit (or increase the amount of an existing credit line) to cover the costs of the repairs—as long as the borrower is eligible to receive additional funds under the FHA HECM. The servicer should maintain written records of all of its contacts with the borrower in the individual mortgage loan file.

If the borrower is unwilling to correct the unsatisfactory property conditions, the servicer may contact the local HUD field office within 60 days of the date that it first advised the borrower of the need for corrections and request HUD's authorization to call the mortgage loan due and payable. (Also see *Section 212.02, HUD-Approved Acceleration (01/31/03)*.)

**Section 207  
Completion of Repairs  
(01/31/03)**

A repairs set-aside is available for any FHA HECM that has a line of credit payment plan or a modified term or tenure payment plan if the completion of certain repairs is required as a condition of the borrower's obtaining the mortgage loan and the borrower prefers not to pay for the repairs from his or her own funds. When a repairs set-aside was established at loan closing,

the servicer must monitor the progress of the repairs to ensure that they are completed within 12 months of the date of loan closing. The servicer must have in place an early warning system to notify a borrower when the time frame for completing repairs is about to elapse, as well as “post-warning” procedures to encourage a borrower who falls behind in making repairs to begin complying with the repair schedule as soon as possible so that the work can be completed as required.

If repairs are not completed within the required time frame, the servicer generally should not make any scheduled or unscheduled payments to the borrower until the repairs are satisfactorily completed. However, the servicer should assess each borrower’s situation individually and make every effort not only to avoid causing the borrower undue hardship, but also to ensure that Fannie Mae is not exposed to losses as the result of the borrower’s failure to have the necessary repairs completed. If appropriate, the servicer should discontinue making payments to the borrower and reserve the line of credit for funding repairs and other mandatory items (such as property charges, mortgage insurance premiums, etc.). The servicer must provide the borrower with a written notice that explains the deficiencies, includes a statement that the mortgage loan may be called due and payable if the repairs are not completed, and refers the borrower to a HUD-approved counselor. Then, if the borrower does not begin the repairs within 30 days of the date of this notice, the servicer should refer to HUD’s requirements for declaring the HECM due and payable. Within 45 days after the end of the time period allowed for completing the repairs, the servicer must have the property inspected (and may charge the borrower an inspection fee, which the borrower may pay from personal funds or by adding the expense to the loan balance in connection with a change in the payment plan). To make sure that the mortgage loan insurance is not curtailed or canceled, all actions the servicer takes must be consistent with HUD’s requirements.

Once the servicer identifies HUD’s documentation requirements indicating that the repairs have been completed as agreed (such as a punch list, a contractor’s sheet, or an inspection report from a HUD-approved inspector), it should disburse the funds to pay for the completed work jointly to the borrower and the contractor(s). Payments may be made either as specific repairs are completed or after all of the required repairs have been completed. When the servicer disburses the funds to pay for completed work, it should use Fannie Mae’s standard disbursement

procedures to request an unscheduled payment from the repairs set-aside (and increase the outstanding mortgage loan balance accordingly).

- If the repairs set-aside has funds remaining after all of the contractors have been paid, the amount in the set-aside will be transferred to the borrower's net line of credit. If the borrower does not have a line of credit, the borrower's payment plan will need to be changed to one of the plans that includes a credit line. (The servicer should not charge a plan change processing fee in this instance.) (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)
- If the repairs set-aside does not have sufficient funds to pay for the entire cost of the repairs, the servicer should advance funds to pay the additional amount and inform the borrower that it will initiate a draw against his or her line of credit for the amount of the advance. Should the borrower not have an existing line of credit or have a line of credit with a balance of less than the amount required to repay the servicer's advance, the borrower's payment plan will need to be changed to create a new line of credit (or to increase the amount of an existing credit line) and the borrower's term or tenure payments will need to be adjusted accordingly. If a borrower who has a line of credit payment plan is not eligible to receive additional funds under an FHA HECM, the servicer should advise the borrower that he or she will have to repay the servicer for its advance of the additional amount from his or her own funds. (Also see *Section 212.02, HUD-Approved Acceleration (01/31/03)*, and *Part XI, Section 101.03, Change in Withholding Amount (01/31/03)*.)

**Section 208  
Mortgage Loan  
Repayments (01/31/03)**

The servicer must accept partial repayments or payments-in-full from the borrower at any time during the month, without imposing a prepayment premium. Such payments will be applied to the mortgage loan balance on the date they are received so that any interest accrued for the month will be based on the reduced mortgage loan balance. The amount required to satisfy the mortgage loan is the total outstanding debt at the time of the mortgage loan payoff. (*Exhibit 1: Determination of Payoff Proceeds Due from Borrower*, includes a worksheet that can be used for calculating the amount required to satisfy an FHA HECM.) Any payments a servicer receives for the partial prepayment or satisfaction of an FHA HECM must be remitted to Fannie Mae within 24 hours after the servicer receives them.

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A partial repayment increases the borrower's net principal limit. Partial repayments made by a borrower who has a line of credit payment plan should be applied to the existing line of credit to increase the amount of funds available for the borrower's future use. A borrower who has a modified term or modified tenure payment plan must specify whether he or she wants a partial repayment applied to the credit line or to his or her term or tenure payment account. If the borrower does not indicate how the partial payment should be applied, the servicer should credit it to the borrower's credit line. When a borrower indicates that the partial repayment should be applied to the term or tenure payment account, the servicer will need to process a payment plan change to increase the amount of the borrower's term or tenure payments. This also is true for repayments received from a borrower who has a term or tenure payment plan. (Also see *Part XI, Section 101, Payment Change Transactions (01/31/03)*.)

When a mortgage loan is paid in full, the servicer should submit a release request to Fannie Mae's DDC. If Fannie Mae needs to execute a separate satisfaction document, the servicer should send that document to the following address:

Fannie Mae  
Mortgage Satisfaction  
13150 Worldgate Drive  
Herndon, VA 22070

**Section 209  
Periodic Account  
Statements (01/31/03)**

The servicer must send a borrower who has a line of credit payment plan or a modified term or tenure payment plan an account statement each time it makes a draw from the borrower's credit line. The account statement should indicate the amount still available in the credit line after the most recent payment to the borrower (or vendor) has been deducted. The servicer also should provide information about the current interest rate, the previous principal balance of the mortgage loan, the amount of the latest loan advance, the current principal balance of the mortgage loan after deducting the last loan advance, and the borrower's current principal limit.

Following each year-end, the servicer also must send the borrower an annual statement of all activity in the account during the past year. (Also see *Part III, Section 104.02, Reverse Mortgage Loans (01/31/03)*.)

**Section 210  
Effect of Bankruptcy  
Filing (01/31/03)**

Generally, the provisions of *Part VII, Chapter 5, Bankruptcy Proceedings*, apply to an FHA HECM for which a bankruptcy has been filed (including the procedures for selecting and referring the case to a Fannie Mae–retained bankruptcy attorney). However, because of the unique features of a reverse mortgage loan, special procedures or requirements sometimes apply. Those procedures and requirements are discussed in this *Section*.

A bankruptcy filing by someone other than the borrower is a distinct possibility for an FHA HECM, especially if the original borrower has died and the ownership of the property passed under a will or by intestacy. The surviving heirs may attempt to initiate a bankruptcy proceeding to delay or forestall a foreclosure or a forced sale of the property under the terms of the reverse mortgage loan documents. In such cases, the servicer must instruct the bankruptcy attorney to take all steps necessary to ensure that the reverse mortgage loan terms can be appropriately enforced.

The fact that a borrower who has an FHA HECM files for bankruptcy does not necessarily mean that payments should no longer be made to the borrower. The reverse mortgage loan agreement for an FHA HECM includes a provision that allows the servicer to stop making periodic payments (or advances). Therefore, when the servicer learns about a bankruptcy filing, the servicer should refer the mortgage loan to the selected bankruptcy attorney and seek guidance on whether to immediately stop making periodic payments (or advances) in accordance with the provisions of the reverse mortgage loan agreement and, if not, on the next course of action it should take. To determine the Fannie Mae–selected bankruptcy attorney for reverse mortgage loans, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center.

**Section 210.01  
Chapter 7 Filings  
(01/31/03)**

The reverse mortgage loan agreement permits the servicer to cease making payments to, or advances on behalf of, the borrower when a bankruptcy is filed under Chapter 7. However, the agreement does not provide for a declaration of bankruptcy to be a default event that allows the servicer to declare the mortgage loan due and payable.

If the borrower has not reached his or her principal limit under the FHA HECM, there is a possibility that the bankruptcy trustee will attempt to sell the property or allow the borrower to buy back from the servicer his or her equity in the property. If the bankruptcy attorney fails to respond to a

motion to sell and instead demands a full payoff of the reverse mortgage loan debt, the servicer may be forced to accept a “short payoff” in the amount the bankruptcy attorney deems appropriate. Therefore, it is important that the bankruptcy attorney file an appearance in the case to ensure that he or she is served with (and can respond to) any notices related to a proposed sale of the property.

Should the bankruptcy proceedings be initiated by the borrower’s heirs or estate, the servicer’s referral to the bankruptcy attorney should request that immediate action be taken to file a Motion for Relief from the Automatic Stay in order to seek the court’s authorization to foreclose and/or otherwise dispose of the property in accordance with the reverse mortgage loan documents.

Generally, the bankruptcy attorney will not need to file a proof of claim—unless the bankruptcy court directs him or her to do so. However, the attorney should review any statements and schedules the borrower files to make sure the servicer’s reverse mortgage loan claim is listed as a secured claim. The bankruptcy attorney also should review the borrower’s Statement of Intention to determine whether the borrower elected to retain or surrender the security property. If the borrower elects to retain the property, the bankruptcy attorney will not need to prepare a reaffirmation agreement since the FHA HECM includes no recourse provisions in its terms and the servicer cannot hold the borrower personally liable for the debt.

If the bankruptcy trustee sends the bankruptcy attorney notice to file a claim or a request for specific documentation related to the mortgage loan, the attorney should respond promptly by filing the claim and/or providing copies of the mortgage note, the recorded security instrument, and the reverse mortgage loan agreement. However, if the trustee attempts to invalidate the servicer’s claim based on the borrower’s incapacity or otherwise tries to avoid the mortgage lien, the bankruptcy attorney should vigorously contest the action.

The bankruptcy attorney should closely monitor a Chapter 7 bankruptcy case, particularly to watch for a discharge and trustee abandonment. Generally, once there has been a discharge and trustee abandonment, the mortgage loan may be released from bankruptcy. In such cases, the bankruptcy attorney should be prepared to demand a full payoff of the

mortgage loan and, if necessary, to explain the nature of the FHA HECM. If the servicer suspended periodic payments (or advances) as the result of the bankruptcy filing—and the mortgage loan is subsequently released from the bankruptcy—the servicer should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center to determine whether (and in what manner) payments (or advances) can be resumed.

Section 210.02  
Chapter 13 Filings  
(01/31/03)

The reverse mortgage loan agreement does not provide for a declaration of bankruptcy to be a default event that allows the servicer to declare the mortgage loan due and payable when a bankruptcy is filed under Chapter 13. However, the agreement does authorize the servicer to suspend payments made to, or on behalf of, the borrower while the bankruptcy reorganization plan is in effect. In fact, making such payments is prohibited unless they are specifically authorized by the bankruptcy court.

Should the bankruptcy proceedings be initiated by the borrower’s heirs or estate, the servicer’s referral to the bankruptcy attorney should request that immediate action be taken to file an Objection to Confirmation of the bankruptcy reorganization plan to challenge the heirs’ right to file the bankruptcy. The Objection should state that only borrowers who occupy the security property as a principal residence can modify the terms of the reverse mortgage loan agreement and that the actions of the heirs, therefore, constitutes an impermissible modification of the loan agreement. The Objection also should seek the court’s authorization to foreclose and/or otherwise dispose of the property in accordance with the reverse mortgage loan documents.

The bankruptcy attorney should review any statements and schedules the borrower files to make sure the servicer’s reverse mortgage loan claim is listed as a secured claim. The plan also should be reviewed to make sure that the borrower will pay the taxes and hazard (and, if applicable, flood) insurance premiums related to the security property, will not transfer or otherwise dispose of the property without satisfying the FHA HECM, and will not attempt to repay the mortgage loan in a manner not permitted by the reverse mortgage loan agreement. Should the plan include any objectionable provisions, the bankruptcy attorney should file an Objection to Confirmation, citing as the basis for the objection an impermissible modification of the terms of the reverse mortgage loan agreement.

The bankruptcy attorney also should review the proposed budget to determine whether the borrower plans to use payments received from the servicer (and those the servicer makes on the borrower's behalf) to fund the bankruptcy reorganization plan and to otherwise pay the borrower's creditors. Since the reverse mortgage loan agreement authorizes the servicer to suspend such payments, the bankruptcy attorney should instruct the servicer to do so (and advise the borrower that such payments will cease). If the borrower does not amend the budget accordingly, the bankruptcy attorney should file an Objection to Confirmation. The attorney's objection should state that any claim by the borrower that the servicer should continue making payments to (or on behalf of) the borrower beyond the filing of the bankruptcy petition would require an impermissible modification of the reverse mortgage loan agreement and, as a result, the servicer has suspended making payments to (or for) the borrower and the payments will not be resumed unless the court instructs the servicer to do so. Should the borrower's response to the Objection to Confirmation cite a provision in the bankruptcy law that prohibits the servicer from modifying any right or obligation under the loan agreement based solely on a provision that is conditioned on the borrower's filing a bankruptcy petition, the bankruptcy attorney (and the servicer) should contact the servicer's Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center to discuss and determine the most appropriate course of action.

The bankruptcy attorney must always file a proof of claim to provide the amount required to pay off the FHA HECM (including accruing costs and interest) as of the date of the bankruptcy petition. The claim also should address the special characteristics of the mortgage loan and state that the servicer does not intend to make any future payments to the borrower (or on the borrower's behalf) unless the bankruptcy court orders it to do so. The bankruptcy attorney should attach copies of the note, the recorded security instrument, and the reverse mortgage loan agreement to the proof of claim.

The servicer should closely monitor a Chapter 13 bankruptcy case. Since a Chapter 13 reorganization plan can last for several years, the servicer should immediately advise its selected bankruptcy attorney on the occurrence of any event that would otherwise be grounds for accelerating the debt. The bankruptcy attorney should then file an immediate Motion for Relief from the Automatic Stay in order to seek the court's



authorization to foreclose and/or otherwise pursue other available remedies for the default in accordance with the reverse mortgage loan documents.

**Section 211  
Assignment of  
Mortgage Loan to HUD  
(11/15/04)**

The servicer must assign an FHA HECM to HUD once the outstanding mortgage loan balance—including all payments made to (or on behalf of) the borrower, all mortgage insurance premium accruals, servicing fees, and accrued interest—equals 98% (but is not more than 100%) of the maximum claim amount shown on the *Mortgage Insurance Certificate* (HUD Form 59100), as long as the following conditions are satisfied:

- the mortgage loan is not due and payable (and the servicer has not notified HUD of any event that might cause the mortgage loan to become due and payable), and
- the borrower has been notified that the mortgage loan is being assigned to HUD and has been given appropriate instructions about future payments that are to be made under the terms of the mortgage loan.

At least 30 days in advance of the next scheduled payment due to be made after the mortgage loan becomes eligible for assignment to HUD, the servicer must notify both Fannie Mae and the applicable HUD field office of its intent to assign the mortgage loan. The notice to Fannie Mae should be submitted to Fannie Mae at the same time the custody documents are requested from the DDC.

As soon as the servicer receives the custody documents, it should prepare and execute the appropriate legal instruments to assign the mortgage loan to HUD. Within 15 days after the mortgage loan is assigned to HUD, the servicer must file a claim for insurance benefits in Fannie Mae's name. To ensure that HUD sends the claim settlement directly to Fannie Mae, the servicer should use the following address on the claim form:

Fannie Mae  
National Property Disposition Center  
International Plaza II  
14221 Dallas Parkway  
Dallas, TX 75254-2916

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The servicer should send Fannie Mae a copy of the claim it filed with HUD (in care of the above address) to alert it about the forthcoming claim settlement.

### Section 212 Acceleration of the Debt (01/31/03)

The debt for an FHA HECM may be accelerated by calling it due and payable when certain events occur. The servicer must obtain HUD's permission to call the mortgage loan due and payable in some cases, but not in others. (These situations are discussed in *Section 212.01, Automatic Acceleration (01/31/03)*, and *Section 212.02, HUD-Approved Acceleration (01/31/03)*.) Once a mortgage loan has been called due and payable, the borrower may not receive any further scheduled or unscheduled payments for as long as the mortgage loan remains due and payable. The servicer may continue to make required payments for taxes and insurance premiums and add them to the borrower's outstanding mortgage loan balance. In addition, the monthly mortgage insurance premium accruals, servicing fees, and accrued interest must continue to be added to the outstanding balance of the mortgage loan until the mortgage insurance contract is terminated.

#### Section 212.01 Automatic Acceleration (01/31/03)

An FHA HECM must be automatically called due and payable when the last surviving borrower dies or when the borrower sells or conveys title to the property. When the servicer calls the mortgage loan due and payable for one of these reasons, it must notify Fannie Mae to suspend payment disbursements to the borrower. The servicer also must issue a Repayment Notice to the borrower stating that the mortgage loan is due and payable.

#### Section 212.02 HUD-Approved Acceleration (01/31/03)

An FHA HECM may be called due and payable when one of the following events occurs—provided the servicer first obtains prior approval to do so from the appropriate HUD field office:

- the borrower (or at least one borrower, if multiple borrowers are covered by the mortgage loan) ceases to occupy the property as a principal residence for a reason other than his or her death;
- the borrower (or the last surviving borrower, if multiple borrowers are covered by the mortgage loan) does not occupy the property as a principal residence for 12 months because of a physical or mental illness;

- the borrower is unable (or refuses) to repair a property that is in disrepair; or
- the borrower violates any other covenant of the mortgage (such as a failure to pay real estate taxes or hazard or flood insurance premiums) and is unable (or refuses) to correct the violation.

Before requesting HUD's approval to call the mortgage loan due and payable, the servicer first must take all possible steps to correct a violation (such as drawing against the borrower's line of credit to pay property taxes). If a solution cannot be found, the servicer must refer the borrower to the nearest HUD-approved counseling agency. The servicer should continue to work with the borrower to either cure the delinquency or create a delinquency workout, such as a repayment plan. When it appears that the problem cannot be resolved, the servicer must submit to the local HUD field office a written request for acceleration of the debt—providing evidence of the violation and describing all of the steps that have been taken to correct the violation. The servicer must work with HUD field office personnel to identify any ways to resolve the outstanding problems and avoid foreclosure.

When the servicer refers the mortgage loan to the local HUD field office, it must notify Fannie Mae that it has referred the mortgage loan to HUD for a determination on whether to accelerate the debt. The servicer should not, however, request Fannie Mae to suspend payments to the borrower since payments may be stopped only after the mortgage loan is declared due and payable. If the HUD field office approves acceleration of the debt, the servicer must issue a Repayment Notice to the borrower stating that the mortgage loan is due and payable. At that time, the servicer should advise Fannie Mae to suspend payment disbursements to the borrower. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03)*.)

Section 212.03  
Repayment Notice  
(01/31/03)

To declare an FHA HECM due and payable for any reason, the servicer must issue a Repayment Notice to the borrower (or, if the borrower is deceased, to his or her heirs or executor). The Repayment Notice must include the following information:

- the reason the mortgage loan is being declared due and payable;

- the borrower’s outstanding mortgage loan balance;
- a statement that the debt must be paid in full (or the default otherwise resolved) within 30 days; and
- a notice that, if the debt is not paid in full or the default is not cured within 30 days, foreclosure will be initiated within six months of the date of the Repayment Notice (or, if the borrower is deceased, within six months of the date of the borrower’s death).

The servicer also should include with the Repayment Notice information about the borrower’s (or the estate’s) right to arrange for an appraisal of the property if there is any question about the value of the property being less than the outstanding mortgage loan balance. The servicer must indicate its willingness to accept 95% of the current appraised value of the property to satisfy the mortgage loan obligation and to waive its right to pursue a deficiency judgment in connection with this “short” payoff.

Section 212.04  
Curing the Default  
(01/31/03)

After receiving the Repayment Notice, the borrower may correct any covenant violations that led to the notice of acceleration or the borrower (or his or her estate) may sell the property to pay off the outstanding debt.

The borrower may cure a default of one of the mortgage covenants by taking appropriate corrective action—reoccupying the property, providing proof of adequate insurance coverage, paying outstanding tax bills or assessments, repairing the property, etc. When that happens, the servicer should notify Fannie Mae so that it can begin disbursing payments to the borrower again. The servicer should immediately disburse any scheduled payments that were due (but not paid) to the borrower during the period of default. (Fannie Mae will automatically reimburse the servicer for these payments as soon as it reports the updated status of the mortgage loan to Fannie Mae.) (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03)*.)

If the borrower (or his or her estate) sells the property to pay off the outstanding debt, the servicer must accept as the amount required to satisfy the indebtedness proceeds equal to the outstanding debt—or, if the borrower or the estate obtained a new property appraisal, proceeds equal to the lesser of the outstanding debt or 95% of the current appraised value of the property. The servicer must obtain HUD approval for the borrower

(or his or her estate) to sell the property for an amount less than 100% of the current appraised value of the property. (If the property is sold after the initiation of foreclosure proceedings, any foreclosure expenses that were incurred should be included in the outstanding debt amount.) When the satisfaction proceeds are less than the outstanding debt, the servicer may file a claim with HUD for the difference between the proceeds and the outstanding debt.

When the debt is satisfied, the servicer should submit a release request to Fannie Mae's DDC. If Fannie Mae needs to release a separate satisfaction document, the servicer should send that document to the following address:

Fannie Mae  
Mortgage Satisfaction  
13150 Worldgate Drive  
Herndon, VA 22070

Fannie Mae will draft the funds for satisfaction of the mortgage loan from the servicer's designated custodial account within 24 hours after the servicer notifies Fannie Mae that it has received the payoff proceeds. (Also see *Part XI, Section 102.04, Payoff and Repurchase Transactions (01/31/03)*.)

Section 212.05  
Acceptance of Deed-in-  
Lieu (01/31/03)

After the Repayment Notice is received, the borrower (or the borrower's estate) may offer the servicer a deed to the property in exchange for full satisfaction of the debt. Fannie Mae will consider accepting a deed-in-lieu as long as good and marketable title to the property can be conveyed. The servicer must refer any offer of a deed-in-lieu to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center . If Fannie Mae agrees to accept the offer, the servicer should advise the borrower (or his or her estate) that a deed conveying title of the property to Fannie Mae should be executed. (Also see *Part VII, Section 606, Deeds-in-Lieu of Foreclosure (08/02/10)*.)

Within 24 hours after a borrower (or his or her estate) executes a deed-in-lieu, the servicer must submit an REOgram to notify Fannie Mae of the property acquisition. When the servicer receives the executed deed, it must immediately submit it for recordation. The servicer also must report Fannie Mae's acquisition of the property when it reports that month's

borrower payment activities to the credit bureaus. (Also see *Part VIII, Section 114.01, Submitting the REOgram (05/01/06).*)

Section 212.06  
Initiation of Foreclosure  
Proceedings (01/31/03)

If the borrower (or the borrower's estate) does not comply with the Repayment Notice by curing the default or paying off the mortgage loan, the servicer generally should begin foreclosure proceedings no later than 180 days after the Repayment Notice was issued—and notify the local HUD field office within 30 days after the proceedings are initiated. However, if a sale of the property is in process, the HUD field office may authorize the servicer to delay the initiation of foreclosure proceedings beyond this 180 days.

The servicer should instruct the foreclosure attorney (or trustee) to enter a foreclosure sale bid that is equal to the lesser of the outstanding debt or the current appraised value of the property (which the HUD field office will provide). If a third party acquires the property at the foreclosure sale, the servicer must report the acquisition of the property (by removing the mortgage loan from Fannie Mae's accounting records), collect the sales proceeds, and remit the amount Fannie Mae is due immediately. (Also see *Part XI, Section 102.03, Loan Status Maintenance Transactions (01/31/03).*)

When the servicer's foreclosure bid is successful, the servicer must notify Fannie Mae of the property acquisition by submitting an REOgram within 24 hours after the date of the foreclosure sale (or the date a deed-in-lieu is executed). Fannie Mae will then attempt to sell the property for its current appraised value within six months (in accordance with HUD's requirements that this effort must be attempted before a claim for insurance benefits can be filed). (Also see *Part VIII, Section 114.01, Submitting the REOgram (05/01/06).*)

The servicer must record Fannie Mae's title to the property in the appropriate land records and must notify the credit bureaus about Fannie Mae's acquisition of the property. Fannie Mae also may request that the servicer perform certain other administrative functions in connection with Fannie Mae's disposition of the acquired property. (Also see *Part VIII, Section 108, Expenses During Foreclosure Process (01/31/03)*, and *Section 304, Reimbursement for Expenses (01/31/03).*)

If Fannie Mae is able to dispose of the acquired property within six months—but the sale proceeds are less than the outstanding mortgage loan balance—Fannie Mae will notify the servicer so it can file a claim with HUD for the difference. If Fannie Mae is unable to dispose of the property within this time period, it will obtain a new appraisal and instruct the servicer to file a claim with HUD for the difference between the new appraised value of the property and the outstanding debt within 15 days of the date Fannie Mae received the appraisal report.

The servicer may request reimbursement for any expenses incurred in connection with the foreclosure proceedings (including attorneys' or trustees' fees) or for expenses associated with any administrative functions it performs for an acquired property. To do this, the servicer should submit a *Cash Disbursement Request* ([Form 571](#)) to Fannie Mae's National Property Disposition Center. (Also see *Part VIII, Section 108, Expenses During Foreclosure Process (01/31/03)*, and *Section 304, Reimbursement for Expenses (01/31/03)*.)

Section 212.07  
Claim for Insurance  
Benefits (01/31/03)

The servicer may not file a claim for insurance benefits with HUD as long as the proceeds from the foreclosure sale (or the sale of the property by the borrower or his or her estate) are at least equal to the outstanding debt. When the proceeds of a sale of the property are less than the outstanding mortgage loan debt, the servicer still must allow the sale to be completed, but it may then file a claim for the difference between the outstanding debt and the sale proceeds. In this case, the claim cannot exceed HUD's maximum claim amount.

The servicer must file a claim for insurance benefits with HUD when Fannie Mae is not able to dispose of an acquired property within six months. This claim should cover the difference between the new appraised value of the property and the outstanding mortgage loan balance.

The servicer must file all claims for insurance benefits in Fannie Mae's name to ensure that the claim settlement is sent directly to Fannie Mae. Fannie Mae's address should be shown on the claim form as follows:

Fannie Mae  
NPDC—Government Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

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The servicer should send Fannie Mae a copy of the claim it filed with HUD (in care of the above address) to alert Fannie Mae about the forthcoming claim settlement. (If the principal balance on the claim exceeds 100% of the maximum claim amount, the servicer also must provide the reasons—with its copy of the claim to Fannie Mae only—why the maximum claim amount was in excess of 100%.)



## Exhibit 1: Determination of Payoff Proceeds Due from Borrower (01/31/03)

To determine the amount required to satisfy an FHA HECM, use the following formula:

+ Loan Balance from Prior Period
+ Interest on Loan Balance from Prior Period <sup>1</sup>
+ FHA Mortgage Insurance Premium (MIP) on Loan Balance from Prior Period <sup>2</sup>
+ Scheduled Payment Amount for Current Period (if applicable)
+ Interest on Scheduled Payment Amount for Current Period (if applicable) <sup>3</sup>
+ MIP on Scheduled Payment Amount for Current Period <sup>4</sup>
+ Unscheduled Payments for Current Period (if applicable)
+ Interest on Unscheduled Payments for Current Period (if applicable) <sup>5</sup>
+ MIP on Unscheduled Payments for Current Period (if applicable) <sup>6</sup>
- Partial Repayments for Current Period (if applicable)
- Interest on Partial Repayments for Current Period (if applicable) <sup>7</sup>
- MIP on Partial Repayments for Current Period (if applicable) <sup>8</sup>
+ Servicing Fee for Current Period
= Total Payoff Due Fannie Mae

Notes:

1.  $(\text{Beginning Balance} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between End of Prior Reporting Period and Payoff Date})$
2.  $(\text{Beginning Balance} \times \text{Annual MIP Rate}) / 365 \times (\text{Elapsed Days Between End of Prior Reporting Period and Payoff Date})$
3.  $(\text{Scheduled Payment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Scheduled Payment and Payoff Date})$
4.  $(\text{Scheduled Payment Amount} \times \text{Annual MIP Rate} / 365) \times (\text{Elapsed Days Between Date of Scheduled Payment and Payoff Date})$
5.  $(\text{Unscheduled Payment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Unscheduled Payment and Payoff Date})$
6.  $(\text{Unscheduled Payment Amount} \times \text{Annual MIP Rate} / 365) \times (\text{Elapsed Days Between Date of Unscheduled Payment and Payoff Date})$
7.  $(\text{Partial Repayment Amount} \times \text{Current Interest Rate} / 365) \times (\text{Elapsed Days Between Date of Partial Repayment and Payoff Date})$
8.  $(\text{Partial Repayment Amount} \times \text{Annual MIP Rate} / 365) \times (\text{Elapsed Days Between Date of Partial Repayment and Payoff Date})$

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**Special Reverse  
Mortgage Loan Functions**

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HECMs

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Exhibit 1

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This page is reserved.

## **Part VI: Mortgage Loan Removals or Reclassifications (01/31/03)**

This *Part*—Mortgage Loan Removals or Reclassifications—discusses the servicer’s responsibilities when a mortgage loan is removed from Fannie Mae’s accounting records or an MBS pool because the borrower pays it off, the servicer or the originating lender repurchases it, Fannie Mae automatically reclassifies it as a portfolio mortgage loan (in order to remove a delinquent mortgage loan from an MBS pool), or Fannie Mae authorizes the servicer to assign it to HUD (under special assignment procedures available for certain FHA Section 221 mortgage loans).

The procedures in this *Part* describe Fannie Mae’s requirements for whole, participation pool, and MBS mortgage loans. However, they do not address special requirements that may have been imposed under the terms of a negotiated purchase transaction. The servicer is totally responsible for taking all steps necessary to ensure that the terms of a negotiated contract are followed.

The requirements or procedures in this *Part* generally apply to all mortgage loans that are serviced for Fannie Mae. Insofar as possible, Fannie Mae sets out those instances when its requirements vary for a particular lien type, mortgage loan type, amortization method, remittance type, servicing option, or ownership interest. Absent any restrictive language, the servicer may assume that the same procedure or requirement applies for any mortgage loan Fannie Mae has purchased or securitized.

This *Part* consists of four *Chapters*:

- *Chapter 1*—Payments-in-Full—discusses the procedures related to mortgage loan payoffs that are received from borrowers, including the amounts the borrower must pay and the remittances that must be sent to Fannie Mae.
- *Chapter 2*—Repurchases—discusses repurchases that are initiated by either Fannie Mae or the mortgage loan servicer, including the determination of the repurchase proceeds and the method of reporting the repurchase to Fannie Mae.

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## Mortgage Loan Removals or Reclassifications

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### Introduction

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Part VI

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- *Chapter 3—Reclassification of MBS Mortgage Loans*—describes the special procedures Fannie Mae has in place to reclassify delinquent special servicing option MBS mortgage loans as portfolio mortgage loans, including a discussion of the effect of such reclassifications on future reporting requirements.
- *Chapter 4—Special FHA Assignments*—discusses the special provisions of Section 221 of the National Housing Act that enable holders of FHA Section 221 mortgage loans to assign them to HUD if they are not in default on the 20th anniversary of their endorsement for mortgage insurance.

## **Chapter 1. Payments-in-Full (01/31/03)**

### **Section 101 Notification of Mortgage Loan Payoff (01/31/03)**

The servicer is responsible for providing payoff statements to the borrower or his or her agent, for collecting and remitting to Fannie Mae sufficient funds to satisfy the debt, and for the proper accounting and reporting of the mortgage loan payoff.

Fannie Mae does not require advance notice of a mortgage loan payoff. When requested, the servicer must provide a current and accurate statement of the amounts required to pay off the mortgage loan as of a certain date. Payoff figures may be given to the borrower or to any other authorized party. The servicer may not charge a fee for providing the payoff statement if the borrower has a Texas Section 50(a)(6) mortgage loan or if such a fee is prohibited by any other law.

The servicer must send a borrower who has an FHA mortgage loan an annual disclosure statement describing its prepayment policy and the requirements the borrower must fulfill to prevent the accrual of interest after the date he or she pays the mortgage loan off. If the servicer fails to make this disclosure, HUD may require the forfeiture of any interest charges that cover the period after the day the payoff funds were received. Fannie Mae will not reimburse the servicer for any interest forfeited as a result of the servicer's failure to provide adequate disclosure to a borrower.

As soon as the servicer verifies that the amount required to pay a mortgage loan in full has been received, it must take all the steps necessary to ensure that:

- Fannie Mae's interest (or that of the mortgagee of record) is removed from the hazard (or flood) insurance policy;
- the taxing authorities are notified that future tax bills should be sent to the borrower (or to the servicer of the first mortgage loan if a second mortgage loan is paid off, but the first mortgage loan is not);
- the appropriate release or satisfaction documents are prepared and executed;

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## Mortgage Loan Removals or Reclassifications

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### Payments-in-Full

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- the mortgage insurer or guarantor is notified of the payoff;
- MERS is advised to deactivate the MERS registration for the mortgage loan (if applicable); and
- Fannie Mae's share of the payoff proceeds is remitted in accordance with the remittance schedule established for the remittance type under which the mortgage loan is reported.

The servicer must code the payoff as an Action Code 60 when it next reports a Transaction Type 96 (Loan Activity Record) to Fannie Mae through Fannie Mae's investor reporting system.

### Section 102 Payoff Amount (01/31/03)

The payoff amount includes the UPB, plus interest and other charges, less certain funds that may be in the servicer's custody. When a mortgage loan is paid in full, the borrower also must repay any funds the servicer (or Fannie Mae) has advanced on his or her behalf. If the advance repayment is due Fannie Mae, the servicer must remit the repayment to Fannie Mae separately as a special remittance, rather than as part of the payoff proceeds. This must be done within 30 days of the payoff date.

### Section 102.01 Interest Calculation (01/31/03)

Interest charged to the borrower should always be calculated on the UPB of the mortgage loan as of the LPI date, 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 mortgage loan or an FHA Title I loan may not use the rule of 78s (or sum of the digits) method for calculating interest unless Fannie Mae has given it specific approval to do so.

The amount of interest that may be charged to the borrower is specified below. This is not necessarily the amount of interest that will be remitted to Fannie Mae—that depends on the remittance type under which the mortgage loan is reported (see *Section 106, Remitting Payoff Proceeds (01/31/03)*).

- For *VA mortgage loans, RD mortgage loans, FHA Title I loans, and conventional first and second mortgage loans*, interest should be computed up to, but not including, the day the payoff funds are received.

- For ***FHA mortgage loans that are being refinanced as new conventional mortgage loans***, interest should be computed up to, but not including, the day the payoff funds are received. For ***other FHA mortgage loans*** (regardless of the date they were endorsed for mortgage insurance) and ***HUD-guaranteed Section 184 mortgage loans***, interest should be computed either up to the date of the payoff (if the payoff funds are received on an installment due date) or through the end of the month (if the payoff funds are received after an installment due date). 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 if received on the next business day.

Section 102.02  
Prepayment Premiums  
(09/28/04)

Fannie Mae does not impose or permit a prepayment premium for most mortgage loans. However, if a mortgage loan (other than a Texas Section 50(a)(6) mortgage) that includes a prepayment provision is delivered under the terms of a negotiated contract that specifically provides for enforcement of a prepayment premium, Fannie Mae will allow the servicer to enforce it as long as it meets the guidelines set out in the *Selling Guide, B8-3-02, Special Note Provisions and Language Requirements*. In such cases, the servicer may collect the premium, and advise Fannie Mae of the collection of the premium when it next reports a Transaction Type 96 (Loan Activity Record), regardless of whether Fannie Mae permits the servicer to retain the prepayment premium or requires it to remit the prepayment premium to Fannie Mae.

Section 102.03  
Use of Deposit Account  
(or Unapplied) Funds  
(01/31/03)

The servicer should consider any funds in the borrower's escrow deposit account (or those held as unapplied payments) when determining the amount to be collected from the borrower. However, if these funds are not additional security for the loan (as is the case under the uniform instruments that have a date of March 1999 or later), they should be refunded to the borrower separately, unless the borrower requests that they be applied to the payoff balance.

Section 102.04  
Use of Buydown Account  
Funds (01/31/03)

For any mortgage loan subject to an interest rate buydown plan, the servicer should consider any funds remaining in the buydown account if the buydown agreement provides for those funds to be returned (or credited) to the borrower when the mortgage loan is paid off. When determining the amount to be collected from the borrower, the servicer should reduce the amount required to pay the mortgage loan in full by the

amount of the remaining buydown funds. The servicer should not subtract the buydown funds from the mortgage loan balance because an incorrect interest calculation would result. If the servicer is holding the remaining buydown funds, it must include them with its remittance of the payoff proceeds.

**Section 103  
Satisfying the Mortgage  
Loan (01/31/03)**

Fannie Mae expects a servicer to take all actions necessary to satisfy a mortgage loan and release the lien in a timely manner. Once the required release or satisfaction documents are executed and the mortgage note is canceled, the servicer must immediately send the canceled documents to the borrower if state law requires such action or the borrower specifically requests the return of the documents. In other instances, the servicer may either return the documents to the borrower or retain them (as long as they are not destroyed until after the retention period required by applicable law). The servicer also should take any other steps required to release the lien and ensure that no penalties are incurred because the actions were not performed in a timely manner. (The servicer may not pass on to the borrower or to Fannie Mae any penalty fee that it has to pay because it failed to process the release and satisfaction documents within the required time frame.)

Fannie Mae requires a servicer to 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. In any situation in which the servicer believes that it is necessary to produce an original note (such as when a jurisdiction requires the original note to be returned to the borrower), Fannie Mae is willing to issue a certified copy of the electronic mortgage loan records for the servicer's use.

A servicer may charge the borrower a fee for releasing, re-conveying, or discharging Fannie Mae's lien against the property only if the fee is paid to a third party for services rendered—such as 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)—and the charging of such fees is not prohibited by either the mortgage loan instrument, federal or state law, or the mortgage insurer or guarantor. (The servicer may not require a release fee if the borrower has a Texas Section 50(a)(6) mortgage or such fee is prohibited by any other law.) Fees charged to the borrower must be



consistent with those permitted by the mortgage insurer or guarantor and applicable state law.

Procedures for satisfying the mortgage loan will vary depending on whether or not Fannie Mae is the mortgagee of record for the mortgage loan; the party holding the custody documents; and whether the mortgage loan is a portfolio mortgage loan or an MBS mortgage loan. Regardless of the procedure used, the servicer has the ultimate responsibility for having the lien released in a timely manner.

Section 103.01  
Fannie Mae Is Mortgagee  
of Record (01/31/03)

If Fannie Mae is the mortgagee of record for a portfolio mortgage loan, it will need to execute any required release or satisfaction documents— unless it has granted the servicer a limited power of attorney to execute the satisfaction documents on Fannie Mae’s behalf. (Fannie Mae encourages the servicer to request limited powers of attorney for each jurisdiction in which it is servicing mortgage loans for Fannie Mae since this will substantially reduce the time required to complete all of the steps involved in the satisfaction of a mortgage loan. (See *Part I, Section 202.05, Written Procedures (01/31/03)*, for more information about obtaining a limited power of attorney.)

A 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) will need to send any required release or satisfaction documents to Fannie Mae for execution, whether or not Fannie Mae is holding the custody documents. The satisfaction or release documents, which should be identified by the Fannie Mae loan number (and, if applicable, the MERS MIN), should be sent to Fannie Mae; Vendor Oversight; Legal Document Execution; 13150 Worldgate Drive; Herndon, Virginia 22070. The servicer should send Fannie Mae the release or satisfaction documents Fannie Mae needs to execute. Fannie Mae will return the executed satisfaction or release documents to the servicer promptly.

Fannie Mae is the mortgagee of record for some MBS mortgage loans. When one of these mortgage loans is paid off, the servicer should request assignment of the mortgage loan into its name. Fannie Mae will execute the assignment and send it to the servicer so that it can execute the satisfaction documents in its own behalf. The servicer should submit the request for the assignment of custody documents to Vendor Oversight, Legal Document Execution.

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## Mortgage Loan Removals or Reclassifications

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Section 103.02  
Fannie Mae Is Not  
Mortgagee of Record  
(01/31/03)

If Fannie Mae is not the mortgagee of record for a mortgage loan, it does not need to execute any release or satisfaction documents. The servicer should execute any required satisfaction documents in its own name (or in MERS' name, if applicable for a MERS-registered mortgage loan).

**Section 104**  
**Payment of**  
**Recordation Fees**  
**(01/31/03)**

Generally, the borrower must pay the fees imposed by a state, county, or local government for recordation of the satisfaction of a mortgage loan. However, when applicable state law places the responsibility for paying these recordation fees on the mortgagee (rather than the borrower), the servicer must pay them. A servicer should review the applicable laws for the states in which it does business to make sure that it does not charge a borrower for recordation fees that are prohibited by state law. Kansas, Michigan, and Tennessee prohibit a servicer (or trustee) from charging the borrowers recordation fees related to mortgage loan payoffs, while Maryland and Ohio permit this practice only if the mortgage loan instruments specifically provide for it. The laws of these and other states may change from time to time.

Fannie Mae will reimburse the servicer for any government-imposed recordation fees it has to pay in connection with mortgage loan satisfactions for portfolio mortgage loans or special servicing option MBS mortgage loans, if they are secured by properties located in Kansas, Michigan, or Tennessee. However, Fannie Mae will reimburse servicers for recordation fees related to Maryland and Ohio mortgage loans only if the mortgage loans were closed on documents that did not specifically require the borrower to pay such charges. Fannie Mae will not reimburse a servicer for fees for recording satisfactions of any other mortgage loans, unless the servicer is able to provide evidence of a state or local law that places the responsibility for payment of recordation fees on the servicer while prohibiting it from charging such fees to the borrower.

A servicer may not net fees for recording the satisfaction of a mortgage loan out of the proceeds for the individual mortgage loan payoff. Instead, the servicer may obtain reimbursement of the recordation fees that it is required to pay by submitting a single *Cash Disbursement Request* ([Form 571](#)) to Fannie Mae at the end of each calendar quarter, attaching an itemized list of the individual mortgage loans (including the state location of the property) and the related fees that were paid during the calendar quarter. The servicer should send all requests for reimbursement of recordation fees to Fannie Mae's National Property Disposition Center.

- If the mortgage loan is secured by property located in Maryland or Ohio and the mortgage loan documents do not specifically require the borrower to pay the recordation fee, the servicer may request reimbursement from Fannie Mae. By submitting a request for reimbursement, the servicer warrants that the mortgage loan documents do not allow it to pass the charges on to the borrower. (Fannie Mae may ask the servicer to provide Fannie Mae with the applicable mortgage loan documents at a later date as part of Fannie Mae's quality control process.)
- If the mortgage loan is secured by property located in any state other than Kansas, Michigan, or Tennessee (excluding Maryland and Ohio) and the state or local law requires the mortgagee to pay recordation fees, the servicer may still request reimbursement from Fannie Mae, but it will need to attach copies of the applicable state or local law to support its request. (After Fannie Mae verifies that a specific state requires the mortgagee to pay recordation fees, Fannie Mae will add it to its list of states for which it automatically reimburses for recordation fees so that supporting documentation will no longer be necessary.)

**Section 105  
Escrow Refunds  
(01/31/03)**

The funds in any escrow deposit account should be refunded to the borrower within 30 days of the payoff date. However, it is not necessary to refund \$1.00 or less, unless the borrower specifically requests it. For any amount over \$1.00, if the borrower cannot be located, the servicer should remit the escrow balance or, in the case of a participation mortgage loan, Fannie Mae's percentage interest of the escrow balance to Fannie Mae within 60 days of the payoff date. The servicer should remit to Fannie Mae the funds related to any undeliverable refund checks that belong to the borrower and send any unclaimed mortgage loan documents to Fannie Mae's DDC. However, the servicer must hold for as long as legally required any escrows that are subject to state laws regarding unclaimed or abandoned funds.

**Section 106  
Remitting Payoff  
Proceeds (01/31/03)**

The schedule for remitting payoff proceeds to Fannie Mae—and the amount of funds it is due—generally varies depending on the remittance type of the mortgage loan that was paid off and the particular remittance cycle Fannie Mae has established for mortgage loans with that remittance type. Although the schedule for remitting payoff funds for an FHA Title I loan is based on the remittance type for the loan, the amount due Fannie Mae will not vary based on the remittance type. For an FHA Title I loan

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## Mortgage Loan Removals or Reclassifications

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### Payments-in-Full

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that is paid in full, the servicer must remit to Fannie Mae the UPB plus the full amount of interest charged to the borrower (less the applicable servicing fee).

#### Section 106.01 Actual/Actual Remittance Types (01/31/03)

If the payoff proceeds for a mortgage loan that is an actual/actual remittance type are greater than \$2,500, the servicer must remit them to Fannie Mae immediately. Otherwise, they should be remitted under the servicer's regular remittance schedule. The amount to be remitted to Fannie Mae includes the UPB, the full amount of the interest that was charged to the borrower, FHA service charges (if applicable), and any prepayment premium (if Fannie Mae agreed that such a premium could be collected and required that it be remitted to Fannie Mae), less any adjustments for servicing fees and unapplied buydown funds Fannie Mae may be holding. Fannie Mae will calculate the payoff proceeds due to it and compare them to the servicer's reported remittance. Fannie Mae then adds to (or subtracts from) the servicer's shortage/surplus account any difference.

#### Section 106.02 Scheduled/Actual Remittance Types (01/31/03)

For most mortgage loans that are scheduled/actual remittance types, 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 by any other negotiated remittance date). The amount to be remitted to Fannie Mae includes Fannie Mae's share of the following: the UPB, one-half of one month's interest—calculated at the net certificate yield or the pass-through rate for a whole mortgage loan—and any prepayment premium (if Fannie Mae agreed that such a premium could be collected and required that it be remitted to Fannie Mae).

Regardless of the remittance date, Fannie Mae will calculate the payoff proceeds due Fannie Mae and compare them to the servicer's reported remittance. Fannie Mae then adds to (or subtracts from) the servicer's shortage/surplus account any difference.

#### Section 106.03 Scheduled/Scheduled Remittance Types (06/01/07)

For a scheduled/scheduled remittance type mortgage loan—regardless of whether it is held in Fannie Mae's portfolio or is part of an MBS pool—the servicer must remit the payoff proceeds to Fannie Mae as part of its regular monthly remittance—by the 18th calendar day of the month following the month in which they were received, if the servicer is using the standard remittance day; by the early remittance day the servicer specified under

the RPM for MBS remittances; or by the 4th business day of the month, if the mortgage loan is in an MBS Express pool.

The amount to be remitted to Fannie Mae for a portfolio mortgage loan includes the scheduled UPB of the mortgage loan and a full month's interest (calculated at the pass-through rate of the mortgage loan). For MBS mortgage loans, the amount to be remitted to Fannie Mae includes Fannie Mae's share of the security balance of the mortgage loan plus a full month's interest (calculated at the pass-through or accrual rate for the pool, or at the mortgage loan accrual rate if the mortgage loan is in a weighted-average ARM MBS pool), and any prepayment premium (if Fannie Mae agreed that such a premium could be collected and required that it be remitted to Fannie Mae). Because the servicer is required to remit a full month's interest to Fannie Mae in all cases, 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.

The servicer also must reflect the payoff of an MBS mortgage loan that occurs in any given month in the "pool security balance" that it has to report by the second business day of the following month. When a 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. When a mortgage loan payoff comes directly from the borrower, the mortgage loan can be considered as paid off on the day the servicer receives the funds. If a closing (or receipt of the funds from the borrower) takes place on the first day of a month, the mortgage loan can be considered as being paid off as of the end of the previous month since that is the date through which the borrower will be charged interest. However, each servicer must elect whether it will consider any full payoff received on the first business day of a month as though it was received in the prior calendar month (rather than on the day of actual receipt) or whether it will consider any full payoff received on the first business day of a month as being received in the calendar month in which receipt actually occurs. If a servicer elects to pass through first-business-day payoffs as though received in the prior calendar month, it must continue to do so for all scheduled/scheduled remittance type mortgage loans serviced for Fannie Mae. To take advantage of this flexibility, the servicer must be

able to reflect the appropriate reduction in its pool security balance report for the month.

Once a first day of the month payoff election is made, the servicer must continue to follow the method selected for all loans of that remittance type. The only exception to this rule is that if a servicer elects to use the actual date of receipt to determine the pass-through date, it may continue that practice or it may later make a one-time election to consider such first business day payoffs as being received on the last day of the preceding calendar month. Payoffs on any mortgage loans that are subject to a servicing transfer will be serviced in accordance with the practice of the applicable transferee servicer for processing payoffs received on the first business day of a month. A subservicer will be required to handle first business day of the month payoffs in accordance with the subservicer's election, rather than that of the servicer.

The first day of the month payoff election requirement will apply to all scheduled/scheduled MBS and scheduled/scheduled cash remittance type mortgage loans that a servicer is servicing for Fannie Mae now and in the future. The servicer must notify Fannie Mae of its first day of the month payoff election. The servicer must submit its election by e-mail to [firstbusinessday\\_payoffelection@fanniemae.com](mailto:firstbusinessday_payoffelection@fanniemae.com). This e-mail address should also be used for those servicers that initially elect to treat any full payoff received on the first business day of a month as being received in the calendar month in which receipt actually occurs and subsequently make a one-time election to consider such first business day payoffs as being received on the last business day of the preceding calendar month. In its e-mail notification, the servicer must indicate its first of the month payoff election and provide the five-digit seller/servicer number(s) for each scheduled/scheduled MBS and scheduled/scheduled cash remittance type mortgage loans that it is servicing for Fannie Mae as a master servicer or subservicer (if applicable). If a servicer later begins to service loans on a scheduled/scheduled remittance type not currently serviced by the servicer, the servicer must promptly file a first business day of the month payoff election.

## Chapter 2. Repurchases (01/31/03)

Fannie Mae may require the repurchase of a mortgage loan (or of an acquired property) for reasons including, but not limited to, the selling lender's breach of any contractual warranty, 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 security property. Fannie Mae also permits servicer-initiated repurchases under certain circumstances. (For more information, see *Part I, Section 207, Repurchase or Mortgage Substitution Requirements (09/30/05)*.)

### **Section 201 Repurchase of Regular Servicing Option MBS Mortgage Loans and Repurchase of Mortgage Loans Previously Removed from MBS Pool (12/31/08)**

In order to facilitate timely removal of regular servicing option delinquent MBS mortgage loans that have 24 consecutive payments past due, 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. 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 will 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 *Part I, Section 205, Post-Delivery Transfers of Servicing (09/30/06)*). (Note that under the Fannie Mae/Freddie Mac uniform first 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.)

### **Section 202 Repurchase Proceeds (01/31/03)**

Generally, when Fannie Mae requests a servicer to repurchase a mortgage loan, the repurchase price will be the same as the price at which Fannie Mae originally purchased the mortgage loan. This is usually true when the servicer (or originating lender) repurchases a mortgage loan under a repurchase agreement or because of a breach of warranty; however, some

agreements may specify other terms. If Fannie Mae agrees to a repurchase request as an accommodation to the servicer or originating lender, Fannie Mae will base its repurchase price on current market prices.

The proceeds for a repurchase of a whole mortgage loan or a participation pool mortgage loan that Fannie Mae holds in its portfolio are usually determined by multiplying the UPB at the time of repurchase by the purchase price (expressed as a percentage of par or 100%) that Fannie Mae originally paid for the mortgage loan, and adding appropriate adjustments for interest, attorney's fees, legal expenses, court costs, and other expenses Fannie Mae may have incurred—and making appropriate adjustments to reflect Fannie Mae's percentage ownership in the mortgage loan. Interest for an actual/actual remittance type mortgage loan should be calculated through the effective repurchase date, while interest for a scheduled/actual remittance type mortgage loan should be calculated through the end of the repurchase month. If the mortgage loan has undergone negative amortization, Fannie Mae limits the purchase discount to the amount of the original purchase discount.

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 (or participation interest) as of the repurchase month and one month's interest on that balance. The interest for a fixed-rate mortgage loan should be calculated at the pass-through rate of the MBS pool, while the interest for an ARM should be calculated at either the accrual rate for the pool (if the mortgage loan is in a stated-structure ARM MBS pool) or the accrual rate for the mortgage loan (if the mortgage loan is in a weighted-average ARM MBS pool).

**Section 203  
Reporting the  
Repurchase (01/31/03)**

Most repurchases are reported to Fannie Mae under the same general procedures Fannie Mae uses for payments in full. The servicer must code the repurchase as an Action Code 65 (or, if applicable, an Action Code 67; Code 67 is used to indicate that the servicer is repurchasing a modifiable ARM MBS loan (an ARM loan with a modification feature) from a pool that has modifiable ARM MBS loans for the purpose of modification) in the next Transaction Type 96 (Loan Activity Record) it transmits to Fannie Mae through Fannie Mae's investor reporting system. The servicer of an MBS mortgage loan must also reflect the repurchase of the mortgage loan in its pool security balance report for the reporting period.



If the servicer repurchases an acquired property after it submits an REOgram to Fannie Mae, the mortgage loan may or may not have been removed from Fannie Mae's investor reporting system records. If it has not been removed, the servicer must report the removal transaction (as an Action Code 70) in the next Transaction Type 96 (Loan Activity Record) it transmits to Fannie Mae through Fannie Mae's investor reporting system. (Note: the servicer should not report an action code that reflects "repurchase" or "payoff" since the liquidation actually relates to the disposition of property that was "held for sale," which requires use of Action Code 70.) The servicer also will need to report the repurchase proceeds as a "special remittance." As soon as Fannie Mae receives the repurchase proceeds, it will execute a quit-claim deed to convey the property to the servicer (and will work with the servicer to ensure that the reconveyance deed is appropriately recorded in the land records).

If the repurchase relates to a defaulted second mortgage loan for which Fannie Mae had advanced funds, Fannie Mae will instruct the servicer on how to report the repurchase (and how to remit the funds) when Fannie Mae issues its request for the repurchase. Fannie Mae also will include with its repurchase request instructions on how the servicer should 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.

The servicer should request from the designated document custodian to release all of the custody 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](#)).

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Repurchases

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## **Chapter 3. Reclassification of MBS Mortgage Loans (06/01/07)**

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. Generally, Fannie Mae will select mortgages that have at least three monthly payments past due for reclassification in the month when the fourth payment is delinquent. Each month, Fannie Mae will provide the servicer a report in the Fannie Mae investor reporting system listing all mortgage loans it is servicing that have been selected for reclassification in the current month. The servicer must deselect any mortgages that do not have at least four payments past due when the servicer responds to Fannie Mae's notification.

Servicers can confirm that Fannie Mae has reclassified a PFP mortgage loan by reviewing the Pooled from Portfolio Reclass report posted on the Fannie Mae investor reporting system. Fannie Mae will also remove from an MBS pool all other scheduled/scheduled MBS mortgage loans that are not deselected for a permitted reason by the stated, monthly reclass date, as defined in the annual Asset Development Management Reporting and Remitting Calendar. The scheduled/scheduled MBS reclass date occurs on or prior to the 25th calendar day of the month. Servicers can confirm that Fannie Mae has reclassified a loan by reviewing the Purchase Advice that is posted on the Fannie Mae investor reporting system.

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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## Mortgage Loan Removals or Reclassifications

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Reclassification of MBS  
Mortgage Loans

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### **Section 301 List of Approved Reclassifications (09/30/05)**

On approximately the 12th day of each month, Fannie Mae will send a servicer notification over the Fannie Mae investor reporting system listing delinquent special servicing option MBS mortgage loans that Fannie Mae has approved for reclassification

The servicer should review the list of *approved* reclassifications to determine their current status, using HSSN to notify Fannie Mae of any mortgage loans that need to be removed (or “deselected”) from the list and the reason for the deselection. The servicer’s notification of deselections must reach Fannie Mae by the 20th of the month. Mortgage loans should be deselected if they are:

- brought current (or at least have enough payments applied to reduce the delinquency to three payments or fewer); or
- paid off, foreclosed, or otherwise liquidated.

The servicer does not need to notify Fannie Mae about mortgage loans that remain eligible for reclassification because Fannie Mae will automatically reclassify any mortgage loans on the list of approved reclassifications that the servicer does not instruct Fannie Mae to deselect. As soon as Fannie Mae reclassifies the mortgage loans in its records, Fannie Mae will notify the servicer of the reclassified mortgage loans and the date by which the servicer should expect to receive reimbursement for its previous delinquency advances and the UPB that it will later have to remit to Fannie Mae.

### **Section 302 Removal of Mortgage Loans (12/08/08)**

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 09 – forbearance – for six consecutive months, and
- with a delinquency status code of 12 – repayment plan – for 18 consecutive months.

Through HSSN, the servicer will be required to deselect those mortgage loans that are current or will be reported with a delinquency status code indicating that the loan no longer violates Fannie Mae’s forbearance,

repayment plan, or foreclosure requirements based on the real-time information that the servicer has for the mortgage loan.

Section 302.01  
Mortgage Loans  
Reported as Forbearance  
for Six Consecutive  
Months (12/08/08)

For all MBS mortgage loans with pool issue dates from June 1, 2007, through December 1, 2008, servicers may offer forbearance (a temporary suspension or reduction in borrower payments) for no more than six consecutive months. A forbearance period may not extend past the last scheduled payment date of the mortgage loan. For a mortgage loan to remain in an MBS pool after six consecutive months of forbearance, the mortgage loan must have become current or the servicer must report a delinquency status code to indicate that the loan status has appropriately changed during or at the end of the six-month forbearance period (e.g., Code 12 – a repayment plan, Code 31 – in probate, Code 32 – under military indulgence under the provisions of the Servicemembers Civil Relief Act or applicable state law, Code 43 – referred to foreclosure, or Codes 59, 65, 66, and 67 – in bankruptcy), or that the servicer is working with the borrower on a loss mitigation relief option (e.g., Code 17 – preforeclosure sale, Code 26 – refinance, Code 27 – assumption, Code 28 – mortgage loan modification, but the mortgage loan must be removed from the MBS pool before the modification is executed, Code 44 – awaiting the completion of a deed-in-lieu), or the servicer has commenced or resumed collection activities leading to foreclosure proceedings after the forbearance (e.g., Code 42 – delinquent no action). A mortgage loan that continues to have a forbearance code indicating that the loan is in forbearance for six consecutive months or without a delinquency status code in the seventh month after the mortgage loan was reported in forbearance for six consecutive months will be removed from the MBS pool.

For MBS mortgage loans with pool issue dates up to and including May 1, 2007, MBS mortgage loans with pool issue dates on or after January 1, 2009, and mortgage loans held in Fannie Mae's portfolio, a servicer may offer forbearance for periods longer than six months. A forbearance period may not extend past the last scheduled payment date of the mortgage loan. Limitations to this rule can be found in *Part VII, Section 403, Forbearance (01/01/09)*. The forbearance limitations apply regardless of whether forbearance is offered by itself or in combination with other foreclosure prevention alternatives, such as a combination of forbearance and a repayment plan.

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## Mortgage Loan Removals or Reclassifications

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### Reclassification of MBS Mortgage Loans

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Regardless of the MBS trust agreement under which a loan is pooled, 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 09 – forbearance that Fannie Mae intends to reclassify. Through HSSN, the servicer will be required to deselect those mortgage loans that are current or will be reported with a delinquency status code indicating that the loan is no longer in forbearance based on the real-time information that the servicer has for the mortgage loan. The servicer must make the deselection by the 15th day of the month in which it is notified.

#### Section 302.02 Mortgage Loans Reported as a Repayment Plan for 18 Months (12/08/08)

Repayment plans on MBS mortgage loans will have to provide for all delinquent or past-due payments of P&I to be brought current within a period of not more than 17 months from the first day of the month in which the adjusted payment schedule begins (including any month in which no repayment amount is to be paid).

For all MBS mortgage loans with pool issue dates from June 1, 2007, through December 1, 2008, servicers may offer repayment plan terms only up to 18 months from the first day of the month in which the plan commences (its inception). Fannie Mae will not approve any request to extend the 18-month maximum duration limit.

For MBS mortgage loans with pool issue dates up to and including May 1, 2007, MBS mortgage loans with pool issue dates on or after January 1, 2009, and mortgage loans held in Fannie Mae's portfolio, a servicer may offer a repayment plan for a period longer than 18 months from inception. However, any repayment plan for a period longer than 36 months must receive prior written approval from Fannie Mae.

While Fannie Mae anticipates that mortgage loans with repayment plans with terms of 18 months will be rare, 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 12 – repayment plan - for 17 consecutive months and which Fannie Mae intends to reclassify in the month of notification. Through HSSN, the servicer will be required to deselect those loans that will become current or will be reported with a delinquency status code indicating that the loan is no longer under a repayment plan. The servicer

must make the deselection by the 15th day of the month in which it is notified.

**Section 302.03**  
**Mortgage Loans**  
**Delinquent for 24+**  
**Months (12/08/08)**

Fannie Mae will remove from an MBS pool all MBS mortgage loans pooled under any MBS trust regardless of the servicing option or recourse arrangement if the MBS mortgage loan is at least 24 months past due, as measured from the LPI, unless one of the following has occurred or is occurring:

- 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 mortgage loan.
- The servicer and borrower are pursuing a preforeclosure sale or a deed-in-lieu.
- 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 mortgaged property or other legal remedy against the borrower or the related mortgaged property be delayed and the period for delay or inaction has not elapsed.
- The mortgage loan is in the process of being assigned to the insurer or guarantor that provided any related mortgage insurance or guaranty.

For additional information see *Part I: Lender Relationships*.

**Section 303**  
**Changes to the**  
**Servicer's Records**  
**(01/31/03)**

Although the servicer does not have to report a repurchase code to remove a reclassified mortgage loan from the MBS pool or take any action to add the mortgage loan to Fannie Mae's portfolio, it will need to change its internal records to reflect the reclassification from the scheduled/scheduled remittance type to an actual/actual remittance type as of the first day of the month in which the automatic reclassification takes place in Fannie Mae's records.

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## **Mortgage Loan Removals or Reclassifications**

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Reclassification of MBS  
Mortgage Loans

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### **Section 304 Reporting Subsequent Activity to Fannie Mae (01/31/03)**

If the automatic reclassification process results in a servicer that is not currently servicing any mortgage loans that have the actual/actual remittance type needing to make arrangements to do so—such as establishing additional custodial accounts or drafting arrangements for remittances—the servicer should work with its lead Fannie Mae regional office to ensure that it is prepared to handle the different accounting and reporting requirements.

The servicer must report a reclassified mortgage loan as an actual/actual remittance type (using the same Fannie Mae loan number that applied to the mortgage loan when it was in the MBS pool) in the Fannie Mae investor reporting system activity for the month in which the automatic reclassification takes place in Fannie Mae's records. The pass-through rate for a reclassified mortgage loan will be equal to the sum of its previous pass-through rate and its previous guaranty fee rate. This means that the servicer will be able to retain the same servicing compensation that it received while the mortgage loan was in the MBS pool.

Any activity that occurred for a reclassified mortgage loan after the date the servicer notified Fannie Mae of its deselections for that month—such as a payoff, receipt of one or more monthly payments, receipt of insurance claim settlements, etc.—should be remitted to Fannie Mae in accordance with the requirements for actual/actual remittances. The servicer also must adjust the MBS security balance for each pool from which mortgage loans were removed because they were reclassified to reflect the removal of the mortgage loans from the pool and to ensure a correct calculation of the guaranty fees that Fannie Mae is due for the month after the reclassification takes place.

### **Section 305 Reimbursement of Servicer's Advances (04/01/10)**

With respect to the removal of the mortgage loan from the MBS pool where the servicer had been advancing scheduled payments, Fannie Mae will reimburse the servicer for its delinquency advances and the UPB of the mortgage loan based on the pass-through rate that applied when each loan was still part of the MBS pool. The reimbursement will occur one business day prior to the date that Fannie Mae drafts the servicer's designated custodial account for its scheduled remittances for the month in which Fannie Mae's automatic reclassification takes place. The reimbursement will be deposited directly into the custodial account that the servicer has previously designated as the account for Fannie Mae to use for the drafting of its MBS pool remittances. The reimbursement will



cover mortgage loans that were reclassified in the preceding month, with the exception of PFP loans.

**Section 306  
Retention of Custody  
Documents (01/31/03)**

To avoid the misplacement or loss of documents, Fannie Mae will permit the servicer to leave the custody documents for reclassified mortgage loans with its existing document custodian (as long as the 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) will be bound by the policies and procedures related to ownership of the mortgage loan documents, retention of applicable records, and guaranteed access to files and records that Fannie Mae has in place for portfolio mortgage loans.

Should the existing document custodian no longer satisfy Fannie Mae's eligibility criteria for document custodians (or be unable to retain custody of the documents for some other reason), the servicer should select a new document custodian and arrange for the orderly transfer of the documents to the new custodian (including any documents that are being held by a foreclosure attorney (or trustee), if a mortgage loan is subsequently reinstated). If the servicer has difficulty in placing the documents with a new document custodian in a timely manner, Fannie Mae will expect the servicer to use Fannie Mae's DDC (unless Fannie Mae agrees to some other temporary alternative arrangement).

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**Mortgage Loan Removals  
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Reclassification of MBS  
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## **Chapter 4. Special FHA Assignments (01/31/03)**

Under the special provisions for FHA Section 221 in the National Housing Act, FHA Section 221 mortgage loans that are not in default on the 20th anniversary of their insurance endorsement are eligible for assignment to HUD. Fannie Mae will determine whether it will be in its financial interest to assign a portfolio mortgage loan on its 20th anniversary date and notify the mortgage loan servicer of its decision. (FHA Section 221 mortgage loans that are included in MBS pools are not to be assigned to HUD even if they meet HUD's eligibility criteria.) If the HUD debenture rate in effect on the 20th anniversary of the endorsement of the mortgage loan for FHA insurance will be higher than the interest rate of the mortgage loan, Fannie Mae will instruct the servicer to assign the mortgage loan to HUD, as long as HUD's eligibility criteria are satisfied. On the other hand, if the debenture rate will be lower than the mortgage loan interest rate, Fannie Mae will not instruct the servicer to assign the mortgage loan. Since FHA Section 221 mortgage loans may be assigned at any time in the year following their 20th anniversary date, Fannie Mae will reassess any decision not to assign a mortgage loan when the next HUD debenture rates are published and will notify the servicer if the new rate justifies the assignment of the mortgage loan to HUD.

### **Section 401 Monitoring Potential Assignments (01/31/03)**

A servicer should monitor its FHA Section 221 mortgage loans that will be becoming eligible for assignment. If, for any reason, Fannie Mae does not advise a servicer to assign a particular mortgage loan when it becomes eligible for assignment—and the servicer believes that it should be assigned because the current HUD debenture rate is higher than the mortgage loan interest rate—the servicer should contact Fannie Mae.

When Fannie Mae sends the servicer instructions to assign a given FHA Section 221 mortgage loan, it must immediately:

- confirm the endorsement date;
- verify the status of the mortgage loan to make sure that it met HUD's eligibility criteria on its 20th anniversary date (HUD will consider a mortgage loan that is current under a modification agreement as not being in default.); and

- notify Fannie Mae if the mortgage loan is not eligible for assignment, giving the reason for its ineligibility (incorrect section of the act, incorrect endorsement date, delinquent on the 20th anniversary date, paid-off, foreclosed, etc.).

If the mortgage loan is, in fact, eligible for assignment to HUD, the servicer should submit a *Request for Release/Return of Documents (Form 2009)* to ask that Fannie Mae send it the original note and mortgage insurance certificate (if Fannie Mae has it in its custody) and any special instructions that the servicer may need to complete the assignment correctly.

**Section 402  
Completing the  
Assignment (01/31/03)**

For the most part, these special FHA assignments are processed in much the same way that an assignment of a defaulted mortgage loan is processed. Before the claim is filed, the servicer must:

- notify the tax authority of the assignment, instruct it to send future billings to the borrower, and provide the date that HUD will become the mortgagee;
- notify the hazard and flood insurance carriers of the change in mortgagee and instruct them to substitute “Secretary of Housing and Urban Development, his successors and assigns” as beneficiary in the mortgage clause and to send future renewal billings to the borrower (The policy must remain in effect for at least 90 days beyond the date the assignment is filed for record. If the remaining term is less than that, the servicer should request the insurance carrier to renew the policy.);
- notify any health or disability insurer of the change in mortgagee and instruct it to send any future billings to the borrower; and
- notify the borrower, in writing, by sending the designated HUD notices within the required time frames, about:
  - the borrower’s responsibility for paying future tax bills and insurance renewal premiums;
  - the date the hazard (and, if applicable, flood) insurance policy was last renewed, the amount of the premium, and the need to provide HUD with proof of coverage; and

- the amount of the future mortgage loan payments to HUD; the need to identify remittances by FHA case number, as well as the borrower's name and address; the address of the local HUD field office (Single Family Loan Management Section) that the borrower may contact about his or her account; and the address to which future monthly payments should be sent (Payment Processing Center; P.O. Box 105652; Atlanta, GA 30348).

No later than ten days after the claim is submitted, the servicer should give the borrower a check for any accrued taxes and insurance premiums that it is holding in an escrow deposit account.

**Section 403  
Submitting the Claim  
(01/31/03)**

On the day that the assignment is filed for record, the servicer should submit the claim forms and appropriate documentation to the Mortgage Insurance Accounting and Servicing Division at HUD's central office. At the same time, the servicer should send the local HUD field office a copy of the claim and the documentation that HUD requires to be submitted to its local offices.

To make sure that the claim settlement is sent directly to Fannie Mae, the servicer should indicate Fannie Mae's mortgagee number (9500109998) and IRS tax identification number (52-0883107) on the claim form. It also should show Fannie Mae's name and address on the claim form as follows:

Fannie Mae  
NPDC-Government Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

The servicer should code the assignment as an Action Code 20 in the next Transaction Type 96 (Loan Activity Record) that it reports after the assignment is filed for record. In addition, the servicer will need to advise Fannie Mae about the claim filing by sending Fannie Mae a copy of the claim form within two business days after it files the claim. The copy of the claim can be sent to Fannie Mae; NPDC-Government Claims; P.O. Box 650043; Dallas, TX 75265-0043.

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**Mortgage Loan Removals  
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Special FHA Assignments

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## **Part VII: Delinquency Management and Default Prevention (04/28/10)**

This *Part*—Delinquency Management and Default Prevention—describes Fannie Mae’s requirements and procedures for servicing whole mortgage loans, participation pool mortgage loans, and MBS mortgage loans from the time they first become delinquent or default is deemed to be reasonably foreseeable (imminent) through the development of special relief measures or foreclosure prevention alternatives to avoid foreclosure proceedings. It does not address any special requirements that may have been imposed under the terms of a negotiated purchase transaction. A servicer is responsible for taking all steps necessary to ensure that the terms of a variance are followed.

In addition, from time to time, Fannie Mae may issue specific written direction to an individual servicer regarding actions to be taken in connection with the foreclosure prevention process (including, but not limited to, actions to be taken in connection with modifications, preforeclosure sales, deeds-in-lieu of foreclosure, and foreclosure) with respect to all mortgage loans purchased or securitized by Fannie Mae or with respect to a designated population. Such directions may require the servicer to cooperate with third parties engaged by Fannie Mae to support the servicer in the fulfillment of the servicer’s obligations under this *Servicing Guide*. Servicers must comply with all such directions.

Insofar as possible, Fannie Mae sets out those instances when its requirements vary for a particular lien type, amortization method, remittance type, servicing option, or ownership interest. Absent any such language, the servicer may assume that the same procedure or requirement applies for all mortgage loans Fannie Mae purchased or securitized as standard transactions. For MBS mortgage loans, the availability of certain foreclosure prevention alternatives may vary depending on the MBS trust documents under which a particular MBS mortgage loan was pooled. Accordingly, it is important for a servicer to identify and distinguish the pool issue date under which an MBS mortgage loan was pooled and be familiar with the varying servicing requirements applicable to those pool issue dates.

To enable servicers to identify the MBS issue dates for 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 herein as PFP mortgage loans in MBS pools, Fannie Mae provides the MBS pool issue date for each PFP mortgage loan through the Servicer's Reconciliation Facility™ (SURF™). Servicers must adapt their systems to be able to identify the MBS issue dates for PFP mortgage loans in MBS pools.

A servicer must establish a system for servicing delinquent mortgage loans that follows the accepted standards used by prudent servicers. The servicer's system must include, at least, the following:

- 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;
- counseling procedures to advise borrowers how to avoid or to cure delinquencies;
- guidelines for the individual analysis of each delinquency;
- instructions and adequate controls for sending delinquency notices, assessing late charges, returning partial payments, maintaining collection histories, reporting delinquencies to credit bureaus, etc.;
- management review procedures to evaluate both the borrower's actions and the servicer's collection efforts before a final decision is made to accept some form of repayment arrangement or to start liquidation proceedings; and
- a method for comparing the servicer's own delinquency and foreclosure ratios with those of others in the industry. (Fannie Mae makes delinquency statistics available to enable a servicer to review the statistical data Fannie Mae maintains on its seriously delinquent mortgage loans.)



This *Part* consists of seven chapters:

- *Chapter 1* — Servicing Standards — describes the servicing standards that servicers must adopt related to the servicer’s administrative responsibilities and contractual obligations.
- *Chapter 2* — Collection Procedures — discusses the various collection techniques that Fannie Mae considers to be minimum servicing requirements and describes Fannie Mae’s requirements for full-file reporting of mortgage loan statuses to the credit repositories.
- *Chapter 3* — Delinquency Prevention — discusses some of the techniques that a servicer can use to help a borrower avoid delinquency, such as waiving late charges, accepting partial payments, assigning rents, reapplying principal prepayments, offering early delinquency counseling, etc.
- *Chapter 4* — Special Relief Measures — describes the various relief provisions Fannie Mae offers to assist deserving borrowers who are experiencing temporary hardships.
- *Chapter 5* — Bankruptcy Proceedings — discusses the actions that are necessary to protect Fannie Mae’s interests when a borrower files for bankruptcy protection, including the need for a formal bankruptcy management process.
- *Chapter 6* — Foreclosure Prevention Alternatives — describes the various alternatives to foreclosure that are available, such as loan modifications, preforeclosure sales, mortgage assignments, deeds-in-lieu, VA no-bid buydowns, HAMP, and second-lien mortgage loan charge-offs.
- *Chapter 7* — Delinquency Status Reporting — discusses Fannie Mae’s requirements for providing updated status information about delinquent mortgage loans to Fannie Mae each month.

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**Delinquency  
Management and Default  
Prevention**

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Introduction

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## **Chapter 1. Servicing Standards (01/01/11)**

In performing the services and duties incident to the servicing of mortgage loans, servicers must have written procedures, sufficient, properly-trained staff, and adequate controls and quality assurance procedures in place. This *Chapter* outlines specific administrative responsibilities and contractual obligations that must be performed in the overall conduct of the servicer's mortgage loan delinquency and default prevention processes.

### **Section 101 Written Procedures (01/01/11)**

To ensure that its staff consistently complies with Fannie Mae's servicing requirements in all aspects of collection and foreclosure prevention strategies, the servicer must have fully documented written procedures and must implement measures to determine that its officers and employees adhere to those procedures. The written procedures must address all aspects of delinquency prevention and default servicing.

Occasionally, certain areas of a servicer's performance may show poor results despite the servicer's efforts — such as high delinquencies attributable to unforeseen changes in the economy. When that happens, sound written procedures that are monitored to ensure adherence by its employees will be a positive factor in Fannie Mae's overall evaluation of the servicer's performance.

### **Section 102 Quality Assurance Program for Delinquency and Default Prevention (01/01/11)**

As a part of the servicer's contractual responsibilities as outlined in *Part I, Section 202, Servicer's Basic Duties and Responsibilities (12/08/08)*, all servicers must design, document, and implement a quality assurance program to ensure that their servicing practices comply with Fannie Mae's requirements, and with applicable law. All servicers must develop a quality assurance program related to specific aspects of delinquency management and default prevention that includes, but is not limited to, the following:

- monitoring the effectiveness of collection and foreclosure prevention calls to borrowers;
- determining whether documentation of collection and foreclosure prevention activities is accurately maintained in the servicer's loan servicing system;

- monitoring whether foreclosure prevention options are considered in the preferred order of Fannie Mae's workout hierarchy;
- determining that all appropriate foreclosure prevention alternatives were considered and documented prior to the decision to foreclose; and
- determining whether accurate and timely delinquency status information is submitted to Fannie Mae.

Each servicer is required to provide evidence of the quality assurance program and the results of its quality assurance reviews to Fannie Mae upon request.

If the quality assurance reviews identify a problem area, the servicer must promptly take appropriate corrective action and provide training as needs are identified. Quality assurance review findings must be reported to the servicer's senior management and prompt action must be taken to deal appropriately with any material findings. The servicer's final report to its senior management must identify actions being taken, the timetable for their completion, and any planned follow-up actions required.

**Section 103  
Staffing and Training  
(01/01/11)**

Servicer staffing levels and training must be conducive to achieve acceptable performance standards. A servicer must also ensure that any third-party providers of its outsourced servicing activities have appropriate staffing levels and training.

The servicer must ensure that its staff is able to effectively communicate with borrowers whose mortgage loans are serviced by the servicer. To that end, servicers must employ multilingual staff that can effectively communicate with the diversity of borrowers whose mortgage loans it services. If a servicer does not directly employ multilingual staff that can assist a particular borrower, the servicer must be able to make translation services available to the borrower.

To ensure that their staff members are knowledgeable in all aspects of collection and foreclosure prevention strategies, all servicers must design and implement a training program that includes the fundamentals of all Fannie Mae foreclosure prevention programs and familiarity with the workout hierarchy, among other Fannie Mae-related topics. All

collections, foreclosure prevention, and management staff must receive training on an annual basis and as training needs are identified through quality assurance reviews. It is recommended that all staff members that regularly engage with customers be included in the training.

In addition to training on Fannie Mae's existing *Guide* requirements, servicers are required to deliver 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. A servicer may use the training materials provided by Fannie Mae or materials that the servicer itself may develop.

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**Delinquency  
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Servicing Standards

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## Chapter 2. Collection Procedures (01/01/11)

The servicer must 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. The following documents on [eFannieMae.com](http://eFannieMae.com) outline a minimum level of methods and attempts a servicer must utilize to contact the borrower during the various stages of delinquency for a first-lien, conventional whole mortgage loan or participation pool mortgage loan that Fannie Mae holds in its portfolio or an MBS mortgage loan serviced under the special servicing option:

- *Outbound Call Attempt Guidelines,*
- *Letters and Notices Guidelines,* and
- *Other Contact Types and Acceleration Guidelines.*

Additional collection or foreclosure prevention strategies with which the servicer has had success are encouraged. The servicer of a second-lien mortgage loan must 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. The servicer must document all collection efforts in its permanent mortgage loan files.

It is particularly important that the servicer have procedures to address a one-payment delinquency immediately to prevent it from becoming more serious. An early determination of the reason for the delinquency gives the servicer and the borrower time to arrange an acceptable method for curing it. If an agreement cannot be reached, the servicer must work with the borrower to determine the appropriate foreclosure prevention alternative that best satisfies the interests of the servicer, borrower, and Fannie Mae.

### Section 201 Inbound Call Coverage (01/01/11)

Servicers must have a written policy that is sufficient to address inbound call coverage for customer service, collections, and foreclosure prevention departments. The foreclosure prevention department staff must be available during inbound and outbound collection activity unless collections staff are also well-versed in foreclosure prevention workout options.

Fannie Mae may from time to time publish Servicing Best Practices Reference Guidelines on [eFannieMae.com](http://eFannieMae.com) to provide guidance on proven, successful approaches to collection and foreclosure prevention outreach. Servicers are encouraged to review and implement any such guidelines.

**Section 202  
Outbound Call  
Attempts (01/01/11)**

Phone calls are inexpensive and are highly effective when used properly. Fannie Mae suggests that they be used as the principal form of contact with a delinquent borrower in order to effectuate payment on a delinquent or defaulted account or to solicit foreclosure prevention alternatives. When talking to the borrower, the servicer must emphasize the importance of making payments on or prior to their due dates. If the borrower is in a position to bring the account current, the servicer must make arrangements to collect payment on a date certain. If the borrower is not in a position to bring the account current, the servicer must discuss the types of foreclosure prevention alternatives that are available.

For specific instructions on when outbound call attempts must be initiated, refer to *Outbound Call Attempts Guidelines* on [eFannieMae.com](http://eFannieMae.com). Specifically, servicers should note that unmanned automated message calls do not constitute a sufficient attempt to contact a borrower. Also, a servicer must vary the days of the week and times of day of calls to an individual borrower to effectuate adequate outreach.

For *second-lien mortgage loans*, the servicer must begin its telephone contacts before it mails the late payment notice. Telephone contact must be particularly concentrated during the five- to ten-day period that precedes the due date of the next installment.

**Section 203  
Letters (01/01/11)**

Form letters may be useful under certain circumstances. However, an individually written letter is a more effective collection technique than a form letter because it emphasizes the seriousness of the delinquency. Individual letters are required after the 17th day of the delinquency.

Servicers should refer to *Letters and Notice Guidelines* on [eFannieMae.com](http://eFannieMae.com) for the specific requirements related to the timing and types of letters and notices that must be sent to the borrower.

In the early stages of delinquency, a servicer must contact the borrower to determine his or her commitment and capacity to cure the delinquency. In order to better evaluate whether some special relief or foreclosure



prevention alternative is appropriate, a servicer must send a foreclosure prevention solicitation letter to the borrower between the 35th and 45th day of delinquency, which must include a solicitation of the borrower for participation in HAMP as outlined in *Section 609, HAMP (04/21/09)*. The servicer may determine the content and format of its solicitation letter—as long as the solicitation letter includes these key points:

- A statement that the borrower is in default under the terms of the mortgage loan, with an acknowledgment that he or she may be experiencing temporary or permanent financial problems that led to the default.
- An expression of concern indicating that the servicer wants to work with the borrower to find a mutually agreeable way to resolve the delinquency and avoid foreclosure.
- A solicitation of the borrower for participation in HAMP, including the details contained in the sample [Solicitation Letter](#) (described in *Section 609.04.01, Borrower Solicitation (06/01/10)*).
- A summary of the other options that may be available to help the borrower cure the delinquency, with emphasis on how these options can be tailored to fit the borrower's individual circumstances (whether they are temporary or permanent in nature) and a caution that not all of the options are available to everyone. This summary can be part of the letter or a separate brochure, pamphlet, flyer, etc.
- A request for basic information about the borrower's circumstances (including preliminary financial information, if the servicer finds that useful and believes that requesting the information will not deter the borrower from contacting the servicer as soon as possible) to help the servicer determine which options appear to be most appropriate for the borrower. The type of information needed may be listed in the letter, included in any summary of the servicer's foreclosure prevention options that is sent with the letter, set out in a short questionnaire that the borrower can return to the servicer, or presented as a script that the borrower can refer to when he or she calls the servicer.
- A toll-free telephone number that the borrower can call to discuss his or her situation or to obtain more information about the types of relief or foreclosure prevention alternatives that are available.

- A reminder that the borrower is obligated to make all future payments as they come due even while the servicer is evaluating the types of assistance that may be available, plus a caution that the servicer cannot guarantee that the borrower will receive any (or a particular type of) assistance.
- Appropriate disclosure language related to the servicer's acting as a debt collector, if required.

Fannie Mae's approval of the servicer's foreclosure prevention solicitation letter is not required.

**Section 204  
Late Notices (01/01/11)**

There are two types of late notices that may be used—a payment reminder notice and a first foreclosure prevention solicitation. The payment reminder notice can be particularly important to promote good paying habits for new borrowers.

For most *first-lien mortgage loans*, the servicer must send the borrower a *payment reminder notice* for any payment that has not been received by the 16th day after it is due. This notice must address the borrower, state a desire to work with the borrower to preserve homeownership, and state the amount of late charges that are due, if applicable. If the mortgage loan is one for which Fannie Mae requires the servicer to offer early delinquency counseling, the servicer must send a payment reminder notice and a first foreclosure prevention solicitation. In this case, the *payment reminder notice* must be mailed no later than the 10th day of delinquency and the *first foreclosure prevention solicitation* must be mailed no later than the 17th day of delinquency. (Also see *Section 308, Offering Early Delinquency Counseling (01/31/03)*.)

For *second-lien mortgage loans*, a *payment reminder notice* must be mailed 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. Then, if the payment has not been received by the specified date, a *first foreclosure prevention solicitation* stating the amount of late charges due must be sent to the borrower.

Refer to *Letters and Notices Guidelines* on [eFannieMae.com](http://eFannieMae.com) for additional information.

June 10, 2011

Section 205

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**Section 205  
Payment Change  
Notification (01/01/11)**

A servicer must notify a borrower in accordance with the original mortgage loan documents and applicable law of balloon mortgage loan maturity, or changes in payment due to ARM reset, modification step interest rate adjustments, buydowns, and escrow changes. In order to prepare and potentially counsel a borrower in the event of a balloon loan mortgage maturity or a dramatic payment increase (i.e., a change in payment that will exceed 10% of the original payment), a servicer must also adhere to the broader notification timeframes in *Payment Change Notification Guidelines* on [eFannieMae.com](http://eFannieMae.com) to determine the appropriate time to send a payment change notification to a borrower.

**Section 206  
Face-to-Face Interviews  
(01/31/03)**

For FHA Section 248 first-lien mortgage loans and HUD-guaranteed Section 184 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 such mortgage loans. Generally, such face-to-face interviews must be held, unless not required by applicable HUD guidelines, (a) before the borrower has missed three monthly payment installments, (b) within 30 days after a default on a repayment plan, and (c) at least 30 days before assigning a defaulted mortgage loan to HUD. In any such face-to-face interview conducted, the servicer must discuss the options available for curing the delinquency, the action that will be taken if the delinquency is not cured, and any other topic required by applicable HUD servicing guidelines for such mortgage loans.

**Section 207  
Contact With Junior  
Lienholders (01/31/03)**

Throughout the delinquency period, the servicer must maintain contact with any junior lienholders to keep them advised of the status of the account. A junior lienholder may decide to advance funds to bring the mortgage loan current if that is necessary to protect its interest in the security property.

**Section 208  
Contact With First-Lien  
Mortgage Loan Servicer  
(01/31/03)**

If the servicer of a second-lien mortgage loan has not heard from the borrower by the 17th day of delinquency, it must contact the servicer of the first-lien mortgage loan to determine the status of that mortgage loan and any action that the servicer is contemplating.

**Section 209  
Notifying Credit  
Repositories (11/01/04)**

A servicer must advise borrowers who have reached the delinquency stage that their mortgage loan delinquency has been reported to the major credit repositories, and that the appearance of a mortgage loan delinquency may impact the borrower's ability to obtain other forms of credit. These requirements ensure that borrowers are advised of the credit implications

of their delinquency and that those borrowers who improve their payment habits benefit in their future efforts to obtain credit at the lowest possible cost. This knowledge may result in the borrower's bringing the account current when other collection efforts have been unsuccessful.

Fannie Mae requires the servicer to provide a "full-file" status report for the mortgage loans it services for Fannie Mae to each of the four credit repositories listed in *Exhibit 1: Major Credit Repositories*. "Full-file" reporting means that the servicer must describe the exact status of each mortgage loan it is servicing as of the last business day of each month and identify the mortgage loan by its applicable Fannie Mae loan number. (A servicer may use a slightly later cut-off date—for example, the end of a first week of a month—to ensure that payment corrections, returned checks, and other adjustments related to the previous month's activity can be appropriately reflected in its report for that month.) Statuses that must be reported for any given mortgage loan include the following: new origination, current, delinquent (30-, 60-, 90-days, etc.), foreclosed, and charged off. (Note: A servicer may suspend reporting the status of a mortgage loan even though some payments are past due as long as the delinquency is directly attributable to an extensive natural disaster or occurs during the tour of active duty for a borrower who has been granted military indulgence.)

The servicer is responsible for the complete and accurate reporting of mortgage loan status information to the repositories and for resolving any disputes that arise from the information it reports. A servicer must respond promptly to any inquiries from borrowers regarding specific mortgage loan status information about them that the servicer reported to the credit repositories. Servicers must comply with all applicable provisions of the Fair Credit Reporting Act, including those provisions that address obligations with respect to disputed or inaccurate information.

All four credit repositories accept the same format for the reporting of mortgage loan status information—the standard metro format. However, they may use different codes for identifying different mortgage loan statuses. A servicer must verify the appropriate codes for full-file reporting with each of the repositories. A smaller servicer with only a few records to report is allowed to report manually.

## Exhibit 1: Major Credit Repositories (09/30/05)

A full-file status report for each mortgage loan serviced for Fannie Mae must be sent to the following credit repositories each month. When initially establishing a relationship with a repository, the servicer must indicate that the relationship is being established to comply with Fannie Mae's requirements.

Company	Telephone Number	E-mail Address
Equifax Information Services 1550 Peachtree Street, NW Atlanta, GA 30309	Servicers that need to set up an account should call (800) 685-5000 and select Option 2. Servicers that have an account number may call their local sales representative for all inquiries.	www.equifax.com
Experian Information Solutions Automated Media Control (AMC) 601 Experian Parkway Allen, TX 75002	Servicers that need to set up an account should call (800) 831-5614 and select Option 3. Servicers that already have a subscriber number and a vendor identification number may call Experian Data Management at (800) 426-1779.	www.experian.com
Innovis Data Solutions 1651 N.W. Professional Plaza Columbus, OH 43220	Servicers should call (614) 538-2123 for all inquiries.	DMSG@innovis.com
Trans Union Corporation 555 West Adams Chicago, IL 60661	Servicers should call (312) 258-1818 to get the name of the local bureau to contact about setting up an account or obtaining other information.	www.transunion.com

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**Delinquency  
Management and Default  
Prevention**

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Collection Procedures

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Exhibit 1

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## **Chapter 3. Delinquency Prevention (11/01/04)**

Fannie Mae requires servicers to have policies that support delinquent borrowers' efforts to meet their mortgage loan obligations so they can avoid foreclosure and remain in their homes when feasible. That means, among other things, using available tools that are appropriate under the circumstances to avoid foreclosure; being judicious in approaching foreclosure prevention efforts (for example, not creating a mortgage loan modification that clearly cannot be supported by the borrower's income); and promoting open and effective communication with borrowers, including giving borrowers reasonable opportunity to resolve legitimate disputes.

The servicer must analyze each delinquent account to determine:

- the reason for the default,
- whether the reason is a temporary or permanent condition, and
- the borrower's commitment and capacity toward repayment of the debt.

Borrowers who are experiencing temporary hardships may have difficulty making their mortgage payments. A servicer must make every effort to assist borrowers who are cooperative, acting in good faith, and willing to work out a way to prevent or cure their delinquency. This *Chapter* discusses some methods that may be used to assist borrowers. The servicer must determine which approach will be the most effective based on the individual circumstances.

The servicer of a second-lien mortgage loan must contact the first-lien mortgage servicer to determine the status of the first-lien mortgage loan, any previous or ongoing collection efforts employed by that servicer, and the borrower's commitment and performance during those collection efforts. The servicer must then take these things into consideration when deciding the approach it intends to use.

**Section 301  
Assessing Late  
Charges (07/10/09)**

Imposing late charges to help prevent delinquencies is most effective when the borrower is able to pay on time but does not do so. It may not be effective as a collection tool when the borrower is simply unable to make the payment because of some unforeseen circumstances.

When the servicer receives a payment that does not include the required late charges, the servicer's handling of the payment depends on the type of mortgage loan involved and the situation as the servicer perceives it.

The servicer may defer late charges to a future date. However, the servicer cannot foreclose the mortgage loan later if the only delinquent amount is unpaid late charges. If permitted by applicable law, a servicer may hold as unapplied funds payments that omit the late charge. However, the servicer may not impose any late fee or delinquency charge in connection with that payment or any subsequent payments that are received and would have otherwise been applied to the mortgage loan by the due date or within any grace period when the delinquency is solely attributed to the late fee or delinquency charge. Payments that cover the full mortgage loan obligation without the late charge should not be returned to the borrower to the extent that acceptance would not jeopardize the servicer's position in legal proceedings (for example, foreclosure).

For *FHA or HUD mortgage loans*, the servicer must process the payments in accordance with HUD's requirements, regardless of failure to pay any applicable late charges.

In certain hardship cases, the servicer should consider waiving late charges altogether. If the interest rate of a mortgage loan has been reduced to 6% under the terms of the Servicemembers Civil Relief Act, the servicer is expected to waive the collection of late charges during the period for which the reduced interest rate remains in effect. (Also see *Part III, Chapter 1, Exhibit 1: Military Indulgence.*)

**Section 302  
Accepting Partial  
Payments (06/01/07)**

The servicer of a first-lien mortgage loan must accept a partial payment, and hold it as "unapplied funds" in a T&I custodial account, if the borrower

- has a commitment toward the repayment of the mortgage loan obligation;



- is not habitually delinquent;
- does not have a history of remitting checks that are returned for insufficient funds; and
- can pay the balance of the payment within the next 30 days.

The servicer of a second-lien mortgage loan also must accept partial payments under the above conditions as long as it is able to verify that the first-lien mortgage loan is in a current status.

As a rule, a servicer should accept partial payments only to help cure a delinquency. It should return partial payments when it believes that this action will be an effective collection tool. However, Fannie Mae does not want the servicer to return partial payments routinely. In addition, FHA, HUD, and VA require that partial payments be accepted under certain conditions that they specify.

If a borrower indicates that he or she will not be able to make full payments on a continuing—but temporary—basis, the servicer must determine whether some sort of relief provision could be used to bring the account current or at least to keep the delinquency from getting worse.

**Section 303  
Using an Attorney to  
Collect Payments  
(01/31/03)**

When a borrower has a history of delinquencies, the servicer may use an attorney to collect delinquent payments if at least two are past due. The servicer may not require the borrower to pay the attorney's fees, nor may it request reimbursement for such fees from Fannie Mae. The servicer must absorb the entire cost of using an attorney for this purpose.

Because the use of an attorney for collection purposes is at the servicer's discretion, the servicer is fully responsible for any consequences that result from its decision to collect delinquent payments in this manner.

**Section 304  
Collecting Under an  
Assignment of Rents  
(01/31/03)**

The servicer of a delinquent mortgage loan secured by property that is being rented must diligently seek out instances in which enforcing an assignment of rents provision would be appropriate, taking into consideration the policies of the mortgage insurer or guarantor. Generally, the rental income can be applied toward the 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.

When the servicer believes that it is appropriate to pursue collections under the assignment of rents provision, it must recommend a specific action to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435. If Fannie Mae agrees, it will provide guidance, including legal instructions, for collecting and processing rents under this procedure.

Any rental income that is collected on a delinquent mortgage loan must be applied in accordance with the terms of the note and security instrument.

**Section 305  
Reapplying Principal  
Prepayments (06/01/07)**

In some cases, a borrower who has made additional principal payments toward his or her account at some time in the past may ask the servicer to reapply these principal prepayments to cure a delinquency. The servicer may do so for a whole mortgage loan or a participation pool mortgage loan (but not for a mortgage loan that has been pooled to back an MBS issue, including PFP mortgage loans), as long as

- 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; 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 may combine the reapplication of a principal prepayment with a relief provision or consider modifying the mortgage loan. (Also see *Section 602, Mortgage Modifications (01/01/09)*, and *Part III, Section 102.01, Additional Principal Payments (01/31/03)*.)

**Section 306  
Listing Property for  
Sale/Rental (01/31/03)**

If the reason for the borrower's delinquency appears to be permanent, the servicer must consider the borrower for foreclosure prevention alternatives in accordance with Fannie Mae's workout hierarchy, including listing the property for sale or rent. This would allow the borrower either to pay the mortgage loan off or to reduce the delinquency. Some borrowers may be eligible for Fannie Mae's preforeclosure sale procedures (under which Fannie Mae may accept less than the total amount required to pay the mortgage debt in full). These procedures are described in *Section 604, Preforeclosure Sales (01/31/03)*.

If the borrower is successful in renting the property, the servicer must suggest that an agent be appointed to collect the rents, unless Fannie Mae issues instructions to the contrary. Any rental income that is collected must be applied in accordance with the terms of the note and security instrument. (Also see *Section 304, Collecting Under an Assignment of Rents (01/31/03)*.)

**Section 307  
Referring to Counseling  
Agencies (01/31/03)**

The servicer should be aware of any programs that might assist borrowers in resolving their delinquencies or of any counseling agencies that might help them in their debt management—and refer borrowers to those agencies when it is appropriate or required by applicable law or regulation.

**Section 308  
Offering Early  
Delinquency  
Counseling (01/31/03)**

Fannie Mae requires the servicer to offer early delinquency counseling to borrowers who have mortgage loans that were closed as community lending mortgage loans. Early delinquency counseling must be offered the first time the borrower is delinquent and must remain available for any delinquency that occurs during the seven years following the date the mortgage loan was originated. (If the mortgage loan is included in a transfer of servicing that will become effective before this seven-year period expires, the transferee servicer must be informed about the continuing obligation to offer this counseling.)

A servicer must document the steps it takes to comply with Fannie Mae's early delinquency counseling requirements. At a minimum, the following information must be included in the individual loan servicing record for a mortgage loan (regardless of whether the servicer or a third party provides the counseling): the date(s) that counseling was offered, the borrower's response(s), the name of the organization providing the counseling (if any), and a brief summary of the results of the counseling. If a servicer relies on a third-party counseling agency, it must 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). At a minimum, the information in the status report must include the information Fannie Mae requires the servicer to retain in its individual loan servicing records.

All collection and counseling efforts must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act.

Section 308.01  
Choosing the Counselor  
(01/31/03)

A servicer may choose to provide the early delinquency counseling itself or to use the services of a local delinquency counseling agency, a mortgage insurance company, or any other type of organization that provides the type of delinquency counseling services Fannie Mae requires. Before deciding to use a mortgage insurer or any other third party to provide delinquency counseling services, a servicer must take into consideration the limitations that the Fair Credit Reporting Act and any applicable privacy laws and regulations impose on the ability of the servicer and a third party to exchange consumer credit and other information about the borrower.

- **Third-party providers.** The servicer is responsible for making sure that any third-party provider it uses is able to provide the type of early delinquency counseling services Fannie Mae requires. Fannie Mae does not endorse the services of any particular third-party provider. However, it does suggest that any servicer that needs information about counseling agencies specializing in delinquency and default counseling contact HUD to obtain a list of HUD-approved counseling agencies.
- **Mortgage insurers.** A number of the private mortgage insurers have established programs for providing early delinquency counseling to borrowers. A servicer may use any of the mortgage insurers that have such programs to provide the early delinquency counseling services Fannie Mae requires.

- **Servicer-provided counseling.** A servicer may offer its own in-house programs for delinquency counseling. Although a servicer does not have to have a separate functional area to administer such programs, it does need to have on its staff employees who have been trained to provide the types of borrower assistance that is required. An in-house delinquency counseling program operated by a servicer's delinquent loan servicing staff may be particularly effective since those individuals are fully aware of the servicer's policies for granting forbearance or offering foreclosure prevention alternatives and may already have developed an effective, ongoing relationship with the borrower through contacts they made during the early stages of the delinquency.

Section 308.02  
Objectives of Counseling  
(01/31/03)

Early delinquency counseling involves identifying the reason(s) a borrower did not make his or her mortgage payment on time and working with the borrower to successfully resolve any problems so that he or she can more easily meet the mortgage obligation in the future. Its objectives and focus are much different from those of traditional mortgage collection efforts. Rather than focusing solely on the latest delinquency and the steps that need to be taken to bring the mortgage loan current, early delinquency counseling involves a more hands-on, personal, interactive relationship with the borrower that is designed to address broader financial issues (such as family money management, budgeting, and, if appropriate, arrangements and/or referrals for debt management programs). Mortgage collection efforts typically end when a mortgage loan is brought current; the delinquency counseling process might be just beginning at this point.

Situations that are the most likely to be resolved through counseling are those involving poor debt management, a lack of cash reserves to handle unanticipated expenses (such as emergency property repairs), or a temporary reduction in income. Counseling should not be used in situations in which the borrower has demonstrated his or her unwillingness to fulfill the mortgage obligation or in which it does not appear that the delinquency is curable. In these situations, the servicer must work with its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to determine whether to pursue a foreclosure prevention alternative or foreclosure.

A servicer that uses third-party counseling agencies or mortgage insurers to provide early delinquency counseling must make sure that the

counselors are aware of the servicer's and Fannie Mae's policies and procedures for granting forbearance to deserving borrowers, as well as any programs—such as mortgage insurance company advances and government or nonprofit agency emergency repair funds—that might benefit a borrower. This will enable the servicer to include the third-party counselor or mortgage insurer in the development and execution of any technique used to resolve the delinquency, as long as each entity is aware of the limitations that are imposed by the Fair Credit Reporting Act and any applicable privacy laws and regulations. When the third-party counseling agency is a nonprofit organization, close attention must be paid to ensuring that none of the actions taken by the nonprofit organization will impair its nonprofit status or result in its being considered as an agent of the servicer.

Section 308.03  
Laying the Groundwork  
(01/31/03)

As part of the home-buyer education process Fannie Mae requires for community lending mortgage loans before they are closed, the borrower is told about the benefits of early delinquency counseling and advised of the importance of working with any counseling agency to resolve any future financial problems that arise before they become major stumbling blocks. The borrower is asked to sign a Borrower's Authorization for Counseling (see *Borrower's Authorization for Counseling* on [eFannieMae.com](http://eFannieMae.com)) that authorizes the servicer—in the event of a mortgage delinquency—to release to a third-party counselor or mortgage insurer certain information from the borrower's mortgage loan file that relates to the servicer's experience in servicing the mortgage loan and authorizes the third-party counselor or mortgage insurer to make recommendations regarding resolution of any delinquency based on information obtained during any counseling session. The servicer must have an executed Borrower's Authorization for Counseling form in its files before it can release any of the borrower's payment history or delinquency information to a third-party counselor. In some cases, the servicer may not have this form on file for a Fannie 3/2<sup>®</sup> mortgage loan because Fannie Mae did not require the servicer to offer early delinquency counseling for Fannie 3/2 mortgage loans when that mortgage loan was originated. The first time one of these mortgage loans is delinquent, the servicer must send the borrower a Borrower's Authorization for Counseling for execution. (The servicer does not need to send this form to the borrower if it offers the early delinquency counseling itself.) If the borrower does not execute and return the Borrower's Authorization for Counseling, the servicer may consider

the failure to return the form as a declination of the offer for counseling (and, therefore, must not disclose any information about the borrower to a third-party counselor). The servicer does not need to offer early delinquency counseling to such borrowers in connection with any subsequent delinquency.

Shortly after closing—and before the first payment on the mortgage loan is due—the servicer must send the borrower a letter stressing the importance of making payments on time and immediately communicating with the servicer should a problem arise. (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 servicer generally sends to a borrower after loan closing.) The letter to the borrower must provide the servicer’s business hours; a toll-free telephone number that the borrower may call to discuss any matters related to the mortgage loan; and instructions on the action to take should he or she become delinquent and be unable to bring the mortgage loan current in a timely manner. The instructions to the borrower must request that the borrower immediately call or write the servicer if he or she is unable to make a mortgage payment and ask that the following information be provided at that time: the borrower’s name, the servicer’s loan number, the property address, a telephone number at which the borrower may be contacted (and the hours he or she may be reached at that number), and a brief explanation of why the borrower is unable to make the mortgage payment. A copy of this letter to the borrower must be included in the borrower’s individual mortgage loan file.

Section 308.04  
The Counseling Session  
(01/31/03)

The early delinquency counseling process will typically be preceded by a documented collection effort that includes, among other things, mailing payment reminder notices, making reminder telephone calls, mailing late payment notices, making follow-up telephone calls, arranging a face-to-face interview with the borrower, and offering the early delinquency counseling. (See *Chapter 2, Collection Procedures*, for more information about the timing of these collection efforts.) If the borrower accepts the servicer’s offer of early delinquency counseling, the servicer must schedule the initial counseling session by no later than the 45th day of delinquency.

Fannie Mae recognizes and will accept different ways and methods for providing the counseling. This *Chapter* addresses one general approach to

conducting the counseling session. The counselor should ask the borrower about property occupancy status, the reason for the delinquency, determine if the hardship is short term or long term, his or her employment status, the amount of family income and whether it has decreased since the mortgage loan was originated, the amount of the borrower's total outstanding debt and the required monthly payments, and whether the borrower has a budget established to control expenses. Based on this information, the counselor should be able to evaluate the borrower's ability to make future mortgage payments and help the borrower understand and decide what opportunities are available; conclude whether the borrower's financial problem appears to be a short-term or long-term problem; evaluate whether the borrower can make the payments, but is not because he or she has not assigned the proper priority to doing so; decide whether the borrower understands the implications of a mortgage foreclosure; 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 a debt repayment plan. 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.

**Section 309  
Third-Party Notification  
for Mortgage Loans  
Subject to Resale  
Restrictions or  
Community Land Trust  
Ground Lease  
(05/01/06)**

For mortgage loans subject to resale restrictions or secured by properties subject to a community land trust ground lease, the servicer must notify the appropriate third party, such as a housing authority, government agency, or community land trust ground lessor, when the borrower defaults or the property is foreclosed, as required by the resale restrictions or the community land trust ground lease.



June 10, 2011

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## **Chapter 4. Special Relief Measures (01/01/09)**

Fannie Mae does not want to foreclose a delinquent mortgage loan if there is a reasonable chance of saving the mortgage loan. If the reason for default relates to a temporary condition and the borrower appears to have a reasonable chance of bringing the mortgage loan current, the servicer must pursue a temporary solution using Fannie Mae's special relief provisions.

A servicer may consider special relief options and foreclosure prevention alternatives when a payment default is reasonably foreseeable (imminent) rather than wait for a payment default. In determining whether a payment default is imminent, the servicer must evaluate the borrower's financial condition as well as the condition of and circumstances affecting the property securing the mortgage loan. The servicer also must document the basis on which it makes a determination that a payment default is reasonably foreseeable.

The following is a list of examples of the types of factors the servicer may consider when evaluating whether or not a payment default is imminent. Factors for consideration include, but are not limited to:

- information received from the borrower (for example, changes in employment and other income sources, or family medical status);
- the payment history of the borrower(s) (as reported by a credit bureau) on other indebtedness;
- the LTV ratio of the mortgage loan when it was originated;
- an estimate of the current LTV ratio;
- whether the monthly debt service under the mortgage loan has recently changed or will soon change;
- the credit score of the borrower(s); and

- the occurrence of a natural disaster (such as a tornado, hurricane, or flood), terrorist attack, or other catastrophe caused by either nature or a person other than the borrower that:
  - the servicer reasonably believes adversely affects the value or habitability of a mortgaged property; or
  - the servicer reasonably believes adversely affects the borrower's ability to make further payments or payment in full on the mortgage loan.

A default is reasonably foreseeable when the servicer is notified or otherwise becomes aware of an event or factors (including those listed above) that is or are expected to cause the borrower to be in default in the near future, generally within 90 days.

Fannie Mae has several types of special relief provisions to help deserving borrowers who are delinquent. Available types of relief 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 be familiar with the terms of each of these provisions. Fannie Mae wants the servicer to use Fannie Mae's relief provisions whenever their use is appropriate. However, Fannie Mae does not expect the servicer to grant relief unless it will result in either bringing the mortgage loan current and keeping it that way or providing the borrower with a reasonable opportunity to avoid foreclosure by selling his or her property. When a servicer grants relief provisions, it remains responsible for making delinquency advances to Fannie Mae throughout the term of the relief, if the mortgage loan is accounted for as a scheduled/actual or scheduled/scheduled remittance type.

Early in the delinquency or when default is determined to be imminent, the servicer must determine the borrower's commitment and capacity to cure the delinquency. If the servicer believes that the borrower should be granted relief, it must

- explain Fannie Mae's relief provisions and the borrower's responsibilities under each;

- obtain any financial information that will be needed to develop the repayment plan; and
- stress the consequences of not meeting the terms of a repayment plan to make sure that the borrower has a complete understanding of the agreement he or she is about to enter into. (Also see *Section 203, Letters (01/01/11)*.)

The servicer must analyze each case carefully before determining which relief measure is most appropriate for a given borrower.

When establishing repayment terms, the servicer must consider the borrower's financial condition, other obligations, and anticipated future income to make sure that the repayment plan finally agreed to is realistic. Fannie Mae will not object to any reasonable relief plan the servicer develops as long as it does not jeopardize Fannie Mae's lien position or reduce the amount of any future claim that Fannie Mae might file with FHA, HUD, VA, RD, or the mortgage insurer.

**Section 401  
Fannie Mae's Workout  
Hierarchy (10/20/09)**

Fannie Mae's workout hierarchy recommends the preferred order of consideration for the use of foreclosure prevention options to resolve a delinquency. A servicer must first evaluate a borrower to determine if he or she is eligible for HAMP (refer to *Section 609, HAMP (04/21/09)*), and, if not, the servicer must then determine whether the borrower is eligible for an alternative foreclosure prevention option based on whether the borrower is experiencing a temporary or permanent financial hardship. Please refer to the Fannie Mae Workout Hierarchy on [eFannieMae.com](http://eFannieMae.com).

**Section 402  
Temporary Indulgence  
(01/31/03)**

Temporary indulgence is the granting of a 30-day grace period to enable a borrower to repay all past-due installments at once. A servicer does not need to obtain Fannie Mae's approval before granting temporary indulgence, nor does it need to notify Fannie Mae that it has done so.

Temporary indulgence may be granted only under special circumstances when the servicer determines that the borrower will be financially able to bring the account current by paying the delinquent installments within 30 days. Temporary indulgence may be appropriate when

- a sale or rental of the property is pending;

- an insurance settlement is being negotiated;
- assistance from a social agency has been arranged, but funds have not been received;
- additional time is needed to formalize a repayment plan under Fannie Mae's other relief provisions;
- the mortgage payments were lost in transit and need to be traced; or
- time is needed to reapply previous principal prepayments (when that is permitted).

**Section 403  
Forbearance (01/01/09)**

Under forbearance, the servicer can agree to reduce or suspend the borrower's monthly payments for a specified period. Forbearance may be offered by itself or in combination with other foreclosure prevention alternatives, such as a combination of forbearance and a repayment plan. Unless otherwise provided in connection with another foreclosure prevention alternative or other agreement, after the forbearance period, the borrower must resume his or her regular monthly payments. For further details on requirements for foreclosure prevention alternatives that combine forbearance and repayment plans, refer to *Section 404, Repayment Plan (01/01/09)*. Forbearance must be considered when the default is the result of

- the borrower's death or the death of a family member who made a significant contribution toward the mortgage payment;
- illness or some natural disaster that the borrower was not insured against;
- a substantial reduction in income that the borrower could not prevent; or
- some other unusual circumstance that warrants the use of a relief provision and is well-documented (refer to *Section 403.01, Unique Hardships (08/16/10)*). For example, individuals who are not eligible for relief under the Servicemembers Civil Relief Act, but who are nonetheless affected by a state's call-up of members of the National Guard or other state-supported military unit—such as

individuals who rent their properties to one of these servicemembers; reservists who are on part-time active duty; individuals who receive a substantial portion of their mortgage payment from an individual who has been called up, but who is not a party to the mortgage loan, etc.—should be considered favorably. When adapting Fannie Mae’s policy to accommodate the provisions of state-mandated relief for members of a state-supported military unit, the servicer must comply with all of the provisions of the applicable state law—such as those related to eligibility criteria, specific forms of relief, the extent of the relief, etc.—even if the provisions are at variance with Fannie Mae’s usual requirements.

A borrower who has substantial equity in a property may list it for sale as a means of avoiding foreclosure and the resultant loss of the equity in the property. In such cases, the servicer may grant forbearance during the listing period. The servicer must base its determination on the maximum permitted length of the forbearance period, the value of the property, the amount of the borrower’s equity, the time that will likely be needed to complete the sale of the property considering current market conditions, the amount of any payments the borrower can make during the forbearance period, and the effect that granting the forbearance may have on the likelihood that Fannie Mae would incur a loss if the property is not sold and Fannie Mae has to initiate foreclosure proceedings.

For MBS mortgage loans, the maximum permitted duration of the forbearance period is based on the aggregated number of months in forbearance without a full cure of the delinquency and is determined by the MBS pool issue date without regard to the servicing option or recourse arrangement under which they were purchased or securitized. Accordingly, a servicer must identify and distinguish the pool issue date under which an MBS mortgage loan was pooled and be familiar with the varying servicing requirements. In no event may a forbearance period extend past the last scheduled payment date of the mortgage loan.

For mortgage loans with MBS pool issue dates from June 1, 2007 through December 1, 2008, a servicer may offer forbearance for a maximum term of up to 6 months. Fannie Mae will not approve any request to extend the 6-month maximum duration limit.

For MBS mortgage loans with pool issue dates up to and including May 1, 2007, MBS mortgage loans with pool issue dates of January 1, 2009 and beyond, and for mortgage loans held in Fannie Mae's portfolio, a servicer may offer forbearance for periods longer than 6 months. The following limitations apply to ensure prudent and consistent application of this rule. The forbearance limitations apply regardless of whether forbearance is offered by itself or in combination with other foreclosure prevention alternatives, such as a combination of forbearance and a repayment plan.

- Generally, servicers should limit forbearance to no more than 6 months.
- Any forbearance arrangement that extends for a period longer than 6 months must be in writing.
- Any forbearance arrangement that extends for a period longer than 12 months must receive prior written approval from Fannie Mae.
- When a servicer decides to grant forbearance when a payment default is reasonably foreseeable but before an actual default has occurred, the following limitations apply:
  - Any initial forbearance period may not exceed 6 months from the date of the first scheduled reduced or suspended payment.
  - The combined period for forbearance and a repayment plan may not exceed 36 months if a servicer initially offers a combination of foreclosure prevention alternatives that includes both forbearance and a repayment plan and, as specified above, the initial forbearance period may not exceed 6 months.
  - After the initial forbearance period has begun, the servicer may grant whatever further foreclosure prevention alternatives it deems appropriate, including extending the initial forbearance and repayment periods, subject to any other limitations that may apply to such foreclosure prevention alternatives (for example, Fannie Mae prior written approval must be obtained if the forbearance arrangement would exceed 12 months).

Examples of circumstances when forbearance longer than 6 months may be appropriate include:

- the property securing the mortgage loan has been impacted by a disaster, including a natural disaster, and the borrower needs additional time to resolve an insurance claim, obtain a grant, obtain new employment, etc.;
- the property is located in an area in which marketing times are excessive and the borrower is trying to sell the property; and
- the borrower has experienced a significant decrease in income but has future prospects of being able to reestablish his/her prior income level.

Whenever a forbearance is required to be in writing, the servicer may enter into a written agreement with a borrower that is executed by both parties or, if permitted and enforceable under applicable law, the servicer may provide the borrower with a letter confirming the terms of their agreement and referencing the meeting or conversation(s) during which the agreement was reached. In the case of a confirming letter 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 confirming letter.

The written agreement or confirming letter must clearly set out the agreement terms including, as applicable:

- the period and amount of reduced or suspended payments and the date on which the forbearance will end,
- the repayment schedule for making additional payments when the borrower resumes regular monthly payments, and
- the date by which the defaults will be cured and the mortgage loan will be brought current under the terms of the repayment plan.

Subject to compliance with applicable law, the servicer must include a provision in the agreement or confirming letter that permits the servicer to

initiate or resume foreclosure if the terms of the agreement are not satisfied by the borrower. Therefore, in the case of forbearance granted to enable the borrower to sell his or her property or refinance his or her mortgage loan as a means of avoiding foreclosure, the agreement or confirming letter must include a provision that permits the servicer to initiate or resume foreclosure proceedings at the end of the forbearance period if the property has not been sold or the mortgage loan has not been refinanced. An agreement for a second-lien mortgage loan must include a provision for automatic termination of the relief plan if the first-lien mortgage loan goes into foreclosure.

Even if a written agreement or confirming letter is not required, the terms of foreclosure prevention alternatives must, at a minimum, be documented on the servicer's system and otherwise recorded in the mortgage loan file it maintains for Fannie Mae.

In any instance in which the servicer is required to obtain Fannie Mae's prior written approval for an extended forbearance period, the servicer must send its recommendation, along with a copy of the forbearance plan, a letter from the borrower documenting his or her financial hardship and requesting assistance, and evidence of the mortgage insurer's or guarantor's approval of the proposed forbearance (if applicable), to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435. As previously stated, however, Fannie Mae will not approve any requests to extend the 6-month maximum duration period for forbearance with respect to MBS mortgage loans with pool issue dates from June 1, 2007, through December 1, 2008.

The servicer must report the execution of a forbearance agreement in the first delinquency status information report it transmits to Fannie Mae after the agreement is executed. When a servicer structures a combination of foreclosure prevention alternatives in an agreement that includes forbearance and a repayment plan, the servicer must use status code 09 during the forbearance period (when monthly payments are reduced or suspended) and status code 12 during the repayment plan period (when regular monthly payments have resumed and additional payments are scheduled to be made to cure the delinquency). Fannie Mae relies on accurate reporting by servicers to track compliance with timing requirements and restrictions.



For a mortgage loan with a pool issue date from June 1, 2007, through December 1, 2008 to remain in an MBS pool after 6 consecutive months of forbearance, the mortgage loan must have become current or the servicer must report a delinquency status code to indicate that the loan status has changed during or at the end of the 6-month forbearance period (for example, code 12 – repayment plan; code 31 – in probate, code 32 – under military indulgence under the provisions of the Servicemembers Civil Relief Act or applicable state law; code 43 – referred to foreclosure; or codes 59, 65, 66, and 67 – in bankruptcy), or that the servicer is working with the borrower on a foreclosure prevention relief option (for example, code 17 – preforeclosure sale; code 26 – refinance; code 27 – assumption; code 28 – mortgage modification – but the mortgage loan must be removed from the MBS pool before the modification is executed; code 44 – awaiting the completion of a deed-in-lieu), or the servicer has commenced or resumed collection activities leading to foreclosure proceedings after the forbearance (for example, code 42 – delinquent no action). A mortgage loan that continues to have a forbearance code indicating that the mortgage loan is in forbearance for 7 consecutive months or without a delinquency status code in the 7th month after the mortgage loan was reported in forbearance for 6 consecutive months will be removed from the MBS pool.

All MBS mortgage loans (regular servicing and special servicing option mortgage loans) removed from MBS pools 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. A 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. Additionally, a servicer must purchase a regular servicing option mortgage loan that Fannie Mae holds in its portfolio before the servicer agrees to a modification that would affect the term, interest rate, unpaid principal balance (UPB), or other major characteristic of the mortgage loan.

Section 403.01  
Unique Hardships  
(08/16/10)

Fannie Mae has identified situations that warrant the use of relief provisions for borrowers impacted by unusual circumstances that create financial hardship. Fannie Mae has classified three unique hardships and the actions servicers may take to accommodate borrowers who are struggling with such hardships.

Section 403.01.01  
Definition of Unique  
Hardship (08/16/10)

A unique hardship is characterized as an event or financial hardship that:

- is unlikely to re-occur and is not a natural or manmade disaster;
- is temporary in nature or of limited scope, but impacts many borrowers;
- may involve property damage, hazard in the dwelling, or other adverse property conditions;
- creates financial hardship that impacts the ability of the borrower to continue making payments on the mortgage loan;
- may involve uncertainty regarding whether insurance will cover the losses incurred; and
- has been designated as a unique hardship by Fannie Mae.

Servicers may not treat an event (other than the ones defined below) as a unique hardship without Fannie Mae's approval. Servicers may not apply this policy to any borrower other than those experiencing a hardship that Fannie Mae has specifically defined as a unique hardship. Fannie Mae will identify and update its guidelines to classify other circumstances as unique hardships as appropriate.

Fannie Mae has identified the following as unique hardships that may impact the borrower's ability to continue making mortgage loan payments. The documentation requirements supporting the reason for the hardship are also provided below.

**Problem drywall.** The mortgage loan is secured by a property that contains problem drywall that was new when installed between 2001 and 2008 and for which the borrower has incurred a financial hardship due to costs associated with additional housing expenses and remediation.

- If the mortgage loan is *current*, the servicer must request documentation from the borrower supporting the installation of new drywall. If the borrower cannot provide supporting documentation, the servicer must require a property inspection to confirm the existence of problem drywall.

- If the mortgage loan is *delinquent and the contributory cause of the delinquency is expenses related to repairs of problem drywall*, the servicer must require a property inspection to confirm the existence of problem drywall.
- If the mortgage loan is *delinquent and the reason for the delinquency does not involve expenses related to repairs of problem drywall*, the servicer must determine another foreclosure prevention alternative action given the reasons for the delinquency and proceed accordingly.

**U.S. servicemember injured while on active duty.** The borrower is a U.S. servicemember and is unable to continue making the mortgage loan payment due to an injury sustained while on active duty.

The servicer must receive documentation of the injury sustained by the borrower during active duty that is impacting his or her ability to pay the mortgage loan.

**Death of a U.S. servicemember while on active duty.** The borrower is unable to continue making his or her mortgage loan payment due to the death of a U.S. servicemember who was either (i) a borrower or (ii) a family member of the borrower who significantly contributed to the mortgage loan payment. The servicemember must have died while on active duty.

The servicer must obtain a death certificate and other documentation indicating that the servicemember's death occurred while on active duty.

Section 403.01.02  
Forbearance for Unique  
Hardships (08/16/10)

The servicer must consider forbearance as an option when the servicer has determined that a unique hardship has affected the borrower's ability to make the mortgage loan payments. Under forbearance, the servicer can agree to reduce or suspend the borrower's monthly payments for a specified period. Forbearance may be offered by itself or in combination with other special relief measures or foreclosure prevention alternatives. For further details on requirements for foreclosure prevention alternatives, refer to *Chapter 6, Foreclosure Prevention Alternatives*.

If the borrower's ability to make mortgage loan payments has been affected by a unique hardship, then:

- The servicer may grant forbearance based on the borrower's needs, up to a period of six months.
- The servicer must determine the borrower's ability to contribute to the mortgage loan payment. The servicer must not automatically suspend payments during forbearance.
- The forbearance terms must be in writing. For further details on the requirements, refer to *Section 403, Forbearance (01/01/09)*.
- The servicer must actively work towards finding another special relief measure or a permanent foreclosure prevention solution during the forbearance period that will cure the delinquency, should additional measures be needed.
- The servicer must periodically contact the borrower(s) to obtain an updated status on the financial hardship.
- The servicer must suspend credit bureau reporting during the forbearance period to minimize a derogatory impact.

In all situations, the servicer must evaluate the borrower's financial condition based on verified income to determine whether the borrower can remediate the issue and to determine the forbearance terms. Verified income documentation is required to determine the extent of the financial impact caused by the borrower's unique hardship and must not be more than 90 days old from the date of evaluation. The servicer should rely upon the income documentation requirements in *Section 602.02.01, Documenting and Verifying Gross Monthly Income (06/25/10)*, to determine the extent of the borrower's financial hardship.

Section 403.01.03  
Borrower Evaluation  
(08/16/10)

Upon confirmation of the unique hardship and the impact on the borrower's finances, the servicer must evaluate the borrower's circumstances to determine whether forbearance is the appropriate relief measure. If the servicer determines that the borrower is not experiencing a financial hardship, the servicer must deny the borrower's request for relief.

Prior to granting any relief measure to a damaged property or hazard in the dwelling, the servicer should remind the borrower to file an insurance claim or take steps to ensure that a claim is filed.

If the servicer determines that the borrower is experiencing a financial hardship, the servicer must document the intended plans of the borrower to remediate the situation and may grant forbearance. The forbearance terms must be based on the individual facts and circumstances. The length of the forbearance term should correlate to the estimated time to cure the unique hardship, the expectation of insurance proceeds (if available), and other relevant facts, up to a period of six months.

During the evaluation, if the servicer determines that the borrower cannot remediate the unique hardship, the servicer should continue to work with the borrower to identify another foreclosure prevention alternative or proceed with foreclosure and resume credit reporting if at any time a determination is made that a foreclosure prevention solution is not feasible. The servicer must notify the borrower in writing of a decision not to proceed with an offer of forbearance.

Section 403.01.04  
Reporting Requirements  
(08/16/10)

### **Reporting to Fannie Mae**

Regardless of the status of the borrower's mortgage loan prior to the forbearance, the servicer must report to Fannie Mae the appropriate delinquency status code, the effective date of forbearance, the forbearance program type code, and other required information beginning in the month in which the forbearance plan became effective.

### **Delinquency Status Reporting**

The servicer must report all forbearance plans granted for unique hardships using Delinquency Status Code 09 (Forbearance) in the HSSN during the forbearance period.

The servicer must designate Forbearance Program Type Code 3 (Military Assistance Program) for all forbearance plans granted for the following unique hardships:

- U.S. servicemember injured while on active duty, or
- death of a U.S. servicemember while on active duty.

**Credit Bureau Reporting**

During the forbearance period to a borrower under unique hardships, the servicer must not report delinquencies to the credit bureaus if it is aware that a borrower's delinquency is directly attributable to financial hardships the borrower has incurred as the result of the unique hardship. The servicer must suspend reporting the status of the mortgage loan to the credit bureaus. The servicer must resume complete and accurate reporting of the mortgage loan status information to the credit bureaus after the forbearance period has ended.

**Section 404  
Repayment Plan  
(01/01/09)**

Under a repayment plan, the borrower must immediately make payments in addition to regular monthly payments to cure the delinquency. A servicer must consider a repayment plan when the delinquency resulted from a temporary hardship that no longer appears to be a problem. For MBS mortgage loans, the maximum allowable term of a repayment plan or a combination of forbearance and repayment plan may vary depending on the MBS pool issue date without regard to the servicing option or recourse arrangement under which they were purchased or securitized.

For all MBS mortgage loans with pool issue dates from June 1, 2007 through December 1, 2008, servicers may offer repayment plan terms only up to 18 months from the first day of the month in which the plan commences (its inception). Fannie Mae will not approve any request to extend the 18-month maximum duration limit.

For MBS mortgage loans with pool issue dates up to and including May 1, 2007, MBS mortgage loans with pool issue dates of January 1, 2009 and beyond, and for mortgage loans held in Fannie Mae's portfolio, a servicer may offer a repayment plan for a period longer than 18 months from inception. However, any repayment plan for a period longer than 36 months must receive prior written approval from Fannie Mae.

Generally, a servicer should limit any repayment plan to a period of no more than 12 months. Examples of circumstances when repayment plans longer than 12 months may be appropriate include:

- a borrower who has resolved a temporary hardship and is able to resume making regular monthly payments under the current

contractual terms, but who is unable to resolve the arrearage using a repayment plan of 12 months or less; and

- a borrower who has been affected adversely by a disaster, including a natural disaster, and requires a lengthy repayment plan to become current.

When a servicer structures a combination of forbearance and a repayment plan, the agreement must be in writing if the combined period is greater than 12 months or if the period of either forbearance or the repayment plan is more than 6 months. A servicer must receive prior written approval from Fannie Mae before the servicer offers a borrower a combined period greater than 36 months.

For repayment plans less than 6 months from their inception, the repayment plans may be oral agreements; however, the servicer must document the agreement in its mortgage loan files. A formal written agreement is required if the repayment plan is greater than 6 months from its inception. A repayment plan for a second-lien mortgage loan also must include a provision for automatic termination of the relief plan if the first-lien mortgage loan goes into foreclosure.

Whenever a repayment plan is required to be in writing, the servicer may enter into a written agreement with a borrower that is executed by both parties or, if permitted and enforceable under applicable law, the servicer may provide the borrower with a letter confirming the terms of their agreement and referencing the meeting or conversation(s) during which the agreement was reached. In the case of a confirming letter 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 confirming letter.

The written agreement or confirming letter must clearly set out the agreement terms including, as applicable:

- the repayment schedule for making additional payments when the borrower resumes regular monthly payments, and

- the date by which the defaults will be cured and the mortgage loan will be brought current under the terms of the repayment plan.

Subject to compliance with applicable law, the servicer must include a provision in the agreement or confirming letter that permits the servicer to initiate or resume foreclosure if the terms of the agreement are not satisfied by the borrower. Therefore, in the case of forbearance granted to enable the borrower to sell his or her property or refinance his or her mortgage loan as a means of avoiding foreclosure, the agreement or confirming letter must include a provision that permits the servicer to initiate or resume foreclosure proceedings at the end of the forbearance period if the property has not been sold or the mortgage loan has not been refinanced. An agreement for a second-lien mortgage loan must include a provision for automatic termination of the relief plan if the first-lien mortgage loan goes into foreclosure.

Even if a written agreement or confirming letter is not required, the terms of foreclosure prevention alternatives must, at a minimum, be documented on the servicer's system and otherwise recorded in the mortgage loan file it maintains for Fannie Mae.

Repayment plans may require

- monthly payments that are multiples of the regular installment;
- a regular payment one month and multiple payments the next month;
- payments to be made more often than monthly; or
- any other variation in the timing or amount of the payment that will cure the delinquency in the shortest possible time that is appropriate to the particular borrower.

In any instance in which the servicer is required to obtain Fannie Mae's prior written approval for an extended repayment plan, the servicer must send its recommendation, along with a copy of the repayment plan, a letter from the borrower documenting his or her financial hardship and requesting assistance, and evidence of the mortgage insurer's or guarantor's approval of the proposed repayment plan (if applicable), to its



Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

Even if a written agreement or confirming letter is not required, the servicer must report its approval of a repayment plan in the first delinquency status information report it transmits to Fannie Mae after the plan is approved. When a servicer structures a combination of foreclosure prevention alternatives in an agreement that includes forbearance and a repayment plan, the servicer must use status code 09 during the forbearance period (when monthly payments are reduced or suspended) and status code 12 during the repayment plan period (when regular monthly payments have resumed and additional payments are scheduled to be made to cure the delinquency). Fannie Mae relies on accurate reporting by servicers to track compliance with timing requirements and restrictions.

Section 404.01  
Repayment Plan  
Incentive Fee (08/11/08)

Fannie Mae will pay a \$400 fee to servicers for each repayment plan that meets Fannie Mae's criteria and successfully brings a mortgage loan current. In order for a mortgage loan to be eligible for the repayment plan incentive fee, the following eligibility requirements must be met:

- The mortgage loan must be a conventional first- or second-lien mortgage loan for which Fannie Mae bears the risk of loss.
- The mortgage loan must be 60 or more days delinquent when first reported with a delinquency status code 12 – Repayment Plan by the servicer.
- The mortgage loan must be brought current upon the successful completion of the repayment plan.
- Once a repayment plan fee has been paid on a mortgage loan, a 12-month period must elapse from the date the mortgage loan became current before another repayment plan fee will be paid on that mortgage loan.

Fannie Mae will review eligibility for the repayment plan incentive fee and make the final determination based on information provided by the servicer; therefore, servicers need not submit requests for payment of repayment plan incentive fees. Repayment plan incentive fees on eligible mortgage loans will be sent to servicers on a monthly basis.

The following are instances in which repayment plans are not eligible for the repayment plan fee:

- A mortgage loan that is first reported with a delinquency status code 12 and is brought current in the same month is not eligible for the repayment plan incentive fee.
- A mortgage loan that is paid in full or repurchased after the delinquency status code 12 is reported and before the mortgage loan becomes current is not eligible for the repayment plan incentive fee.

The repayment plan may include accrued late charges due when the plan is established between the servicer and the borrower. Servicers are expected to waive late fees accrued during the repayment plan period as long as the terms of the repayment plan are maintained by the borrower.

After a repayment plan is established, the following criteria must be satisfied:

- A 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.
- A 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.

Fannie Mae will validate eligibility for the repayment plan fee and make the final determination based on information provided by the servicer. Servicers need not submit requests for payment of repayment plan fees.

**Section 405  
Military Indulgence  
(09/30/05)**

In order to facilitate servicers taking appropriate action in cases where military indulgence is warranted or required, *Part III, Chapter 1, Exhibit 1: Military Indulgence*, provides a consolidated presentation of all of the relevant material on Fannie Mae's specific procedures for providing relief to U. S. servicemembers under the Servicemembers Civil Relief Act and Fannie Mae's additional forbearance policies.

**Section 406  
Disaster Relief  
(01/01/09)**

A servicer may grant a borrower disaster relief during the period needed to ascertain the facts if a disaster, terrorist attack, or other catastrophe occurs that was caused by either nature or a person other than the borrower and that the servicer reasonably believes may adversely affect either the value or habitability of a mortgaged property or the borrower's ability to make further payments or payment in full on a mortgage loan. Generally, servicers must consult with Fannie Mae before granting disaster-related relief that exceeds 90 days. When a 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 the servicer attempts to establish contact to ascertain the facts, the servicer must report a delinquency status code of 42 – "Delinquent, No Action" until the servicer is able to contact the borrower and determine an appropriate course of action. Fannie Mae expects, however, that the servicer will be able to establish contact with the borrower within the first 90 days after the disaster occurs.

After determining the facts and circumstances related to a borrower and the mortgaged property, a servicer may determine that a foreclosure prevention alternative is appropriate even though the borrower's mortgage loan is current, if the servicer determines that a payment default is reasonably foreseeable. For example, a servicer may determine that a period of forbearance, consisting of reduced or suspended payments, is appropriate.

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**Delinquency  
Management and Default  
Prevention**

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Special Relief Measures

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Section 406

June 10, 2011

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## **Chapter 5. Bankruptcy Proceedings (01/01/11)**

When a borrower files for bankruptcy, the servicer (assisted by appropriate legal counsel) must take all actions that are necessary to protect Fannie Mae's interests. One of the ways that Fannie Mae will evaluate a servicer's diligence in protecting Fannie Mae's interest during bankruptcy proceedings will be to measure the extent to which the servicer effectively resolves a bankruptcy by using standard bankruptcy procedures and, when applicable, foreclosure prevention alternatives. Fannie Mae has also developed allowable timelines within which bankruptcy proceedings are expected to be completed. A servicer must be able to provide Fannie Mae with documentation that provides evidence that it took all required actions to mitigate a specific bankruptcy in a timely and appropriate manner. If the servicer is unable to document that it took appropriate actions for a specific bankruptcy and Fannie Mae incurs a loss that is directly attributable to the servicer's failure to properly handle the bankruptcy, Fannie Mae may ask the servicer to "make Fannie Mae whole" or to indemnify Fannie Mae for the amount of Fannie Mae's loss. (Also see *Part III, Section 503, Nonroutine Legal Actions (01/31/03)*; *Part V, Section 109, Effect of Bankruptcy Filing (01/31/03)*, and *Section 210, Effect of Bankruptcy Filing (01/31/03)*, and *Part VIII, Section 101, Routine vs. Nonroutine Litigation (10/01/08)*.)

The servicer must 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 is actually current).

### **Section 501 Selection of Bankruptcy Attorneys and Avoiding Delays in Case Processing (01/01/11)**

The process for selecting bankruptcy attorneys differs depending upon whether a bankruptcy is filed in a jurisdiction in which Fannie Mae has retained attorneys or is filed in a jurisdiction in which Fannie Mae relies upon the servicer to select and retain qualified and experienced attorneys of its choice to handle bankruptcy cases.

In order to limit risks arising from the concentration of the legal work relating to Fannie Mae's delinquent mortgage loans in a single law firm in a jurisdiction, Fannie Mae urges servicers to diversify their referrals of Fannie Mae matters among two or more law firms in each jurisdiction. Fannie Mae monitors the concentration of its legal work and reserves the

right to suspend the referral of new cases to attorneys (or to reassign previously referred cases) in order to regulate concentration, capacity, performance, or for other reasons.

The servicer must obtain Fannie Mae's prior written approval for the transfer of any files from one law firm or trustee to another. Fannie Mae reserves the right to assess compensatory fees for delays caused by unauthorized file transfers and to deny reimbursement of fees and expenses with respect to mortgage loans that are the subject of unauthorized file transfers. Requests for authority to transfer files must be sent via e-mail to [retained\\_attorney@fanniemae.com](mailto:retained_attorney@fanniemae.com).

Section 501.01  
Fannie Mae–Retained  
Attorneys (01/01/11)

For selected jurisdictions, Fannie Mae posts on [eFannieMae.com](http://eFannieMae.com) a list of attorneys who are eligible to receive foreclosure and bankruptcy referrals relating to Fannie Mae mortgage loans (the “Retained Attorney Network” list) and the effective date for mandatory use of the attorneys by servicers in those jurisdictions. For all conventional or government mortgage loans held in Fannie Mae's portfolio or that are part of an MBS pool serviced under the special servicing option or in a shared-risk MBS pool for which Fannie Mae markets the acquired property, the servicer is required to refer bankruptcy cases to a Fannie Mae–retained attorney included on the Retained Attorney List, in applicable jurisdictions.

Servicers are responsible for checking the [Retained Attorney List](#) to ensure they are using the most current list. Servicers must advise the attorney to whom the referral is made that Fannie Mae owns or securitizes the mortgage loan being referred.

The Fannie Mae–retained attorney to whom a foreclosure referral is made will handle any resulting bankruptcy case, and the Fannie Mae–retained attorney to whom a bankruptcy referral is made will handle any foreclosure following resolution of the bankruptcy case, unless Fannie Mae approves a deviation from this policy. Fannie Mae does make one exception to this requirement—servicers may continue to use corporations that are authorized to conduct foreclosures as trustees in Arizona, California, and Washington; however, any resulting bankruptcy case must be referred to an attorney on the Retained Attorney List.

When a servicer refers a bankruptcy case to a Fannie Mae–retained attorney, the servicer is responsible for monitoring all aspects of the

attorney's performance, including foreclosure prevention activities, cure rates, and timeline performance. The servicer is also responsible for providing a complete referral package, any additional documentation, information, or signatures the attorney requests, and for fulfilling all of its other servicing obligations. The servicer will not be required to reimburse Fannie Mae for any losses incurred by Fannie Mae because the attorney failed to properly meet his or her responsibilities, nor will the servicer be subject to the imposition of compensatory fees related to deficiencies in the performance of the attorney—as long as the losses or deficiencies are unrelated to any failure by the servicer to monitor or manage the performance of the attorney or failure by the servicer to timely provide required or requested documents, information, or signatures to the attorney.

If the servicer selects a Fannie Mae–retained attorney to handle bankruptcy actions for any mortgage loans in regular servicing option MBS pools or shared-risk MBS pools (for which the servicer is responsible for marketing the acquired property), the servicer will be responsible for the terms of the relationship with the attorney and will be fully responsible for monitoring the attorney and accountable for any delays or losses resulting from deficiencies in the attorney's performance (in accordance with the provisions for servicer-retained attorneys that are discussed in *Section 501.02, Servicer-Retained Bankruptcy Attorneys (01/01/11)*).

Each retained attorney has executed an engagement letter with Fannie Mae which, among other things:

- documents the existence of an attorney-client relationship with Fannie Mae;
- acknowledges Fannie Mae's right to communicate directly with the attorney and monitor and/or audit the attorney's handling of cases;
- specifies the attorneys' fees, imposes limits on costs, and prohibits the payment of outsourcing or referral fees; and
- requires the attorney to directly notify Fannie Mae of non-routine litigation and certain other matters.

In most cases, the retained attorney will also represent the servicer (and may have signed a separate engagement letter with the servicer). Fannie Mae's engagement letter with the attorney will provide that in the event a conflict of interest arises during the course of representing both the servicer and Fannie Mae, the attorney must notify both the servicer and Fannie Mae of the conflict, and Fannie Mae and the servicer will work together to resolve the conflict.

A servicer must provide appropriate documentation and mortgage loan status data for each bankruptcy case it refers to a bankruptcy attorney. *Exhibit 1: Expected Servicer/Attorney Interactions and Required Documents* includes a description of key servicer/attorney interactions during bankruptcy proceedings. *Exhibit 2: Mortgage Loan Status Data for Bankruptcy Referrals* includes a list of mortgage loan status information that the servicer must provide to the bankruptcy attorney. Once a case has been referred to a bankruptcy attorney, the servicer must keep the attorney informed about any change in the status of the mortgage loan.

Fannie Mae may deny reimbursement of fees and out-of-pocket expenses for referrals to non-retained attorneys in jurisdictions covered by the attorney network. In addition, Fannie Mae may impose compensatory fees or sanctions for referrals to non-retained attorneys in jurisdictions covered by the attorney network. Fannie Mae will require the servicer to reimburse Fannie Mae for any losses that may occur because a non-retained attorney failed to meet his or her responsibilities diligently. If a servicer believes special circumstances, such as pending or threatened litigation, warrant the referral of a bankruptcy matter to an attorney outside the network, the servicer must contact the Fannie Mae legal department at [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) to seek prior written approval for a non-network referral.

Section 501.02  
Servicer-Retained  
Bankruptcy Attorneys  
(01/01/11)

Until Fannie Mae identifies retained attorneys in all jurisdictions, it will continue to rely on servicers to select and retain qualified and experienced attorneys of their choice to handle bankruptcy matters in accordance with Fannie Mae's requirements in jurisdictions where no Fannie Mae-retained attorneys have been identified.

When a servicer retains its own bankruptcy attorneys, it is critical that the servicer select highly qualified, experienced attorneys to ensure the successful management of all bankruptcy cases in accordance with



applicable law and professional standards of conduct. The servicer will be responsible for the terms of the relationship with the attorney and will be fully responsible for monitoring the attorney and accountable for any delays or losses resulting from deficiencies in the attorney's performance.

The attorneys the servicer retains must be able to process bankruptcies in a timely and efficient manner (by quickly obtaining relief from the bankruptcy, when appropriate, so that foreclosure proceedings may be initiated or continued) and to recognize and facilitate foreclosure prevention whenever possible.

The attorneys also must be able to identify special-circumstance bankruptcies, such as those identified in *Section 507, Special Circumstance Bankruptcies (10/17/05)*. The servicer must assess the attorneys' experience in handling these complex legal matters and confirm their willingness and expertise to aggressively defend against them (for the fees, and in the manner, that Fannie Mae specifies). The servicer must make sure that an attorney submits his or her bill to the servicer, not to Fannie Mae. Fannie Mae will reimburse the servicer for the attorneys' fees and expenses (as discussed in *Section 501.04, Reimbursement of Expenses (01/31/03)*).

At a minimum, the servicer must communicate on a monthly basis with any bankruptcy attorney that it retains. The attorney must promptly update the servicer upon every milestone or change in the status of the bankruptcy case and give the servicer a monthly update on the status of every case it is handling for the servicer. The servicer must monitor the attorney's performance in, at least, the following areas—foreclosure prevention activities, cure rates, and timeline performance.

Section 501.03  
Allowable Attorney Fees  
(01/01/11)

Fannie Mae's schedule of maximum allowable attorney fees for bankruptcy actions applies to both servicer-retained and Fannie Mae-retained attorneys and is included in *Allowable Bankruptcy Attorney Fees* on [eFannieMae.com](http://eFannieMae.com). The fee will vary depending on the chapter under which the bankruptcy is filed (and, if applicable, the status of the mortgage loan at the time of the bankruptcy filing). Generally, Fannie Mae will not reimburse the servicer for any attorneys' fees that exceed (or are not permitted within) Fannie Mae's maximum allowable bankruptcy fee schedule—unless the attorney obtains the appropriate excess fee approval from Fannie Mae's National Servicing Organization. Fannie Mae-retained

attorneys are required, and have appropriate processes in place, to obtain all needed excess fee approvals. For bankruptcy referrals sent to servicer-retained attorneys, the servicer must ensure that the attorney can comply with Fannie Mae's excess fee process. If necessary, servicer-retained attorneys can request excess fee training by contacting Fannie Mae's National Servicing Organization by e-mail message to [excess\\_fee\\_request@fanniemae.com](mailto:excess_fee_request@fanniemae.com).

The servicer is responsible for reviewing and approving the attorneys' fees for services rendered (as well as all related expenses) for both Fannie Mae-retained attorneys and servicer-retained attorneys and for seeking reimbursement from Fannie Mae. All attorneys must submit their statements for all fees and expenses directly to the servicer. Servicers must ensure that fees and expenses charged to borrowers are permitted under the terms of the note, security instrument, and applicable laws and are prorated to reasonably relate to the amount of work actually performed. Before requesting that Fannie Mae reimburse the servicer for amounts paid to an attorney, the servicer must review and approve the attorneys' fees and costs to ensure that they are in compliance with the guidelines. Servicers must have appropriate policies, procedures, and controls to ensure compliance with Fannie Mae's requirements, and Fannie Mae will monitor the effectiveness of the servicers' policies, procedures, and controls. The servicer also is responsible for filing with the IRS a Statement for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report the fees it pays to bankruptcy attorneys.

When legally permissible, the servicer must preserve the borrower's obligation to reimburse the servicer for attorneys' fees paid for bankruptcy actions in a way that is in accordance with local bankruptcy rules and all applicable law (particularly since local bankruptcy rules and procedures for approval of attorneys' fees and other applicable law may vary from one jurisdiction to another). One way of preserving the borrower's obligation might be to make sure that the borrower's proposed bankruptcy plan provides for the payment of all legal fees. Another way of preserving the borrower's obligation might be to include the fees as part of the total indebtedness (if applicable law allows that to be done without obtaining approval from the bankruptcy court). If it is not legally permissible to collect bankruptcy attorney fees and costs from the borrower, Fannie Mae will reimburse the servicer for such fees and costs to the extent that services to protect Fannie Mae's interests were actually rendered and the

fees and costs charged for them are reasonable and necessary and comply with Fannie Mae's guidelines.

Section 501.03.01  
Prohibition Against  
Servicer-Specified  
Vendors for Fannie Mae  
Referrals (09/01/10)

The servicer may not directly or indirectly require or encourage attorneys or trustees 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. Attorneys and trustees must be allowed to select vendors of their choice based on their 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. Fannie Mae requires servicers, attorneys, and trustees to use the most cost-efficient and effective vendors to assist in processing Fannie Mae foreclosures and bankruptcy cases without regard to arrangements that could provide a financial benefit directly or indirectly to servicers.

If an attorney or trustee wishes to use a vendor that is either 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, the attorney or trustee must obtain Fannie Mae's prior written approval. Requests for approval must be directed to [retained\\_attorney@fanniemae.com](mailto:retained_attorney@fanniemae.com).

Section 501.03.02  
Outsourcing Fees,  
Referral Fees, Packaging  
Fees or Similar Fees  
(09/01/10)

The servicer, its agents, or any outsourcing firms it employs must not charge (either directly or indirectly) any outsourcing fee, referral fee, packaging fee, or a similar fee in connection with any Fannie Mae mortgage loan. Moreover, the amount of any fee charged to any attorney or trustee for technology usage or electronic invoice submission must be reasonable in relation to the benefit received by the attorney. 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 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 attorney or trustee performance, or providing administrative support services); and
- any affiliate of the servicer, outsourcing company, or third-party vendor

from directly or indirectly charging any amounts to or receiving any payments or any benefits from attorneys or trustees 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.

Fannie Mae expressly permits:

- servicers to refer Fannie Mae mortgage loans to affiliated foreclosure trustees (in Arizona, California, Washington, and in jurisdictions not covered by the Retained Attorney Network (RAN) where the use of trustees to conduct foreclosures is not prohibited by law) and those trustees to be paid the allowable fees and reimbursed expenses in accordance with Fannie Mae's guidelines;
- outsourcing companies or third-party vendors utilized by the servicer to assist in servicing defaulted mortgage loans to be paid fees by attorneys or trustees for actual and necessary technology usage and electronic invoice submission as described elsewhere in this *Section*; and
- the benefit that servicers may receive from attorneys and trustees having access to and utilizing data obtained from the servicer's systems through "direct sourcing" arrangements.

Any other charges, payments, or benefits from attorneys or trustees 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. Further, if the servicer utilizes an outsourcing company or other third-party vendor to assist it in servicing defaulted loans, the

servicer must diligently monitor and manage its outsourcing company or vendor to ensure all Fannie Mae servicing guidelines are fully met in a timely and cost-effective manner.

**Section 501.03.03  
Technology Fees and  
Electronic Invoicing  
(09/01/10)**

Technology fees may not exceed \$25 per loan for the life of a default (including all portions of the foreclosure and bankruptcy process) that any attorney or trustee handling a Fannie Mae mortgage loan may pay for technology charges. The electronic invoice fee may not exceed \$10.00 for the life of the loan, regardless of the number of reinstatements, foreclosure referrals, bankruptcy filings, or invoices submitted. The maximum 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). These fees are not to be charged as a cost to the borrower and will not be reimbursed by Fannie Mae. This amount is not to be charged as a cost to the borrower and will not be reimbursed by Fannie Mae.

Any amounts charged by third-party vendors for technology charges or electronic invoice submission in excess of these limitations are the responsibility of the servicer and will not be reimbursed by Fannie Mae.

**Section 501.04  
Reimbursement of  
Expenses (01/31/03)**

Fannie Mae will reimburse the servicer for Fannie Mae's share of any out-of-pocket expenses it incurs to pay attorneys' fees and costs or the cost of any required appraisal (or for any advances it has to make to cover escrow deficits) during the bankruptcy proceedings 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 may not deduct its expenses from any payments that are received from the bankruptcy trustee. The servicer may request reimbursement when its expenses have surpassed \$500 or when an advance has been outstanding for at least 6 months, by submitting a *Cash Disbursement Request* ([Form 571](#)).

**Section 502  
Bankruptcy  
Management Process  
(01/01/11)**

The servicer must have written procedures to control and monitor bankruptcy proceedings effectively. The procedures must cover bankruptcies filed under Chapters 7, 11, 12, and 13, foreclosure prevention activities, cure rates, and timeline performance. Among other things, the procedures must address the requirements for

- proactively monitoring bankruptcy filings in order to identify bankruptcies at the time borrowers actually file them;
- establishing a case status and portfolio performance tracking system to permit the proper reporting and analysis of activity for individual cases and to monitor the servicer's overall bankruptcy management process;
- maintaining an individual case file for each mortgage loan that is involved in bankruptcy proceedings;
- referring the case to the bankruptcy attorney promptly;
- filing a proof of claim (either by the servicer or its bankruptcy attorney)—the circumstances under which it is required, how to prepare it, time frame for filing, etc.;
- reviewing proposed payment plans and analyzing the results of the bankruptcy attorney's negotiations to determine that they represent adequate bankruptcy resolution provisions;
- pursuing legal action to obtain early dismissal of the case, stay relief, plan objection, or other relevant proceedings if negotiations have failed;
- determining when the prerequisites for filing motions for bankruptcy relief have been met;
- establishing and maintaining a legal events record to define the status of a case at various times throughout the bankruptcy proceedings and to identify when conditions for additional legal proceedings have been met;
- establishing procedures to ensure that the bankruptcy court and the Chapter 13 bankruptcy trustee are promptly and appropriately notified when a mortgage loan for which a Chapter 13 bankruptcy has been filed is included in a servicing transfer;
- establishing and maintaining a payment compliance record to define the borrower's and/or bankruptcy trustee's compliance with any payment plan or other court-ordered arrangement, to identify when

conditions for additional legal proceedings have been met, and to take appropriate action if the borrower fails to make payments under the plan (including filing a motion to have the automatic stay lifted when the borrower becomes 60 days delinquent under the plan);

- ensuring that the debtor’s counsel and bankruptcy trustee are notified upon a change in payment amount due to an escrow analysis when necessary or appropriate;
- initiating foreclosure proceedings or finalizing a foreclosure prevention alternative, if appropriate, promptly following the completion of the bankruptcy proceedings; and
- ensuring compliance with the automatic stay and the co-debtor stay.

There are a number of steps that the servicer will need to perform once it receives notice that a bankruptcy filing has taken place, as well as over the course of the bankruptcy proceedings. There are several public information access services available that enable subscribers to electronically obtain case summaries and docket information to assist in monitoring and controlling bankruptcy cases. *Exhibit 3: Electronic Public Access Providers* includes more information on how to contact two of these services.

Key steps in the bankruptcy management process that must be followed—regardless of the chapter under which the bankruptcy is filed—are discussed in the following *Sections*. Additional guidance on managing bankruptcies that are filed under specific chapters or bankruptcies that represent special-circumstance filings is provided in the remainder of this *Chapter*.

Section 502.01  
Confirming Bankruptcy  
Information (01/01/11)

Once the servicer determines that a borrower has filed bankruptcy, it must obtain confirmation of the following information: borrower’s name, bankruptcy case number, date of filing, the chapter under which the bankruptcy was filed, the court that has jurisdiction over the case, and the name of the presiding judge.

If the servicer is listed as a creditor in the bankruptcy petition, it should receive a copy of the Notice of Commencement from the Bankruptcy Court. The Notice may include several important dates—such as the date

and time for the initial meeting of creditors, the date by which all claims must be filed, the date for the hearing on confirmation of a borrower's Chapter 13 reorganization plan, and the deadline for objecting to the discharge of a debt or the confirmation of a reorganization plan. The servicer must note in its bankruptcy tracking system all of these important dates and deadlines to ensure that appropriate follow-ups are scheduled to make sure that actions are taken in a timely manner.

Section 502.02  
Establishing  
Documentation Files  
(01/01/11)

The servicer must maintain an individual file for each case that is involved in bankruptcy proceedings, regardless of whether the mortgage loan has a current or delinquent status. That file must include a copy of the borrower's petition for bankruptcy, the Notice of Commencement, the proof of claim, any reorganization plan, all pleadings and notices, any new appraisal for the security property that the servicer obtained in connection with the bankruptcy, and any correspondence with the borrower's attorney.

Section 502.03  
Referring Case to  
Bankruptcy Attorney  
(01/01/11)

When a referral is appropriate, the servicer must send a complete referral package to the attorney. The referral package must include all of the legal documents the attorney needs to conduct the bankruptcy proceedings and all necessary information about the status of the property, the borrower, the mortgage loan, and the bankruptcy filing. The servicer also must include in the referral package any relevant information on the current and any prior bankruptcy filings involving the borrower or the subject property (such as plans, pleadings, schedules, and proofs of claims), foreclosure prevention activities, loan collection history, any previous (or current) foreclosure status information, and all information the servicer has regarding the value of the security property (if applicable). (The documents and mortgage loan status data that the servicer must send to the bankruptcy attorney are discussed in *Exhibit 1: Expected Servicer/Attorney Interactions and Required Documents* and *Exhibit 2: Mortgage Loan Status Data for Bankruptcy Referrals*.)

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"—and, if it is, to file appropriate pleadings (such as those addressed in *Section 507.01, Abusive Filers (10/17/05)*).



The timeline for referring a case to a bankruptcy attorney will vary depending on the status of the mortgage loan at the time the bankruptcy case is filed. (See *Bankruptcy Referral and Completion Timelines* on [eFannieMae.com](http://eFannieMae.com). Also see *Section 501, Selection of Bankruptcy Attorneys and Avoiding Delays in Case Processing (01/01/11)*; *Section 501.01, Fannie Mae–Retained Attorneys (01/01/11)*; and *Section 501.02, Servicer–Retained Bankruptcy Attorneys (01/01/11)*, for a discussion of the selection of bankruptcy attorneys.)

**Not previously referred for foreclosure.** When a borrower files for bankruptcy, the servicer must refer the mortgage loan to a bankruptcy attorney in accordance with the following schedule:

- Chapter 7 Filings

If the mortgage loan is current or is less than 60 days delinquent and the borrower has filed a Chapter 7 proceeding, the servicer must wait until the mortgage loan becomes 60 days delinquent and then refer the case to a bankruptcy attorney. The servicer must send the referral no later than 2 weeks from the 60th day of delinquency. However, the servicer must refer the case earlier to a bankruptcy attorney if it believes that pleadings filed in the bankruptcy may affect the borrower's obligations under the terms of the note or mortgage or if expedited relief from stay is otherwise necessary to protect Fannie Mae's interests (for example, if insurance or property preservation issues warrant expedited relief).

If the mortgage loan is 60 or more days delinquent when the borrower files a Chapter 7 proceeding, the servicer must refer the case to a bankruptcy attorney. The servicer must send the referral no later than 2 weeks after the bankruptcy is filed.

- Chapter 11 Filings

If the mortgage loan is current or delinquent and the borrower has filed a Chapter 11 proceeding, the servicer must refer the case to a bankruptcy attorney. The servicer must send the referral no later than 2 weeks from the date of the bankruptcy filing.

- Chapter 12 or Chapter 13 Filings

If the mortgage loan is current or is less than 60 days delinquent and the borrower has filed either a Chapter 12 or Chapter 13 proceeding, the servicer must wait until the mortgage loan becomes 60 days delinquent and then refer the case to a bankruptcy attorney. The servicer must send the referral no later than 2 weeks from the 60th day of delinquency. (In jurisdictions in which the post-petition mortgage payments are made through the Chapter 12 or Chapter 13 trustee, the servicer must confirm that the debtor is 60 days delinquent in his or her payments to the trustee prior to referring the case to a bankruptcy attorney.) However, the servicer must refer the case earlier to a bankruptcy attorney if it believes that the bankruptcy may affect the borrower's obligations under the terms of the note or mortgage or if it believes that an attorney needs to review the proposed Chapter 12 or Chapter 13 bankruptcy plan due to its complexity or potential effect on the borrower's obligations. The servicer will be held responsible for ensuring that the bankruptcy is appropriately handled prior to the referral to the bankruptcy attorney.

If the mortgage loan is 60 or more days delinquent when the borrower files either a Chapter 12 or a Chapter 13 proceeding, the servicer must refer the case to a bankruptcy attorney. The servicer must send the referral no later than two weeks after the bankruptcy is filed.

**Previously referred for foreclosure.** When a borrower files for bankruptcy in connection with a mortgage loan that has been previously referred to an attorney (or trustee) for the initiation of foreclosure proceedings, the servicer must immediately notify the attorney (or trustee) of the bankruptcy filing and send any required bankruptcy referral within two weeks from the date of the bankruptcy filing.

- If a Fannie Mae–retained attorney had been conducting the foreclosure proceedings, that attorney will handle the bankruptcy case. The servicer must promptly forward all applicable information to the attorney so that he or she will be able to take all actions necessary to protect Fannie Mae's interests.
- If a servicer-retained attorney had been conducting the foreclosure proceedings, the servicer may instruct the attorney to take all actions

necessary to protect Fannie Mae's interests if the servicer has concluded that the attorney is qualified to handle the bankruptcy case or the servicer may refer the case to a bankruptcy attorney of the servicer's choice and instruct that attorney to take all actions necessary to protect Fannie Mae's interests.

- If a trustee in Arizona, California, or Washington had been conducting the foreclosure proceedings, the servicer must promptly refer the case to an attorney on the Retained Attorney List in the jurisdiction so that he or she will be able to take all actions necessary to protect Fannie Mae's interests.
- If a trustee in a jurisdiction other than Arizona, California, or Washington had been conducting the foreclosure proceedings, the servicer must refer the case to a bankruptcy attorney of the servicer's choice and instruct that attorney to take all actions necessary to protect Fannie Mae's interests.

Should foreclosure proceedings have to be recommenced at some point in a jurisdiction where Fannie Mae has not retained attorneys, the servicer must refer the case back to the foreclosure attorney (or trustee) that was initially handling the foreclosure proceedings in order to avoid duplicative or excessive attorney fees. However, if the servicer believes that the attorney (or trustee) did not properly handle the foreclosure proceedings, the servicer must contact Fannie Mae to request permission to incur the additional expense of using a different attorney (or trustee) to process the foreclosure to completion.

The bankruptcy attorney must maintain a case file for each bankruptcy referral it receives. The file must include not only the information provided by the servicer, but also copies of all motions and pleadings that are needed to process and monitor the case.

Section 502.04  
Suspending Debt  
Collection Efforts  
(10/17/05)

The commencement of a bankruptcy case generally results in an automatic stay against all creditor action to collect a debt or action that might interfere with the administration of the debtor's estate. This means that any action to collect on a debt incurred before the filing of the bankruptcy petition, to take possession of the collateral, or to further the creditor's position can be considered a violation of the automatic stay and/or the co-debtor stay in a Chapter 12 or 13 case in which a co-debtor stay exists.

Therefore, the servicer must suspend any and all debt collection efforts (including, but not limited to, foreclosure proceedings) immediately upon notification that a bankruptcy has been filed (unless its 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 its bankruptcy attorney as soon as possible to determine what actions it may or may not take. To avoid any potential problems, all future contact with the borrower—including foreclosure prevention proposals—should be made through his or her attorney (or, if legally permissible, by providing the attorney with a copy of any correspondence sent to the borrower).

Section 502.05  
Bankruptcy Notices and  
Filing a Notice of  
Appearance (01/01/11)

Section 342 of the Bankruptcy Code authorizes creditors to file a notice of address to be used in any Chapter 7 or Chapter 13 case in which the creditor is involved or in a particular Chapter 7 or Chapter 13 case. Section 342 also gives effect to certain pre-bankruptcy designations of address for correspondence by creditors. Creditors should consider taking advantage of the provisions of Section 342 in order to ensure that they receive proper notices related to bankruptcy cases. After receiving the referral package from the servicer, the bankruptcy attorney must file a Notice of Appearance, which is a request to be placed on the court's master mailing list for the case. This will ensure that the attorney will receive all notices and pleadings related to the case and will have the opportunity to review them to determine whether they affect Fannie Mae's interest in the mortgage loan.

To ensure that notices related to the bankruptcy case will be promptly given to the appropriate party at the appropriate address and that all payments will be received on time, a servicer must make sure that it notifies the bankruptcy court and the Chapter 12 or Chapter 13 bankruptcy trustee, in compliance with the bankruptcy code and local bankruptcy court rules, when a mortgage loan for which a Chapter 12 or Chapter 13 bankruptcy has been filed is included in a transfer of servicing.

Section 502.06  
Obtaining and Reviewing  
Statements and  
Schedules (01/01/11)

An individual seeking bankruptcy protection must file the following pleadings—a Schedule of Assets and Liabilities (which is an itemized list of the debtor's property and debt) and a Statement of Affairs (which is a questionnaire about the debtor's financial affairs)—within 15 days after filing for bankruptcy. Because this information can assist in assessing the

ultimate outcome of the case, the bankruptcy attorney should obtain a copy of these documents.

The bankruptcy attorney should review the Schedule of Assets and Liabilities and Statement of Affairs to seek answers to the following questions:

- Are all known assets and known liabilities listed? How do the listed assets or liabilities compare with the information on the original mortgage loan application or the notes taken in connection with the servicer's collection activities or the pursuit of a foreclosure prevention alternative? (The debtor's failure to fully disclose all assets or liabilities may be an indication of fraud or bad faith.)
- What is the reported value of the security property? Has the debtor undervalued the property, possibly to obtain a cramdown? Has the property depreciated in value? Does the borrower have any equity in the property? Are any rents being collected for the security property? (This information is useful in evaluating foreclosure prevention proposals, in addressing potential cramdowns, or, if the borrower has no equity, in determining whether to make a Motion for Adequate Protection Payments.)
- Are there other liens against the security property? Is the property insured? Are there any real estate taxes that are owed? Has the servicer had to advance funds to pay the real estate taxes? (This can be useful in determining the feasibility of the reorganization plan or in addressing any issues regarding title to the property.)
- Is the budget of income and expenses valid and feasible? (If the budget is not feasible, the bankruptcy attorney should file an Objection to Confirmation of the plan based on "feasibility" where practical.) Does the budget support a foreclosure prevention alternative?
- Does the borrower occupy the security property? What are the borrower's intentions regarding the security property—retention or surrender? (If the borrower intends to surrender the property, it may be possible to have a Consent Order lifting the stay signed rather than having to schedule a hearing.)

- Has the borrower filed for bankruptcy before? If so, how does the current Schedule of Assets and Liabilities compare to the previous Schedules and how does the current budget compare to previous budgets? (This can be useful in identifying fraud or in determining whether there has been a change in the borrower's circumstances.)

Section 502.07  
Reviewing Bankruptcy  
Reorganization Plans  
(01/01/11)

The servicer (or, when appropriate, its bankruptcy attorney) 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 seek answers to the following questions:

- Does the plan attempt to modify the security deed or mortgage, the note, or the principal balance, interest rate, or maturity date of the mortgage? (If it does, the bankruptcy attorney must file an Objection to the Confirmation or to other Motions filed by the debtor if appropriate.)
- Does the plan include the correct arrearage claim amount and provide for the payment of interest (if permissible to collect)? (If it does not, the bankruptcy attorney must file an Objection to the Confirmation.)
- Does the plan provide for the arrearage claim to be paid in a reasonable period of time in accordance with local rules and practices? (If it does not, the bankruptcy attorney must file an Objection to the Confirmation.)
- When is the first post-petition payment to take place? Is that consistent with local rules and practices? (The plan should not provide for the trustee to receive post-petition payments unless local rules and practices require that.) If the security property is located in a jurisdiction that allows the trustee to receive both the pre-petition and post-petition mortgage payments—and the confirmation hearing is not held within 45 days of the meeting of creditors—the bankruptcy attorney should consider requesting interim payments by filing a Motion for Adequate Protection Payments (covering the period from the date the petition was filed through the date of the confirmation hearing), if permitted by the bankruptcy court.

- Does the plan provide for attorneys' fees? (If it does not, the bankruptcy attorney must file an Objection to the Confirmation if appropriate.)

Section 502.08  
Preparing and Filing a  
Proof of Claim (01/01/11)

A creditor generally is not required to file a Proof of Claim for a Chapter 7 bankruptcy unless it appears that there will be assets available for distribution to creditors (or the bankruptcy attorney has expressly advised that a Proof of Claim must be filed). For a Chapter 11 bankruptcy, a creditor is required to file a Proof of Claim only if the debtor failed to list the creditor's claim in the Schedule of Assets and Liabilities or if a listed claim is disputed, contingent, or unliquidated (although Fannie Mae requires the filing of a claim to confirm or verify the correct amount of the indebtedness in all cases). The Notice of Commencement for a Chapter 13 bankruptcy generally specifies the date by which a Proof of Claim must be filed. As a matter of practice, the servicer or its bankruptcy attorney should file a Proof of Claim (when required) as soon as possible. For example, in some jurisdictions, it is advisable to file the Proof of Claim for a Chapter 13 bankruptcy before the first meeting of creditors since the trustee examines claims and establishes payment procedures at that meeting—and, if a creditor's claim is not already on file, the payment terms may be affected.

Either the servicer or the bankruptcy attorney will need to prepare and file the Proof of Claim within the deadline established by the court. (A suitable form for a Proof of Claim, and directions for filing it, are typically included on the back of the Notice of Commencement.) Courts around the country have established various rules for filing Proofs of Claim. A proof of claim that is not in compliance with local requirements may cause a delay in payment, the filing of a claim objection, a denial of a pre-petition arrearage claim, or delay in the receipt of post-petition payments. Therefore, it is advisable to consult with an attorney who is familiar with local practice regarding the filing of Proofs of Claim.

Section 502.09  
Attending Initial Meeting  
of Creditors (01/31/03)

Under all chapters of the Bankruptcy Code, a meeting of creditors is generally held within 45 days after an order for bankruptcy relief is entered. The purpose of this meeting is to give creditors and the bankruptcy trustee an opportunity to examine the debtor under oath about the assets and liabilities of the bankruptcy estate. A creditor's attendance at this initial meeting gives the debtor a clear signal that the creditor plans to actively participate in the bankruptcy process; therefore, Fannie Mae

urges that either the servicer or the bankruptcy attorney attend this meeting whenever possible.

Before deciding not to attend the initial meeting of creditors, the servicer and/or the bankruptcy attorney should consider the potential benefits of attending the meeting, the possible consequences that not attending will have on Fannie Mae's interests, and the presence of any special circumstances under which Fannie Mae requires attendance at the meeting.

Benefits gained from attendance at the initial meeting of creditors include (among other things) having the ability to determine the debtor's intentions about a security property and the opportunity to have the debtor execute a reaffirmation agreement if he or she wants to retain the property; investigating whether there are grounds for objecting to the confirmation of a reorganization plan, questioning the feasibility of the plan, or proving fraud or "bad faith"; presenting a Proof of Claim for consideration in the development of a reorganization plan; assessing the debtor's ability to reorganize; obtaining information about the receipt of rental income, thus having advance notice about the need to file an objection to the use of "cash collateral"; being able to alert the trustee about deficiencies in a reorganization plan, prior filings involving the same collateral, or problems related to discharging the debt; and providing an opportunity to develop and finalize a foreclosure prevention alternative (such as a mortgage loan modification or repayment plan).

The debtor's answers to the preliminary questions raised at the initial meeting of creditors may give rise to additional concerns. When that is the case, the bankruptcy attorney should explore the possibility of obtaining an order from the bankruptcy court authorizing a broader examination of the debtor's financial affairs under Rule 2004 of the Federal Rules of Bankruptcy Procedure.

Section 502.10  
Monitoring Borrower  
Payments and Critical  
Dates (01/01/11)

The servicer must keep accurate records of the payments it receives from the borrower before, during, and after the bankruptcy process to ensure that both pre-petition and post-petition payments are made on time and are properly accounted for in accordance with Fannie Mae's standard servicing requirements, the borrower's contractual obligations, and the rules of the bankruptcy court. The servicer must keep the bankruptcy attorney informed about the borrower's payment record.



The servicer also must maintain a legal event record (including dates) that indicates the status of the case at various stages in the bankruptcy process.

A servicer must make sure that the bankruptcy court and the Chapter 12 or Chapter 13 bankruptcy trustee are appropriately notified when a mortgage loan for which a Chapter 12 or Chapter 13 bankruptcy has been filed is included in a servicing transfer. The servicer must ensure that future notices related to an open Chapter 12 or Chapter 13 bankruptcy case will be promptly given to the appropriate party at the appropriate address and that all claim payments will be received on time.

Section 502.11  
Foreclosure Prevention  
Opportunities (01/01/11)

Given the increased importance of foreclosure prevention in connection with bankruptcy filings, the servicer's bankruptcy staff must be knowledgeable about Fannie Mae's overall foreclosure prevention practices. Fannie Mae's foreclosure prevention alternatives include the following items, which servicers must consider in each bankruptcy case:

- Forbearance, which provides a temporary reduction or suspension of payments which must be immediately followed by an arrangement to cure the delinquency (refer to *Section 403, Forbearance (01/01/09)*);
- Repayment Plan, which requires borrowers with temporary hardships to immediately make payments in addition to regular monthly payments to cure the delinquency (refer to *Section 404, Repayment Plan (01/01/09)*);
- Modification pursuant to HAMP, which permits servicers to offer borrowers in bankruptcy sustainable monthly payments through a uniform loan modification process (refer to *Section 609, HAMP (04/21/09)*);
- Non-HAMP modification, which permits borrowers with permanent hardships to obtain changes to the interest rate, interest and expense capitalization, and mortgage loan term to cure a delinquency (refer to *Section 602, Mortgage Modifications (01/01/09)*);
- Preforeclosure sale, which permits delinquent borrowers with permanent hardships to sell the property prior to a foreclosure sale resulting in a payoff of less than the total amount owed on the

mortgage loan and the release of the mortgage lien (refer to *Section 604, Preforeclosure Sales (01/31/03)*); and

- Deed-in-lieu, which permits delinquent borrowers with permanent hardships to voluntarily transfer title to the property to Fannie Mae to satisfy the mortgage loan and avoid foreclosure (refer to *Section 606, Deeds-in-Lieu of Foreclosure (08/02/10)*).

The particular foreclosure prevention alternative to be utilized in a given bankruptcy case will depend upon, among other things, 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. When required, Fannie Mae approval for a foreclosure prevention alternative may be sought through HSSN. Trustee and Bankruptcy Court approval must also be obtained when required.

A servicer's bankruptcy monitoring process must include procedures for identifying foreclosure prevention opportunities, and the servicer and the bankruptcy attorney must work together to pursue these opportunities during all phases of the bankruptcy process. The servicer must ask the bankruptcy attorney to send it a monthly report about the foreclosure prevention efforts that are pursued during the handling of a specific bankruptcy case.

As discussed in *Section 502.06, Obtaining and Reviewing Statements and Schedules (01/01/11)*, the borrower's Statement of Affairs and Schedule of Assets and Liabilities are good sources of information that the servicer and the attorney can use for identifying foreclosure prevention opportunities.

When the borrower is contractually delinquent, the bankruptcy attorney must initially contact the borrower's counsel to discuss the different foreclosure prevention alternatives that might be suitable for the borrower. (If counsel does not represent the borrower, the bankruptcy attorney may contact the borrower directly.) Fannie Mae also urges the bankruptcy attorney to attend the initial meeting of creditors if doing so would increase the possibility of arranging a successful foreclosure prevention alternative. If the borrower expresses an interest in pursuing a foreclosure prevention alternative, the bankruptcy attorney must work with the servicer and the borrower's counsel to discuss the details of the various

alternatives and select the most appropriate foreclosure prevention alternative.

If a non-HAMP modification is implemented with respect to a borrower in a Chapter 7 case, the servicer should solicit the borrower for a reaffirmation agreement, but a completed reaffirmation is not a condition to a modification.

If a non-HAMP modification is implemented with respect to a borrower who has received a Chapter 7 discharge but has not reaffirmed the mortgage debt, the modification agreement must make clear that the lender is not seeking to collect the debt as a personal liability of the borrower. This may be accomplished by using the following addendum to the modification agreement:

“Notwithstanding anything to the contrary contained in the Loan Modification Agreement, the parties hereto acknowledge the effect of a discharge in bankruptcy that has been granted to the Borrower prior to the execution hereof and that the Lender may not pursue the Borrower for personal liability. However, the parties acknowledge that the Lender retains certain rights, including but not limited to the right to foreclose its lien under appropriate circumstances. The parties agree that the consideration for this agreement is the Lender’s forbearance from presently exercising its rights and pursuing its remedies under the Security Instrument as a result of the Borrower’s default of its obligation there under. Nothing herein shall be construed to be an attempt to collect against the Borrower personally or an attempt to revive personal liability.”

If a presale or deed-in-lieu is implemented with respect to a borrower in bankruptcy, the servicer should not solicit or require a cash contribution or promissory note. In addition, the servicer must not purport to preserve the right to pursue a deficiency claim following a short sale approved for a borrower in bankruptcy.

Section 502.12  
Delays in the Bankruptcy  
Process (01/01/11)

The bankruptcy timelines in this *Chapter* represent the time by which Fannie Mae expects a routine bankruptcy proceeding to have been concluded, given the applicable legal requirements. Fannie Mae recognizes that there are a variety of issues that may cause delays in completing bankruptcy cases. Examples include but are not limited to situations in

which: (a) the borrower is performing in accordance with an adequate protection order or stipulation, (b) a bankruptcy trustee is attempting to sell the property securing the mortgage loan, or (c) jurisdictional constraints are present.

Fannie Mae will be monitoring the servicer's management of the bankruptcy process based on the time frames outlined in this *Chapter* by regularly reviewing bankruptcy files. The servicer is responsible for ensuring that all pre-petition and post-petition payments are properly applied and monitored in accordance with all applicable laws and *Section 506.02, Pre-Petition and Post-Petition Payments (01/01/11)*.

If there appears to have been a delay in completing the bankruptcy process and the servicer is unable to provide a reasonable explanation for the delay, Fannie Mae may require the servicer to pay a compensatory fee. In addition, the servicer may be required to pay a compensatory fee for any losses incurred as a result of the servicer's failure to properly apply and monitor payments during the bankruptcy process.

The servicer will be responsible for any delays attributable to the servicer in all cases and for delays attributable to the bankruptcy attorney in all cases handled by servicer-retained attorneys. The servicer will not be held responsible for timeline delays attributable to the bankruptcy attorney in cases referred to a Fannie Mae-retained attorney—as long as the delays are unrelated to any failure by the servicer to monitor or manage the performance of the attorney or failure by the servicer to timely provide required or requested documents, information, or signatures to the attorney.

Compensatory fees will take into consideration the outstanding principal balance 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.

**Section 503  
Managing Chapter 7  
Bankruptcies (01/01/11)**

When a Chapter 7 bankruptcy is filed, the court appoints a trustee to liquidate all of the nonexempt assets in which the debtor has equity. The debtor surrenders those assets to the trustee and ultimately receives a discharge from personal liability for the debt. The trustee collects, liquidates, and distributes the assets to the various creditors based on their statutory priority.

The servicer must report a Chapter 7 bankruptcy filing to Fannie Mae with the first delinquency status information it transmits after a borrower has filed (even if the mortgage loan is contractually current), using a delinquency status code 65 with the appropriate effective date, which is the bankruptcy filing date. (This same code will need to be reported to Fannie Mae each month until the bankruptcy is resolved.) The servicer should remove the mortgage loan from bankruptcy status only after the automatic stay is terminated, the case is dismissed, or the borrower receives a discharge and the trustee abandons all interest in the security property. After the bankruptcy is released, the servicer must replace the delinquency status code for bankruptcy, by reporting to Fannie Mae any new code that is needed to accurately describe the latest status of the mortgage loan (as discussed in *Chapter 7, Delinquency Status Reporting*). (Also see *Part V, Section 109, Effect of Bankruptcy Filing (01/31/03)*, and *Section 210.01, Chapter 7 Filings (01/31/03)*.)

The timeline 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. The timeline 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.

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.

Section 503.01  
Current Mortgage Loan  
(01/01/11)

The key to the successful management of a Chapter 7 bankruptcy involving a current mortgage loan is to closely monitor the case and take appropriate action, when necessary, to ensure that no pleadings are filed or other actions taken that would adversely affect Fannie Mae's security interest in the property. For example, if the debtor intends to retain possession of the property, the servicer should attempt to enter into a Reaffirmation Agreement with the debtor. The servicer must closely monitor the payment status of the mortgage loan and, if it becomes 60 days delinquent, refer it to a bankruptcy attorney within two weeks from the 60th day of delinquency.

Section 503.02  
Delinquent Mortgage  
Loan (01/01/11)

The key to the successful management of a Chapter 7 bankruptcy involving a delinquent mortgage loan is determining the borrower's intentions for the security property as soon as possible and obtaining either payments or bankruptcy relief in a timely manner. The bankruptcy attorney generally can determine the borrower's intentions by reviewing the Statement of Intention.

- If the borrower intends to surrender the security property, the bankruptcy attorney must attempt to obtain relief from the automatic stay by requesting a court order as expeditiously as possible. (The court order should enable the servicer to proceed with the foreclosure action.) When the Chapter 7 trustee opposes a Motion for Relief from Stay because of concerns about the debtor's equity in the property, the bankruptcy attorney should request that a deadline be established for the trustee to market and sell the property and that the stay be lifted if this deadline is not met.
- If the borrower intends to retain possession of the security property, the bankruptcy attorney must work with the court, the borrower's counsel, and the servicer to pursue a foreclosure prevention alternative.

When the automatic stay is terminated or the case is dismissed or the borrower has received a discharge coupled with a Trustee Abandonment of the property, the servicer must immediately send any required breach letter to the borrower (if it was not sent previously) and refer the mortgage loan to an attorney or trustee to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some foreclosure prevention alternative. Failure to do so may result in the servicer having to pay a compensatory fee.

**Section 504  
Managing Chapter 11  
Bankruptcies (01/01/11)**

When a Chapter 11 bankruptcy is filed, the debtor attempts to formulate a plan of reorganization that provides for the repayment of the creditors. Generally, the debtor remains in control of his or her affairs as a debtor-in-possession and has most of the same powers and duties of a court-appointed trustee. (Most Chapter 11 bankruptcy filings involve business entities, although individuals have the right to file for bankruptcy under that chapter.)

The servicer must report the bankruptcy filing for either a current or delinquent mortgage loan to Fannie Mae with the first delinquency status information it transmits after it learns about the filing, using a delinquency status code 66 with the appropriate effective date, which is the bankruptcy filing date. (This same code will have to be reported to Fannie Mae each month until the bankruptcy is resolved.) For cases filed before October 17, 2005, the servicer should remove the mortgage loan from bankruptcy status only after the stay has been lifted, the case has been dismissed, or an Order of Confirmation has been entered. For cases filed on or after October 17, 2005, the servicer should remove the mortgage loan from bankruptcy status only after the stay has been lifted, the case has been dismissed, or the debtor has been granted a discharge. After the bankruptcy is resolved, the servicer must replace the delinquency status code for bankruptcy, by reporting to Fannie Mae any applicable new code that is needed to accurately describe the latest status of the mortgage loan (as discussed in *Chapter 7, Delinquency Status Reporting*).

Section 504.01  
The Reorganization Plan  
(01/01/11)

The key to the successful management of a Chapter 11 bankruptcy—regardless of whether the mortgage loan is current or delinquent—is ensuring that Fannie Mae’s interests are adequately protected pending the filing of the reorganization plan. For this reason, the servicer must refer a Chapter 11 case to a bankruptcy attorney within two weeks of the filing of the bankruptcy case and direct that the attorney file a Notice of Appearance. Once the proposed Plan of Reorganization (which describes the terms for repayment of all claims against the debtor) is filed, the bankruptcy attorney must review it and the Disclosure Statement (which describes the effect of the proposed reorganization plan on creditors and the ability for the plan to be performed, and compares the proposal to the results that would probably be obtained under a Chapter 7 proceeding for the same individual). The review of these documents is critical since they will reveal whether the reorganization plan seeks to modify the terms of the mortgage loan. A borrower’s request for a cramdown is non-routine litigation which must immediately be reported to Fannie Mae via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) and [bankruptcy\\_administration@fanniemae.com](mailto:bankruptcy_administration@fanniemae.com). The attorney must actively participate in the plan confirmation process and file an objection to any plan that modifies the rights Fannie Mae has under the security instruments or that is not otherwise in Fannie Mae’s best interest. When appropriate, the bankruptcy attorney may even object to the Disclosure

Statement in order to preview the court's ruling on an important issue or to prevent the confirmation of the plan. In cases in which the debtor will not receive a discharge upon confirmation of the reorganization plan, the attorney must attempt to negotiate termination of the automatic stay upon confirmation of the reorganization plan. (Also see *Section 504.03, Servicing after Confirmation of Plan (01/01/11)*, for a discussion of the automatic stay issue.)

Section 504.02  
Delinquent Payments  
(10/17/05)

If a borrower is contractually delinquent, the servicer must contact the bankruptcy attorney to discuss 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). When there is proof that the debtor has no equity in the security property and that the property is not necessary for the debtor's reorganization, the bankruptcy attorney must request relief from the automatic stay. If the delinquent mortgage loan is released from bankruptcy without an Order of Confirmation being issued, the servicer may immediately send any required breach letter to the borrower (if it had not been sent previously) and refer the mortgage loan to an attorney or trustee to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some foreclosure prevention alternative.

Section 504.03  
Servicing after  
Confirmation of Plan  
(01/01/11)

When a reorganization plan that modifies the original terms of a mortgage loan is confirmed, the servicer must send either the mortgage loan modification documents or a copy of the reorganization plan that sets out the modified terms of the mortgage loan to Fannie Mae's DDC or the third-party document custodian (as applicable).

- The servicer should not report the terms of a modification as a result of a Chapter 11 plan confirmation through HSSN. Instead, the servicer must report the terms of the modification to Fannie Mae via e-mail to [bankruptcy\\_administration@fanniemae.com](mailto:bankruptcy_administration@fanniemae.com) and work with Fannie Mae to make appropriate changes to Fannie Mae's investor reporting system records. 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. (Generally, Fannie Mae will change its investor reporting system records to reflect the secured portion of the debt and establish a receivable account for the unsecured portion of the debt. Other changes also may be made,



depending on the remittance type. The servicer should remit payments for the secured debt as regular remittances, and payments for the unsecured debt as special remittances.)

- The servicer must also report the modification in the next delinquency status information that it transmits to Fannie Mae after the Order of Confirmation is entered. Delinquency status code 28 must be used if the debtor received a discharge upon confirmation of the reorganization plan or the automatic stay has otherwise been terminated, and delinquency status code 66 must be used if the debtor did not receive a discharge upon confirmation of the reorganization plan and the automatic stay has not otherwise been terminated.
- With respect to any special servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, Fannie Mae may reclassify such MBS mortgage loan as a Fannie Mae portfolio mortgage loan following the earlier of (a) confirmation of a plan that modifies the terms of the MBS mortgage loan or (b) 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. With respect to any special servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, Fannie Mae may reclassify such MBS mortgage loan as a Fannie Mae portfolio mortgage loan after the 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 already may appear on Fannie Mae's list of delinquent mortgage loans due for reclassification and, if not, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to request that the mortgage loan be added to the reclassifications scheduled for the month in which the plan is confirmed (or the following month if opportunity to do so in the current month has expired).
- With respect to any regular servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, the servicer may purchase such MBS mortgage loan following the earlier of (a) confirmation of a plan

that modifies the terms of the MBS mortgage loan or (b) 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. With respect to any regular servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, the servicer may purchase such MBS mortgage loan after the 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. A regular servicing option MBS mortgage loan that has been repurchased from its MBS pool is not eligible for redelivery.

- A special or regular servicing option MBS mortgage loan in MBS issued prior to June 1, 2007 that is current (or has not 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)) in the month in which the Order of Confirmation is entered will remain in its MBS pool. In the case of those mortgage loans or any other any mortgage loan (regardless of servicing option or delinquency status) that remains in its MBS pool, the servicer must report and remit to Fannie Mae each month the P&I as scheduled under the original terms of the mortgage loan. (Also see *Part VI, Chapter 3, Reclassification of MBS Mortgage Loans.*)

The automatic stay in Chapter 11 cases generally terminates by operation of law when the debtor receives a discharge or the case is dismissed. In chapter 11 cases filed before October 17, 2005, the Bankruptcy Code provided that debtors generally received a discharge upon confirmation. In such cases, the debtor's receipt of a discharge upon confirmation generally had the effect of immediately terminating the automatic stay, and, upon default by the debtor under the terms of the plan, the servicer could initiate (or resume) foreclosure proceedings.

In Chapter 11 cases filed on or after October 17, 2005, the Bankruptcy Code provides that debtors generally will not receive a discharge until completion of all payments under the plan. Thus, unless the Court, for cause, orders that the debtor is discharged upon confirmation, the automatic stay will remain in effect after confirmation until the debtor

receives a discharge (either upon the completion of all payments under the plan or earlier in the Court's discretion after certain required distributions have been made) or the case is closed or dismissed. In cases in which the automatic stay remains in effect following confirmation, the stay can be lifted or the case can be dismissed if the debtor defaults under the provisions of the reorganization plan. If the borrower becomes 60 days delinquent in making the payments required under the reorganization plan, the servicer must either refer the case to a bankruptcy attorney within two weeks of the 60th day of delinquency or, if already referred, advise the bankruptcy attorney 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. When the automatic stay is lifted or the case is dismissed for a delinquent mortgage loan, the servicer must immediately send any required breach letter to the borrower (if it was not sent previously) and refer the mortgage loan to an attorney to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some foreclosure prevention alternative.

**Section 505  
Managing Chapter 12  
Bankruptcies (01/01/11)**

When a Chapter 12 bankruptcy is filed, a "family farmer debtor" attempts to formulate a plan of reorganization that enables him or her to retain possession of the property and provides for a repayment plan to pay off the creditors. (Only a small percentage of bankruptcy cases are filed under Chapter 12.)

The key to the successful management of a Chapter 12 bankruptcy—regardless of whether the mortgage loan is current or delinquent—is assessing the feasibility of the borrower's reorganization plan and requesting relief from the automatic stay and/or a dismissal of the case (if the plan is not feasible or the borrower fails to make payments as proposed under the plan). Because there will not be that many of these filings for Fannie Mae-owned or Fannie Mae-secured mortgage loans, each case must be handled according to its specific circumstances. The servicer (together with the bankruptcy attorney, if the case is referred) must decide the actions that need to be taken, and, if necessary, coordinate with a local counsel who has more experience in processing these types of bankruptcy filings.

The servicer must report the bankruptcy filing for either a current or delinquent mortgage loan to Fannie Mae with the first delinquency status information it transmits after a borrower has filed for bankruptcy (even if the mortgage loan is contractually current), using a delinquency status code 59 with the appropriate effective date, which is the bankruptcy filing date. (This same code will have to be reported to Fannie Mae each month until the bankruptcy is resolved.) The servicer should remove the mortgage loan from bankruptcy status only after the stay has been lifted, the case dismissed, or the bankruptcy discharged.

The timeline for completing a Chapter 12 bankruptcy case for a mortgage loan that was current or less than 60 days delinquent when the borrower filed bankruptcy is five months and two weeks from the 60th day of delinquency (or from the date of referral to a bankruptcy attorney, whichever occurs first). The timeline for completing a Chapter 12 bankruptcy case for a mortgage loan that was 60 or more days delinquent or in foreclosure when the borrower filed bankruptcy is five months and two weeks from the date of the bankruptcy filing.

Case completion for a Chapter 12 bankruptcy proceeding is defined as 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.

After confirmation of a Chapter 12 plan, if the mortgagor becomes 60 days delinquent in making payments pursuant to the plan, the servicer must send a new referral to the bankruptcy attorney. The servicer must send the referral no later than two weeks from the 60th day of delinquency. 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. The timeline for completing the case under these circumstances is two months and two weeks from the 60th day of delinquency.

**Section 506  
Managing Chapter 13  
Bankruptcies (01/01/11)**

When a Chapter 13 bankruptcy is filed, the debtor attempts to reorganize his or her financial affairs by proposing a repayment arrangement that dedicates all of his or her disposable income over a specified period of time to the repayment of creditors that were owed money before the bankruptcy petition was filed. A court-appointed trustee supervises the

bankruptcy by monitoring all aspects of the case and by collecting and disbursing plan payments to the creditors.

The servicer must report the bankruptcy filing for either a current or delinquent mortgage loan to Fannie Mae with the first delinquency status information it transmits after a borrower has filed for bankruptcy (even if the mortgage loan is contractually current), using a delinquency status code 67 with the appropriate effective date, which is the bankruptcy filing date. (This same code will have to be reported to Fannie Mae each month until the bankruptcy is resolved.) The servicer should remove the mortgage loan from bankruptcy status only after the stay has been lifted, the case dismissed, or the bankruptcy discharged. (Also see *Part V, Section 109.02, Chapter 13 Filings (01/31/03)*, and *Section 210.02, Chapter 13 Filings (01/31/03)*.)

Section 506.01  
The Reorganization Plan  
(01/01/11)

The key to the successful management of a Chapter 13 bankruptcy—regardless of whether the mortgage loan is current or delinquent—is assessing the feasibility of the borrower’s reorganization plan and requesting relief from the automatic stay and/or a dismissal of the case (if the plan is not feasible or the borrower fails to make mortgage payments as provided by the plan). The attorney should review the borrower’s Statement of Affairs and Schedule of Assets and Liabilities to verify that the borrower’s reorganization plan is not only feasible, but also is being proposed in good faith. The plan generally must not modify the terms of the mortgage loan in any way; it should result in the full repayment of the mortgage loan arrearage (including any applicable costs) within a reasonable period of time (based on local court rules and practices) and provide for repayment of the proper claim amount (which is the amount required to fully reinstate the mortgage loan, including all recoverable interest and charges).

If the terms of the reorganization plan are unacceptable—and the borrower is not willing to amend the plan to adequately address the unacceptable provisions—the bankruptcy attorney must file an Objection to Confirmation of the plan or a Motion to Dismiss the case. Reasons for filing an objection or a request for dismissal may include, among other things, the failure of the plan to provide for complete repayment of all arrearages within five years (or within a lesser period if local practice allows dismissal for plans that fail to provide for repayment within a shorter time frame), the failure of the borrower to make post-petition

mortgage payments, a lack of feasibility in the terms of the plan, a bad faith filing (multiple bankruptcies involving the same property), or inclusion of an improper provision for modifying the terms of the mortgage loan (a cramdown) as part of the plan.

Section 506.02  
Pre-Petition and Post-  
Petition Payments  
(01/01/11)

The reorganization plan must require the borrower to remain current on all contractual mortgage obligations coming due after the date of the bankruptcy petition, while curing the pre-petition arrearages under the terms of the repayment arrangement. Generally, the trustee will hold all pre-confirmation plan payments until the case is confirmed. Some jurisdictions also require that post-petition payments be sent to the trustee rather than directly to the creditors. (Whenever possible, the bankruptcy attorney should request the court to order that the post-petition payments be sent to the servicer instead of the trustee.) The servicer will need to 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 Web site or contact the trustee's office to verify the receipt of specific payments.

The servicer must maintain detailed records of any payments it receives during the confirmation process—the type of payment (pre-petition or post-petition), the amount received, the receipt date, the source of the payment, and the allocation of the payment (principal, interest, late charges, etc.). The servicer should generally hold any pre-petition payments it receives as “unapplied” funds until an amount equal to the full monthly (or biweekly) payment that is due under the mortgage note is available for application to the mortgage loan balance. However, if the court requires the payments to be applied under the terms of the repayment plan, the servicer must apply the payments in its records as required. 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, if applicable, scheduled principal.

Once the plan is confirmed, the servicer must continue to monitor the timely receipt of all payments for the pre-petition arrearages and any post-petition payments that come due.

- If the mortgage loan is one that Fannie Mae holds in its portfolio, the servicer must satisfy Fannie Mae's standard remittance requirements

(based on the applicable remittance type for the mortgage loan) throughout the term of the reorganization plan. This requires the servicer to maintain several sets of records during the term of the reorganization plan—one that reflects application of the payments under the terms of the reorganization plan, one that reflects application of the payments under the original terms of the mortgage loan, and 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).

- With respect to any regular servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, the servicer may purchase such MBS mortgage loan following the earlier of (a) confirmation of a plan that modifies the terms of the MBS mortgage loan or (b) 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. With respect to any regular servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, the servicer may purchase such MBS mortgage loan after the 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. A regular servicing option MBS mortgage loan that has been repurchased from its MBS pool is not eligible for redelivery.
- A delinquent special servicing option MBS mortgage loan can be reclassified as an actual/actual remittance type portfolio mortgage loan through Fannie Mae's standard reclassification procedures for delinquent special servicing option MBS mortgage loans at the times specified below. With respect to any special servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, the loan may be reclassified following the earlier of (a) confirmation of a plan that modifies the terms of the MBS mortgage loan or (b) 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. With respect to any special servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, the loan may be

reclassified after the 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 already may appear on Fannie Mae's list of delinquent mortgage loans due for reclassification and, if not, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to request that the mortgage loan be added to the reclassifications scheduled for the month in which the plan is confirmed (or the following month if opportunity to do so in the current month has expired).

- So long as any mortgage loan (regardless of servicing option or delinquency status) remains in its MBS pool, the servicer must report and remit to Fannie Mae each month the P&I as scheduled under the original terms of the mortgage loan. This requires the servicer to maintain multiple sets of records during the term of the reorganization plan. (Also see *Part VI, Chapter 3, Reclassification of MBS Mortgage Loans.*)

The automatic stay can be lifted if the debtor defaults under the provisions of the reorganization plan that require him or her to keep post-petition payments current. In addition, the case can be dismissed if the debtor is clearly unable to make the pre-petition payments required by the reorganization plan. If the borrower becomes 60 days delinquent in making the contractual post-petition payments or 60 days delinquent in making the pre-petition payments as required under the reorganization plan, the servicer must either refer the case to a bankruptcy attorney within two weeks of the 60th day of delinquency or, if already referred, advise the bankruptcy attorney to seek relief from the automatic stay or a dismissal of the case (in accordance with local bankruptcy rules and practices). (In jurisdictions in which the post-petition mortgage payments are made through the Chapter 12 or Chapter 13 trustee, the servicer must confirm that the debtor is 60 days delinquent in his or her payments to the trustee prior to referring the case to a bankruptcy attorney.) When the automatic stay is lifted or the case is dismissed for a delinquent mortgage loan, the servicer must immediately send any required breach letter to the borrower (if it was not sent previously) and refer the mortgage loan to an



attorney to initiate (or resume) foreclosure proceedings, still keeping in mind the possibility of arranging some foreclosure prevention alternative.

The timeline for completing a Chapter 13 bankruptcy case for a mortgage loan that was current or less than 60 days delinquent when the borrower filed bankruptcy is five months and two weeks from the 60th day of delinquency (or from the date of referral to a bankruptcy attorney, whichever occurs first). The timeline for completing a Chapter 13 bankruptcy case for a mortgage loan that was 60 or more days delinquent or in foreclosure when the borrower filed bankruptcy is five months and two weeks from the date of the bankruptcy filing.

Case completion for a Chapter 13 bankruptcy proceeding is defined as 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.

After confirmation of a Chapter 13 plan, if the mortgagor becomes 60 days delinquent in making payments pursuant to the plan, the servicer must send a new referral to the bankruptcy attorney. The servicer must send the referral no later than two weeks from the 60th day of delinquency. 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. (In jurisdictions in which the post-petition mortgage payments are made through the Chapter 12 or Chapter 13 trustee, the servicer must confirm that the debtor is 60 days delinquent in his or her payments to the trustee prior to referring the case to a bankruptcy attorney.) The timeline for completing the case under these circumstances is two months and two weeks from the 60th day of delinquency.

**Section 507  
Special Circumstance  
Bankruptcies (10/17/05)**

Certain types of bankruptcies require either a different type of expertise or a greater degree of coordination than the average bankruptcy. Bankruptcies that fall into this category include those involving an abusive filer (an individual or a group of individuals who make multiple bankruptcy filings for the same security property), one or more individuals who have a fractional interest in the security property because the property owner conveyed the interest to delay foreclosure proceedings, a borrower who is pursuing a cramdown or modification of the terms of the note or mortgage, a borrower who uses the security property as an investment

property, a borrower who has a balloon mortgage, a borrower who has several properties that secure Fannie Mae–owned or Fannie Mae–securitized mortgage loans, a borrower who files for bankruptcy after the title to the property is acquired at a foreclosure sale, and a borrower who is the subject of cross-border insolvency proceedings.

**Section 507.01  
Abusive Filers (10/17/05)**

The Bankruptcy Code restricts a debtor’s ability to obtain more than one discharge within certain time periods. For example, a debtor may receive only one discharge under Chapter 7 every eight years. A debtor, however, may generally file for bankruptcy at any time under any of the bankruptcy chapters even if he or she is not eligible for a discharge. A case filed under Chapter 11 may be dismissed if a court determines that the filing was not made in good faith and there was no intent to reorganize; however, the debtor may subsequently attempt to file another bankruptcy under Chapter 11 or any other chapter for which he or she is eligible. Generally, a case filed under Chapter 13 may be dismissed at any time, with there being no bars against refiling and commencing a new case after the dismissal of the old one.

When a borrower files for bankruptcy relief that affects the same security property more than once or commits other abusive acts (such as fraudulently obtaining the mortgage loan), he or she may be referred to as an abusive filer. There are several ways to address the actions of an abusive filer, including the following provisions of the Bankruptcy Code:

- Section 109(g) (which bars the debtor from filing a new bankruptcy petition for 6 months if he or she (a) is found to have willfully failed to abide by the orders of the court or to prosecute a case or (b) dismissed a case voluntarily after a motion for relief from the automatic stay was filed);
- Section 362(b)(21) (which provides that the automatic stay does not prohibit foreclosure in a case filed in violation of Section 109(g) or in a case filed in violation of a prior order of a bankruptcy court);
- Section 362(c)(3) (which provides for the expiration of the automatic stay 30 days after the filing of certain cases involving repeat filers unless the stay is extended by the bankruptcy court upon a finding of good faith);

- Section 362(c)(4) (which provides that no automatic stay arises upon the following filing of certain cases involving repeat filers unless a stay is imposed by the bankruptcy court upon motion by a party in interest and a showing of good faith); and
- Section 362(d)(4) (which provides for relief from the automatic stay and two-year “In Rem” relief in cases involving schemes to delay, hinder, and defraud creditors, including transfers of full or partial ownership of the property or multiple bankruptcy filings affecting the property, provided that the order entered by the bankruptcy court is recorded in compliance with applicable state laws governing notices or interests or liens in real property).

Within two weeks after a borrower files for bankruptcy, the servicer must check its records for the mortgage loan to determine whether a previous bankruptcy has been filed. If the servicer’s records reflect other bankruptcy filings by the borrower, it must refer the case to its bankruptcy attorney immediately (and mark the referral package as “repeat filer” or “possible bankruptcy abuse”). On receiving information about an abusive filer, the attorney must closely monitor the status of the case and prepare any pleadings that are appropriate, including the following:

- An Objection to a Motion for Continuation of the Automatic Stay pursuant to Section 362(c)(3) (to prevent the continuation of the automatic stay in a case involving a repeat filer);
- An Objection to a Motion to Order the Stay to Take Effect pursuant to Section 362(c)(4) (to prevent a stay from being imposed in a case involving a repeat filer);
- A Motion to Confirm that No Stay is in Effect pursuant to Section 362(c)(4);
- An Objection to a Motion to Obtain Relief from an “In Rem” order previously entered pursuant to Section 362(d)(4);
- A Motion for Relief from Automatic Stay pursuant to Section 362(d)(4) (for cases involving schemes to delay, hinder and defraud creditors, including transfers of full or partial ownership of the property or multiple bankruptcy filings affecting the property; any

orders obtained pursuant to Section 362(d)(4) must be immediately recorded in compliance with applicable state laws governing notices or interests or liens in real property so that they will be binding in future cases involving the same property for a two-year period);

- A Motion for Relief from Co-Debtor Stay pursuant to Section 1301;
- A Motion for “In Rem” Relief (to bar any person from filing another case in the future affecting the security property) and a Motion for “Prospective” Relief (to prevent the borrower from refile in the future);
- A Motion for Sequestration of Rental Income in connection with a security property that is used for investment purposes (to prohibit the debtor from using any rental income received from the security property for any purpose other than making payments toward his or her debt without first obtaining the bankruptcy court’s permission);
- A Motion to Annul the Automatic Stay to Confirm Foreclosure Sale, if the servicer was unaware that the borrower had filed bankruptcy and conducted a foreclosure sale (Rather than voiding the foreclosure sale in connection with an “abusive” filing, the court may simply lift the stay retroactively and uphold the foreclosure sale.);
- An Objection to the Discharge in connection with a Chapter 7 bankruptcy that involves fraud (to object to the entire discharge or to the dischargability of the debt); and
- An Objection to Confirmation of Chapter 13 Plan and a Motion to Dismiss in connection with a Chapter 13 bankruptcy in which the reorganization plan appears to be infeasible or offered in bad faith or for which there has been no change in the debtor’s circumstances since the last bankruptcy filing. (The objection should detail the facts of all previous bankruptcy filings and the abusive nature of the present filing and list the grounds for declaring the plan to be infeasible, the bad faith, or the lack of change in circumstances.)

Section 507.02  
Individuals with Fractional  
Interests in a Security  
Property (10/17/05)

A borrower may convey a fractional interest in a property that secures a Fannie Mae–owned or Fannie Mae–securitized mortgage loan to one or more individuals to delay the initiation of foreclosure proceedings. Each of the individuals holding a fractional interest in the property could file a petition for bankruptcy, thus delaying foreclosure and postponing the repayment of the debt indefinitely. When it appears that a fractional interest in a property has been conveyed solely for this purpose, the bankruptcy attorney should prepare 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 that they will be binding in future cases involving the same property for a two-year period.

Section 507.03  
Cramdowns of the  
Mortgage Debt (01/01/11)

A bankruptcy cramdown is the act of obtaining confirmation of a reorganization plan over the objection of the creditors. A cramdown of the mortgage debt is an attempt to involuntarily modify any of the terms of the security deed, mortgage, or note by court order. This modification could include a change to the UPB, interest rate, monthly payment amount, or maturity date of the mortgage or the bifurcation of the claim into secured and unsecured portions (with the secured portion equal to the value of the security property and the unsecured portion equal to the difference between the unpaid mortgage loan balance and the value of the property). While bankruptcy law generally prohibits the modification of a mortgage loan that is secured by a debtor’s principal residence, it does recognize mortgage modifications in a limited number of situations—such as when the mortgage loan is secured by an investment property; when the mortgage loan is secured by other collateral in addition to the debtor’s principal residence and incidental property (as those terms are defined in the Bankruptcy Code); or when the mortgage loan will mature within five years after the date the debtor filed bankruptcy. However, even in the limited number of situations in which mortgage modifications would otherwise be permitted, they are prohibited by Section 1325(a)(9) if the creditor holds a purchase money security interest and the secured indebtedness was incurred within one year before the bankruptcy filing. Moreover, even if a mortgage modification is permissible, the plan must provide for the creditor to retain its lien until either the underlying debt has been paid in full or the debtor has received a Chapter 13 discharge.

When the servicer learns that a bankruptcy filing may involve a cramdown, it must immediately refer the case to a bankruptcy attorney if

the case was not previously referred (and mark the referral package as “cramdown” or “involuntary loan modification”). A borrower’s request for a cramdown is non-routine litigation which must immediately be reported to Fannie Mae via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) and [bankruptcy\\_administration@fanniemae.com](mailto:bankruptcy_administration@fanniemae.com). Fannie Mae must be consulted with respect to all strategy involving cramdowns and will make the final determination of how to respond to a borrower’s request for cramdown.

When an appraisal is required to oppose a cramdown request, the servicer must work closely with the bankruptcy attorney in selecting the appraiser to make sure that the appraiser is sufficiently familiar with the issues involved in complex bankruptcy matters and has experience in testifying about these issues in court.

The bankruptcy attorney should attend the initial meeting of creditors for all bankruptcy cases involving cramdowns. The attorney should question the debtor about his or her valuation of the property, the budget, and the proposed plan payments to ascertain whether there are grounds for objecting to the plan based on its lack of feasibility. The attorney also should attempt to determine whether the debtor is receiving any rental income from the property. If the debtor is receiving rental income, the attorney should consider filing a Motion for Sequestration of Rental Income to request the bankruptcy court to determine how the rental income (or “cash collateral”) will be utilized.

With Fannie Mae’s prior approval, the bankruptcy attorney also may conduct discovery with respect to the debtor’s valuation of the property, the debtor’s finances, and the rental income for the property, including requesting the production of documents, requesting admissions of fact, and serving interrogatories on the debtor and his or her counsel. If the meeting of creditors and other methods of discovery are not sufficient to obtain meaningful information, the bankruptcy attorney should consider conducting a broader examination of the debtor’s financial affairs under Rule 2004 of the Federal Rules of Bankruptcy Procedure. The bankruptcy attorney also should consider filing a Motion for Adequate Protection Payments to request that interim disbursements of payments be made during the dispute phase of the cramdown proceeding that occurs prior to the confirmation of the reorganization plan.

The bankruptcy court determines the amount of a secured claim that it will allow for confirmation purposes through a valuation hearing. The bankruptcy attorney must review the debtor's proposed valuation of the security property and compare it to the estimated value from the appraisal report that the servicer obtains for the property. The bankruptcy attorney must then—after consultation with Fannie Mae—proceed as follows:

- When the appraisal report that the servicer obtains indicates that the value of the security property is equal to or less than the debtor's valuation—and it otherwise appears that the reorganization plan will be feasible—the bankruptcy attorney must begin to negotiate a possible settlement, stipulation, or workout arrangement. Fannie Mae's prior approval is required for any settlement agreement or stipulation. A settlement agreement or stipulation must establish the amount of the secured claim and should include a provision that the stay will be lifted or the case will be dismissed (possibly without a hearing) if the borrower defaults in a mortgage payment under the cramdown plan at any time. A settlement must also address the borrower's need to make payments for maintaining real estate taxes, mortgage insurance, and hazard insurance throughout the bankruptcy proceedings. If it does not appear that the reorganization plan is feasible, the bankruptcy attorney should only stipulate as to the valuation and other issues, reserving the right to file an Objection to Confirmation of the reorganization plan.
- When the appraisal report that the servicer obtains indicates that the value of the property is greater than the debtor's valuation, the bankruptcy attorney generally should file an Objection to Confirmation of the reorganization plan and/or an Objection to the borrower's Motion to Determine Secured Status pursuant to 11 USC § 506(a). The bankruptcy attorney should take a very firm stance with respect to the settlement of any valuation or confirmation issues. Settlement terms should be similar to those discussed above. Fannie Mae's prior approval is required for any settlement agreement or stipulation. On occasion, Fannie Mae may request that the bankruptcy attorney pursue extended litigation related to the cramdown. In such cases, Fannie Mae will advise the servicer and the bankruptcy attorney about the additional fees and costs Fannie Mae is willing to pay.

If the valuation or confirmation hearing results in a ruling that is adverse to Fannie Mae's interests, the bankruptcy attorney must analyze the case

and consult with Fannie Mae to determine whether an appeal might be appropriate.

**Application of payments during confirmation process.** When a cramdown is being sought, the court may sometimes order that any payments (both pre-petition and post-petition) made during the confirmation process be applied in accordance with the proposed terms of the reorganization plan. In other cases, only the pre-petition payments will need to be made under the terms of the reorganization plan and the post-petition payments will be those due under the terms of the mortgage note.

Since the treatment of the different payments may vary, the servicer must maintain detailed records for any payments it receives—the type of payment (pre-petition or post-petition), the amount received, the receipt date, the source of the payment, and the allocation of the payment (principal, interest, late charges, etc.). To ensure that the payments are properly accounted for and monitored, the servicer may need to maintain several sets of records—one showing the application of pre-petition payments, one showing the application of post-petition payments, and one showing the application of payments under the original terms of the mortgage (as full installments of P&I become available for application). The servicer must also be able to account for any scheduled interest (and, if applicable, principal) that must be remitted to Fannie Mae.

When payments are sent to the servicer during the confirmation process, the servicer generally should hold them as unapplied funds until an amount equal to the full monthly (or biweekly) payment that is due under the mortgage note is available for application to the mortgage loan balance. However, if the court requires the payments to be applied under the terms of the repayment plan, the servicer must apply the payments in its records as required. In either instance, 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.

**Confirmation of reorganization plan.** With respect to any regular servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, the servicer may purchase such MBS mortgage loan following the earlier of (a) confirmation of a plan that modifies the terms of the MBS mortgage loan or (b) 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. With respect to any regular servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, the servicer may purchase such MBS mortgage loan after the 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. A regular servicing option MBS mortgage loan that has been repurchased from its MBS pool is not eligible for redelivery.

A delinquent special servicing option MBS mortgage loan can be reclassified as an actual/actual remittance type portfolio mortgage loan through Fannie Mae's standard reclassification procedures for delinquent special servicing option MBS mortgage loans at the times specified below. With respect to any special servicing option MBS mortgage loan in MBS issued on or after June 1, 2007, the loan may be reclassified following the earlier of (a) confirmation of a reorganization plan that provides for a cramdown of the mortgage debt or (b) 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. With respect to any special servicing option MBS mortgage loan in MBS issued prior to June 1, 2007, the loan may be reclassified after the 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 already may appear on Fannie Mae's list of delinquent mortgage loans due for reclassification and, if not, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to request that the mortgage loan be added to the reclassifications scheduled for the month in which the plan is confirmed (or the following month if opportunity to do so in the current month has expired).

So long as any mortgage loan (regardless of servicing option or delinquency status) remains in its MBS pool, the servicer must report and remit to Fannie Mae each month the P&I as scheduled under the original terms of the mortgage loan.

**Payments after confirmation of reorganization plan.** When the bankruptcy court confirms a reorganization plan that provides for a cramdown of the mortgage debt, the servicer will no longer need to account for pre-petition and post-petition payments separately, but it will need to separately account for payments to the secured and unsecured portions of the debt that are 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 servicer's accounting system for recording payment applications for a confirmed cramdown must keep track of the mortgage payments as follows: (a) interest rate, monthly payment, and due date for the secured portion of the debt; (b) interest rate, monthly payment, and due date for the unsecured portion of the debt; and (c) the original terms of the mortgage note and the application of payments under those terms. The court may rule that any payments made during the confirmation process must be credited against the amount of the secured portion of the debt. If this happens, the servicer may need to adjust its records (and Fannie Mae's) to reallocate the payments between the secured and unsecured portions of the debt. The servicer also must track the payment of ongoing taxes and hazard insurance.

If the borrower misses two consecutive payments for the secured portion of the debt or if the borrower fails to maintain current tax or hazard insurance obligations, the servicer must immediately notify the bankruptcy attorney and request that a Motion for Relief from Stay or a Motion to Dismiss be filed.

**Notifying Fannie Mae about status of cramdown petitions.** The servicer must submit a *Chapter 13 Bankruptcy Reporting Form (Form 975)* at various times to keep Fannie Mae fully informed about the status of bankruptcy cramdowns that involve any Fannie Mae mortgage loans. Form 975 must be submitted to Fannie Mae via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) and [bankruptcy\\_administration@fanniemae.com](mailto:bankruptcy_administration@fanniemae.com). Form 975 must be submitted to Fannie Mae:

- 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);

- when the court approves (or rejects) a request for a cramdown (attaching a copy of the confirmed reorganization plan, when applicable);
- when the borrower or the bankruptcy attorney files an appeal with either the district, circuit, or appellate court (and again later when the court rules on the appeal);
- when a borrower for whom the court approved a cramdown misses the second consecutive payment for the secured portion of the debt under a confirmed reorganization plan; and
- when the borrower successfully completes the confirmed reorganization plan and the debtor receives a discharge (attaching a copy of the discharge if applicable).

The servicer should not report the terms of a cramdown modification through HSSN. Instead, the servicer must report the terms of the modification to Fannie Mae via e-mail to [bankruptcy\\_administration@fanniemae.com](mailto:bankruptcy_administration@fanniemae.com) and work with Fannie Mae to make appropriate changes to Fannie Mae's investor reporting system records. 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. (Also see *Part VI, Chapter 3, Reclassification of MBS Mortgage Loans.*)

(Generally, Fannie Mae will change its investor reporting system records to reflect the secured portion of the debt and establish a receivable account for the unsecured portion of the debt. Other changes also may be made, depending on the remittance type. The servicer must remit payments for the secured debt as regular remittances, and payments for the unsecured debt as special remittances.)

Section 507.04  
Mortgage Loans Secured  
by Investment Properties  
(07/01/97)

“Cash collateral” is cash that is acquired by a debtor during bankruptcy proceedings that is subject to the lien of a secured creditor. When a mortgage instrument that includes a provision for assignment of rents was properly recorded before the commencement of a bankruptcy, any rental payments received for an investment property may be considered cash collateral. Therefore, when the bankruptcy attorney receives a referral for

a case that involves an investment property, he or she must confirm that the security instrument includes an assignment of rents provision and, if it does, file a Motion for Sequestration of Rental Income to prohibit the debtor from using any rental income without the bankruptcy court's permission.

**Section 507.05  
Balloon Mortgage Loans  
(01/01/11)**

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 can be affected. Before referring a balloon mortgage loan to a bankruptcy attorney, the servicer must determine whether the balloon maturity date will occur while the bankruptcy action is pending (which will include any repayment period under a confirmed reorganization plan). If the maturity date will occur while the bankruptcy is pending, the servicer must inform the bankruptcy attorney of that fact when it refers the case. In addition, the servicer must notify 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. 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 bankruptcy attorney must thoroughly review the reorganization plan for either a Chapter 11 or a Chapter 13 bankruptcy to determine whether an Objection to Confirmation should be filed. For example, an Objection must be filed if a Chapter 11 reorganization plan modifies the terms of the mortgage loan to extend beyond the balloon maturity date or if a Chapter 13 reorganization plan extends the mortgage loan beyond the balloon maturity date and does not call for the debtor to satisfy any additional obligations (for accrued interest and escrow deposits) beyond the balloon maturity date. In addition, the bankruptcy attorney must make sure that any additional expenses (such as interest, real estate taxes, hazard insurance premiums, and mortgage insurance premiums) that may accrue after the balloon maturity date are appropriately treated in the plan if the plan extends the repayment beyond the balloon maturity date.

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 via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com).

Section 507.06  
Multiple Fannie Mae  
Mortgage Loans  
(01/31/03)

Occasionally, an individual who files for bankruptcy may own several properties that secure Fannie Mae–owned or Fannie Mae–securitized mortgage loans. This makes monitoring and controlling the bankruptcy process complicated since the mortgage loans may be serviced by different servicers, each of which retains a different legal counsel. In such cases, there may be a duplication of work by counsel or differing opinions about the proper way to protect Fannie Mae’s interest in the mortgage loans.

Before referring a case to a bankruptcy attorney, the servicer must make a reasonable effort to determine whether the borrower has any other outstanding mortgage debts on any other real property that is included in the bankruptcy estate. (One way of doing this is to order a credit report for the borrower to see if other mortgage debts appear on the report.) If such debts exist, the servicer must try to identify the servicers of the mortgage loans and initiate contact with them to determine whether Fannie Mae has an interest in the 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 coordinate its efforts with those of the other servicers and/or their attorneys. Whenever possible, the servicers should have the same bankruptcy attorney handle the proceedings for all of the mortgage loans. If that is not possible, the servicers must emphasize to their individual bankruptcy attorneys the need to work closely with the other bankruptcy attorneys to ensure that Fannie Mae’s interests are adequately protected.

Section 507.07  
Post-foreclosure Filings  
(01/01/11)

On occasion, a borrower may file for bankruptcy after Fannie Mae has acquired a property through a foreclosure sale. Since a foreclosure generally eliminates any rights a borrower had in the acquired property, there may be no need to refer a case involving a post-foreclosure bankruptcy filing to a bankruptcy attorney, to file a Proof of Claim, or to review a proposed reorganization plan (other than to ensure that it does not seek to overturn the foreclosure sale). There also may be instances in which the bankruptcy was filed before the foreclosure sale, but the servicer did not receive notification about the filing until after the date of the foreclosure sale. In either instance, the servicer must contact Fannie Mae’s National Property Disposition Center via e-mail at [npdc\\_assetrecovery@fanniemae.com](mailto:npdc_assetrecovery@fanniemae.com) within two business days of the date

the servicer learns that the borrower has filed for bankruptcy to make sure that Fannie Mae is aware of the filing.

If the property is not occupied, Fannie Mae will make a determination about whether or not the case needs to be assigned to an attorney. If the property is occupied and eviction proceedings are necessary, Fannie Mae will notify the attorney it selected to handle the eviction proceedings about the need to file either a Motion for Relief from Stay (and to cease all efforts to evict an occupant from the property until the relief is granted) or a Motion to Annul the Automatic Stay (so that the foreclosure sale can be validated). As soon as the relief is granted or the sale is validated, the attorney will immediately reschedule the date for eviction of the occupants from the property.

Fannie Mae will select and monitor the attorney that will handle the proceedings for a post-foreclosure bankruptcy filing and will advise the attorney of the applicable fee when it refers the case. In most instances, Fannie Mae will pay the attorney that handles the post-foreclosure bankruptcy directly. However, in some circumstances, 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 1009-MISC). The servicer must pay the attorney the amount billed for the post-foreclosure bankruptcy filing, up to a maximum amount of \$500. Should the attorney submit a bill showing an attorney fee that is more than \$500, the servicer should not pay it unless the attorney also provides a copy of a letter from Fannie Mae that authorizes 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 National Property Disposition Center via e-mail at [npdc\\_assetrecovery@fanniemae.com](mailto:npdc_assetrecovery@fanniemae.com) to confirm whether the higher amount may be paid.

Section 507.08  
Cross-Border Insolvency  
Proceedings (10/17/05)

On occasion, a borrower may be the subject of an insolvency proceeding in a foreign country and related bankruptcy proceedings may be commenced in the United States under Chapter 15 of the Bankruptcy Code. In the event of the initiation of a cross-border insolvency proceeding under Chapter 15 of the Bankruptcy Code, the servicer must contact Fannie Mae via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) 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.

## **Exhibit 1: Expected Servicer/Attorney Interactions and Required Documents (01/01/11)**

This *Exhibit* includes key instances of expected servicer/attorney interaction and a list of the documents that must be sent to the attorney when a case is referred for bankruptcy legal action.

### **Expected Servicer/Attorney Interaction**

Key instances of servicer and attorney interaction related to bankruptcy proceedings are listed below; however, this list is not meant to be all-inclusive:

- The servicer must submit a referral package to the bankruptcy attorney. The referral package must include the applicable mortgage loan status data (shown in *Exhibit 2: Mortgage Loan Status Data for Bankruptcy Referrals*) and the documentation the attorney needs to conduct bankruptcy proceedings (as listed below).
- The bankruptcy attorney will notify the servicer of the receipt of the referral package (and indicate whether or not it is complete) within two business days. The servicer must send any required missing documentation (or, if appropriate, have the foreclosure attorney or trustee send the documents) to the bankruptcy attorney within five business days after it receives the attorney's acknowledgment and request.
- The bankruptcy attorney will request the servicer to provide the information needed to complete the Proof of Claim or other necessary action. The servicer must provide this information to the bankruptcy attorney within three business days.
- The servicer must provide any additional information, verifications, certifications, documentation, and signatures the bankruptcy attorney requests no later than three business days after the bankruptcy attorney asks for them.
- The bankruptcy attorney must attend the Meeting of Creditors or otherwise begin negotiations with the borrower's (debtor's) counsel concerning the proposed plan or a foreclosure prevention alternative.

The bankruptcy attorney will 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). The servicer must 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 through HSSN within ten business days after it receives the bankruptcy attorney's initial recommendation. Then, within five business days after it receives Fannie Mae's decision about the workout proposal, the servicer must advise the bankruptcy attorney of the decision.

- The servicer must monitor a mortgage loan with a confirmed Bankruptcy Plan to verify that the required monthly payments are made in a timely manner. If the mortgagor becomes 60 days delinquent in making payments pursuant to the plan, the servicer must send a new referral to the bankruptcy attorney. The servicer must send the referral no later than two weeks from the 60th day of delinquency. 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. (In jurisdictions in which the post-petition mortgage payments are made through the Chapter 12 or Chapter 13 trustee, the servicer must confirm that the debtor is 60 days delinquent in his or her payments to the trustee prior to referring the case to a bankruptcy attorney.) The servicer also must notify the bankruptcy attorney within one business day about any payments that are made after a payment default is declared.
- If the bankruptcy attorney is Fannie Mae-retained, the attorney will handle any foreclosure following relief from the automatic stay, or, in Arizona, California, or Washington, a trustee chosen by the servicer may handle the foreclosure.
- Should foreclosure proceedings have to be recommenced at some point in a jurisdiction where Fannie Mae has not retained attorneys, the servicer must refer the case back to the foreclosure attorney (or trustee) that was initially handling the foreclosure proceedings in order to avoid duplicative or excessive attorney fees. However, if the servicer believes that the attorney (or trustee) did not properly handle



the foreclosure proceedings, the servicer must contact Fannie Mae to request permission to incur the additional expense of using a different attorney (or trustee) to process the foreclosure to completion.

### **Required Documents**

The bankruptcy attorney generally needs the following documents to conduct bankruptcy proceedings. The attorney may request the servicer to provide additional documents from time to time. The servicer must respond promptly (within three business days) to all requests received from the bankruptcy attorney.

- Copy of Note(s) (including any endorsements), Any Addenda, and Any Modifications (Both Sides)
- Copy of Security Instrument, Any Riders, and Any Modifications (with Recording Information)
- Copies of Complete Chain of Assignments (with Recording Information) through Servicer or MERS, as applicable (These assignments are not required if MERS was originally named as nominee for the beneficiary.)

When a bankruptcy attorney is retained with respect to a mortgage loan secured by a manufactured home, the servicer must provide the bankruptcy attorney (whether the bankruptcy attorney has been retained by the servicer or by Fannie Mae) 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 process; and
- if there has been a property inspection, a copy of the property inspection report, property status report, or any information that was gathered in connection with the property inspection that relates to the status of the property as manufactured housing, or if there has not been a property inspection, all the information that Fannie Mae requires to be gathered in connection with such an inspection that relates to the status of the property as manufactured housing insofar as such information is available to the servicer.

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Exhibit 1

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## **Exhibit 2: Mortgage Loan Status Data for Bankruptcy Referrals (01/01/11)**

The following information must be sent to a bankruptcy attorney when a mortgage loan is referred for bankruptcy proceedings:

### **Servicer Information**

- Servicer's Name and Address, and Fannie Mae Identification Number
- Servicer's Contact Person's Name, Telephone Number, e-mail address, and Fax Number

### **Property Information**

- Property Address, and Tax Identification Number or Assessor's Parcel Number (if available)
- Property Type (single-family, duplex, condo, co-op, etc.) For manufactured homes, the servicer must advise the selected attorney and forward to him or her a copy of the property inspection report, or property status report, and copies of all appropriate lien documents including, if applicable, any documents that evidence surrender of the certificate of title to the home.
- Number of Dwelling Units
- Occupancy Status
- Owner-Occupied or Investment Property (If the mortgage loan is secured by an investment property, it is very important to provide all known information, including number of units, occupancy status, names of any tenants, rental income, lease amounts, etc.)
- Native American Land (Tribal Trust, Allotted, Restricted Fee, as applicable)
- Name and Telephone Number of Management Agent for a Co-op Project (if applicable)

- Name and Telephone Number of HOA for Condo Project (if applicable)

**Borrower Information**

- Borrower's Name
- Borrower's Mailing Address (if different from Property Address)
- Borrower's Social Security Number or Tax Identification Number
- Borrower's Current Military Status (if any)

**Mortgage Loan Information**

- Servicer's Loan Identification and Fannie Mae Loan Number
- MERS MIN, if applicable
- Lien Priority (First or Subordinate)
- Original Mortgage Loan Amount
- Current UPB and LPI Date
- Total Amount Past Due (Reinstatement)
- Total Amount Past Due (Payoff)
- Itemization of fees, costs, and other charges
- Brief Servicing History for last 12 months (including previous foreclosure referrals, foreclosure prevention efforts and bankruptcies)
- Name of Mortgage Insurer (if applicable)
- Any Other Important Mortgage Loan Characteristics (such as HECM status, Texas Home Equity Loan, etc.)

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Exhibit 2

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**Bankruptcy Information**

- Bankruptcy Case Number
- Bankruptcy Jurisdiction
- Date of Bankruptcy Filing
- Chapter Under Which Bankruptcy Filed
- Any Property Valuation Information
- Breakdown of Mortgage Payment (principal, interest, and escrow deposits)
- Mortgage Escrow Analysis (showing any shortage or surplus)
- Foreclosure Case Number, Jurisdiction, and Date Proceedings Initiated (when case is referred by the foreclosure attorney)

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Exhibit 3

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### **Exhibit 3: Electronic Public Access Providers (01/01/11)**

The following electronic public access systems enable members to access federal, state, and local court records, thus giving them the ability to immediately check on the latest status of a given bankruptcy case. (The information shown below is based on the latest information Fannie Mae has available. It should be confirmed with the individual service provider.)

Service:	Lexis Nexis® Courtlink®	Pacer
Service Provider:	Lexis Nexis	United States Courts
Address:	Lexis Nexis CourtLink 13427 NE 16th Street Suite 100 Bellevue, WA 98805	PACER Service Centers P.O. Box 780549 San Antonio, TX 78278-0549
Telephone:	(425) 467-3000 (877) 613-3010	(210) 301-6440 (800) 676-6856
Fax:	(425) 974-1419	(210) 301-6441
Availability:	24 hours a day, 7 days a week (but some courts have scheduled downtime)	24 hours a day, 7 days a week
Subscription Fee:	Several plans are available; contact the service provider for details	None
Service Costs:	Billed monthly; contact the service provider for details	Billed quarterly; contact the service provider for details

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Exhibit 3

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## **Chapter 6. Foreclosure Prevention Alternatives (10/31/08)**

Fannie Mae does not want to foreclose a delinquent mortgage loan if there is a reasonable chance of avoiding foreclosure. If the reason for default appears to be long-term or too serious for the short-term relief measures that are discussed in *Chapter 3, Delinquency Prevention*, to be effective, the servicer must consider Fannie Mae's permanent foreclosure prevention alternatives.

All conventional mortgage loans are eligible for foreclosure prevention alternatives—those held in Fannie Mae's portfolio, those purchased for Fannie Mae's portfolio but subsequently sold to back an MBS issue, and those originally delivered as part of an MBS pool. While Fannie Mae does not require that its foreclosure prevention alternatives be used for regular servicing option MBS mortgage loans, shared-risk special servicing option MBS mortgage loans while the servicer's shared-risk liability remains in effect, and other mortgage loans sold to Fannie Mae under a recourse or other credit enhancement arrangement, Fannie Mae encourages a servicer to use them for these mortgage loans. However, when a servicer decides to use Fannie Mae's foreclosure prevention alternatives for such mortgage loans, 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 foreclosure prevention alternatives.

For servicers who service first-lien mortgage loans owned or securitized by Fannie Mae and also service subordinate-lien mortgage loans for themselves or other investors, and the servicer determines that a borrower of a first-lien mortgage loan owned or securitized by Fannie Mae is eligible for one of the foreclosure prevention alternatives, an offer to the borrower to accept the foreclosure prevention alternatives should not be contingent upon the borrower making payments or bringing current any subordinate liens which may also exist on the property. Fannie Mae recognizes that in some cases it may be necessary to make a small payment to a subordinate lien holder when the servicer determines that it is otherwise beneficial to pursue either a preforeclosure sale, a deed-in-lieu, or a loan modification (which may require a resubordination of the subordinate lien) as the foreclosure prevention alternative. In those instances, the servicer must obtain Fannie Mae's prior written approval to make the payment.

Generally, Fannie Mae's standard guidelines governing foreclosure prevention options also apply to TPR mortgage loans. All workout cases for TPR mortgage loans must be submitted to Fannie Mae for prior approval. There is no delegation of authority for approving workouts for TPR mortgage loans.

The servicer of a Community Living<sup>®</sup> mortgage loan must be sensitive to the importance of working with the borrower and the funding agency to resolve a serious delinquency. In particular, Fannie Mae requires the servicer to devote additional resources to foreclosure prevention efforts when the group home that secures a delinquent Community Living mortgage loan is still being occupied by disabled tenants and, if appropriate, delay the initiation of foreclosure. In such cases, the servicer may ask Fannie Mae to work with the borrower and the funding agency if that agency wants to pursue workout arrangements (such as a repayment plan, mortgage modification, loan assumption, or special refinancing) to avoid the additional costs of finding replacement housing for the tenants.

For government mortgage loans, a servicer must offer the specific foreclosure prevention alternatives that the mortgage insurer or guarantor makes available. Fannie Mae does not design workout alternatives specifically for government mortgage loans, but, on a case-by-case basis, is willing to consider approving the use of one of its standard alternatives for a government mortgage loan—as long as the proposed workout is acceptable to the insurer or guarantor and would not result in a loss to Fannie Mae. When Fannie Mae has implemented special procedures related to specific workout alternatives offered by one of the government agencies, they are discussed in this *Chapter*.

If a 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 or pending lead-based paint litigation for any mortgage loan secured by a one-unit investment property or a two- to four-unit property for which it is considering a foreclosure prevention alternative, the servicer must send Fannie Mae a copy of any documentation it has related to lead-based paint law violations or threatened or pending lead-based paint litigation. The servicer must notify Fannie Mae about the current value of the property, the amount of Fannie Mae's outstanding debt, and the number of children under eight years of age who are residing in the property (giving the exact age of each child). 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 before it recommends a foreclosure prevention alternative to Fannie Mae.

Fannie Mae's workout hierarchy outlined in the introduction to this *Part* recommends the preferred order of consideration for the use of special relief measures and foreclosure prevention options to resolve a delinquency.

**Section 601  
Determining a  
Borrower's Eligibility  
for Foreclosure  
Prevention Alternatives  
(06/01/09)**

Fannie Mae believes that it is very important for the servicer to establish an open line of communication with a borrower early in the delinquency resolution process since a borrower generally will be more forthcoming after he or she has had several contacts with the servicer's personnel. This is one of the reasons Fannie Mae requires the servicer to include in the first foreclosure prevention solicitation letter it sends to a borrower between the 35th and 45th day of delinquency (as discussed in *Section 203, Letters (01/01/11)*) information about the different options that are available to help the borrower cure the delinquency, including HAMP.

The servicer also must make sure that the borrower understands that offers of foreclosure prevention alternatives are just that—offers—and that he or she is under no obligation to agree to one of the offers. A servicer must handle workouts that involve the borrower's relinquishing ownership of the property (assumptions, preforeclosure sales, deeds-in-lieu) carefully to ensure that the borrower's rights are appropriately protected. It also is important that both the servicer and the borrower understand that Fannie Mae's foreclosure prevention workout alternatives are designed to assist a borrower who is experiencing a financial hardship—particularly (but not

exclusively) one whose property is in an economically distressed area. Fannie Mae expects a borrower who has the ability to meet his or her financial obligations to continue to do so. In addition, Fannie Mae requires a borrower who agrees to a foreclosure prevention workout alternative to contribute some funds to reduce Fannie Mae's loss on the mortgage loan if he or she has the financial ability to do so.

Section 601.01  
Requesting Preliminary  
Financial Information  
(06/25/10)

A servicer often will include in its foreclosure prevention solicitation letter a request for the borrower to submit preliminary financial information. Collecting a minimal amount of financial information when foreclosure prevention alternatives are first discussed with a borrower will help the servicer get a general understanding about which alternative appears to be the most appropriate for the borrower. The servicer has the option of collecting the financial information through a customized financial form on the servicer's letterhead or through the *Borrower's Financial Statement* ([Form 1020](#) or [1020\(S\)](#)). The Form 1020/1020(S) is a one-page financial information form that is designed to collect the minimal amount of financial information needed to evaluate whether to offer a foreclosure prevention alternative to a borrower. If a servicer's customized financial form is used, the form must include all information required on Form 1020/1020(S).

Each borrower who signs the servicer's customized financial form or Form 1020/1020(S) will need to provide some personal identifying information (name, address, telephone number(s), and Social Security number; the number of persons living on the property; and the number of dependents living on the property). In addition, the borrowers must jointly respond to questions about the property (whether it is listed for sale and, if so, the agent's name and telephone number), the number of cars owned, whether a credit counseling service has been contacted, the combined monthly income (from both wages and other identified sources), the estimated value of certain types of assets, the monthly payment and balance due for certain types of liabilities, and the reason for the delinquency. As supporting documentation, each borrower must attach to the servicer's customized financial form or Form 1020/1020(S) his or her most recent paystub (or, for a self-employed borrower, the most recent federal income tax return). Such financial documentation supporting income, expenses, assets, and liabilities may not be more than 90 days old as of the date the servicer is determining the loss mitigation eligibility and

structure. These supporting documentation aging requirements must be followed by servicers for loss mitigation options.

The servicer must use the information from the servicer's customized financial form or Form 1020/1020(S), along with a credit report for each borrower, to determine the total assets, liabilities, monthly income, and monthly expenses. In some cases, it may be necessary to gather additional information to support the preliminary financial information or there may be instances in which the documentation Fannie Mae generally requires will not apply. A servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to discuss any special documentation that may be needed to adequately support the financial information provided by the borrower(s). After the total financial picture has been developed for the borrowers, the servicer should be able to reach a preliminary conclusion about which foreclosure prevention workout alternative(s) will be effective. At this point, the servicer must send Fannie Mae information about the mortgage loan through HSSN (as discussed in *Section 601.02, Using HSSN (01/31/03)*).

Section 601.02  
Using HSSN (01/31/03)

HSSN enables a servicer to access Fannie Mae's Web site and electronically submit its foreclosure prevention cases for conventional mortgage loans to Fannie Mae for consideration. The servicer can provide the facts for any given delinquency and the borrower's financial data, and the application will recommend which workout options are most appropriate to the particular circumstances. After logging in, all the servicer needs to do is to enter and save the data for each foreclosure prevention case or request for reclassification that it wants to report, and the information will be automatically available to Fannie Mae. (The servicer can save any information that it has gathered to the network as a draft if its recommendation is not yet ready for Fannie Mae's consideration.) Once an approved foreclosure prevention alternative has been finalized (or closed), the servicer can report that information to Fannie Mae through HSSN. A servicer also may use HSSN to produce loan-level status reports for all of the mortgage loans that it has submitted to Fannie Mae through HSSN.

To use HSSN, a servicer must first complete and submit certain registration forms to Fannie Mae. The forms are available from [eFannieMae.com](http://eFannieMae.com). To obtain forms from [eFannieMae.com](http://eFannieMae.com), a servicer must

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select “Single Family,” then the “Default Management” function, and then under “Technology Tools and Applications,” select “*HomeSaver Solutions Network*,” then “HSSN Registration.” The servicer should return the required completed forms to Fannie Mae by faxing them to (703) 833-5680 or by mailing them to Fannie Mae; Technology Registration; Mail Stop 9H-202; 11600 American Dream Way; Reston, VA 20176; e-mail scanned forms to [product\\_rollout\\_fax@fanniemae.com](mailto:product_rollout_fax@fanniemae.com). Fannie Mae will send the servicer notification of the applicable userid and password approximately one week after receiving the completed forms. As soon as the servicer receives Fannie Mae’s notification, it may access HSSN (using the same path it used to obtain the registration materials, but choosing the “Log in to HSSN via Asset Management Network” option instead of the “HSSN Registration” option).

**Section 602  
Mortgage Modifications  
(01/01/09)**

There may be times when the only way to provide relief to a deserving borrower is to change some of the terms of a mortgage loan. A servicer must consider modification of a mortgage loan that is delinquent or for which default is reasonably foreseeable (imminent) under circumstances similar to the following:

- a borrower who was granted military indulgence cannot cure his or her delinquency within three months after being discharged from the military service;
- a borrower who has experienced a permanent or long-term reduction in income is unable to continue making the mortgage payments;
- the terms of the mortgage loan (such as those imposed by a nonstandard adjustable-rate mortgage loan) contribute toward a greater risk of borrower default; or
- any other situation in which changing the terms of the mortgage loan would cure the present delinquency, avoid acquisition of the property, or prevent future delinquencies.

The servicer must not agree to change the terms of a mortgage loan until the servicer receives and evaluates the financial information required to verify that the borrower has a hardship, determines that a permanent standard Fannie Mae mortgage modification is the appropriate foreclosure prevention alternative, and obtains Fannie Mae’s prior written approval.

The servicer of a *whole mortgage loan or a participation pool mortgage loan that Fannie Mae holds in its portfolio* may recommend modifications that extend the term of the mortgage loan, provide for reamortization of the outstanding debt, change adjustable-rate mortgage loans to fixed-rate mortgage loans (using the current market interest rate for the term of the mortgage loan), allow an adjustable-rate mortgage loan to retain the adjustable rate features as provided in the original mortgage loan documents, capitalize delinquent interest (and costs, if allowed by state law), reduce the existing interest rate to the current market rate, use below-market interest rates, temporarily reduce the interest rates of fixed-rate mortgage loans in which the reduced interest rate increases in a series of steps to a fixed, current market interest rate, or increase the interest rate of adjustable-rate mortgage loans in a series of steps to a fixed, current market interest rate. Fannie Mae's approval is required for any of the foregoing.

A change in the terms of a mortgage loan may not become effective while it remains in its MBS pool. This applies to all mortgage loans in MBS pools (including all PFP mortgage loans purchased as whole loans for Fannie Mae's portfolio that Fannie Mae subsequently securitizes). 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 purchased from the MBS pool (in the case of a regular servicing option mortgage loan) or through Fannie Mae's standard reclassification procedures for delinquent special servicing option mortgage loans. However, performing MBS mortgage loans are ineligible for purchase from the related MBS pool for the purpose of modifying the mortgage loan.

There is a limited exception whereby an MBS mortgage loan with a pool issue date on or after January 1, 2009, can be removed from an MBS pool after the mortgage loan has been delinquent for at least one monthly payment, if the delinquency has not been fully cured on or before the next payment date (for example, 30 days delinquent). While there is an expectation that the standard removal requirements after a continuous state of delinquency for four consecutive monthly payment due dates without a full cure of the delinquency during that period will apply in most cases, Fannie Mae recognizes that there may be extraordinary circumstances

relating to a particular mortgage loan that may justify removing the mortgage loan from an MBS pool to offer a foreclosure prevention alternative before the mortgage loan is 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 of the delinquency during that period. Therefore, on an exception basis, servicers may seek Fannie Mae's prior written consent to remove an MBS mortgage loan with a pool issue date on or after January 1, 2009 after the mortgage loan has been as little as one monthly payment delinquent, if the delinquency has not been fully cured on or before the next payment date (for example, 30 days delinquent), if the servicer has determined that a loan modification is the appropriate foreclosure prevention option and that the extraordinary circumstances relating to the mortgage loan justify the earlier removal of the mortgage loan from the MBS pool to facilitate the loan modification.

Except as otherwise specified, MBS mortgage loans that are current (or have less than four full monthly payments past due, measured by the LPI) are ineligible for purchase or reclassification for the purpose of modifying the mortgage loan. Purchase or reclassification to modify an MBS mortgage loan is only permitted to facilitate a loan modification of an MBS mortgage loan that meets the applicable foreclosure prevention criteria and is subject to the timing rules stated above.

Regular servicing option MBS mortgage loans, and shared-risk special servicing option MBS mortgage loans for which the servicer's shared risk liability has not expired, that have been removed from an MBS pool, and have been modified are not eligible for redelivery to Fannie Mae unless Fannie Mae agrees otherwise.

The servicer must prepare the *Agreement for Modification or Extension of Mortgage* ([Form 181](#)), *Loan Modification Agreement (Fixed Interest Rate)* ([Form 3179](#)), *Loan Modification Agreement (Adjustable Interest Rate)* ([Form 3161](#)), or *Loan Modification Agreement (Step Interest Rate)* ([Form 3162](#)).

Section 602.01  
Modifying Government  
Mortgage Loans  
(05/01/10)

A change to the terms of a government mortgage loan may not become effective while it remains in its MBS pool. 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 purchased from its related MBS pool (as a repurchase in the case of a regular servicing option mortgage or through Fannie Mae's standard reclassification procedures for delinquent special servicing option mortgage loans). MBS mortgage loans that are current (or have been in a continuous state of delinquency for less than four consecutive monthly payment due dates without a full cure of the delinquency during that period) are ineligible for purchase from the MBS pool for the purposes of modifying the mortgage loan. Regular servicing option MBS mortgage loans, and shared-risk special servicing option MBS mortgage loans for which the servicer's shared risk liability has not expired, that have been removed from an MBS pool and have been modified are not eligible for redelivery to Fannie Mae unless Fannie Mae agrees otherwise. The following procedures apply to all government mortgage loans in Fannie Mae's portfolio, including those that were purchased from an MBS pool. Fannie Mae's prior approval—and that of the mortgage insurer or guarantor—is required for all proposals to change the terms of a government mortgage loan. Before recommending a modification or extension to Fannie Mae, the servicer must first obtain the approval of FHA, HUD, VA, or the RD, using any documentation the mortgage insurer or guarantor requires. After all applicable approvals are obtained, the servicer must prepare the *Agreement for Modification or Extension of Mortgage* ([Form 181](#)), have the form signed by the borrower(s) and any co-makers or endorsers of the note, and have its authorized representative sign the completed form to indicate the servicer's approval of the modification or extension. The servicer must submit the information pertaining to the modification through HSSN, and the executed Form 181 must be uploaded into the case in HSSN.

If Fannie Mae identifies any discrepancies between the information entered into HSSN and Fannie Mae's investor reporting system, Fannie Mae will work with the servicer to identify the proper corrective action required to resolve the issue(s). If the servicer determines that the data entered into HSSN was incorrect, the servicer must cancel the case in HSSN, correct the data, and resubmit the corrected case via HSSN. If the Loan Activity Record (LAR) data was incorrect, the servicer must submit a corrected LAR. After the servicer has completed the appropriate corrective action, the servicer must notify Fannie Mae. 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.

- If the servicer or MERS is the mortgagee of record—or if Fannie Mae is the mortgagee of record and Fannie Mae has given the servicer a limited power of attorney that allows it to execute this type of modification on Fannie Mae’s behalf—the servicer may execute the Agreement and, if applicable, submit it for recordation. The servicer must send a copy of the executed Agreement to the borrower and to the mortgage insurer or guarantor, submit the original executed (and recorded, if applicable) Form 181 to the appropriate custodian, and place a copy in the servicer’s individual mortgage loan file.
- If Fannie Mae is the mortgagee of record, but Fannie Mae has *not* given the servicer a limited power of attorney that allows it to execute this type of modification on Fannie Mae’s behalf, the servicer must send the original Agreement to Fannie Mae for execution (using the following address: Fannie Mae; Attn: Vendor Oversight; 13150 Worldgate Drive; Herndon, VA 20170). The servicer must send the Agreement under cover of a transmittal letter that specifies the type of action being requested, indicates whether the Agreement will need to be recorded in the public records after it is executed, and provides an address to which the executed Agreement should be returned.

Fannie Mae will execute the Agreement and return it to the servicer (regardless of whether the executed Agreement needs to be recorded). If the Agreement needs to be recorded, the servicer must submit it for recordation. The servicer must send a copy of the executed Agreement to the borrower and to the mortgage insurer or guarantor, submit the original executed (and recorded, if applicable) Form 181 to the document custodian, and place a copy in the servicer’s individual mortgage file.

Section 602.02  
Modifying Conventional  
Mortgage Loans  
(04/21/09)

Fannie Mae’s prior approval—and that of the mortgage insurer, if applicable—is required for all proposals to change the terms of a conventional first- or second-lien mortgage loan. Fannie Mae does not permit mortgage modifications while a mortgage loan is in an MBS pool (including PFP mortgage loans). 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.

The servicer must obtain the borrower's financial information to evaluate whether the borrower qualifies for a modification. The servicer must use the information from the *Borrower's Financial Statement* ([Form 1020/1020\(S\)](#)) or its equivalent to determine the borrower's total assets. The liabilities listed on Form 1020/1020(S) or its equivalent must be compared to a recent credit report. Monthly gross income included on Form 1020/1020(S) must be verified as outlined in *Section 602.02.01, Documenting and Verifying Gross Monthly Income (06/25/10)*. The servicer may rely on verbal information obtained from the borrower to document the borrower's monthly living expenses in its servicing system.

In some cases, it may be necessary to gather additional documentation to support financial information on Form 1020/1020(S) or its equivalent, or there may be instances in which the income documentation Fannie Mae generally requires will not apply. The servicer must contact its Servicing Consultant, Portfolio Manager, or Fannie Mae's National Servicing Organization's Servicer Solutions Center at (888) 326-6435 to discuss any special documentation that may be needed to adequately support Form 1020/1020(S) or its equivalent provided by the borrower(s). After the servicer has completely evaluated the borrower's financial condition as well as the condition of and circumstances affecting the mortgaged property, the servicer should be able to reach a preliminary conclusion about which foreclosure prevention alternative(s) will be effective before requesting Fannie Mae's prior approval.

Before Fannie Mae agrees to modify a delinquent conventional mortgage loan, Fannie Mae requires the borrower to make a cash contribution if financially feasible toward reducing the delinquency.

The servicer may charge the borrower the actual out-of-pocket expenses for a credit report, any required title bringdown, or other documented expenses. The servicer must ensure that any costs charged to the borrower are permitted under the terms of the note, security instrument, and applicable law. If the borrower is unable to pay all or a portion of the servicer's processing fee, Fannie Mae will consider reimbursing the servicer for the difference between what the borrower can pay and the

amount of the servicer's fee or, for a portfolio mortgage loan, capitalizing all or part of the fee as part of the modified mortgage loan amount. (The servicer must advise Fannie Mae of the collection of its fee in the next monthly activity report it transmits through Fannie Mae's investor reporting system.)

The servicer does not need to obtain the mortgage insurer's approval before it recommends a modification to Fannie Mae, nor does it need to submit the borrower's actual application to Fannie Mae. Instead, the servicer should transmit general summary information from the application, a description of the borrower's financial circumstances, a property market value analysis, if obtained, and its proposed recommendation to Fannie Mae through HSSN (as discussed in *Section 601.02, Using HSSN (01/31/03)*).

Section 602.02.01  
Documenting and  
Verifying Gross Monthly  
Income (06/25/10)

Income documentation must not be more than 90 days old from the date of evaluation of the standard Fannie Mae modification. Income documentation previously obtained during the HAMP evaluation, if applicable, may be relied upon for the purposes of verifying income for a standard Fannie Mae modification provided that the documentation is not more than 90 days old from the date of evaluation for the standard Fannie Mae modification.

The borrower must provide financial information to the servicer as outlined below.

If the borrower is employed:

- copies of the two most recent paystubs, or, if not available, a copy of the most recent paystub indicating year-to-date earnings.

If the borrower has other earned income, such as bonuses, commissions, fees, a housing allowance, tips, or overtime:

- reliable third-party documentation describing the nature of the income (for example, an employment contract or printouts documenting tip income).

If the borrower is self-employed:

- a signed copy of the most recent federal income tax return, including all schedules and forms, if available, or a Transcript of Tax Return resulting from an executed IRS *Request for Transcript of Tax Return* (Form 4506-T); and
- copies of bank statements for the business account for the last two months to document continuation of business activity.

If the borrower elects to use alimony or child support income to qualify:

- photocopies of the divorce decree, separation agreement, or other type of legal written agreement or court decree that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received; and
- documents supplying reasonably reliable evidence of full, regular, and timely payments, such as bank deposit slips or bank statements for the last two months.

The servicer must have determined that the income will continue for three years in order for the income to be considered in calculating the terms of the modification.

If the borrower has other income, such as Social Security, disability or death benefits, a pension, public assistance, or adoption assistance:

- letters, exhibits, a disability policy or benefits statement from the provider that states the amount, frequency, and duration of the benefit; and
- copies of the most recent bank statement showing these deposits.

If the borrower receives unemployment income:

- letters, exhibits, or a benefits statement from the provider that states the amount, frequency, and duration of the benefit. The servicer must have determined that the income will continue for at least nine months from the date of the eligibility determination.

If the borrower has rental income:

- Copies of all pages from the borrower's signed federal income tax return and Schedule E, *Supplemental Income and Loss*, for the most recent tax year.
  - When Schedule E is not available because the property was not previously rented, the servicer may accept a current lease agreement and bank statements or cancelled rent checks.
  - If the borrower has rental income from a one- to four-unit property that is also the borrower's principal residence, the monthly net rental income to be calculated must equal 75% of the gross rent, with the remaining 25% being considered vacancy loss and maintenance expense.
  - If the borrower has rental income from a property that is other than the borrower's principal residence, the income should be 75% of the monthly gross rental income, reduced by the monthly debt service on the property (i.e., PITI, including mortgage insurance and association fees, if applicable).

Section 602.02.02  
Documenting and  
Verifying Liabilities  
(06/25/10)

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. The "total liabilities" equals the sum of the following monthly charges:

- The monthly mortgage payment, including any mortgage insurance premiums, taxes, property insurance, homeowners' or condo association fee payments, and assessments related to the property, whether or not they are included in the mortgage payment.
- Monthly payments on all closed-end subordinate mortgage loans.
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. 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.

- Monthly payment on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3%.
- Monthly payment on a HELOC must be included in the payment ratio 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 with more than 10 months of payments remaining, if supplied by the borrower.
- Car lease payments, regardless of the number of payments remaining.
- Aggregate negative net rental income from all investment properties owned, if supplied by the borrower.
- Monthly mortgage payment or rent for a second home (PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, condo unit or co-op unit maintenance fees (excluding unit utility charges)).

Section 602.02.03  
Executing and  
Processing the  
Modification Agreement  
(06/25/10)

Upon the servicer's receipt of all required documentation, a determination that the borrower is eligible for a standard Fannie Mae mortgage modification, and Fannie Mae's prior written approval to proceed with a modification, the servicer may prepare and send to the borrower a firm offer solicitation indicating the borrower is eligible for the modification.

The servicer must ensure that its communications with the borrower clearly convey that the loan modification will not be binding, enforceable, or effective unless and until the borrower delivers the executed loan modification agreement and any required payments to the servicer and the servicer signs the loan modification agreement. This applies to all

mortgage loans in MBS pools, including all PFP mortgage loans purchased as whole loans for Fannie Mae's portfolio that it subsequently securitizes. A modification of any mortgage loan in an MBS pool can only become effective after it has been removed from the MBS pool.

Mortgage modifications must be signed by an authorized representative of the servicer and must reflect the actual date of signature by the servicer's representative. Signature by the servicer's authorized representative must not occur until after the mortgage loan has been removed from the MBS pool and either reclassified as a Fannie Mae portfolio mortgage loan or purchased by the servicer.

In reaching a decision about the borrower's application, Fannie Mae will work with the servicer to develop modified mortgage loan terms that address the borrower's financial ability to repay the mortgage debt. As early as possible, the servicer must make sure that the borrower is aware of what to expect (and when), including his or her responsibility for remitting any required cash contribution before the modification can be finalized. Once Fannie Mae approves the modification, a letter including terms and conditions of Fannie Mae's decision will be available to the servicer through HSSN. After receiving this notification, the servicer must request the mortgage insurer's approval (if required).

The servicer must then prepare a *Loan Modification Agreement (Fixed Interest Rate)* ([Form 3179](#)), *Loan Modification Agreement (Adjustable Interest Rate)* ([Form 3161](#)), or *Loan Modification Agreement (Step Interest Rate)* ([Form 3162](#)) to document the agreed-upon terms of the modification. If the servicer (or MERS) is the mortgagee of record (or if Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute loan modification agreements on Fannie Mae's behalf), the servicer must execute the Loan Modification Agreement, have the executed Agreement recorded (if required by local law or Fannie Mae), and send the Agreement to the document custodian.

If Fannie Mae's designated document custodian 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; Attn: Additional Custody Documents; 5730 Katella Ave.; Cypress, CA 90630. If Fannie Mae is the mortgagee of record, but Fannie Mae has not given the servicer a limited power of



attorney that allows it to execute loan modification agreements on Fannie Mae's behalf, the servicer must send the Loan Modification Agreement to Fannie Mae for execution. Documents submitted to Fannie Mae for execution must be identified by the Fannie Mae loan number and sent under cover of a letter that provides any special instructions related to execution of the documents and indicates the name and address to which the executed documents should be returned. The documents must be mailed to Fannie Mae; Attn: Vendor Oversight; 13150 Worldgate Drive; Herndon, VA 20170.

For all mortgage loans that are modified, the servicer must ensure that the modified mortgage loan retains its first-lien position and is fully enforceable. The Loan Modification Agreement must be executed by the borrower(s) and, in the following circumstances, must be in recordable form:

- if state or local law requires a modification agreement be recorded to be enforceable;
- if the property is located in the State of New York or Cuyahoga County, Ohio;
- 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 modification alternatives);
- if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;
- 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
- if the servicer's practice for modifying mortgage loans in its portfolio is to create modification agreements in recordable form.

In addition, to retain the first-lien position, servicers must:

- 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, condominium/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 the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae's mortgage modification alternatives); or if the final interest rate on the modified mortgage loan is greater than the interest rate in effect prior to modification of the mortgage loan; and
- record the executed Agreement if (1) state or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in Cuyahoga County, Ohio; (3) the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae's modification alternatives); (4) 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 (5) 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.

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 (see *Part I, Section 405.01, Individual Mortgage Loan Files (08/24/03)*, regarding collateral documents), the servicer also must 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 modification, if necessary, in order to preserve Fannie Mae's lien status for the entire amount owed. After a modification is approved, the servicer must adjust the mortgage account as follows:

- Add any amounts to be capitalized for a portfolio mortgage loan 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. (The servicer may request reimbursement from Fannie Mae when any of its costs are capitalized.)

- Revise the borrower's payment records to provide for collection of the modified installment.
- Change the servicing fee if the mortgage loan was modified to reflect a different amortization type. For a portfolio mortgage loan, the new servicing fee must be the lower of the fee the servicer was receiving before the modification and 0.375% (if the modified mortgage loan has a fixed interest rate) or 0.5% (if the modified mortgage loan has an adjustable interest rate). For an MBS mortgage loan that is removed from the pool in order to modify its terms, the new servicing fee must be either 0.25% (if the modified mortgage loan has a fixed interest rate or has an adjustable interest rate under an ARM Plan 750, 751, 975, 1029, 1423, 1437, 2726, 2728, 2729, 3225, 3227, or 3228) or 0.375% (if the modified mortgage loan has an adjustable interest rate under any other ARM plan). In either instance, if the mortgage loan has lender-purchased mortgage insurance coverage that is paid for through annual renewals, the new servicing fee also must include a factor for the amount of the mortgage insurance renewal premium.
- Apply any funds that the borrower deposited with the servicer as a condition of the modification or that the mortgage insurer contributed in connection with the modification. Amounts due for repayment of principal, interest, or advances must be remitted to Fannie Mae promptly. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower's escrow deposit account.

Section 602.02.04  
Reclassification or  
Removal of MBS  
Mortgage Loans Prior to  
Effective Date of  
Modification (06/25/10)

Although a modification may not become effective until after the mortgage loan has been removed from the MBS pool, the servicer can begin the process leading up to a loan modification prior to the removal of the mortgage loan from the MBS pool. For example, during the period prior to the removal of a mortgage loan from an MBS pool, a servicer may analyze the borrower's suitability for a loan modification and may negotiate with the borrower regarding the terms of a loan modification.

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

mortgage loans that are not subject to Fannie Mae's automatic reclassification process, servicers must request reclassification through HSSN.

### **Removal of Regular Servicing Option MBS Mortgage Loans**

Servicers of regular servicing option MBS mortgage loans are encouraged to offer standard Fannie Mae modifications for these mortgage loans. If the servicer decides to use standard Fannie Mae modifications for such mortgage loans, the servicer will be expected to obtain any third-party approvals, and comply with the requirements of the *Servicing Guide* governing reporting and removal of these mortgage loans from MBS pools, if applicable. Fannie Mae is not responsible for any losses or expenses the servicer incurs and will not pay borrower or servicer incentive fees for these mortgage loans which are serviced under the regular servicing option.

The servicer of a mortgage loan that is part of a regular servicing option MBS pool or part of a shared-risk special servicing option MBS pool for which the servicer's shared risk liability has not expired must not modify the mortgage loan as long as it remains in the MBS pool. The servicer must purchase the mortgage loan from the MBS pool provided the mortgage loan has been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency. Regular servicing option MBS mortgage loans and such shared-risk special servicing option MBS mortgage loans that have been purchased from an MBS pool for purposes of modification are not eligible for redelivery to Fannie Mae. Performing MBS mortgage loans and those that do not meet the delinquency criteria described above are ineligible for repurchase for the purpose of modifying the mortgage loan.

Section 602.03  
Escrow Accounts  
(06/25/10)

All of the borrower's monthly payments under Fannie Mae's standard modification must include a monthly escrow amount unless prohibited by applicable law. For a non-escrowed mortgage loan, the servicer must assume full responsibility for administering the borrower's escrow deposit account in accordance with the mortgage documents and all applicable laws and regulations. (For more information on Fannie Mae's escrow account requirements, see *Part III, Section 103, Escrow Deposit Accounts (01/31/03)*.)

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For a mortgage loan with an existing escrow account, the servicer is required to analyze the account prior to the modification effective date to estimate the periodic escrow deposit required to ensure that adequate funds are available to pay future charges. The new escrow payment effective date and the modification effective date must be the same date.

If applicable law prohibits the establishment of the escrow account, the servicer must ensure that the taxes and insurance premiums are paid to date.

Section 602.04  
Reporting to Fannie Mae  
(03/18/10)

Servicers must report accurately to Fannie Mae.

Section 602.04.01  
Investor Reporting and  
Remitting (06/25/10)

The servicer must report the modification of any mortgage loan in the first delinquency status information it transmits to Fannie Mae after Fannie Mae approves the modification.

Existing monthly LAR reporting requirements for Fannie Mae servicers will not change for a mortgage loan that has been modified. Servicers must continue to report the standard LAR format for loan payment by the third business day and for payoff activity by the second business day of each month for the prior month's activity (for example, payoff reporting to be received by April 2 will contain March activity). Servicers must report post-modification UPB once the modification is closed in HSSN (for example, if a modification is closed on March 25, the post-modification UPB must be reported on the April 3 LAR). If the servicer submits a LAR to report the post-modification UPB before the case is closed in HSSN, an exception will occur.

Section 602.04.02  
Reporting through HSSN  
(06/25/10)

For all Fannie Mae portfolio mortgage loans and MBS mortgage loans guaranteed by Fannie Mae (including lender recourse loans), the servicer must enter loan-level data by submitting a case into HSSN. The servicer must use HSSN to request reclassification for MBS mortgage loans when appropriate. After Fannie Mae's prior written approval is obtained and the mortgage loan is reclassified, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

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**Delinquency  
Management and Default  
Prevention**

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

Special procedures are required for MBS mortgage loans that were in special servicing option pools. The servicer will need to repurchase the mortgage loan from the MBS pool, but it should not change the terms of the mortgage loan in Fannie Mae's records until after Fannie Mae reclassifies it as an actual/actual remittance type mortgage loan. However, 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 should contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to request that the mortgage loan be added to the reclassifications scheduled for the current month.

**Section 602.04.03  
Incentives (03/18/10)**

Fannie Mae will pay an incentive fee of \$800 for each successful modification completed. Incentive fee payments on eligible mortgage loans will be sent to servicers upon receipt of a closed case entered into HSSN. Fannie Mae will review eligibility for the modification incentive fee and make the final determination based on information provided by the servicer; therefore, servicers need not submit *Cash Disbursement Requests (Form 571)* for payment of modification incentive fees or expenses. Modification incentive fees on eligible mortgage loans will be sent to servicers on a monthly basis.

**Section 602.05  
Redefault (06/25/10)**

If a borrower becomes 60 or more days delinquent within the first 12 months after the effective date of the standard Fannie Mae modification, the servicer must immediately work with the borrower to pursue either a preforeclosure sale or deed-in-lieu, or commence foreclosure proceedings, in accordance with applicable state law. If the servicer determines that another modification is appropriate for the borrower, the servicer must first obtain Fannie Mae's prior written approval.

**Section 603  
Mortgage Assumptions  
(01/31/03)**

In some instances, it may be in Fannie Mae's best interests to allow a delinquent mortgage loan that has an enforceable due-on-sale (or due-on-transfer) provision to be assumed, thus avoiding Fannie Mae's acquisition of the property through foreclosure proceedings. For example, when the

current market value of a property equals or exceeds the UPB of the mortgage loan (plus interest due and expected sales costs), an assumption may be a viable alternative for borrowers who must sell their homes because they are experiencing financial hardship. An assumption also may be considered when the current market value of the property is slightly less than the outstanding indebtedness since the property purchaser may be willing to make up the difference in cash because of the lower closing costs associated with a mortgage assumption. In all cases, the property purchaser must qualify for the mortgage loan under Fannie Mae's current underwriting guidelines.

If someone is interested in purchasing a property that secures a delinquent mortgage loan, the servicer must obtain a letter from the borrower which requests that the assumption be allowed and provides his or her financial information that demonstrates his or her inability to continue making payments on the mortgage loan. The servicer must order an appraisal for the property. (Also see *Part III, Section 408.06, Accelerate the Debt for Due-on-Sale Provision (06/01/07)*.) The servicer must also obtain the written consent of the mortgage insurer if the loan is covered by mortgage insurance.

To determine whether Fannie Mae is willing to forego the enforcement of the due-on-sale provision, the servicer must transmit to Fannie Mae through HSSN a description of the borrower's financial circumstances, the property market value analysis from the appraisal, information about any conditions of the mortgage insurer's approval (if applicable), and the servicer's recommendation to waive the due-on-sale clause and permit the assumption based on the creditworthiness of the prospective purchaser. Fannie Mae will work with the servicer and the mortgage insurer to determine the exact terms of the assumption, including any contributions that must be made by the borrower or the property purchaser. Fannie Mae will not approve an assumption if the mortgage loan has subordinate financing—unless arrangements are made to pay off the subordinate liens.

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). The servicer must ensure that any assumption fee charged to the borrower is permitted under the terms of the note, security instrument, and applicable law. 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.

Each approved assumption must be documented by an assumption agreement (or by an assumption and release agreement, if a release of liability was agreed to). This agreement must be recorded if state law requires recordation of such agreements.

- If the servicer (or MERS) is the mortgagee of record—or if Fannie Mae is the mortgagee of record and has given the servicer a limited power of attorney that allows it to execute assumption (or assumption and release) agreements on Fannie Mae's behalf—the servicer must execute the assumption (or assumption and release) agreement, have the executed agreement recorded (if required), and send the recorded agreement to the document custodian. (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; Attn: Additional Custody Documents; 5730 Katella Ave.; Cypress, CA 90630).
- If Fannie Mae is the mortgagee of record, but Fannie Mae has not given the servicer a limited power of attorney that allows it to execute assumption (or assumption and release) agreements on Fannie Mae's behalf, the servicer must send the assumption agreement to Fannie Mae for execution. The agreement, which must include the Fannie Mae loan number, must be sent under cover of a letter that provides any special instructions related to execution of the documents and indicates the name and address to which the executed documents should be returned. The documents must be mailed to Fannie Mae; Vendor Oversight; Attn: Document Execution; 13150 Worldgate Drive; Herndon, VA 20170.

The servicer also must ask the title insurer for a title bringdown that changes the effective date of the title policy to the date the assumption (or assumption and release) agreement was recorded and must insure the mortgage loan as modified by the agreement.

The servicer must report the assumption of the mortgage loan in the first delinquency status information it transmits to Fannie Mae after Fannie Mae approves the assumption. The servicer does not need to make any



changes to its monthly investor reporting system reports to reflect mortgage assumptions for portfolio mortgage loans. However, when Fannie Mae allows the assumption of a delinquent MBS mortgage loan, the servicer must repurchase the mortgage loan from the MBS pool before the assumption is finalized.

**Section 604  
Preforeclosure Sales  
(01/31/03)**

Occasionally, none of the servicer's efforts to prevent or cure the delinquency will be successful and the use of relief provisions may not have been feasible or productive. When all measures short of foreclosure have been exhausted for a conventional mortgage loan, the servicer must consider the use of a preforeclosure sale procedure. Under this procedure, when the borrower cannot sell his or her property for the full amount of Fannie Mae's indebtedness, Fannie Mae will consider accepting a payoff of less than the total amount owed on the mortgage loan if that will enable Fannie Mae to reduce the loss it would incur if it foreclosed and acquired the property. (Fannie Mae also will agree to preforeclosure 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.)

A servicer may pursue a preforeclosure sale at any time prior to the actual foreclosure sale if acquisition of the property is the only alternative to the preforeclosure sale and the proceeds from the sale, along with any mortgage insurance settlement, would make Fannie Mae whole—or, at least, would result in a loss that would be less than any loss Fannie Mae would incur if it had to acquire and dispose of the property. As long as the proceeds from the transaction make Fannie Mae whole, a servicer may negotiate and complete the preforeclosure sale without Fannie Mae's involvement. However, a servicer must obtain Fannie Mae's prior written approval of any preforeclosure sale that will result in a loss to Fannie Mae.

While pursuing a preforeclosure sale, the servicer will still be expected to follow Fannie Mae's requirements related to the initiation of foreclosure proceedings for defaulted mortgage loans. The servicer must not delay the initiation or continuation of foreclosure proceedings unless it receives prior approval to do so from both Fannie Mae and the mortgage insurer.

To offset a servicer's expenses for handling a preforeclosure sale for a conventional mortgage loan, Fannie Mae will pay the servicer an incentive fee outlined in *Section 604.07, Accounting and Reporting (08/11/08)*, as soon as it receives verification of the completed sale.

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**Delinquency  
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**Section 604.01  
Identifying Potential  
Candidates (01/31/03)**

When analyzing mortgage delinquencies, the servicer must identify those borrowers who are experiencing a financial hardship that prevents them from making their mortgage payments and who can be expected to have difficulty in selling their homes because the current value is probably less than the amount owed on the mortgage loan. The borrower's financial hardship must be the result of an involuntary reduction in income or an unavoidable increase in his or her expenditures—such as a long-term job layoff; a job loss; a mandatory pay reduction; a disability or illness that results in a decrease in income or in major medical expenses; the death of the principal wage earner; or a decline in a self-employed borrower's earnings. However, a borrower will not be eligible for a preforeclosure sale if his or her financial hardship results from circumstances that he or she can control or plan ahead for—such as experiencing a normal seasonal layoff, voluntarily quitting a job or reducing the number of hours worked, or reducing (or eliminating) income as a result of returning to school.

**Section 604.02  
Contacting Selected  
Borrowers (03/01/09)**

The servicer must contact each borrower that it has identified as a potential candidate for a preforeclosure sale before he or she fails to pay three consecutive payments to discuss all of the foreclosure prevention opportunities that are available—special forbearance plans, delinquency repayment plans, modification of the mortgage loan, selling the property as a mortgage assumption, etc. The servicer must exhaust all other available means before it discusses a preforeclosure sale with the borrower. At that time, the servicer may describe how the preforeclosure sale process works, making sure that the borrower understands both the benefits and drawbacks of agreeing to a preforeclosure sale. If the foreclosure process has already begun, the servicer must advise the borrower that the foreclosure proceedings will continue even if the property is listed for sale, but that the terms of the preforeclosure sale agreement will be honored as long as the property is sold before the foreclosure sale date. If the foreclosure process has not begun, the servicer must make sure that the borrower understands that listing the property for sale will not delay the initiation of foreclosure proceedings.

The servicer must inform the borrower that, if the sales proceeds are not sufficient to satisfy the mortgage debt, the mortgage holder may require him or her to contribute funds to reduce its loss. (For example, if there are unused funds in the borrower's escrow account, Fannie Mae will require the borrower to waive his or her rights to the funds so that they can be applied toward the indebtedness.) As an alternative, Fannie Mae may

agree to permitting the borrower to execute a promissory note for the amount of his or her expected contribution. The servicer must 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.”

Sometimes a borrower may be reluctant to list his or her property for an amount that is less than that required to satisfy the entire debt unless the servicer provides written assurance that the short payoff will be accepted. When this happens, the servicer must request Fannie Mae’s prior approval of the preforeclosure sale before the property is listed. If Fannie Mae approves the sale (subject to receipt of a specific price), the servicer can add the requested assurance as an addendum to the listing agreement.

The servicer must explain to the borrower that he or she is expected to execute all of the documents that are necessary to sell the property—listing agreement, purchase/sales contract, closing documents, etc.—even though the documents will indicate that the sales proceeds must be paid to the mortgage holder. The servicer also must advise the borrower that he or she will remain responsible for maintenance of the property until it is sold and the settlement has occurred.

The servicer must inform the borrower that 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 servicer also must advise the borrower that the following specific cancellation clauses must be included in the listing agreement and sales contract:

- **Listing Agreement:** “Seller may cancel this agreement prior to the ending date of the listing period without advance notice to the broker, and without payment of a commission or any other consideration, if the property is conveyed to the mortgage insurer or the mortgage holder.”
- **Sales Contract:** “The seller’s obligation to perform on this contract is subject to the rights of the mortgage insurer (if any) and the mortgage holder relating to the conveyance of the property.”

If the borrower is agreeable to a preforeclosure sale and the property is listed with a real estate broker, the servicer must ask the borrower to provide the broker's name, address, and telephone number so the servicer can contact the broker to explain the requirements related to the preforeclosure sale. Closing of preforeclosure sales may not be conditioned 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. If the property has not been listed for sale, the servicer may recommend a specific real estate broker to handle the listing, as long as it makes sure that the borrower understands that he or she may select a different broker.

The servicer must request that the borrower submit a letter requesting consideration for a preforeclosure sale and providing information that will document his or her financial hardship (including the servicer's customized financial form or Fannie Mae's *Borrower's Financial Statement* ([Form 1020](#) or [1020\(S\)](#)), the borrower's most recent paystub or, if the borrower is self-employed, copies of his or her federal income tax returns for the past two years).

Section 604.03  
Determining Market  
Value of Property  
(01/31/03)

The servicer must obtain an appraisal for the property (with both an interior and an exterior inspection) to assist it in evaluating the merits of a preforeclosure sale. Occasionally, Fannie Mae may instruct the servicer to obtain more than one appraisal.

Section 604.04  
Discussing Sale With the  
Mortgage Insurer  
(01/31/03)

Once the servicer has obtained the appraisal, it must contact the mortgage insurer (if the mortgage loan is insured) to discuss the possibility of pursuing a preforeclosure sale. In discussing the possibility of a preforeclosure sale with a mortgage insurer, the servicer must keep in mind the conditions under which Fannie Mae will accept a preforeclosure sale. The servicer must not agree to a preforeclosure sale unless the mortgage insurer agrees in writing:

- 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. (Fannie Mae's "make whole" amount is the sum of the outstanding principal balance, interest accrued at the note rate from

the LPI date through the expected closing date of the preforeclosure sale, and miscellaneous expenses, less any cash received from the borrower or the property purchaser.)

If the mortgage insurer refuses to consider a preforeclosure 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 advise its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

**Section 604.05**  
Requesting Fannie Mae's  
Approval (01/31/03)

Since the decision to accept a purchase offer that will involve a loss to Fannie Mae should generally be made within 24 hours of the offer, the servicer needs to provide Fannie Mae with as much information as possible to enable Fannie Mae to perform the analyses it needs to make. Therefore, as soon as a purchase offer is received, the servicer must transmit a description of the borrower's financial circumstances, a property market value analysis (based on the appraisal), the specifics about the purchase offer, and the servicer's recommendation to Fannie Mae through HSSN. At the same time, the servicer must send this information and any required documentation to the mortgage insurer by overnight mail delivery (whenever possible). It is important for both Fannie Mae and the mortgage insurer to be notified of a sales offer immediately and simultaneously to avoid jeopardizing Fannie Mae's claim under the mortgage insurance contract. A letter including the terms and conditions of Fannie Mae's decision will be available to the servicer through HSSN shortly after Fannie Mae receives the servicer's recommendation.

**Section 604.06**  
Mortgage Insurance  
Claims (01/31/03)

Servicers must file all primary mortgage insurance claims for preforeclosure sales on all conventional first-lien mortgage loans on which Fannie Mae bears the risk of loss and is insured under a master primary policy issued by any approved mortgage insurer with the exception of Republic Mortgage Insurance Company. The mortgage insurance claim must be filed so that the claims proceeds are sent directly to Fannie Mae. Fannie Mae will file the primary mortgage insurance claims on mortgage loans insured by Republic Mortgage Insurance Company.

Once the mortgage insurance claim is filed, whether by the servicer or by Fannie Mae, the servicer has the following responsibilities:

- removing the mortgage loan from Fannie Mae’s investor reporting system with a code 71;
- reporting the proceeds from the sale through Fannie Mae’s Cash Remittance System™ (CRS™) using 310 receipt code;
- providing the mortgage insurer with a copy of the HUD-1 settlement statement, a copy of the valuation, and a copy of the approval letter stating the terms and conditions of any short payoff; and
- submitting a final *Cash Disbursement Request* ([Form 571](#)) for reimbursement via the CRS no later than 30 days following the preforeclosure sale.

Generally, the servicer is not required to take any further action unless it is contacted by Fannie Mae’s eviction attorney and asked to provide certain information or documentation. If the servicer fails to provide requested documentation, it will be required to indemnify Fannie Mae for any losses caused by its inaction. As always, the servicer must provide any additional information requested by the mortgage insurer in order to process the claim.

Section 604.07  
Accounting and  
Reporting (08/11/08)

The servicer must account for all preforeclosure sales and report them to Fannie Mae regardless of whether Fannie Mae is made whole or incurs a loss. The servicer must report the preforeclosure sale in the first delinquency status information it transmits to Fannie Mae after it agrees to the sale (if Fannie Mae will not incur a loss) or the first delinquency status information it transmits to Fannie Mae after Fannie Mae approves a preforeclosure sale that will result in a loss. Once the servicer receives the final signed settlement sheet, the net sales proceeds, any cash contributions, and the executed promissory note (if applicable), it must report the completion of the preforeclosure sale to Fannie Mae through HSSN.

For most mortgage loans, the servicer must code the preforeclosure sale as a “Third-Party Sale” (Action Code 71) in the first monthly LAR that it transmits following the preforeclosure sale. The sale proceeds (and any cash contributions) must be remitted to Fannie Mae through the CRS as a special remittance. In addition, the servicer must forward a copy of the HUD-1 settlement statement and a copy of the claim for loss that was filed

with the mortgage insurer to the National Property Disposition Center within five business days after the sale. For MBS mortgage loans accounted for under the regular servicing option (and MBS mortgage loans serviced under a shared-risk special servicing option, RD mortgage loans serviced under the regular servicing option, or any mortgage loans subject to some type of recourse or other credit enhancement arrangement), the servicer must report the payoff just as it would report the payoff of any other regular servicing option MBS mortgage loans, since the servicer must absorb any losses and expenses related to the preforeclosure sale.

The servicer should request reimbursement for Fannie Mae's share of all expenses related to the preforeclosure sale for a conventional mortgage loan—including the incentive fee and the amount required to reimburse the servicer for the appraisal (however, uncollected late charges will not be reimbursed) by submitting a *Cash Disbursement Request* ([Form 571](#)). The servicer must retain the original invoices that support the expenses claimed in the individual mortgage loan file. For MBS special servicing option pool mortgage loans, the servicer should 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 *Part X, Section 302.02, Scheduled/Scheduled Remittance Types* (12/08/08).)

Fannie Mae will pay servicers an incentive fee upon verification of each successful preforeclosure sale, as follows:

- \$1,500 for (i) preforeclosure sales with net proceeds to value equal to or greater than 92% or (ii) preforeclosure sales in situations in which the mortgage insurance claim is projected to make Fannie Mae whole for all losses;
- \$1,250 for preforeclosure sales with net proceeds to value equal to or greater than 90% but less than 92%; or
- \$1,000 for preforeclosure sales with net proceeds to value of less than 90%.

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**Delinquency  
Management and Default  
Prevention**

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**Foreclosure Prevention  
Alternatives**

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Section 605

June 10, 2011

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**Section 605  
Assignments to the  
Insurer or Guarantor  
(01/31/03)**

The servicer must assign a delinquent mortgage loan to the mortgage insurer or guarantor if the insurer or guarantor exercises a right under the policy to acquire the mortgage loan. The servicer must report the assignment in the first delinquency status information it transmits to Fannie Mae after it is required by the insurer or guarantor to assign the mortgage loan. Then, when the mortgage loan is actually assigned to the insurer or guarantor, the servicer must file the claim with the insurer or guarantor and report the appropriate action code to Fannie Mae through Fannie Mae's investor reporting system to remove the mortgage loan from Fannie Mae's active accounting records.

**Section 605.01  
FHA Mortgage Loans  
(09/30/05)**

Fannie Mae will not foreclose or accept a deed-in-lieu for FHA Section 203(k) home improvement loans or mortgage loans insured under FHA Section 240; therefore, assignment is the only way to liquidate those mortgage loans.

HUD has special assignment procedures for FHA Section 235 mortgage loans secured by properties that meet certain criteria. In this case, Fannie Mae can assign all of its interest in the mortgage loan, except the right to foreclose, to HUD. After the "assignment of undivided interest," the servicer must take action to acquire the property either by foreclosing on it or by accepting a deed-in-lieu. Title must then be conveyed to HUD. The "assignment of undivided interest" must take place within 30 days after HUD's required demand letter is sent to the borrower. The servicer must then proceed with the action necessary to liquidate the mortgage loan and file a claim under the insurance contract.

If the various relief measures that are available are unsuccessful for an FHA Section 248 mortgage loan (and foreclosure is the only alternative), the servicer must assign the mortgage to HUD to remain in compliance with all applicable HUD regulations and procedures. The assignment must take place as soon as possible after the 90th day of delinquency. If the mortgage loan is a combination construction-to-permanent mortgage loan that provides for escrowed mortgage payments during the construction term, the servicer should not assign the mortgage until after the borrower fails to make three mortgage payments from his or her own funds—even if the builder defaults under the terms of the construction agreement.

Following assignment of the mortgage, the servicer must file a claim under the insurance contract.



To remove a mortgage loan that has been assigned to HUD from Fannie Mae's active accounting records, the servicer must report through Fannie Mae's investor reporting system Action Code 65 (repurchase) if the mortgage loan was sold to Fannie Mae "with recourse" or is part of a regular servicing option MBS pool, or Action Code 72 if the mortgage loan is one Fannie Mae holds in its portfolio or is part of a special servicing option MBS pool.

Section 605.02  
FHA Title I Loans  
(01/31/03)

Should a borrower default under an FHA Title I loan, the servicer must assign the loan to HUD and remain in compliance with all applicable HUD regulations and procedures. In addition, there may be instances where Fannie Mae pursues foreclosure prevention alternatives for FHA Title I loans. In those cases, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

The servicer must notify Fannie Mae about the assignment by reporting the applicable action code to Fannie Mae through Fannie Mae's investor reporting system—an Action Code 65 (repurchase) if the Title I loan was sold to Fannie Mae "with recourse" or an Action Code 72 if the Title I loan was sold to Fannie Mae "without recourse." If the servicer reports a repurchase (Action Code 65), it must remit sufficient funds to repurchase the Title I loan from Fannie Mae. (Also see *Part VI, Chapter 2, Repurchases*, and *Part VIII, Section 205, Filing Claims for FHA Title I Loans (01/31/03)*.)

Section 605.03  
HUD Section 184  
Mortgage Loans  
(09/30/05)

When foreclosure is the only alternative for a defaulted HUD-guaranteed Section 184 mortgage loan, the servicer must assign the mortgage to HUD for the commencement of foreclosure proceedings if the mortgage loan is one Fannie Mae holds in its portfolio or is part of a special servicing option MBS pool. However, if the mortgage loan is part of a regular servicing option MBS pool, the servicer may choose either to assign the mortgage to HUD for the commencement of foreclosure proceedings or to assign the mortgage to HUD without the pursuit of foreclosure. (If the servicer chooses the latter option, HUD will immediately settle the insurance claim, by paying the servicer 90% of the loan guarantee amount, instead of waiting until after the foreclosure is completed.) The assignment must take place as soon as possible after the 90th day of delinquency. The servicer must file a claim under HUD's loan guarantee following the assignment of the mortgage.

To remove the mortgage loan from Fannie Mae's active accounting records, the servicer must report an Action Code 65 (repurchase) through Fannie Mae's investor reporting system if the mortgage loan was sold to Fannie Mae "with recourse" or is part of a regular servicing option MBS pool or an Action Code 72 if the mortgage loan is one Fannie Mae holds in its portfolio or is part of a special servicing option MBS pool.

Section 605.04  
VA Mortgage Loans  
(01/31/03)

After the VA receives a notice of default, it may instruct the servicer to assign the mortgage and transfer the security to the VA (or to a designated third party) in return for VA's payment of the total outstanding indebtedness due as of the date of the assignment. This action—which VA calls a refunding of the mortgage loan—is designed as an alternative to foreclosure in instances in which VA believes that the default can be cured through various relief measures even though the servicer is unable or unwilling to grant further relief. If the VA decides that a refunding of the mortgage loan is in order, it will ask the servicer to submit a Statement of Account (VA Form 26-567) and to order an appraisal of the property (if one has not already been ordered or obtained in connection with the default).

The servicer does not need to obtain Fannie Mae's prior approval for the refunding of a VA mortgage loan. Instead, the servicer must follow VA's explicit instructions for assigning the mortgage for refunding and transferring the security since the failure to comply with VA's instructions may result in a loss of the loan guaranty. 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.

When the VA decides to refund a mortgage loan, it will provide a formal notification to both the servicer and the borrower. The VA regional office that has jurisdiction over the case will provide specific instructions to the servicer regarding VA's payment of the outstanding indebtedness for the transfer of the refunded mortgage loan. The servicer must prepare a Claim Under Loan Guarantee (VA Form 26-1874) and submit it and any required supporting documentation to the applicable VA regional office.

The servicer must report an Action Code 72 through Fannie Mae's investor reporting system to remove a mortgage loan that has been assigned to VA from Fannie Mae's active accounting records.

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Section 606

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**Section 605.05  
Conventional Mortgage  
Loans (01/31/03)**

The servicer must assign a delinquent conventional first-lien mortgage loan to the mortgage insurer if the insurer exercises rights it has under the policy to acquire the mortgage loan. The servicer must take whatever action is necessary to obtain payment under the insurance policy.

After a mortgage insurer receives a notice of default for an insured conventional second-lien mortgage loan, it may instruct the servicer to assign the delinquent second-lien mortgage loan to it, rather than continuing the foreclosure process. In such cases, the servicer must prepare the necessary legal documents to assign the second-lien mortgage loan and file a claim under the insurance contract.

The servicer must report an Action Code 72 through Fannie Mae's investor reporting system to remove a mortgage loan that has been assigned to the mortgage insurer from Fannie Mae's active accounting records.

**Section 606  
Deeds-in-Lieu of  
Foreclosure (08/02/10)**

The servicer may consider accepting a deed-in-lieu of foreclosure from a borrower who is experiencing a permanent financial hardship if other relief measures or foreclosure prevention alternatives are not feasible. However, the servicer must make every effort to collect some portion of the delinquent installments from the borrower in order to reduce Fannie Mae's loss. The servicer must require the borrower to submit a letter to request acceptance of a deed-in-lieu, to provide documentation related to his or her financial hardship, and to acknowledge that acceptance of a deed-in-lieu would be an accommodation to him or her.

To assist Fannie Mae in evaluating the condition and value of the property, Fannie Mae requires the servicer to obtain an appraisal. (Fannie Mae will reimburse the servicer for the required appraisal report.) If the property inspections reveal that the property has been poorly maintained, needs major repairs, or has structural or foundation problems, Fannie Mae may permit the borrower to discontinue efforts to sell the property since there will be little likelihood of getting a good purchase offer quickly.

The servicer of a seriously delinquent first-lien mortgage loan may recommend that Fannie Mae accept a voluntary deed-in-lieu from the borrower if:

- the servicer determines that the pursuit of a deficiency judgment is not practical or warranted;
- there may be legal impediments to pursuing foreclosure;
- acceptance of the deed-in-lieu will enable Fannie Mae to acquire the property earlier than it would under a foreclosure action;
- the mortgage insurer or guarantor has agreed to the acceptance of a deed-in-lieu;
- the borrower is not paid to deed the property over to Fannie Mae (although Fannie Mae might approve a small payment in special circumstances);
- the borrower can convey acceptable marketable title (a title insurance policy will be required);
- the property is vacant (unless eligible for the Deed-for-Lease™ (D4L) program or the mortgage insurer or guarantor has agreed to accept an occupied property);
- the property is not subject to liens (subordinate or otherwise) held by others, judgments, or attachments (although Fannie Mae might agree to pay off a lien in special circumstances); and
- the borrower agrees to assign and transfer to Fannie Mae any rents if the property is rented, and the servicer agrees to collect any rental income.

The servicer of a seriously delinquent second-lien mortgage loan must coordinate with the first-lien mortgage loan servicer regarding any proposed action related to the acceptance of a deed-in-lieu. It must determine the status of the first-lien mortgage loan, the intentions of the first-lien mortgage loan servicer, and the possibility of a mutually arranged disposition. The servicer must also order an Owner and

Encumbrance Report to ensure that there are no other outstanding liens. If Fannie Mae does not have an interest in the first-lien mortgage loan, the servicer must include with its recommendation an analysis of the first-lien mortgage loan servicer's intentions and the possibility of recovery on the second-lien mortgage loan. If Fannie Mae has an interest in both the first- and second-lien mortgage loans, the servicer may recommend that Fannie Mae accept a voluntary deed-in-lieu from the borrower if the eligibility criteria specified above for a first-lien mortgage loan are met.

The servicer must obtain Fannie Mae's prior approval to accept any offer of a deed-in-lieu. To request Fannie Mae's approval, the servicer must transmit a description of the borrower's financial circumstances, a property valuation, general summary information about satisfaction of the eligibility criteria for deed-in-lieu, 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 its recommendation to Fannie Mae through HSSN.

A letter including terms and conditions of Fannie Mae's decision about acceptance of the deed-in-lieu will be available to the servicer through HSSN shortly after Fannie Mae receives the servicer's recommendation. If Fannie Mae approves the servicer's recommendation to accept the deed-in-lieu, the servicer must have its attorney prepare the deed of conveyance and file a claim with the insurer or guarantor. (Also see *Part VIII, Section 104.03, Servicer-Retained Attorneys/Trustees and Special Rules for Nevada (10/01/08)*, and *Chapter 2, Conveyances and Claims*.)

Once the servicer receives the executed deed-in-lieu, any cash contribution, and the executed promissory note (if applicable), it must report the completion of the deed-in-lieu to Fannie Mae through HSSN. The servicer also must comply with the requirements for reporting a property acquisition to the credit bureaus, Fannie Mae, and the Internal Revenue Service that are described in *Part VIII: Foreclosures, Conveyances and Claims, and Acquired Properties*.

For each completed deed-in-lieu for a conventional mortgage loan, Fannie Mae will pay the servicer a \$1,000 incentive fee. Fannie Mae also will reimburse the servicer for attorneys' fees (of up to \$350) and for any of the costs for obtaining a title update that the borrower is unable to pay. Requests for the payment of this incentive fee or for reimbursement of any

attorneys' fees or other expenses associated with the acceptance of a deed-in-lieu should be submitted to Fannie Mae on a *Cash Disbursement Request* ([Form 571](#)). Attorneys' fees for deeds-in-lieu must be entered as Deed-in-Lieu fees when submitting Form 571.

When Fannie Mae agrees to accept a deed-in-lieu, the servicer must report the acceptance of the deed-in-lieu in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision. The servicer also must report through Fannie Mae's investor reporting system either an Action Code 70 (for an uninsured conventional mortgage loan) or an Action Code 72 (for any other type of mortgage loan) to remove the mortgage loan from Fannie Mae's active accounting records. If Fannie Mae denies the request for a deed-in-lieu and instructs the servicer to pursue foreclosure, the servicer must report the initiation of foreclosure in the next delinquency status information it transmits to Fannie Mae after the date of Fannie Mae's decision.

Section 606.01  
D4L Program (11/05/09)

Fannie Mae's D4L program allows borrowers of properties transferred through a deed-in-lieu to remain in their home and community by executing a lease in conjunction with a deed-in-lieu. To qualify, the borrower must have the ability to pay market rent not to exceed 31% of his or her monthly gross income.

With the D4L program, servicers are expected to follow their regular process in considering a borrower for deed-in-lieu in accordance with Fannie Mae's workout hierarchy. Once the servicer determines a borrower is eligible for a deed-in-lieu through its normal course of business, the servicer will notify Fannie Mae that the borrower may also be eligible for the D4L program based on an initial screening of predetermined eligibility criteria. Fannie Mae, or its designee, will take the steps necessary to further verify property and borrower eligibility, determine rental rate, and, if appropriate, execute the lease agreement. The lease agreement will be contingent on successful completion of the deed-in-lieu.

In general, the servicer's responsibilities regarding the D4L program are as follows:

- When considering a deed-in-lieu, the servicer will screen the borrower in accordance with *Section 606.01.01, Eligibility (11/05/09)*.

- If the borrower passes this initial screening, the servicer will determine if there is an interest on the part of the borrower in being considered for a D4L.
- The servicer will notify Fannie Mae when there is an interest and provide the loan number, borrower name, address, and contact number to Fannie Mae. Fannie Mae, through its designee, will then contact the borrower, visit the property, and evaluate both for a lease.
- Fannie Mae will inform the servicer whether or not a lease was finalized and whether the deed-in-lieu is contingent on the property being vacant.
- The servicer will then finalize the deed-in-lieu accordingly.
- The servicer will notify Fannie Mae if a deed-in-lieu is not successfully executed for any case that was approved for D4L consideration.

Section 606.01.01  
Eligibility (11/05/09)

Servicers may recommend D4L to Fannie Mae for any conventional mortgage loan that is held in Fannie Mae's portfolio or that is part of an MBS pool that has the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property (referred to as Fannie Mae mortgage loans) so long as the following program eligibility criteria are met:

- The mortgage loan is a first-lien mortgage loan secured by a single-family property including detached homes, condos, co-op share loans, manufactured homes, and two- to four-unit properties. Second-lien mortgage loans are not eligible.
- The mortgage loan is not guaranteed, insured, or held by a federal government agency (FHA, HUD VA, or RD).
- The borrower resides in the property as a principal residence or has leased the property to a tenant(s) who uses the property as a principal residence. Second homes or vacation homes are not eligible.
- At least three payments have been made since origination or since the last modification.

- The mortgage loan does not have 12 or more payments past due when referred to Fannie Mae for D4L consideration.
- The borrower is not involved in an active bankruptcy proceeding or party to litigation involving the subject property or mortgage loan.
- Marketable title is able to be conveyed (a title insurance policy is required).
- If there are subordinate liens secured against the subject property, subordinate-lien releases can be obtained.
- The occupant has verifiable income. Unemployed occupants with no source of income are not eligible.

Fannie Mae, or its designee, will take the necessary steps to further verify property and occupant eligibility as follows:

**Property Eligibility**

- There are no zoning or HOA rental limitations that would prohibit a D4L.
- Repairs required to make the property habitable are deemed to be in an acceptable amount based on the property value.
- The property is in compliance with local rules and laws or can be brought into compliance within 30 days.
- The 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 is anticipated to cover ongoing maintenance and management costs.



### **Occupant Eligibility**

- Income is sufficient to cover rental payments of not more than 31% of gross income. If the current market rent is greater than 31% of the borrower/tenant's monthly gross income, a lease will not be offered.
- Inspection of the property indicates that the occupants have been keeping the property in good condition.
- The occupant agrees to be responsible for regular maintenance, to keep the property in good condition, and to permit marketing of the property for sale.
- The number of occupants is appropriate for the home and in compliance with local laws and HOA rules.
- If pets are present, renter's insurance is obtained if required.
- The occupants signing the lease must agree to a credit review and all residents over 18 years of age must have an acceptable background check, including receiving clearance from the Office of Foreign Assets Control (OFAC).
- There are no signs or reports of illegal activities conducted at the property.
- The property is to be used as a principal residence.

Section 606.01.02  
Standard Documents  
(11/05/09)

Servicers are strongly encouraged to use the documents available on [eFannieMae.com](http://eFannieMae.com). Documents include the following:

- [\*Deed for Lease Instruction Sheet for Homeowners\*](#)
- *Deed for Lease Program Referral Form* ([Form 187](#))
- *Deed for Lease Program Cancellation Form* ([Form 188](#))

Section 606.01.03  
D4L Process (11/05/09)

The D4L process includes numerous steps, communication, and coordination on the part of the servicer, the borrower, Fannie Mae, and a property manager (designated by Fannie Mae). Servicers must follow the

interim process as outlined in the Deed-for-Lease Interim Instructions for Servicer available on [eFannieMae.com](http://eFannieMae.com) until an automated process is developed and implemented.

Note: Prior to acceptance of a deed-in-lieu in connection with the D4L, 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 deed-in-lieu which relate in any way to the mortgage loan or the property.

### **Delegation of Authority**

For non-delegated cases, where Fannie Mae makes the decision, the servicer has five weeks from Fannie Mae's approval of the deed-in-lieu to complete the transaction. This allows enough time for the lease approval process.

For delegated servicers that might have a shorter processing timeframe, they will be instructed to allow time for the lease approval process when the borrower states an interest.

### **Section 607 VA No-Bid Buydowns (01/31/03)**

When the VA determines that the net value for a property is less than the unguaranteed portion of the indebtedness for a VA-guaranteed mortgage loan, it will not specify an amount for the servicer to bid at the foreclosure sale and will not accept conveyance of the property. The VA, however, will reconsider its no-bid decision if the mortgage loan holder agrees to waive or satisfy a portion of the indebtedness to reduce it to an amount that would result in the net value of the property exceeding the unguaranteed portion of the indebtedness. The mortgage holder's waiver may take the form of a reduction in the UPB; a credit to the borrower's escrow or unapplied funds account; a forgiveness of unpaid, accrued interest; or any combination of these credits. Generally, the VA requires that a decision for a partial waiver or satisfaction of indebtedness be agreed to by both the borrower and the mortgage holder.

Fannie Mae requires the servicer to evaluate whether a VA no-bid buydown is feasible and makes sound economic sense by comparing 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. (Fannie Mae's

expected loss will depend on many factors, such as property location and condition, market conditions, and holding time and costs.) The servicer also must assure itself that the proposed action will not affect the validity of the foreclosure or the validity of the indebtedness that will be established against the borrower, that the proposed action will be binding on all parties, and that Fannie Mae's recovery of the full claim amount due Fannie Mae under the VA guaranty will not be jeopardized.

VA's no-bid letter will advise the servicer of VA's determination of the net value of the property and the cut-off date that will be used for establishing VA's guaranty liability. It is possible that a servicer may not receive VA's no-bid letter until after the cut-off date has passed. In such cases, the servicer must contact the VA to request a revised cut-off date to ensure that Fannie Mae has sufficient time to evaluate the servicer's debt-reduction recommendation. The servicer does not need to request a revised cut-off date if it believes that it has sufficient time to obtain Fannie Mae's approval to the no-bid buydown and reschedule the foreclosure sale.

To request Fannie Mae's approval of a VA no-bid buydown, the servicer must transmit its recommendation (and information about the date of the foreclosure sale and other factors that might affect Fannie Mae's decision) to Fannie Mae through HSSN. 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.

If Fannie Mae does not agree to the no-bid buydown, the servicer must follow Fannie Mae's general procedures related to the amount to bid at the foreclosure sale, filing claims under the VA guaranty, and managing the acquired property. If Fannie Mae agrees to the VA no-bid buydown, the servicer must follow the debt-reduction procedures established by the applicable VA regional office, as well as 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. (Also see *Part VIII: Foreclosures, Conveyances and Claims, and Acquired Properties.*)

**Section 608  
Second-Lien Mortgage  
Loan Charge-Offs  
(01/31/03)**

When Fannie Mae's mortgage is in a second-lien position, there may be instances in which it may not be in Fannie Mae's best interests to pursue collection efforts or legal actions against the borrower. If the servicer of a second-lien mortgage loan believes that this is the case, it must transmit a recommendation for resolving the second-lien mortgage loan delinquency to Fannie Mae through HSSN. Before the servicer makes a specific recommendation, it must measure Fannie Mae's outstanding debt against:

- the estimated cost of continued collection efforts;
- the estimated cost of any required legal actions;
- the status, UPB, and ownership of the first-lien mortgage loan;
- the mortgage insurer's policy regarding the filing of an insurance claim when the debt is abandoned (if the mortgage loan is insured);
- the condition of the property and the estimated market value for the property; and
- the borrower's ability to reinstate the mortgage loan(s).

Fannie Mae's decision on whether or not to charge off the second-lien mortgage debt will depend on whether Fannie Mae also has an interest in the first-lien mortgage loan. When Fannie Mae has an interest in both mortgage loans, it may choose to consolidate the two mortgage loans and modify the borrower's payments instead of charging off the debt. When another investor holds the first-lien mortgage loan, Fannie Mae may decide to pursue a workout for the second-lien mortgage loan, pay off the first-lien mortgage loan and foreclose the second-lien mortgage loan, or charge off the second-lien mortgage debt. A letter including terms and conditions of Fannie Mae's decision will be available to the servicer through HSSN shortly after Fannie Mae receives the servicer's recommendation.

The servicer must report that Fannie Mae is considering the options for resolving a second-lien mortgage loan delinquency in the next delinquency status information it transmits after it submits its recommendation to Fannie Mae. If Fannie Mae decides to pursue a workout arrangement or to initiate foreclosure proceedings, the servicer

must report this in the next delinquency status information it submits after the date of Fannie Mae's decision. The servicer must report through Fannie Mae's investor reporting system an Action Code 71 during its next reporting cycle if Fannie Mae authorizes the charge-off of the second-lien mortgage debt.

**Section 609  
HAMP (04/21/09)**

Under the Treasury Department's (Treasury) HAMP, servicers will use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments. All servicers must participate in HAMP for all eligible mortgage loans held in Fannie Mae's portfolio or that are part of an MBS pool that has the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property.

The following words or terms are commonly used terms that relate to HAMP.

A	<i>Automated Valuation Model (AVM)</i> . Statistically based computer programs that use real estate information, such as comparable sales, property characteristics, tax assessments, and price trends, to provide an estimate of value for a specific property.
B	<i>Broker's Price Opinion (BPO)</i> . A written estimate of the probable sales price of a property performed by a real estate broker or sales person who may or may not have conducted an interior property inspection.
C	<i>Cash Reserves</i> . Liquid assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts).
E	<i>Escrow Shortage</i> . The amount by which the current escrow account balance falls short of the target balance at the time of the escrow analysis. This amount may not be capitalized. For HAMP purposes only, if the borrower is unable to contribute to the escrow shortage up front, the servicer must collect such funds from the borrower over a 60-month period.
F	<i>FHA HOPE™ for Homeowners</i> . The Federal Housing Administration's refinance program to help borrowers at risk of default and foreclosure to refinance into more affordable, sustainable mortgage loans. The HOPE for Homeowners program is effective from October 1, 2008 to September 30, 2011.
H	<i>HAMP</i> . Home Affordable Modification Program.
I	<i>Interest Rate Cap</i> . 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 modification agreement is prepared. The Freddie Mac PMMS is available on <a href="http://FreddieMac.com">FreddieMac.com</a> .
	<i>Interim Month</i> . The month in between the last day of the final trial period month and the modification effective date when the modification effective date is extended to the first day of the second month following the last day of the trial period. Also see <i>Trial Period Plan Cut-off Date</i> .

**Delinquency  
Management and Default  
Prevention**

Foreclosure Prevention  
Alternatives

Section 609

June 10, 2011

J	<p><i>Jumbo Conforming Mortgage Loans.</i> Jumbo conforming mortgage loans are conventional mortgage loans sold to Fannie Mae that were originated from July 1, 2007 through and including December 31, 2008, with original UPBs that exceed Fannie Mae's base conforming mortgage loan limits (\$417,000 for a one-unit property). The original UPB of a Jumbo conforming mortgage loan may not exceed the lesser of:</p> <ul style="list-style-type: none"> <li>• 125% of the “area median house price” (as determined at a county level) of a residence of applicable size, or</li> <li>• 175% of the base conforming mortgage loan limit: \$729,750 for a one-unit property (except in Alaska, Hawaii, Guam, and the U.S. Virgin Islands, where the limit is higher). The Jumbo conforming mortgage loan limits were enacted as part of the Economic Stimulus Act of 2008.</li> </ul>
L	<p><i>Loss of Good Standing.</i> Achieved when three monthly payments are due and unpaid on the last day of the third month. Once lost, good standing cannot be restored. The mortgage loan is no longer eligible to receive borrower and servicer incentives and all accrued but unpaid incentive payments will be forfeited.</p>
M	<p><i>Mark-to-Market LTV (MTMLTV) Ratio.</i> The ratio between (i) the current UPB of the mortgage loan and (ii) the current value of the property that secures the mortgage loan.</p>
	<p><i>Modification Effective Date.</i> The first day of the month following the successful completion of the trial period plan.</p>
	<p><i>Monthly Mortgage Payment Ratio.</i> The amount of the monthly mortgage payment divided by the borrower’s gross monthly income. For purposes of HAMP, the monthly mortgage payment includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condo fees, HOA fees, and co-op maintenance fees (as applicable) and any applicable escrow shortage payments subject to the 60-month repayment plan. The monthly mortgage payment does not include mortgage insurance premiums or payments due to subordinate-lien holders.</p>
	<p><i>Modified Interest Bearing Balance.</i> The portion of the post-modification UPB excluding the principal forbearance amount.</p>
N	<p><i>Net Present Value (NPV) Test.</i> A test using the NPV model and mortgage loan or borrower attributes (for example, MTMLTV, current monthly mortgage payment, current credit score, delinquency status) and various assumptions to determine the value of a modification as compared to no modification.</p>
	<p><i>Non-Borrower Household Income.</i> Income from someone other than a borrower who resides in the property and whose income has been and can reasonably continue to be relied upon to support the mortgage payment.</p>
P	<p><i>Principal Forbearance.</i> For the purposes of HAMP, the portion of the principal balance that is required to be deferred to reach the Targeted Monthly Mortgage Payment Ratio. This amount of principal will result in a non-interest-bearing, non-amortizing balloon payment fully due and payable upon the earliest of the transfer of the property, payoff of the interest-bearing UPB, or maturity of the mortgage loan.</p>

T	<p><i>Target Monthly Mortgage Payment Ratio.</i> For purposes of HAMP, as close as possible but no less than 31% of the borrower's gross monthly income.</p>
	<p><i>Trial Payment Period.</i> 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.</p>
	<p><i>Trial Period Plan Cut-off Date.</i> The date by which a borrower's last trial period payment must be received for the modification to be effective the first day of the month following the last trial period month. The cut-off date must be after the due date of the final trial period payment. A servicer must treat all borrowers the same when applying the Trial Period Plan Cut-off Date as evidenced by a written policy.</p>
	<p><i>Trial Period Plan Effective Date.</i> The effective date of the trial period plan. If the servicer completes and transmits the trial period plan to the borrower on or before the 15th day of a calendar month, then the servicer should insert the first day of the next month as the Trial Period Plan Effective Date. If the servicer completes and transmits the trial period plan to the borrower after the 15th day of a calendar month, the servicer should use the first day of the second month as the Trial Period Plan Effective Date.</p>
	<p><i>Trial Period Offer Deadline.</i> The last day of the month in which the Trial Period Plan Effective Date occurs. The servicer must receive the borrower's first trial period payment on or before this date.</p>

Section 609.01  
HAMP Eligibility  
(06/01/10)

A mortgage loan is eligible for HAMP if it is a Fannie Mae portfolio mortgage loan or MBS mortgage loan guaranteed by Fannie Mae and all of the following criteria are met:

- The mortgage loan is a first-lien conventional mortgage loan originated on or before January 1, 2009. Jumbo-conforming mortgage loans are eligible.
- The mortgage loan has not been previously modified under HAMP.
- The mortgage loan is delinquent or default is reasonably foreseeable; mortgage loans currently in foreclosure are eligible.
- The mortgage loan is secured by a one- to four-unit property, one unit of which is the borrower's principal residence. Co-op share mortgages and mortgage loans secured by condo units are eligible for HAMP. Mortgage loans secured by manufactured housing units are eligible for HAMP.

- The property securing the mortgage loan must not be vacant or condemned.
- The borrower documents a financial hardship and represents that he or she does not have sufficient liquid assets to make the monthly mortgage payments by completing a [\*Request for Modification and Affidavit \(RMA\)\*](#) and providing the required income documentation. The documentation supporting income may not be more than 90 days old (as of the date that such documentation is received by the servicer in connection with evaluating a mortgage loan for HAMP).
- The borrower currently has a monthly mortgage payment ratio greater than 31%.
- A borrower in active litigation regarding the mortgage loan is eligible for HAMP.
- The servicer may not require a borrower to waive legal rights as a condition of HAMP.
- A borrower actively involved in a bankruptcy proceeding is eligible for HAMP at the servicer's discretion. Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the first-lien mortgage loan who did not reaffirm the mortgage debt under applicable law are eligible, provided the [\*Home Affordable Modification Trial Period Plan Notice\*](#) and [\*Home Affordable Modification Agreement \(Form 3157\)\*](#) are revised as outlined in *Section 609.04.06, Executing the HAMP Documents (06/01/10)* under "Acceptable Revisions to HAMP Documents."
- The borrower agrees to set up an escrow account for taxes, hazard insurance, and flood insurance prior to the beginning of the trial period if one does not currently exist.
- Mortgage loans subject to full lender recourse, including MBS mortgage loans and portfolio mortgage loans, are ineligible for the Fannie Mae HAMP. However, servicers should consider these mortgage loans for the non-Government Sponsored Enterprise (GSE) HAMP.



- Borrowers may be accepted into the program if the [Home Affordable Modification Trial Period Plan Notice](#) is issued to the borrower on or before December 31, 2012.

FHA mortgage loans that are held in Fannie Mae's portfolio or that are part of an MBS pool that has the special servicing option or a shared risk MBS pool for which Fannie Mae markets the acquired property are eligible for the FHA-HAMP as outlined in FHA Mortgagee Letter 2009-23. Mortgage loans guaranteed or held by other federal government agencies (i.e., VA and RD) may also be eligible for HAMP in the future and will be subject to guidance issued by the applicable government agency.

A servicer must consider for modification under HAMP all first-lien home equity loans and lines of credit that meet the basic HAMP eligibility criteria so long as:

- 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 for the mortgage loan.

Servicers whose systems do not provide the required functionality are strongly encouraged to complete system enhancements that will allow modification of first-lien home equity loans and lines of credit. In the event a servicer utilizes a separate servicing system for first-lien mortgage loans other than equity loans and lines of credit and would convert the home equity loan or line of credit to the first-lien mortgage system in order to establish an escrow account, the servicer may wait until the borrower successfully completes the trial period plan before establishing an escrow account. However, the trial period payment must still equal the target monthly mortgage payment ratio.

Any HAMP modification of a first-lien HELOC must result in a modified mortgage loan that is a fixed-rate, fully amortizing mortgage loan that does not permit the borrower to draw any further amounts from the line of credit. Accordingly, servicers should insert the following language as section 4[O] of the *Home Affordable Modification Agreement* ([Form 3157](#)):

If my Loan Documents govern a home equity loan or line of credit, then I agree that as of the Modification Effective Date, I am terminating my right to borrow new funds under my home equity loan or line of credit. This means that I cannot obtain additional advances, and must make payments according to this Agreement. (Lender may have previously terminated or suspended my right to obtain additional advances under my home equity loan or line of credit, and if so, I confirm and acknowledge that no additional advances may be obtained.)

A borrower is ineligible for a subsequent HAMP offer if:

- the borrower previously received a HAMP modification and lost good standing; or
- the borrower is considered to have failed the trial period plan because a trial period payment was not received by the servicer by the last day of the month in which it was due.

A borrower who has been evaluated for HAMP but does not meet the minimum eligibility criteria described in this *Servicing Guide*, or who meets the minimum eligibility criteria but is not qualified for HAMP by virtue of:

- a negative NPV result where the value for the “no modification” scenario exceeds the value for the “modification” scenario by more than \$5,000;
- excessive forbearance; or
- other financial reason;

may request reconsideration for HAMP at a future time if he or she experiences a change in circumstance.

Section 609.02  
HAMP Documents  
(06/01/10)

The HAMP documents are available on [eFannieMae.com](http://eFannieMae.com). Documents include the following:

- [\*Solicitation Letter\*](#);

- *Making Home Affordable Program Hardship Affidavit* ([Form 1021](#));
- *Request for Modification and Affidavit (RMA)*. Servicers may use other proprietary financial information forms that are substantially similar in content to the RMA. When the RMA is not used, servicers must obtain an executed Form 1021. Servicers may also incorporate all of the information on this standalone affidavit into their own form;
- *Home Affordable Modification Trial Period Plan Notice*;
- *Home Affordable Modification Documentation Request Letter*;
- IRS Form 4506-T (*Request for Transcript of Tax Return*) or IRS Form 4506T-EZ (*Short Form Request for Individual Tax Return Transcript*);
- *Home Affordable Modification Agreement Cover Letter*;
- *Home Affordable Modification Agreement* (Form 3157, hereinafter referred to as the “Agreement”); and
- *Home Affordable Modification Program Counseling Letter*.

Section 609.03  
Underwriting (4/21/09)

This section describes HAMP underwriting requirements.

Section 609.03.01  
Determining Hardship  
(04/21/09)

Every borrower and co-borrower (if applicable) seeking a modification, whether in default or not, must sign an [RMA](#) that attests to and describes one or more of the following types of hardship:

- A reduction in or loss of income that was supporting the mortgage loan; for example, unemployment, reduced job hours, reduced pay, or a decline in self-employed business earnings.
- A change in household financial circumstances; for example, death in family, serious or chronic illness, permanent or short-term disability, or increased family responsibilities (adoption or birth of a child, taking care of elderly relatives or other family members).
- A recent or upcoming increase in the monthly mortgage payment.

- An increase in other expenses; for example, high medical and health-care costs, uninsured losses (such as those due to fires or natural disasters), unexpectedly high utility bills, or increased real property taxes.
- A lack of sufficient cash reserves to maintain payment on the mortgage loan and cover basic living expenses at the same time. Cash reserves include assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts and assets that serve as an emergency fund—generally equal to three times the borrower’s monthly debt payments).
- Excessive monthly debt payments and overextension with creditors; for example, the borrower was required to use credit cards, a home equity loan, or other credit to make the mortgage payment.

A borrower may provide evidence of hardship for reasons other than those explicitly listed above. A servicer who believes that Fannie Mae should consider a borrower for HAMP for reasons not listed above must request prior written approval from Fannie Mae on a case-by-case basis. To request Fannie Mae approval, servicers must contact Fannie Mae at 1-888-FANNIE5 (1-888-326-6435) or by e-mail to [servicing\\_solutions@fanniemae.com](mailto:servicing_solutions@fanniemae.com).

Section 609.03.02  
Government Monitoring  
Data (04/21/09)

HUD has directed Fannie Mae, pursuant to HUD’s authority under Section 1325(2) of the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA), 24 C.F.R. 81.44(a) and (b), 12 C.F.R. 202.5(a)(2), and its general regulatory authority under the Fair Housing Act, 42 U.S.C. 3601 et seq. (the Act) to require servicers to request and report data on the race, ethnicity, and sex of borrowers involved in potential loan modifications under HAMP (“Government Monitoring Data”) in order to monitor compliance with the Act and other applicable fair lending and consumer protection laws. This section of the *Servicing Guide* is incorporated into the MSSC between Fannie Mae and its servicers and constitutes an agreement entered into between Fannie Mae, on behalf of HUD, and Fannie Mae’s approved servicers. As such, this is an agreement entered into by Fannie Mae’s approved servicers with an enforcement agency (i.e., HUD) to permit the enforcement agency to monitor or enforce compliance with federal law, within the meaning of 12 C.F.R. 202.5(a)(2).

HUD has specified that the Government Monitoring Data shall be collected in the [RMA](#). Servicers must request, but not require, that each borrower who completes an RMA in connection with HAMP furnish the Government Monitoring Data. If any borrower chooses not to provide the Government Monitoring Data, or any part of it, the servicer must note that fact on the RMA in the space provided. In such circumstances, and if the RMA is completed in a face-to-face setting, the servicer, its representative, or agent shall then also note on the form, to the extent possible on the basis of visual observation or surname, the race, ethnicity, and sex of any borrower or co-borrower who has not furnished the Government Monitoring Data. If any borrower declines or fails to provide the Government Monitoring Data on an RMA taken by mail or telephone or on the Internet, the data need not be provided. In such a case, the servicer must indicate that the RMA was received by mail, telephone, or Internet, if it is not otherwise evident on the face of the RMA.

Section 609.03.03  
Reasonably Foreseeable  
(Imminent) Default  
(06/01/10)

Servicers are prohibited from soliciting borrowers who are current or less than 30 days delinquent for participation in HAMP. However, if such a borrower contacts the servicer, the servicer may consider HAMP as a viable foreclosure prevention alternative. The servicer must make a determination that the borrower is facing imminent default prior to sending a firm offer to such a borrower.

A borrower who is current, contacts the servicer for a modification, appears potentially eligible for a modification, and has suffered an eligible hardship (as described in *Section 609.03.01, Determining Hardship (04/21/09)*) must be evaluated using Freddie Mac's Imminent Default Indicator™ (IDI), a statistical model that predicts the likelihood of default or serious delinquency. IDI must also be used to evaluate such borrowers who are in default but less than 60 days delinquent.

For borrowers who must be evaluated using IDI, the servicer must evaluate the borrower's financial condition in light of the borrower's hardship, as well as the condition of and circumstances affecting the property securing the mortgage loan. The servicer must verify all financial documentation (income *and* asset) for all borrowers of mortgage loans that are either current or less than 60 days delinquent prior to offering a trial period plan.

Servicers must obtain a completed [RMA](#) from the borrower(s) to evaluate the borrower's financial condition in determining whether the borrower is facing imminent default, and must also obtain a current credit report for the borrower(s) to validate and supplement the borrower's information. The servicer should request such other documents from borrower(s) as deemed necessary to evaluate the borrower's financial condition.

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

Death of a borrower/co-borrower:

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

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

- medical bills,
- doctor's certificate of illness or disability,

- proof of monthly insurance benefits or government assistance (if applicable), or
- federal income tax return showing medical deductions above the minimum for itemized deductions.

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

- divorce decree signed by the court;
- current credit report evidencing recorded divorce decree;
- separation agreement signed by the court if the separation is legally documented by the court;
- current credit report evidencing recorded separation agreement; or
- in cases where the borrowers are unmarried, a recorded quitclaim deed indicating that either borrower relinquishes all rights to the property securing the mortgage loan; or
- income or expense documentation prior to the event compared to the income or expense documentation of the remaining borrower after the event.

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

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

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

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

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

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

A servicer must document in its servicing system the basis for its determination that the borrower is facing imminent default. The servicer's determination must include identification of the borrower's hardship, which will generally be identified in the RMA, and the anticipated or actual timing of the default. The servicer's documentation must also include the information regarding the borrower's financial condition



utilized in determining that the borrower is facing imminent default as required above, as well as the condition and circumstances of the property securing the mortgage loan. The servicer must report the reason(s) for the anticipated or actual delinquency along with the delinquency status code 09 – Forbearance, during the trial payment period.

Section 609.03.04  
NPV Test (11/02/09)

All mortgage loans that meet the HAMP eligibility criteria must be evaluated using a standard NPV test for reporting purposes. The servicer must maintain detailed documentation of the NPV model and version used, all NPV inputs and assumptions, and the NPV results. If the value for the no-modification scenario exceeds the value for the modification scenario by more than \$5,000, the servicer must not perform the modification without the express written consent of Fannie Mae. For example, if the no-modification scenario produces a value of \$10,000 and the modification scenario produces a value of \$4,000, the servicer must not perform the modification.

The NPV model is available on the Home Affordable Modification servicer web portal accessible through [HMPAdmin.com](http://HMPAdmin.com). On this portal, servicers will have access to the NPV model as well as the NPV User Guide, providing detailed guidelines for submitting proposed modification data.

A servicer having at least a \$40 billion servicing book will have 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 portfolios, taking into consideration, if feasible, current LTV, current monthly mortgage payment, current credit score, delinquency status, and other loan or borrower attributes. Detailed guidance on required inputs for a customized NPV model is available on [HMPAdmin.com](http://HMPAdmin.com).

To obtain a property valuation input for the NPV model, servicers may use either an AVM, provided that the AVM renders a reliable confidence score, a BPO, or an appraisal. Servicers may use an AVM provided by Fannie Mae or Freddie Mac. As an alternative, servicers may rely on their 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 a Fannie Mae or Freddie Mac AVM or the servicer AVM is unable to render a value with a reliable confidence score, the servicer must obtain an assessment of the property value utilizing a BPO or a property valuation method acceptable to the servicers' Federal regulatory supervisor. Such assessment must be rendered in accordance with the [Interagency Appraisal and Evaluation Guidelines](#) (as if such guidelines apply to loan modifications). In all cases, the property valuation used cannot be more than 90 days old as of the date that the servicer first evaluated the borrower for a HAMP trial period plan using the NPV model. The property valuation will remain valid for the duration and does not need to be updated for any subsequent NPV evaluation as outlined in *Chapter 6, Exhibit 1*.

The servicer should obtain the results of the NPV model at the time of the HAMP eligibility determination.

From time to time, the NPV base model will be updated and a new version of the NPV base model will be made available. Servicers will be allowed a grace period to implement each new version of the NPV base model. The grace period for each new version will be set forth in the applicable NPV release documentation. In addition, the release documentation will provide guidance as to which NPV model version servicers should use during the grace period. After the grace period, servicers 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, a 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](#). The document *NPV Versioning Requirements* on [eFannieMae.com](#) outlines NPV versioning requirements and NPV input requirements for retesting.

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**Section 609.03.05  
Verifying Borrower  
Income and Occupancy  
Status (06/01/10)**

A servicer may evaluate a borrower for HAMP only after the servicer receives the financial documentation (referred to as the “Initial Package”) from the borrower (the term “borrower” includes any co-borrower(s)). The Initial Package includes:

- A signed and completed RMA.
- A signed and completed Internal Revenue Service Request for Transcript of Tax Return (Form 4506-T) or Short Form Request for Individual Tax Return Transcript (Form 4506T-EZ).
- Evidence of income as described in *Documenting Gross Monthly Income* later in this section.

Within 10 business days following receipt of an Initial Package, the servicer must acknowledge, in writing, the borrower’s request for HAMP participation by sending the borrower confirmation that the Initial Package was received and a description of the servicer’s evaluation process and timeline. If the Initial Package is received from the borrower via e-mail, the servicer may e-mail the acknowledgment. The servicer must maintain evidence of the date of receipt of the borrower’s Initial Package in its records.

Within 30 calendar days from the date an Initial Package is received, the servicer must review the documentation provided by the borrower for completeness. If the documentation is incomplete, the servicer must send the borrower an Incomplete Information Notice in accordance with the guidance set forth in *Section 609.04.02, Borrower Notices (06/01/10)*. If the borrower’s documentation is complete, the servicer must either:

- send the borrower a [\*Trial Period Plan Notice\*](#); or
- make a determination that the borrower is not eligible for HAMP and communicate this determination to the borrower in accordance with *Section 609.04.02, Borrower Notices (06/01/10)*.

A borrower is eligible for HAMP if the financial documentation confirms that the monthly mortgage payment ratio prior to the modification is greater than 31%. For purposes of HAMP, “monthly mortgage payment ratio” is the ratio of the borrower’s current monthly mortgage payment to

the borrower's monthly gross income (or the borrowers' combined monthly gross income in the case of co-borrowers).

The monthly mortgage payment includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condo association fees, and HOA fees, as applicable (including any escrow payment shortage amounts subject to the 60-month repayment plan). When determining a borrower's monthly mortgage payment ratio, servicers must adjust the borrower's current mortgage payment to include, as applicable, property taxes, hazard insurance, flood insurance, condo association fees, and HOA fees if these expenses are not already included in the borrower's payment. The monthly mortgage payment must not include mortgage insurance premium payments or payments due to holders of subordinate liens. If a 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.

### **Determining Gross Monthly Income**

The borrower's "monthly gross income" is the borrower's income amount before any payroll deductions and includes 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, unemployment benefits, rental income, and other income such as adoption assistance. For the purposes of determining monthly gross income when non-taxable income is used to qualify for HAMP, and the income and its tax-exempt status are likely to continue, the servicer may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the servicer may use that amount to develop the adjusted gross income.

Servicers should include non-borrower household member income in monthly gross income if it is voluntarily provided by the borrower and if there is documentary evidence that the income has been, and can reasonably continue to be, relied upon to support the mortgage payment. All non-borrower household income included in monthly gross income must be documented and verified by the servicer using the same standards for verifying a borrower's income. (An example of non-borrower income is boarder income.) A servicer should not consider expenses of non-borrower household members but may consider the portion of his or her income that the non-borrower household member routinely contributes to the household as part of the monthly gross income calculation.

### **Documenting Gross Monthly Income**

All parties whose income was used to qualify for the original mortgage note must submit income documentation, which must not be more than 90 days old as of the date that such documentation is received by the servicer in connection with evaluating a mortgage loan for HAMP. There is no requirement to refresh such documentation during the remainder of the trial period from the date HAMP eligibility is determined.

All borrowers may elect to provide signed federal income tax returns but are not required to do so. Every borrower must provide a signed and completed IRS Form 4506-T (Request for Transcript of Tax Returns) or IRS Form 4506T-EZ (Short Form Request for Individual Tax Return Transcript) that will allow the servicer (directly or through an authorized designee) to obtain the borrower's most recent federal income tax transcript from the Internal Revenue Service. A servicer must submit the Form 4506-T or IRS Form 4506T-EZ to the IRS for processing unless the borrower provides a signed copy of his or her most recent federal income tax return, including all schedules and forms. Form 4506T-EZ is a permissible substitute for Form 4506-T only for borrowers who filed a Form 1040 series tax return on a calendar year basis. All other borrowers must provide Form 4506-T. However, for borrowers facing imminent default, the servicer is required to obtain a signed federal income tax return in all cases.

A borrower is required only to submit his or her most recent federal income tax return. If a tax return or transcript is not available for the most recent tax year, the servicer may accept a signed tax return, electronically

filed tax return, or transcripts for a prior tax year but must process the borrower's signed 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 borrower must document why he or she was not required to file a tax return.

The servicer should review the tax return information for all borrowers to help verify income and identify discrepancies. If the tax information identifies income relevant to the HAMP decision that the borrower did not disclose on the RMA, the servicer must obtain other documentation to reconcile the inconsistency. In resolving inconsistencies, servicers must use reasonable business judgment to determine whether such income is no longer being earned or has been reduced to the amounts disclosed on an RMA. The servicer should ask the homeowner to explain material differences between the federal income tax returns/transcript and the RMA, and document such differences in the servicing system. A servicer should 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 modification.

The borrower (the term "borrower" includes any co-borrower) must provide certain financial information to the servicer as outlined below.

If the borrower is employed:

- A signed copy of the most recent federal income tax return.
- Copies of the two most recent paystubs, not more than 90 days old as of the date of submission, indicating year-to-date earnings.
  - Servicers may accept pay stubs that are not consecutive if, in the business judgment of the servicer, it is evident that the borrower's income has been accurately established.
  - When two pay stubs indicate different periodic income, servicers may use year-to-date earnings to determine the average periodic income, and account for any non-periodic income reflected in either of the pay stubs.

- When verifying annualized income based on the year-to-date earnings reflected on pay stubs, servicers may, in their business judgment, make adjustments when it is likely that sources of additional income (bonus, commissions, etc.) are not likely to continue.

If the borrower is self-employed:

- The most recent quarterly or year-to-date profit and loss statement for each self-employed borrower. Audited financial statements are not required.

Borrowers are not required to use alimony, separation maintenance, or child support income to qualify for HAMP. If the borrower elects to use alimony or child support income to qualify, acceptable documentation includes:

- Photocopies of the divorce decree, separation agreement, or other type of legal written agreement or court decree that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received.
- Documents supplying reasonably reliable evidence of full, regular, and timely payments, such as copies of deposit slips, or the two most recent bank statements showing deposit amounts.
- If the borrower voluntarily provides such income, and that income renders the borrower ineligible for a HAMP offer, the servicer is allowed to remove that income from consideration and re-evaluate the borrower for HAMP eligibility.

If the borrower has other income, such as Social Security, disability or death benefits, public assistance, adoption assistance, or a pension:

- Evidence of (i) the amount and frequency of the benefits, such as letters, exhibits, a disability policy, or benefits statement from the provider, and (ii) receipt of payment, such as copies of the two most recent bank statements or deposit advices showing deposit amounts. If a benefits statement is not available, servicers may rely only on receipt

of payment evidence, if it is clear that the borrower's entitlement is ongoing.

If the borrower collects unemployment:

- Evidence of the amount, frequency, and duration of the benefits (usually obtained through a monetary determination letter). The unemployment income must continue for at least nine months from the date of the application. The duration of benefit eligibility—including federal and state extensions—may be evidenced by a screenshot or printout from the Department of Labor Unemployment Insurance benefit tool.

Passive and non-wage income, including rental income, part-time employment, bonuses, tips, and investment and benefit income, that constitutes less than 20% of the borrower's total gross income does not have to be documented. With the exception of borrowers facing imminent default, servicers may use undocumented income if declared by the borrower to qualify for HAMP. For a borrower facing imminent default, passive and non-wage income that exceeds \$100 per month must be documented prior to being deemed eligible for the trial period; however, all passive and non-wage income must be verified based on documentation prior to final modification.

Rental income is generally documented through the Schedule E – Supplemental Income and Loss, for the most recent tax year.

- When Schedule E is not available to document rental income because the property was not previously rented, servicers may accept a current lease agreement and bank statements or cancelled rent checks.
- If the borrower is using income from the rental of a portion of the borrower's principal residence, the income may be calculated at 75% of the monthly gross rental income, with the remaining 25% considered vacancy loss and maintenance expense.
- If the borrower is using rental income from properties other than the borrower's principal residence, the income to be calculated for HAMP purposes should be 75% of the monthly gross rental income, reduced by the monthly debt service on the property (i.e., principal, interest,



taxes, insurance, including mortgage insurance, and association fees), if applicable.

For other earned income (for example, bonus, commission, fee, housing allowance, tips, and overtime):

- Reliable third-party documentation describing the nature of the income (for example, an employment contract or printouts documenting tip income).

### **Verifying Occupancy**

A servicer may solely rely on the address indicated on the credit report to verify occupancy so long as the credit report lists the property address as the borrower's current residence. If the credit report does not indicate the property address as the borrower's current residence, the servicer must perform additional due diligence prior to extending a HAMP offer which must be documented in the loan file/servicing system for compliance review purposes.

Section 609.03.06  
Standard Modification  
Waterfall (11/02/09)

Servicers must apply the proposed modification steps enumerated below in the stated order of succession until the borrower's monthly mortgage payment ratio is reduced as close as possible to 31%, without going below 31% (the "target monthly mortgage payment ratio").

Servicers must request prior written approval from Fannie Mae to deviate from the modification steps enumerated below or to reduce the borrower's monthly mortgage payment ratio below 31%. Prior written approval may be requested by submitting a non-delegated case into the HSSN. If approval is granted, borrower and servicer incentive payments for these modifications will be paid based on modification terms that reflect the target monthly mortgage payment ratio of 31%.

In the event that a modification step (for example, principal forbearance) is prohibited under applicable state law, a servicer may skip the modification step without obtaining Fannie Mae's prior written approval.

Note: If a borrower has an ARM loan or interest-only mortgage loan, the existing interest rate will convert to a fixed interest rate, fully amortizing mortgage loan.

**Step 1:** Capitalize accrued interest, out-of-pocket escrow advances to third parties, and any required escrow advances that will be paid to third parties by the servicer during the trial period and servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state law. Late fees may not be capitalized and must be waived if the borrower satisfies all conditions of the trial period plan. 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.

**Step 2:** Reduce the interest rate. If the loan is a fixed-rate mortgage loan or an ARM loan, then the starting interest rate is the current interest rate (the note rate).

Reduce the starting interest rate in increments of 0.125% to get as close as possible to the target monthly mortgage payment ratio. The interest rate floor in all cases is 2%.

- If the resulting rate is below the Interest Rate Cap, this reduced rate will be 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.
- If the resulting rate exceeds the Interest Rate Cap, then that rate is the permanent rate.

The Interest Rate Cap is the PMMS Rate for 30-year fixed-rate conforming mortgage loans, rounded to the nearest 0.125%, as of the date that the Agreement is prepared.

**Step 3:** If necessary, extend the term and reamortize the mortgage loan by up to 480 months from the modification effective date (that is, the first day of the month following the end of the trial period) to achieve the target monthly mortgage payment ratio. Negative amortization after the effective date of the modification is prohibited.

**Step 4:** If necessary, the servicer must provide for principal forbearance to achieve the target monthly mortgage payment ratio. 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. A principal write-down or principal forgiveness is prohibited on Fannie Mae mortgage loans.

For mortgage loans eligible for HAMP and deemed NPV positive, servicers are not required to forbear more than the greater of:

- 30% of the UPB of the mortgage loan, or
- an amount resulting in a modified interest-bearing balance that would create a current mark-to-market LTV ratio of less than 100%.

If the borrower's monthly mortgage payment cannot be reduced to the target monthly mortgage payment ratio of 31% unless the servicer forbears more than the amounts described above, the servicer may not perform the modification without the express written consent of Fannie Mae.

If the mortgage loan is deemed "NPV negative," where the value for the no-modification scenario exceeds the value for the modification scenario by more than \$5,000, the servicer may not perform the modification without the express written consent of Fannie Mae. The servicer will need to compute the difference between the modification and no-modification scenarios in order to determine whether the \$5,000 threshold has been exceeded.

### **Treatment of Option ARM Loans**

Servicers are reminded that 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

standard modification waterfall to reduce the borrower's monthly mortgage payment ratio as close as possible to, without going below, 31%.

Section 609.03.07  
Verifying Monthly Gross  
Expenses (04/21/09)

A 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, a servicer must consider information concerning monthly obligations obtained from the borrower either verbally or in writing. The "monthly gross expenses" equal the sum of the following monthly charges:

- The monthly mortgage payment, including any mortgage insurance premiums, taxes, property insurance, homeowners' or condo association fee payments, and assessments related to the property whether or not they are included in the mortgage payment.
- Monthly payments on all closed-end subordinate mortgages.
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. 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.
- Monthly payment on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3%.
- Monthly payment on a HELOC must be included in the payment ratio 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 with more than 10 months of payments remaining, if supplied by the borrower.

- Car lease payments, regardless of the number of payments remaining.
- Aggregate negative net rental income from all investment properties owned, if supplied by the borrower.
- Monthly mortgage payment for a second home (PITI and, when applicable, mortgage insurance, leasehold payments, HOA dues, condo unit or co-op unit maintenance fees (excluding unit utility charges)).

### **Total Monthly Debt Ratio**

The borrower's total monthly debt ratio ("back-end ratio") is the ratio of the borrower's monthly gross expenses divided by the borrower's monthly gross income. Servicers will be required to send the HAMP Counseling Letter to borrowers with a post-HAMP modification back-end ratio equal to or greater than 55%. The letter states that the borrower must work with a HUD-approved housing counselor on a plan to reduce their total indebtedness below 55%. The letter also describes the availability and advantages of counseling and directs the borrower to the appropriate HUD website where a list of housing counseling agencies is located. The borrower must represent in writing in the Agreement that he or she will obtain such counseling.

Fannie Mae encourages face-to-face counseling; however, telephone counseling is also permitted from HUD-approved housing counselors that covers the same topics as face-to-face sessions. Telephone counseling sessions provide flexibility to borrowers who are unable to attend face-to-face sessions or who do not have an eligible provider within their area.

A list of approved housing counseling agencies is available at [hud.gov](http://hud.gov) or by calling the toll-free housing counseling telephone referral service at 1-800-569-4287. A servicer must retain in its mortgage files evidence of the borrower notification.

There is no charge to either the borrower or the servicer for this counseling.

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## Delinquency Management and Default Prevention

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### Foreclosure Prevention Alternatives

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#### Section 609.03.08 Mortgage Loans with No Due-on-Sale Provision (04/21/09)

If a mortgage loan that is not subject to a due-on-sale provision is modified under HAMP, the borrower agrees that HAMP will cancel the assumability feature of that mortgage loan.

#### Section 609.03.09 Escrow Accounts (04/21/09)

All of the borrower's monthly payments must include a monthly escrow amount unless prohibited by applicable law. The servicer must assume full responsibility for administering the borrower's escrow deposit account in accordance with the mortgage documents and all applicable laws and regulations. If the mortgage loan being considered for HAMP is a non-escrowed mortgage loan, the servicer must establish an escrow deposit account in accordance with *Part III, Section 103, Escrow Deposit Accounts (01/31/03)*. The escrow account must be established prior to the beginning of the trial period. Servicers may perform an escrow analysis based on estimates prior to extending a trial period plan offer. However, if a servicer estimates the escrow payments for the trial period plan, the servicer is not permitted to use national averages in the estimate calculations. Prior to determining the borrower's eligibility for HAMP based on verified documentation, servicers must complete an escrow analysis to determine the escrow payments.

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

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

When a servicer spreads the escrow shortage identified during the HAMP eligibility process over a 60-month period, any subsequent shortage that

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may be identified in the next annual analysis cycle should be spread out over the remaining term of the initial 60-month period. For example, if the next analysis cycle is performed 12 months after the initial escrow shortage is identified, any additional shortage identified in that analysis cycle should be spread over the remaining 48-month period.

Section 609.03.10  
Compliance with  
Applicable Laws  
(04/21/09)

Fannie Mae reminds each servicer (and any subservicer it uses) to be aware of, and in full compliance with, all federal, state, and local laws (including statutes, regulations, ordinances, administrative rules and orders that have the effect of law, and judicial rulings and opinions), including, but not limited to, the following laws that apply to any of its practices related to HAMP:

- Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices.
- The Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Loan modification programs are subject to the fair lending laws, and servicers and lenders should ensure that they do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any loan modification. These laws also prohibit redlining.
- The Real Estate Settlement Procedures Act, which imposes certain disclosure requirements and restrictions relating to transfers of the servicing of certain loans and escrow accounts.
- The Fair Debt Collection Practices Act, which restricts certain abusive debt collection practices by collectors of debts, other than the creditor, owed or due to another.

Section 609.04  
Modification Process  
(06/01/10)

This section provides guidance to servicers for the adoption and implementation of the HAMP process.

Section 609.04.01  
Borrower Solicitation  
(06/01/10)

Servicers may only solicit a borrower for HAMP if the borrower is currently two or more payments (31 or more days) past due. A servicer may also receive calls from current or delinquent borrowers inquiring about the availability of HAMP. A servicer should work with such borrowers to obtain the borrower's financial and hardship information and to determine if HAMP is appropriate. The servicer may not require a borrower to make an up-front cash contribution (other than the first trial period payment) for a borrower to be considered for HAMP.

As outlined in *Section 203, Letters (01/01/11)*, a servicer must send a first foreclosure prevention solicitation letter to the borrower 35 to 45 days after the payment due date, which must solicit the borrower for participation in HAMP and include the detail contained in the sample [Solicitation Letter](#) prepared by Fannie Mae (which includes Fannie Mae's logo). Should a servicer not receive a response from the borrower within 30 days of sending the solicitation letter for HAMP, the servicer should pursue other remedies, including foreclosure. A servicer should not delay sending a breach letter, when required, while awaiting a response from the borrower. Fannie Mae's approval of the servicer's foreclosure prevention solicitation letter is not required.

When discussing HAMP, the servicer should provide the borrower with information designed to help the borrower understand the modification terms that are being offered and the modification process. Such communication should help minimize potential borrower confusion, foster good customer relations, and improve legal compliance and reduce other risks in connection with the transaction. A servicer also must provide a borrower with clear and understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable borrowers to make informed decisions. The servicer should inform the borrower during discussions that a modification under HAMP will cancel any assumption, variable or step-rate feature, or enhanced payment options (for example, TPR) in the borrower's existing mortgage loan, at the time the mortgage loan is modified.

Fannie Mae expects servicers to have adequate staffing, resources, and facilities for receiving and processing the HAMP documents and any requested information that is submitted by borrowers. Servicers must have procedures and systems in place to be able to respond to inquiries and complaints about HAMP. Servicers should ensure that such inquiries and



complaints are provided fair consideration, and timely and appropriate responses and resolution.

Section 609.04.02  
Borrower Notices  
(06/01/10)

A mortgage loan is evaluated for HAMP when one of the following events has occurred:

- A borrower has submitted a written request (either hardcopy or electronic submission) for consideration for a HAMP modification that includes, at a minimum, current borrower income and a reason for default or explanation of hardship, as applicable.
- A borrower has been offered a trial period plan.

A servicer must send a written notice to every borrower that has been evaluated for HAMP but is not offered a trial period plan, is not offered a permanent HAMP modification, or is at risk of losing eligibility for HAMP because he or she has failed to provide required financial documentation. The notices must comply with all laws, rules, and regulations including, but not limited to, the Equal Credit Opportunity Act, applicable to the transaction.

When a borrower is evaluated for HAMP and the borrower is not offered a trial period plan or official HAMP modification, servicers are required to provide data specified on [HMPAdmin.com](http://HMPAdmin.com) to Fannie Mae as Treasury's program administrator. The data reporting requirements in Schedule IV are designed to document the disposition of borrowers evaluated for HAMP.

Whenever a servicer is required to provide data specified on [HMPAdmin.com](http://HMPAdmin.com), the servicer must also send the appropriate Borrower Notice. With the exception of the Notice of Incomplete Information, all borrower notices must be mailed no later than 10 business days following the date of the servicer's determination that a trial period plan or official HAMP modification will not be offered. Borrower notices may be sent electronically only if the borrower has previously agreed to exchange correspondence relating to the modification with the servicer electronically.

The content of the notice will vary depending on the information intended to be conveyed or the determination made by the servicer. All notices

must be written in clear, non-technical language, with acronyms and industry terms such as “NPV” explained in a manner that is easily understandable. The explanation(s) should relate to one or more of the model clauses specified in *Model Clauses for Borrower Notices* on [eFannieMae.com](http://eFannieMae.com). Use of the model clauses is optional; however, they illustrate a level of specificity that is deemed to be in compliance with the requirements of this *Servicing Guide*.

### **Notice of Non-Approval**

For borrowers not approved for a HAMP modification, this notice must provide the primary reason or reasons for the non-approval. The notice must also describe other foreclosure prevention alternatives for which the borrower may be eligible, if any, including but not limited to other modification programs, preforeclosure sale, or deed-in-lieu, and identify the steps the borrower must take in order to be considered for those alternatives. If the servicer has already approved the borrower for another foreclosure prevention alternative, information necessary to participate in or complete the alternative should be included. The notice should be clear that the borrower was considered for but is not eligible for HAMP.

When the borrower is not approved for a HAMP modification because the mortgage loan is deemed NPV negative, the notice must include a list of certain input fields that are considered to reach the NPV result and a statement that the borrower may, within 30 calendar days of the date of the notice, request the date the NPV test was completed and the values used to populate the NPV input fields. The purpose of providing this information is to allow the borrower the opportunity to correct values that may have impacted the analysis of the borrower’s eligibility.

If the borrower (or the borrower’s authorized representative) requests the specific NPV values orally or in writing within 30 calendar days from the date of the notice, the servicer must provide them to the borrower within 10 calendar days of the request. If the mortgage loan is scheduled for foreclosure sale when the borrower requests the NPV values, the servicer may not complete the foreclosure sale until 30 calendar days after the servicer delivers the NPV values to the borrower. This will allow the borrower time to make a request to correct any values that may have been inaccurate.

Upon receipt of written evidence from the borrower indicating that one or more of the NPV values is inaccurate, the servicer must verify the evidence and, if accurate, must re-run the NPV calculation if the correction is material and is likely to change the NPV outcome. Values that are not affected by the correction do not need to be changed from the first NPV calculation. If the borrower identifies inaccuracies in the NPV values, the servicer must suspend the foreclosure sale until the inaccuracies are reconciled. Servicers are not required to provide the numeric NPV results or NPV input values not enumerated in *NPV Versioning Requirements* on [eFannieMae.com](http://eFannieMae.com).

#### **Notice of Payment Default During the Trial Period Plan**

The servicer must inform the borrower that he or she failed to make a trial period payment by the end of the month in which such trial period payment was due and is in default. The notice must also describe other foreclosure prevention alternatives for which the borrower may be eligible, if any, including but not limited to other modification programs, preforeclosure sale, or deed-in-lieu, and identify the steps the borrower must take in order to be considered for these alternatives. If the servicer has already approved the borrower for another foreclosure alternative, information necessary to participate in or complete the alternative should be included. The notice should be clear that the borrower was considered for but is not eligible for HAMP.

#### **Notice of Mortgage Loan Payoff or Reinstatement**

To confirm that the mortgage loan was paid off or reinstated, the servicer must provide notice, which includes the payoff or reinstatement date. If the mortgage loan was reinstated, this notice must include a statement that the borrower may contact the servicer to request reconsideration under HAMP if he or she experiences a subsequent financial hardship.

#### **Notice of Withdrawal of Request or Non-Acceptance of Offer**

The servicer must confirm that the borrower withdrew the request for consideration for a HAMP modification or did not accept either a trial period plan or a HAMP modification offer. Failure to make the first trial period payment in a timely manner is considered non-acceptance of the trial period plan.

### **Incomplete Information Notice**

If the servicer receives an incomplete Initial Package or needs additional documentation to verify the borrower's eligibility and income, the servicer must send the borrower an Incomplete Information Notice. A list of all the financial documents needed to complete the HAMP evaluation and a date by which the information must be received, which must be no less than 30 calendar days from the date of the notice, before the borrower becomes ineligible for HAMP must be included in an Incomplete Information Notice. If the documents are not received by the date specified in the notice, the servicer must attempt at least three phone calls to the borrower between the 5th and 15th day after the solicitation is mailed, send a follow-up letter on the 15th day, which should again include a list of all financial documents needed to complete the HAMP evaluation and a date by which the information must be received, which must be no less than 15 calendar days from the date of the second notice, and attempt three phone calls between the 15th and 30th day. If the borrower fails to provide all required verification documents by the date provided in the second notice, the servicer will declare the borrower ineligible for a modification and send the borrower a Non-Approval Notice.

All notices must also include the following:

- a toll-free number through which the borrower can reach a servicer representative capable of providing specific details about the contents of the borrower notice and reasons for a non-approval determination;
- the Homeowner's HOPE Hotline number (888-995-HOPE™), with an explanation that the borrower can seek assistance at no charge from HUD-approved housing counselors and can request assistance in understanding the notice by asking for Making Home Affordable HELP; and
- any information, disclosures, or notices required by the borrower's mortgage documents and applicable federal, state, and local law.

Servicers must retain all documents and information received during the process of determining borrower eligibility, including borrower income verification, total monthly mortgage payment and total monthly gross debt payment calculations, NPV calculations (NPV model and version used,

assumptions, inputs, and outputs), evidence of application of each step of the modification waterfall, escrow analysis, escrow advances, and escrow set-up. The servicers must retain all documents and information related to the monthly payments during and after the trial period as well as the incentive payment calculations and such other required documents.

Servicers must retain detailed records of borrower solicitations or borrower-initiated inquiries regarding HAMP, the outcome of the evaluation for modification under HAMP, and specific justification with supporting details if the request for modification under HAMP was denied. Records must also be retained to document the reason(s) that a trial period plan is not finalized. If a borrower under a HAMP modification loses good standing, the servicer must retain documentation of its consideration of the borrower for other foreclosure prevention alternatives. Servicers must retain HAMP documentation as prescribed in *Part I, Section 406, Record Retention and Data Integrity (01/31/03)*, or for seven years from the date of document collection, whichever is later.

Section 609.04.04  
Temporary Suspension of  
Foreclosure Proceedings  
(04/21/09)

To ensure that a borrower currently at risk of foreclosure has the opportunity to apply for HAMP, servicers should not proceed with a foreclosure sale until the borrower has been evaluated for the program and, if eligible, an offer to participate in HAMP has been made. Servicers must use reasonable efforts to contact borrowers facing foreclosure to determine their eligibility for HAMP, including in-person contacts at the servicer's discretion. Servicers must not conduct foreclosure sales on mortgage loans previously referred to foreclosure or refer new mortgage loans to foreclosure during the 30-day period that the borrower has to submit documents evidencing an intent to accept the trial period plan offer. Except as noted herein, any foreclosure sale will be suspended for the duration of the trial period plan, including any period of time between the borrower's execution of the trial period plan and the Trial Period Plan Effective Date. However, borrowers in Georgia, Hawaii, Missouri, and Virginia will be considered to have failed the trial period if they are not current under the terms of the trial period plan as of the date that the foreclosure sale is scheduled. Accordingly, servicers of HAMP loans secured by properties in these states must proceed with the foreclosure sale if the borrower has not made the trial period payments required to be made through the end of the month preceding the month in which the foreclosure sale is scheduled to occur.

Section 609.04.05  
Mortgage Insurer  
Approval (04/21/09)

Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can more efficiently process HAMP modifications without having to obtain mortgage insurer approval on individual mortgage loans. A list of the mortgage insurers from which Fannie Mae has received a delegated authority agreement can be found on [eFannieMae.com](http://eFannieMae.com). If applicable, servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which Fannie Mae has not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under HAMP.

Section 609.04.06  
Executing the HAMP  
Documents (06/01/10)

Servicers must use a two-step process for HAMP modifications. Step 1 involves providing a document outlining the terms of the forbearance (the [\*Trial Period Plan Notice\*](#)), and step 2 involves providing the borrower with a separate document (the Agreement) outlining the terms of the modification.

**Step 1:** A servicer shall require a borrower to submit the required documentation, the Initial Package, to verify the borrower's eligibility and income prior to sending the borrower a *Trial Period Plan Notice*.

The servicer should use the [\*HAMP Documentation Request Letter\*](#) to obtain the Initial Package from the borrower. The servicer should instruct the borrower to return the Initial Package within 30 days from the date the *HAMP Documentation Request Letter* is sent by the servicer.

Within 10 business days following receipt of an Initial Package, the servicer must acknowledge, in writing, the borrower's request for HAMP participation by sending the borrower confirmation that the Initial Package was received, and a description of the servicer's evaluation process and timeline. If the Initial Package is received from the borrower via e-mail, the servicer may e-mail the acknowledgment. Servicers must maintain evidence of the date of receipt of the borrower's Initial Package in its records.

Within 30 calendar days from the date an Initial Package is received, the servicer must review the documentation provided by the borrower for completeness. If the documentation is incomplete, the servicer must send

the borrower an Incomplete Information Notice in accordance with the guidance set forth in *Section 609.04.02, Borrower Notices (06/01/10)*, under “Incomplete Information Notice.” If the borrower’s documentation is complete, the servicer must either:

- send the borrower a *Trial Period Plan Notice*, or
- make a determination that the borrower is not eligible for HAMP and communicate this determination to the borrower in accordance with *Section 609.04.02, Borrower Notices (06/01/10)*.

The written communication sent within 10 days of receipt of a borrower’s request for HAMP participation may also include, at the servicer’s discretion, the results of its review of the Initial Package.

Servicers must retain a copy of the *Trial Period Plan Notice* in the mortgage loan file and note the date that it was sent to the borrower. Receipt of the first trial period payment under the *Trial Period Plan Notice* on or before the last day of the month in which the first payment is due will be deemed as evidence of the borrower’s acceptance of the trial period plan and its terms and conditions. The effective date of the trial period will be set forth in the trial period plan and is the first day of the month in which the first trial period plan payment is due.

The servicer is encouraged to contact the borrower before the last day of the month in which the first trial period plan payment is due if the borrower has not yet responded to encourage submission of the payment. The servicer may, at its discretion, consider the offer of a trial period plan to have expired if the borrower has not submitted payment as required above.

HAMP program guidelines require that, unless a borrower or co-borrower is deceased or borrower and co-borrower are divorced, all parties who sign the original note OR the security instrument, or their duly authorized representative, must sign the HAMP documents. In cases where a borrower and co-borrower are unmarried and either borrower or co-borrower relinquish all rights to the property securing the mortgage loan through a recorded quitclaim deed, the non-occupying borrower that has relinquished property rights is not required to provide income

documentation or to sign the HAMP documents but remains liable for the outstanding mortgage debt.

Servicers may encounter circumstances where a co-borrower signature is not obtainable, 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 modification, the servicer must appropriately document the basis for the exception in the servicing records.

**Step 2:** The borrower must be current under the terms of the trial period plan at the end of the trial period to receive a permanent loan modification. "Current" in this context is defined as the borrower having made each required trial period payment by the last day of the month in which it is due. Borrowers who fail to make current trial period payments are considered to have failed the trial period and are not eligible for a HAMP modification. Servicers are instructed to use good business judgment in determining whether trial period payments were received timely or if mitigating circumstances caused the payment to be late. Exceptions should be documented in the servicing records.

Servicers must calculate the terms of the modification using verified income, taking into consideration amounts to be capitalized during the trial period. Servicers are encouraged to send the Agreement for execution by the borrower after receipt of the second payment under the trial period (or third payment for mortgage loans facing imminent default, which require a four-month trial period).

### **Acceptable Revisions to HAMP Documents**

Servicers must use the *Home Affordable Modification Agreement (Form 3157)* and are strongly encouraged to use the other HAMP documents provided on [eFannieMae.com](http://eFannieMae.com). The *Home Affordable Modification Agreement* can only be modified as authorized in its document summary.

Should a servicer decide to revise one of the other HAMP documents or draft its own HAMP documents, it must obtain prior written approval from Fannie Mae with the exception of the following circumstances:



- The servicer must revise the HAMP documents as necessary to comply with Federal, state, and local law. For example, in the event that HAMP results in a principal forbearance, servicers are obligated to modify the uniform instrument to comply with laws and regulations governing balloon disclosures.
- Fannie Mae's approval is not required for the servicer's foreclosure prevention solicitation letter, which must solicit the borrower for participation in HAMP and include the detail contained in the sample [Solicitation Letter](#) prepared by Fannie Mae.
- The servicer may include, as necessary, conditional language in HAMP offers and modification agreements that condition the implementation of any modification on the servicer's receipt of an acceptable title endorsement, or similar title insurance product, as necessary, to ensure that the modified mortgage loan retains its first-lien position and is fully enforceable.
- If the borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the following language must be inserted in Section 1 of the [Trial Period Plan Notice](#) and Section 1 of the Agreement: "I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Agreement."
- The servicer may include language in the *Trial Period Plan Notice* providing instructions for borrowers who elect to use an automated payment method to make trial period payments.

### **Use of Electronic Records**

Electronic documents and signatures for HAMP (other than for Form 4506-T and Form 4506T-EZ) are acceptable as long as the electronic record complies with all requirements of the *Selling Guide* and *Servicing Guide* and applicable law.

### **Assignment to MERS**

If the original mortgage loan was registered with MERS and MERS was named as the original mortgagee of record, (as nominee for the lender), the servicer **MUST** make the following changes to the Agreement:

- Insert a new definition under the “Property Address” definition on page 1, which reads as follows:

“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.

- Add as section 4.I:

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 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.

- MERS must be added to the signature lines at the end of the Agreement, as follows:

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Mortgage Electronic Registration  
Systems, Inc. – Nominee for Lender

The servicer may execute the Agreement on behalf of MERS and, if applicable, submit it for recordation.

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**Section 609.04.07  
Trial Payment Period  
(06/01/10)**

The servicer must service the mortgage loan during the trial period in the same manner as it would service a mortgage loan in forbearance. During the trial period for MBS mortgage loans, the mortgage loan will remain in the related MBS pool and the servicer must continue to service the mortgage loan under Fannie Mae's standard guidelines applicable to MBS mortgage loans. (Refer to *Section 609.04.09, Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification (03/01/10).*)

A borrower's trial period starts on the Trial Period Plan Effective Date, which is a field in the [Trial Period Plan Notice](#) that is completed by the servicer. The effective date is based on the date the servicer mails the *Trial Period Plan Notice* to the borrower. If the servicer mails the *Trial Period Plan Notice* to the borrower on or before the 15th day of a calendar month, then the servicer must insert the first day of the next month as the Trial Period Plan Effective Date. If the servicer mails the *Trial Period Plan Notice* to the borrower after the 15th day of a calendar month, the servicer must use the first day of the month after the next month as the Trial Period Plan Effective Date. The date of the *Trial Period Plan Notice* will be used to verify the Trial Period Plan Effective Date. For example, if the servicer mails the *Trial Period Plan Notice* to the borrower on June 2, the servicer should use July 1 as the Trial Period Plan Effective Date. If the servicer mails the *Trial Period Plan Notice* to the borrower on June 27, the servicer should use August 1 as the Trial Period Plan Effective Date.

The trial payment period is three months long for mortgage loans where the payment is already in default and four months long for mortgage loans where the servicer has determined that a borrower's payment default is imminent but no default has occurred. The borrower must be current under the terms of the trial period plan at the end of the trial period in order to receive a permanent modification. "Current" in this context is defined as the borrower having made each required trial period payment by the last day of the month in which it is due. Borrowers who fail to make current trial period payments are considered to have failed the trial period and are not eligible for a HAMP modification.

The date that the first trial period payment is due under the terms of the trial period plan must be the same date as the Trial Period Plan Effective Date. The servicer must receive the borrower's first trial period payment on or before the last day of the month in which the Trial Period Plan

Effective Date occurs (“Trial Period Offer Deadline”). The servicer must consider the trial period plan offer to have expired if the servicer does not receive the borrower’s first trial period payment by the Trial Period Offer Deadline.

Although the borrower may make scheduled payments earlier than expected, under HAMP, the length of the Trial Period is set forth in the applicable trial period plan, and such payments may not result in acceleration of the modification effective date. There is no variation to this rule.

Borrowers who file bankruptcy during the trial period, but who make all of the required payments in a timely fashion and are otherwise in compliance with the trial period plan, remain eligible for a modification provided all of the representations in Section 1 of the trial period plan remain true. The servicer and its bankruptcy counsel must work with the borrower and the borrower’s bankruptcy counsel to obtain any required court approvals of the modification. A borrower actively involved in a bankruptcy proceeding prior to being placed in HAMP is eligible for HAMP at the servicer’s discretion. If a servicer provides an offer under HAMP to a borrower that is involved in an active bankruptcy case, the servicer must work with the borrower or borrower’s counsel to obtain all necessary approvals from the bankruptcy court.

For a borrower facing imminent default, the borrower’s payment during the trial period must not be equal to or greater than the contractual mortgage payment in effect prior to the trial period.

If the Agreement is fully executed and the borrower complies with the terms and conditions of the trial period plan, the loan modification will become effective on the first day of the month following the trial period as specified in the *Trial Period Plan Notice* and the Agreement. The servicer may, at its option, complete the Agreement such that the modification becomes effective on the first day of the second month *following* the final trial period month to allow for sufficient processing time. In either instance, the modification effective date and the due date for the first payment under the Agreement must be the same date. A 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 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 payment set forth in Section 2 of the *Trial Period Plan Notice*.

If the servicer elects this option, the borrower will not be required to make an additional trial period payment during the month (the “interim month”) in between the final trial period month and the month in which the modification becomes effective. For example, if the last trial period month is March and the servicer elects the option described above, the borrower is not required to make any payment during April, and the modification becomes effective, and the first payment under the Agreement is due, on May 1.

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 payment during the interim month. The servicer must modify the [\*Home Affordable Modification Agreement Cover Letter\*](#) to inform the borrower about (i) the delay of the modification effective date by one month and (ii) the effects of the interim month and the delay in the effective date of the Agreement, including, but not limited to, the delay in the effective date of the modified interest rate, the increase in the delinquent interest capitalized, and the loss of one month’s accrual of the incentive payment if the borrower does not make an additional trial period payment.

If a servicer has information that the borrower does not meet all of the eligibility criteria for HAMP (for example, because the borrower has moved out of the house), the servicer should explore other foreclosure prevention alternatives prior to resuming or initiating foreclosure.

Section 609.04.08  
Use of Suspense  
Accounts and Application  
of Payments (04/21/09)

In accordance with *Part III, Section 102.06, Pending Modifications (01/31/03)*, and, if permitted by the applicable mortgage loan documents, servicers may accept and hold as “unapplied funds” (held in a T&I custodial account) amounts received which do not constitute a full monthly, contractual PITI payment. However, when the total of the reduced payments held as “unapplied funds” is equal to a full PITI payment, the servicer is required to apply all full payments to the mortgage loan.

Any unapplied funds remaining at the end of the trial payment period which do not constitute a full monthly, contractual PITI payment should be applied to reduce any amounts that would otherwise be capitalized onto the principal balance.

Section 609.04.09  
Reclassification or  
Removal of MBS  
Mortgage Loans Prior to  
Effective Date of  
Modification (03/01/10)

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

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

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

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

For mortgage loans from MBS pools where the servicer has determined that a borrower's payment default is imminent and thus requiring four trial period payments, reclassifications are subject to the following:

- As long as the borrower has made the fourth payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer's reclassification date in the fourth month of the trial period, Fannie Mae will reclassify the mortgage loan during the fourth month of the trial period.
- If, prior to the close of the servicer's reclassification date in the fourth month, (i) the borrower has not made the fourth payment, or (ii) the

servicer has not applied the fourth payment and notified Fannie Mae that the payment has been made, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the fourth trial period payment is received after the 15th calendar day (i.e., servicer's reclassification date) of the fourth month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

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

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

- As long as the borrower has made the third payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer's reclassification date in the third month of the trial period, Fannie Mae will reclassify the mortgage loan during the third month of the trial period.
- If, prior to the close of the servicer's reclassification date in the third month, (i) the borrower has not made the third payment, or (ii) the servicer has not applied the third payment and notified Fannie Mae that the payment has been made, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the third trial period payment is received after the 15th calendar day (i.e., servicer's reclassification date) of the third month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

### **Conditions of Modification**

If the required trial period payments are not made by the end of the trial period, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented.

Modification agreements must be signed by an authorized representative of the servicer, must reflect the actual date of signature by the servicer's representative, and the signature must not occur until after the mortgage

loan has been removed from the MBS pool, and reclassified as a Fannie Mae portfolio mortgage loan. Additionally, payments received should only be applied in accordance with the modified terms once the servicer has confirmed that Fannie Mae has reclassified the mortgage loan. Servicers can confirm that Fannie Mae has reclassified a mortgage loan by reviewing the Purchase Advice that is posted on SURF.

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

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

### **Removal of Regular Servicing Option MBS Mortgage Loans**

Servicers of regular servicing option MBS mortgage loans are encouraged to offer HAMP for these mortgage loans. If a servicer decides to use HAMP for such mortgage loans, the servicer will be expected to follow Treasury's HAMP, sign the [Servicer Participation Agreement](#), obtain any third-party approvals, and comply with the requirements of this *Servicing Guide* governing reporting and removal of these mortgage loans from MBS pools, if applicable. Fannie Mae is not responsible for any losses or expenses the servicer incurs and will not pay borrower or servicer incentive fees for these mortgage loans which are not considered Fannie Mae HAMP mortgage loans.

The servicer of a mortgage loan that is part of a regular servicing option MBS pool or part of a shared-risk special servicing option MBS pool for which the servicer's shared risk liability has not expired must not modify the mortgage loan as long as it remains in the MBS pool. The servicer must purchase the mortgage loan from the MBS pool upon completion of the trial period provided the mortgage loan has been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency. Regular servicing option MBS mortgage loans and such shared-risk special servicing option MBS mortgage loans that have been purchased from an MBS pool for purposes of modification are not eligible for redelivery to Fannie Mae. Performing MBS mortgage loans (that is, those that do not meet the delinquency



criteria described above) are ineligible for repurchase for the purpose of modifying the mortgage loan.

Section 609.04.10  
Recording the  
Modification (12/14/09)

For all mortgage loans that are modified pursuant to HAMP, the servicer must ensure that the modified mortgage loan retains its first-lien position and is fully enforceable. The Agreement must be executed by the borrower(s) and, in the following circumstances, must be in recordable form:

- if state or local law requires a modification agreement be recorded to be enforceable;
- if the property is located in the State of New York or Cuyahoga County, Ohio;
- 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 modification alternatives);
- if the final interest rate on the modified mortgage loan is greater than the pre-modified interest rate in effect on the mortgage loan;
- 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
- if the servicer's practice for modifying mortgage loans in the servicer's portfolio is to create modification agreements in recordable form.

In addition, to retain the first-lien position, servicers must:

- 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;
- obtain a title endorsement or similar title insurance product issued by a title insurance company 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 modification

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alternatives); or if the final interest rate on the modified mortgage loan is greater than the interest rate in effect prior to modification of the mortgage loan; and

- record the executed Agreement if (1) state or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in Cuyahoga County, Ohio; (3) the amount capitalized is greater than \$50,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under Fannie Mae's modification alternatives); (4) 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 (5) 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.

Section 609.04.11  
Program Waivers  
(11/02/09)

From time to time, temporary program waivers related to HAMP are posted on [HMPAdmin.com](http://HMPAdmin.com). Such waivers are applicable to Fannie Mae servicers, and as such, Fannie Mae servicers must ensure compliance with the terms of such waivers.

Section 609.05  
Monthly Statements  
(04/21/09)

For modifications that include principal forbearance, servicers are encouraged to include the amount of the gross UPB on the borrower's monthly payment statement. In addition, the borrower should receive information on a monthly basis regarding the accrual of "pay-for performance" principal balance reduction payments.

Section 609.06  
Redefault and Loss of  
Good Standing  
(04/21/09)

If, following a successful trial period, a borrower defaults on a loan modification executed under HAMP (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. A mortgage loan that is not in good standing is not eligible to receive borrower or servicer incentives and reimbursements and these payments will no longer accrue for that mortgage loan. Further, the mortgage loan is not eligible for another HAMP modification.

In the event a borrower defaults, the servicer must work with the borrower to cure the modified loan, or if that is not feasible, evaluate the borrower

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Section 609.07  
Servicer Delegation,  
Duties, and  
Responsibilities  
(04/21/09)

for any other available foreclosure prevention alternatives prior to commencing foreclosure proceedings.

All servicers are eligible to participate in HAMP without obtaining prior approval from Fannie Mae.

In performing the duties incident to the servicing of mortgage loans modified under HAMP, a servicer must:

- Collect and record the details of all executed mortgage modifications, including, but not limited to: the original terms of the modified mortgage loan; the modified terms of the modified mortgage loan; data supporting the modification decision; updates to payoff information and the last payment date; and additional information and data as may be requested by Fannie Mae from time to time. All such data must be compiled and reported to Fannie Mae in the form and manner set forth in this *Servicing Guide*.
- Retain all data, books, reports, documents, audit logs, and records, including electronic records, related to HAMP. In addition, the servicer shall 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 shall retain these records for mortgage loans owned or securitized by Fannie Mae in accordance with *Part I, Section 406, Record Retention and Data Integrity (01/31/03)*, or for such longer period as may be required pursuant to applicable law.
- Construe the terms of this *Servicing 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.
- Use any nonpublic 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.
- Comply with all lawful instructions or directions received from the Treasury and Fannie Mae.

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## Delinquency Management and Default Prevention

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- 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 *Servicing Guide*, to monitor and detect loan modification fraud, and to monitor compliance with applicable consumer protection and fair lending laws. 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.
- 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.
- Supervise and manage any contractor that assists in the performance of services in connection with HAMP. A servicer shall remove and replace any contractor that fails to perform and ensure that all of its contractors comply with the terms and provisions of this *Servicing Guide*. A servicer shall be responsible for the acts or omissions of its contractors as if the acts or omissions were those of the servicer.

#### Section 609.08 Reporting Requirements (06/01/10)

Servicers must comply with the following mortgage loan reporting requirements for all Fannie Mae mortgage loans.

#### Section 609.08.01 Reporting to Fannie Mae (06/01/10)

For all Fannie Mae portfolio mortgage loans and MBS mortgage loans guaranteed by Fannie Mae (including lender recourse loans), a servicer must enter loan-level HAMP data by submitting a delegated case into HSSN when a servicer has received the borrower's Initial Package, including the [RMA](#), the Form 4506-T or 4506T-EZ, and income documentation, and determined that the borrower is eligible for a HAMP modification. Additionally, the servicer must record in HSSN receipt of the trial period payments due under the plan. The servicer must use HSSN to request reclassification for MBS mortgage loans as outlined in the *Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification* section when appropriate. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments total a full payment, the borrower has been in a delinquent status (that is, not current in contractual payments) on each of the last four monthly payment due dates and

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

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

Servicers should report post-modification UPB once the modification is closed in HSSN (for example, if modification is closed on March 25, post-modification balances should be reported on the April 3 LAR). If the servicer submits a LAR to report post-modification balances before the case is closed in HSSN, an exception will occur.

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

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

If the modification includes principal forbearance, the servicer should report the net UPB (full UPB minus the forbearance amount) in the "Actual UPB" field on both LARs for the reporting month that the modification becomes effective. The initial reduction in UPB caused by the principal forbearance should not be reported to Fannie Mae as a principal curtailment. The interest reported on the LAR must be based on the net UPB.

If the modification includes principal forbearance resulting in a balloon payment due upon borrower's sale of the property or payoff, or maturity

of the mortgage loan, interest must never be computed on the principal forbearance amount, including at the time of liquidation. When reporting a payoff or repurchase of the mortgage loan, the principal reported on the LAR must include the principal forbearance amount. Attempting to report a payoff or repurchase without including the principal forbearance amount will generate an exception upon submission of the LAR.

If a principal curtailment is received on a mortgage loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest-bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, then the curtailment should be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest-bearing UPB.

### **Delinquency Status Reporting**

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

In the event that the borrower files bankruptcy during the trial period, servicers must continue to report delinquency status code 09 – Forbearance, until the borrower either successfully completes the trial period, in which case the status code would be changed to reflect 28 – modification, or the borrower fails the trial period, in which case the status code would be changed to reflect the appropriate bankruptcy status code.

Section 609.08.02  
Reporting to Treasury  
(03/01/10)

In addition to reporting to Fannie Mae, each servicer must report periodic HAMP loan activity to Treasury through the servicer web portal accessible through [HMPAdmin.com](http://HMPAdmin.com). Data should be reported by a servicer at the start of the modification trial period and during the modification trial period, for loan setup of the approved modification, and monthly after the modification is set up. Servicers will be required to submit three separate data files. Detailed guidelines for submitting these data files and a list of data elements for each report are available at [HMPAdmin.com](http://HMPAdmin.com).

The servicer should begin trial period reporting once the servicer receives the borrower's first trial period payment (as long as that payment is received by the servicer on or before the Trial Period Offer Deadline). This data must be submitted to the HAMP reporting system in accordance with the reporting requirements available at [HMPAdmin.com](http://HMPAdmin.com) no later than the fourth business day of the month immediately following the month in which the Trial Period Plan Effective Date occurs. For example, if the Trial Period Plan Effective Date is July 1 and the servicer receives the borrower's first trial period payment on or before July 31 (including payments received by the servicer prior to July 1), the servicer must report to Fannie Mae the trial period setup attributes by the fourth business day of August.

The servicer should report the length of the trial period on the loan setup record, excluding the interim month if the borrower does not make an additional trial period payment, and including the interim month if the borrower does make an additional trial period payment. **Note:** The effects of the interim month and attendant capitalization on the terms of the modification agreement may not alter the servicer's previous determination of the borrower's eligibility.

A one-time loan setup is required to establish the approved modified HAMP loan on Treasury's system. The servicer is required to submit the loan modification setup attributes to the HAMP reporting system no later than the fourth business day of the month in which the modification is effective. For example, if a modification is effective as of September 1, the servicer must submit the loan setup attributes no later than the fourth business day of September. This new reporting time period is effective immediately.

The month after the loan setup file is provided, servicers must begin reporting activity to Treasury on all HAMP loans on a monthly basis (for example, loan setup file is provided in July, the first LAR is due in August for July activity). The monthly reporting data elements are available on [HMPAdmin.com](http://HMPAdmin.com). The HAMP LAR is due by the fourth business day each month.

Servicers must refer to the *Making Home Affordable Handbook*, accessible on [HMPAdmin.com](http://HMPAdmin.com), to obtain more detailed information on the required

data elements and reporting time frames for additional data elements that are required to be reported monthly.

A servicer will receive a username and password for the servicer web portal upon submission of a [HAMP Registration Form](#). All servicers will be required to provide the *HAMP Registration Form* with information such as contact information and banking instructions for deposits of compensation payments. The *HAMP Registration Form* is a one-time submission; however, after the initial form is submitted, a servicer may submit a new form to update existing information at any time.

Section 609.08.03  
Reporting to Mortgage  
Insurers (04/21/09)

Servicers must maintain their mortgage insurance processes and comply with all reporting required by the mortgage insurer for mortgage loans modified under HAMP. Servicers should consult with the mortgage insurer for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under HAMP. Servicers are required to report successful HAMP modifications and the terms of those modifications to the appropriate mortgage insurers, if applicable, within 30 days following the end of the trial period and in accordance with procedures that currently exist or may be agreed to between servicers and the mortgage insurers.

**Maintenance of Mortgage Insurance**

Servicers must include the mortgage insurance premium in the borrower's modified payment, and must ensure that any existing mortgage insurance is maintained. Among other things, the servicer must ensure that the mortgage insurance premium is paid. In addition, servicers must adapt their systems to ensure proper reporting of modified mortgage loan terms so as not to impair coverage for any existing mortgage insurance. For example, in the event that the modification includes principal forbearance, servicers must continue to pay the correct mortgage insurance premiums based on the gross UPB, including any principal forbearance amount, must include the gross UPB in their delinquency reporting to the mortgage insurer, and must ensure any principal forbearance does not erroneously trigger automatic mortgage insurance cancellation or termination.



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Section 609.08.04  
Transfers of Servicing  
(04/21/09)

When a transfer of servicing includes mortgage loans modified under HAMP, Fannie Mae requires the transferor servicer to provide special notification to the transferee servicer. Specifically, the transferor servicer must advise the transferee servicer that mortgage loans modified under HAMP are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for these mortgage loans, but also agrees to assume the additional responsibilities associated with servicing these mortgage loans.

The transferee servicer must assume all of the responsibilities and duties of HAMP. 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.

Section 609.08.05  
Credit Bureau Reporting  
(04/21/09)

In accordance with *Section 209, Notifying Credit Repositories (11/01/04)*, the servicer should continue to report a full-file status report to the four major credit repositories for each mortgage loan under HAMP in accordance with the Fair Credit Reporting Act and credit bureau requirements as provided by the Consumer Data Industry Association (CDIA) on the basis of the following:

- For borrowers who are current when they enter the trial period, the servicer should report the borrower current but on a modified payment if the borrower makes timely payments by the 30th day of each trial period month at the modified amount during the trial period, as well as report the modification when completed.
- For borrowers who are delinquent when they enter the trial period, the servicer should continue to report in such a manner that accurately reflects the borrower's delinquency and workout status following usual and customary reporting standards, as well as report the modification when completed.

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## Delinquency Management and Default Prevention

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### Foreclosure Prevention Alternatives

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More detailed information on these reporting standards will be published by the CDIA. However, once a mortgage loan has been modified under HAMP, any Special Comment Code related to HAMP will no longer apply (should be BLANK) as the account has been brought current with the modification, and the borrower is no longer paying under a partial or modified payment agreement.

Full-file reporting means that the servicer must describe the exact status of each mortgage loan it is servicing as of the last business day of each month.

#### Section 609.09 Fees and Compensation (04/21/09)

This section provides guidance to servicers on the fees and compensation under the HAMP process.

#### Section 609.09.01 Servicing Fees (04/21/09)

During the trial period, servicing fees will continue to be earned by the servicer to the extent that the borrower payments equal a contractual full payment. When the HAMP modification becomes effective, the servicer will receive servicing fees based on Fannie Mae's existing fee schedule for modified mortgage loans in accordance with *Section 602.02, Modifying Conventional Mortgage Loans (04/21/09)*.

#### Section 609.09.02 Late Fees (04/21/09)

All late charges, penalties, stop payment fees, or similar fees must be waived upon successful completion of the trial period.

#### Section 609.09.03 Administrative Costs (11/02/09)

Servicers may not charge the borrower to cover the administrative processing costs incurred in connection with a HAMP. The servicer must pay any actual out-of-pocket expenses, such as any 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. Servicers will not be reimbursed for the cost of the credit report(s).

To obtain reimbursement for any allowable administrative fees and costs incurred in connection with HAMP, the servicer should submit a *Cash Disbursement Request (Form 571)* to Fannie Mae. Only for mortgage loans considered under HAMP, Fannie Mae will waive the requirements that the claim equal a minimum amount of \$500.00 or that the mortgage loan be at least 6 months delinquent. Only administrative fees and costs

associated with HAMP should be included on the Form 571. In order for the administrative costs to be reimbursed, servicers must reference HAMP in the comments section on the Form 571. If Form 571 is submitted in hard copy, the servicer must write "HAMP" on the top of the form.

Section 609.09.04  
Incentive Compensation  
(04/21/09)

No incentives of any kind will be paid if (i) the servicer has not provided a [HAMP Registration Form](#) or HAMP loan setup data prior to the effective date of the modification, or (ii) the borrower's monthly payment ratio starts below 31% prior to the implementation of HAMP. The incentive compensation will only be paid for HAMP modifications that are based on the borrower's verified income. Each servicer must promptly apply or remit, as applicable, all borrower and investor compensation it receives with respect to any modified mortgage loan.

With respect to payment of any incentive that is predicated on at least a 6% reduction in the borrower's monthly mortgage payment, the reduction will be calculated by comparing the monthly mortgage payment used to determine eligibility (adjusted as applicable to include property taxes, hazard insurance, flood insurance, condo association fees, and HOA fees) and the borrower's payment under HAMP.

### **Servicer Incentive Compensation**

A servicer will receive compensation of \$1,000 for each completed modification under HAMP. In addition, if a borrower was current under the original mortgage loan, a servicer will receive an additional compensation amount of \$500. All such servicer incentive compensation shall be earned and payable once the borrower successfully completes the trial payment period.

If a borrower's monthly mortgage payment (principal, interest, taxes, and all related property insurance and homeowners' or condo association fees, but excluding mortgage insurance) is reduced through HAMP by 6% or more, a servicer will also receive an annual "pay for success" fee equal to the lesser of: (i) \$1,000 (\$83.33 per month), or (ii) one-half of the reduction in the borrower's annualized monthly payment, for up to three years as long as the mortgage loan is a performing loan modification. The "pay for success" fee will be payable annually for each of the first three years after the anniversary of the month in which a trial period plan is effective. If and when the mortgage loan ceases to be in good standing, the

servicer will cease to be eligible for any further incentive payment after that time, even if the borrower subsequently cures his or her delinquency. The servicer will forfeit any incentive payments that have accrued during the previous twelve months.

### **Borrower's Incentive Compensation**

To provide an additional incentive for borrowers to keep their modified mortgage loan current, borrowers whose monthly mortgage payment (principal, interest, taxes, and all related property insurance and homeowners' or condo association fees, but excluding mortgage insurance) is reduced through HAMP by 6% or more and who make timely monthly payments will earn an annual "pay for performance" principal balance reduction payment equal to the lesser of: (i) \$1,000 (\$83.33 per month), or (ii) one-half of the reduction in the borrower's annualized monthly payment for each month a timely payment is made. A borrower can earn the right to receive a "pay for performance" principal balance reduction payment for payments made during the first five years following execution of the Agreement provided the mortgage loan continues to be in good standing as of the date the payment is made. The "pay for performance" principal balance reduction payment will accrue monthly and be applied annually for each of the five years in which this incentive payment accrues, prior to the first payment due date after the anniversary of the month in which the trial period plan is effective. This payment will be paid to the servicer to be applied first towards reducing the interest-bearing UPB and then towards any principal forbearance amount (if applicable) on the mortgage loan. Any applicable prepayment penalties on partial principal prepayments made by Fannie Mae must be waived. Borrower incentive payments do not accrue during the Trial Period; however, in the first month of the modification, the borrower will accrue incentive payments equal to the number of months in the trial period in addition to any accrual earned during the first month of the modification.

If and when the mortgage loan ceases to be in good standing (that is, three monthly payments are due under the modified mortgage loan and unpaid on the last day of the third month), the borrower will cease to be eligible for any further incentive payments after that time, even if the borrower 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.

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.

Servicers must place the borrower incentives into an existing custodial account.

The IRS has ruled that the “pay for performance” principal balance reduction payments are excluded from gross income for tax reporting purposes.

### **Incentive Payment Process**

Eligible incentives will be paid automatically based on information that is provided by the servicer through the HAMP servicer web portal and is, therefore, reliant on the servicers’ timely and accurate reporting of mortgage loan information. The incentive payments will be made via ACH to the bank account(s) designated by the servicer on the [HAMP Registration Form](#) 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).

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](http://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.

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**Section 609.10  
FHA HOPE for  
Homeowners (4/21/09)**

Servicers will be required to consider a borrower for refinancing into the FHA HOPE for Homeowners program when feasible. Consideration for a HOPE for Homeowners refinance should not delay eligible borrowers from receiving a modification offer and beginning the trial period. Servicers must use the modification options to begin the HAMP modification and work to complete the HOPE for Homeowners refinance during the trial period. A servicer that is not a mortgage loan originator may counsel a borrower to seek a refinance with a HOPE for Homeowners lender.

**Section 610  
Home Affordable  
Foreclosure  
Alternatives Program  
(08/01/10)**

The Fannie Mae HAFA program simplifies and streamlines the use of short sales and deed-in-lieu options by incorporating the following unique features:

- Complements HAMP by providing viable alternatives for borrowers who are HAMP eligible (including borrowers facing imminent default);
- Utilizes borrower financial and hardship information collected in conjunction with HAMP, eliminating the need for additional eligibility analysis;
- Allows the borrower to receive pre-approved short sale terms prior to the property listing;
- Prohibits the servicer from requiring, as a condition of approving the short sale, a reduction in the real estate commission agreed upon in the listing agreement;
- Requires that borrowers be fully released from future liability for the debt;
- Uses standard processes, documents, and timeframes;
- Provides financial incentives to borrowers and servicers.

All servicers must implement Fannie Mae's HAFA for all conventional mortgage loans that are held in Fannie Mae's portfolio, that are part of an MBS pool that has the special servicing option, or that are part of a

shared-risk MBS pool for which Fannie Mae markets the acquired property.

Servicers are encouraged to offer HAFA for eligible mortgage loans that are part of a regular servicing option MBS pool or part of a shared-risk special servicing option MBS pool for which the servicer's shared risk liability has not expired. If a servicer decides to use HAFA for such mortgage loans, the servicer must follow the Treasury's HAFA program, obtain any necessary third-party approvals, and comply with the reporting requirements of this *Section*. Fannie Mae is not responsible for any losses or expenses the servicer incurs and will not pay borrower or servicer incentive fees for those mortgage loans which are not considered Fannie Mae HAFA mortgage loans.

A borrower may be accepted into Fannie Mae's HAFA program if a [HAFA Short Sale Agreement \(Form 184\)](#) or [HAFA DIL Agreement \(Form 186\)](#) is fully executed by the borrower and received by the servicer on or before December 31, 2012.

Servicers must develop written procedures that are consistent with the policies described in this *Section*.

New incentives identified in this *Section* are applicable only for Fannie Mae HAFA short sales and deeds-in-lieu and are effective with cases closed in HSSN after August 1, 2010. (Refer to *Section 610.15, Fees and Incentive Compensation (08/01/10)*, for further details.)

Section 610.01  
Foreclosure Prevention  
Alternatives (08/01/10)

In a short sale, the servicer releases its lien on the mortgaged property upon receipt of the net proceeds of the sale even though the sale proceeds are less than the total amount due on the related mortgage loan. A short sale involving a Fannie Mae loan must be an arm's-length transaction with all proceeds (net of allowable transaction costs as described below) applied to the mortgage loan payoff in full satisfaction of the entire first-lien mortgage debt.

If the borrower actively markets the property, but is unable to sell it within the agreed-upon marketing period or the [HAFA Short Sale Agreement](#) is terminated prior to its expiration as provided below, a servicer must then immediately consider a deed-in-lieu. With a deed-in-lieu, the borrower voluntarily transfers the property to Fannie Mae in full satisfaction of the

entire first lien mortgage debt, provided that the borrower can deliver clear and marketable title.

Borrowers who are eligible for a deed-in-lieu and who indicate interest in remaining in the property as a tenant must also be considered for the D4L program, which allows the borrower the opportunity to lease the property after a deed-in-lieu is completed.

Section 610.02  
Eligibility (08/01/10)

This section describes HAFA eligibility guidelines.

Section 610.02.01  
HAFA Eligibility  
Considerations  
(08/01/10)

Servicers may not consider a borrower for HAFA until the borrower has been evaluated for a HAMP modification (including, but not limited to, providing all required income documentation) in accordance with the eligibility criteria for HAMP as outlined in *Section 609.01, HAMP Eligibility (06/01/10)*, and any supplemental HAMP policy guidance. Once a borrower has met all of the eligibility criteria for HAMP, the borrower must be considered for a HAFA short sale or deed-in-lieu (after all home retention options have been considered) if the borrower:

- was not offered a trial modification due to inability to meet the HAMP qualifications (for example, did not pass the NPV evaluation or meet the target monthly mortgage payment ratio based on verified income);
- failed to complete the trial period successfully;
- became two consecutive payments (31 or more days) delinquent on the modified mortgage loan; or
- requests a short sale or deed-in-lieu.

Without Fannie Mae's prior written consent, a servicer must not consider or solicit a borrower for a Fannie Mae HAFA short sale or deed-in-lieu with respect to a mortgage loan if:

- a foreclosure sale is scheduled to be held within 60 days of the borrower's request for a Fannie Mae HAFA short sale or deed-in-lieu, or a determination that a borrower is ineligible for HAMP; or



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- a foreclosure proceeding could be initiated and reasonably be expected to result in a foreclosure sale being held within 60 days of the borrower's request for a Fannie Mae HAFA short sale or deed-in-lieu, or a determination that a borrower is ineligible for HAMP; or
- the mortgage loan is secured by a property in Florida on which foreclosure proceedings are pending, judgment has been obtained, or a hearing on summary judgment or trial is scheduled within 60 days.

A borrower whose request for a HAMP modification was not previously evaluated or not completely evaluated due to incomplete or unverified information may not be considered for a Fannie Mae HAFA short sale or deed-in-lieu until HAMP consideration is completed, eligibility verified, and a determination has been made as to whether the borrower qualifies for HAMP.

The servicer must notify the borrower verbally or in writing of the availability of a HAMP modification and allow the borrower 14 calendar days from the date of the notification to contact the servicer by verbal or written communication and request consideration for a HAMP modification. If the borrower does not wish to be considered for a modification, the servicer may consider a Fannie Mae HAFA short sale or deed-in-lieu in accordance with this *Section*. A borrower may not participate simultaneously in both a trial period plan under HAMP and a Fannie Mae HAFA short sale or deed-in-lieu.

If a borrower was evaluated for HAMP based on verbal financial information, the servicer may send the applicable [HAFA Short Sale Agreement](#) or [HAFA DIL Agreement](#) to the borrower and require that the borrower return the required HAMP financial documentation along with the signed *Making Home Affordable Program Hardship Affidavit* ([Form 1021](#)) (or equivalent) and applicable Agreement.

Note: An exception to the HAMP eligibility criteria regarding property occupancy allows a borrower to be eligible for a Fannie Mae HAFA if the borrower provides evidence that he or she was required to relocate at least 100 miles from the mortgaged property to accept new employment or was transferred by an existing employer and has not purchased a one- to four-unit property within 90 days prior to the date of the *HAFA Short Sale Agreement* or *HAFA DIL Agreement*.

Whether a borrower is eligible for a Fannie Mae HAFA short sale or deed-in-lieu also depends upon the evaluation of the borrower's financial condition described below. Cash contributions or promissory notes are not permitted under HAFA; therefore, if a servicer or mortgage insurer determines that a borrower has an ability to contribute meaningfully to reducing the potential loss on the mortgage loan, the borrower is not eligible for HAFA and may only obtain a short sale or deed-in-lieu under the requirements of other Fannie Mae short sale or deed-in-lieu alternatives. Also refer to *Section 604, Preforeclosure Sales (01/31/03)*, and *Section 606, Deeds-in-Lieu of Foreclosure (08/02/10)*.

Section 610.02.02  
Evaluation of the  
Borrower's Financial  
Condition (08/01/10)

The servicer must evaluate the borrower's financial condition for the Fannie Mae HAFA program using the guidelines noted below to determine whether the borrower has an ability to contribute meaningfully to reducing the potential loss on the mortgage loan. The servicer must determine if the borrower has:

- the ability to continue making the mortgage payments but chooses not to do so; or
- substantial unencumbered assets or significant cash reserves equal to or exceeding three times the borrower's total monthly mortgage payment (including T&I payments) or \$5,000, whichever is greater; or
- high surplus income.

When a Fannie Mae HAFA short sale or deed-in-lieu is not available to a borrower who requested consideration of the foreclosure alternative, the servicer must communicate this decision in writing to the borrower. The notice must explain the reason why a short sale or deed-in-lieu under the Fannie Mae HAFA program cannot be offered, provide a toll-free telephone number that the borrower may call to discuss the decision, and otherwise comply with the notice requirements of *Section 609.04.02, Borrower Notices (06/01/10)*.

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Section 610.02.03  
Deed-in-Lieu Eligibility  
Considerations  
(08/01/10)

Generally, for a borrower to be eligible for a Fannie Mae HAFA deed-in-lieu, the mortgaged property must have been listed for sale at market value for 120 days or more. A servicer may waive the requirement that the property securing the mortgage loan previously be listed for sale in cases involving:

- a serious illness or disability,
- a deceased borrower or co-borrower,
- a borrower or co-borrower who has been relocated or who has been deployed by the military,
- a determination that local market conditions would impede a sale of the property,
- a borrower who demonstrates an unwillingness or inability to maintain or market the property during the listing period, or
- a borrower who has expressed an interest in D4L.

The servicer must obtain documentation to support these exceptions.

For a borrower to be eligible for a deed-in-lieu under the Fannie Mae HAFA program, the following criteria must be met:

- Acceptance of the deed-in-lieu will enable Fannie Mae to acquire the property earlier than through a foreclosure action.
- The borrower must execute the deed-in-lieu no less than 30 days prior to a scheduled foreclosure sale; otherwise, prior written Fannie Mae approval is required.
- The borrower must be willing and able to vacate the property within the time specified in the [HAFA DIL Agreement](#) and leave the property in good and habitable condition (unless the property and borrower are approved for D4L and the borrower plans to become a tenant occupant).

Section 610.03  
Standard Documents  
(08/01/10)

For Fannie Mae HAFA short sale and deed-in-lieu transactions, servicers must use the following documents available on [eFannieMae.com](http://eFannieMae.com):

- [\*HAFA Initial Solicitation Letter \(Form 183\)\*](#), which notifies a borrower of the availability of the short sale and deed-in-lieu options.
- [\*HAFA Short Sale Agreement \(Form 184\)\*](#), which defines the terms and conditions of a short sale, including the following:
  - listing agreement, maximum real estate commissions, and marketing terms;
  - servicer and borrower obligations and duties;
  - acknowledgement of risks, conditions, and contingencies; and
  - terms for early termination.
- [\*HAFA Request for Approval of Short Sale \(“RASS”\) \(Form 184A\)\*](#), which defines the terms and conditions of a short sale transaction acceptable to the servicer and, together with the sales contract, provides settlement instructions to the borrower’s settlement agent. The servicer will attach the *RASS* as an exhibit to the *HAFA Short Sale Agreement* pre-populated with the servicer contact information, property address, and the servicer’s loan number.
- [\*HAFA Request for Approval of Short Sale Without Short Sale Agreement \(“Alternative RASS”\) \(Form 185\)\*](#), which must be used when a borrower submits an executed sales contract for approval before the servicer and borrower have entered into a *HAFA Short Sale Agreement*.
- [\*HAFA DIL Agreement \(Form 186\)\*](#), which defines the terms and conditions for a deed-in-lieu.

Servicers must revise the documents as necessary to comply with applicable laws and may revise the documents to comply with local real estate practice. Servicers may also customize the forms with servicer-specific logos.

All parties who signed the original note or security instrument must provide verified financial information and all parties who signed the original note or security instrument or their duly authorized representative(s) must execute the short sale or deed-in-lieu documents, with the following exceptions:

- A borrower or co-borrower is deceased.
- A borrower and co-borrower are divorced and the property has been awarded to one borrower in the divorce decree. (The non-occupying borrower who has relinquished or transferred property rights is not required to provide income documentation or execute the short sale or deed-in-lieu documents.)
- A borrower and co-borrower are unmarried and one has relinquished or transferred all rights to the mortgaged property through a recorded deed or other valid transfer document. (The non-occupying borrower who has relinquished or transferred property rights is not required to provide income documentation or execute the short sale or deed-in-lieu documents.)

Section 610.04  
Borrower Solicitation and  
Response (08/01/10)

Borrowers who are determined to be eligible for the Fannie Mae HAFA program (as defined in *Section 610.02, Eligibility (08/01/10)*) must be notified in writing of the availability of the short sale and deed-in-lieu options within 14 calendar days after the eligibility determination using the [\*HAFA Initial Solicitation Letter\*](#).

If the borrower fails to contact the servicer within 14 calendar days from the date of the notification or at any time indicates that he or she is not interested in the options, the servicer has no further obligation to extend a Fannie Mae HAFA short sale or deed-in-lieu offer, and the servicer must continue foreclosure action, where appropriate.

For borrowers who respond and express interest in a Fannie Mae HAFA short sale or deed-in-lieu, the servicer must conduct the financial analysis required above and evaluate the borrower for a Fannie Mae HAFA short sale or deed-in-lieu offer, based on the results of the financial analysis.

### **Borrowers in Active Bankruptcy Cases**

A borrower in an active Chapter 7 or Chapter 13 bankruptcy case must be considered for a Fannie Mae HAFA short sale or deed-in-lieu if the borrower, borrower's counsel, or bankruptcy trustee submits a request to the servicer. However, the servicer is not required to solicit borrowers in active bankruptcy cases for shorts sales or deeds-in-lieu. With the borrower's permission, a bankruptcy trustee may contact the servicer to request a short sale or deed-in-lieu. The servicer and its attorney must work with the borrower or borrower's counsel to obtain any court and/or trustee approvals required in accordance with local court rules and procedures. The servicer must extend the required time frames outlined in this *Section* as necessary to accommodate delays in obtaining bankruptcy court approvals or receiving any periodic payment when made to a bankruptcy trustee.

#### Section 610.05 Determining the Estimated Sales Price of the Property (08/01/10)

As soon as a borrower is determined to be eligible for a Fannie Mae HAFA short sale or deed-in-lieu and has demonstrated a willingness to participate, the servicer must take the necessary steps to determine the market value of the mortgaged property. Fannie Mae requires a BPO based on an interior and exterior inspection of the property or, if licensing requirements in the state dictate use of an appraisal for these purposes, an appraisal (performed in accordance with the Uniform Standards of Professional Appraisal Practice, or USPAP).

The BPO (or appraisal, if required) must be dated within 90 calendar days of the date the relevant *HAFA Agreement* is executed by the servicer. If the servicer obtains a value within 90 days of signing the [HAFA Short Sale Agreement](#), the servicer need not obtain a subsequent value in connection with any resulting deed-in-lieu. Fannie Mae will reimburse the servicer for the cost of obtaining a BPO or, where required, an appraisal.

Fannie Mae has established a network of vendors that all servicers must use for obtaining BPOs (and appraisals, when required). The vendor list is available on [eFannieMae.com](http://eFannieMae.com) with the effective date on which each vendor is authorized to receive referrals for mortgage loans owned or securitized by Fannie Mae. Servicers must utilize a vendor from Fannie Mae's network to obtain a BPO (or appraisal, if required) in connection with the evaluation of a HAFA short sale or deed-in-lieu.

If a servicer previously obtained an appraisal in conjunction with a mortgage loan that is eligible for a HAFSA short sale, the servicer must obtain a BPO or appraisal through Fannie Mae's vendor list without regard to the age of the appraisal in order to obtain the minimum acceptable net proceeds (MANP) from Fannie Mae. The MANP is the baseline value to be used by the servicer to establish a list price that is reflective of current market conditions.

The vendor will provide the results of the BPO (or appraisal, if required) to the servicer as well as directly to Fannie Mae. Fannie Mae will review the estimated sales price rendered by the BPO (or market value as indicated by an appraisal) to determine whether it is acceptable. Servicers will have access to the results of Fannie Mae's review through HSSN via the Asset Management Network on eFannieMae.com. For more information on how to access and use this new functionality in HSSN, refer to [eFannieMae.com](http://eFannieMae.com).

If a short sale is requested, the information provided will include the MANP that Fannie Mae will accept as a short payoff of the mortgage loan or a request to the servicer to obtain a second BPO (or appraisal) from the vendor. Fannie Mae expects that a servicer will develop a process for determining a sales price based on the current market conditions of the property location so as to facilitate a sale within the specified marketing period. The servicer must establish a list price that is greater than the MANP.

Section 610.06  
Review of Title (08/01/10)

The servicer must review readily available information provided by the borrower, the borrower's credit report, the mortgage loan file, and other sources identifying subordinate liens and other claims on title to determine if the borrower will be able to deliver marketable title to a prospective purchaser or Fannie Mae. The servicer may, in its discretion, order a title search or preliminary title report for a short sale. For a deed-in-lieu, the servicer must obtain all information about any liens, impediments, or potential title defects or other matters that may impede a sale or the acceptance of a deed-in-lieu; therefore, a title insurance policy is required. The amount of title insurance coverage must be based on the estimated sales price of the property as determined by a BPO or appraisal obtained in connection with the deed-in-lieu. Fannie Mae will reimburse the servicer for allowable costs for the title insurance policy.

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## Delinquency Management and Default Prevention

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### Foreclosure Prevention Alternatives

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Section 610

June 10, 2011

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#### Section 610.07 Short Sale Process (08/01/10)

This section provides guidelines for short sales.

##### Section 610.07.01 Servicer Duties and Responsibilities (08/01/10)

The short sale process requires that the servicer actively oversee the sale of the mortgaged property by communicating with and providing instruction to the listing agent. At a minimum, the servicer's duties and responsibilities are as follows:

- establish a list price that reflects current market conditions to facilitate a sale within the specified marketing period;
- ensure the listing agent's marketing plan includes appropriate methods for property exposure, including a For Sale sign, Multiple Listing Service(s), flyers, print ads, and open houses, as well as appropriate usage of the Internet;
- obtain monthly feedback from the listing agent through a statistical and narrative marketing update (providing, at a minimum, the number of showings and prospective buyer feedback on price and property condition);
- obtain monthly geographical comparables from the listing agent to determine whether the local market conditions have changed;
- make adjustments to the list price as necessary (within the limitations of the pre-established MANP);
- review each sales contract in detail to verify that the contract sales price and terms comply with the [HAFSA Short Sale Agreement](#) and this *Section*;
- work with the title company to resolve any issues that may delay the closing;
- provide instructions to the title company regarding closing of the transaction in compliance with the *HAFSA Short Sale Agreement*;
- review the HUD-1 Settlement Statement for accuracy within 48 hours of closing; and



- ensure the sales proceeds are received on a timely basis.

Servicers must also comply with any other specific written directions that Fannie Mae may provide.

Section 610.07.02  
MANP (08/01/10)

Prior to execution of the [\*HAFSA Short Sale Agreement\*](#) (or approval of a sales contract if no *HAFSA Short Sale Agreement* is executed), the servicer must document Fannie Mae's MANP in the servicing file. The servicer must not increase the MANP requirement following execution of the *HAFSA Short Sale Agreement*. The MANP must be kept confidential and must not be shared with interested parties to the transaction (for example, the buyer, seller, or real estate agents).

Section 610.07.03  
Allowable Short Sale  
Transaction Costs  
(08/01/10)

The servicer must specify in the [\*HAFSA Short Sale Agreement\*](#) the transaction costs that may be deducted from the contract sales price. Allowable transaction costs typically include:

- real estate sales commission customary for the market. The servicer may not require that the commission be reduced to less than 6% of the sales price of the property;
- real estate taxes and other assessments prorated to the date of closing;
- 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;
- homeowners' or condo association fees that are past due, if applicable.

Allowable transaction costs also include any amounts authorized by Fannie Mae.

Fees paid to a third party to negotiate a short sale with the servicer (commonly referred to as "short sale negotiation fees" or "short sale

processing fees”) must not be deducted from the sales proceeds or charged to the borrower. Additionally, the servicer, its agents, or any outsourcing firm it employs must not charge (either directly or indirectly) any outsourcing fee, short sale negotiation fee, or similar fee in connection with any Fannie Mae loan.

Section 610.07.04  
HAFA Short Sale  
Agreement (08/01/10)

The servicer will prepare and send to the borrower a [HAFA Short Sale Agreement](#), with the [RASS](#) attached, pre-populated with contact information for the servicer, the property address, and the servicer’s loan number no later than 14 calendar days after the later to occur:

- the servicer’s determination that a borrower meets the basic eligibility criteria described in this *Section*, and
- Fannie Mae’s communication of the MANP to the servicer.

The *HAFA Short Sale Agreement* effective date is the date that the *HAFA Short Sale Agreement* is mailed to the borrower. The servicer must instruct the borrower and listing agent to sign and return the *HAFA Short Sale Agreement*, together with all other required documentation, within 14 calendar days of the *HAFA Short Sale Agreement* effective date.

The servicer may, at its discretion, consider the offer of a *HAFA Short Sale Agreement* to have expired at the end of 14 calendar days if the borrower has not submitted:

- the fully executed *HAFA Short Sale Agreement*,
- a copy of the real estate broker listing agreement, and
- information concerning any other liens.

If the borrower indicates an interest in proceeding with a Fannie Mae HAFA short sale, but the borrower’s submission is incomplete, the servicer may work with the borrower and listing agent to complete the submission for up to 10 calendar days after the expiration of the offer of a *HAFA Short Sale Agreement*.

The minimum marketing period for a property subject to the *HAFA Short Sale Agreement* must be no less than 120 calendar days from the *HAFA*

*Short Sale Agreement* effective date but may be longer subject to Fannie Mae's prior written approval and the agreement of the servicer and borrower, provided any extension will not otherwise delay a foreclosure sale.

The servicer may terminate the *HABA Short Sale Agreement* before its expiration due to any of the following events:

- the borrower's financial condition significantly improves, the borrower qualifies for a loan modification, or the borrower brings the mortgage loan current or pays it off in full;
- the borrower or listing agent fails to act in good faith in listing, marketing, or closing the short sale, or otherwise fails to abide by the terms of the *HABA Short Sale Agreement*;
- a significant change occurs in the property's condition or value;
- the borrower files for bankruptcy and the bankruptcy court declines to approve the *HABA Short Sale Agreement*;
- litigation is initiated or threatened that could affect title to the property or interfere with a valid conveyance;
- there is evidence of fraud or misrepresentation; or
- the borrower fails to make the monthly payment required under the *HABA Short Sale Agreement*, if applicable.

The borrower is not required to sign a *HABA Short Sale Agreement* if the property is already subject to an existing listing agreement. If the servicer becomes aware that the property is subject to a listing agreement or the borrower presents a contract or offer, the servicer must determine the eligibility of the borrower as described in *Section 610.02, Eligibility (08/01/10)*, follow the steps as previously outlined to establish the MANP, and, if applicable, advise the borrower to adjust the listing or sales price as necessary.

The servicer must obtain a copy of the listing agreement and any contract sales offer, request the borrower's written authorization to communicate

directly with the borrower's real estate broker, and ask the borrower or broker to provide updates to the servicer every 30 days regarding the status of marketing the property. If any such update is not received, the servicer must contact the borrower or broker, provided the borrower has authorized such direct contact with the broker, to obtain a marketing update.

If no *HAFSA Short Sale Agreement* has been signed, the servicer must instruct the borrower to submit an [Alternative RASS](#) in the event an offer to purchase the property is received.

Section 610.07.05  
Offer Receipt and  
Response (08/01/10)

To enable the servicer to evaluate a bona fide sales contract, the borrower must provide the details of the sales contract using the [RASS](#) or the [Alternative RASS](#), as applicable. The listing agent and borrower must submit the complete and executed *RASS* or *Alternative RASS* to the servicer along with supporting documentation within three business days after receipt of a fully executed sales contract. The borrower must provide the following supporting documentation:

- a copy of the executed sales contract and all addenda;
- a copy of the listing agreement, if any, if not previously provided;
- all information readily available to the borrower regarding the status of other liens on the property; and
- the buyer's documentation of funds or pre-approval or commitment letter on letterhead from a mortgage lender indicating that the buyer is approved for financing sufficient to complete the purchase of the property. The only acceptable condition of approval is the completion of an appraisal reflecting a property value equal to or greater than the purchase price stated in the sales contract or a satisfactory inspection of the subject property.

The servicer must review and evaluate the sales contract information detailed on the *RASS* or the *Alternative RASS* along with the supporting documentation. The servicer must respond to the borrower within 10 business days of receipt of a completed *RASS* or *Alternative RASS* and all required documentation indicating acceptance or rejection of or a counter to the offer, signing the appropriate section of the *RASS* or the *Alternative*

RASS, and returning it to the borrower. The servicer must approve the short sale if the net proceeds available from the sale for payment to the servicer equal or exceed the MANP and all other terms and conditions in the [HFA Short Sale Agreement](#), if applicable, or this *Section* have been met.

If the contract sales price will provide net proceeds equal to or greater than the MANP, and all other terms are consistent with the terms identified in the *HFA Short Sale Agreement*, if applicable, or this *Section*, the servicer does not have to request Fannie Mae prior approval. If the offer (after all counteroffers) falls below the predetermined MANP and in the servicer's prudent judgment the offer merits further consideration, the servicer must submit a case in the HSSN for Fannie Mae's review within 10 business days of receipt of the RASS or the *Alternative RASS*. Fannie Mae will provide a response to the servicer within five business days after receipt of the case in HSSN.

Accepted offers must close no later than 60 days after the contract execution or approval by the servicer or Fannie Mae, whichever occurs later. In no event may the servicer require the transaction to close in less than 45 days of the dated sales contract without the consent of the borrower. All closing extensions will require Fannie Mae approval by submitting a non-delegated case through HSSN.

Prior to the conveyance of title to the mortgaged property in a short sale, the servicer must confirm that the closing attorney or agent has received from all subordinate lienholders evidence of lien release and agreement to release the borrower from liability.

Section 610.08  
Deed-in-Lieu Offer  
(08/01/10)

If the deed-in-lieu offer is made at the expiration of the short sale marketing period, the servicer may use the BPO (or appraisal, if required) obtained for the short sale. Otherwise, the servicer must obtain a BPO or appraisal in order to evaluate a deed-in-lieu.

If a borrower is interested in leasing the property, the borrower must first be evaluated for a D4L by the servicer and either approved or rejected before a [HFA DIL Agreement](#) is sent to the borrower. The servicer will prepare and send to the borrower a *HFA DIL Agreement* no later than 14 calendar days from the date of the D4L decision.

The *HAFAs DIL Agreement* must state the date by which the property must be vacated, which must be within 30 calendar days from the date the servicer mailed or delivered the *HAFAs DIL Agreement*, unless the borrower is pre-approved for a D4L.

The servicer (or the servicer's attorney) will prepare and transmit to the borrower a warranty deed (or such other transfer document ordinarily used in the property's jurisdiction) and related deed-in-lieu documents (which may include an estoppel affidavit) in a form compliant with applicable law and sufficient to obtain insurable title. A title insurance policy is required. The deed-in-lieu documents must establish that the transfer of the property is a voluntary and absolute conveyance of title, is not intended as security or to create a trust, and shall not effect a merger of the underlying estate with the lien of the mortgage. The deed-in-lieu must be conditioned upon Fannie Mae's execution of the deed-in-lieu indicating acceptance of the transfer of title. The borrower shall have 14 calendar days from the date the servicer transmits the *HAFAs DIL Agreement* to return a signed *HAFAs DIL Agreement* to the servicer.

Before the servicer may accept the deed-in-lieu, the borrower must sign the deed-in-lieu, release (if applicable), and any other documents related to the deed-in-lieu required by state law or typical in the jurisdiction. In addition, the servicer must obtain a commitment from a title insurer to issue a policy of title insurance insuring that, after acceptance of the deed-in-lieu by Fannie Mae, Fannie Mae will have marketable title to the property. With these conditions met, the servicer may accept the deed-in-lieu by executing the deed-in-lieu on behalf of Fannie Mae.

Prior to acceptance of a deed-in-lieu in connection with the D4L, 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 deed-in-lieu which relate in any way to the mortgage loan or the property.

Section 610.09  
Use of Electronic  
Records (08/01/10)

The servicer and borrower may, subject to applicable law, prepare, sign, and send the [HAFAs Short Sale Agreement](#) or the [HAFAs DIL Agreement](#) through electronic means provided:

- appropriate technology is used to store an authentic record of the executed agreement and the technology otherwise ensures the security, confidentiality, and privacy of the transaction;
- the agreement is enforceable under applicable law;
- the servicer obtains the borrower's consent to use electronic means to enter into the agreement;
- the servicer ensures that the borrower is able to retain a copy of the agreement and provides a copy to the borrower that the borrower may download, store, and print; and
- the borrower, at any time, may elect to enter into the agreement through paper means or to receive a paper copy of the agreement.

Section 610.10  
Temporary Suspension of  
Foreclosure (08/01/10)

This section describes circumstances under which the servicer may suspend foreclosure proceedings.

Section 610.10.01  
Initiation of Foreclosure  
(08/01/10)

Servicers are reminded that, while evaluating a borrower's eligibility for or pursuing a Fannie Mae HAFA short sale or deed-in-lieu, the servicer must still follow Fannie Mae requirements related to the initiation of foreclosure for defaulted mortgage loans. However, provided the servicer has received a fully executed [HAFA Short Sale Agreement](#) and all supporting documentation and mortgage insurer approval, if required, for mortgage loans in Georgia, Missouri, Texas, Virginia and other states in which a foreclosure sale would otherwise be scheduled prior to the end of the marketing period, a servicer must delay the initiation of foreclosure until such time as the sale would be scheduled after the marketing period has expired. For mortgage loans secured by properties in any other state, the servicer must not delay the initiation of foreclosure proceedings unless it receives prior written approval to do so from Fannie Mae and the mortgage insurer, if applicable.

Section 610.10.02  
Conduct of Pending  
Foreclosure (08/01/10)

A servicer must continue to pursue a pending foreclosure while evaluating a borrower's eligibility for a Fannie Mae HAFA short sale or deed-in-lieu, waiting for the timely return of the signed agreement and all supporting documentation, and for the duration of the agreement. The servicer must

advise the borrower that the foreclosure proceedings will continue while the property is listed for sale, but the terms of the [HABA Short Sale Agreement](#) will be honored as long as the property is sold before the *HABA Short Sale Agreement* expiration date. The servicer must suspend any foreclosure sale scheduled:

- during the term of a fully executed *HABA Short Sale Agreement* (provided the borrower is complying with the terms of the agreement),
- pending transfer of property ownership based on an approved sales contract (until the closing date stated in the approved sales contract), and
- pending transfer of property ownership via a deed-in-lieu provided the transfer occurs before the date specified in the [HABA DIL Agreement](#).

If foreclosure proceedings have been initiated on a mortgage loan secured by a property approved for a Fannie Mae HABA short sale, the servicer must attempt to schedule a foreclosure sale after the expiration of the 120-day marketing period whenever feasible.

Without Fannie Mae's prior written consent, a servicer must not consider or solicit a borrower for a Fannie Mae HABA short sale or deed-in-lieu with respect to a mortgage loan if:

- a foreclosure sale is scheduled to be held within 60 days of the borrower's request for a Fannie Mae HABA short sale or deed-in-lieu or a determination that the borrower is ineligible for HAMP;
- a foreclosure could be initiated and reasonably be expected to result in a foreclosure sale being held within 60 days of the borrower's request for a Fannie Mae HABA short sale or deed-in-lieu or a determination that a borrower is ineligible for HAMP; or
- the mortgage loan is secured by a property in Florida on which foreclosure proceedings are pending, judgment has been obtained, or a hearing on summary judgment or trial is scheduled within 60 days.



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Section 610.11  
Payments Pending Sale  
or Deed-in-Lieu  
(08/01/10)

During the term of an executed [HAFAs Short Sale Agreement](#) or [HAFAs DIL Agreement](#) and pending transfer of property ownership based on an approved sales contract per the [RASS](#) or the [Alternative RASS](#) or via a deed-in-lieu, a borrower may be required to make monthly payments. The servicer will identify the amount of the monthly payment, if any, that the borrower is required to pay based on a review of the borrower's financial circumstances. The amount of the monthly payment will be documented in the relevant Agreement. In no event may the amount of the borrower's monthly payment exceed 31% of the borrower's gross monthly income.

For a borrower who enters into a *HAFAs Short Sale Agreement* or *HAFAs DIL Agreement* after foreclosure proceedings have been initiated, the servicer must consult with its attorney to determine whether monthly payments can be accepted without adversely affecting the pending foreclosure action and whether any additional actions must be taken (for example, entering into a stipulation with the borrower) to accept the payments without compromising the pending foreclosure action.

Servicers are reminded that, with respect to any MBS mortgage loan with a pool issue date from June 1, 2007 through December 1, 2008, any period of forbearance must not exceed the maximum six consecutive months of forbearance as permitted under the governing MBS Trust documents.

Section 610.12  
Release of First  
Mortgage Lien (08/01/10)

The servicer must follow applicable local or state laws or regulations regarding the time of release of its first mortgage lien after receipt of sale proceeds from a short sale or delivery of the deed and property in a deed-in-lieu transaction in compliance with the terms of the applicable agreement. If local or state law does not require release within a specified time frame, the servicer must release its first mortgage lien within 30 business days after the completion of the Fannie Mae HAFAs short sale or deed-in-lieu.

Section 610.13  
Mortgage Insurance  
(08/01/10)

Section 610.13.01  
Mortgage Insurer  
Approval (08/01/10)

Fannie Mae is working with mortgage insurers to obtain delegations of authority so that servicers can more efficiently process Fannie Mae HAFAs short sale and deed-in-lieu requests without the need to obtain mortgage insurer approval on individual mortgage loans. A list of the mortgage

insurers from which Fannie Mae has received a delegated authority agreement will be posted on [eFannieMae.com](http://eFannieMae.com).

For mortgage insurers not on this list, servicers must continue to obtain their approval on a case-by-case basis. The servicer must not agree to a short sale unless that mortgage insurer agrees in writing to:

- waive its property acquisition rights before the claim is filed, and
- settle the claim by paying the lesser of the full percentage options under the terms of the master policy or the amount required to make Fannie Mae whole (the sum of the UPB, interest accrued at the note rate from the LPI date, and miscellaneous expenses, less any cash contribution from the borrower or the property purchaser).

Servicers must comply with all obligations related to the submission of mortgage insurance claims. A loan will not qualify for a Fannie Mae HAFA short sale or deed-in-lieu if the mortgage insurer requires a borrower contribution or promissory note as a condition to its approval of the transaction.

Section 610.13.02  
Mortgage Insurance  
Claims (08/01/10)

Servicers are responsible for filing all primary mortgage insurance claims on all conventional first-lien mortgage loans on which Fannie Mae bears the risk of loss and which are insured under a master primary policy issued by a participating mortgage insurer other than Republic Mortgage Insurance Company. The mortgage insurance claim must be filed so that the claim proceeds are sent directly to Fannie Mae. Fannie Mae will file primary mortgage insurance claims on mortgage loans insured by Republic Mortgage Insurance Company.

Once the mortgage insurance claim is filed, the servicer must:

- remove the loan from Fannie Mae's investor reporting system with an Action Code 71 (Liquidated Third Party Sale) in the first LAR that it transmits following the short sale and report the net proceeds from the sale through Fannie Mae's CRS using the 310 Remittance Code;
- provide the mortgage insurer with a copy of the HUD-1 Settlement Statement, a copy of the property valuation, and a copy of the approval letter stating the terms and conditions of any short payoff;

- submit a final *Cash Disbursement Request* ([Form 571](#)) for reimbursement no later than 30 calendar days following the short sale; and
- if the mortgage loan has flood insurance coverage, follow the procedures in *Part II, Chapter 5, Insurance Losses*, for determining whether any insured flood damage has occurred and file any flood insurance claim, as applicable.

Generally, after completion of the tasks outlined in the paragraph above, the servicer is not required to take any further action with respect to the mortgage loan or the mortgaged property unless it is contacted by a Fannie Mae eviction attorney. If the servicer fails to provide requested documentation, it will be required to indemnify Fannie Mae for any losses caused by its inaction. As always, the servicer must provide any additional information requested by the mortgage insurer in order to process the claim.

Section 610.14  
Reporting Requirements  
(08/01/10)

This section describes servicer reporting requirements.

Section 610.14.01  
Reporting to Fannie Mae  
(08/01/10)

The servicer must meet the following delinquency status reporting requirements via HSSN:

- If the borrower makes monthly payments pending the sale or deed-in-lieu under the terms of an agreement, servicers must report Delinquency Status Code 09 (Forbearance) during the term of the executed agreement and pending transfer of property ownership.
- For a short sale, servicers must report Delinquency Status Code 17 (Preforeclosure Sale) with the first delinquency status information it transmits to Fannie Mae after the servicer agrees to a short sale offer.
- For a deed-in-lieu, servicers must report Delinquency Status Code 44 (Deed-in-Lieu) with the first delinquency status information it transmits to Fannie Mae after approval of a deed-in-lieu.

### **Short Sale**

Within 24 hours after the servicer receives the final signed HUD-1 Settlement Statement and the net sales proceeds (but in no event after the date the Action Code 71 is reported to Fannie Mae's investor reporting system), it must report the completion of the short sale by submitting a closed case in HSSN.

In addition, the servicer must forward a copy of the HUD-1 Settlement Statement and a copy of the claim for loss that was filed with the mortgage insurer to the National Property Disposition Center within five business days after the sale. For MBS mortgages accounted for under the regular servicing option (and MBS mortgages serviced under a shared-risk special servicing option, RD mortgages serviced under the regular servicing option, or any mortgages subject to some type of recourse or other credit enhancement arrangement), the servicer must report the payoff as it would report the payoff of any other regular servicing option pool mortgage loans, as the servicer must absorb any losses and expenses related to the short sale.

### **Deed-in-Lieu**

Within 24 hours after a borrower executes the warranty deed, the servicer must submit a closed case in HSSN and an REOgram to notify Fannie Mae of the property acquisition. After the servicer receives the executed deed-in-lieu, it must report the completion of the deed-in-lieu through HSSN by submitting a closed case. The servicer is also required to submit the recorded deed-in-lieu documents to the following address:

Fannie Mae  
National Property Disposition Center (NPDC)  
12th Floor, Attn: Title Dept.  
P.O. Box 650043  
Dallas, TX 75265-0043

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Section 610.14.02  
Investor Reporting and  
Remitting (08/01/10)

The servicer must meet the following investor reporting requirements:

- For a short sale, servicers must report Action Code 71 (Liquidated Third Party Sale) to Fannie Mae's investor reporting system in the first LAR that it transmits following the short sale to remove the mortgage loan from Fannie Mae's active accounting records. The servicer must report the net short sales proceeds and advance the borrower incentive in the amount of \$3,000 to Fannie Mae using the Remittance Code 310 (as described in *Section 610.15.03, Incentive Compensation (08/01/10)*, under Borrower Incentive).
- For a deed-in-lieu, servicers must report Action Code 70 (Liquidation Held for Sale) for an uninsured conventional mortgage loan or Action Code 72 (Liquidation – Pending conveyance) for any other type of mortgage loan to Fannie Mae's investor reporting system to remove the mortgage loan from Fannie Mae's active accounting records.

Additionally, the servicer must submit an REOgram within 24 hours after the date the deed-in-lieu is executed (as outlined in *Part VIII, Section 114.01, Submitting the REOgram (05/01/06)*). REOgrams must also indicate in the comments field that the deed-in-lieu was a D4L, when applicable (as noted in *Section 606.01, D4L Program (11/05/09)*).

Fannie Mae HAFAs short sales or deeds-in-lieu are available for borrowers who are in default and those who are at imminent risk of default based on the HAMP eligibility requirements. As such, servicers are reminded that in accordance with *Section 604.07, Accounting and Reporting (08/11/08)*, the servicer must account for all short sales and report them to Fannie Mae regardless of whether Fannie Mae is made whole or incurs a loss. The servicer must report the short sale:

- in the first delinquency status information it transmits to Fannie Mae after it agrees to the sale if Fannie Mae will **not** incur a loss, or
- in the first delinquency status information it transmits to Fannie Mae after Fannie Mae approves a short sale that **will** result in a loss.

After the servicer receives the final signed HUD-1 Settlement Statement and the net sales proceeds, it must report the completion of the short sale to Fannie Mae through HSSN.

For MBS mortgage loans accounted for under the regular servicing option (and MBS mortgage loans serviced under a shared-risk special servicing option, RD mortgage loans serviced under the regular servicing option, or any mortgage loans subject to some type of recourse or other credit enhancement arrangement), the servicer must report the payoff just as it would report the payoff of any other regular servicing option MBS mortgage loans, since the servicer must absorb any losses and expenses related to the short sale.

For MBS special servicing option pool 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.

Section 610.14.03  
Reporting to Treasury  
(08/01/10)

In addition to reporting to Fannie Mae, if a short sale or deed-in-lieu is executed under the Fannie Mae HAFA program, the servicer will be required to report the HAFA transaction to Treasury. Each servicer must report periodic HAFA activity to Treasury through the servicer web portal accessible on [HMPAdmin.com](http://HMPAdmin.com). A borrower may be accepted into Fannie Mae's HAFA program if a [\*HAFA Short Sale Agreement\*](#) or [\*HAFA DIL Agreement\*](#) is fully executed by the borrower and received by the servicer on or before December 31, 2012.

Treasury's reporting requirements include the following key milestones:

- notification (at the time that a *HAFA Short Sale Agreement* or *HAFA DIL Agreement* is signed), and
- short sale or deed-in-lieu loan set-up (closing of a short sale or transfer of property ownership through a deed-in-lieu), or

- termination (when the *HABA Short Sale Agreement* or *HABA DIL Agreement* expires or when the servicer makes a decision not to pursue a short sale or deed-in-lieu).

Each milestone is a separate data transmission which must be reported no later than the fourth business day of the month following the event. The reporting information required on [HMPAdmin.com](http://HMPAdmin.com) must be provided by the servicer for all HABA transactions, including those that occur prior to August 1, 2010.

Additional reporting information, including the HABA data dictionary and transactional file layouts, are available on the secured site of [HMPAdmin.com](http://HMPAdmin.com).

Section 610.14.04  
Credit Bureau Reporting  
(08/01/10)

As described in *Section 209, Notifying Credit Repositories (11/01/04)*, the servicer must continue to report a “full-file” status report to the four major credit repositories in accordance with the Fair Credit Reporting Act and credit bureau requirements as provided by the CDIA.

“Full-file” reporting means that the servicer must describe the exact status of each mortgage loan it is servicing as of the last business day of each month. The Payment Rating code must be the code that properly identifies whether the account is current or past due within the activity period being reported prior to completion of the short sale or deed-in-lieu transaction.

Because CDIA’s Metro 2 format does not provide an Account Status Code allowable value for a short sale, servicers must identify a short sale by reporting a Special Comment Code “AU” the final month of credit bureau reporting in which the status code 13 is reported. The information below is consistent with current “CDIA Mortgage and Home Equity Reporting Guidelines in Response to Current Financial Conditions.”

Upon closing, servicers must report:

**Short Sales**

- Account Status Code - 13 (Paid or closed/zero balance)
- Payment Rating - 0, 1, 2, 3, 4, 5, or 6

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- Special Comment Code - AU (account paid in full for less than the full balance)
- Current Balance - \$0
- Amount Past Due - \$0
- Date Closed - MMDDYYYY
- Date of Last Payment - MMDDYYYY

**Deed-in-Lieu**

- Account Status Code - 89 (Deed-in-lieu of foreclosure on a defaulted mortgage)
- Payment Rating - 0, 1, 2, 3, 4, 5, or 6
- Current Balance - \$0
- Amount Past Due - \$0
- Date Closed - MMDDYYYY
- Date of Last Payment - MMDDYYYY

**Section 610.15  
Fees and Incentive  
Compensation (08/01/10)****Section 610.15.01  
Allowable Subordinate  
Lien Payments (08/01/10)**

Allowable payments from the sales proceeds to all subordinate mortgage lienholders to facilitate lien releases must not exceed \$6,000 in aggregate. Each lienholder in order of priority may be paid 6% of the UPB of its loan, until the \$6,000 cap is reached.

The servicer must not authorize the settlement agent to allow more than an aggregate of \$6,000 of sale proceeds as payment(s) to subordinate mortgage or lienholder(s) in exchange for a lien release and full release of liability. Payment made from the sales proceeds must be reflected on the HUD-1 Settlement Statement.



Prior to releasing any funds to any subordinate mortgage or lienholder, the servicer through its agent 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. The servicer must require the closing attorney or agent to either confirm that they are in receipt of this commitment from subordinate lienholders on the HUD-1 Settlement Statement 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.

Subordinate mortgage or lienholder(s) may not require contributions from either the real estate agent or borrower as a condition for releasing its lien and releasing the borrower from personal liability.

Section 610.15.02  
Fees and Charges  
(08/01/10)

Servicers must not charge borrowers any fees for participation in a Fannie Mae HAFA short sale or deed-in-lieu. The servicer must pay all out-of-pocket expenses, including but not limited to notary fees, recordation fees, lien release fees, title costs, property valuation fees, credit report fees, or other allowable and documented expenses. A servicer must require borrowers to waive reimbursement of any remaining escrow, buydown funds, or prepaid items and assign any insurance proceeds and/or refunds, if applicable, to be applied to the total payoff amount.

Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses, including the cost of obtaining an appraisal or BPO. Fannie Mae will not reimburse for the credit report fees.

The servicer should request reimbursement for Fannie Mae's share of all allowable expenses, such as property valuation fees, title costs, and other documented expenses related to the short sale or deed-in-lieu for a conventional mortgage in which Fannie Mae bears the risk of loss by submitting a *Cash Disbursement Request* ([Form 571](#)). These costs should be included with all other allowable expenses and not claimed separately. On deed-in-lieu transactions, Fannie Mae will continue to reimburse the servicer for attorneys' fees (up to \$350) and for any of the costs for obtaining a title insurance policy.

For MBS special servicing option pool mortgage loans, the servicer must not request reimbursement for Fannie Mae's share of the amount required

to remove the mortgage (or participation interest in the mortgage) from the pool, as Fannie Mae will automatically reimburse the servicer for this amount after the servicer remits the funds and reports the applicable action code required to remove the mortgage (or participation interest in the mortgage) from the pool. (Servicers should also refer to *Part X, Section 302.02, Scheduled/Scheduled Remittance Types (12/08/08)*.)

Section 610.15.03  
Incentive Compensation  
(08/01/10)

New incentives identified in this *Section* are applicable only for all Fannie Mae HAFA short sales and deeds-in-lieu on Fannie Mae mortgage loans and are effective with cases closed in HSSN after the effective date of this *Section*. All HAFA incentive fees will be paid via Fannie Mae's payment process, in its capacity as Program Administrator for the Treasury Department ("Program Administrator"), after the servicer has reported the HAFA short sale or deed-in-lieu transaction to the Program Administrator. Servicers **must not** include a request for the incentive fee for eligible HAFA loans in the *Cash Disbursement Request* ([Form 571](#)).

**Servicer Incentives**

For all first-lien mortgage loans owned or securitized by Fannie Mae in which Fannie Mae bears the risk of loss, servicers will be entitled to an incentive payment following successful completion of a Fannie Mae HAFA short sale or deed-in-lieu. No borrower or servicer incentives will be paid, however, if the net proceeds from a property sale exceed the total amount of the indebtedness on the first mortgage lien. The amount of any contribution paid by a mortgage insurer or other provider of a credit enhancement shall not be considered in determining whether the mortgage was paid in full or the servicer is eligible for incentive compensation.

- Upon verification of a successful Fannie Mae HAFA short sale, Fannie Mae will pay the servicer a \$2,200 incentive fee.
- Following the successful completion of a Fannie Mae HAFA deed-in-lieu, Fannie Mae will pay the servicer a \$1,500 incentive fee.

A servicer or borrower incentive will not be paid for short sales or deeds-in-lieu on Fannie Mae second-lien mortgage loans.

Servicer incentive payments for mortgage loans eligible under HAFA will be paid via Fannie Mae's payment process, in its capacity as Program

Administrator for the Treasury, after the servicer has reported the HAFA short sale or deed-in-lieu transaction to the Program Administrator.

### **Borrower Incentive**

The borrower will be entitled to an incentive payment of \$3,000 to assist with relocation expenses following successful completion of a HAFA short sale or a deed-in-lieu. For a HAFA short sale, the servicer must instruct the settlement agent to pay the borrower the relocation incentive at closing from the sales proceeds at the same time that all other payments are disbursed, including the payoff to the servicer. The borrower incentive payment amount must be reflected on the HUD-1 Settlement Statement as \$3,000 in line 403 with a note to indicate “HAFA Relocation Assistance from [Servicer Name]” and the settlement agent must adjust line 504 (Payoff of first mortgage loan) to reflect a reduction for the same amount. In all cases, the cash to the borrower in line 603 (Cash to Seller) must be exactly \$3,000.

The servicer must include the \$3,000 borrower incentive in the Total Settlement Charges for the case submitted in HSSN. The servicer must advance the amount of the borrower incentive to Fannie Mae by including it with the payoff remittance. The servicer will be reimbursed for the full amount of the borrower incentive via Fannie Mae’s payment process, in its capacity as Program Administrator for the Department of the Treasury (“Program Administrator”), after the servicer has reported the HAFA short sale transaction to the Program Administrator.

For a deed-in-lieu (except in cases of a D4L), if the borrower has not vacated the property before closing or if no formal closing of a deed-in-lieu transaction occurs, the servicer must mail a check for the incentive payment to the borrower within 5 business days of the last to occur of:

- The borrower delivers to the servicer the executed warranty deed.
- The borrower vacates the property, leaving it in acceptable condition.
- The borrower delivers keys to the property to the servicer or its agent.

The servicer will be reimbursed by Fannie Mae for the borrower incentive payment. Borrower incentive payments for deed-in-lieu must be identified

in cases entered in HSSN as a “Relocation Assistance Expense” or “Cash for Keys Amount” (for non-delegated cases).

Borrower incentive payments for mortgage loans eligible under HAFA will be paid via Fannie Mae’s payment process, in its capacity as Program Administrator, after the servicer has reported the HAFA deed-in-lieu transaction to the Program Administrator.

In the case of a D4L, the borrower incentive will not be paid by the servicer but instead will be paid by Fannie Mae or its agent pursuant to the terms indicated in the lease agreement.

A servicer may not require the borrower to apply the borrower incentive payment to obtain the release of other liens or non-real estate title impediments.

Section 610.16  
Record Retention  
(08/01/10)

Servicers are reminded that, unless otherwise directed by Fannie Mae, the servicer must retain all documentation for mortgage loans owned or securitized by Fannie Mae in accordance with the *Servicing Guide*, or for such longer period as may be required pursuant to applicable law. For HAFA loans, a servicer must retain all documents and information received during the process of determining borrower eligibility and qualification for HAFA for a period of seven years from the date of document collection or, in accordance with the *Servicing Guide*, 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.

Documentation includes detailed records of borrower solicitation or borrower-initiated inquiries related to a short sale or deed-in-lieu, copies or originals of any and all sales contracts, offer response letters, the [HAFA Short Sale Agreement](#), listing agreement(s), the [HAFA DIL Agreement](#), mortgage insurance claim submission(s) and payment(s), real estate purchase and sale contracts and any addenda, BPOs or appraisals, the closing or settlement statement, closing instructions to the closing agent, a copy of the net proceeds check, and any other related documents that are necessary or customary to effect a short sale or transfer by deed-in-lieu.

Records must also be retained to document reasons for a borrower’s default on an agreement or expiration of an agreement without a

successfully completed short sale or acceptance of a deed-in-lieu. Servicers must also retain all sales contracts, if any, that did not result in a short sale.

**Section 611  
Mandatory Pre-Filing  
Mediation Policy for  
Mortgage Loans in  
Florida (01/01/11)**

Fannie Mae has implemented a mandatory pre-file mediation policy for delinquent mortgage loans secured by properties in Florida and requires that servicers assign the cases to an attorney from Fannie Mae's RAN for mediation prior to the initiation of foreclosure proceedings.

The pre-file mediation policy applies to all properties located in the State of Florida secured by mortgage loans held in Fannie Mae's portfolio and mortgage loans that are part of an MBS pool that have the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property; these properties must be serviced in accordance with the policies and procedures described in this *Guide*, plus the [Process Requirements](#) documents. The pre-file mediation policy does not apply to mortgage loans in regular servicing option MBS pools, mortgage loans held in Fannie Mae's portfolio and serviced under the regular servicing option, or shared-risk MBS pools for which the servicer is responsible for marketing the acquired properties. Additional exceptions include mortgage loans guaranteed or insured by a government agency (i.e., FHA, HUD, VA, and RD), or mortgage loans subject to bankruptcy proceedings or relief under the Servicemembers Civil Relief Act.

As a result of policies and procedures in this *Section*, the servicer shall have additional responsibilities as well as different collection and outreach timeline requirements for mortgaged properties in the State of Florida than for mortgage loans secured by properties in other states.

Fannie Mae reserves the right to assess the servicer compensatory fees calculated based on the length of the delay and any additional costs that are directly attributable to failure by the servicer to perform the obligations required and the Process Requirements, as updated from time to time. Fannie Mae will notify servicers whenever the Process Requirements are updated so that the servicer can ensure that it is using the current process.

**Section 611.01  
Process Requirements  
(01/01/11)**

The [Process Requirements](#) provide instructions for adoption and implementation of the new pre-file mediation requirement and describe how a mortgage loan advances through the various stages of the process.

These documents explain the roles and responsibilities of involved parties with a focus on the servicer but also include the borrower, the Fannie Mae–retained attorney, the financial counselor, and the Mediation Program Manager (Mediation PM). Finally, they outline various time frames and due dates required from the servicer and other parties.

Although the Process Requirements describe some of the responsibilities of others who are integral to the process, such as Mediation PMs and Fannie Mae–retained attorneys, these descriptions are included only for informational purposes for the servicer, and should not be viewed by the servicer as preconditions or requirements to fulfilling its own responsibilities. However, servicers still remain responsible for monitoring and managing the performance of the RAN attorney selected to handle the mediation and foreclosure to ensure compliance with Fannie Mae’s requirements.

Section 611.02  
Referral (01/01/11)

The servicer will have accelerated outreach and referral timeline requirements for delinquent mortgage loans in the State of Florida as follows:

- send the first foreclosure prevention solicitation letter on the 31st day of delinquency;
- send the breach letter as early as the 35th day of delinquency but no later than the 45th day of delinquency. (The servicer is encouraged to send the breach letter as early in this time frame as deemed prudent.); and
- refer the mortgage loan to a retained attorney 30 to 34 days after a breach letter is sent in accordance with *Part VIII, Section 102, Initiation of Foreclosure Proceedings (10/01/08)*. The retained attorney will then make a determination whether the mortgage loan is eligible for mediation.

If, prior to the required referral to the retained attorney as provided above, a workout has been completed or a viable and mutually agreed upon workout is in progress (i.e., the borrower has been approved for the workout and the servicer is in the process of processing or awaiting signed documents), the servicer must diligently pursue the workout. In those circumstances, the mortgage loan should not be referred to the attorney for

pre-file mediation unless and until the workout is unsuccessful or no longer viable. An agreement to list the property for short sale is not a workout in this context and the mortgage loan should be referred to a Fannie Mae–retained attorney for determination of whether it is eligible for pre-file mediation.

Servicers are reminded that *Part VIII, Section 105.01, Servicer-Initiated Temporary Suspension of Proceedings (04/21/09)*, requires the servicer of a delinquent mortgage loan to continue working with the borrower in order to bring the mortgage loan current, develop a workout plan, or finalize some other foreclosure prevention alternative after a mortgage loan is referred to foreclosure—unless the servicer has determined that a workout plan or foreclosure prevention alternative is not feasible. If a workout has been completed or a viable and mutually agreed upon workout is in progress (i.e., the borrower has been approved for the workout and the servicer is in the process of processing or awaiting signed documents), the servicer must diligently pursue the workout.

All referral packages to the RAN must contain all data, information, and documentation provided to the attorney for first legal action, including:

- an investor code identifying the mortgage loan as a Fannie Mae loan and the applicable Fannie Mae loan number,
- the servicer’s name and servicer loan number,
- all borrower and co-borrower phone numbers and addresses, and
- data indicating the property was known to be vacant at the time of referral.

**Note:** Though the data indicated above has not always been provided in the past, servicers must provide this data for all referrals in Florida.

Section 611.03  
Preparation of  
Retention/Liquidation  
Offers (01/01/11)

The following process outlines the procedure for the preparation of retention and liquidation offers.

- The servicer receives a copy of the borrower’s financial worksheet, hardship affidavit, and verifiable income documentation from the financial counselor who is working with the Mediation PM and the borrower.

- The servicer reviews the financial documentation to confirm completeness within three business days of receipt. In the event of incomplete financial documents, the servicer must advise the Mediation PM within that timeframe that the documentation is unclear or incomplete.
- The servicer must evaluate the borrower for foreclosure alternatives in accordance with the established Fannie Mae workout hierarchy. The servicer shall consider the full array of products allowed by Fannie Mae and, if the borrower qualifies for a retention option, shall offer the borrower the most appropriate retention option based on a review of the borrower's financial documents and circumstances.
- The servicer is responsible for the simultaneous preparation of the legal documentation for a retention offer (as set forth above) along with conditional deed-in-lieu and conditional short sale offers, to be offered to the borrower in the mediation session in the order set forth in the [Process Requirements](#).

**Note:** The attorneys will be present at the mediation and will execute the documents on behalf of the servicer. The servicer must ensure that the attorneys have the necessary Powers of Attorney to execute the offer documentation on behalf of the servicer.

- The servicer shall use the retention agreement form prescribed by Fannie Mae, if applicable, or its own form of agreement, both of which must contain the provision set forth below. The servicer shall use the sample [Conditional DIL Agreement](#) and [Conditional Short Sale Agreement](#), which contain the critical provisions for pre-file mediation. The servicer must use these template agreements or its own deed-in-lieu and short sale agreements provided that those agreements are substantially similar to the template agreements and contain the following provision (or words to the same effect):

“The borrower(s) recognize that they are in default of their Loan and that this [**Modification/Deed-in-Lieu/Short Sale, etc.**] Agreement resulted from a mediation that was conducted substantially in accordance with the applicable Florida circuit court order regarding residential foreclosure mediation. Borrower(s) hereby waive any additional or further mediation in connection



with the existing default under the Loan or in connection with any default that may occur under this [**Modification/Deed-in-Lieu/Short Sale, etc.**] Agreement.”

- The goal of the mediation session is for the servicer to be prepared with all offers available pursuant to this *Section* and have the borrower agree to one of the offers in the mediation session and sign the legal documentation evidencing the offer in the mediation session.
- The servicer is encouraged to use the full offering of foreclosure prevention alternatives prior to the mortgage loan being referred to the attorney for pre-file mediation. Servicers are reminded that if the borrower has satisfied the conditions established in the *Conditional DIL Agreement*, and the servicer then determines that the borrower is interested in remaining in the property, then the borrower could be considered for the D4L program in accordance with the terms of *Section 606.01, D4L Program (11/05/09)*.

Section 611.04  
Mediation (01/01/11)

The servicer’s representatives must:

- attend mediation sessions by phone (or in person, at the servicer’s sole cost and expense);
- continuously be on the phone or in attendance, if in person, throughout the entire mediation session (If multiple servicer representatives are needed to have the full spectrum of authority to offer and settle retention and liquidation options, then all such representatives must attend the mediation session by phone or in person.);
- have full and complete authority to execute the workout with the borrower;
- present the retention option (if available) first and discuss fully with the borrower (The servicer must not present the conditional deed-in-lieu or conditional short sale option until it is clear that the borrower is not amenable to a retention option.); and
- be fully prepared to explain the offers or why the borrower is not qualified to receive certain offers and must maintain that position and explain why that is the case.

If the servicer fails to appear for the mediation, the cost of the mediation session that the servicer failed to attend will be borne by the servicer and the servicer shall not seek reimbursement for the invoiced cost of the mediation session. The servicer may be charged additional compensatory fees for the delay caused by the servicer's failure to attend the mediation session.

Following a successful mediation session in which the borrower accepts an offer and executes the applicable documents (i.e., the retention or liquidation documents), the attorney shall send, via a reliable overnight delivery service, the executed documents to the servicer.

The servicer must:

- execute the workout on its servicing system within one business day of receiving the executed documents from the attorney, and
- report the appropriate Delinquency Status Code when required. The attorney present at the mediation session will execute the documents on behalf of the servicer and/or Fannie Mae.

For non-delegated cases, if the mediation session does not result in a retention offer that was entered into HSSN, the servicer must cancel the case in HSSN and document the justification, as applicable, immediately following the mediation session.

- The *Borrower's Request for Lender Documentation* is provided to the borrower by the Mediation PM. Pursuant to the various circuit court orders, the borrower can request the following documentation:
  - Documentary evidence that the lender is the owner and holder in due course of the note and mortgage sued upon.
  - A history showing the application of all payments by the borrower during the life of the mortgage loan (i.e., a loan payment history for the borrower).
  - A statement of the servicer's position on the current NPV of the mortgage loan. If the servicer can calculate NPV in accordance with HAMP methodology for calculating NPV (regardless of

whether a borrower is eligible for HAMP), the servicer shall provide the NPV from this calculation to the borrower. If the servicer cannot calculate NPV in accordance with HAMP methodology (regardless of whether a borrower is eligible for HAMP), the servicer must explain in writing that the NPV calculation requires the borrower's financial documents and cannot be calculated until the financials have been received. Upon receipt of the borrower's financial documents, the servicer shall calculate the NPV and send the calculation to the borrower and attorney.

- The most current appraisal of the property available to the servicer. (**Note:** If an appraisal was required pursuant to the underwriting performed at origination and no other appraisal was subsequently obtained, the servicer shall provide the origination appraisal. The servicer does not need to obtain a new appraisal. If no appraisal was ever obtained, the servicer must explain in writing to the borrower that an appraisal was never obtained.)

The servicer must provide all documents requested by the borrower pursuant to the *Borrower's Request for Lender Documentation* to both the borrower and the Fannie Mae-retained attorney within 15 calendar days of receipt of the request from the Mediation PM.

Servicers must refer to the [Process Requirements](#) for a full description of servicer responsibilities.

Section 611.05  
Mortgage Insurance  
(01/01/11)

Servicers are reminded that pursuant to *Part II, Section 102, Conventional Mortgage Insurance (01/31/03)*, the servicer must keep in effect any borrower-purchased mortgage insurance that existed when Fannie Mae acquired the mortgage, unless the conditions Fannie Mae imposes for replacing or canceling the coverage are met. In addition, the servicer must keep in effect any lender-purchased mortgage insurance that existed when Fannie Mae acquired the mortgage until the mortgage is paid in full.

In the context of the Florida pre-file mediation process, this may require actions such as notice to and/or consent of the mortgage insurer if mediation will preclude adherence to the time frames for various actions (e.g., the initiation of foreclosure proceedings) under the mortgage insurance policy, or otherwise render the servicer unable to meet policy requirements. If the mediation process results in a workout (e.g.,

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modification, short sale, or deed-in-lieu), notice to and/or consent of the mortgage insurer must be obtained as required by the mortgage insurance policy.

**Section 611.06  
Delinquency Status  
Reporting (01/01/11)**

As a result of the policies and procedures described in this *Section*, a referral to the attorney to take legal action to initiate the foreclosure proceedings will be considered to have begun on the date the servicer refers the matter to the attorney for evaluation of mediation eligibility, even if the referral results in mediation and not the first legal action required to foreclose. Upon referral to an attorney of any mortgage loan secured by property located in Florida, the servicer must report to Fannie Mae a Delinquency Status Code 43 – Foreclosure, into HSSN for each month that the mortgage loan is with the attorney.

**Section 611.07  
Fees and Administrative  
Costs: Form 571 Process  
(01/01/11)**

The servicer shall not require the borrower to pay the pre-file mediation costs out of pocket. Mediation fees shall be paid in accordance with this section. The servicer shall add the amount paid for all mediation fees charged for a particular borrower's loan to the outstanding indebtedness of that mortgage loan.

**Mediation PM Invoices**

The Mediation PM will invoice the attorneys for the cost of pre-file mediation, charging the appropriate fees based on the amount of work actually performed. Accordingly, if the borrower attends mediation (regardless of the outcome), the fee that can be charged by the Mediation PM for mediation services cannot exceed \$750. The attorneys must promptly pay each invoice to the Mediation PM and in no event later than 30 days after receipt of the invoice. The attorneys will submit these invoices to the servicer for reimbursement.

**Section 611.08  
Attorney Fees for  
Mediation (01/01/11)**

The following is the allowable fee schedule for the attorneys' participation in pre-file mediation:

Step 1. \$100 for screening of the mortgage loan and referring the mortgage loan to the Mediation PM. This fee does not apply to mortgage loans that do not go to the Mediation PM (i.e., mortgage loans that go directly to foreclosure).

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Step 2. \$200 for all work subsequent to screening and prior to attending a mediation session.

Step 3. \$250 for attending one mediation session. If the attorney fails to attend the mediation session, the attorney shall not charge for attendance at the session.

Step 4. \$200 in total for attending both a second and third mediation session, where necessary.

The maximum amount that Fannie Mae will allow for attorney fees for work related to the mediation with one mediation session is \$550.

All attorneys must submit their statements for all attorney fees and expenses directly to the servicer. The servicer is responsible for reviewing, approving, and paying all attorney and Mediation PM fees and expenses in compliance with Fannie Mae guidelines. The servicer must promptly pay the attorney within 45 days after receipt of the invoice. The servicer may request reimbursement from Fannie Mae when the aggregate of expenses for an individual case have surpassed \$500 or when its advance has been outstanding for at least six months.

Servicers are reminded that they must submit their final *Cash Disbursement Request* ([Form 571](#)) for reimbursement within 30 days after:

- a foreclosure prevention alternative is completed;
- 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.

Section 611.09  
Borrower Incentive  
(01/01/11)

The borrower will be entitled to an incentive payment of \$3,000 to assist with relocation expenses following successful completion of a short sale or a deed-in-lieu as a result of the Florida pre-file mediation process.

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**Note:** For a borrower approved for the D4L program, the incentive must not be paid by the servicer but will be paid by Fannie Mae at the expiration of the lease period.

- For a short sale, the servicer must instruct the settlement agent to pay the borrower the relocation incentive at closing from the sales proceeds at the same time that all other payments are disbursed, including the payoff to the servicer. The borrower incentive payment amount must be reflected on the HUD-1 Settlement Statement as \$3,000 in line 403 with a note to indicate “Relocation Assistance from [Servicer Name]” and the settlement agent must adjust line 504 (Payoff of first mortgage loan) to reflect a reduction for the same amount. In all cases, the cash to the borrower in line 603 (Cash to Seller) must be exactly \$3,000.
- For deeds-in-lieu, the servicer will be reimbursed by Fannie Mae for the borrower incentive payment by entering a case into HSSN with the borrower incentive identified as a “Relocation Assistance Expense” or “Cash for Keys Amount” (for non-delegated cases).

**Section 611.10  
Allowable Subordinate  
Lien Payments (01/01/11)**

Allowable payments from the sales proceeds to all subordinate mortgage lienholders to facilitate lien releases for short sales and deeds-in-lieu must not exceed \$6,000 in aggregate. Each lienholder in order of priority may be paid no more than 6% of the UPB of its loan, until the aggregate \$6,000 cap is reached.

The servicer must not authorize the settlement agent to allow more than an aggregate of \$6,000 of sale proceeds as payment(s) to subordinate mortgage or lienholder(s) in exchange for a lien release and full release of liability. Payment made from the sales proceeds must be reflected on the HUD-1 Settlement Statement.

## **Chapter 7. Delinquency Status Reporting (03/01/08)**

To improve Fannie Mae’s management of foreclosure prevention activity, Fannie Mae requires a servicer to advise Fannie Mae of the action taken to resolve a delinquency, the effective date of the action taken, and the reason for the default. Each month, a servicer must electronically transmit a file extract of its delinquent mortgage loans to Fannie Mae, which Fannie Mae will then use to update its delinquency tracking system. This system maintains delinquency status information for all portfolio mortgage loans (regardless of the remittance type or Fannie Mae’s ownership interest) and for all MBS mortgage loans (regardless of the servicing option under which they are serviced).

Fannie Mae requires a servicer of portfolio mortgage loans and special servicing option MBS mortgage loans (including those for which the servicer and Fannie Mae share in the foreclosure risk) to decide on a course of action for resolving a delinquency or liquidating a mortgage loan as soon as possible. Following the 30th day of delinquency, the servicer must advise Fannie Mae of the action it plans to take (or has taken) by reporting the appropriate delinquency status code, the default effective date of the delinquency status being reported, and the “reason for delinquency” code as part of its next scheduled delinquency status report. Servicers are also required to report delinquency status information on any regular servicing option MBS mortgage loan that was one or more full payments (30 or more days) past due as of the last day of the preceding month until the mortgage loan becomes current.

### **Section 701 Delinquency Status and “Reason for Delinquency” Codes (06/01/07)**

A servicer must report the specific delinquency status code that best describes the latest action it has taken to cure a delinquency or, if that failed, to liquidate the mortgage loan. Delinquency status codes are available to describe a full range of actions—such as the granting of relief provisions or some other form of foreclosure prevention; referring a mortgage loan for foreclosure, deed-in-lieu, or assignment; filing for bankruptcy; charging off a debt; etc. Only one delinquency status code can be reported for an individual mortgage loan in any given month, although over the course of a delinquency various different codes could apply. 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 Portfolio Manager, Servicing Consultant, or the

National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 with advance notice about a given action or requesting Fannie Mae's prior approval before it takes a particular action. Descriptions of the available delinquency status codes appear in *Delinquency Status Codes* on [eFannieMae.com](http://eFannieMae.com).

A servicer must report the specific "reason for delinquency" code that best describes the primary reason for a delinquency. "Reason for delinquency" codes are available for a full range of conditions that might cause a borrower to become delinquent—such as death or illness, marital difficulties, curtailment of income, excessive obligations, unemployment, inability to sell or rent a property, etc. 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 mortgage payments. Descriptions of the available "reason for delinquency" codes appear in *Reason for Delinquency* Codes on [eFannieMae.com](http://eFannieMae.com).

Servicers must also report to Fannie Mae the effective date of the delinquency status that is being reported to Fannie Mae (i.e., 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.). Beginning with the September 2007 reporting month, a servicer is required to report the effective date on all new delinquency status codes reported to Fannie Mae.

**Section 702  
Reporting Monthly  
Mortgage Loan Status  
(05/01/09)**

By the second business day of each month, a servicer must advise Fannie Mae about the delinquency status of the mortgage loans it is servicing for Fannie Mae by electronically transmitting a delinquency status code, the effective date of the delinquency status being reported, the completion date of the delinquency status being reported, if applicable, and a "reason for delinquency" code (collectively referred to as delinquency status information) for any mortgage loan that falls into the following categories:

- any mortgage loan that was 30 or more days delinquent as of the last day of the preceding month; and
- any mortgage loan for which an action was taken to cure the delinquency (such as granting forbearance, agreeing to a loan modification, filing for bankruptcy, etc.) during the preceding month,



even though the mortgage loan was fewer than three months delinquent.

When none of the delinquency status information has changed for a previously reported mortgage loan, the servicer must, nevertheless, re-transmit the same delinquency status information that it previously reported for the mortgage loan. On the other hand, if any of the delinquency status information has changed for a previously reported mortgage loan, the servicer must report the delinquency status information. (The servicer will need to report the delinquency status code, the effective date of the delinquency status being reported, the completion date of the delinquency status being reported, if applicable, and the “reason for delinquency” code even if only one of them has changed.)

When a delinquency status code no longer applies for a mortgage loan because the mortgage loan has been reinstated (and the servicer reported a current LPI date through Fannie Mae’s investor reporting system) or because the mortgage loan has been liquidated (and the servicer reported a liquidation action code through Fannie Mae’s investor reporting system), the servicer will no longer need to report delinquency status information to Fannie Mae since Fannie Mae will no longer be using the delinquency tracking system to monitor the status of the mortgage loan.

On approximately the third calendar day of each month thereafter, Fannie Mae will provide a delinquency status and reason for delinquency status codes exception report. This report will provide information on invalid and illogical reporting of delinquency status and reason codes. There will be a summary report and a detail report. The summary report will summarize the types of exceptions for a particular servicer. The detail report will provide the loan level details for the various exceptions. A servicer must use the report to provide the correct delinquency status and reason codes. Corrections must be made through HSSN and must be made by the 10th calendar day of the month in which the exception report was issued. Fannie Mae will provide an updated final exception report on the 11th calendar day of the month as well as a summary of what was reported during the month. The servicer must use these reports to facilitate reconciliation to the information on its systems.

Fannie Mae’s foreclosure prevention reporting system, HSSN, must be utilized to submit delinquency and foreclosure prevention information to

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**Delinquency  
Management and Default  
Prevention**

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**Delinquency Status Reporting**

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Section 703

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Fannie Mae. Accurate and timely data entry of delinquency status codes in HSSN enables both servicers and Fannie Mae to communicate more effectively on all mortgage loans that are in various stages of foreclosure prevention. HSSN provides reporting that allows servicers to view delinquency exceptions, statistics, and loan-level case status.

**Section 703  
Transmitting Status  
Information (07/01/09)**

A servicer may select any of three different methods for transmitting delinquency status information to Fannie Mae—transmission through HSSN; transmission through CPU-to-CPU, using Advantis; or transmission through CPU-to-CPU, using a service bureau. The record layout for the servicer's delinquent loan file extract will be the same regardless of the transmission method it chooses.

The following record layout must be used for the servicer's delinquent loan file extract:

Field	Position	Length	Comments
Servicer Number	1-9	9	Numeric
Filler	10	1	Blanks or zeroes
Fannie Mae Loan Number	11-20	10	Numeric
Filler	21	1	Blanks or zeroes
Delinquency Status Code	22-23	2	Alphanumeric
Filler	24	1	Blanks or zeroes
Delinquency Reason Code	25-27	3	Alphanumeric
Filler	28	1	Blanks or zeroes
Default Effective Date	29-36	8	Date in YYYYMMDD
Filler	37	1	Blanks or zeroes
Default Completion Date	38-45	8	Date in YYYYMMDD
Filler	46-80	35	Blanks or zeroes

## **Part VIII: Foreclosures, Conveyances and Claims, and Acquired Properties**

### **(04/28/10)**

This *Part*—Foreclosures, Conveyances and Claims, and Acquired Properties—describes Fannie Mae’s requirements and procedures for conducting foreclosure proceedings, conveying properties to the insurer or guarantor, filing claims under the insurance or guaranty contract, and disposing of acquired properties that Fannie Mae holds for sale. It does not address any special requirements that may have been imposed under the terms of a negotiated purchase transaction. The servicer is responsible for taking all steps necessary to ensure that the terms of a negotiated contract are followed.

Insofar as possible, Fannie Mae sets out those instances when its requirements vary for a particular lien type, amortization method, remittance type, servicing option, mortgage loan type, or ownership interest. Absent any restrictive language, the servicer may assume that the same procedure or requirement applies for all mortgage loans Fannie Mae has purchased or securitized as standard transactions. However, most of the material in this *Part* will **not** apply to MBS mortgage loans serviced under the regular servicing option. Much of the information represents generally accepted procedures for conducting the foreclosure and claim processes, so the servicer of a regular servicing option MBS mortgage loan may find it of some benefit. From time to time, Fannie Mae may address the need for a regular servicing option MBS mortgage loan to be handled in a manner that differs from the one that applies to most mortgage loans serviced for Fannie Mae. Under no circumstances should a servicer of a regular servicing option MBS mortgage loan interpret the content of this *Part* 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).

This *Part* consists of three chapters:

- *Chapter 1*—Foreclosures—discusses procedures for initiating foreclosure proceedings, processing subsequent reinstatements, referring a case to an attorney (or trustee), notifying interested parties

about the foreclosure or property acquisition, and performing various procedural requirements related to the foreclosure.

- *Chapter 2—Conveyances and Claims*—describes the procedures for conveying a foreclosed property, filing claims with the mortgage insurer or guarantor, and notifying Fannie Mae about the actions taken.
- *Chapter 3—Acquired Properties*—discusses the servicer’s responsibilities for submitting underwriting or servicing review files for a mortgage loan secured by a property that will soon be acquired, explains the specific responsibilities of the servicer and any broker, agent, or property management company Fannie Mae designates to perform property management functions for an acquired property, provides procedures for obtaining reimbursement of expenses incurred in fulfilling those responsibilities, and discusses the need for filing IRS information returns related to expenses paid for acquired properties.

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## **Chapter 1. Foreclosures (10/31/08)**

Whenever a borrower shows a disregard for the mortgage loan obligation or is unable to make the mortgage payments, the servicer of a whole mortgage loan or 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 taking prudent action. The servicer must make every reasonable effort to contact the borrower and to cure the delinquency through Fannie Mae's special relief provisions or foreclosure prevention alternatives before referring a mortgage loan to the foreclosure attorney (or trustee). The servicer also must have inspected the property and analyzed the individual circumstances of the delinquency.

The servicer must be particularly diligent in investigating mortgage loans originated as investor 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 (including detailed property inspections, conducting a skip trace, etc.). The servicer is responsible for promptly notifying its attorney (or trustee) of any change in mortgage loan status (this includes occupancy status, rental income and amounts, tenant and/or lease information, etc.).

A servicer must process foreclosures, conveyances, and claims in accordance with the provisions of the mortgage loan; state law; the requirements of FHA, HUD, VA, RD, or the mortgage insurer; and any special requirements that Fannie Mae may have. To ensure that this is done, the servicer must have appropriate policies, procedures, and controls to ensure compliance with Fannie Mae's requirements. Although Fannie Mae does not specify a particular monitoring system, it may review the servicer's system for adequacy on occasion. The servicer is fully responsible for any losses that occur because it mishandled the case.

If a servicer services first-lien mortgage loans owned or securitized by Fannie Mae and also services subordinate-lien mortgage loans for itself or other investors, and that servicer must initiate a foreclosure action against the property for a mortgage loan owned or securitized by Fannie Mae, the servicer must follow Fannie Mae's foreclosure guidelines and process the foreclosure in a timely manner. A servicer should not consider the status of or impact on any subordinate liens that the servicer is servicing for itself or other investors when evaluating or proceeding with a foreclosure action. However, a servicer which also services a subordinate-lien mortgage loan may 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.

Unless subject to the Fannie Mae automatic reclassification process, Fannie Mae requires that servicers foreclose while mortgage loans are in the MBS trust. In addition, a servicer must purchase a regular servicing option MBS mortgage loan from the MBS pool within 60 days after the foreclosure sale date.

Additionally, 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.

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, the following address must be used: Fannie Mae, P.O. Box 650043, Dallas, TX 75265-0043. If a street address is required, the following address must be used: Fannie Mae, 14221 Dallas Parkway, Suite 1000, Dallas, TX 75254.

**Section 101  
Routine vs. Nonroutine  
Litigation (10/01/08)**

A servicer generally should not initiate routine legal proceedings in Fannie Mae's name, but in instances where it is appropriate or necessary to do so, Fannie Mae must be described in the legal proceedings as "Federal National Mortgage Association (Fannie Mae), a corporation organized and existing under the laws of the United States." The servicer, its legal counsel, and foreclosure attorneys (or trustees) should not forward papers, pleadings, and notices related to routine uncontested legal actions to Fannie Mae. If any routine legal proceeding becomes contested (e.g., the defendant in any proceeding files any appeal, motion for rehearing, or

similar procedure) or a servicer receives notice of a nonroutine action that involves a Fannie Mae–owned or Fannie Mae–securitized mortgage loan or that will otherwise affect Fannie Mae’s interests—regardless of whether Fannie Mae is also named as a party to the action—the servicer must immediately contact Fannie Mae’s Regional Counsel via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com).

A servicer may not initiate or defend nonroutine litigation on Fannie Mae’s behalf unless it obtains prior written consent from its Fannie Mae Regional Counsel via email to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com). This will enable Fannie Mae to concur in the necessity for the action, the selection of legal counsel, development of legal strategy, and approval of legal fees and costs. One example of a nonroutine legal action is a case in which the servicer’s legal counsel wants to pursue a judicial foreclosure in order to clear technical defects even though the security property is located in a state in which the usual method of foreclosure is by non-judicial foreclosure. In this situation, the servicer should not commence a judicial foreclosure for a conventional mortgage loan without first clearing the action with Fannie Mae. Nonroutine litigation also includes any claim, counterclaim, or procedure that: challenges methods in which Fannie Mae does business; involves Fannie Mae’s status as a federal instrumentality; requires interpretation of Fannie Mae’s Charter, such as removal to federal court based on Fannie Mae’s Charter; claims punitive damages from Fannie Mae; or asserts liability against Fannie Mae based on actions of its servicers. Additional examples include “show cause orders” or proceedings and motions for sanctions.

**Section 102  
Initiation of Foreclosure  
Proceedings (10/01/08)**

Generally, foreclosure proceedings for a first mortgage loan must begin 30 to 34 days after an acceleration or breach letter is sent upon the completion of the pre-referral account review and after any applicable notice and waiting period under state law is met.

Servicers must expedite foreclosure proceedings to the greatest extent allowable under applicable law (without exploring all foreclosure prevention options) if the borrower is not eligible for relief from foreclosure under the Servicemembers Civil Relief Act (or any state law that similarly restricts the right to foreclose) and the property has been abandoned or vacated by the borrower and it is apparent that the borrower does not intend to make the mortgage payments. In addition, servicers must expedite foreclosure proceedings for any mortgage loan if:

- the borrower was advised in writing of available foreclosure prevention options and his or her written response indicated a lack of interest in the mortgage loan obligation (or gave permission for the commencement of foreclosure proceedings, if the borrower was subject to the provisions of the Servicemembers Civil Relief Act or any state law that similarly restricts the right to foreclose); or
- income from rental of the property is not being applied to the mortgage payments and arrangements cannot be made to apply it, and it has been established that the borrower is not eligible for relief under the Servicemembers Civil Relief Act or any state law that similarly restricts the right to foreclose. (also see *Part III, Chapter 1, Exhibit 1: Military Indulgence*)

Fannie Mae requires a servicer to contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 before it initiates foreclosure proceedings for an eMortgage.

Foreclosure proceedings for a second mortgage loan can begin when at least two full monthly installments are past due. As long as the servicer has complied with the requirements of the Servicemembers Civil Relief Act and any state law that restricts the right to foreclose, it can start foreclosure proceedings for a second mortgage loan immediately if the first mortgage loan is in default and the second mortgage instrument includes a provision that the second mortgage loan will be considered in default, regardless of the status of its payments, if the first mortgage loan is in default.

In most cases, a servicer will have a copy of the mortgage note that it can use to begin the foreclosure process. However, some jurisdictions require that the servicer produce the original note before or shortly after initiating foreclosure proceedings. If Fannie Mae possesses the note through its designated document custodian, to obtain the note and any other custody documents that are needed, the servicer must submit a request to the designated document custodian's electronic release system. If Fannie Mae possesses the note through a third-party document custodian designated by the servicer that has custody of those documents for Fannie Mae, to obtain the note and any other custody documents that are needed, the servicer must submit a *Request for Release/Return of Documents* ([Form 2009](#)) to



the document custodian. In either case, the servicer must specify whether the original note is required or whether the request is for a copy. (Refer to *Part I, Chapter 2, Section 202.07, Note Holder Status for Legal Proceedings Conducted in the Servicer's Name (05/23/08)*.)

Section 102.01  
Effect of Servicemembers  
Civil Relief Act (10/31/08)

The Housing and Economic Recovery Act of 2008 made both temporary and permanent changes to the Servicemembers Civil Relief Act. The law requires a stay of foreclosure or other legal proceedings on eligible mortgage loans for a period of nine months following the termination of a servicemember's active duty. These changes are effective through December 31, 2010, unless extended by Congress. After December 31, 2010, servicers are required to limit the granting of the stay of foreclosure or other legal proceedings to a maximum of 90 days after termination of active duty, unless otherwise required by governing law at the time.

In order to facilitate servicers' taking appropriate action in cases where military indulgence is warranted or required, *Part III, Chapter 1, Exhibit 1: Military Indulgence* provides a consolidated presentation of all the relevant material to Fannie Mae's specific procedures for providing relief to U.S. servicemembers under the Servicemembers Civil Relief Act, and Fannie Mae's additional forbearance policies.

Section 102.02  
Effect of Environmental  
Hazards (01/31/03)

A servicer should not begin foreclosure proceedings for any mortgage loan if it becomes aware of environmental hazards that affect the security property. Instead, it must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435. When a 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 or pending lead-based paint litigation related to a mortgage loan which it intends to refer for foreclosure, the servicer must provide the following information to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 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:

- the current value of the property (based on, at least, an exterior inspection of the property and, if the borrower is cooperative, on an interior inspection);

- the amount of Fannie Mae's outstanding debt;
- the number of children under eight years of age that are residing in the property (if any), giving the exact age of each such child and, in the event the property is a two- to four-unit property, the unit the child is occupying; and
- a copy of any documentation it has obtained related to lead-based paint law violations (including actual lead-based paint citations) or threatened or pending lead-based paint litigation.

If Fannie Mae is named as a party in any environmental litigation, the litigation must be considered nonroutine and the servicer must immediately notify its Fannie Mae Regional Counsel via e-mail to [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com).

When 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 just before it decides to refer a mortgage loan for foreclosure. If, during this search, the servicer discovers that a lead-based paint citation has been issued, it must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 immediately so Fannie Mae can evaluate the details of the specific case and advise the servicer of the action it wants taken (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 that no additional citations were issued against the property subsequent to its earlier search. For the most part, Fannie Mae expects that a lead-based paint citation search will involve simply making a telephone call to the appropriate oversight authority (such as the local housing court, department of health, etc.). However, in instances in which 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 lead-based paint citation search is warranted, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435.

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Section 102

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Section 102.03  
FHA Mortgage Loans  
(10/01/09)

The servicer of an FHA-insured mortgage loan must send the borrower information about the various alternatives HUD offers for resolving mortgage loan delinquencies before it can pursue foreclosure proceedings. Generally, Fannie Mae requires the servicer to send a breach letter (or any similar notice required by HUD) as soon as a borrower misses his or her third monthly payment (unless HUD requires that it be sent at a different date).

If the borrower does not pursue HUD's foreclosure prevention alternatives (or is not eligible for them), the servicer must refer the mortgage loan to an attorney to begin foreclosure proceedings no later than 45 days after it notifies the borrower of his or her breach of the terms of the mortgage loan. The servicer *must* begin foreclosure proceedings for an FHA mortgage loan within six months from the date of the mortgage loan default, or within such other time period approved or authorized by HUD. For HUD's purposes, foreclosure proceedings begin when the first public action required by law takes place—such as the filing of a complaint or petition, recording a notice of default, or publishing a notice of sale.

Section 102.04  
Conventional and Rural  
Development First  
Mortgage Loans  
(10/01/09)

No servicer is permitted to ignore a defaulted mortgage loan, but must promptly implement reasonable remedial actions, based on the facts and circumstances of the particular mortgage loan and borrower. If, based on the guidelines outlined in *Part VII* and prudent servicing practices, the servicer determines that foreclosure prevention would not cure the default or result in a successful workout, then the servicer must proceed with Fannie Mae's standard foreclosure procedure guidelines.

Foreclosure must generally begin 30 to 34 days after an acceleration or breach letter is sent upon the completion of the pre-referral account review and after any applicable notice and waiting period under state law is met, but postponements may be permitted to facilitate foreclosure prevention alternatives. Fannie Mae requires that servicers have appropriate foreclosure referral policies that allow for foreclosure referrals to begin when all reasonable foreclosure prevention options have been exhausted and as soon as applicable law permits. Foreclosure is considered to have begun on the date when the servicer refers the matter to the foreclosure attorney or trustee. The servicer must maintain a record of the date of the referral in the mortgage loan file.

The servicer of a conventional or RD-guaranteed first mortgage loan must send the borrower a breach letter at least 30 days before foreclosure proceedings begin. When the servicer believes that the property has been abandoned or that the borrower has displayed an obvious lack of concern for the mortgage obligation, this letter must be sent at the earliest possible date.

The breach letter must clearly explain:

- the exact nature of the breach (for example, a default in payments);
- what action is required to cure the breach;
- the date by which the breach must be cured;
- the approximate date that foreclosure action will begin if the borrower does not cure the breach by the specified date; and
- the possibility that a deficiency judgment might be pursued if the foreclosure proceedings are undertaken (if applicable).

The servicer must send the breach letter at the 45th day of delinquency, but may postpone sending it until the 62nd day of delinquency to facilitate foreclosure prevention alternatives. The servicer must generally refer the mortgage loan to an attorney (or trustee) to begin foreclosure proceedings no later than 34 days after the date it issued the breach letter or in accordance with applicable law.

Section 102.05  
Conventional Second  
Mortgage Loans  
(01/31/03)

The servicer of a conventional second mortgage loan must send the borrower a breach letter at least 30 days before foreclosure proceedings begin. When the servicer believes that the property has been abandoned or that the borrower has displayed an obvious lack of concern for the mortgage loan obligation, this letter must be sent at the earliest possible date. To avoid unnecessary delays in the foreclosure process, the servicer must send the letter after the borrower misses his or her second monthly payment (but no later than the 45th day of delinquency).

The breach letter must clearly explain:

- the exact nature of the breach (for example, a default in payments);

- what action is required to cure the breach;
- the date by which the breach must be cured;
- the approximate date that foreclosure action will begin if the borrower does not cure the breach by the specified date; and
- the possibility that a deficiency judgment might be pursued if the foreclosure proceedings are undertaken (if applicable).

After the servicer sends the required breach letter, its next action depends on whether the second mortgage loan has conventional mortgage insurance and, if it does, on whether both the first and second mortgage loans are in default and whether Fannie Mae has an interest in only one mortgage loan or both the first and second mortgage loans. The terms of the recourse (or credit enhancement) arrangement under which Fannie Mae purchased or securitized an uninsured second mortgage loan will determine whether foreclosure proceedings will be initiated and the type(s) of actions the servicer must take. Before making a decision to foreclose any conventional second mortgage loan (or to advance the funds to bring the first mortgage loan current), the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to obtain instructions. Instructions for proceeding generally can be obtained by submitting a case through the HomeSaver Solutions Network (HSSN).

Once a final determination has been made to initiate foreclosure for a second mortgage loan, the servicer must refer the case to an attorney to begin foreclosure proceedings no later than 30 days after the date it issued the breach letter.

**A. Insured second mortgage loan in default.** If an insured second mortgage loan is in default, but the first mortgage loan is current, the servicer may be instructed to foreclose on the second mortgage loan, acquire title to the property subject to the first 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 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 mortgage loan servicer must notify Fannie Mae's National Property Disposition Center. At that time, the servicer also must advise Fannie Mae of the effect of any due-on-sale clause in the first mortgage loan.

- If Fannie Mae does not have an ownership interest in the first mortgage loan, the servicer will need to advance funds to make sure the first mortgage loan stays current while the property is on the market.
- If Fannie Mae has an ownership interest in the first mortgage loan, the servicer should not advance funds to keep it current since eventually Fannie Mae will need to foreclose it to acquire clear title to the property.

**B. Insured first and second mortgage loans in default.** If both the first and second mortgage loans are in default, the second mortgage loan servicer must assume control over the foreclosure process to ensure that Fannie Mae's interest in the second 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 would be to instruct the first mortgage loan servicer to bid both the first and second mortgage debts at the foreclosure sale and to acquire title on Fannie Mae's behalf. If Fannie Mae pursues this alternative, the first 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.

While foreclosure proceedings are under way, the mortgage insurer may instruct the servicer of the second mortgage loan to reinstate or to satisfy the first mortgage loan.

- If the mortgage insurer instructs the servicer to reinstate the first 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 mortgage loan, proceed with the foreclosure of the second mortgage loan, and acquire title to the property subject to the first mortgage loan.

- If the mortgage insurer instructs the servicer to satisfy the mortgage loan, the servicer must do so since that will enable it to tender to the mortgage insurer title free and clear of all liens following the second mortgage loan foreclosure. Funds advanced to satisfy the first mortgage loan cannot be included in the claim unless the mortgage insurer authorizes the advance; therefore, the servicer should not pay off the first mortgage loan if the mortgage insurer does not notify it to do so (unless Fannie Mae has issued specific instructions to that effect).

In any instance in which the mortgage insurer does not take title to the property, Fannie Mae will be responsible for selling the property. (To assist Fannie Mae in marketing the property, the servicer of the second mortgage loan must advise Fannie Mae about the effect of any due-on-sale clause in the first mortgage loan.) If the first mortgage loan was not satisfied and Fannie Mae does not have an ownership interest in it, the servicer must advance funds to keep the first mortgage loan current until Fannie Mae is able to dispose of the property. If Fannie Mae has an ownership interest in the first mortgage loan, the servicer should not advance funds to keep it current since eventually Fannie Mae will need to foreclose it to acquire title to the property.

Section 102.06  
VA Mortgage Loans  
(10/01/09)

The servicer of a VA-guaranteed mortgage loan must send all notices that VA requires to notify the borrower of his or her breach of the terms of the mortgage loan. Generally, Fannie Mae requires the servicer to send an official breach notice as soon as the borrower misses his or her third monthly payment (unless VA requires that it be sent at a different date).

**Section 103  
Reinstatements  
(01/31/03)**

The servicer can accept a full reinstatement of a first mortgage loan even if foreclosure proceedings have already begun. This also is true for a second mortgage loan as long as the first mortgage loan is not delinquent or, if it is, as long as the first mortgage loan servicer has agreed to arrangements for curing the delinquency. A full reinstatement includes payment of

- 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 (or HUD or VA, as applicable), if permitted under the terms of the security instrument; and
- all legal fees (including attorney or trustee 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.

The servicer also may accept a borrower's proposal for a partial reinstatement if it believes that the borrower is acting in good faith and that the mortgage loan can be brought current within a reasonable time. The servicer must require that the proposed plan be submitted in writing so that a more formal repayment plan can be drawn up. The repayment plan must clearly state the action that the servicer may take to resume the foreclosure action if the borrower does not meet the agreed-upon terms.

Generally, when the funds collected from the borrower for an actual/actual remittance type mortgage loan equal one or more full installments of P&I, they must be applied to the mortgage loan balance and remitted to Fannie Mae in accordance with the servicer's usual remittance schedule. Any funds representing partial payments must then be retained as unapplied funds until enough additional funds are received to make up a full payment. However, if the application of partial payments would jeopardize Fannie Mae's legal position in the event that foreclosure proceedings needed to be resumed, the servicer must hold all funds received for a partial reinstatement and should not apply them until it receives the full amount required to reinstate the mortgage loan.

Funds collected for the reinstatement of a mortgage loan that is a scheduled/actual or scheduled/scheduled remittance type also should be applied to reduce the mortgage loan balance (or held as unapplied until they equal a full payment); however, they do not have to be remitted to Fannie Mae if the servicer made delinquency advances to ensure that Fannie Mae received its full monthly remittance during the delinquency period. In such cases, the funds should be used to reimburse the servicer for its delinquency advances, although any funds in excess of the



servicer's delinquency advances must be remitted in accordance with the servicer's usual remittance schedule.

In any instance in which 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. Funds to repay Fannie Mae's reimbursement of the servicer's advances must be remitted to Fannie Mae separately from any remittances for P&I collections. (also see *Part IX, Section 203, Remitting Special Remittances (01/31/03)*)

If the designated document custodian returned the original mortgage note to the servicer for use in the foreclosure action, the servicer must return it by submitting a *Request for Release/Return of Documents* ([Form 2009](#)) to the designated document custodian when the mortgage loan is either partially or fully reinstated. The servicer of an MBS mortgage loan must return any custody documents in its possession to Fannie Mae's designated document custodian or the third-party document custodian for the pool.

The servicer does not have to report a full reinstatement of the delinquency to Fannie Mae. However, if the delinquency is partially resolved by some type of repayment plan, the servicer must update Fannie Mae's records by providing the appropriate codes in the next delinquency status information it transmits to Fannie Mae.

**Section 104  
Referral to Foreclosure  
Attorney/Trustee  
(08/05/09)**

The process for selecting foreclosure attorneys differs depending upon whether the property is located in a jurisdiction in which Fannie Mae has retained attorneys or is filed in a jurisdiction in which Fannie Mae relies upon the servicer to select and retain qualified and experienced attorneys of its choice to handle foreclosures.

In all cases, servicers must advise the attorney or trustee to whom the referral is made that Fannie Mae owns or securitizes the mortgage loan being referred.

In all cases, following the foreclosure referral, the servicer will continue to be responsible for pursuing foreclosure prevention efforts; providing bidding instructions; keeping the attorney apprised about the status of any

workout proposals, bankruptcy filings, or other events that affect the foreclosure process; providing any additional documentation, information, or signatures to the attorney as needed; advancing funds to pay attorney fees and costs; filing applicable IRS forms related to paying attorney (or trustee) fees; monitoring timeline performance; and fulfilling all of its other servicing obligations.

In order to limit risks arising from the concentration of the legal work relating to Fannie Mae's delinquent mortgage loans with a single law firm in a jurisdiction, Fannie Mae urges servicers to diversify their referrals of Fannie Mae matters among two or more law firms in each jurisdiction. Fannie Mae will monitor the concentration of its legal work and reserves the right to suspend the referral of new cases to attorneys (or to reassign previously referred cases) in order to regulate concentration, capacity, performance, or for other reasons.

The servicer must obtain Fannie Mae's prior written approval for the transfer of any files from one law firm or trustee to another. Fannie Mae reserves the right to assess compensatory fees for delays caused by unauthorized file transfers and to deny reimbursement of fees and expenses with respect to mortgage loans that are the subject of unauthorized file transfers. Requests for authority to transfer files must be sent via e-mail to [retained\\_attorney@fanniemae.com](mailto:retained_attorney@fanniemae.com).

Section 104.01  
Fannie Mae–Retained  
Attorneys (10/01/08)

If the security property is located in a jurisdiction in which Fannie Mae has retained attorneys, a servicer must, with the exception of the two scenarios identified below, use one of the firms on the [Retained Attorney List](#) for the foreclosure of (or bankruptcy cases involving) conventional or government mortgage loans held in Fannie Mae's portfolio, that are part of an MBS pool that has the special servicing option, or that are part of a shared-risk MBS pool for which Fannie Mae markets the acquired property.

The two exceptions are:

- Special guidelines apply for foreclosures in the states of Arizona, California, and Washington. (Refer to *Section 104.02, Special Rules for Arizona, California, and Washington Foreclosures (10/01/08)*.)

- If a foreclosure referral was made prior to the time Fannie Mae identified retained attorneys for a jurisdiction, the referral may remain with the original attorney to whom it was referred, and the attorney may handle any subsequent bankruptcy case that is filed before completion of the foreclosure or reinstatement of the mortgage loan if the servicer concludes that the attorney has the necessary qualifications.

For a current listing of the jurisdictions, and the names, addresses, and telephone numbers for the Fannie Mae–retained attorneys, refer to the Retained Attorney List. For jurisdictions that are identified on the Retained Attorney List, servicers are required to direct all new Fannie Mae foreclosure and bankruptcy referrals to a retained attorney on or after the posted effective date. When Fannie Mae has retained more than one attorney for a jurisdiction, the servicer may use any or all of the retained attorneys to handle its referrals in that jurisdiction.

The servicer is responsible for monitoring all aspects of the performance of any Fannie Mae–retained attorney to whom it makes a referral, including foreclosure prevention activities, cure rates, and timeline performance. However, the servicer will not be required to reimburse Fannie Mae for any losses incurred because the retained attorney failed to properly meet his or her responsibilities, nor will the servicer be subject to the imposition of compensatory fees related to deficiencies in the performance of the retained attorney—as long as the losses or deficiencies are unrelated to any failure by the servicer to provide required or requested documents, information, or signatures to the attorney.

A servicer also may choose a Fannie Mae–retained attorney to handle foreclosure proceedings for any mortgage loans in regular servicing option MBS pools, held in Fannie Mae’s portfolio and serviced under the regular servicing option, or shared-risk MBS pools for which the servicer is responsible for marketing the acquired property. In such instances, the attorney is considered servicer-retained and the servicer (not Fannie Mae) will be responsible for the terms of the relationship with the attorney just as it is for relationships it has with other attorneys it retains on its own behalf. The servicer will be fully responsible for any losses resulting from deficiencies in the attorney’s performance.

The servicer must provide appropriate documentation and mortgage loan status data for each case it refers to a Fannie Mae–retained foreclosure attorney. The servicer must submit a complete referral package to the selected attorney and work with the selected attorney to determine the documents needed in that particular jurisdiction and whether the documents may be photocopies of the originals. *Exhibit 1: Mortgage Loan Status Data for Foreclosure Proceedings* itemizes the mortgage loan status data that the servicer must provide. The servicer and the attorney it selects must interact throughout the foreclosure proceedings to ensure that the foreclosure is completed consistent with Fannie Mae’s guidelines. *Exhibit 2: Expected Servicer/Attorney (or Trustee) Interaction* includes a list of key instances of required servicer-attorney/trustee interactions (although it is not all-inclusive).

Each retained attorney will execute an engagement letter with Fannie Mae which will, among other things:

- document the existence of an attorney-client relationship with Fannie Mae;
- acknowledge Fannie Mae’s right to communicate directly with the attorneys and monitor and/or audit the attorneys’ handling of its cases;
- specify the attorney’s fees, impose limits on costs, and prohibit the payment of outsourcing or referral fees; and
- require attorneys to directly notify Fannie Mae of nonroutine litigation and certain other matters.

In most cases, the retained attorney will also represent the servicer (and may have signed a separate engagement letter with the servicer). Fannie Mae’s engagement letter with the attorney will provide that in the event a conflict of interest arises during the course of representing both the servicer and Fannie Mae, the attorney must notify both the servicer and Fannie Mae of the conflict, and Fannie Mae and the servicer will work together to resolve the conflict.

Fannie Mae may deny reimbursement of fees and out-of-pocket expenses for referrals to non-retained attorneys in jurisdictions covered by the attorney network. In addition, Fannie Mae may impose compensatory fees

or sanctions for referrals to non-retained attorneys in jurisdictions covered by the attorney network. Fannie Mae will require the servicer to reimburse Fannie Mae for any losses that may occur because a non-retained attorney failed to meet his or her responsibilities diligently. If a servicer believes special circumstances, such as pending or threatened litigation, warrant the referral of a foreclosure matter to an attorney outside the network, the servicer must contact the Fannie Mae legal department at [nonroutine\\_litigation@fanniemae.com](mailto:nonroutine_litigation@fanniemae.com) to seek prior written approval for a non-network referral.

Section 104.02  
Special Rules for  
Arizona, California, and  
Washington Foreclosures  
(10/01/08)

For non-judicial foreclosures in Arizona, California, and Washington, servicers may continue to employ trustees of their choice. To facilitate continuity in the transition of files from foreclosure through REO closing, when a referral is made to a trustee in one of these three states, the servicer must require that the trustee obtain evidence of title for the foreclosure from a title company that appears on the Approved Title Company List for Foreclosure Evidence of Title posted on [eFannieMae.com](http://eFannieMae.com). The title company chosen will subsequently represent Fannie Mae's interests as seller in connection with the REO closing. All legal matters in Arizona, California, and Washington, including *judicial* foreclosure proceedings, bankruptcy cases, and litigation, must be referred to attorneys on the Retained Attorney List.

Section 104.03  
Servicer-Retained  
Attorneys/Trustees and  
Special Rules for Nevada  
(10/01/08)

For jurisdictions that are not included on the Retained Attorney List, Fannie Mae will continue to rely upon servicers to select and retain qualified attorneys (or trustees) of their choice to handle Fannie Mae foreclosure and bankruptcy matters in accordance with Fannie Mae's standard guidelines.

When the servicer retains its own attorney (or trustee) to handle foreclosure proceedings, Fannie Mae requires the servicer to retain competent, diligent, local legal counsel (or trustees) who are highly experienced in conducting foreclosures. Foreclosure services must be performed by qualified and experienced attorneys (or trustees) in accordance with applicable law and professional standards of conduct.

The servicer is responsible for monitoring all aspects of the performance of any foreclosure attorney (or trustee) retained, providing its attorney (or trustee) with the necessary documentation and mortgage loan status data for each mortgage loan it refers to foreclosure (*Exhibit 1: Mortgage Loan*

*Status Data for Foreclosure Proceedings* details the mortgage loan status data the servicer must provide). The servicer must advise the attorney (or trustee) it selects that Fannie Mae has purchased or securitized the mortgage loan being referred and that Fannie Mae requires the attorney (or trustee) to agree to perform services within Fannie Mae's guidelines and for the standard fees and costs that Fannie Mae has published (Fannie Mae will not reimburse the servicer for any fees and costs that exceed those listed in *Allowable Attorney and Trustee Foreclosure Fees* on [eFannieMae.com](http://eFannieMae.com) unless it has approved excess fees in accordance with its procedures). The attorney (or trustee) must acknowledge that any legal files it develops belong to Fannie Mae and agree that he or she will not, at any time, assert any lien rights against those files. The attorney (or trustee) also must agree that all documents, papers, and funds held in connection with a legal action must be returned to Fannie Mae promptly if his or her services are terminated. Fannie Mae requires the servicer to reimburse Fannie Mae for any losses that may occur because its retained attorney failed to meet his or her responsibilities diligently.

The servicer must make sure that any attorney (or trustee) it retains has no financial or other relationship with any party involved in the foreclosure or sale of the property. The servicer must inquire whether its attorney (or trustee) has any interest in any Affiliated Business Entity that provides services in connection with any foreclosure, bankruptcy, or eviction proceeding if the fees or costs of such services are reimbursable by Fannie Mae under this *Guide*. An Affiliated Business Entity includes any entity in which any principal of the firm or any employee or family member (including in-laws) of any principal or employee of the firm has a direct or indirect decision-making, ownership, or financial interest. The servicer must require its attorney (or trustee) to promptly disclose any such relationship or interest, and agree that any fees or expenses for such services do not exceed the customary and reasonable fees for comparable services in their jurisdiction. The servicer is responsible for monitoring the fees or expenses charged by any Affiliated Business Entity and Fannie Mae will require the servicer to reimburse Fannie Mae for any unreasonable or excessive fees or costs.

The servicer and its attorney (or trustee) must interact throughout the foreclosure proceedings to ensure the foreclosure is completed in a timely manner. *Exhibit 1: Mortgage Loan Status Data for Foreclosure*

*Proceedings* itemizes the mortgage loan status data that the servicer must provide. *Exhibit 2: Expected Servicer/Attorney (or Trustee) Interaction* includes a list of key instances of required servicer–attorney/trustee interactions (although this list is not all-inclusive).

Although Fannie Mae has not yet identified retained attorneys for Nevada, servicers that refer non-judicial foreclosures to trustees in Nevada must require that the trustee obtain evidence of title for the foreclosure from a title company that appears on the *Approved Title Company List for Foreclosure Evidence of Title* posted on [eFannieMae.com](http://eFannieMae.com). The title company chosen will subsequently represent Fannie Mae’s interests as seller in connection with the REO closing. Until Fannie Mae identifies retained attorneys for Nevada, Fannie Mae will continue to rely upon servicers to select and retain qualified attorneys of their choice to handle Fannie Mae foreclosure and bankruptcy matters in Nevada in accordance with Fannie Mae’s requirements.

Section 104.04  
Attorney (or Trustee)  
Fees (10/01/09)

The same attorney (or trustee) fees will apply for all foreclosure or deed-in-lieu legal work—regardless of whether the work is performed by a servicer-retained attorney (or trustee) or one of the Fannie Mae–retained attorneys. The servicer is responsible for paying all attorney (or trustee) fees and expenses for both servicer-retained attorneys (or trustees) and Fannie Mae–retained attorneys. The maximum attorney’s (or trustee’s) fees that Fannie Mae allows for legal work related to foreclosures of whole mortgage loans, participation pool mortgage loans, and MBS mortgage loans serviced under the special servicing option appear in *Allowable Attorney and Trustee Foreclosure Fees* on [eFannieMae.com](http://eFannieMae.com).

All attorneys (or trustees) must submit their statements for all fees and expenses directly to the servicer. Before requesting that Fannie Mae reimburse the servicer for fees paid to an attorney, the servicer must review and approve the attorneys’ fees and costs to ensure that they are in compliance with Fannie Mae’s guidelines. The services must be performed in accordance with applicable law and professional standards of conduct. The servicer may charge the borrower only those foreclosure fees and costs that are permitted under the terms of the note, security instrument, and applicable law and that are prorated to reasonably relate to the amount of work actually performed. Fannie Mae will reimburse the servicer for fees for legal and trustee services that it cannot recover from

the borrower only to the extent that the fees are reasonable, necessary, and actually rendered to protect Fannie Mae's interests.

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. These steps include:

- 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;
- 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. obtaining judicial confirmation of foreclosure sale, where required by local law; and
- K. preparing all legal papers necessary to convey title to Fannie Mae or a successful third-party bidder.

As with judicial foreclosures, the maximum allowable foreclosure fee for non-judicial foreclosures is intended to cover all services that are typically required to be performed by foreclosure trustee or 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 law. These steps include:

- 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. preparing and filing a report of sale with the local court or recorder's office, where required by local law; and
- J. 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 maximum allowable attorney (or trustee) fee for non-judicial foreclosure proceedings does not include the costs involved in such a proceeding, such as title charges, filing fees, recordation fees, process server expenses, and publication costs, as applicable.

Fannie Mae will reimburse the servicer for reasonable attorneys' fees necessary to resolve issues caused by unexpected events, unless they are

due to (1) a breach or alleged breach of selling warranties or representations or origination or selling activities; (2) the lender's failure or alleged failure to satisfy its duties and responsibilities as a servicer; or (3) actual or alleged error or lack of diligence on the part of a servicer-retained attorney or trustee. 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 an attorney (or trustee) selected and retained by the servicer;
- probate court practice required due to the death of the borrower or co-borrower;
- intervention by other claimants, including taxing authorities or homeowners' or condo associations; and
- conducting a closing to complete a sale to a third-party bidder.

Fannie Mae-retained attorneys are required to have appropriate processes in place to obtain all needed excess fee approvals. For foreclosure referrals sent to servicer-retained attorneys or trustees, the servicer must ensure the attorney or trustee can comply with Fannie Mae's excess fee process. If necessary, servicer-retained attorneys or trustees can request excess fee training by contacting Fannie Mae's National Servicing Organization by e-mail message (to [excess\\_fee\\_request@fanniemae.com](mailto:excess_fee_request@fanniemae.com)).

If additional legal (or trustee) services are required to protect Fannie Mae's interest and these legal (or trustee) 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,

Fannie Mae requires the servicer to pay counsel or the trustee a reasonable fee for their services. Some of these events may include, but are not limited to:

- 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 lien holders 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 a servicer for legal fees and expenses related to actions that are essentially servicing functions or for expenses that are properly allocated to the attorney's (or trustee's) overhead expenses (since such expenses are taken into consideration when Fannie Mae establishes its fee schedule). Expenses that generally are considered to be overhead costs include travel time and expenses, document preparation charges, secretarial and word-processing "time" charges, fees for notary services, postage, 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. Fannie Mae will reimburse the servicer for the payment it made to the trustee to cover actual legally mandated postage costs (first class, certified, or registered mail) for any mailings of legal notices required in connection with the foreclosure, but not for other mailings (such as charges for overnight delivery or mailing preparation services).

**Prorated attorney (or trustee) fees.** Although Fannie Mae has established maximum allowable foreclosure fees, it will only reimburse a servicer for attorney (or trustee) fees that have been prorated to reasonably relate to the amount of legal work actually performed by the attorney (or trustee). Should a foreclosure be stopped before its completion (because of a reinstatement, bankruptcy filing, or workout agreement), the fee that the attorney (or trustee) charges in connection with the foreclosure proceedings must be prorated to the amount of work actually performed before the foreclosure action was stopped, and consistent with Fannie Mae's standard reimbursable fee (or any additional fee Fannie Mae authorized). Before requesting Fannie Mae to reimburse it for fees paid to

an attorney (or trustee), a servicer must review and approve the fees and costs to ensure that they are in compliance with Fannie Mae's guidelines.

When the foreclosure is stopped because the mortgage loan is reinstated or a workout agreement is executed, the attorney (or trustee) fee related to the foreclosure proceedings must bear a proportional relationship to the fee that would have been charged had the foreclosure proceedings continued to their completion. The servicer and its attorney (or trustee) may charge the borrower only those foreclosure fees and costs that are permitted under the terms of the note, security instrument, and applicable law. The servicer must include the applicable attorney (or trustee) fee as part of the amount required to reinstate the mortgage loan. All out-of-pocket costs that the attorney (or trustee) incurred prior to the cessation of foreclosure proceedings also 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 fees, service of process costs, and publication costs. (Note: A California trustee must not include in the reinstatement amount "early" publication costs that cannot be charged to the borrower because they are not "legally incurred" under California law.) 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 attorney (or trustee) for the fees and costs even though the 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 and were actually rendered, and the fees and costs are reasonable and necessary and comply with Fannie Mae's guidelines.

When the foreclosure is stopped because the borrower files for bankruptcy, the attorney (or trustee) fee charged for the initial foreclosure proceedings must relate only to the work the attorney (or trustee)

completed prior to the bankruptcy filing and must bear a proportional relationship to the fee that would have been charged had the foreclosure proceedings continued to their completion. Then, if the foreclosure proceedings are subsequently recommenced, the fee paid to the attorney (or trustee) for the subsequent foreclosure proceedings will vary depending on whether the earlier proceedings can be resumed or must be started over. If the earlier proceedings can be resumed, the fee for the completion of the foreclosure must relate to the amount of work the attorney (or trustee) actually performs after the resumption of the proceedings. If the proceedings have to be started over, the attorney (or trustee) will be entitled to the full amount of Fannie Mae's standard fee once the foreclosure is completed.

It is not necessary for prorated attorney's (or trustee's) 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.

When preparing a *Cash Disbursement Request* ([Form 571](#)) to request reimbursement for attorney (or trustee) fees and costs, the servicer must include any information that Fannie Mae needs to verify the accuracy of the requested amount—such as a description of the work that was performed; a copy of Fannie Mae's written approval of the additional attorney fees; and an explanation of how a prorated fee was derived. The servicer must make sure that it distinguishes between a prorated attorney (or trustee) fee and the attorney's (or trustee's) out-of-pocket costs since combining the two may make it appear that the attorney (or trustee) charged more than Fannie Mae's maximum allowable attorney (or trustee) fee, and can result in either disallowance of the fee or a delay in the reimbursement. To avoid these problems, a servicer must make sure that the attorney's (or trustee's) prorated fees and out-of-pocket costs are itemized separately, the prorated fees are consistent with the status of the case (or any additional fees Fannie Mae authorized), and the out-of-pocket costs or expenses appear reasonable, necessary, and consistent with the status of the case. The servicer must submit its Form 571 to Fannie Mae

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**Foreclosures,  
Conveyances and  
Claims, and Acquired  
Properties**

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**Foreclosures**

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**Section 104**

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**June 10, 2011**

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using either the Asset Management Network's Cash Disbursement Request application or an Advantis CPU-to-CPU transmission.

**Section 104.05  
Prohibition Against  
Servicer-Specified  
Vendors for Fannie Mae  
Referrals (09/01/10)**

The servicer may not directly or indirectly require or encourage attorneys or trustees 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. Attorneys and trustees must be allowed to select vendors of their choice based on their 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. Fannie Mae requires servicers, attorneys, and trustees to use the most cost-efficient and effective vendors to assist in processing Fannie Mae foreclosures and bankruptcy cases without regard to arrangements that could provide a financial benefit directly or indirectly to servicers.

If an attorney or trustee wishes to use a vendor that is either 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, the attorney or trustee must obtain Fannie Mae's prior written approval. Requests for approval must be directed to [retained\\_attorney@fanniemae.com](mailto:retained_attorney@fanniemae.com).

**Section 104.06  
Outsourcing Fees,  
Referral Fees, Packaging  
Fees or Similar Fees  
(09/01/10)**

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. Moreover, the amount of any fee charged to any attorney (or trustee) for technology usage or electronic invoice submission must be reasonable in relation to the benefit received by the attorney (or trustee). 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 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 attorney or trustee performance, or providing administrative support services); and
- any affiliate of the servicer, outsourcing company, or third-party vendor

from directly or indirectly charging any amounts to or receiving any payments or any benefits from attorneys or trustees 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.

Fannie Mae expressly permits:

- servicers to refer Fannie Mae mortgage loans to affiliated foreclosure trustees (in Arizona, California, Washington, and in jurisdictions not covered by the Retained Attorney Network where the use of trustees to conduct foreclosures is not prohibited by law) and those trustees to be paid the allowable fees and reimbursed expenses in accordance with Fannie Mae's guidelines;
- outsourcing companies or third-party vendors utilized by the servicer to assist in servicing defaulted mortgage loans to be paid fees by attorneys or trustees for actual and necessary technology usage and electronic invoice submission as described elsewhere in this *Section*; and
- the benefit that servicers may receive from attorneys and trustees having access to and utilizing data obtained from the servicer's systems through "direct sourcing" arrangements.

Any other charges, payments, or benefits from attorneys or trustees 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. Further, if the servicer utilizes an outsourcing company or other third-party vendor to assist it in servicing defaulted mortgage loans,

the servicer must diligently monitor and manage its outsourcing company or vendor to ensure all Fannie Mae servicing guidelines are fully met in a timely and cost-effective manner.

Section 104.07  
Technology Fees and  
Electronic Invoicing  
(09/01/10)

Technology fees may not exceed \$25 per loan for the life of a default (including all portions of the foreclosure and bankruptcy process) that any attorney or trustee handling a Fannie Mae mortgage loan may pay for technology charges. The electronic invoice fee may not exceed \$10.00 for the life of the loan, regardless of the number of reinstatements, foreclosure referrals, bankruptcy filings, or invoices submitted. The maximum 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). These fees are not to be charged as a cost to the borrower and will not be reimbursed by Fannie Mae.

Any amounts charged by third-party vendors for technology charges or electronic invoice submission in excess of these limitations are the responsibility of the servicer and will not be reimbursed by Fannie Mae.

Section 104.08  
Allowable Time Frames  
for Completing  
Foreclosure (05/24/10)

To ensure that the foreclosure is handled in a timely and professional manner, the servicer is responsible for monitoring the attorney (or trustee). Fannie Mae has established time frames within which it expects routine foreclosure proceedings to be completed. Refer to [\*Foreclosure Time Frames\*](#) for the allowable time lapses between the time the case is referred to the attorney (or trustee) for action and the completion of the foreclosure sale.

These allowable time frames represent the time typically required for routine, uncontested foreclosure proceedings, given the legal requirements of the applicable jurisdiction. These timelines presume that there are no delays outside the control of the servicer or attorney, such as diligent participation in an opt-in mediation or unavoidable judicial process or administrative delays. Fannie Mae monitors the servicer's management of the foreclosure process by reviewing at the first of each month each mortgage loan for which Fannie Mae expected action to be completed in the previous month (based on these time frames). If there appears to have been a delay in completing the foreclosure process—and the servicer is unable to provide a reasonable explanation for the delay—Fannie Mae may require the servicer to pay a compensatory fee. The compensatory fee



will take into consideration the outstanding principal balance of the mortgage loan, the applicable pass-through rate, the length of the delay, and any additional foreclosure costs that are directly attributable to the delay. Fannie Mae will not impose compensatory fees for delays beyond the control of the servicer, such as unavoidable mediation or court delays, or sales delays by sheriffs or other selling officers.

The servicer is responsible for monitoring all aspects of the performance of any attorney (or trustee) to whom it makes a referral, including foreclosure prevention activities, cure rates, and timeline performance. The servicer, however, will not be required to reimburse Fannie Mae for any losses incurred because a Fannie Mae–retained attorney failed to properly meet his or her responsibilities, nor will the servicer be subject to the imposition of compensatory fees related to deficiencies in the performance of the retained attorney—as long as the losses or deficiencies are unrelated to any failure by the servicer to monitor or manage the performance of the retained attorney or failure of the servicer to timely provide required or requested documents, information, or signatures to the retained attorney.

Section 104.09  
Filing IRS Form 1099—  
MISC (01/31/03)

The servicer must report all attorney (or trustee) fees it paid to servicer-retained attorneys or trustees, or to Fannie Mae–retained attorneys for handling foreclosure proceedings, by filing Form 1099-MISC (*Miscellaneous Income*) with the Internal Revenue Service and other parties. These forms must be filed in the servicer’s name, using its IRS tax identification number.

**Section 105  
Conduct of Foreclosure  
Proceedings (05/01/10)**

When Fannie Mae is the mortgagee of record for a mortgage loan, the foreclosure must be conducted in Fannie Mae’s name. (The only exception to this involves MBS mortgage loans serviced under the regular servicing option that are secured by properties located in Utah or Mississippi. If Fannie Mae is the mortgagee of record for one of these mortgage loans, the servicer must request that Fannie Mae reassign the mortgage loan to it so the foreclosure can be completed in its name.) When Fannie Mae has granted the servicer its limited power of attorney to execute substitutions of trustees on Fannie Mae’s own behalf, the servicer generally must execute any required substitutions of trustees. 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.

When the servicer is the mortgagee of record for a mortgage loan, the jurisdiction in which the security property is located will be a factor in how the foreclosure proceedings are conducted or initiated.

- In most states, the foreclosure attorney (or trustee) must initiate the proceedings in the servicer's name (or in the participating lender's name, if the servicer is not the mortgagee of record for a participation pool mortgage loan). The attorney (or trustee) must subsequently have title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax. Examples of ways to accomplish this include the assignment of the foreclosure bid or judgment to Fannie Mae, inclusion of appropriate language in the judgment that directs the sheriff or clerk to issue a deed in Fannie Mae's name, recordation of an assignment of the mortgage or deed of trust to Fannie Mae immediately before the foreclosure sale, recordation of a grant deed to Fannie Mae immediately following the foreclosure sale, etc. The servicer and the foreclosure attorney (or trustee) must determine the most appropriate method to use in each jurisdiction. If recordation of the assignment of the mortgage or deed of trust to Fannie Mae is the selected option, the assignment should not be recorded any earlier than is required by the state's foreclosure procedures because of the possibility that the mortgage loan may be reinstated before the foreclosure sale.
- In any state (or jurisdiction)—such as Rhode Island; New Hampshire; or Orleans Parish, Louisiana—in which the foreclosure proceedings must be conducted in Fannie Mae's name to prevent the imposition of a transfer tax, 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 Fannie Mae's designated document custodian or a third-party document custodian has custody of an original unrecorded assignment of the mortgage to Fannie Mae, the servicer may either request the return of that document (so it can be recorded) or prepare a new assignment (if that will expedite the process.) Once the assignment to Fannie Mae has

been recorded, the foreclosure proceedings must be conducted in Fannie Mae's name.

A servicer which also services a subordinate-lien mortgage loan may 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.

MERS must not be named as a plaintiff or foreclosing party in any foreclosure action, whether judicial or non-judicial, on a mortgage loan owned or securitized by Fannie Mae. 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 executed before the foreclosure begins.

If the property is located in a jurisdiction that recognizes the effectiveness of executed, but unrecorded, assignments, the foreclosure may be initiated prior to recordation of the assignment. In these cases, the assignments should be recorded as soon as possible, in compliance with the laws of the jurisdiction where the property is located. If the jurisdiction requires the assignment to the servicer or Fannie Mae to be recorded before proceeding with the foreclosure in the servicer or Fannie Mae's name, the assignment must be recorded before the foreclosure begins.

If an assignment from MERS to either the servicer or Fannie Mae has been recorded from MERS to either the servicer or Fannie Mae and the borrower reinstates the mortgage loan prior to completion of the foreclosure proceedings, the servicer need not re-assign the mortgage to MERS and re-register the mortgage with MERS. Re-assigning and re-registering the mortgage with MERS is not required by Fannie Mae and any such action will be at the discretion and expense of the servicer. If the assignment is executed but not recorded at the time the borrower reinstates the mortgage loan, and the servicer decides to re-register the mortgage with MERS, the servicer should prepare an assignment back to MERS. If the servicer decides not to re-register the loan with MERS, the servicer must make sure the assignment from MERS to the servicer or Fannie Mae is recorded.

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.

The servicer must consult its foreclosure attorney to determine if any other legal requirements apply when conducting foreclosures of mortgage loans in which MERS is the prior mortgagee of record. 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.

Section 105.01  
Servicer-Initiated  
Temporary Suspension of  
Proceedings (04/21/09)

When a delinquent mortgage loan is referred to a foreclosure attorney (or trustee), the servicer must continue working with the borrower in order to bring the mortgage loan current, develop a workout plan, or finalize some other foreclosure prevention alternative—unless the servicer has determined that a workout plan or foreclosure prevention alternative is not feasible. A servicer must continue to pursue these efforts up until the date of the foreclosure sale; it should not notify the attorney (or trustee) to “place on hold” or suspend the foreclosure proceedings unless it has actually received funds to fully reinstate the mortgage loan or has agreed to delinquency workout arrangements with the borrower. Foreclosure proceedings also may not be temporarily suspended pending Fannie Mae’s approval of additional attorney fees. In addition, the servicer should not put a case on hold when a case is being transferred from its foreclosure department to its bankruptcy department (or later, if a lift of automatic stay is granted, when the case is being transferred back to its foreclosure department).

In any instance in which a temporary suspension of foreclosure proceedings is being contemplated, the servicer must take into consideration the length of the foreclosure proceedings in the state in which the property is located and the costs that have been—or are about to be—incurred. (It is not necessary to take these factors into consideration for federally mandated suspensions under the Servicemembers Civil Relief Act or any state law that similarly restricts the right to foreclose.) If significant costs have already been incurred, there is probably little benefit to temporarily suspending the proceedings, especially if the foreclosure sale is not imminent. Even when the sale is imminent, the servicer must consider how long it will take to reschedule the sale and what additional costs (such as advertising) will be incurred as a result of the

postponement. The servicer also must consider whether the borrower is willing to contribute any resulting or duplicative costs to postpone the foreclosure sale. Since it may be possible to “unwind” a foreclosure sale should the borrower reinstate or enter into an approved workout arrangement, the servicer should not cancel or postpone a foreclosure sale without first discussing this possibility with the attorney (or trustee).

After a thorough analysis, if the servicer decides that it is appropriate or necessary to temporarily suspend the foreclosure proceedings, it may do so for the minimum period the jurisdiction allows or no greater than 30 days. At the end of the initial suspension period, the servicer must specifically instruct the attorney (or trustee) to keep suspension in effect, if appropriate, and also provide status of workout. (A temporary suspension in foreclosure proceedings should never extend beyond a total of 60 days.) If the servicer fails to instruct the attorney (or trustee) to continue the suspension period, the attorney (or trustee) must resume the foreclosure proceedings—unless the mortgage loan has been fully reinstated or a workout agreement with the borrower has been reached.

The foregoing limitations apply only to suspensions initiated by the servicer without Fannie Mae’s approval and do not apply to suspensions required by Fannie Mae pursuant to the Home Affordable Modification Program (HAMP) or otherwise. (Refer to *Part VII, Section 610, Home Affordable Foreclosure Alternatives Program (08/01/10)*.)

Section 105.02  
Communication  
Regarding Workout  
Agreements (01/31/03)

The servicer must keep the attorney (or trustee) advised about the status of relevant negotiations for repayment plans and must consult with the attorney (or trustee) before it actually enters into a written workout agreement in order to make sure that the foreclosure proceedings are not impaired in the event that they have to be resumed. (All repayment plans that extend for six or more months must be in writing.) In many judicial foreclosure states, the *status quo* can only be preserved if a stipulation that includes the requisite language is filed with the court. In some states, the judge may dismiss the case for “lack of prosecution” if the repayment plan is not filed with the court as part of the foreclosure proceedings. If this happens and the borrower subsequently defaults under the repayment plan, the foreclosure proceedings will have to be restarted, which will result in doubling the foreclosure fees and expenses. In such cases, Fannie Mae will not reimburse the servicer for the resulting additional fees and expenses.

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**Foreclosures,  
Conveyances and  
Claims, and Acquired  
Properties**

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**Foreclosures**

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**Section 105**

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**June 10, 2011**

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**Section 105.03  
Bankruptcy Referrals  
(01/31/03)**

When the servicer becomes aware of a bankruptcy filing in connection with a mortgage loan that has already been referred to a foreclosure attorney (or trustee), the servicer must contact the foreclosure attorney (or trustee) within one business day after it learns of the bankruptcy filing. The Fannie Mae–retained attorney to whom a foreclosure referral is made will handle any resulting bankruptcy case. If a foreclosure referral was made prior to the time Fannie Mae identified retained attorneys for a jurisdiction, the attorney to whom the foreclosure was referred may handle any subsequent bankruptcy case that is filed before completion of the foreclosure or reinstatement of the mortgage loan if the servicer concludes that the attorney has the necessary qualifications.

If a mortgage loan has been referred to a foreclosure trustee in a jurisdiction in which Fannie Mae has retained attorneys, the servicer must refer the case to an attorney on the Retained Attorney List within one business day of learning of the bankruptcy filing. If the mortgage loan has been referred to a foreclosure trustee in a jurisdiction in which Fannie Mae does not have retained attorneys, the servicer must refer the case to a qualified and experienced attorney of the servicer’s choice within one business day of learning of the bankruptcy filing.

**Section 105.04  
Bidding Instructions  
(01/31/03)**

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 it under the insurance or guaranty contract. The servicer should not issue bidding instructions to the foreclosure attorney (or trustee) if its preforeclosure property inspection reveals (or the servicer otherwise discovers) that the property has incurred significant hazard damage (but a claim has not been filed with the insurance carrier). Instead, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization’s Servicer Solutions Center at 1-888-326-6435 to determine whether or not a hazard insurance claim should be filed and, if so, what foreclosure bid should be entered. In any instance in which a hazard or flood insurance claim had been filed, the servicer may issue the bidding instructions without contacting Fannie Mae, as long as it instructs the foreclosure attorney (or trustee) to reduce the otherwise applicable final bid amount by the amount of the outstanding hazard or flood insurance claim.

**A. FHA-insured mortgage loans.** The amount to be bid for an FHA-insured mortgage loan depends on when the mortgage loan was endorsed for insurance. For FHA mortgage loans endorsed for insurance before November 30, 1983, the bid amount must include the full amount of the indebtedness. This consists of the unpaid balance, accrued interest to the date of the sale (using the rate in effect for each payment on the date it became due), any advances for T&I, and other foreclosure costs (including attorney fees and any reimbursable property inspection fees). Any funds that the servicer 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 must be subtracted from the total indebtedness. (The servicer must send Fannie Mae any funds it holds as soon as the foreclosure sale is held.)

For FHA mortgage loans endorsed for insurance on or after November 30, 1983, the bid amount may vary depending on whether HUD elects to have the property appraised. When HUD has the property appraised, it will advise the servicer of the amount that should be bid at the foreclosure sale. The bid amount will reflect the fair market value of the property, appropriately adjusted for HUD's estimate for holding costs and resale costs that it would incur if the property were conveyed. As long as the servicer receives HUD's bid amount within the five days before the foreclosure sale, it must bid the exact amount specified by HUD—unless state law requires a higher amount to be bid. If the servicer does not receive HUD's bid amount in sufficient time, it must bid the full amount of Fannie Mae's indebtedness.

**B. VA-guaranteed mortgage loans.** For VA mortgage loans, the bid must be the amount that VA specified as its "upset price." If VA did not specify an upset price—and Fannie Mae has not authorized a VA no-bid buydown (as discussed in *Part VII, Section 607, VA No-Bid Buydowns (01/31/03)*)—the bid amount must be determined by subtracting the amount the VA will pay under its guaranty from the amount required to satisfy the indebtedness.

**C. RD-guaranteed mortgage loans.** For RD mortgage loans, the bid amount must include the full amount of the indebtedness. This consists of the unpaid balance, accrued interest to the date of the sale, any advances for T&I, and other foreclosure costs (including attorney's fees and any reimbursable property inspection fees).

**D. Conventional mortgage loans.** The servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 to obtain bidding instructions for all conventional second mortgage loans and for co-op share loans that are in a first-lien position. For all other first 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 "make whole" amount.

- The total mortgage indebtedness is the sum of the UPB of the mortgage loan, accrued interest, advances for T&I, foreclosure costs, and attorney's fees.
- Fannie Mae's "make whole" amount is the total mortgage indebtedness less the amount of any mortgage insurance coverage.

Fannie Mae's bidding instructions take into consideration whether or not (1) the mortgage loan is insured, (2) 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, (3) 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 (4) the property is located in a state (or jurisdiction) that recognizes Fannie Mae's exemption from the payment of real estate transfer taxes. (A servicer may obtain an opinion of value for the property to use in establishing the foreclosure bid; however, Fannie Mae will not reimburse the servicer for the cost for obtaining the value opinion unless Fannie Mae specifically instructs the servicer to obtain such an opinion.)

- **Uninsured conventional first mortgage loan.** The servicer must instruct the foreclosure attorney (or trustee) to bid 100% of the total mortgage indebtedness if (1) the security property is located in a state (or jurisdiction) that has a redemption period or (2) the security property is located in a state (or jurisdiction) 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 levies transfer taxes to which Fannie Mae's real estate transfer tax exemption applies).



However, if the security property is located in a state (or jurisdiction) 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), the servicer must instruct the foreclosure attorney (or trustee) to enter an initial bid of \$100 (or any other minimum amount that the state requires in order for the bid to be considered valid). The attorney (or trustee) must be instructed to continue bidding until it either wins the bidding or bids an amount equal to 100% of the total mortgage indebtedness. If the bid amount cannot be increased because the trustee conducting the foreclosure is prohibited from accepting a range of bids from a single bidder, the servicer must instruct the foreclosure attorney (or trustee) to bid the total mortgage indebtedness.

- **Insured conventional first mortgage loan that is secured by a property located in a state (or jurisdiction) that has a redemption period.** The servicer must instruct the foreclosure attorney (or trustee) to bid 100% of the total mortgage indebtedness—unless the mortgage insurer instructs otherwise. If the mortgage insurer indicates that the bid should be an amount that is less than Fannie Mae's make whole amount, the servicer must instruct the foreclosure attorney (or trustee) to bid Fannie Mae's make whole amount.
- **Insured conventional first mortgage loan that is secured by a property located in a state (or jurisdiction) 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 levies transfer taxes to which Fannie Mae's real estate transfer tax exemption applies).** The servicer must instruct the foreclosure attorney (or trustee) to enter an initial bid of 80% of the total mortgage indebtedness and to continue bidding, if necessary, until it either wins the bidding or bids an amount equal to 100% of the total mortgage indebtedness—unless the mortgage insurer instructs otherwise. If the bid amount cannot be increased because the trustee conducting the foreclosure is prohibited from accepting a range of bids from a single bidder, the servicer must instruct the foreclosure attorney (or trustee) to bid the greater of Fannie Mae's make whole amount or the amount specified by the mortgage insurer.

- **Insured conventional first mortgage loan that is secured by a property located in a state (or jurisdiction) 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).** The servicer must instruct the foreclosure attorney (or trustee) to enter an initial bid of \$100 (or any other minimum amount that the state requires in order for the bid to be considered valid) and to continue bidding until the bid is won (as long as the bid does not exceed 100% of Fannie Mae’s total mortgage indebtedness)—unless the mortgage insurer instructs otherwise. If the bid amount cannot be increased because the trustee conducting the foreclosure is prohibited from accepting a range of bids from a single bidder, the servicer must instruct the foreclosure attorney (or trustee) to bid the greater of Fannie Mae’s make whole amount or the amount specified by the mortgage insurer. If the mortgage insurer specifies a bid amount that will result in Fannie Mae’s paying unnecessarily higher transfer taxes or other avoidable fees and costs that are based on the foreclosure bid amount, the servicer must instruct the attorney (or trustee) to enter an initial bid of \$100 (or any other minimum amount that the state requires in order for the bid to be considered valid) and to continue bidding until it either wins the bidding or bids an amount equal to Fannie Mae’s make whole amount (but, if a range of bids cannot be accepted from a single bidder, the foreclosure attorney [or trustee] must be instructed to bid the greater of Fannie Mae’s make whole amount or the amount specified by the mortgage insurer).

Section 105.05  
Suspension or Reduction  
of Redemption Period  
(09/30/05)

Under the terms of the Servicemembers Civil Relief Act, any statutory redemption period will stop running during a servicemember’s active duty and will resume after his or her separation from active duty. This is true even if the foreclosure took place before the servicemember began active duty, as long as the redemption period had not expired by the date he or she reported for duty. During the time the redemption period is suspended, the servicer must permit the servicemember’s dependents to continue living in the property, paying a reasonable rent, if they were in residence at the time of the foreclosure. In such instances, the servicer must notify Fannie Mae’s National Property Disposition Center 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 *Part III, Chapter 1, Exhibit 1: Military Indulgence.*)

Some states allow redemption periods to be shortened if the property is vacant or abandoned. Whenever possible and economically feasible, the servicer must petition the court—or take any other legal actions that may be necessary—for a reduced redemption period, so that expenses and delay can be minimized.

Section 105.06  
Title Evidence (09/30/05)

To facilitate continuity in the transition of files from foreclosure through REO closing when a referral is made to a trustee in Arizona, California, Nevada, or Washington, the servicer must require that the trustee obtain evidence of title for the foreclosure from a title company that appears on the *Approved Title Company List for Foreclosure Evidence of Title* posted on [eFannieMae.com](http://eFannieMae.com). The title company chosen will subsequently represent Fannie Mae's interests as seller in connection with the REO closing.

In Hawaii, Fannie Mae requires the servicer to 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 should 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.

Section 105.07  
Pursuit of Deficiency  
Judgment (01/31/03)

The servicer must pursue a deficiency judgment for an FHA, VA, or RD mortgage loan if instructed to do so by HUD, VA, or the RD, respectively. A servicer should not automatically pursue a deficiency judgment for an insured conventional mortgage loan since the provisions of the mortgage insurance policy will govern the decision of whether (and how) a deficiency judgment should be pursued. A deficiency judgment cannot be pursued for a Texas Section 50(a)(6) mortgage loan. Fannie Mae will make the decision about whether to pursue a deficiency judgment for all other uninsured conventional mortgage loans.

Fannie Mae's National Servicing Organization will make the decisions regarding deficiency claim preservation or waiver for uninsured mortgage

loans. In jurisdictions where the preferred or routine method of foreclosure is non-judicial, the servicer generally must proceed non-judicially even if doing so means waiving Fannie Mae's right to pursue a deficiency judgment, unless the servicer or its attorney is aware of circumstances that suggest the benefits of proceeding judicially outweigh the increase in time frame, fees, and costs. In such instances, or if a servicer has questions regarding the preservation or waiver of deficiency claims, the servicer must contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center at 1-888-326-6435 for guidance, including direction to proceed judicially on a case-by-case basis.

Fannie Mae requires the servicer to 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. Fannie Mae also requires the servicer to advise Fannie Mae about any information it receives from the mortgage insurer concerning whether the deficiency judgment is to be pursued solely or jointly. Although Fannie Mae may subsequently assume the responsibility for communicating directly with the mortgage insurer while the deficiency is being pursued, it is important that the servicer keep Fannie Mae informed about the mortgage insurer's intentions (particularly since the mortgage insurer may not be aware of Fannie Mae's ownership interest in the mortgage loan when it is making the decision to pursue a deficiency). For an uninsured mortgage loan, Fannie Mae requires the servicer to cooperate and assist Fannie Mae in the pursuit of a deficiency in accordance with the instructions Fannie Mae provides for each particular case.

**Section 106  
Property Maintenance  
and Management  
(02/24/09)**

Throughout the foreclosure process, the servicer is responsible for performing all property maintenance functions to ensure that the condition and appearance of the property are maintained satisfactorily. This includes securing the property, mowing the grass, removing trash and other debris that violate applicable law or pose a health or safety hazard, winterizing the property, etc. The servicer must manage the property until it is conveyed to the insurer or guarantor or until Fannie Mae assigns that responsibility elsewhere. 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.

In particular, the servicer must take the following actions:

- Contact Fannie Mae's National Property Disposition Center to determine whether utility services should be continued. Generally, the utilities should be left on unless the property is expected to be vacant for an extended period of time, and even then, the heating source may be left on to prevent damage in cold weather areas. However, the varying weather conditions in different parts of the country and the conditions and circumstances that exist when the property is acquired must be considered in the decision on the continuation of the utility services.
- 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. Properties should not be boarded unless absolutely necessary to prevent vandalism or secure the property or where required by law.
- Notify Fannie Mae about any damage to the property, any injury to a person on the property, any conditions that could result in injury to someone who enters the property, or any other condition or occurrence that should be brought to Fannie Mae's attention (particularly if Fannie Mae may need to file a claim under its general liability insurance policy).

Servicers should refer to the [Property Maintenance and Management: Property Preservation Matrix and Reference Guide](#) for the allowable amounts for property preservation work. Where the cost of the contemplated preservation work exceeds Fannie Mae allowables, the servicer must submit the request via HomeTracker®. If the servicer has not acquired access to HomeTracker, the servicer must complete and submit the *Property Preservation Request for Repair* ([Form 1095](#)) with supporting photographic documentation via email to [property\\_preservation@fanniemae.com](mailto:property_preservation@fanniemae.com). All pertinent supporting information that would assist Fannie Mae in making a sound property preservation decision must be included in the request for repair.

Once the request for repair is received, Fannie Mae will determine if other bids are necessary. Once a decision has been made, an e-mail will be sent to the servicer at the e-mail address provided on the request for repair indicating that additional bids are necessary or stating the approved amount for the preservation work.

Following the foreclosure sale, Fannie Mae will designate a broker, agent, or property management company to handle the property maintenance functions.

**Section 107  
Eviction Proceedings  
(01/31/03)**

A foreclosure attorney (or trustee) 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 foreclosure attorney (or trustee) to do this work as an integral part of the foreclosure process (without charging an additional fee).

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—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). Fannie Mae will notify the servicer of its selection by sending the servicer a copy of the referral letter it sends to the designated eviction attorney. Based on the occupancy status information the servicer provides in the REOgram, Fannie Mae will advise its designated attorney whether it will be necessary to initiate eviction proceedings. Fannie Mae’s designated attorney will then contact the servicer (or the foreclosure attorney, if the foreclosure was conducted by a Fannie Mae–retained attorney) to request any documents needed to initiate the eviction proceedings. The servicer (or the foreclosure attorney) must immediately 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. After that, the servicer must return any documentation the eviction attorney subsequently requests as soon as possible (or request a servicer-retained foreclosure attorney to provide the

documents directly to the eviction attorney within three business days). When requested, the servicer must work with the eviction attorney to schedule the actual eviction.

In any instance in which the servicer has the responsibility for disposing of an acquired property—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 servicer (or its retained attorney) must handle the eviction proceedings. When the servicer retains an attorney to handle the eviction proceedings, it must pay the eviction attorney promptly on receipt of a billing for attorney fees and eviction costs and, at the appropriate time, file the applicable IRS Form 1099-MISC (*Miscellaneous Income*) with the Internal Revenue Service. (The servicer must contact Fannie Mae’s National Property Disposition Center to obtain Fannie Mae’s maximum allowable eviction fees and costs for a particular state.) If applicable, the servicer must file a supplemental claim for any eviction fees and costs that are claimable under the mortgage insurance claim. The servicer may request reimbursement for its payment of eviction attorney’s fees and related costs from Fannie Mae by submitting a *Cash Disbursement Request* ([Form 571](#)). The servicer must aggressively monitor the eviction attorney to ensure that Fannie Mae obtains possession of the property promptly. Fannie Mae may impose sanctions (including daily compensatory fees) if there are unwarranted delays in processing these cases.

**Section 108  
Expenses During  
Foreclosure Process  
(01/31/03)**

The servicer must use any funds remaining in the borrower’s escrow deposit account to pay T&I 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.

**Section 108.01  
Delinquent Tax Late Fees  
or Penalties (01/31/03)**

When a servicer does not maintain an escrow deposit account for a mortgage loan, the servicer may not become aware that the borrower has not paid the real estate taxes on the security property until after the taxing jurisdiction imposes a late fee or a delinquent tax penalty. To reduce the amount of advances that a servicer has to make in connection with

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**Foreclosures,  
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**Foreclosures**

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**Section 108**

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**June 10, 2011**

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delinquent (or foreclosed) mortgage loans for which it does not maintain an escrow deposit account, Fannie Mae will reimburse a servicer for late fees or delinquent tax penalties for the current tax period or for any tax period that ends no more than 12 months earlier than the date of the LPI for the mortgage loan, as well as for its advances to pay the delinquent taxes themselves.

**Section 108.02  
Claims Shortfall for  
Government Mortgage  
Loans (09/30/05)**

Fannie Mae will reimburse the servicer of a modified special servicing option RD mortgage loan for the difference between the calculated loss and the actual RD claim payment. Generally, Fannie Mae will not reimburse the servicer in instances in which FHA or VA disallows certain costs included in the claim (because they either are not allowable expenses or exceed the maximum allowable FHA/VA limit). Fannie Mae only will reimburse the servicer for disallowed costs if the servicer requests and obtains Fannie Mae's prior approval of the expense.

A servicer must make sure that bills submitted by its legal counsel or foreclosure trustee describe each item of cost in sufficient detail to clearly identify it as being an allowable cost. The servicer must retain paid invoices to substantiate all reimbursement requests.

**Section 108.03  
Other Reimbursable  
Expenses (12/07/06)**

Both the servicer and the foreclosure attorney (or trustee) must make every effort to reduce foreclosure-related costs and expenses in a manner that is consistent with 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. Fannie Mae requires the servicer 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. For example, where permitted by law, a title search or abstract must be obtained in lieu of a title commitment or Trustee Sale Guaranty,



when the cost of obtaining the title search or abstract is less than the cost to obtain a title commitment or Trustee Sale Guaranty.

Fannie Mae will reimburse a 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 any of 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): (1) filing costs and other costs required by the courts; (2) trustee sale guarantees or other title foreclosure litigation reports; (3) actual costs for posting notices of foreclosure sales; (4) costs for publication of legal notices (reimbursable for California non-judicial foreclosures only if the notices are placed as specified below); (5) costs of announcing postponements of foreclosure sales; (6) legally mandated postal costs for certified or registered mail that is required for legal notices (for California non-judicial foreclosures, the actual cost of first class postage for such notices also is reimbursable); (7) costs of serving summonses and complaints and other legal notices for which the law requires personal service; (8) 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, foreclosure prevention alternatives, or if legally required to determine the amount of the foreclosure bid; (9) the actual 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, etc.); (10) the cost of an owner's extended coverage title policy, if a property is acquired by acceptance of a deed-in-lieu (a servicer should not purchase title policies for foreclosed properties unless Fannie Mae advises it to do so); (11) fees paid to a third party to perform property inspections Fannie Mae requires; and (12) other costs that Fannie Mae approves in advance or that are specifically footnoted on the standard fee schedule that appears in *Allowable Attorney and Trustee Foreclosure Fees* on [eFannieMae.com](http://eFannieMae.com).

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 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 and expense of the servicer.

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 *Exhibit 3: Daily Journal Corporation Newspapers for Trustee's Sale Publications* that will satisfy the state's notice requirements. If none of the newspapers listed in the *Exhibit* meet the notice requirements of California law, the trustee 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. Trustees must ensure that the posting and publication firm they choose prepares the necessary notices and arranges for the publication of the notices in the appropriate newspaper. When posting and publishing companies are utilizing one of the Daily Journal Corporation newspapers listed in *Exhibit 3: Daily Journal Corporation Newspapers for Trustee's Sale Publications*, the posting and publishing company 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.

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 a servicer for these items if it pays them.

Section 108.04  
Requests for  
Reimbursement  
(01/31/03)

The servicer should request reimbursement for its advances by submitting a *Cash Disbursement Request* ([Form 571](#)) to Fannie Mae. A servicer generally may request reimbursement for its advances only after the claim has been filed with the insurer or guarantor. However, in states that have long redemption periods, a servicer may request an early reimbursement for tax and insurance premium payments. It also may request reimbursement for large out-of-pocket expenses and tax and insurance payments more often if the foreclosure is contested or if lengthy bankruptcy proceedings are involved. Generally, a servicer may request these reimbursements when the expenses for an individual case have surpassed \$500 or when its advance has been outstanding for at least six

months. When multiple requests for reimbursement are submitted in connection with the same mortgage loan, the servicer must submit its *final* request for reimbursement within:

- 30 days after a foreclosure prevention alternative is completed;
- 30 days after the date the claim was filed, if the property will be conveyed to the insurer or guarantor;
- 30 days after a third party acquires the property at the foreclosure sale; or
- 30 days after Fannie Mae disposes of an acquired property.

If the servicer submits a request for reimbursement of advances after the date Fannie Mae specifies for the submission of the “final” Form 571, 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 delay and the frequency with which the servicer files late requests for reimbursement.

**Section 109  
Accounting for Rental  
Income (08/14/98)**

When the mortgage loan is “in foreclosure,” the servicer must hold any rental income it receives as unapplied funds until the mortgage loan is liquidated. The servicer must 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.

After the claim is filed, the servicer must 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.

**Section 110  
Third-Party Sales  
(01/31/03)**

In most instances, when a third party acquires a property at the foreclosure sale, he or she is only required to pay a portion of the bid amount on the date of sale and then has 30 days in which to pay the remainder of the bid amount and otherwise comply with the terms of the sale. The servicer must collect the sales proceeds (or, if Fannie Mae’s mortgage loan is in a second-lien position, the portion of the sales proceeds that is related to the second mortgage loan) and remit the amount Fannie Mae is due within five business days after it receives the final payment from the third-party

bidder under the terms of the sale. If the sale falls through, the servicer must remit the third-party bidder's initial deposit to Fannie Mae within five business days after it discovers that the sale will not be finalized. In either instance, the amount that should be remitted to Fannie Mae is the sum of 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 later of the liquidation or settlement date. The servicer may deduct from the proceeds any foreclosure expenses that Fannie Mae has not reimbursed it for (and, if the mortgage loan was accounted for as a scheduled/actual or scheduled/scheduled remittance type, its delinquency advances). If the sales proceeds are not sufficient for the servicer to reimburse itself for all of its expenses, the servicer may not "net" any of its expenses from the proceeds, but should instead submit a *Cash Disbursement Request* ([Form 571](#)) to request reimbursement for the expenses. The servicer should 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.

The servicer must 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 in the activity report it transmits to Fannie Mae for that month. The proceeds from the sale must be reported as a "special remittance." The servicer must forward a copy of the closing statement—showing a breakdown of principal, interest, servicing fee, outstanding advances, and any other items to the date of the sale—to Fannie Mae's National Property Disposition Center on the same day that it remits the funds to Fannie Mae.

If the servicer is maintaining an escrow deposit account to pay the hazard (and, if applicable, flood) insurance premium, it also must cancel the insurance policy and notify the third-party purchaser of the cancellation. Any premium refunds (minus any portion that may be required to reimburse Fannie Mae or the servicer for advances Fannie Mae made) must be disbursed as follows:

- for FHA mortgage loans, payment must be made to the third-party purchaser; and

- for VA, conventional, or RD mortgage loans, payment must be made to the borrower.

For VA mortgage loans, 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. A 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.

**Section 111  
Hazard Insurance  
Coverage (01/31/03)**

The servicer's action regarding the continuation or cancellation of hazard insurance coverage will depend on the type of mortgage loan that was liquidated, and on whether the property will be conveyed to the insurer or guarantor.

Fannie Mae uses a property recovery firm—Dimont and Associates—to perform post-foreclosure property inspections and assume all responsibilities for filing any necessary hazard insurance claims for loss for (1) conventional first mortgage loans, (2) conventional second mortgage loans for which Fannie Mae either had an ownership interest in the first mortgage loan or paid off the first mortgage loan in connection with the foreclosure of the second mortgage loan, (3) FHA or VA mortgage loans that cannot be conveyed to the insurer or guarantor, and (4) RD-guaranteed mortgage loans serviced under the special servicing option. As soon as Fannie Mae receives the servicer's REOgram notifying it about the acquisition of a property that secures one of these types of mortgage loans, Fannie Mae will request a real estate broker to prepare a broker's price opinion and a list of needed repairs (including the estimated costs). When Fannie Mae receives this information, it will notify the property recovery firm about the property acquisition and the estimated costs of any repairs. At that time, the property recovery firm may contact the servicer to obtain information about the hazard insurance policy and carrier and recent property inspections that the servicer made. The property recovery firm will then inspect the property (if necessary), consider the amount of the estimated repairs, and assess Fannie Mae's right to receive claim payments from the hazard insurance carrier (or any other liable parties).

When Fannie Mae uses a property recovery firm, the servicer will be responsible for providing all requested information or documentation to the property recovery firm within ten days. The servicer also has the

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## Foreclosures, Conveyances and Claims, and Acquired Properties

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### Foreclosures

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responsibility for taking appropriate actions related to the hazard insurance policy for an acquired property that was secured by a second mortgage loan if, in connection with the second mortgage loan foreclosure, Fannie Mae decides not to pay off an outstanding first mortgage loan in which it does not have an ownership interest (since Fannie Mae does not use a property recovery firm in this instance).

#### Section 111.01 FHA Mortgage Loans (01/31/03)

For FHA mortgage loans that will be conveyed to HUD, the servicer must obtain an endorsement to the hazard insurance policy to reflect Fannie Mae's interests immediately following the foreclosure sale. The servicer must then 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 follow the procedures described for conventional mortgage loans in *Section 111.03, Conventional First Mortgage Loans (01/31/03)*.

When the servicer receives the refund of the unearned hazard 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 hazard insurance premium refund and show it as a credit on the *Cash Disbursement Request (Form 571)* that it submits to request reimbursement of its outstanding expenses for the mortgage loan.

#### Section 111.02 VA Mortgage Loans (01/31/03)

For VA mortgage loans that will be conveyed to VA, the servicer must endorse the hazard insurance policy over to the VA immediately following the foreclosure sale. If the property cannot be conveyed to VA, the servicer must follow the procedures described for conventional mortgage loans in *Section 111.03, Conventional First Mortgage Loans (01/31/03)*.

#### Section 111.03 Conventional First Mortgage Loans (01/31/03)

Within 14 days after the foreclosure sale, the servicer must ask the hazard insurance carrier to cancel the policy (and, unless prohibited by the policy or applicable law, to send it any unearned premium refund). If the insurance carrier is not willing to cancel the 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 its name from the policy since it will no longer be responsible for paying renewal premiums.)

If the property recovery firm's post-foreclosure property inspection reveals insured hazard damage, it will file a claim with the hazard insurance carrier. All claim settlements will be sent to the property recovery firm. The property recovery firm will track activities related to the claim, monitor the hazard insurance carrier's claim settlement process, initiate follow-ups with the insurance carrier (when appropriate), and pursue appropriate proceedings related to disputed claims.

As soon as the servicer receives the unearned premium refund from the insurer, it must remit the funds to Fannie Mae as a "special remittance." 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 *Cash Disbursement Request* ([Form 571](#)) that it submits for that mortgage loan. If, for any reason, a 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 Form 571 or contact Fannie Mae's National Property Disposition Center to give Fannie Mae the name of the insurance carrier and the reason the refund has not been sent to the servicer.

When a servicer requests reimbursement for a 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. Then, if the servicer's final Form 571 does not reflect the unearned premium refund as a credit or explain why the hazard insurance carrier has not sent the servicer the unearned premium refund—and the servicer has not previously remitted the refund to Fannie Mae as a "special remittance"—Fannie Mae will consider its calculated unearned premium refund amount as an unremitted refund that it is still due. 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 to provide the National Property Disposition Center with an explanation of why the refund(s) will not be remitted.

Section 111.04  
Conventional Second  
Mortgage Loans  
(01/31/03)

The action that the servicer of a conventional second mortgage loan should take is a factor of whether Fannie Mae has an ownership interest in both the first and second mortgage loans and, if Fannie Mae does not, on whether Fannie Mae chose to pay off the first mortgage loan in connection with the foreclosure of the second mortgage loan.

**A. Property recovery firm has claim-filing responsibility.** The property recovery firm will be responsible for the post-foreclosure inspection of an acquired property that secured a second mortgage loan (if Fannie Mae had an ownership interest in both the first and second mortgage loans or if Fannie Mae, in connection with the second mortgage loan foreclosure, chose to pay off a first mortgage loan in which Fannie Mae did not have an ownership interest) and for the filing of any applicable hazard insurance claim on Fannie Mae's behalf.

- If Fannie Mae had an ownership interest in both the first and second mortgage loans, the property recovery firm will notify the first mortgage servicer (rather than the second mortgage servicer). Within 14 days after foreclosure, the first mortgage servicer must ask the hazard insurance carrier to cancel the policy and, unless prohibited by the policy or applicable law, to send it any unearned premium refund. If the insurance carrier is not willing to cancel the policy because Fannie Mae is not the named insured, the servicer must request cancellation of Fannie Mae's mortgagee interests in the policy (and the removal of its name from the policy since it will no longer be responsible for paying renewal premiums).
- If Fannie Mae did not have an ownership interest in the first mortgage loan and chose to pay it off in connection with the second mortgage loan foreclosure, the property recovery firm will notify the second mortgage servicer. The second mortgage servicer's responsibilities related to the hazard insurance policy will have begun when title to the property was acquired at the foreclosure sale.

As soon as the servicer (either the first mortgage servicer or the second mortgage servicer) receives the unearned premium refund from the insurer, it must remit the funds to Fannie Mae as a "special remittance." 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 *Cash Disbursement Request* ([Form 571](#)) that it submits for that mortgage loan. If, for any reason, a 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 Form 571 or contact Fannie Mae's National Property



Disposition Center to give Fannie Mae the name of the insurance carrier and the reason the refund has not been sent to the servicer.

When a servicer requests reimbursement for a 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. Then, if the servicer's final Form 571 does not reflect the unearned premium refund as a credit or explain why the hazard insurance carrier has not sent the servicer the unearned premium refund—and the servicer has not previously remitted the refund to Fannie Mae as a “special remittance”—Fannie Mae will consider its calculated unearned premium refund amount as an unremitted refund that it is still due. 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 to provide the National Property Disposition Center with an explanation of why the refund(s) will not be remitted.

**B. First and second mortgage servicers coordinate claim-filing responsibility.** When Fannie Mae, in connection with the second mortgage loan foreclosure, chose not to pay off an outstanding first mortgage loan in which Fannie Mae did not have an ownership interest, the second mortgage servicer will be responsible for the post-foreclosure property inspection (and for assisting the first mortgage servicer should it need to file a claim). If Fannie Mae does not pay off the first mortgage loan in connection with a second mortgage loan foreclosure, Fannie Mae will acquire title to the property subject to the first lien, and thus will become the “mortgagor.” In such cases, the second mortgage servicer (acting in a coordinated effort with the first mortgage servicer) must request the hazard insurance carrier to cancel Fannie Mae's second mortgagee interest in the policy and to show instead that Fannie Mae is the named insured. As the new owner of the property, Fannie Mae is responsible for making the monthly mortgage payments to the first mortgage servicer and for maintaining hazard insurance coverage for the property. However, Fannie Mae has the right to market and sell the property at any time. The first mortgage servicer maintains the hazard insurance policy on the property owner's behalf, thus (as named insured) Fannie Mae will receive the benefit of any claim proceeds the first

mortgage servicer applies toward repair of the property or reduction of the outstanding mortgage debt.

Since the second mortgage servicer will have sent an REOgram to notify Fannie Mae about the property acquisition, the property recovery firm may contact the second mortgage servicer if the property appears on the list of acquired properties that it receives from Fannie Mae. In such cases, the second mortgage servicer must advise the property recovery firm that the first mortgage servicer is responsible for the hazard insurance policy (including filing any required claim) since the first mortgage loan was not paid off in connection with the foreclosure of the second mortgage loan. This will enable the property recovery firm to remove the property from its list of active cases. All future communications related to the property or the hazard insurance policy will then take place between Fannie Mae and the first mortgage servicer.

**Section 111.05  
Rural Development  
Mortgage Loans  
(04/01/99)**

For RD mortgage loans serviced under the modified special servicing option or the regular servicing option, the servicer's decision about canceling the hazard 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 follow the procedures described for conventional mortgage loans in *Section 111.03, Conventional First Mortgage Loans (01/31/03)*.

**Section 112  
Flood Insurance  
Coverage (04/01/99)**

The action the servicer takes regarding the continuation or cancellation of flood insurance coverage will depend on the lien position of the mortgage loan and on whether or not there is claimable flood damage to the property. The servicer is responsible for performing any required post-foreclosure property inspection and for filing 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 mortgage 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 mortgage loan in which Fannie Mae has no ownership interest.)

**A. Preforeclosure inspection reveals no claimable damage.** If the servicer's preforeclosure inspection for a property secured by a first 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 B. below.) Immediately following the foreclosure sale, the servicer must notify the flood insurance carrier to cancel the policy (and, unless prohibited by the policy or applicable law, to send it any unearned premium refund). If the insurance carrier is not willing to cancel the 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.

If a second mortgage 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 mortgagee interest as soon as the property is acquired. If the second mortgage servicer is responsible for paying the flood insurance premiums, it must also ask the insurer to send it any unearned premium refund, unless prohibited by the policy or applicable law. (Note: If Fannie Mae has an ownership interest in both the first and second mortgage loans, the first mortgage servicer must send the notification for both mortgage loans and assume responsibility for receiving and remitting the unearned premium.) A second mortgage servicer may need to pursue a different course of action when Fannie Mae acquires title to the property subject to an outstanding first mortgage loan in which Fannie Mae had no ownership interest and chose not to pay off that mortgage loan. In this instance, the required action will depend on whether or not the first mortgage servicer required flood insurance coverage on the property:

- If the first mortgage servicer required flood insurance coverage, the second mortgage servicer must advise the flood insurance carrier to

remove Fannie Mae's second mortgagee interest and to show instead that Fannie Mae is the named insured. The first mortgage servicer will decide on the appropriate action related to the flood insurance coverage; therefore, the second mortgage servicer will have no further responsibilities related to that coverage.

- If the first mortgage servicer did not require flood insurance coverage, the policy will cover only the second mortgage loan amount and Fannie Mae will have the only mortgagee interest in the policy. In such cases, the second mortgage servicer must notify the flood insurance carrier to cancel the policy. In this situation, there is no need to reflect Fannie Mae as the named insured since Fannie Mae does not want to keep the policy in effect. The servicer must request the insurer to send it any unearned premium refund, unless prohibited by the policy or applicable law. If the insurance carrier is not willing to cancel the 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.

**B. Property inspection reveals insured flood damage.** When either a preforeclosure or post-foreclosure property inspection reveals claimable damage, the servicer of a first 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 mortgage loans, the first mortgage servicer must file a combined claim for the two mortgage loans.) If, at the time the claim is filed, the property has not been acquired, the servicer should take no action related to cancellation of Fannie Mae's interest in the policy until after the property is acquired. If the property has been acquired (or as soon as it is acquired), the servicer must notify Fannie Mae's National Property Disposition Center to indicate that a claim has been filed (and then should 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 also 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. If the insurance carrier is not willing to cancel the 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 its name from the policy since it will no longer be responsible for paying the renewal premiums.

The servicer of a second mortgage loan should file a claim only if it is (or was) responsible for maintaining flood insurance coverage—either because the first mortgage servicer did not require such coverage or because the first mortgage servicer cancelled its mortgagee interest when Fannie Mae paid off the first mortgage loan in connection with Fannie Mae's foreclosure of the second mortgage loan. In instances in which the first mortgage servicer requires flood insurance coverage, the second mortgage servicer must work with the first mortgage servicer to ensure that Fannie Mae's interests (as either second mortgagee or mortgagor) are adequately protected. When the second mortgage 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 should take no action related to cancellation of Fannie Mae's interests in the policy until after the property is acquired. Once Fannie Mae acquires the property, the servicer must notify Fannie Mae's National Property Disposition Center to indicate that a claim has been filed (and then should 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 also 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. If the insurance carrier is not willing to cancel the policy because Fannie Mae is not the named insured, the servicer must request cancellation of Fannie Mae's second mortgagee interest in the policy—and removal of its name from the policy since it will no longer be responsible for paying the renewal premiums.
- If the property has been acquired, the servicer must notify Fannie Mae's National Property Disposition Center as soon as the claim is filed. The servicer should 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 also 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. If the insurance carrier is not willing to cancel the policy because Fannie Mae is not the named insured, the servicer must request cancellation of Fannie Mae's second mortgagee interest in the policy and removal of its name from the policy since it will no longer be responsible for paying the renewal premiums.

**C. Remittance of settlement proceeds or unearned premium refunds.**

When a servicer receives the flood insurance settlement proceeds, it must remit them to Fannie Mae as a "special remittance." When the servicer receives an unearned premium refund, it may either remit the refund to Fannie Mae as a special remittance or "net" it out of the next *Cash Disbursement Request* ([Form 571](#)) submitted for the mortgage loan. If, for any reason, a 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 Form 571 or contact Fannie Mae's National Property Disposition Center to give Fannie Mae the name of the insurance carrier and the reason the refund has not been sent.

When a servicer requests reimbursement for a flood insurance premium that it has advanced for an acquired property, Fannie Mae will calculate the amount of unearned premium refund that should be due. Then, if the servicer's final Form 571 does not reflect the unearned premium refund as a credit or explain why the flood insurance carrier has not sent the servicer the unearned premium refund—and the servicer has not previously remitted the refund to Fannie Mae as a special remittance—Fannie Mae will consider its calculated unearned premium refund amount as an unremitted refund that it is still due. 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 to provide the National Property Disposition Center with an explanation of why the refund(s) will not be remitted.

Each month, the servicer must notify the major credit repositories about any foreclosures that were completed (or any deeds-in-lieu that were accepted) during the previous month. The servicer also must report any instance in which a law enforcement agency seizes (or requires forfeiture of) a property under applicable state or federal law (see *Part III, Chapter 6, Property Forfeitures and Seizures*). If, for any reason, a reported

transaction is “set aside” or overturned, the servicer must update the information it had reported to the credit repositories. (A listing of the major credit repositories appears in *Part VII, Chapter 2, Exhibit 1: Major Credit Repositories.*)

**Section 114  
Notice of Property  
Acquisition (01/01/09)**

Once the foreclosure sale is held and the property acquired or a deed-in-lieu is executed, the servicer must notify Fannie Mae about the property acquisition. The servicer must submit the REOgram (see *Section 114.01, Submitting the REOgram (05/01/06)*) immediately after the foreclosure sale, and not wait until confirmation of the foreclosure sale has been received, nor until after expiration of any applicable redemption period. Two different notifications are required—an early warning notice that Fannie Mae has an acquired property to dispose of and the notice of the removal status code that is part of the regular monthly reporting process. Additionally, 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 directs that the REO property relating to a foreclosed special servicing option MBS mortgage loan remain in the MBS trust after foreclosure, it must be removed from the MBS trust no later than the close of the third calendar year following the calendar year in which the MBS trust acquired the REO property. For example, if an MBS trust acquired REO property in October 2008, the REO property must be removed from the trust no later than December 31, 2011.

Note: Fannie Mae does not have any imminent plans to exercise the option to direct that the REO property remain in the MBS trust after foreclosure.

**Section 114.01  
Submitting the REOgram  
(05/01/06)**

Within 24 hours after the date of a foreclosure sale (or the date a deed-in-lieu is executed), the servicer must send an REOgram to the National Property Disposition Center. This early warning notice is required for all conventional mortgage loans, any FHA mortgage loans that will not be conveyed to HUD, any VA mortgage loans for which VA would 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 \$100 compensatory fee for each day it is late in submitting the REOgram; Fannie Mae also may exercise any other

available and appropriate remedies. Fannie Mae will not impose a compensatory fee if it determines there is a reasonable explanation for the delay.

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. Since Fannie Mae cannot dispose of the property until after the sale is approved, 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 (within 24 hours after it learns that the foreclosure sale has been approved).

In the event a property subject to resale restrictions is acquired by Fannie Mae through foreclosure or the acceptance of a deed-in-lieu, and the resale restrictions survive foreclosure, the servicer must indicate that the property is subject to resale restrictions that survive foreclosure on the Fannie Mae REOgram. In the section of the REOgram titled “Comments about the Property,” the servicer must include a notation that the property is subject to resale restrictions and provide contact information for the governmental housing agency or other applicable organization. With respect to all resale restrictions, the servicer also 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 deed-in-lieu complies with the requirements of the applicable resale restrictions. With respect to resale restrictions that do not survive foreclosure (or the expiration of any applicable redemption period) or acceptance of a deed-in-lieu, the servicer represents and warrants that all action necessary for the resale restrictions to terminate has been taken.

The servicer may use the REOgram Notification Application that is available through the Asset Management Network to report a property acquisition on an automated basis. The servicer should prepare a *Notice of Property Acquired* ([Form 1082](#)) to ensure that it has obtained all of the required information before it sends an electronic REOgram. The REOgram must include:

- A. Servicer’s name and address, its nine-digit Fannie Mae identification number, and the name and telephone number of its contact person;



- B. Borrower's (and, if applicable, co-borrower's) name and Social Security number;
- C. Fannie Mae's loan number and the servicer's mortgage identification number;
- D. Lien type—first or second;
- E. Loan type—FHA, VA, conventional, or RD;
- F. Loan origination date;
- G. An indication of whether a hazard insurance claim is pending;
- H. LPI date and the UPB;
- I. Property address, including house or unit number, street name, city, county, state, and zip code; and the property's legal description (including the tax parcel identification);
- J. Type of property—single-family, two- to four-unit, or unit in a condo, PUD, or co-op project;
- K. Manufactured housing identification;
- L. 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.);
- M. Date of the foreclosure sale or the date the deed-in-lieu was executed;
- N. The expiration date of any applicable redemption period;
- O. The name of the original appraiser, the date of the appraisal, and the appraised value;
- P. Date of last property inspection;

- Q. Mortgage insurer's name, Fannie Mae's two-digit identification code for the mortgage insurer, the name and telephone number of the mortgage insurer's contact person, certificate number, type of coverage, coverage percentage, and the claim status and amount; and
- R. Appropriate information about the first mortgage loan, if Fannie Mae's mortgage loan is in a second-lien position—the name of the first mortgage servicer, an indication of whether Fannie Mae has an ownership interest in the first mortgage loan, the mortgage insurer's name and the percent of coverage it provides, the UPB, the LPI date, and the amount of any advances the second mortgage servicer has made against the first mortgage loan.

After the servicer submits an REOgram to Fannie Mae, it must monitor the property's status to ensure that it files the final *Cash Disbursement Request* ([Form 571](#)) in a timely manner. Fannie Mae's Asset Management Network includes a Property Information application that enables the servicer to view the latest status information for an individual acquired property (or for all of the acquired properties that the servicer is monitoring in a specific state). Information that is available in this application includes the broker's identification, the current property disposition status, the date of closing for a sold property, and the date of expected cancellation for the hazard insurance policy. Once the servicer is able to confirm that closing has been held for an acquired property Fannie Mae sold, it must file the final Form 571 within 30 days of the closing date.

Section 114.02  
Reporting Action Codes  
(09/30/05)

The servicer must report the acquisition of a property secured by a whole mortgage loan or a participation pool mortgage loan that Fannie Mae holds in its portfolio, an MBS mortgage loan accounted for under the special servicing option, or an RD mortgage loan serviced under the special servicing option by including the appropriate action code to Fannie Mae's investor reporting system in the next activity report it transmits to Fannie Mae after the property is acquired at the foreclosure sale. It must use:

- Action Code 70 when a property that was secured by an uninsured conventional mortgage loan has been acquired by foreclosure, when a property that was secured by a VA mortgage loan cannot be conveyed to VA because the VA refused to specify a bid amount, or when an RD

mortgage loan serviced under the special servicing option has been acquired by foreclosure. The servicer also must use Action Code 70 to report its purchase of an acquired property after submission of the REOgram, if the mortgage loan has not already been removed from Fannie Mae's investor reporting records.

- Action Code 71 when a property has been condemned or acquired by a third party.
- Action Code 72 when a property has been acquired by foreclosure and is pending conveyance to FHA, VA, or the mortgage insurer.

The servicer of an MBS mortgage loan that is accounted for under the regular servicing option usually does not report these action codes because it purchases the mortgage from the MBS pool before any of these events occur. However, if the servicer chooses not to purchase the mortgage (until the time required as described in *Section 210, Settlements for MBS Regular Servicing Option Pool Mortgage Loans (06/01/07)*), it must continue to advance the scheduled payments until it receives the foreclosure claim settlement or, if the mortgage is uninsured, until after it disposes of the property. At that time, it must report the applicable action code to advise Fannie Mae to remove the mortgage from its accounting records for the MBS pool.

The servicer of an RD mortgage that is serviced under the modified special servicing option or the regular servicing option also does not report these action codes since it purchases the mortgage from Fannie Mae immediately following the foreclosure sale. The servicer must advise Fannie Mae of this purchase by reporting an Action Code 65 to Fannie Mae's investor reporting system in the first activity report that it transmits to Fannie Mae following the date of the foreclosure sale.

**Section 115  
Notifying IRS About  
Abandonments or  
Acquisitions (09/30/05)**

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. Except as provided in *Section 115.03, Reporting via Manually Prepared Reports (09/30/05)*, a servicer must file these notices on Fannie Mae's behalf, using IRS Form 1099-A (*Acquisition or Abandonment of Secured Property*), for whole 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 for 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. A 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%, for mortgage participations in MBS pools if the securitized portion of the whole mortgage loan is less than 50%, and for 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 deed-in-lieu).
- A third party—including the servicer of a first 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 the second 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.

After an event that triggers a reporting requirement occurs, IRS Form 1099-A must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the event occurred. The servicer also must furnish the borrower with an information

statement on or before January 31 of that year. The requirement for notifying the borrower can be satisfied by sending Copy B of a completed IRS Form 1099-A to the borrower's last known address. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name, address, and federal identification number (52-0883107), and include a legend stating that the information is being reported to the IRS. If it is filed by the servicer on its own behalf or for the "owner of record," the name, address, and identification number of the servicer or owner of record, respectively, must be provided instead.

Section 115.01  
Preparing IRS Form  
1099-A (09/30/05)

The servicer is responsible for completing the IRS Form 1099-A accurately, for filing it with the IRS, and for providing the information to the borrower (and in some cases, as described in *Section 115.03, Reporting via Manually Prepared Reports (09/30/05)*, to Fannie Mae) by the required dates. If the IRS penalizes Fannie Mae because a servicer failed to file a return—or filed an incorrect return or late return—Fannie Mae will require the servicer to reimburse Fannie Mae for any penalty fees the IRS assesses (unless the servicer can document that it met the filing requirements).

Information that must be reported on the IRS Form 1099-A includes:

- the borrower's taxpayer identification number (usually the Social Security number if the borrower is a natural person);
- the date of acquisition of an interest in the property or the date the servicer acquired knowledge of the abandonment;
- the outstanding UPB of the mortgage loan;
- a general description of the property;
- the fair market value of the property at the time of acquisition (if the borrower is personally liable for the debt); and
- whether the borrower is personally liable for the debt.

Section 115.02  
Reporting via Magnetic  
Media (09/30/05)

A servicer that is able to report IRS Form 1099-A information on magnetic media must do so on Fannie Mae's behalf. Even though a servicer reports to the IRS on magnetic media, it is still responsible for providing a hard

copy of the IRS Form 1099-A to the borrower (Copy B) and to those states that require it (Copy C). Copy B must be sent to the borrower no later than January 31.

The servicer does not need to send Fannie Mae a copy of the magnetic media it files with the IRS. However, to ensure that Fannie Mae can identify the servicer and specific mortgage loan numbers should the IRS contact Fannie Mae for additional information or clarification, Fannie Mae requires the servicer to:

- insert the following header information when the IRS Form 1099-A is filed on Fannie Mae's behalf—Fannie Mae on the first "Payer" line and the 10-digit Fannie Mae loan number (or the MBS pool number), followed by one space and then the 9-digit identification number that Fannie Mae assigned to the servicer, on the line for the "Payer's account number for Payee"; and
- submit a Summary of IRS Form 1099-A Filing (Form 1100) to notify Fannie Mae that it reported to the IRS on magnetic media.

Section 115.03  
Reporting via Manually  
Prepared Reports  
(09/30/05)

A servicer that would report IRS Form 1099-A information manually must submit the original completed form (Copy A only) to Fannie Mae in sufficient time to reach Fannie Mae by the close of business on January 31 of each year. Copy B of the form must be provided to the borrower by that same date. The servicer must either retain Copy C or submit it to the state taxing authority if that is required by state law. The servicer should not send any information related to the filing of IRS Forms 1099-A directly to the IRS.

To ensure that Fannie Mae can account for all of the servicer's IRS Forms 1099-A, the servicer must batch the forms it sends to Fannie Mae under cover of a *Summary of IRS Form 1099-A Filing* (Form 1100). The servicer must send its packages of IRS Forms 1099-A (with a return receipt requested) to

Fannie Mae  
NPDC-Form 1099A Processing  
P.O. Box 650043  
Dallas, TX 75265-0043

The servicer may prepare the IRS Form 1099-A as soon as one of the events that triggers the reporting requirement occurs, rather than waiting until after the end of the year. By doing this, the servicer can submit the form to Fannie Mae in time to ensure that any errors are corrected in advance of Fannie Mae's deadline for filing the return.

When Fannie Mae receives a servicer's IRS Forms 1099-A, Fannie Mae will edit them to make sure that all of the required data is present and reasonable. If any of the required information is incorrect or missing (except for the missing taxpayer identification numbers for the mortgage loans specified on the Form 1100), Fannie Mae will send the servicer a report listing the errors that need to be corrected. The servicer must correct any erroneous information and return the error listing report to the above address by the date Fannie Mae specifies.

The servicer must expedite the submission of any corrections (retaining the mailing receipt as evidence that the information was provided on a timely basis). If a servicer fails to return the requested corrections to Fannie Mae by the specified date, Fannie Mae may assess a \$100 compensatory fee for each incomplete or incorrect IRS Form 1099-A that has not been corrected. Fannie Mae will not assess a compensatory fee for those IRS Forms 1099-A that do not include the borrower's taxpayer identification number. However, if the servicer failed to list one of these cases on a Summary of IRS Form 1099-A Filing (Form 1100), it must prepare one and execute the certification that it complied with the IRS' requirements for attempting to obtain the borrower's taxpayer identification number.

**Section 116  
Notifying IRS About  
Cancellations of  
Indebtedness (09/30/05)**

The IRS requires certain mortgage holders, including Fannie Mae, to file information returns when \$600 or more of a borrower's mortgage debt is cancelled. Except as provided in *Section 116.05, Reporting via Magnetic Media (09/30/05)*, a servicer must file these returns on Fannie Mae's behalf, using IRS Form 1099-C, for whole 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 for 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. A 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%, for mortgage participations in MBS pools if the securitized portion of the whole mortgage loan is less than 50%, and for 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 any debt was cancelled, the servicer must file the information return on Fannie Mae's behalf. Fannie Mae is required to report cancellations of indebtedness occurring on or after January 1, 2005.

Section 116.01  
Determining When a  
Debt Is Cancelled  
(09/30/05)

A debt is cancelled (in whole or part) when any of the following occur:

- discharge in bankruptcy under Title 11 of the U.S. Code;
- receivership, foreclosure, or similar federal or state court proceeding makes the debt unenforceable;
- the statute of limitations applicable to collecting the debt expires (if so determined by a court and any appeal period has expired), or expiration of the statutory period for filing a claim or beginning a deficiency judgment proceeding;
- foreclosure remedies by law end or bar the lender's right to collect the debt (e.g., foreclosure by exercise of the "power of sale" in the mortgage or deed of trust);
- probate or similar proceeding cancels or extinguishes the debt;
- the lender and the borrower agree to cancel the debt at less than full consideration;
- a decision or defined policy of the lender causes collection activity to be discontinued and the debt to be cancelled; or
- expiration of a "non-payment testing period."

The IRS presumes that a debt is cancelled during a calendar year if no payment has been received on the mortgage loan during a period (the "non-payment testing period") of 36 months, plus the number of calendar months when collection activity was precluded by a stay in bankruptcy or similar bar under state or local law. The presumption may be rebutted,



however, if there has been significant, bona fide collection activity at any time during the calendar year, or if facts and circumstances, existing as of January 31 of the calendar year following expiration of the 36-month period, indicate that the indebtedness has not been discharged.

Section 116.02  
Preparing IRS Form  
1099-C (09/30/05)

The servicer is responsible for completing the Cancellation of Debt (IRS Form 1099-C) accurately, and for filing it with the IRS and providing the information to the borrower (and in some cases, Fannie Mae) by the required dates. If the IRS penalizes Fannie Mae because its servicer failed to file a return—or filed an incorrect or late return—Fannie Mae will require the servicer to reimburse Fannie Mae for any penalty fees the IRS assesses (unless the servicer can document that it met the filing requirements). The form must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the discharge of indebtedness occurs.

The servicer also must furnish the borrower with an information statement before January 31 of that year. The requirement for notifying the borrower can be satisfied by sending Copy B of a completed IRS Form 1099-C (or a substitute statement that complies with IRS requirements for substitute forms) to the borrower's last known address, and the servicer must send Copy C to those states that require it. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name as the "Creditor," Fannie Mae's address and federal identification number (52-0883107), and include a legend identifying the statement as important tax information that is being furnished to the IRS. If it is filed by the servicer on its own behalf or for the "owner of record," the name, address, and identification number of the servicer or owner of record, respectively, are provided instead.

Information that must be reported on the IRS Form 1099-C includes:

- the borrower's name, address, and taxpayer identification number (usually the Social Security number if the borrower is a natural person);
- the date the debt was cancelled;

- the amount of the cancelled debt, which does not include interest or any amount received in satisfaction of the debt from a foreclosure sale or other means;
- a description of the debt, such as “mortgage loan,” and a description of the property if a combined IRS Form 1099-C and 1099-A is filed;
- whether the borrower is personally liable for the debt;
- whether the debt was cancelled in bankruptcy; and
- the fair market value of the property if a combined IRS Form 1099-C and 1099-A is filed.

If the cancelled mortgage debt had an original principal amount of \$10,000 or more, was originated after 1994, and involves borrowers who are jointly and severally liable for the debt, a separate information return for each borrower must be filed, and each return must report the entire amount of the cancelled debt. If the mortgage debt was originated prior to January 1, 1995, or if the original principal amount of the cancelled mortgage debt was less than \$10,000, and if there are multiple borrowers, reporting is required only with respect to the primary (or first-named) borrower. In addition, only one information return is required, regardless of the origination date or the original principal amount, if the servicer knows, or has reason to know, that co-borrowers were husband and wife living at the same address when the mortgage loan was originated, and does not know or have reason to know that such circumstances have changed when the debt is cancelled.

Section 116.03  
Exceptions to IRS Form  
1099-C Reporting  
(09/30/05)

**Certain bankruptcies.** Fannie Mae’s servicer need not report a debt cancelled in bankruptcy unless the mortgage loan was originated as an investment property mortgage loan.

**Interest.** Interest need not be reported. If it is reported as part of the cancelled debt, the IRS Form 1099-C instructions require that it be shown in a separate box on the form.

**Non-principal amounts.** Cancellation of amounts other than stated principal, including penalties, fines, fees, and administrative costs charged to the borrower, need not be reported.

**Release of a co-mortgagor.** IRS Form 1099-C need not be filed when one borrower is released from a mortgage loan as long as the remaining borrowers are liable for the full UPB.

**Guarantor or surety.** A guarantor or surety is not a borrower for purposes of the debt cancellation reporting requirements, so IRS Form 1099-C is never required.

Section 116.04  
Coordination with  
Reporting Abandonments  
or Acquisitions (09/30/05)

If, in the same calendar year, mortgage debt is cancelled in connection with the acquisition or abandonment of the same borrower's property securing the mortgage loan, filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

Section 116.05  
Reporting via Magnetic  
Media (09/30/05)

The procedures set forth in *Section 115.02, Reporting via Magnetic Media (09/30/05)*, apply to a servicer that is able to report IRS Form 1099-C information on magnetic media. A servicer that would report IRS Form 1099-C information manually must follow the procedures set forth in *Section 115.03, Reporting via Manually Prepared Reports (09/30/05)*.

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**Foreclosures,  
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Foreclosures

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## **Exhibit 1: Mortgage Loan Status Data for Foreclosure Proceedings (08/24/03)**

The following information must be sent to a foreclosure attorney (or trustee) when a mortgage loan is referred for the initiation of foreclosure proceedings:

### *Servicer Information*

- Servicer's Name and Address, and Fannie Mae Identification Number
- Servicer's Contact Person's Name, Telephone Number, and Fax Number

### *Property Information*

- Property Address, and Tax Identification Number or Assessor's Parcel Number (if available)
- Property Type (Single-family, duplex, condo, co-op, etc.) For manufactured homes, the servicer must advise the selected attorney (or trustee) and forward to him or her a copy of the pre-referral property inspection report and copies of all appropriate lien documents including, if applicable, any documents that evidence surrender of the certificate of title to the home.
- Number of Dwelling Units
- Occupancy Status
- Principal Residence or Investment Property (If the mortgage loan is secured by an investment property, it is very important to provide all known information, including number of units, occupancy status, names of any tenants, rental income, lease amounts, etc.)
- Native American Land (Tribal Trust, Allotted, Restricted Fee, as applicable)

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- Name and Telephone Number of Management Agent for a Co-op Project (if applicable)
- Name and Telephone Number of HOA for Condo Project (if applicable)

*Borrower Information*

- Borrower's Name
- Borrower's Mailing Address (if different from Property Address)
- Borrower's Social Security Number or Taxpayer Identification Number
- Borrower's Current Military Status (if any)

*Mortgage Loan Information*

- Servicer's Loan Identification and Fannie Mae Loan Number
- MERS Mortgage Identification Number (MIN), if applicable
- Lien Priority (First or Subordinate)
- Original Mortgage Loan Amount
- Current UPB and LPI Date
- Total Amount Past Due (Reinstatement)
- Total Amount Past Due (Payoff)
- Brief Servicing History for last 12 months (including previous foreclosure referrals, foreclosure prevention efforts, and bankruptcies)
- Name of Mortgage Insurer (if applicable)
- Any other Important Mortgage Loan Characteristics (such as Home Equity Conversion Mortgage status, Texas Home Equity Loan, etc.)

When a servicer initiates foreclosure proceedings on a mortgage loan secured by a manufactured home, the servicer must provide the foreclosure attorney (or trustee) 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 process; and
- a copy of its pre-referral property inspection report, or all the information that was gathered in connection with that property inspection that relates to the status of the property as manufactured housing.

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**Foreclosures,  
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Exhibit 1

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## **Exhibit 2: Expected Servicer/Attorney (or Trustee) Interaction (08/24/03)**

Fannie Mae requires the servicer and the foreclosure attorney (or trustee) to interact throughout the conduct of foreclosure proceedings. Some of the key instances of this interaction are listed below. This list is not intended to be all-inclusive—there will be other mortgage loan and jurisdictional specific servicing obligations; therefore, the servicer must respond to any attorney (or trustee) request consistent with the requirements and time frames detailed below.

- The servicer must submit a complete referral package to the selected attorney (or trustee). The referral package must include mortgage loan status data (from *Exhibit 1: Mortgage Loan Status Data for Foreclosure Proceedings*) and the documentation the attorney (or trustee) needs to conduct foreclosure proceedings.
- If the property type includes manufactured housing, the servicer must advise the selected attorney (or trustee) and forward to him or her a copy of the pre-referral property inspection report and copies of all appropriate lien documents including, if applicable, any documents that evidence surrender of the certificate of title to the home.
- The attorney (or trustee) will acknowledge receipt of the referral package (and indicate whether or not it is complete) within two business days. The servicer must provide any required missing documentation to the attorney (or trustee) within five business days after it receives the attorney's (or trustee's) request.
- The attorney (or trustee) will notify the servicer of the scheduled foreclosure sale date (or the scheduled Uniform Commercial Code (UCC) sale date, for co-op units). If the court orders a Foreclosure by Sale in Connecticut, the attorney will so advise the servicer. The servicer must provide the attorney (or trustee) with bidding instructions at least five business days before the scheduled sale date. If a servicer's failure to provide bidding instructions results in the continuance or postponement of a scheduled foreclosure sale, Fannie Mae will require the servicer to reimburse Fannie Mae for losses resulting from the delay. If a deficiency judgment is to be pursued in Louisiana, the servicer must advise the attorney.

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**Foreclosures,  
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- The attorney (or trustee) will contact the servicer on the day of the foreclosure sale (or the UCC sale, for a co-op unit) to confirm that the property was acquired at the sale.
- The servicer must provide any additional information, verifications, certifications, documentation, and signatures the attorney (or trustee) requests no later than three business days after the attorney (or trustee) asks for them. To ensure that this timeline is met, a servicer should consider giving the attorney (or trustee) a limited power of attorney, or other similar alternatives.
- The servicer must respond to the attorney's (or trustee's) request for an advance of funds to defray out-of-pocket costs within ten business days in any instance in which the attorney (or trustee) is required to make a significant advance in connection with the foreclosure.
- The servicer must notify the attorney (or trustee) within two business days after delinquency arrangements with the borrower have been agreed to or within two business days after the mortgage loan is fully reinstated.

June 10, 2011

Exhibit 3

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**Exhibit 3: Daily Journal Corporation Newspapers for Trustee's  
Sale Publications  
(11/01/03)**

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

San Francisco Daily Journal

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Exhibit 3

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## **Chapter 2. Conveyances and Claims (09/30/05)**

The servicer is responsible for satisfying the requirements that FHA, HUD, VA, RD, or the mortgage insurer have established regarding the conveyance of an acquired property to them and for completing the actual conveyance within the required time frame. In addition, the servicer must 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. 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).

The servicer also must file claims for mortgage loans insured by mortgage insurers not participating in the MI Direct mortgage insurance claims process for conventional first mortgage loans and those mortgage loans that are not conventional first mortgage loans on which Fannie Mae bears the risk of loss. The servicer must file all claims in a timely manner following any special requirements that the insurer or guarantor may have. Fannie Mae requires the servicer of a whole mortgage loan or a participation pool mortgage loan that Fannie Mae holds in its portfolio, or of an MBS mortgage loan serviced under the special servicing option, to reimburse Fannie Mae 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. Fannie Mae also will require the servicer of an FHA Title I loan that was sold to Fannie Mae without recourse to make Fannie Mae whole if HUD does not honor the claim because sufficient credit was not transferred to Fannie Mae's claim reserve account when Fannie Mae purchased the mortgage loan or because of any other reason related to a failure to originate and service the mortgage loan in accordance with HUD's requirements.

The servicer of a regular servicing option MBS mortgage loan, an RD mortgage loan that is serviced under the modified special servicing option or the regular servicing option, or an FHA Title I loan that was sold to Fannie Mae “with recourse” must file the claim in its name since the claim proceeds should be paid directly to the servicer. If the servicer of a regular servicing option MBS mortgage loan purchases the mortgage loan before the claim settlement, then Fannie Mae will have no interest in the claim proceeds. But, if the servicer leaves the mortgage loan in the MBS pool until after it receives the claim settlement (or until 60 days after the foreclosure sale, whichever occurs first), then it must use its own funds (which may be claim proceeds in whole or part) to remove the mortgage loan from the pool. (See *Section 210, Settlements for MBS Regular Servicing Option Pool Mortgage Loans (06/01/07)*, for more detail.)

For all other mortgage loans, the servicer must identify Fannie Mae as the mortgage loan holder or claimant on conveyance and claim forms and other documents that are submitted with the claim. Then, to ensure that Fannie Mae gets direct payment of the settlement, the servicer must always indicate that a claim is being filed on Fannie Mae’s behalf. A servicer must always show Fannie Mae’s loan number and its Fannie Mae servicer identification number on the conveyance and claim forms. This will help Fannie Mae associate a claim settlement with the correct mortgage loan. If the claim settlement is still sent to the servicer, it must remit the full amount of the settlement to Fannie Mae immediately. Fannie Mae may require the servicer to pay Fannie Mae interest if these misdirected funds are not sent promptly.

**Section 201  
Conveyance  
Documents (01/31/03)**

The servicer must use the type of deed or other transfer instrument that is usually used to convey a property in the jurisdiction where the security property is located. The servicer must instruct the foreclosure attorney (or trustee) to include a street address and unit number where applicable, for the property (in addition to the legal description) in the conveyance document(s) to ensure that Fannie Mae will not experience any delays in identifying the correct location of the acquired property.

Title to the property may need to be conveyed to Fannie Mae in some instances and to the mortgage insurer or guarantor in other instances. The form of conveyance is dictated by the name under which the foreclosure proceedings were conducted (as discussed in the following *Sections*). The servicer must send Fannie Mae’s National Property Disposition Center a

copy of the foreclosure deed (or a deed-in-lieu) or any other applicable conveyance documents within two business days after title to the property is conveyed. The document(s), which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

If, during Fannie Mae's marketing of an acquired property, Fannie Mae finds that it needs additional information, it will contact the servicer by telephone or e-mail. Therefore, a servicer must retain in its individual mortgage loan file any and all material that could assist Fannie Mae in marketing, selling, or conveying the property.

Section 201.01  
Foreclosure Conducted in  
Fannie Mae's Name  
(01/31/03)

When the foreclosure is conducted in Fannie Mae's name, no conveyance document is required unless the mortgage insurer or guarantor has indicated that it will accept conveyance of the property. When that is the case, a servicer that has Fannie Mae's limited power of attorney to execute conveyance documents must prepare, execute, and submit for recordation a warranty deed conveying title to the property to the insurer or guarantor. If the servicer does not have Fannie Mae's limited power of attorney (or, for some other reason, is unable to convey the title directly to the insurer or guarantor), the servicer must prepare the necessary documents to convey the property to the insurer or guarantor and submit them to Fannie Mae's National Property Disposition Center for execution at least two weeks before the title to the property will be turned over to the insurer or guarantor. Fannie Mae will return the document(s) to the servicer as soon as Fannie Mae executes them.

Section 201.02  
Foreclosure Conducted in  
Servicer's Name  
(01/31/03)

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—if the mortgage loan is 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 to HUD. However, if the servicer knows that a property can be conveyed to HUD or VA and that it is

allowed to directly convey the title to HUD or VA, it must do so. In addition, 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 since the servicer is responsible for marketing and disposing of the acquired property.

In those instances in which Fannie Mae requires the servicer to convey title to the property to Fannie Mae after the property is acquired, the foreclosure attorney (or trustee) must have title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax—such as assigning the foreclosure bid or judgment to Fannie Mae, including language in the judgment that directs the sheriff or clerk to issue a deed in Fannie Mae's name, or recording a grant deed to Fannie Mae immediately following the foreclosure sale, etc. (as discussed earlier in *Section 105, Conduct of Foreclosure Proceedings (05/01/10)*). The servicer must submit for recordation any deed conveying 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 follow the procedures for preparing conveyance documents for execution that are described above in *Section 201.01, Foreclosure Conducted in Fannie Mae's Name (01/31/03)*.

**Section 202  
Conveying the Property  
(01/31/03)**

Custody of the property must be turned over to HUD, VA, or the mortgage insurer as soon as possible after their requirements for conveying properties have been met. Sometimes, HUD or VA may not accept a property that the servicer conveyed. When this happens, the servicer must determine why the property was reconveyed to Fannie Mae. If HUD's or VA's reasons for not accepting the property are of the kind that can be easily resolved, the servicer must take any action that is required to correct the matter. The servicer must then reconvey the property to HUD or VA. If a second conveyance will not be accepted, the servicer must submit an REOgram notifying Fannie Mae of the acquisition of the property and must send Fannie Mae a separate written explanation of why HUD or VA would not accept the property. The servicer also must give Fannie Mae any recommendations it has for disposing of the property.



June 10, 2011

Section 203

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**Section 202.01  
FHA Mortgage Loans  
(01/31/03)**

Because Fannie Mae has a special arrangement with HUD, the servicer can convey a property that secured an FHA mortgage loan as soon as Fannie Mae has acquired marketable title. Generally, Fannie Mae cannot acquire marketable title until any redemption period has ended and the property has been vacated. Sometimes, HUD may agree to accept an occupied property. The servicer must not convey a property that secured an FHA coinsured mortgage loan under any circumstances.

**Section 202.02  
VA Mortgage Loans  
(01/31/03)**

The servicer must convey a property that secured a VA mortgage loan to VA when it sends the “notice of election to convey” that VA requires. That notice must be sent to VA within 15 days after the foreclosure sale date. In some states, the 15 days start with the date of confirmation of the foreclosure sale or the date of judgment instead of the foreclosure sale date. At the same time, the servicer must send a preliminary billing for VA’s “upset price.”

**Section 202.03  
Insured Conventional  
Mortgage Loans  
(01/31/03)**

A 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. When the claim is filed in Fannie Mae’s name and the claim settlement is sent directly to Fannie Mae, Fannie Mae will inform the servicer as soon as Fannie Mae receives the claim settlement. Whenever the mortgage insurer agrees to accept the property, the servicer must immediately convey it.

**Section 203  
Filing Claims for FHA  
Mortgage Loans  
(01/31/03)**

Under HUD regulations, a mortgagee may submit a claim for FHA insurance benefits for a foreclosed single-family mortgage on the date the deed to HUD is filed for record. If specifically directed by HUD, a servicer may submit a claim without conveying title to the property to HUD. When that is the case, the servicer must comply with all aspects of HUD’s claim without conveyance procedures—providing the required notices to HUD, bidding the amount specified by HUD, etc. FHA Mortgagee Number 9500109998 must be used if the claim forms require Fannie Mae’s FHA Mortgagee Number. To make sure that a claim settlement is sent directly to Fannie Mae’s lockbox, the servicer must show Fannie Mae’s name and address on the claim form as follows:

Fannie Mae  
P.O. Box 9776  
Washington, DC 20016-9776

The servicer must send a copy of the applicable claim form to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

If a servicer erroneously indicates its name on a claim form for the mortgage loan, HUD will transfer the funds directly to the servicer, rather than to Fannie Mae. Should that happen, 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. The compensatory fee will be calculated at the prime rate (published in *The Wall Street Journal's* prime rate index) that was in effect on the first business day of the month in which HUD transferred the funds to the servicer, plus 3%.

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 HUD allows, it must send a *Mortgagee's Request for Extensions of Time* ([Form HUD-50012](#)) to its local HUD office. This request should provide a valid reason for the extension and define the circumstances that prevent the servicer from taking the timely action. It must be mailed at least ten days before the allowable time period has elapsed.

A servicer must analyze the claim payment advice letter that it receives from HUD (particularly those in which interest is curtailed or expenses are disallowed) to determine whether it needs to file a supplemental claim or to contact HUD to offer an explanation that will reverse the curtailment or disallowance. (Any appeal must be submitted within three months of the date of HUD's denial letter.) When Fannie Mae completes its final claim analysis for an FHA mortgage loan, Fannie Mae will notify the servicer if it owes Fannie Mae any money or if, as the result of HUD's refusal to accept conveyance of the property or outright denial of the claim, the

**Section 204  
Filing Claims for FHA  
Coinsured Mortgage  
Loans (01/31/03)**

servicer has to purchase the property from Fannie Mae. Within 30 days after the date of Fannie Mae's notification, Fannie Mae requires the servicer to resolve the issue or to send Fannie Mae any money it owes.

After the foreclosure sale for an FHA coinsured mortgage loan, HUD 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 HUD. The notice must be sent to HUD before the six months have expired. HUD will arrange for an independent appraisal to determine the value of the property for claim purposes. Then, the servicer must file a claim within 15 days after it receives HUD's notice of the appraised value. At that same time, the servicer must 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.

If Fannie Mae is able to sell the property, Fannie Mae will notify the servicer as soon as the sales contract has been finalized. The servicer must file a *Single-Family Application for Insurance Benefits* (HUD [Form 27011](#)) with HUD within 15 days after the new mortgage loan is closed.

The servicer must send a copy of the claim form to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

As soon as the servicer receives the HUD 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 bill the servicer for a compensatory fee. Fannie Mae also will require the servicer to reimburse Fannie Mae for any amount that HUD disallows from the claim because of the servicer's failure to comply with HUD's requirements.

- When the property was sold (and Fannie Mae has the sales proceeds in its possession), the servicer's payment to Fannie Mae will represent the remaining UPB, debenture and mortgage loan interest included in HUD's settlement, and two-thirds of the foreclosure costs.
- When the property was not sold within the allowable six months (resulting in a claim settlement based on the appraised value of the property), the servicer's payment to Fannie Mae will represent the entire amount of the outstanding principal balance, debenture and mortgage loan interest included in HUD's settlement, and two-thirds of the foreclosure costs.

**Section 205  
Filing Claims for FHA  
Title I Loans (01/31/03)**

Title I is a coinsurance program, which means that FHA generally pays 90% of the loss on an individual claim and the lender pays 10%. However, for Title I loans registered in the portfolio loan insurance program, FHA is only obligated to pay claims up to 10% of the value of a lender's Title I portfolio. To monitor this, FHA establishes an unfunded claim reserve account for each mortgage loan originator (or purchaser). When a Title I home improvement loan is originated, FHA credits the lender's claim reserve account with an amount equal to 10% of the original amount of the loan. When an FHA Title I loan is sold to Fannie Mae without recourse, Fannie Mae's claim reserve account will be credited; otherwise, the originating lender's claim reserve account will be credited. A lender (or a mortgage loan purchaser) is paid for any claims it files up to the amount that it has in its claim reserve account. If, at any time, a lender (or mortgage loan purchaser) files a claim for an amount above the balance of its claim reserve account, the claim will be denied.

The servicer must file a claim under the insurance contract for an FHA Title I loan within nine months of the date of the borrower's default. Claims for Title I loans sold to Fannie Mae without recourse must be filed in Fannie Mae's name so that Fannie Mae's claim reserve account can be appropriately adjusted. Claims for Title I loans sold to Fannie Mae "with recourse" must be filed in the servicer's name. This will result in the servicer's claim reserve account being adjusted and the claim proceeds being sent to the servicer. (The claim proceeds will, in effect, reimburse the servicer for funds the servicer advanced to purchase the loan from Fannie Mae when it was assigned to HUD.)

June 10, 2011

Section 206

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**Section 206  
Filing Claims for VA  
Mortgage Loans  
(01/31/03)**

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 its list current at all times.

The servicer must file the claim with VA within 15 days after the foreclosure sale. To make sure that a claim settlement is sent directly to Fannie Mae's lockbox, the servicer must show Fannie Mae's name and address on the claim form and on the billing for the "upset price." Use the following address for all VA claim forms:

Fannie Mae  
P.O. Box 277672  
Atlanta, GA 30384-7672

The servicer must send a copy of the *Claim Under Loan Guaranty* (VA Form 26-1874) to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
14221 Dallas Pkwy, Suite 1000  
Dallas, TX 75254-2916

A servicer must analyze the claim settlement sheets that it receives from VA (particularly those in which interest is curtailed or expenses are disallowed) to determine whether it needs to contact VA to offer an explanation that will reverse the curtailment or disallowance. When Fannie Mae completes its final claim analysis for a VA mortgage loan, Fannie Mae will notify the servicer if it owes Fannie Mae any money or if, as the result of VA's refusal to accept conveyance of the property or outright denial of the claim, the servicer has to purchase the property from Fannie Mae. Within 30 days after the date of Fannie Mae's notification, Fannie Mae requires the servicer to resolve the issue or to send Fannie Mae any money it owes.

**Section 207  
Filing Claims for Rural  
Development Mortgage  
Loans (01/31/03)**

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. Under the regular servicing option and the modified special servicing option, the servicer 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. This also is true for any RD mortgage loan that is originated under the RD Native American Pilot program. Under the special servicing option, the servicer is not required to purchase the mortgage loan or to dispose of the acquired property; therefore, it files the claim on Fannie Mae's behalf. (To ensure that the 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 the servicer files a claim on Fannie Mae's behalf, it must send a copy of the claim form to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
14221 Dallas Pkwy, Suite 1000  
Dallas, TX 75254

RD's loss calculation for the claim will be based on the appraised value of the property at the time of the foreclosure sale (with an allowance for the costs of disposing of the property), not on the net sales proceeds actually received from the disposition of the property. RD usually will pay the servicer all (or a percentage) of the difference between the appraised value of the property and the outstanding principal balance, plus accrued interest, foreclosure costs, other approved advances, and an allowance for disposition costs. The guarantee with respect to any given loss covers all of the loss up to 35% of the original mortgage loan amount, while any additional loss up to 65% of the original mortgage loan amount is shared by RD (85%) and the servicer (15%). The responsibility for any loss not recovered from RD varies depending on the servicing option:

- If the mortgage loan is serviced under 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 the RD.
- If the mortgage loan is serviced under the special servicing option, Fannie Mae will bear all losses not recovered from RD.
- If the mortgage loan is serviced under 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 of the difference between the calculated loss and RD's actual claim payment, the servicer should submit a *Cash Disbursement Request* ([Form 571](#)) to Fannie Mae. The servicer must send a copy of the RD claim form and notice of RD's acceptance or modification of the claim to Fannie Mae's National Property Disposition Center at the address shown above.

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 will not require the servicer to return the funds Fannie Mae reimbursed.

**Section 208  
Filing Claims for  
Conventional Mortgage  
Loans (06/30/04)**

Servicers must file all primary mortgage insurance claims for preforeclosure sales 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 any approved mortgage insurer except Republic Mortgage Insurance Company. The mortgage insurance claim must be filed so that the claims proceeds are sent directly to Fannie Mae. Fannie Mae will file the primary mortgage insurance claims on mortgage loans insured by Republic Mortgage Insurance Company.

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**Foreclosures,  
Conveyances and  
Claims, and Acquired  
Properties**

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**Conveyances and Claims**

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Section 208

June 10, 2011

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<b>Claimable Event</b>	<b>Servicer Files Mortgage Insurance Claim in Fannie Mae's name</b>	<b>Action Code</b>
Preforeclosure Sales and Third-Party Foreclosure Sales	Within 30 days after remitting the 310 receipt code to Fannie Mae for settlement of the third-party sale or approved preforeclosure sale	71
Property Acquired through Deeds-In-Lieu and Foreclosure Sales	Within 30 days after the date of the foreclosure sale or, in states that have redemption periods after the foreclosure sale, within 30 days after the redemption period expiration	72

Once the mortgage insurance claim is filed, whether by the servicer or by Fannie Mae, the servicer has the following responsibilities.

For preforeclosure sale and third-party foreclosure sales:

- If the property is acquired through a third-party bidder at the foreclosure sale, or the property is sold by the borrower in an approved preforeclosure sale, the servicer must remove the mortgage loan from Fannie Mae's investor reporting system with an Action Code 71 and report the proceeds from the sale through the Cash Remittance System (CRS) using 310 receipt code.
- Provides the mortgage insurer with a copy of the final HUD-1 settlement statement, a copy of the valuation, and a copy of the approval letter stating the terms and conditions of any short payoff.
- Submit a final *Cash Disbursement Request* ([Form 571](#)) for reimbursement via the CRS no later than 30 days following the settlement of the third-party sale or approved preforeclosure sale.

Generally, the servicer is not required to take any further action unless it is contacted by Fannie Mae's eviction attorney and asked to provide certain information or documentation. If the servicer fails to provide requested documentation, it will be required to 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.



For properties acquired through deeds-in-lieu and foreclosure sales:

- If the property is acquired through foreclosure or deed-in-lieu, the servicer must submit an REOgram to notify Fannie Mae within 24 hours of the property acquisition. The servicer must also remove the mortgage loan from Fannie Mae's investor reporting system by submitting an Action Code 72.
- Submit a final Form 571 for reimbursement via the CRS, no later than 30 days following the settlement of the deed-in-lieu or foreclosure sale date.
- For a deed-in-lieu, the servicer must provide the mortgage insurer with a copy of the evaluation.

Generally, the servicer is not required to take any further action unless it is contacted by Fannie Mae's eviction attorney and asked to provide certain information or documentation. If the servicer fails to provide requested documentation, it will be required to 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 send a copy of the claim form to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
P.O. Box 277672  
Atlanta, GA 30384-7672

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. The mortgage insurer generally is contractually required to pay the claim within a specified period—usually 60 days—after it receives all required documentation. If Fannie Mae does not receive the claim proceeds before the end of the contractual period, Fannie Mae will ask the servicer to provide Fannie Mae with a reasonable explanation of the delay. In

explaining the delay, the servicer must inform Fannie Mae of the date it met the mortgage insurer's documentation requirements (if they had not been met when the claim was filed), the dates of its follow-up efforts with the mortgage insurer, and the mortgage insurer's responses to the servicer's inquiries. If Fannie Mae believes that the servicer acted prudently, Fannie Mae will pursue the delayed claim payment directly with the mortgage insurer. However, 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 mortgage insurance 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.

**Section 209  
Filing Claims for HUD  
Section 184 Mortgage  
Loans (01/31/03)**

When the servicer of a Section 184 mortgage loan that was in a regular servicing option MBS pool elects HUD's alternative claim settlement option (assignment without the pursuit of foreclosure), HUD will immediately pay the servicer 90% of the mortgage loan guarantee amount (principal plus interest). However, when a servicer assigns any Section 184 mortgage loan to HUD for the commencement of foreclosure proceedings, HUD will pay the mortgage loan guarantee claim amount—100% of the UPB of the mortgage loan, accrued interest, and reasonable fees and expenses it prior-approved—on completion of the foreclosure proceedings.

If HUD does not complete foreclosure proceedings within one year from the date they were initiated, the mortgage holder has the option to select HUD's alternative claim settlement at that time. When Fannie Mae has not

received the claim settlement within a reasonable time after the expiration of this one-year period, Fannie Mae will advise the servicer of a portfolio mortgage loan (or a special servicing option MBS mortgage loan that has been reclassified as a portfolio mortgage loan) if Fannie Mae wants the initial claim amended to request the immediate payment of 90% of the mortgage loan guarantee amount. The servicer of a Section 184 mortgage loan that is in a regular servicing option MBS pool may make its own determination of whether it is willing to wait until after HUD completes the foreclosure to receive the claim settlement or prefers to accept the lesser amount in return for an immediate settlement.

The servicer of a 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 that the claim settlement check is sent directly to Fannie Mae. The claim form must instruct HUD to send the proceeds to Fannie Mae; P.O. Box 9776; Washington, DC 20016-9776. After it files the claim, the servicer should submit a *Cash Disbursement Request* ([Form 571](#)) to request reimbursement for any HUD-authorized fees and expenses it advanced. In addition, the servicer must send a copy of the claim form to Fannie Mae's National Property Disposition Center within two business days after it files the claim. The claim form, which must be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, must be sent to the following address:

Fannie Mae  
NPDC-Conveyance & Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

Since 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, it must file the application for loan guarantee benefits in its own name. This is true whether it assigned the mortgage to HUD for the commencement of foreclosure proceedings or without the pursuit of foreclosure proceedings. (The claim settlement proceeds will, in effect, reimburse the servicer for the funds it had to advance to purchase the mortgage loan from the MBS pool.)

**Section 210  
Settlements for MBS  
Regular Servicing  
Option Pool Mortgage  
Loans (06/01/07)**

If the servicer of a regular servicing option MBS mortgage loan chooses not to purchase the mortgage loan, then it must remove the mortgage loan from the MBS pool within 60 days after the foreclosure sale date (or, if the mortgage loan was uninsured, once it disposes of the property). However, the servicer must immediately purchase the mortgage loan from the MBS pool using its own funds, if the mortgage loan is at least 24 months past due, as measured by the LPI, before the servicer receives the claim settlement (or disposes of the property, if the mortgage loan was uninsured), unless one of the exceptions specified with respect to the 24-month purchase requirement has occurred or is occurring. (See *Part I, Section 207.05, Servicer's Mandatory Repurchase of Certain MBS Mortgage Loans (12/08/08)*, for the exception list.)

When the servicer receives the claim (or sales) proceeds, it must immediately deposit them in its scheduled/scheduled MBS P&I custodial account, report their receipt in the accounting reports for the current month, and remit them to Fannie Mae on the remittance date in the month following their receipt. Regardless of whether a claim settlement is a full or a partial settlement, the servicer must purchase the mortgage loan from the MBS pool at that time. 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).

## **Chapter 3. Acquired Properties (01/31/03)**

The servicer is required to purchase delinquent regular servicing option MBS mortgage loans and delinquent RD mortgage loans serviced under the modified special servicing option or the regular servicing option (regardless of whether they are held in Fannie Mae's portfolio or an MBS pool); therefore, the servicer assumes all responsibilities related to the acquisition and disposition of those security properties. When a property that secures any other type of mortgage loan is acquired by foreclosure or the acceptance of a deed-in-lieu and it cannot be conveyed to the insurer or guarantor, Fannie Mae will be responsible for all functions related to the disposition of the property once the servicer notifies Fannie Mae of the property acquisition.

Fannie Mae also may require the servicer to purchase an acquired property that is not marketable because the servicer failed to detect and correct a title deficiency—particularly when Fannie Mae has lost a sale, Fannie Mae is experiencing significant delays in marketing the property, or Fannie Mae has identified that the servicer's performance shows a pattern of deficiencies.

### **Section 301 Underwriting/Servicing Review Files (01/31/03)**

When Fannie Mae's quality assurance risk assessment identifies a mortgage loan as having a higher degree of risk, Fannie Mae will perform a post-foreclosure underwriting review to evaluate the lender's initial underwriting of the mortgage loan and, if applicable, the actions the servicer took in servicing the mortgage loan. In such cases, Fannie Mae will notify the servicer about the type of review Fannie Mae will perform and the scope of the review. Servicers must send the requested documentation within the time frame specified in Fannie Mae's selection notification. If a servicer is unable to deliver the files within the specified timeline, it must contact the National Underwriting Center to discuss the delay and a proposed alternative time frame.

Fannie Mae will make every effort to work with servicers when extenuating circumstances prevent them from delivering documentation in a timely manner. However, if a servicer delays in providing the underwriting information, Fannie Mae may require indemnification or purchase (depending on the circumstances of the individual case) of these mortgage loans. When a servicer has a pattern of extensive delays or

unresponsiveness, Fannie Mae may consider this a breach of contract and consider other actions against the servicer, up to and including termination.

Lenders 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 servicer has signed up for it.

The servicer must package the requested documentation as an underwriting review file or a servicing review file (as applicable). When Fannie Mae asks the servicer for both an underwriting review and a servicing review file, the servicer may package the material as a single file (with the underwriting 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 “underwriting” file and the other identified as the “servicing” file).

Section 301.01  
Underwriting Review File  
(11/08/04)

Generally, when Fannie Mae requests an underwriting review file, Fannie Mae requires the servicer to submit the entire underwriting file. Servicers must maintain a complete mortgage loan file, including all documents used to support the underwriting decision. Upon Fannie Mae’s request, servicers must provide copies of the complete mortgage loan file, as described in the request.

Files 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 servicer keeps its files electronically, Fannie Mae must be able to reproduce these documents in an acceptable manner in terms of cost and timeframes to Fannie Mae.

Servicers that wish to submit files in a form other than paper must contact the National Underwriting Center 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 National Underwriting Center.

Fannie Mae encourages the servicer to submit the underwriting review file to Fannie Mae as soon as possible, particularly when its review of the file reveals a significant underwriting issue that needs to be addressed. When the servicer's review identifies significant deficiencies, it may offer to purchase the property from Fannie Mae when it submits the underwriting review 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—since Fannie Mae would no longer have to be concerned about the property disposition process.

When Fannie Mae has received the underwriting 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 underwriting 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 purchase (calling for the servicer to take title to the property and pay Fannie Mae for its full investment in it), although 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 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.

Section 301.02  
Servicing Review File  
(01/31/03)

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, Fannie Mae may require the servicer to

include a servicing review file for a mortgage loan when it submits the related underwriting review file to Fannie Mae's National Property Disposition Center. *Exhibit 1: Servicing Review File* provides a list of all of the documents that must be included in any servicing review file Fannie Mae request.

If Fannie Mae identifies any deficiencies in its evaluation of the servicing review file, it will communicate them to the servicer. 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).

**Section 302  
Property Management  
(01/31/03)**

Servicers are required to submit an REOgram within one business day following the foreclosure or receipt of a deed-in-lieu. Late REOgrams may be subject to a penalty for each day after this date. Once Fannie Mae receives the REOgram notifying Fannie Mae about a property acquisition, Fannie Mae will designate a broker, agent, or property management company to assume certain property management responsibilities. However, Fannie Mae will approve all repair and marketing costs involved in the disposition of the property.

Servicers will continue to be responsible for advancing funds to pay for taxes, insurance premiums, and any HOA dues. Following the foreclosure, the servicer will normally cancel the hazard insurance policy within 14 days. 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.

**Section 302.01  
Servicer's  
Responsibilities  
(01/31/03)**

The servicer is responsible for performing the following property management responsibilities until Fannie Mae notifies it that the property has been sold and that the final settlement has occurred:

- Requesting that the tax rolls be changed to reflect Fannie Mae's ownership of the property (specifying that the tax bills should continue to be directed to the servicer), and paying the appropriate taxes and assessments as they come due.



- Contacting 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, and paying the bills as they come due.

**Section 302.02  
Broker's, Agent's, or  
Property Management  
Company's  
Responsibilities  
(01/31/03)**

Fannie Mae's National Property Disposition Center is responsible for assigning the real estate broker, agent, or property management company to oversee the property management and marketing responsibilities. The assigned broker, agent, or management company will manage the maintenance and repair of foreclosed properties and will contact the utility companies to have all bills for utility services directed to the broker 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 the National Property Disposition Center.

**Section 303  
Consideration of  
Purchase Offers  
(12/24/09)**

Once Fannie Mae receives the REOgram, it will begin its marketing efforts for the property. If the underwriting (and, if applicable, servicing) review file was submitted in a timely manner, Fannie Mae may be able to resolve any underwriting or servicing issues before it receive any offers to purchase the property. However, there may be instances in which Fannie Mae receives an acceptable offer to purchase the property before Fannie Mae has had an opportunity to either review the underwriting (and, if applicable, servicing) file or resolve any identified issues. When Fannie Mae receives an offer to purchase a 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 lender will be required to fully reimburse Fannie Mae for its loss.

**Section 304  
Reimbursement for  
Expenses (01/31/03)**

A servicer should request reimbursement for advances it made for property taxes, insurance premiums, and applicable HOA dues by submitting a *Cash Disbursement Request* ([Form 571](#)). Generally, Fannie Mae will reimburse the servicer for its advances every six months. However, Fannie Mae will consider more frequent reimbursements when the expenses on an individual case exceed \$500. The servicer must submit its final Form 571 for expenses incurred during the disposition process within 30 days after the property is disposed.

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**Foreclosures,  
Conveyances and  
Claims, and Acquired  
Properties**

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**Acquired Properties**

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Section 305

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**Section 305  
Filing IRS Form 1099-  
MISC (01/31/03)**

When a servicer pays Fannie Mae's designated agent for expenses Fannie Mae authorized for maintenance, repair, or marketing of an acquired property or when it pays a contractor (either an individual or an unincorporated business) directly for recurring maintenance costs, minor repair costs, or routine costs for securing an acquired property, it must report such payments to the Internal Revenue Service. To accomplish this, the servicer must prepare an IRS Form 1099-MISC (*Miscellaneous Income*) for the appropriate tax year and submit it to the IRS and to the individual payee. This form must be filed in the servicer's name, using its IRS taxpayer identification number.

**Section 306  
Excess Proceeds from  
a Foreclosure Sale for  
Resale Restricted  
Properties (05/01/06)**

Excess proceeds obtained during a foreclosure sale must be distributed in accordance with applicable law. Resale restrictions may require the borrower to affirmatively assign proceeds due him or her to the subsidy provider.

## **Exhibit 1: Servicing Review File (01/31/03)**

Copies of all of the following documentation must be included in the servicing review file. 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 Loan Number; Servicer Loan Number; Borrower's Name; and Property Address.

- Collection history for the default that led to the foreclosure or deed-in-lieu (including the reason for the default, delinquency notices sent, and copies of borrower's previous payment histories);
- Summary of all attempts to develop a workout plan or arrange a foreclosure prevention alternative, including evidence of any communication with Fannie Mae;
- 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; and
- 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).

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**Foreclosures,  
Conveyances and  
Claims, and Acquired  
Properties**

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Acquired Properties

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Exhibit 1

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## **Part IX: Custodial and Remittance Accounting (01/31/03)**

This *Part*—Custodial and Remittance Accounting—discusses the different accounting functions that relate to the financial aspects of servicing mortgage loans that are in either a first- or second-lien position. These functions are continuing processes from the time the mortgage loan is closed until it is liquidated. For any given month, they begin when the borrower's payment is deposited into Fannie Mae's custodial account and end when the servicer reports its remittances to Fannie Mae.

This *Part* describes Fannie Mae's requirements for custodial and remittance accounting for whole mortgage loans and participation mortgage loans that Fannie Mae holds in its portfolio and for MBS mortgage loans (serviced under either the regular or special servicing option). However, it does not address any special accounting requirements that may have been imposed under the terms of a negotiated purchase transaction. A servicer is totally responsible for taking all steps necessary to ensure that the terms of its negotiated contract are followed.

Fannie Mae's custodial and remittance accounting requirements sometimes differ from one remittance type to another. When these differences exist, Fannie Mae clearly specifies the differences. If Fannie Mae does not specify a difference, the servicer should follow the same procedure or requirement for all remittance types.

This *Part* consists of two *Chapters*:

- *Chapter 1*—Custodial Accounting—discusses the conditions governing the establishment of custodial accounts and any analysis Fannie Mae requires on activity in the accounts.
- *Chapter 2*—Remittance Accounting—discusses Fannie Mae's remittance requirements, the schedules under which funds must be remitted, and the methods of remitting them.

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**Custodial and  
Remittance Accounting**

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Introduction

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Part IX

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## **Chapter 1. Custodial Accounting (09/30/96)**

The servicer (and any subservicer it uses) must hold in a custodial bank account any funds it receives for a whole mortgage loan or a participation mortgage loan that Fannie Mae holds in its portfolio or for a mortgage loan (or a participation interest in a mortgage loan) in an MBS pool. As long as the servicer (or subservicer) has complete control over the funds in its custody, Fannie Mae will not specify the types of records it should keep. However, each month Fannie Mae does require the servicer (or a subservicer that reports on behalf of a master servicer) to provide Fannie Mae with a status of the monies in the custodial account at the end of the month.

The servicer is responsible for the safekeeping of custodial funds at all times. Fannie Mae will hold the servicer responsible for any loss of funds deposited in a custodial account (and for any damages Fannie Mae suffers because of delays in obtaining the funds from the custodial account), even if the servicer has complied with all of the requirements of this *Chapter*. (Also see *Part I, Section 202.01, Servicer's Duties and Responsibilities for MBS Mortgage Loans (12/08/08)*.)

### **Section 101 Custodial Bank Accounts (06/01/07)**

A servicer (or subservicer) must establish and maintain separate custodial accounts for the deposit of funds related to Fannie Mae–owned or Fannie Mae–securitized mortgage loans. Fannie Mae requires separate custodial accounts for P&I funds for each remittance type under which a servicer (or subservicer) reports. However, if a servicer (or subservicer) has scheduled/scheduled remittance type mortgage loans that are held in Fannie Mae's portfolio and the same remittance type mortgage loans in MBS pools, it must establish two P&I custodial accounts for its scheduled/scheduled remittance types to make sure that P&I funds for MBS pools are not commingled with funds for portfolio mortgage loans or with other funds that the servicer collects. Funds for the various MBS pools that a servicer (or subservicer) services must be deposited into the same P&I custodial account. However, the servicer (or subservicer) must maintain detailed accounting records for each pool's contribution to the custodial account and must be able to identify the portion of the funds that are due from each pool for its respective P&I remittances. (Fannie Mae will consider requests to establish several different P&I custodial accounts for MBS pools if a servicer needs them to facilitate its banking or

reconciliation requirements.) General ledger accounts or internal operating accounts may not be used as custodial accounts for the deposit of funds related to Fannie Mae–owned or Fannie Mae–securitized mortgage loans.

T&I escrow funds for all remittance types for Fannie Mae mortgage loans may be commingled in the same custodial account, although a servicer may establish separate accounts for T&I payments for each remittance type if it chooses to do so. Funds in these accounts may not be commingled with the servicer’s general corporate funds or with funds held by the servicer for other investors. P&I and T&I funds, however, cannot be commingled in the same custodial account, regardless of the remittance type.

Fannie Mae requires that all funds related to reverse mortgage loans be deposited to (or transferred from) a separate custodial account to ensure that the funds remain segregated from funds for other types of mortgage loans. Refer to *Section 101.05, Custodial Accounts—Reverse Mortgage Loans (01/31/03)*, for further details.

Section 101.01  
P&I Accounts (06/01/07)

Funds in the P&I custodial account should relate to mortgage P&I payments due Fannie Mae (whether they are collected 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). Any excess servicing fee that has been securitized must also be deposited in an MBS P&I custodial account. Fannie Mae prefers that the servicer of participation mortgage loans deposit only Fannie Mae’s percentage shares of the funds into the P&I custodial account. However, Fannie Mae will not object if a servicer transfers the entire borrower’s 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. Fannie Mae also requires that servicing fees and late charges due a servicer be deducted before the servicer transfers borrowers’ payments from its clearing account to the custodial account.

The servicer also should deposit into the P&I custodial account other funds that are due for remittance to Fannie Mae—guaranty fees, guaranty fee buydown charges, upfront commitment fees, pair-off fees, extension fees, pool contract fees, LLPAs related to mortgage loans in MBS pools,



special remittances related to portfolio and MBS mortgage loans or to acquired properties, etc. Any excess servicing fee that has been securitized must also be deposited in an MBS P&I custodial account at the same time the related P&I payment is credited to the P&I custodial account.

Servicers are required to hold payments of P&I on all mortgage loans serviced for Fannie Mae in custodial accounts prior to remittance to Fannie Mae. Investment of P&I custodial funds is not permitted. Refer to *Section 101.03, Interest-Bearing Accounts (06/01/07)*, for further details. A servicer must maintain separate custodial accounts for P&I funds for each remittance type under which the servicer reports. Funds in these accounts may not be commingled with the servicer's general corporate funds or with funds held by the servicer for any other investors, although all Fannie Mae MBS P&I funds for a specific remittance type may be held in a common account, regardless of the number of MBS pools to which the funds pertain. This ensures that P&I funds for mortgage loans in MBS pools are not commingled with P&I funds for Fannie Mae's portfolio mortgage loans or with other funds that the servicer collects.

All funds related to P&I payments that are received for a mortgage loan must be credited to the P&I custodial account no later than one business day after they are received. The servicer must establish a reasonable daily cut-off of its work to ensure that collections are promptly credited to the appropriate account. The servicer also must make sure that it deposits any 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.) The servicer must maintain records identifying each borrower, the amount of each borrower's payment, and the custodial account into which each payment is deposited.

Funds that are not received from the borrower, but are nonetheless scheduled for remittance to Fannie Mae—delinquency advances for scheduled/actual and scheduled/scheduled remittance types, interest subsidies for mortgage loans subject to interest rate buydown plans, interest related to an additional principal collection for a

scheduled/scheduled remittance type that has to be advanced because of the timing difference between the application of the curtailment to the mortgage loan balance and the security balance, and any fees and charges the servicer owes Fannie Mae—must be deposited to the P&I custodial account within *one business day of receipt from the borrower* (including any period during which funds were in a clearing account). Delinquency advances, interest subsidies, and interest on curtailments are drafted as part of the regular monthly remittance, as are special remittances related to portfolio or MBS mortgage loans or to acquired properties. MBS LLPA are drafted on the 5th business day of the month following the issuance of the related MBS pool. Guaranty fees, guaranty fee buydown charges, and fees for Flash MBS® processing are drafted on the seventh day of each month or on the preceding business day if the seventh is not a business day. Other fees and charges—upfront commitment fees, pair-off or extension fees, and pool contract fees—are drafted throughout the month.

The servicer may withdraw funds from the P&I custodial account for these purposes only: to remit the funds due Fannie Mae on the remittance date; to 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 loan or are not required to be included in the funds due to Fannie Mae on the next remittance date); to remove amounts that have been deposited in error; to remove fees, charges, funds due related to servicing transfers, and other amounts that are deposited into the account on a temporary basis; to remove interest earned on an interest-bearing custodial account; and to clear and terminate the account.

Section 101.02  
T&I Accounts (06/01/07)

Funds in the T&I custodial account should relate to:

- escrow deposits collected for the payment of borrowers' taxes, hazard insurance premiums, premiums for borrower-purchased mortgage insurance, premiums for mortgage life or disability insurance, payments the servicer made to comply with any interest on escrow obligation to the borrower, etc.;
- advances the servicer made to cover servicing advances required for payment of foreclosure-related expenses, as well as T&I for delinquent loans;

- payments that are being held as unapplied pending a determination of their proper application (for example, good faith payments in a workout, partial payments, payment overages, insurance loss drafts, rent receipts, etc.); and
- interest rate buydown accounts, to the extent that the amount is not yet scheduled for application to a mortgage payment.

All escrow funds that are received from a borrower (including those designated as unapplied funds) must be credited to the T&I custodial account no later than one business day after they are received. The servicer must establish a reasonable daily cut-off of its work to ensure that collections are promptly credited to the appropriate account. For newly purchased or securitized mortgage loans, the servicer must make sure that it deposits 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. (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.) The servicer must maintain records identifying each borrower, the amount of each borrower's escrow deposit, and the custodial account into which each payment is deposited (if the servicer maintains separate T&I custodial accounts for the different remittance types).

Servicers are required to hold payments of T&I on all mortgage loans serviced for Fannie Mae in custodial accounts prior to remittance to Fannie Mae. Investment of P&I custodial funds is not permitted. Refer to *Section 101.03, Interest-Bearing Accounts (06/01/07)*, for further details.

All disbursements related to the mortgage loan must be made from the T&I custodial account. If a disbursement creates an overdraft in any given borrower's escrow deposit account, the servicer must advance its own funds—by the end of the accounting period—to cure the overdraft. Any funds the servicer advances must stay in the T&I custodial account until the borrower remits funds sufficient to cure the overdraft.

The servicer may withdraw T&I funds from the T&I custodial account for these purposes only: to pay the borrower's taxes, insurance premiums,

etc., when they are due; to refund escrow account surpluses to the borrower or to pay interest to the borrower; to remove any amounts deposited in error; to reimburse itself for T&I servicing advances from subsequent payments on the related mortgage loan once the mortgage loan becomes current; and to clear and terminate the account.

Section 101.03  
Interest-Bearing  
Accounts (06/01/07)

All custodial accounts (whether they are established for P&I funds or T&I funds) may be interest-bearing accounts. However, 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 to pay a penalty fee for early withdrawals. Fannie Mae does permit custodial funds to be maintained in accounts—such as money-market accounts—that limit the number of withdrawals, as long as the servicer is responsible for the payment of any penalties related to excess withdrawals. Funds in a custodial account may not be invested in time deposits or in any other vehicle that limits Fannie Mae’s access to the funds, requires an advance notice of withdrawal, or requires the payment of a withdrawal penalty.

Interest-bearing accounts must meet all federal, state, and local laws and government regulations. The servicer must agree to the following conditions when it uses an interest-bearing account to accumulate funds:

- The servicer must comply (at its own expense) with all applicable laws, regulations, and contracts that require the payment of interest on a borrower’s T&I escrow or other funds the servicer holds in escrow. In such cases, the servicer—within 30 days after interest is credited to the T&I account—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 not ask Fannie Mae to advance funds to pay taxes or insurance premiums simply because it is unable to withdraw escrowed funds from an interest-bearing T&I custodial account.
- The servicer must pay any expenses, losses, damages, or withdrawal penalties sustained because a borrower’s escrow funds were not in a demand deposit account.

**Section 101.04  
Subservicer's Custodial  
Accounts (01/31/03)**

When a subservicing arrangement exists, each subservicer must establish custodial accounts for all Fannie Mae–owned or Fannie Mae–securitized mortgage loans that it subservices for a master servicer. 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–owned or Fannie Mae–securitized) that it services for the master servicer.

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.

**Section 101.05  
Custodial Accounts—  
Reverse Mortgage Loans  
(01/31/03)**

To ensure that the funds for a reverse mortgage loan are segregated from funds for other mortgage loans, Fannie Mae requires that the mortgage servicer designate a separate custodial account that will be used for disbursing funds to the borrower (and, if applicable, an insurance carrier, taxing authority, repair contractor, or mortgage insurer), remitting funds to Fannie Mae, and transferring servicing fees into the servicer's internal operating account. If the servicer services both FHA HECM loans and conventional Home Keeper mortgage loans, it must use the same account for funds related to both of these types of reverse mortgage loans. Generally, Fannie Mae expects the servicer to use this same account as the account to which Fannie Mae should deposit all of the funds it sends to the servicer each month. However, the servicer may use a "custodial clearing account" to which Fannie Mae can make all of its direct deposits (including the purchase proceeds, if the lender so chooses). In such cases, the servicer must transfer any funds Fannie Mae deposits from the clearing account into the separate custodial account no later than one business day after they are received. (Servicing fees and, if applicable, purchase proceeds can be transferred directly from this clearing account into the servicer's internal operating account without going through the separate custodial account.)

**Section 102  
Clearing Accounts  
(12/08/08)**

If deposits and disbursements cannot be made directly to or from the custodial accounts, the servicer may use clearing accounts. General ledger or internal operating accounts may be used as clearing accounts. When clearing accounts are used, separate accounts generally must be established for collections and disbursements. However, this is not true for

clearing accounts related to reverse mortgage loans (as explained in *Section 101.05, Custodial Accounts—Reverse Mortgage Loans (01/31/03)*).

The servicer also may establish clearing accounts to control the assistance payments received from HUD for mortgage loans insured under FHA Section 235 and any interest rate subsidies received from RD for subsidized RD mortgage loans. These payments must be transferred to the custodial account as soon as the borrower's portion of the payment is received.

When clearing accounts are used, the servicer must establish the clearing accounts in depository institutions that meet Fannie Mae's eligible depository requirements (as described in *Section 103, Eligible Custodial Depositories (06/01/07)*). The servicer's records must be able to clearly identify Fannie Mae's interest in any funds deposited in a clearing account or general ledger account.

If deposits cannot be made directly to the appropriate custodial accounts, or if the servicer has not established a clearing account, a servicer may record the deposit of the funds in a general ledger account provided that:

- the institution is an eligible depository and meets the requirements outlined in *Section 103, Eligible Custodial Depositories (06/01/07)*,
- the account is titled to indicate that it is custodial in nature and includes "for the benefit of Fannie Mae" in the account title, and
- 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.

Activity in clearing accounts must follow these guidelines:

- Collections deposited to the collection clearing account must be credited to the applicable custodial account by the 1st business day after the servicer receives them. (When the servicer uses a lockbox agent to collect mortgage payments, the payments must be deposited into the collection clearing account no later than the 1st business day

after they are received by the lockbox agent. This means that the funds must be deposited into the applicable custodial account no later than the 2nd business day after the servicer's lockbox agent receives them. Fannie Mae's allowance of this additional day to deposit funds into the custodial account does not in any way extend the date by which the servicer must remit the funds to Fannie Mae.)

- Debit and credit memos may be used to transfer funds between the applicable custodial account and the clearing account.
- Checks that the servicer draws against the custodial account to transfer funds from the custodial account to a disbursement clearing account must be deposited to the disbursement clearing account concurrent with, or prior to, the issuance of any checks (to the applicable payee) that are drawn from the clearing account.
- Checks returned for insufficient funds may be netted against another day's collections, or a check may be drawn on the applicable custodial account to reimburse the appropriate clearing account.
- 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.

**Section 103  
Eligible Custodial  
Depositories (06/01/07)**

P&I payments received by servicers in connection with mortgage loans in MBS are held for the benefit of MBS investors. Funds collected by the servicer for payment of T&I premiums belong to the borrower until payment is made. These funds are not the assets of Fannie Mae or the servicer. Fannie Mae requires that custodial funds be held in financial institutions that meet the requirements established in this section, that servicers deposit custodial funds in custodial accounts immediately upon receipt, and that these funds not be commingled with the servicer's own funds or those of any other investor.

All custodial accounts (and clearing accounts) 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 following requirements:

1. The accounts must be insured by the FDIC or the National Credit Union Share Insurance Fund (NCUSIF);
2. The depository institution must be rated as “well capitalized” by its federal or state regulator; and
3. The depository institution must have a financial rating that meets at least one of the following criteria:
  - Institutions with assets of \$30 billion or more must have either:
    - a short-term issuer rating by Standard & Poor’s Inc. (S&P) of “A-3” (or better) or, if no short-term issuer rating is available by S&P, a long-term issuer rating of “BBB-” (or better) by S&P; or
    - a short-term bank deposit rating by Moody’s Investors Service (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.
  - Institutions with assets of less than \$30 billion must have a financial rating of either:
    - 125 (or better) by IDC Financial Publishing, Inc. (IDC), or
    - C+ (or better) by LACE Financial Corporation (LACE).

If a depository institution satisfies the standards in (1) and (2) and has a rating that meets or exceeds at least one of the applicable ratings specified in (3) above, it will be an eligible depository even if it is rated by another organization below the minimum level specified in (3).

These custodial depository requirements apply whenever a servicer is servicing mortgages for Fannie Mae that include scheduled/scheduled (whether scheduled/scheduled MBS or scheduled/scheduled cash) remittance types (or when the servicer is servicing scheduled/scheduled and any other remittance types).



A servicer that is only servicing mortgage loans for Fannie Mae with either actual/actual or scheduled/actual remittance types (or both) must keep its custodial accounts in a Federal Reserve Bank, a Federal Home Loan Bank, or a depository institution that satisfies the standards in (1) and (2) above, and has a financial rating of either:

- 75 (or better) by IDC, or
- C (or better) by LACE.

To determine the continued eligibility of a depository institution, a servicer must monitor these ratings based on the frequency used by the ratings agency for publishing and updating rating changes.

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.

Section 103.01  
Remedies for Ineligible  
Custodial Depository  
(04/09/09)

Servicers are required to monitor the eligibility status of Fannie Mae’s custodial depositories and take measures to maintain P&I and T&I funds in a custodial depository that satisfies Fannie Mae’s eligibility requirements. A servicer must notify Fannie Mae immediately when its custodial depository fails to meet Fannie Mae’s eligibility requirements. However, in no event must the notification be given more than three business days after the servicer has knowledge of the custodial depository’s ineligibility. Fannie Mae will respond to a servicer’s notification by directing the servicer to take a specified action, which may include, but is not limited to, one or more of the remedies set forth below.

If a 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, at its sole discretion, may implement one or more remedies with respect to the disposition of those P&I and T&I funds. The remedies that are available to Fannie Mae include, but are not limited to, the following:

- transferring funds to an account in an eligible custodial depository;
- moving funds to a trust account as directed by Fannie Mae;

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- holding P&I and T&I funds in a custodial account in amounts that are fully insured by the FDIC or NCUSIF, or other governmental insurer or guarantor as may be acceptable to Fannie Mae; and
- making more frequent remittances to Fannie Mae (on a schedule directed by Fannie Mae) while allowing funds to remain in the existing custodial depository account.

Specific remedies may vary depending on the magnitude of P&I and T&I custodial funds that a servicer and its related affiliates collect and hold on Fannie Mae's behalf and the amount of risk to these P&I and T&I funds as assessed, as well as other factors as determined by Fannie Mae.

Servicers may request Fannie Mae's permission to transfer future custodial funds to the servicer's selected depository as soon as that depository satisfies Fannie Mae's custodial depository requirements. Fannie Mae solely determines whether such requests will be accommodated.

#### Section 103.02 Required Notifications (04/09/09)

Certain notifications are required regarding custodial depositories. Servicers must contact Fannie Mae's Enterprise Risk Office by e-mail at [custodial\\_eligibility@fanniemae.com](mailto:custodial_eligibility@fanniemae.com) for the following:

- to notify Fannie Mae of a depository's ineligible status,
- to request approval to hold custodial funds in a formerly ineligible depository that now meets Fannie Mae's eligibility requirements, or
- to request the implementation of a different remedy for an ineligible depository.

#### Section 104 Establishing Custodial Accounts (03/31/03)

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](#)) for each custodial account that is established. In addition to executing its own *Letters of Authorization*, a servicer that uses subservicers must have each subservicer execute a separate *Letter of Authorization* for each custodial account it establishes.

The number of custodial accounts established for regularly amortizing mortgage loans will depend 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 that (1) 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 (2) chooses to separate its T&I custodial accounts by each of the remittance types 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). 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. A servicer that services reverse mortgage loans will have only one or two custodial accounts—the separate custodial account and a custodial clearing account (if it wants to separate the funds Fannie Mae deposits to the account from funds received from the borrower)—unless the servicer also services other types of mortgage loans for Fannie Mae. In that case, the servicer would have the one (or two) custodial accounts for reverse mortgage loans plus the number of additional custodial accounts required based on the number of remittance types under which it is reporting and on whether it chooses to commingle T&I funds for the different remittance types.

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).”

Section 104.01  
Regularly Amortizing  
Mortgage Loans  
(01/31/03)

When a servicer establishes (or changes) a custodial account for a regularly amortizing mortgage loan, it must send the original of each executed *Letter of Authorization* ([Form 1013](#) or [Form 1014](#)) to the address listed on the forms. A subservicer that is establishing (or changing) a custodial account should direct the original and one copy of the executed *Letter of Authorization* (Form 1013 or Form 1014) to the master servicer who, in turn, will retain the copy and send the original to the address listed

on the forms. Refer to *Section 105, Establishing Drafting Arrangements (01/31/03)*, for drafting instructions to ensure that the P&I drafting account matches the P&I custodial account (Form 1013).

Section 104.02  
Reverse Mortgage Loans  
(01/31/03)

For each account that is being established for reverse mortgage loans, the servicer must complete the following documentation:

- the *Authorization for Automatic Transfer of Funds* ([Form 1072](#)) that was sent to the depository institution to set up drafting arrangements, and
- the original executed *Letter of Authorization for P&I Custodial Account* ([Form 1013](#)).

The servicer should send the documentation referenced above to the addresses noted on the forms.

Fannie Mae will use the information the servicer provides to set up automatic drafting or depositing through the ACH process. Fannie Mae will deposit funds that represent the purchase proceeds for the reverse mortgage loan or that are to be used for borrower payments, vendor payments, or the servicer's servicing fees into the designated account; Fannie Mae will draft the applicable account when the servicer reports remittances related to partial repayments of loan advances, payoffs, repurchases, or foreclosures.

**Section 105  
Establishing Drafting  
Arrangements  
(01/31/03)**

The servicer must designate the accounts from which Fannie Mae is to draft the funds that are due to Fannie Mae. All remittances will be drafted from the servicer's designated P&I custodial account. However, if a master servicer has designated a subservicer to remit on its behalf, the subservicer's designated P&I custodial account will be drafted.

Two different systems are used for processing remittances to Fannie Mae—the CRS and the Automated Drafting System (ADS). It may be possible to designate the same P&I custodial account for drafting purposes under both remittance systems. *Exhibit 1: Reporting and Drafting Funds for the Various Remittance Types* provides an easy reference chart for determining the remittance system and drafting accounts that should be used for the various remittance types.

- The CRS is used for drafting (1) P&I remittances related to regularly amortizing portfolio mortgage loans; (2) P&I remittances related to MBS pools that have the RPM remittance cycle, if they have a designated remittance date of the 6th calendar day of the month (including, if applicable, any lost interest compensatory fee related to an unreported, late remittance); and (3) unscheduled P&I remittances related to MBS Express pools (including, if applicable, any lost interest compensatory fee related to an unreported, late remittance).

To designate a drafting arrangement for a custodial account under the CRS, the servicer should make appropriate arrangements through its custodial bank(s). Once those arrangements have been made, the servicer must use the CRS to electronically transmit information about the drafting arrangement to Fannie Mae.

- The ADS is used for drafting (1) P&I remittances related to MBS pools that have the standard remittance cycle (which is the 18th calendar day of the month); (2) P&I remittances related to MBS pools that have the RPM remittance cycle, if they have a designated remittance date of the 8th, 9th, 10th, 12th, 15th, or 17th calendar day of the month; (3) scheduled P&I remittances related to MBS Express pools; (4) P&I remittances related to actual/actual biweekly mortgage loans; (5) P&I remittances related to reverse mortgage loans; (6) MBS guaranty fees and guaranty fee buydown charges for all MBS pools; (7) commitment-related or pool-related fees and charges due Fannie Mae (other than P&I remittances) related to either portfolio mortgage loans or MBS mortgage loans; and (8) LLPAs related to MBS mortgage loans.

To designate a drafting arrangement for a custodial account under the ADS (or to change an existing arrangement), the servicer must complete an *Authorization for Automatic Transfer of Funds* ([Form 1072](#)) for each drafting arrangement to its custodial bank(s). At the same time, the servicer should send Fannie Mae's Cash Management Unit copies of both the voided check and Form 1072. (For a reverse mortgage loan, refer to *Section 104.02, Reverse Mortgage Loans (01/31/03)*.) If the account will be drafted under both the CRS and the ADS, the servicer should establish the arrangement with the CRS, and then send the executed Form 1072 so Fannie Mae can set up the arrangement in the ADS.

**Section 105.01  
Drafting Through the  
CRS (01/01/08)**

Under the CRS, a servicer may designate as a drafting account one P&I account for each remittance type it services. If Fannie Mae permits a servicer to maintain multiple P&I accounts for a single remittance type, the servicer will need to designate only one of these accounts as its drafting account for that remittance type (which means that all monies due Fannie Mae for that remittance type must be moved from the various P&I accounts to the designated drafting account prior to the date Fannie Mae drafts the account).

A servicer with multiple P&I custodial accounts may use a consolidated drafting account in order to facilitate operational efficiencies. A servicer using a consolidated drafting account that includes scheduled/scheduled MBS mortgage loans must designate a separate account as its drafting account for that remittance type only. That means that all monies due for the scheduled/scheduled MBS mortgage loan remittance type 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. This scheduled/scheduled MBS P&I custodial drafting account may be used as its drafting account for mortgage loans with this remittance type only. A servicer may designate a separate consolidated drafting account for all other remittance types (scheduled/scheduled portfolio, scheduled/actual, or actual/actual). If a servicer establishes or designates an existing P&I custodial account as a special drafting account, the servicer must advise Fannie Mae of the special drafting account by submitting a *Letter of Authorization for P&I Custodial Account* ([Form 1013](#)). Additionally, to designate a drafting arrangement for a consolidated drafting account, the servicer must fulfill all requirements related to establishing drafting arrangements, including the execution of the *Authorization for Automatic Transfer of Funds* ([Form 1072](#)). The servicer may not deposit into the consolidated drafting accounts funds that are collected on behalf of other investors.

Any of the portfolio P&I accounts can be designated as the consolidated drafting account. A servicer also may establish a special consolidated account that is used solely for drafting purposes.

**Section 105.02  
Drafting Through the  
ADS (01/31/03)**

Under the ADS, the servicer must make its P&I funds for MBS pools that have standard remittance cycles and its scheduled P&I funds for MBS Express pools available for a single draft, regardless of the number and

types of pools that it services. In addition, for an MBS pool that has the RPM remittance cycle and a designated remittance date other than the 6th calendar day of the month, the servicer must make the P&I funds available for drafting on the applicable designated remittance date. The scheduled/scheduled P&I custodial account for MBS mortgage loans should be designated as the drafting account for the scheduled/scheduled remittance type only.

Since a servicer will include funds related to MBS pools having the standard 18th of the month remittance cycle, MBS pools having the RPM remittance cycle (which are remitted under either the CRS or the ADS, depending on the designated remittance date), and MBS Express pools (which have unscheduled principal collections remitted under the CRS and scheduled P&I remitted under the ADS) in the same P&I custodial account for scheduled/scheduled MBS remittances, the servicer must make sure that the funds in the account (or the funds that are transferred into the consolidated drafting account) are sufficient to cover the remittance due on each applicable remittance due date.

- For all pools that have either the standard remittance cycle or the MBS Express remittance cycle and a remittance due date of the 18th calendar day of the month (or the preceding business day if the 18th calendar day is not a business day), the servicer can ensure that the funds in the P&I custodial account (or the consolidated drafting account) will be sufficient to make the remittance due on the 18th of the month by using any of the funds available in the account as of the 18th or by using only those funds in the account that are specifically related to MBS pools that have a standard or MBS Express remittance cycle, advancing corporate funds to cover any shortfall from delinquencies in those pools. If the servicer used any of the funds related to pools with the standard or MBS Express remittance cycle to cover earlier remittances due under the CRS for MBS pools that have the RPM remittance cycle and a remittance due date of the 6th of the month, it must advance corporate funds to cover not only shortfalls related to delinquencies in these pools, but also to cover any shortfall that results from its use of the funds to cover the earlier remittances for MBS pools that have the RPM remittance cycle and a 6th of the month due date.

- For all pools that have the RPM remittance cycle and a designated remittance due date of other than the 6th calendar day of the month (or the preceding business day if the 6th calendar day is not a business day), the servicer can ensure that the funds in the P&I custodial account (or the consolidated drafting account) will be sufficient to make the remittance on the applicable due date by using any of the funds available in the account as of the applicable due date or by using only those funds in the account that are specifically related to MBS pools that have the RPM remittance cycle and the same applicable remittance due date (the 8th, 9th, 10th, 12th, 15th, or 17th day of the month), advancing corporate funds to cover any shortfall from delinquencies in those pools. If the servicer used any of the funds related to pools with the RPM remittance cycle and the same applicable remittance due date to cover earlier remittances due under the CRS for MBS pools that have the RPM remittance cycle and a 6th of the month remittance due date (or to cover earlier remittances due under the ADS for MBS pools that have the RPM remittance cycle and a different designated remittance due date), it must advance corporate funds to cover not only shortfalls related to delinquencies in these pools, but also to cover any shortfall that results from its use of the funds to cover the earlier remittances for MBS pools that have the RPM remittance cycle and any earlier remittance due date(s).

Commitment-related and pool-related fees and charges due Fannie Mae also are drafted through the ADS, whether they apply to portfolio mortgage loans or MBS mortgage loans. The servicer must make sure that the funds in the designated drafting account are sufficient to cover the various drafts that take place throughout the month.

- Guaranty fees and guaranty fee buydown charges for all MBS pools can be drafted directly from the scheduled/scheduled P&I custodial account (regardless of the remittance cycle for the pool) or from the consolidated drafting account.
- Other fees and charges related to portfolio mortgage loans (commitment fees, pair-off fees, extension fees, etc.) are drafted directly from the same P&I account (or the consolidated drafting account) that the servicer uses for drafting its P&I remittances under the CRS. If the servicer also services MBS mortgages, it will need



(just prior to the scheduled drafting) to transfer funds related to the portfolio mortgages into the designated MBS P&I account (or the consolidated drafting account that the servicer uses for MBS pool remittances).

- Other fees and charges related to MBS mortgage loans (such as the Flash MBS processing fees) can be drafted directly from the scheduled/scheduled MBS P&I custodial account (or the consolidated drafting account), if the servicer services MBS mortgage loans only.
- All types of MBS LLPAs for MBS mortgage loans are drafted directly from the lender's designated drafting account for the CRS. The servicer must make sure that the funds in the designated drafting account are sufficient to cover the LLPAs that apply to MBS pools issued in the previous month.

**Section 106  
Reconciling Custodial  
Bank Accounts  
(01/31/03)**

Each month, the servicer must reconcile its cash book to the custodial account(s), using the *Custodial Account Analysis* ([Form 496](#) or [Form 496A](#)). The *Principal and Interest (P&I) Custodial Account Analysis* ([Form 496](#)) enables the servicer to reconcile each P&I custodial account and to reflect the composition of the cash book balance of the account at the close of the reporting period. The *Taxes and Insurance (T&I) Custodial Account Analysis* ([Form 496A](#)) is used to reconcile each T&I custodial account and to reflect the composition of the cash book balance of the account at the close of the reporting period.

The servicer should retain each month's reconciliation and analysis in its records. Occasionally, Fannie Mae may ask the servicer to submit a specific Form 496 or Form 496A to it.

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## Exhibit 1: Reporting and Drafting Funds for the Various Remittance Types (01/01/08)

The servicer must establish a separate P&I custodial account for each remittance type that it is servicing. If a servicer is servicing all types of regularly amortizing portfolio mortgage loans, it must establish three different custodial accounts—the A/A P&I account (for the actual/actual remittance type), the S/A P&I account (for the scheduled/actual remittance type), and the S/S-Portfolio account (for the scheduled/scheduled remittance type). A separate account must be designated as the scheduled/scheduled MBS P&I custodial drafting account for mortgage loans with this remittance type. If the servicer is servicing reverse mortgage loans that Fannie Mae holds in its portfolio, the servicer must establish a separate custodial account for those mortgage loans. The custodial accounts for scheduled/scheduled portfolio mortgage loans and scheduled/scheduled MBS mortgage loans must be separate accounts.

The following table indicates which types of remittances can be drafted from each of these custodial accounts—or any other special custodial accounts Fannie Mae allows—and the remittance system under which the draft will take place.

<b>Mortgage Loan Description</b>	<b>Remittance System</b>	<b>Funds to be Remitted</b>	<b>Account to be Drafted</b>
Portfolio mortgage loan; A/A, S/A, or S/S remittances	CRS	P&I remittances	Either the A/A P&I account, the S/A P&I account, or the S/S-Portfolio P&I account (as applicable) or the consolidated drafting account
	CRS	Special remittances	Any one of the servicer's P&I accounts, a special remittance drafting account, or the consolidated drafting account
	ADS	Other fees and charges	Any one of the servicer's P&I accounts for portfolio mortgage loans

# Custodial and Remittance Accounting

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<b>Mortgage Loan Description</b>	<b>Remittance System</b>	<b>Funds to be Remitted</b>	<b>Account to be Drafted</b>
Portfolio mortgage loan; A/A biweekly remittances	CRS	P&I remittances	Either the A/A biweekly P&I account or the consolidated drafting account
	CRS	Other fees and charges	Either the A/A biweekly P&I account or the consolidated drafting account
	CRS	Special remittances	Any one of the servicer's P&I accounts, a special remittance drafting account, or the consolidated drafting account.
MBS mortgage loan; standard cycle for S/S remittances	ADS	P&I remittances	The S/S (MBS) P&I account
	CRS	Special remittances	The S/S (MBS) P&I account
	ADS	LLPAs	The S/S (MBS) P&I account
	ADS	Guaranty fees and guaranty fee buydown charges	The S/S (MBS) P&I account
	ADS	Other fees and charges	The S/S (MBS) P&I account
MBS mortgage loan; RPM cycle for S/S remittances, with remittances on 6th calendar day	CRS	P&I remittances	The S/S (MBS) P&I drafting account
	CRS	Special remittances	The S/S (MBS) P&I account
	ADS	LLPAs	The S/S (MBS) P&I account
	ADS	Guaranty fees and guaranty fee buydown charges	The S/S (MBS) P&I account
	ADS	Other fees and charges	The S/S (MBS) P&I account
MBS mortgage loan; RPM cycle for S/S remittances, with remittances on other days	ADS	P&I remittances	The S/S (MBS) P&I account
	CRS	Special remittances	The S/S (MBS) P&I account
	ADS	LLPAs	The S/S (MBS) P&I account
	ADS	Guaranty fees and guaranty fee buydown charges	The S/S (MBS) P&I account
	ADS	Other fees and charges	The S/S (MBS) P&I account

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<b>Mortgage Loan Description</b>	<b>Remittance System</b>	<b>Funds to be Remitted</b>	<b>Account to be Drafted</b>
MBS mortgage loan; MBS Express cycle for S/S remittances	CRS	Unscheduled P&I remittances	The S/S (MBS) P&I account
	ADS	Scheduled P&I remittances	The S/S (MBS) P&I account
	CRS	Special remittances	The S/S (MBS) P&I account
	ADS	LLPAs	The S/S (MBS) P&I account
	ADS	Guaranty fees and guaranty fee buydown charges	The S/S (MBS) P&I account
	ADS	Other fees and charges	The S/S (MBS) P&I account
Portfolio mortgage loan; reverse mortgage loan remittances	ADS	P&I remittances	Special custodial account, reverse mortgage loans
	ADS	Special remittances	Special custodial account, reverse mortgage loans

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## **Chapter 2. Remittance Accounting (01/31/03)**

The servicer reports its collections for whole mortgage loans and most participation mortgage loans that Fannie Mae holds in its portfolio through the CRS. Under this system, the servicer will electronically transmit information about its cash remittances to Fannie Mae. Then, on the following business day, Fannie Mae will draft the related funds from the servicer's designated custodial account(s), using the ACH system. Fannie Mae will issue special instructions on remittance requirements to any servicer that must use alternative remittance procedures.

The servicer remits its scheduled interest and principal distribution amount for most MBS mortgage loans (excluding only those that have the RPM remittance cycle with a 6th day of the month remittance date) and its guaranty fees and guaranty fee buydown charges for all MBS mortgage loans by making the funds available for drafting under the ADS. A servicer that has selected the RPM remittance cycle for MBS pool remittances and a designated 6th day of the month remittance date or that has unscheduled principal to remit for MBS Express pools will use the CRS to report these remittances and authorize a draft against its designated custodial account. A new servicer may wire transfer its remittances to Fannie Mae until it finalizes its automatic drafting arrangements.

The servicer reports any collections it has for reverse mortgage loans through the Fannie Mae reverse mortgage investor reporting system (see *Part XI: Fannie Mae Reverse Mortgage Reporting System*) and remits the funds by making them available for drafting under the ADS.

### **Section 201 Remittance Schedules (01/31/03)**

The servicer must remit collections and other amounts due under the schedule established for each remittance type and, if applicable, remittance cycle. If the servicer does not remit on time funds that Fannie Mae is due, Fannie Mae may impose a compensatory fee.

When a servicer remits more funds than Fannie Mae is owed for a whole mortgage loan or a participation mortgage loan that Fannie Mae holds in its portfolio, Fannie Mae will refund the overremittance as soon as it verifies that monies are actually due the servicer. A servicer must exercise due diligence to ensure that it discovers overremittances as soon as

possible. Once a servicer discovers an overremittance, it should promptly notify Fannie Mae by submitting a documented claim for a refund. Should the overremittance involve a large number of mortgage loans—as would be the case if the overremittance resulted from an error in the servicer’s data processing system—Fannie Mae may require the servicer to retain an independent certified public accountant (who is acceptable to Fannie Mae) to review the request for a refund and to certify that it is accurate. Fannie Mae also may request further documentation to support the servicer’s request before it agrees to the refund. Fannie Mae will not pay interest on any funds the servicer remitted to it in error.

Overremittances for MBS mortgage loans must be appropriately adjusted from subsequent remittances for the same MBS pool since Fannie Mae cannot refund funds to the servicer after they have been passed through to the security holders.

Section 201.01  
Actual/Actual Remittance  
Types (01/31/03)

For whole mortgage loans accounted for as the actual/actual remittance type, the monthly remittance consists of the actual interest and the actual principal that the servicer collected from each borrower. The servicer’s remittance schedule is determined by the total funds it collects. The servicer must report its remittances to Fannie Mae under the CRS:

- whenever the total amount collected is greater than \$2,500 after the servicer has deducted its servicing fees;
- at least once a month if the total amount collected for the month was less than \$2,500 after the servicer deducted its servicing fees; and
- 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. (eastern time) deadline for electronically transmitting remittance transactions to Fannie Mae.

The actual/actual biweekly mortgage loan does not follow the normal remittance guidelines for the standard actual/actual remittance. There is no minimum payment amount (e.g., \$2,500) as there is for monthly amortizing fixed rate loans. Actual/actual biweekly loan activity must be reported to Fannie Mae daily as received. This reported activity automatically prompts a draft of the remittance amount from the servicer’s custodial account within 48 hours after loan activity is reported. When



servicing actual/actual biweekly loans for Fannie Mae, the servicer must report loan activity to Fannie Mae through SURF as transactions occur (P&I payments, curtailments, payoffs, etc.) on the actual/actual biweekly loans.

If, for any reason, 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, and base its remittance transaction transmission on that estimate. The servicer's estimate can be developed by using either its preceding remittance transaction transmission amount or management reports that show its past average remittance for that particular day of the month. When the actual collection report becomes available, the servicer must make an appropriate adjustment—by immediately remitting any additional funds that are due or by reducing its next remittance transaction transmission by the overremitted amount.

Section 201.02  
Scheduled/Actual  
Remittance Types  
(01/31/03)

For whole mortgage loans and participation mortgage loans—both first and second mortgage loans—accounted for as the scheduled/actual remittance type, the monthly remittance consists of the scheduled interest (whether or not it was collected from the borrowers) and the actual principal that the servicer collected from each borrower. For most of these mortgage loans, the servicer must report its remittance for all funds due to Fannie Mae to under the CRS in time for them to be available for Fannie Mae's use by the 20th calendar day of each month (or the preceding business day if the 20th is not a business day). This means that the servicer must report its monthly remittance transaction by 4:00 p.m. (eastern time) on the 19th day of each month. If the 19th falls on a weekend or legal holiday, the remittance transaction transmission should take place before 4:00 p.m. on the last preceding business day to ensure that the funds will be available for Fannie Mae's use on the 20th (or the preceding business day if the 20th is not a business day).

Section 201.03  
Scheduled/Scheduled  
Remittance Types  
(01/31/03)

For mortgage loans that are accounted for as the scheduled/scheduled remittance type—both whole mortgage loans held in Fannie Mae's portfolio and MBS mortgage loans that have been securitized—the monthly remittance consists of the scheduled interest (whether or not it was collected from the borrowers), the scheduled principal (whether or not it was collected from the borrowers), and any unscheduled principal that

was collected from the borrowers in the preceding month. (For MBS pools that consist of biweekly payment mortgage loans, the servicer will need to deposit the difference between the interest collected from the borrowers and the interest due on the pool into its designated draft account. This adjustment is necessary because the biweekly payment mortgage loan amortizes every two weeks, which means that 30 days of interest on the mortgage loan balance is less than one month's scheduled interest on the security balance.)

For funds related to portfolio mortgage loans, the servicer must make all funds due Fannie Mae available for Fannie Mae's use by the 18th calendar day of each month (or the preceding business day if the 18th is not a business day). This means that the remittance transaction must be transmitted under the CRS by 4:00 p.m. (eastern time) on the 17th day of each month. If the 17th falls on a weekend or holiday, the remittance transaction transmission should take place before 4:00 p.m. (eastern time) on the preceding business day to ensure that the funds will be available for Fannie Mae's use on the 18th (or the preceding business day if the 18th is not a business day).

For funds related to MBS mortgage loans, the date by which funds must be available for Fannie Mae's use depends on which remittance cycle (and, in some instances, on which remittance date) the servicer selected when it created the MBS pool—the standard remittance cycle, the RPM remittance cycle, or the MBS Express remittance cycle. To assist a servicer in ensuring that 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 each month. This summary statement, available via draft notifications on eFannieMae.com, will include P&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 and 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.

- Under the *standard* remittance cycle, funds related to MBS mortgage loans must be available for drafting through the ADS on the 18th calendar day of the month (or the preceding business day if the 18th is not a business day).

- Under the **RPM** remittance cycle, funds related to MBS mortgage loans must be available for drafting under the applicable remittance system on the designated remittance date. For pools that have a 6th day of the month designated remittance date, the funds must be available for drafting through the CRS on the 5th day of the month. For pools that have other designated remittance dates—the 8th, 9th, 10th, 12th, 15th, or 17th calendar day of the month—the funds must be available for drafting through the ADS on the designated remittance date (or the preceding business day if the designated remittance date is not a business day).
- Under the **MBS Express** remittance cycle, funds related to MBS mortgage loans are remitted on two different dates (and under two different remittance systems) depending on the type of funds being remitted. Remittances related to unscheduled principal (payoffs, curtailments, repurchases, and other removals) must be reported under the CRS on the 3rd business day of the month so that Fannie Mae can draft them by the 4th business day of the month after they were collected (but, if the total amount of the servicer's unscheduled principal payments for all of the MBS Express pools that it is servicing equals less than \$250, the servicer can include the unscheduled principal along with its later remittance of scheduled P&I). Remittances related to scheduled P&I must be in the servicer's designated draft account in time for Fannie Mae to draft them under the ADS on the 18th calendar day of the month (or the preceding business day if the 18th is not a business day). (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 the other scheduled remittances for the pool.)

**Section 202  
Remitting P&I (09/01/01)**

On or before the remittance due date, the servicer should remit the funds that are due Fannie Mae for the month. The exact remittance method will depend on whether the mortgage loan is one Fannie Mae holds in its portfolio or one it holds as part of an MBS pool.

**Section 202.01  
Remittances through the  
CRS (01/01/08)**

The CRS relies on remittance type codes, which are unique to particular transactions, to identify monies related to the individual remittances a servicer reports. There are five remittance type codes that can be used for reporting P&I remittances (see *Exhibit 1: P&I Remittance Type Codes for the CRS*). Each remittance type code must be linked to only one drafting account (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).

- The servicer should report its remittances related to portfolio mortgage loans that have the actual/actual remittance type when its collections for these mortgage loans are enough to require that the funds be remitted to Fannie Mae (as discussed in *Section 201.01, Actual/Actual Remittance Types (01/31/03)*). Fannie Mae will draft the related funds from the servicer's designated drafting account on the following business day. The actual/actual biweekly mortgage loan does not follow the normal remittance guidelines for the standard actual/actual remittance. There is no minimum payment amount (e.g., \$2,500) as there is for monthly amortizing fixed rate loans. Actual/actual biweekly loan activity must be reported to Fannie Mae daily as received. This reported activity automatically prompts a draft of the remittance amount from the servicer's custodial account on the next business day after loan activity is reported.
- The servicer should report its remittances related to portfolio mortgage loans that have the scheduled/actual or scheduled/scheduled remittance type on the business day before the applicable remittance due date (as discussed in *Section 201.02, Scheduled/Actual Remittance Types (01/31/03)*, and *Section 201.03, Scheduled/Scheduled Remittance Types (01/31/03)*). Fannie Mae will draft the related funds from the servicer's designated drafting account on the following business day.
- The servicer should report its remittances related to MBS pools that have the RPM remittance cycle and a 6th of the month remittance date between the 1st and 4th business days 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 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. In such cases, Fannie Mae also may draft a lost interest compensatory fee related to the unreported remittance (which will cover the period from the remittance due date through the 4th business day of the month) from the servicer's account on the 9th business day of the month.

- The servicer should report its unscheduled P&I remittances related to MBS pools that have the MBS Express remittance cycle between the 1st and 4th business days of the month. Fannie Mae will draft the reported remittance 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 may automatically draft the expected remittance (based on the servicer's security balance report) on the 5th business day of the month. In such cases, Fannie Mae will also draft a lost interest compensatory fee related to the unreported remittance (which will cover the period from the remittance due date through the 4th business day of the month) from the servicer's account on the 9th business day of the month.

Through the CRS, the servicer must transmit drafting instructions to Fannie Mae by 3:00 p.m. (eastern time) and remit the draft amount at any time up until Fannie Mae's 4:00 p.m. (eastern time) cut-off time. The servicer may change the information for individual drafts at any time prior to its transmission of the information to Fannie Mae. After the drafting instructions and remittance amounts are electronically transmitted to Fannie Mae, Fannie Mae will then draft the servicer's designated drafting account using the ACH system.

Section 202.02  
Remittances through  
ADS (01/31/03)

When the servicer remits funds related to MBS mortgage loans that have the standard remittance cycle or the MBS Express remittance cycle through the ADS, it must make the funds available for a single draft, regardless of the number of such MBS pools it services. If the servicer uses subservicers for any of the mortgage loans and a designated subservicer does not remit on the servicer's behalf, the servicer must make arrangements for the subservicers to periodically remit funds to it so that only one draft will be necessary, regardless of the number of subservicers used. The amount of Fannie Mae's draft will be the sum of the P&I

distributions reported in the Transaction Type 96 (Loan Activity Record) for that month.

For MBS pools that have the RPM remittance cycle, multiple drafts may take place—as long as the pools have different designated remittance dates. For example, if the servicer has remittances for pools with the 8th, 10th, and 15th of the month remittance due dates, Fannie Mae will automatically draft the servicer’s designated drafting account on each of the applicable due dates. However, if all of the servicer’s pools have the same remittance due date, the funds must be made available for a single draft. In either instance, Fannie Mae’s automatic draft will be based on the servicer’s security balance report for the month.

**Section 203  
Remitting Special  
Remittances (01/31/03)**

Special remittances include additional monies that are due to Fannie Mae for a specific purpose related to an individual mortgage loan. Some examples are the sales or redemption proceeds related to acquired properties, repurchase or loss reimbursement proceeds, insurance premium refunds, rental payments for an acquired property, escrow balances for foreclosed mortgage loans, deficiency settlements, and hazard insurance recoveries. The servicer must report special remittances for the mortgage loans it services (both portfolio mortgage loans and MBS mortgage loans, but not reverse mortgage loans) to Fannie Mae through the CRS.

There are 20 remittance type codes that can be used for reporting special remittances to Fannie Mae (see *Exhibit 2: Special Remittance Type Codes for the CRS*). Each remittance type code must be linked to only one drafting account—one of the servicer’s individual P&I custodial accounts (which may be used to commingle special remittances related to all remittance types with P&I funds for the designated remittance type on a temporary basis only), or a consolidated drafting account (which can include both special remittances for all remittance types and P&I remittances for all, or any combination of, remittance types).

**Section 204  
Remitting MBS  
Guaranty Fees and  
Buydown Charges  
(01/31/03)**

The servicer must complete an *Authorization for Automatic Transfer of Funds* ([Form 1072](#)) to authorize Fannie Mae to use the ADS to draft from the servicer’s designated custodial bank account the guaranty fees and guaranty fee buydown charges it owes for all of the MBS mortgage loans it services. Guaranty fees and guaranty fee buydown charges must be available for Fannie Mae’s use on the 7th calendar day of each month (or on the preceding business day if the 7th falls on a weekend or holiday). To

ensure that the guaranty fees and guaranty fee buydown charges are available to Fannie Mae on time, an electronic draft notice (or “bill”) will be posted on eFannieMae.com. Fannie Mae’s draft notice will show the amount due for the guaranty fees, the amount due for any guaranty fee buydown charges, an adjustment to offset any guaranty fee buyup payment Fannie Mae owes the servicer, and the total net amount due Fannie Mae. Fannie Mae will fund the lender’s drafting account for any guaranty fee buyup fees due to them on the same day as Fannie Mae’s draft for guaranty fees and guaranty fee buydown charges is processed.

The servicer should retrieve Fannie Mae’s draft notice and review it for accuracy. If the net of the guaranty fees, guaranty fee buydown charges, and guaranty fee buyup fees that the servicer calculates does not agree with the amount Fannie Mae billed in its draft notice, the servicer should contact its Fannie Mae investor reporting system analyst immediately to provide details on the amount and nature of the discrepancy. Fannie Mae will then review its records to validate the discrepancy the servicer pointed out and make any necessary adjustments to its bill. On the business day prior to the draft, Fannie Mae will notify the servicer of the amount it intends to draft from the servicer’s designated custodial account on the following day. If the 7th calendar day falls on a weekend or Fannie Mae–observed holiday, Fannie Mae’s notice of the draft will take place on the preceding business day.

**Section 205  
Remitting Other Fees  
and Charges (01/31/03)**

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 under the ADS. Sufficient funds must be on deposit in the account at all times to ensure that the amount due to be drafted on a specific date will be available when the drafting takes place. Since the draft date for different types of fees differs, Fannie Mae may be drafting the account throughout the month. In most instances, Fannie Mae will notify servicers of the amount of its expected draft one business day in advance of its actual draft.

- For upfront commitment fees related to negotiated cash contracts, Fannie Mae will draft the account on the day following the request for the contract—without providing any advance notification.

- For fees related to pair-offs or extensions of cash commitments or contracts that are requested by a lender, Fannie Mae will draft the account on the next business day following the lender's request for the pair-off or extension. If the fees relate to an automatic five-day extension of a commitment or contract or an automatic pair-off of the remaining balance of an expired commitment or contract, Fannie Mae will draft the account on the next 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. Fannie Mae will provide the lender with advance notification of its draft.

For fees related to Flash MBS processing, Fannie Mae will draft the account on 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 lender one day prior to its intended draft. (Also see *Section 105.02, Drafting Through the ADS (01/31/03)*.)



## Exhibit 1: P&I Remittance Type Codes for the CRS (01/31/03)

Each of the following five remittance type codes must be tied to only one specific custodial drafting account for the applicable remittance type.

- Remittance type code 001 must be tied either to the servicer's A/A P&I custodial account or to a consolidated drafting account.
- Remittance type code 002 must be tied either to the servicer's S/A P&I custodial account or to a consolidated drafting account.
- Remittance type code 003 must be tied either to the servicer's S/S-Portfolio P&I custodial account or to a consolidated drafting account.
- Remittance type codes 004 and 005 must be tied either to the servicer's S/S-MBS P&I custodial account or to a consolidated drafting account.

All of the remittance type codes could be tied to the same consolidated drafting account.

The five P&I remittance type codes are further described below:

<b>Code Number</b>	<b>Code Name and Description</b>
001	Actual/Actual Principal and Interest Remittances: Identifies funds that represent (1) the daily P&I collections or (2) the full amount collected to satisfy the mortgage debt for mortgage loans accounted for as the actual/actual remittance type.
002	Scheduled/Actual Principal and Interest Remittances: Identifies funds that represent (1) the actual principal collections and the scheduled interest due Fannie Mae for the applicable reporting period or (2) the full amount collected to satisfy the mortgage debt for mortgage loans that are accounted for as the scheduled/actual remittance type.
003	Scheduled/Scheduled—Portfolio Principal and Interest Remittances: Identifies funds that represent (1) the scheduled principal application and the scheduled interest due Fannie Mae for the applicable reporting period or (2) the full amount collected to satisfy the mortgage debt for portfolio mortgage loans that are accounted for as the scheduled/scheduled remittance type.

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**Custodial and  
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<b>Code Number</b>	<b>Code Name and Description</b>
004	Scheduled/Scheduled MBS—RPM Principal and Interest Remittances: Identifies funds for MBS mortgage loans that have the RPM remittance cycle and a 6th of the month remittance date that represent (1) the scheduled principal application and the scheduled interest due Fannie Mae for the applicable reporting period or (2) the full amount collected to satisfy the mortgage debt.
005	Scheduled/Scheduled-MBS—MBS Express Unscheduled Principal Remittances: Identifies funds that represent unscheduled principal collections for the applicable reporting period (including the full amount collected to satisfy the mortgage debt) for MBS mortgage loans that have the MBS Express remittance cycle.

## Exhibit 2: Special Remittance Type Codes for the CRS (01/31/03)

Each of the following codes must be tied to only one specific custodial drafting account. The account may be a consolidated drafting account for special remittances only, a consolidated drafting account that includes special remittances for all remittance types and P&I remittances for all, or any combination of, remittance types, or one of the servicer's individual P&I custodial accounts (which is being used to temporarily commingle special remittances for all remittance types with P&I funds for the designated remittance type).

The 20 special remittance type codes are further described below. Special remittance codes in the 300 series are used to identify remittances that specifically relate to mortgage loans that Fannie Mae is monitoring through its automated loan liquidation system. For the most part, these codes are used for mortgage loans that have been liquidated through a preforeclosure or foreclosure sale or the acceptance of a deed-in-lieu or for mortgage loans for which Fannie Mae has advanced funds to protect its security. The security properties may have been conveyed to the insurer or guarantor or may be (or may have been) in Fannie Mae's acquired property inventory.

Code	Code Name and Description
309	Lender "Make Whole" Proceeds: Identifies funds that represent the proceeds that a servicer is required to send to fully reimburse Fannie Mae for a loss incurred as the result of a preforeclosure sale (or another loss mitigation alternative), a foreclosure sale, or the disposition of an acquired property.
310	HUD-1 Sales Proceeds: Identifies funds that represent the proceeds from the sale of an acquired property that Fannie Mae marketed or from a preforeclosure sale.
311	Third-party Sales Proceeds: Identifies funds that represent the proceeds from a foreclosure sale through which a third party acquired title to the property. The servicer must submit supporting documentation—a statement of account or a statement showing the distribution of the sales proceeds—to Fannie Mae's National Property Disposition Center.
312	Recourse Proceeds: Identifies funds that represent the proceeds that a servicer is required to send Fannie Mae in connection with a loss on a foreclosed mortgage loan or acquired property that was covered by the terms of a recourse agreement.

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<b>Code</b>	<b>Code Name and Description</b>
313	<b>Sale of Servicing Proceeds:</b> Identifies funds that represent the proceeds a mortgage servicer bid to obtain the servicing rights for a purchase money mortgage loan that was originated in Fannie Mae's name to expedite financing for the purchase of an acquired property. (A servicer should not use this code unless it and Fannie Mae's National Property Disposition Center have entered into a specific agreement.)
314	<b>Redemption Proceeds:</b> Identifies funds that represent the proceeds from a borrower's exercise of his or her redemption rights to reclaim title to a foreclosed property during a stipulated time frame (or redemption period).
315	<b>Repurchase Proceeds:</b> Identifies funds that represent the proceeds from a servicer's repurchase of a foreclosed mortgage or an acquired property. (Note: A servicer should not use this code to report repurchase proceeds that relate to a repurchase that is based on Fannie Mae's approval of the servicer's request to repurchase a mortgage loan it sold to Fannie Mae or on a repurchase demand Fannie Mae made in connection with a post-purchase or early payment default review or a warranty violation. These types of repurchases should be reported as P&I remittances, using the remittance type code that applies to the specific remittance type of the mortgage loan that is being repurchased.)
316	<b>Loss Reimbursement Proceeds:</b> Identifies funds that represent the proceeds that a servicer is required to send to partially reimburse Fannie Mae for a loss it incurred as the result of a loss mitigation alternative, a foreclosure sale, or the disposition of an acquired property.
317	<b>Escrow Balance Proceeds:</b> Identifies funds that were being held in the borrower's escrow account to pay taxes or insurance premiums that were not used for that purpose because the mortgage loan was foreclosed.
318	<b>Hazard Insurance Premium Refund Proceeds:</b> Identifies funds received from the hazard insurance carrier to refund any unearned premium for a foreclosed mortgage loan.
319	<b>Rental Proceeds:</b> Identifies funds that represent income received from the rental of an acquired property.
320	<b>Fire Loss Proceeds:</b> Identifies funds received from the hazard insurance carrier to settle a claim related to a fire loss that was submitted in connection with a foreclosed property. (Note: The servicer should not use this code to report fire loss proceeds that are being used to reduce the outstanding debt for a mortgage loan. This type of fire loss proceeds should be reported as a P&I remittance, using the remittance type code that applies to the specific remittance type of the mortgage loan to which the proceeds apply.)

<b>Code</b>	<b>Code Name and Description</b>
322	<b>Repayment of Advance:</b> Identifies funds the servicer remits to repay Fannie Mae for funds it advanced to protect the security of a property that was not subsequently foreclosed or to return an over-reimbursement Fannie Mae made in connection with advances the servicer made for a mortgage loan that was subsequently foreclosed.
323	<b>Additional Interest Due:</b> Identifies funds the servicer remits to pay Fannie Mae for additional interest it must pay because HUD, VA, or the mortgage insurer cut off the amount of interest paid on a claim because the servicer did not follow the correct procedures for conveyance or claim filing.
324	<b>Mortgagor Contribution:</b> Identifies funds received from the borrower to reduce any loss Fannie Mae incurs in connection with the modification of his or her mortgage loan, a preforeclosure sale, or any other loss mitigation alternative.
332	<b>Hazard Insurance Recovery:</b> Identifies funds received from the hazard insurance carrier to settle a claim related to a loss (other than a fire loss) that was submitted in connection with a foreclosed property. (Note: The servicer should not use this code to report hazard insurance recoveries that are being used to reduce the outstanding debt for a mortgage loan. This type of insurance recovery should be reported as a P&I remittance, using the remittance type code that applies to the specific remittance type of the mortgage loan to which the proceeds apply.)
333	<b>Participation Receipts:</b> Identifies funds that represent the participating lender's share of any loss incurred as the result of a preforeclosure sale (or another loss mitigation alternative), a foreclosure sale, or the disposition of an acquired property. (Note: A participating lender should not use this code to report a remittance related to its proportionate share of any necessary cash outlays for a mortgage loan (including its share of any servicing fees due to another party, if the mortgage interest rate is not sufficient to cover Fannie Mae's required yield and the full amount of the servicing fee). Fannie Mae will issue special instructions to the participating lender when such remittances are needed.)
334	<b>Supplemental Billing Receipts:</b> Identifies funds remitted by the servicer to cover additional amounts that Fannie Mae requested based on its final claim analysis.
335	<b>Mortgagor Deficiency Proceeds:</b> Identifies funds awarded to Fannie Mae when a deficiency judgment against the borrower is successful.
370	<b>Other Receipts—Liquidation:</b> Identifies funds due Fannie Mae in connection with a loan liquidation or foreclosure that do not fall under one of the other special remittance type categories.

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## **Part X: Fannie Mae Investor Reporting System (09/30/96)**

This *Part*—Fannie Mae Investor Reporting System—discusses Fannie Mae’s general requirements for the mortgage loan accounting system it uses for reporting on the status of regularly amortizing one- to four-unit mortgage loans it either holds in its portfolio or has pooled to back an MBS issue. (The Fannie Mae investor reporting system is also used for multifamily mortgage loans that are in MBS pools.) It explains the turnaround documents Fannie Mae provides to the servicer, procedures for correcting reporting errors, the transactions the servicer must report to Fannie Mae, and any special requirements Fannie Mae has for specific remittance types.

This *Part* consists of six *Chapters*:

- *Chapter 1*—General Requirements—describes the cut-off dates for a reporting period, Fannie Mae’s requirement for automated input, the applicable due dates for reporting specific transactions, and the types of reconciliations Fannie Mae requires.
- *Chapter 2*—Reporting Specific Transactions—addresses Fannie Mae’s requirements for the six reportable transaction types that are used to update Fannie Mae’s records and the status of individual mortgage loans.
- *Chapter 3*—Special Reporting Requirements—discusses requirements Fannie Mae has for reporting certain types of activity related to a specific remittance type.
- *Chapter 4*—Formulas and Calculations—describes the various formulas Fannie Mae uses for editing or computational purposes, as well as key calculations that are used to verify input for the different remittance types.
- *Chapter 5*—Fannie Mae–Generated Reports—discusses and illustrates the turnaround reports Fannie Mae provides the servicer to assist in reconciling its records to Fannie Mae’s.

- *Chapter 6—Correction of Errors*—addresses the procedures for correcting errors the servicer made in reporting different types of transactions to Fannie Mae (such as those related to liquidations or ARM adjustments).



## Chapter 1. General Requirements (01/31/03)

The Fannie Mae investor reporting system is an integrated investor reporting system that is used to capture loan-level detail for all regularly amortizing mortgage loans that a servicer services for Fannie Mae. Although all of these mortgage loans are accounted for under a single reporting system, Fannie Mae's investor reporting system segregates mortgage loans by remittance type to ensure that the servicer can easily recognize and account for procedural or policy differences. The three remittance types are:

- **Actual/actual remittances**, which means that the servicer's monthly remittance consists of the *actual interest* and the *actual principal* that were collected for the mortgage loans serviced for Fannie Mae.
- **Scheduled/actual remittances**, which means that the servicer's monthly remittance consists of *scheduled interest*—whether it was collected or not—and the *actual principal* that was collected for the mortgage loans serviced for Fannie Mae.
- **Scheduled/scheduled remittances**, which means that the servicer's monthly remittance consists of *scheduled interest*—whether it was collected or not—and *scheduled principal*—whether it was collected or not—for the mortgage loans serviced for Fannie Mae.

Under the investor reporting system, the servicer must report information on its entire mortgage loan portfolio each month; however, the accounting reports simplify reporting requirements because the required information is available from the servicer's own trial balance records.

### Section 101 Reporting Period/Cut-Off Dates (01/31/03)

The servicer must submit its monthly accounting reports to Fannie Mae following the end of each reporting period. The end of a reporting period will depend on what cut-off date a servicer uses for its monthly work cycle.

- For actual/actual (excluding biweekly) and scheduled/actual remittance types, the servicer must use an end-of-month cut-off.

- For actual/actual biweekly remittance types there is no reporting cut-off date, since loans are reported daily as activity is received. However, the reporting month is required when reporting the loan activity. Loan activity must be reported as received, which will automatically prompt a draft of remittances from the servicer's custodial account within 48 hours. If no loan activity is received on a loan, no reporting is required.
- For scheduled/scheduled remittance types, the servicer may establish as its cut-off date any day from the 25th of the month to the last day of the month.

A reporting period is the interval between the previous month's cut-off date and the current month's cut-off date. (However, when the initial reporting period for an MBS pool occurs in the month the securities are issued, the reporting period will cover the interval between the issue date of the related securities and the servicer's established cut-off date.)

**Section 102  
Machine-Processable  
Input (03/05/10)**

The servicer must use an automated format to report all loan-level transactions—including corrections to erroneous transactions that were previously reported—to the Fannie Mae investor reporting system. The electronic transmission of Fannie Mae's investor reporting system reports can be accomplished by CPU-to-CPU electronic file transfer or by use of Fannie Mae's SURF, a web application that is available for reporting the different types of transactions. Access to SURF is available at [eFannieMae.com](http://eFannieMae.com).

Fannie Mae also accepts a common format for the electronic data interchange (EDI) of investor reporting information. The action that a servicer needs to take to ensure that it satisfies Fannie Mae's requirements for using the EDI format will vary depending on how it submits its Fannie Mae investor reporting system reports to Fannie Mae. A servicer that submits its monthly loan-level Fannie Mae investor reporting system reports through SURF or through electronic file transfer needs its own EDI translation software or translation services to convert its flat files to the ANSI X12 format. If a servicer uses a service bureau to transmit its monthly Fannie Mae investor reporting system reports, it should confirm that its service bureau will have the appropriate translation software in place before the servicer begins reporting under the ANSI X12 format.

Fannie Mae addresses its investor reporting system requirements in terms of the transaction types and data element identification that is part of the Fannie Mae investor reporting system record. To assist in converting this information into EDI references, *Chapter 2, Exhibit 7: Transaction Type 32 (Servicing Transfer Record)*, includes an exhibit that maps the Fannie Mae investor reporting system record to the EDI Investor Reporting Transaction Set 203.

**Section 103  
Due Dates for Fannie  
Mae Investor Reporting  
System Reports  
(01/31/03)**

The exact due date of a servicer's electronic transmission of its Fannie Mae investor reporting system reports depends on the type of transaction being reported and, in the case of scheduled/scheduled remittance types, on which reporting option the servicer selects. Fannie Mae reserves the right to impose a compensatory fee on a servicer that chronically submits late reports or that repeatedly neglects to verify the accuracy of its reports. (Also see *Part I, Section 201.10.09, Late Submission of Fannie Mae Investor Reporting System Reports (01/31/03)*.)

**Section 103.01  
Removal Transactions  
(01/31/03)**

A servicer must report removal transactions—payoff, repurchase, and foreclosure actions (Action Codes 60, 65, 67, 70, 71, and 72)—in sufficient time for Fannie Mae to receive the notification by the **second business** day of the month following the cut-off date for the reporting period in which the activity occurred. Fannie Mae encourages a servicer to report these transactions daily as they occur or once a week during the reporting period—as long as the method it chooses ensures that the final reported activity for a month will reach Fannie Mae by the second business day of the following month. (If a servicer that reports on a daily or weekly basis discovers that it erroneously reported one of these transactions, it may correct the reporting error by resubmitting the corrected information in time to reach Fannie Mae by the second business day of the month following the reporting period. If it is unable to do this, the servicer should notify its Fannie Mae investor reporting system representative about the error.)

**Section 103.02  
Servicing Transfer  
Transactions (01/31/03)**

A servicer that has received approval for a partial transfer of servicing from its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center must transmit loan-level information for the mortgage loans that will be included in the transfer in time for Fannie Mae to receive the information no later than 15 days before the effective date of the transfer.

Section 103.03  
All Other Transactions  
(01/31/03)

A servicer must make sure that all other transactions (which are the transactions that comprise the bulk of its Fannie Mae investor reporting system reports) are transmitted in sufficient time for Fannie Mae to receive them by 5 p.m. eastern time on the **third business** day of the month following the cut-off date for the reporting period. Failure to comply with this deadline may result in compensatory fees or other actions.

The following example illustrates the relationship between cut-off dates, reporting periods, and deadlines for transmitting the bulk of a servicer's transactions for actual/actual and scheduled/actual remittance type portfolio mortgage loans (which have an end-of-month cut-off date).  
*Example: For the June 2011 reporting period, the servicer would have to report all activity that occurred between June 1 and June 30 and transmit the transaction types that reflect this activity in time to reach Fannie Mae by July 6 (since July 3 is a Sunday and the Fourth of July is a holiday).*

For scheduled/scheduled remittance type portfolio and MBS mortgage loans, the servicer may select from two different options for transmitting the bulk of its monthly accounting transactions. Under Option 1, the servicer must transmit these transactions in time to reach Fannie Mae by the third business day of the month following its cut-off date. *Example: A servicer that uses the 25th of the month as its cut-off would have to transmit these transactions for June 2011 activity in time to reach Fannie Mae by July 6 (since July 3 is a Sunday and the Fourth of July is a holiday) if it selected Option 1.* Under Option 2, the servicer must first transmit the transactions representing a snapshot of the activity that has occurred up to the 25th of the month and then submit a supplemental report for activity that occurred between the 25th and the servicer's actual cut-off date (if the actual cut-off date is later than the 25th). The snapshot report must be transmitted by the third business day following the 25th of the month; the supplemental report, by the third business day of the month following the servicer's cut-off date. *Example: A servicer that uses a month-end cut-off for its MBS pools would have to transmit the snapshot report for June 2011 activity in time to reach Fannie Mae by June 29 and the supplemental report for June 2009 activity in time to reach Fannie Mae by July 6 (since July 3 is a Sunday and the Fourth of July is a holiday).*

**Section 104  
Monthly  
Reconciliations  
(01/31/03)**

Each month, the servicer must reconcile the Fannie Mae investor reporting system reports it receives from Fannie Mae to its internal records. The reconciliation for portfolio mortgage loans (whether they are accounted for as an actual/actual, scheduled/actual, or scheduled/scheduled remittance type) involves comparing the portfolio totals, interest rates, and pass-through rates carried in the servicer's records to those that Fannie Mae has in its investor reporting system database and reconciling the components of any shortage or surplus Fannie Mae is carrying for the servicer's reports. The reconciliation for MBS mortgage loans that are the scheduled/scheduled remittance type involves only the comparison of portfolio totals, interest rates, and pass-through rates in the servicer's records to those in Fannie Mae's records.

**Section 104.01  
Submission of Formal  
Reconciliations  
(01/31/03)**

The servicer is not required to submit its monthly reconciliations to Fannie Mae. However, on occasion, Fannie Mae may request a servicer to submit a formal reconciliation of its Fannie Mae investor reporting system activity to Fannie Mae. When it does, it will specify the activity month for which the reconciliation must be performed. Fannie Mae expects the servicer to perform a thorough review of all transactional errors and data discrepancies, identifying the corrections that need to be made by either the servicer or Fannie Mae, prior to its submission of the formal reconciliation. Reconciliations should be prepared using the following forms (or an acceptable equivalent format):

- *Reconciliation of Mortgage Portfolio* ([Form 473](#)),
- *Reconciliation of Mortgage Portfolio—S/S MBS and MRS* ([Form 512](#)),
- *Reconciliation of Interest Rate/Pass-Through Rate* ([Form 473A](#)), and
- *Reconciliation of Shortage/Surplus* ([Form 472](#)).

**Section 104.02  
Unreconciled Shortages  
and Surpluses (01/31/03)**

A shortage/surplus in the Fannie Mae investor reporting system represents the cumulative difference between the cash that the servicer remitted to Fannie Mae and the interest and principal that the servicer reflected in its monthly loan-level reports as being applied to the portfolio mortgage loans it services for Fannie Mae.

- **Unreconciled shortages are payable to Fannie Mae.** If the servicer is unable to reconcile a shortage—and cannot explain the unreconciled

shortage—it must remit the amount of the unreconciled shortage to Fannie Mae immediately. The funds will need to be transferred from the servicer’s corporate accounts into its designated Fannie Mae custodial drafting account before the servicer reports this remittance as part of its regular P&I remittances. Before transmitting its Fannie Mae investor reporting system transactions for the next reporting period, the servicer should contact its Fannie Mae investor reporting system representative for instructions on handling subsequent adjustments and corrections.

- **Unreconciled surpluses are income items for Fannie Mae.** If, within 90 days after a surplus first appears on the servicer’s Fannie Mae investor reporting system reports, the servicer is unable to reconcile the surplus—and cannot explain any extenuating circumstances related to the unreconciled surplus— Fannie Mae may adjust the servicer’s shortage/surplus account to zero out the surplus. Before Fannie Mae does this, it will give the servicer advance notification and advise it on how subsequent adjustments and corrections should be handled.

**Section 105  
Pool-to-Security  
Balance Reconciliation  
(01/31/03)**

Each month, the servicer must 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). When an MBS pool is subdivided as the result of a loan-level servicing transfer, the transferee servicer’s portion of the pool will have a beginning security balance that is equal to the sum of the scheduled UPBs for all of the transferred mortgage loans. The new security balance for the transferor servicer’s remaining portion of the original pool will be equal to the prior ending security balance for the pool less the beginning security balance for the transferee servicer’s supplemental pool.

To perform the pool-to-security balance reconciliation, use the following calculation:

	Ending Actual Principal Balance for Mortgage Loans in Pool (from current month)
+	Prepaid Principal (as of current month)
-	Delinquent Principal (as of current month)
-	Scheduled Principal (as of current month)
+	Principal Portion of Last Installment for Liquidated Mortgage Loan (as of current month)
<hr/>	
	Adjusted Principal Balance for Pool
-	Ending Security Balance for Reporting Period
<hr/>	
	Difference

Because the total amount of the security that is issued for an MBS pool is rounded down to the next lowest whole dollar amount of the actual “issue date principal balances of the mortgage loans,” the security balance will be smaller than the aggregate mortgage loan balances. The difference will never be greater than \$0.99 for a single pool. The servicer must adjust for this difference in the first monthly accounting report it submits after the issue date of the securities, classifying it as an unscheduled principal adjustment.

Other differences may arise in the reconciliation between the aggregate principal balance of the mortgage loans in an MBS pool and the outstanding security balance. These differences cannot exceed more than \$0.25 for each mortgage loan in the pool. At least once a year, the servicer must make an adjustment to correct the differences.

- If the security balance is *higher*, the servicer must immediately deposit the funds in the scheduled/scheduled P&I custodial account for MBS pools so that the funds can be passed through to Fannie Mae (as an unscheduled principal collection) with the servicer’s next monthly remittance.

- If the security balance is *lower*, the servicer may adjust a subsequent pass-through amount that includes an unscheduled principal collection to correct for this difference.

The Fannie Mae investor reporting system produces a Pool-to-Security Reconciliation Detail report, which is shown in *Chapter 5, Exhibit 9: Pool-To-Security Reconciliation Detail Report*, to assist the servicer with its reconciliation.

**Section 106  
Audit Confirmations  
(08/02/10)**

A servicer may instruct its external auditors to contact Fannie Mae directly about providing confirmation of the servicer's portfolio composition and outstanding balances as they are carried in Fannie Mae's records. Fannie Mae will respond to such requests as promptly as possible although there can be a delay of one month. However, requests are usually completed and returned within 10 business days.

The request for audit confirmation should be sent to:

[Investor\\_Reporting\\_Group\\_Mailbox@FannieMae.com](mailto:Investor_Reporting_Group_Mailbox@FannieMae.com)

All requests for audit confirmations should include the following information:

- the servicer's name and address,
- an authorized signature of an officer of the financial institution,
- the servicer's 9-digit Fannie Mae lender identification number,
- the name and telephone number of the auditor's contact person (either with the servicer's institution or auditor), and
- the effective date for the confirmation.



## Chapter 2. Reporting Specific Transactions (01/31/03)

All reportable Fannie Mae investor reporting system transactions will fall into one or more of the following categories. Some transactions update the status of a mortgage loan or summarize collection activity, while others update the information in Fannie Mae's records (such as property addresses, lender Loan I.D. identification numbers, mortgage loan terms, subservicing status, etc.). The seven reportable transaction types are

- Transaction Type 96 (Loan Activity Record),
- Transaction Type 97 (Extended Loan Activity Record),
- Transaction Type 83 (Payment/Rate Change Record),
- Transaction Type 82 (Loan Address Change Record),
- Transaction Type 81 (Lender Loan I.D. Record),
- Transaction Type 80 (Sub servicer Arrangement Record), and
- Transaction Type 32 (Transfer of Servicing Record).

These codes can be mapped to the EDI segment positions and names and data element references that a servicer will use when reporting Fannie Mae investor reporting system transactions in the ANSI X12 format. (See *Exhibit 7: Transaction Type 32 (Servicing Transfer Record)*; also see *Section 102, Machine-Processable Input (03/05/10)*.)

### Section 201 Transaction Type 96 (Loan Activity Record) (01/31/03)

Transaction Type 96 (Loan Activity Record) (LAR) is used to provide loan-level detail for each mortgage loan on the servicer's trial balance. (Record specifications and descriptions for Transaction Type 96 are included in *Exhibit 1: Transaction Type 96 (Loan Activity Record)*.) The loan-level information can be broken down into three categories:

- **Payment collection**, which relates to the receipt and application of the mortgage loan payment. The information that must be reported includes the LPI date, UPB, and the remittance amount (distributed between interest and principal).

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- **Mortgage loan status**, which relates to special actions that have occurred—such as a payoff; a repurchase; the liquidation of the debt by foreclosure, preforeclosure sale, deed-in-lieu, or assignment to the mortgage insurer or guarantor; or the automatic termination or a borrower-initiated cancellation of the mortgage insurance coverage. The information that must be reported includes an action code—there are several codes available—and an action date to specify when the reported action occurred (or will occur).
- **Fee collection**, which relates to any special fees—such as late charges, assumption fees, or prepayment premiums—that were collected from the borrower during the reporting period. The information that must be reported is the combined total of the special fees.
- Reporting mortgage insurance termination/cancellation. (See *Section 309, Reporting Discontinuance of Mortgage Insurance (01/31/03)*.)

**Section 202  
Transaction Type 97  
(Extended Loan Activity  
Record) (03/28/11)**

Transaction Type 97 (Extended Loan Activity Record) is an extended LAR that includes the date of payment. This date is necessary for reporting payment activity for all daily simple interest mortgage loans and actual/actual biweekly loans. The interest accrual is driven by the date of payment.

**Section 203  
Transaction Type 81  
(Lender Loan I.D.  
Change Record)  
(09/01/98)**

Transaction Type 81 (Lender Loan I.D. Change Record) should be used to add, delete, or change the information Fannie Mae is carrying in its records for the servicer's unique identifier for the mortgage loan. (Record specifications and descriptions for Transaction Type 81 are included in *Exhibit 3: Transaction Type 81 (Lender Loan I.D. Change Record)*.) The servicer can determine the I.D. that Fannie Mae is carrying in its records by reviewing the trial balance report that Fannie Mae provides. (See *Exhibit 5: Trial Balance Report*.) By correcting Fannie Mae's records, the servicer can ensure that its Loan I.D. identification is included in any automated reports that Fannie Mae sends to it. This will make it easier to review and research any discrepancies.

**Section 204  
Transaction Type 82  
(Loan Address Change  
Record) (09/01/98)**

Transaction Type 82 (Loan Address Change Record) should be used to update Fannie Mae's records to reflect changes or corrections to a property address. Changes that should be reported include the renumbering or renaming of streets, changing an address from a lot and block description to a house number and street, and changing ZIP codes because of postal

realignments. (Record specifications and descriptions for Transaction Type 82 are included in *Exhibit 4: Transaction Type 82 (Loan Address Change Record)*.)

**Section 205  
Transaction Type 83  
(Payment/Rate Change  
Record) (09/01/98)**

Two months before a scheduled interest rate or monthly payment change for an ARM, a GEM, a GPARM, or a graduated-payment mortgage (GPM), Fannie Mae provides the servicer with a listing of mortgage loans Fannie Mae expects to change on that date. (See *Chapter 5, Exhibit 3: Monthly Payment/Rate Change Form*.) Transaction Type 83 (Payment/Rate Change Record) should be used to report the actual change to Fannie Mae. (Record specifications and descriptions for Transaction Type 83 are included in *Exhibit 5: Transaction Type 83 (Payment/Rate Change Record)*.) The servicer may report the Transaction Type 83 to Fannie Mae as soon as it knows the effective date and exact amount of the new interest rate or monthly payment. Because Fannie Mae cannot process any transaction against a mortgage loan that has a scheduled (or past due) change due, the servicer must report a Transaction Type 83 no later than the reporting period that includes the scheduled change date.

The servicer also should use Transaction Type 83 to report the conversion of an ARM or GPARM to a fixed-rate mortgage loan. The servicer may report the Transaction Type 83 to Fannie Mae when it transmits its first Fannie Mae investor reporting system reports after it knows the effective date of the conversion and the new converted interest rate and monthly payment. The servicer must report a Transaction Type 83 for the conversion by no later than the due date of the Fannie Mae investor reporting system reports for the reporting period that includes the effective date for the new monthly payment.

The servicer should also use Transaction Type 83 to report any unscheduled change event for a loan, including:

- a change to the loan's P&I due to a curtailment made by the borrower, or
- a change to the loan's interest rate and P&I due to the borrower's qualifying for an interest rate reduction (such as a TPR loan).

**Section 206  
Transaction Type 80  
(Subservicer  
Arrangement Record)  
(01/31/03)**

Each mortgage loan that is subject to a subservicing arrangement must be identified in Fannie Mae's records. The type of subservicing arrangement and the subservicer's identification must first be reported to Fannie Mae in the month after it purchases or securitizes a mortgage loan (or pool of mortgage loans), with subsequent changes in the arrangement being reported as they occur. Transaction Type 80 (Subservicer Arrangement Record) should be used to report the creation of a subservicing arrangement for a mortgage loan, as well as any change to an existing arrangement. (Record specifications and descriptions for Transaction Type 80 are included in *Exhibit 6: Transaction Type 80 (Subservicer Arrangement Record)*.)

When mortgage loans that are subject to a subservicing arrangement are included in a transfer of servicing, Fannie Mae will delete the subservicer information that it is carrying in its individual loan records when it processes the servicing transfer. The master servicer (or its designated subservicer) will then need to report any applicable subservicer arrangements for the transferred mortgage loans by submitting a Transaction Type 80 in the Fannie Mae investor reporting system period following the effective date for the servicing transfer. Because the subservicing relationship will appear to be a new one for the transferee servicer (at least with respect to the transferred mortgage loans), the servicer (or subservicer) should report an "A" (for Add a New Subservicer) as the Modification Code.

**Section 207  
Transaction Type 32  
(Servicing Transfer  
Record) (01/31/03)**

A servicer that has received approval for transfer of servicing (including an MBS loan-level transfer) must transmit loan-level information for the mortgage loans that will be included in the partial transfer to the Fannie Mae investor reporting system. Transaction Type 32 (Servicing Transfer Record) should be used to provide this information. The servicer must submit this loan-level information in time for Fannie Mae to receive it no later than 15 days before the effective date of the transfer; it may be submitted as early as six months before the proposed effective date. (Record specifications and descriptions for Transaction Type 32 are included in *Exhibit 7: Transaction Type 32 (Servicing Transfer Record)*.) (Also see *Part I, Section 205, Post-Delivery Transfers of Servicing (09/30/06)*.)

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Exhibit 1

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**Exhibit 1: Transaction Type 96 (Loan Activity Record)  
(09/30/96)**

Data Element	Position	Format	Description
Lender Number	1-9	(9)	Numeric only
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11-12	(2)	Always 96
Source Code	13	(1)	Always zero (0)
Fannie Mae Loan Number	14-23	(10)	Numeric only
LPI Date	24-27	(4)	MMYY format
UPB	28-38	S9(9)V99	Numeric; zone signed; code \$50,000.01 as 0000500000A
Interest	39-49	S9(9)V99	Numeric; zone signed; code \$800.02 as 0000008000B
Principal	50-60	S9(9)V99	Numeric; zone signed; code -\$9.91 as 0000000099J
Action Code	61-62	(2)	Numeric or blank
Action Date	63-68	(6)	MMDDYY format
Other Fees	69-76	S9(6)V99	Numeric; zone signed; may be zero-filled
Filler	77-80	(4)	Blanks or zeroes

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Exhibit 2

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**Exhibit 2: Transaction Type 97 (Extended Loan Activity Report)  
(03/28/11)**

<b>Data Element</b>	<b>Position</b>	<b>Format</b>	<b>Description</b>
Lender Number	1	(9)	Numeric only (must be the special Servicer Number assigned for DSI loans)
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11	(2)	Always 97
Reversal Flag	13	(1)	Zero (0) - normal One (1) - reversal
Fannie Mae Loan Number	14	(10)	Numeric only (The unique 10-digit Fannie Mae assigned loan number)
Gross Actual Payment	24	(11)	9(9)v99 Full payment amount sent by borrower (P&I). If reporting curtailment, this is the curtailment amount.
Payment Effective Date	35	(8)	MMDDYYYY (Effective date the payment is being applied). Must equal action date (LAR 96 position 63), if action is reported.
Filler	43	(30)	Blank
Full LPI Date	73	(8)	MMDDYYYY Month and year must agree with the month and year reported in LAR 96 position 24 (LPI date).

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Exhibit 2

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Exhibit 3

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**Exhibit 3: Transaction Type 81 (Lender Loan I.D. Change Record)  
(09/30/96)**

<b>Data Element</b>	<b>Position</b>	<b>Format</b>	<b>Description</b>
Lender Number	1-9	(9)	Numeric only
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11-12	(2)	Always 81
Source Code	13	(1)	Always zero (0)
Fannie Mae Loan Number	14-23	(10)	Numeric only
New Lender Loan I.D.	24-38	(15)	Alphanumeric
Filler	39-80	(42)	Blanks

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Exhibit 3

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Exhibit 4

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**Exhibit 4: Transaction Type 82 (Loan Address Change Record)  
(09/30/96)**

<b>Data Element</b>	<b>Position</b>	<b>Format</b>	<b>Description</b>
Lender Number	1-9	(9)	Numeric only
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11-12	(2)	Always 82
Source Code	13	(1)	Always zero (0)
Fannie Mae Loan Number	14-23	(10)	Numeric only
New Street	24-55	(32)	Alphanumeric; combination of house or building number, street type (La = Lane, Ave = Avenue, etc.), street direction (NE, NW, SE, SW), and unit number, if applicable.
City	56-70	(15)	Alphabetic; truncate if necessary
Zip Code	71-75	(5)	Numeric
Blank	76-80	(5)	Blanks

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Exhibit 5

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**Exhibit 5: Transaction Type 83 (Payment/Rate Change Record)  
(09/30/96)**

<b>Data Element</b>	<b>Position</b>	<b>Format</b>	<b>Description</b>
Lender Number	1-9	(9)	Numeric only
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11-12	(2)	Always 83
Source Code	13	(1)	Always zero (0)
Fannie Mae Loan Number	14-23	(10)	Numeric only
Effective with Payment Due on	24-27	(4)	MMYY format
Index Value	28-33	(2) (4)	Numeric or blank; code 6.5% as 065000
New Interest Rate	34-39	(2) (4)	Numeric or blank; code 8.25% as 082500
Pass-Through Rate	40-45	(2) (4)	Numeric or blank; code 7.25% as 072500
New Payment	46-54	(7)	Numeric or blank; code \$700.25 as 000070025
Extended Term	55-57	(3)	Numeric or blank
Converted to Fixed Rate	58	(1)	Alphanumeric; uppercase Y if converted; otherwise blank
Filler	59-80	(22)	Blanks

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Exhibit 6

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**Exhibit 6: Transaction Type 80 (Subservicer Arrangement Record)  
(11/01/96)**

Data Element	Position	Format	Description
Lender Number	1-9	(9)	Numeric; identification number Fannie Mae assigned to the servicer (or the master servicer)
Investor	10	(1)	Alphanumeric; F = Fannie Mae
Record Identifier	11-12	(2)	Always 80
Source Code	13	(1)	Always zero (0)
Modification Code	14	(1)	Alphanumeric; A = Add a new subservicer; C = Change an existing subservicer; D = Delete an existing subservicer; always use "A" to update records for mortgage loans included in a servicing transfer.
Subservicer Lender Number	15-23	(9)	Numeric; identification number Fannie Mae assigned to the subservicer.
Subservicer Type Code	24-25	(2)	Numeric; code indicating whether the request relates to a single mortgage loan or a group of mortgage loans; 00 = one mortgage loan; 01 = all mortgage loans; 04 = one MBS pool; 09 = one remittance type.
Key Field	26-35	(10)	Alphanumeric; further defines subservicer type code; if type code was 00, insert the applicable 10-digit Fannie Mae loan number; if type code was 01; leave blank; if type code was 04, insert the MBS pool number (with 4 trailing blanks); if the type code was 09, insert the 1-digit code that identifies the specific remittance type (with 9 trailing blanks). The remittance type codes are 1 (actual/actual), 2 (scheduled/actual), and 3 (scheduled/scheduled).
Filler	36-80	(45)	Always blank

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Exhibit 7

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**Exhibit 7: Transaction Type 32 (Servicing Transfer Record)  
(11/01/96)**

Data Element	Position	Format	Description
Transferor Lender Number	1-9	(9)	Numeric
Blank	10	(1)	Blank
Record Identifier	11-12	(2)	Always 32
Source Code	13	(1)	Always zero (0)
Key Field	14-23	(10)	Fannie Mae loan number (for portfolio transfers and MBS loan-level transfers); MBS pool number, with four trailing blanks (for MBS pool-level transfers); or blank
Request Effective Date	24-29	(6)	Numeric; CCYYMM format; for a transfer that is effective January 31, 2003, use 200301
Transferee Lender Number	30-38	(9)	Numeric
Lender Loan I.D.	39-53	(15)	Alphanumeric
Transfer Request Type Code	54-55	(2)	Numeric; as detailed below: 00 – Non-MBS Loan 10 – MBS Loan 04 – MBS Pool 03 – MBS Portfolio 05 – Actual/Actual Portfolio 06 – Scheduled/Actual Portfolio 07 – Scheduled/Scheduled Cash Portfolio
Filler	56-80	(25)	Always blank

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**Fannie Mae Investor  
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**Exhibit 8: Mapping Fannie Mae Investor Reporting System  
Records to EDI Investor Reporting Transaction Set 203  
(01/31/03)**

<b>Current Investor Reporting Record Identifier &amp; Data Element Field Name</b>	<b>Location of Data Element Within Investor Reporting Record Identifier</b>	<b>EDI Segment Position &amp; Segment Name</b>	<b>EDI Data Element Reference</b>	<b>EDI Requirement Designation</b>
—	—	010/ST	ST01	Mandatory Field Mandatory Segment
—	—	010/ST	ST02	Mandatory Field Mandatory Segment
—	—	020/BGN	BGN01	Mandatory Field Mandatory Segment
—	—	020/BGN	BGN02	Mandatory Field Mandatory Segment
—	—	020/BGN	BGN03	Mandatory Field Mandatory Segment
—	—	020/BGN	BGN04	Optional Field Mandatory Segment
—	—	020/BGN	BGN05	Optional Field Mandatory Segment
—	—	030/DTP	DTP01	Mandatory Field Mandatory Segment
—	—	030/DTP	DTP02	Mandatory Field Mandatory Segment
—	—	030/DTP	DTP03	Mandatory Field Mandatory Segment
—	—	040/REF	REF01	Mandatory Field Mandatory Segment
(96) Fannie Mae Lender Number	1-9	040/REF	REF02	Mandatory Field Mandatory Segment
—	—	010/LX	LX01	Mandatory Field Mandatory Segment
—	—	020/REF	REF01	Mandatory Field Optional Segment

## Fannie Mae Investor Reporting System

Reporting Specific Transactions

Exhibit 8

June 10, 2011

Current Investor Reporting Record Identifier & Data Element Field Name	Location of Data Element Within Investor Reporting Record Identifier	EDI Segment Position & Segment Name	EDI Data Element Reference	EDI Requirement Designation
(80) Subservicer Number	15-23	020/REF	REF02	Mandatory Field Optional Segment
(80) Subservicer Number	15-23	020/REF	REF02	Mandatory Field Optional Segment
(80) Subservicer Number	15-23	020/REF	REF02	Mandatory Field Optional Segment
(80) Subservicer Modification Code	14	020/REF	REF02	Mandatory Field Optional Segment
(80) Subservicer Type Code	24-25	020/REF	REF02	Mandatory Field Optional Segment
—	—	050/RLT	RLT01	Mandatory Field Optional Segment
(96) Fannie Mae Loan Number	14-23	050/RLT	RLT02	Mandatory Field Optional Segment
—	—	050/RLT	RLT03	Conditional Field Optional Segment
(81) New Lender Loan I.D.	24-38	050/RLT	RLT04	Conditional Field Optional Segment
—	—	060/DTP	DTP01	Mandatory Field Mandatory Segment
—	—	060/DTP	DTP02	Mandatory Field Mandatory Segment
(96) LPI Date	24-27	060/DTP	DTP03	Mandatory Field Mandatory Segment
(NEW) Date of Last Full Payment	—	060/DTP	DTP03	Mandatory Field Mandatory Segment
(NEW) Curtailment Date	—	060/DTP	DTP03	Mandatory Field Mandatory Segment
—	—	070/AMT	AMT01	Mandatory Field Mandatory Segment

## Fannie Mae Investor Reporting System

Reporting Specific  
Transactions

June 10, 2011

Exhibit 8

<b>Current Investor Reporting Record Identifier &amp; Data Element Field Name</b>	<b>Location of Data Element Within Investor Reporting Record Identifier</b>	<b>EDI Segment Position &amp; Segment Name</b>	<b>EDI Data Element Reference</b>	<b>EDI Requirement Designation</b>
(96) UPB (96) Principal (96) Interest (96) Other Fees (NEW) Prepay Penalty (NEW) Curtailment	28-38 50-60 39-49 69-76 — —	070/AMT	AMT02	Mandatory Field Mandatory Segment
(96) Action Code	61-62	080/IRA	IRA01	Mandatory Field Optional Segment
—	—	080/IRA	IRA02	Conditional Field Optional Segment
(96) Action Code	63-68	080/IRA	IRA03	Conditional Field Optional Segment
—	—	100/PRC	PRC01	Mandatory Field Optional Segment
—	—	100/PRC	PRC02	Mandatory Field Optional Segment
(83) Effective Date of Rate or Payment Change	24-27	100/PRC	PRC03	Mandatory Field Optional Segment
(83) Index Value	28-33	100/PRC	PRC04	Optional Field* Optional Segment
(83) Pass-Thru Rate	40-45	100/PRC	PRC05	Optional Field* Optional Segment
(83) New Interest Rate	34-39	100/PRC	PRC06	Optional Field* Optional Segment
—	—	100/PRC	PRC07	Conditional Field Optional Segment
(83) New P&I Payment	46-54	100/PRC	PRC08	Conditional Field Optional Segment
(83) Converted to Fixed Rate	58	100/PRC	PRC09	Optional Field Optional Segment
—	—	100/PRC	PRC10	Conditional Field Optional Segment
(83) Extended Term	55-57	100/PRC	PRC11	Conditional Field Optional Segment

**Fannie Mae Investor Reporting System**

Reporting Specific Transactions

Exhibit 8

June 10, 2011

<b>Current Investor Reporting Record Identifier &amp; Data Element Field Name</b>	<b>Location of Data Element Within Investor Reporting Record Identifier</b>	<b>EDI Segment Position &amp; Segment Name</b>	<b>EDI Data Element Reference</b>	<b>EDI Requirement Designation</b>
—	—	100/PRC	PRC12	Conditional Field Optional Segment
—	—	110/NX2	NX201	Mandatory Field Optional Segment
(82) Street Address (82) City (82) Zip Code	24-55 56-70 71-75	110/NX2	NX202	Mandatory Field Optional Segment
<p>* A data maintenance request was submitted to ANSI to change these fields from mandatory to optional data elements. Fannie Mae expects to see data in these fields for the PRC segment only when a rate or payment change is due to be reported for a mortgage loan in accordance with Fannie Mae's requirements.</p>				

June 10, 2011

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## **Chapter 3. Special Reporting Requirements (04/21/09)**

A servicer must remit interest on delinquent mortgage loans that are a scheduled/actual remittance type and P&I on delinquent mortgage loans that are a scheduled/scheduled remittance type to Fannie Mae each month—whether or not it actually receives payments from the borrowers. Under the investor reporting system, delinquent mortgage loans generally remain on the servicer’s trial balance until after the servicer repurchases them or until after the foreclosure sale is held and the servicer reports the appropriate action code—Code 70, 71, or 72—with a Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR. A servicer of whole mortgage loans and most participation pool mortgage loans that Fannie Mae holds in its portfolio is required to advance interest only through the third month of delinquency. The servicer of special servicing option MBS mortgage loans must advance P&I payments until Fannie Mae reclassifies a delinquent mortgage loan as an actual/actual remittance type portfolio mortgage loan. The servicer of regular servicing option MBS mortgage loans must advance P&I payments until it removes the delinquent mortgage loan from the MBS pool.

To avoid advancing payments from its corporate funds to ensure that Fannie Mae receives the full remittance it is due, the servicer may use the funds it has on hand for any prepaid P&I installments, curtailments, or payments in full to offset payment shortfalls that occur as the result of mortgage loan delinquencies. (To ensure that it has adequate controls over this process, the servicer should maintain a record of all delinquency advances that were funded by prepaid installments in any given month and perform appropriate reconciliations of the activity.) If the servicer has no collections on hand that represent funds not yet due for remittance to Fannie Mae, the servicer will have to advance its own funds to cover the shortfall. Special reporting requirements are necessary to ensure that advanced payments can be correctly accounted for in terms of reimbursing a servicer for its delinquency advances and making scheduled interest rate and monthly payment changes for ARMs.

Special reporting requirements also are necessary for bringing seriously delinquent scheduled/actual remittance type mortgage loans current, as well as for reporting reversals of curtailments or removal transactions for

MBS mortgage loans, for preparing the initial monthly accounting report for MBS mortgage loans that provide for the payment of interest in advance, for reporting payment applications for MBS mortgage loans that have “odd” due dates (payments due other than the first of the month), for preparing the initial monthly accounting reports for “same month” MBS pools (those that include mortgage loans closed in the month in which the pool is issued), and for reporting a borrower-initiated cancellation or the automatic termination of mortgage insurance coverage. In addition, a servicer must report security balances for its MBS pools each month.

If a modification includes principal forbearance, the servicer should report the net UPB (full UPB minus the forbearance amount) in the “Actual UPB” field in the LAR for the reporting month that the modification becomes effective. The initial reduction in UPB caused by the principal forbearance should not be reported to Fannie Mae as a principal curtailment. The interest reported on the LAR must be based on the net UPB.

If the modification includes principal forbearance resulting in a balloon payment due upon the borrower’s sale of the property or payoff, or maturity of the mortgage loan, interest must never be computed on the principal forbearance amount, including at the time of liquidation. When reporting a payoff or repurchase of the mortgage loan, the principal reported on the LAR must include the principal forbearance amount. Attempting to report a payoff or repurchase without including the principal forbearance amount will generate an exception upon submission of the LAR.

If a principal curtailment is received on a loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest-bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, then the curtailment should be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest-bearing UPB.



June 10, 2011

Section 301

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**Section 301  
ARM Interest Rate and  
Monthly Payment  
Changes (01/31/03)**

Because scheduled/actual and scheduled/scheduled remittance types require the payment of interest (or, in the case of scheduled/scheduled remittance types, P&I) to Fannie Mae whether or not the servicer actually collects the payment from the borrower, ARM interest rate and payment changes for mortgage loans that have these remittance types must be handled differently than they would be for those that have the actual/actual remittance type.

**Section 301.01  
Scheduled/Actual  
Remittance Types  
(01/31/03)**

The servicer must change the interest rate of a whole mortgage loan account or participation certificate related to a scheduled/actual remittance type mortgage loan when the interest rate adjustment is scheduled to occur, regardless of the LPI date for the mortgage loan. This means that sometimes the servicer will change the interest rate for Fannie Mae's accounting records at the same time that it changes the rate for the borrower's payment (for current mortgage loans), before it changes the rate for the borrower's payment (for delinquent mortgage loans), or after it changes the rate for the borrower's payment (for prepaid mortgage loans).

When a servicer reports a scheduled interest rate change for a scheduled/actual remittance type ARM that provides for the payment of interest in arrears, the servicer should report the change with a Transaction Type 83 (Payment/Rate Change Record), as of the payment date on which the interest rate will become effective, rather than the actual effective date of the interest rate change. (Note: If the mortgage loan provides for payment of interest in advance, the scheduled change dates for the interest rate and the monthly payment are always the same.) To illustrate this timing, assume that a mortgage loan that provides for payment of interest in arrears has an interest rate change date of October 1, 2011. The new interest rate would become effective with the payment due November 1, 2011. The servicer would use the new interest rate to calculate the interest reported with its Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR for November 2011, but the remittance would not actually be due until December 20, 2011.

**Section 301.02  
Scheduled/Scheduled  
Remittance Types  
(01/31/03)**

The servicer should change the interest rate of a portfolio mortgage loan or the accrual rate for an MBS mortgage loan accounted for as a scheduled/scheduled remittance type in Fannie Mae's records before the interest rate adjustment is scheduled to occur, regardless of the actual LPI date for the individual mortgage loan.

The servicer should report interest rate and monthly payment changes for scheduled/scheduled remittance type ARMs to Fannie Mae as soon as the new interest rate or monthly payment is known, by transmitting a Transaction Type 83 (Payment/Rate Change Record). When the mortgage loan interest rate and the monthly payment for an ARM change at the same interval, the servicer should report the ARM interest rate and monthly payment change to Fannie Mae at least two months in advance of the date on which the application of the monthly payment will be based on the new interest accrual rate (assuming that the index needed to establish the new interest rate is available at that time). When the mortgage loan interest rate and the monthly payment for an ARM change at different intervals, the servicer should report the interest rate change two months before the date on which the application of the monthly payment will be based on the new interest accrual rate (assuming that the index needed to establish the rate is available) and the monthly payment two months before the date on which the new payment becomes effective. If the index is not available by the time that the interest rate change should be reported to Fannie Mae, the servicer should report the change to Fannie Mae as soon as the appropriate index becomes available and the new interest rate and the monthly payment (if it is changing) have been calculated.

To illustrate the correct timing for reporting ARM interest rate and payment changes for scheduled/scheduled remittance types: A servicer's January report should include any ARM that will have (a) a new interest accrual rate effective with the application of the March 1 payment or (b) a monthly payment change effective March 1 (when the payment change is not tied to a change in the interest accrual rate). Fannie Mae prefers that a servicer that has a cut-off date after the 25th of the month report its ARM changes when it reports the snapshot of its activity, within three business days after the 25th, although it may report the changes with its supplemental reports.

**Section 302  
Reimbursement of  
Delinquency Advances  
(01/31/03)**

The method and timing of the servicer's reimbursement for interest it advanced for a delinquent mortgage loan depends on whether the mortgage is a portfolio mortgage loan or an MBS mortgage loan. Fannie Mae does not reimburse the servicer of regular servicing option MBS mortgage loans for its delinquency advances, although it will reimburse delinquency advances related to special servicing option MBS mortgage loans. Reimbursements for delinquency advances related to portfolio mortgage

loans vary depending on the remittance type and Fannie Mae's ownership interest in the mortgage loan.

Section 302.01  
Scheduled/Actual  
Remittance Types  
(01/31/03)

Because of the nature of scheduled/actual remittances, the servicer will actually pass through one more month of interest than the number of delinquent installments—in other words, the servicer will pass through one month's interest for the reporting period that includes the LPI date for the mortgage loan, and one month's interest for each successive month of delinquency that it is required to pass through.

For delinquent whole mortgage loans or participation pool mortgage loans, the servicer can recover its advances for delinquent interest during the fourth month of delinquency. The servicer recovers this interest advance by reporting a *negative* interest remittance amount for the mortgage loan when it transmits its Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR for the month in which the mortgage loan becomes four months delinquent. Fannie Mae will reimburse the servicer for the additional month of interest it advanced after it reports the loan liquidation (as Action Code 70, 71, or 72) with Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR. When the servicer receives Fannie Mae's check for this advanced interest, it should deposit the funds into the account in which it holds Fannie Mae collections, thus replenishing the funds it used to cover the earlier advance. If the servicer actually advanced corporate funds, the check may be deposited into the servicer's corporate account.

The following chart illustrates the correct timing for reporting delinquencies, advancing interest, and recovering advanced interest for a whole mortgage loan or a participation pool mortgage loan (other than one that was part of a concurrent mortgage loan sale) that had an LPI date of April 2002:

**Fannie Mae Investor Reporting System**

Special Reporting Requirements

Section 302

June 10, 2011

MORTGAGE LPI	REPORTING PERIOD				
	April 2002	May 2002	June 2002	July 2002	August 2002
Mortgage Status	Current	1 mo. Delq.	2 mo. Delq.	3 mo. Delq.	4 mo. Delq.
Interest Sent to Fannie Mae	1 mo.	1 mo.	1 mo.	1 mo.	-3 mos.*
		Delinquent Interest Advanced for 3 Months			Interest Recovery

\* Remaining one month of interest will be paid to servicer after it reports the liquidation of the mortgage.

Section 302.02  
Scheduled/Scheduled  
Remittance Types  
(12/08/08)

A servicer may not use the funds it has on hand for any payments made by, on behalf of, or for the benefit of a borrower, including scheduled P&I installments, prepaid P&I installments, curtailments, or payments-in-full, to liquidate REO properties from MBS pools. Fannie Mae requires that servicers report the acquisition of a property securing an MBS mortgage loan and that the servicer use its own corporate funds to liquidate the acquired property from the MBS pool, regardless of the applicable servicing option. The servicer may not utilize payments made by or on behalf of a borrower to reimburse itself for corporate funds it advances to liquidate acquired properties from MBS pools, since the servicer will be reimbursed directly by Fannie Mae.

If Fannie Mae reclassifies a delinquent scheduled/scheduled remittance type special servicing option MBS mortgage loan as an actual/actual remittance type mortgage loan that Fannie Mae will hold in its portfolio, Fannie Mae will reimburse the servicer for the UPB of the mortgage loan and its delinquency advances for scheduled P&I when Fannie Mae completes the reclassification.

Fannie Mae will automatically reimburse the servicer for the UPB of the mortgage loan including reimbursement of UPB of special servicing mortgage loans that were acquired by foreclosure and for its P&I delinquency advances on the first business date following the 24th day of the same month that the servicer (1) remits the funds required to remove the mortgage loan from Fannie Mae's active accounting records or a special servicing option MBS pool and (2) reports the applicable removal action code to the Fannie Mae investor reporting system, including reimbursement of UPB of special servicing mortgage loans that were acquired by foreclosure. (The action codes applicable for foreclosures,

preforeclosure or third-party sales, deeds-in-lieu, or assignments—Action Code 70, 71, or 72—should be used to remove the mortgage loan from Fannie Mae’s active accounting records or an MBS pool. The applicable action date should be the date the action took place—such as the date of the foreclosure sale or the date a deed-in-lieu was accepted. Actions occurring prior to the 25th day of the month must be reported to the Fannie Mae investor reporting system when activity for that same month is reported; actions occurring between the 25th day and the last day of a month may be reported to the Fannie Mae investor reporting system when activity for the following month is reported.) Fannie Mae will not reimburse a servicer for interest that it has to advance because it fails to remove the mortgage loan in a timely manner.

**Section 303  
Reinstatement of  
Seriously Delinquent  
Mortgage Loans  
(01/31/03)**

When a whole mortgage loan or any other participation pool mortgage loan that is more than three months’ delinquent is brought current (fully reinstated) before the foreclosure sale is held, the servicer will have been reimbursed for a portion of its interest advances. Therefore, the servicer must make appropriate adjustments to ensure that Fannie Mae receives all of the monthly interest payments that it is due. If an interest adjustment date occurs while an ARM is delinquent, any calculations of the amount of interest due Fannie Mae must take into consideration any changes to the pass-through rate for the mortgage loan. The formulas for determining the interest remittance appear in *Exhibit 1: Formulas for Determining Interest Remittances for Mortgage Reinstatements for Scheduled/Actual Remittance Types*.

To bring a seriously delinquent mortgage loan current under Fannie Mae’s investor reporting system, the servicer reports the interest remittance with its Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR as interest from the previously reported LPI date through the end of the reporting period. The following chart illustrates the relationship between the mortgage loan status, the interest due, and the interest remitted:

## Fannie Mae Investor Reporting System

### Special Reporting Requirements

Section 304

June 10, 2011

MORTGAGE LPI	REPORTING PERIOD						
	DATE April 2002	April 2002	May 2002	June 2002	July 2002	August 2002	Sept. 2002
Mortgage Status	Current	1 mo. Delq.	2 mo. Delq.	3 mo. Delq.	4 mo. Delq.	Current	
Interest Due Fannie Mae	1 mo.	1 mo.	1 mo.	1 mo.	1 mo.	1 mo.	1 mo.
Interest Remittance	1 mo.*	1 mo.	1 mo.	1 mo.	(-3 mos.)		5 mo.
			3 mos.	+	1 mo.	+	1 mo.

\* In the above example, the interest due Fannie Mae covers the three months that the servicer has already recovered, the one month that the servicer has not recovered, plus interest for the month when the servicer reimbursed itself, plus interest due for the reporting period. Since the servicer has not recovered interest advanced for one of the months, it remits to Fannie Mae only five months of interest.

If the interest adjustment date for an ARM occurs during the delinquency period, the amount of interest due Fannie Mae when the mortgage loan is brought current must be calculated in two steps—one using the earlier pass-through rate and one using the new pass-through rate that results from the interest rate adjustment. A new pass-through rate goes into effect for reporting purposes in the month that the monthly payment changes for the mortgage loan. Other than that, the interest remittance should be determined as described above. To illustrate: if, in the above example, the effective date for the interest adjustment had been June 2002, two of the five months of interest due Fannie Mae would have been at the previous pass-through rate and three months would have been at the new pass-through rate.

### Section 304 Military Indulgence Reporting to Fannie Mae (01/31/03)

In order to facilitate servicers' taking appropriate action in cases where military indulgence is warranted or required, *Part III, Chapter 1, Exhibit 1: Military Indulgence*, provides a consolidated presentation of all of the relevant material on Fannie Mae's specific procedures for providing relief to U.S. servicemembers under the Servicemembers Civil Relief Act and its additional forbearance policies.

### Section 305 Reversal of Curtailments/Removals (01/31/03)

The reversal of a previously applied curtailment for an MBS mortgage loan or the re-addition of a mortgage loan to Fannie Mae's accounting records for an MBS pool (to reverse an erroneous previously reported payoff, repurchase, or foreclosure) must be treated differently for accounting purposes than it would be for other remittance types because the funds would have already been passed through to the security holder. In fact, the reversal will result in Fannie Mae's accounting records reflecting that the MBS pool is over-collateralized.

To report the reversal of a curtailment, the servicer should increase the UPB of the mortgage loan carried in Fannie Mae's records by the amount of the curtailment that is being reversed. The servicer may not reduce its remittance by the amount of the curtailment reversal unless it has unremitted funds for a curtailment or payoff of another mortgage loan in the MBS pool. When that is the case, the servicer should make the appropriate cash adjustment to its security balance report for that month. If the servicer has no unremitted funds for curtailments or payoffs from the same MBS pool, it may not recover the amount of the curtailment reversal until it receives a curtailment or payoff related to that MBS pool (or until the MBS pool is liquidated, if no curtailment or mortgage loan payoff is received before then). The servicer should maintain records to track the recovery of a curtailment reversal.

To reverse an erroneous previously reported removal of a mortgage loan from an MBS pool, the servicer must send a written request to its Fannie Mae investor reporting system representative explaining the reason for the reversal and requesting that the mortgage loan be re-added to Fannie Mae's records for the MBS pool. The servicer may not recover the funds for the initial removal unless it has unremitted funds for a curtailment or a payoff of another mortgage loan in the same MBS pool. If that is the case, the servicer should make the appropriate cash adjustment to its security balance report for that month. Otherwise, the servicer may not recover the amount of the removal reversal until it receives a curtailment or payoff related to the same MBS pool (or until that pool is liquidated, whichever comes first). The servicer should maintain records to track its recovery of the funds.

**Section 306  
Mortgage Loans with  
Interest in Advance  
(01/31/03)**

When an MBS pool includes fixed-rate mortgage loans that provide for interest to be paid in advance, the initial monthly accounting report after the issue date for the MBS pool should reflect the interest and principal portions of all monthly payments due on the first of the month following the issue date. For example, if the issue date for an MBS pool is January 1, 2011, the servicer would report as the principal balance, the mortgage loan balance after application of the principal portion of the mortgage loan payments due on January 1, 2011. The P&I distribution amounts will then represent Fannie Mae's share of the interest and principal portions of the mortgage loan payments due on February 1, 2011.

**Section 307  
Mortgage Loans with  
“Odd” Due Dates  
(01/31/03)**

When a mortgage loan in an MBS pool has an “odd” due date, Fannie Mae considers any payment due on a day other than the first of a month as due on the first of the following month—a December 15 payment date is considered to be a January 1 payment date. Similarly, collection of such an installment is considered collection of a prepaid installment due on the first of the next month. To illustrate the effect of “odd” due dates, consider an MBS pool with a January 1, 2011 issue date. The servicer would report as the principal balance, the mortgage loan balance after application of the mortgage loan payments that had due dates from December 2 through December 31. The payments collected on these mortgage loans would represent the January 2 through January 31 installments (which would be considered as due February 1).

**Section 308  
First Reporting Cycle  
for “Same Month” MBS  
Mortgage Loans  
(01/31/03)**

When a mortgage loan in an MBS pool is closed in the same month that the pool is issued, the borrower will not owe the servicer a monthly payment until after the servicer’s first monthly remittance must be made to Fannie Mae. Therefore, the servicer will have to use its own funds to advance the interest that is scheduled to be passed through to Fannie Mae for the mortgage loan in that month and to make the first guaranty fee remittance. The interest advance will represent one month’s interest, calculated on the issue date principal balance of the mortgage loan and using either the pass-through rate for the pool (for a fixed-rate mortgage loan), the pool accrual rate (for an ARM in a stated-structure pool), or the accrual rate for the mortgage loan (for an ARM in a weighted-average structure ARM Flex pool).

The servicer’s first remittance for a mortgage loan submitted for “same month” pooling will be an interest-only remittance, unless the borrower sends the servicer an additional principal payment (curtailment) before the first payment is due on the mortgage loan. This means that the servicer should not report a scheduled principal reduction. If the servicer reports a regular scheduled principal payment for one of these mortgage loans for the first reporting cycle, the transaction will “hard reject.” If the servicer receives a curtailment for one of these mortgage loans, it should reduce both the actual mortgage loan balance and the security balance by the amount of the curtailment. If the servicer receives a prepaid installment for one of these mortgage loans during the month the MBS pool is issued—but after the pool was delivered to Fannie Mae—it must report the reduced mortgage loan balance to Fannie Mae (as the “actual UPB”); however, it must not reduce the security balance or report a principal remittance (to



ensure that the “scheduled UPB” will continue to equal the issue date balance).

The following chart illustrates how a servicer would report a Transaction Type 96 (Loan Activity Record) for its December reports (for mortgage loans in a pool that had a November issue date) to reflect the application for a current mortgage loan (one for which no payment has come due), a prepaid mortgage loan, and a current mortgage loan that has had a \$100 curtailment applied.

<b>Loan Identification</b>	<b>LPI Date</b>	<b>Actual Unpaid Balance</b>	<b>Interest Remitted</b>	<b>Principal Remitted</b>
Current	January 2011	\$100,000.00	\$1,000.00	—
Prepaid	February 2011	\$ 99,980.00	\$1,000.00	—
Curtail	January 2011	\$ 99,900.00	\$1,000.00	\$100.00

**Section 309  
Reporting  
Discontinuance of  
Mortgage Insurance  
(01/31/03)**

The servicer must notify Fannie Mae about an automatic termination or a borrower-initiated cancellation of mortgage insurance coverage on the next Fannie Mae investor reporting system reports that are due after the effective date of the termination or cancellation, by reporting a Transaction Type 96 (Summary Loans) or Transaction Type 96 and 97 (Detailed Reporting Loans) LAR. The action code that must be reported differs based on whether the mortgage insurance is automatically terminated or is canceled based on the borrower’s request and on whether the servicer uses EDI for investor reporting. The action date should be reported as the last day of the month in which the termination or cancellation occurs.

- Use **Action Code 51 (or EDI Action Code IM)** to report a borrower-initiated cancellation based on the original value of the property (or, in the case of a second mortgage loan, the value of the property at the time the second mortgage loan was originated);
- Use **Action Code 52 (or EDI Action Code IN)** to report a borrower-initiated cancellation based on the current appraised value of the property; or
- Use **Action Code 53 (or EDI Action Code IO—using the letter “O,” not zero)** to report an automatic termination (regardless of whether the

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**Fannie Mae Investor Reporting System**

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Section 310

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termination is based on the scheduled LTV ratio or the date that is the mid-point of the amortization period).

**Section 310  
Reporting MBS Security Balances (01/31/03)**

Each month (beginning with the month following the month in which the issue date for an MBS pool occurs), the servicer must report the ending aggregate security balance of each MBS pool it is servicing as of the close of the preceding month. The reported security balance amount should reflect the outstanding principal balance for all of the mortgage loans in each pool after crediting the principal portion of all payments due on or before the first day of the month in which the report takes place (even if those payments were not actually collected). However, if the mortgage loan was closed in the same month the MBS pool was issued, it should be treated as a “prepaid” mortgage loan when calculating the security balance for the first reporting cycle (since there will have been no principal reduction because no payment will have come due on the mortgage loan). Of course, if the borrower submitted a curtailment for the mortgage loan, the security balance should be reduced accordingly.

The following example illustrates the determination of the first security balance report for a \$1 million MBS pool issued September 1, 2011 (which would have the first security balance due October 2, 2011). Two of the mortgage loans in the pool (including one that has an odd due date) are eligible for same-month pooling (Loans A and E); three of the mortgage loans were closed in the month prior to the issue date of the pool (Loans B, C, and D).

<b>Loan ID</b>	<b>First Payment Due Date</b>	<b>Actual Unpaid Balance</b>	<b>Scheduled Unpaid Balance</b>
A	November 1, 2011	\$ 200,000	\$200,000
B	October 1, 2011	\$ 200,000	\$199,900
C	October 1, 2011	\$ 200,000	\$199,900
D	October 1, 2011	\$ 200,000	\$199,900
E	October 3, 2011	<u>\$ 200,000</u>	<u>\$200,000</u>
		\$1,000,000	\$999,700*

\* This is the amount that must be shown on the security balance report.

Security balances must be reported no later than 5:00 p.m. (eastern time) on the second business day of each month. If a servicer fails to meet Fannie Mae's reporting deadline, Fannie Mae may estimate the servicer's security balances so Fannie Mae can pass through payments to security holders and publish security balances in a timely manner. When Fannie Mae does this, its estimates will become not only the published security balances, but also the beginning security balances that the servicer must use for its security balance report for the next month. Fannie Mae will send the servicer written notification of the estimated security balances that it uses.

A servicer must use MBS Reporting (a web-based application) to report its MBS security balances to Fannie Mae. The reporting module of MBS Reporting can be used to import files, manipulate and edit data, generate reports, and export projection and security balance data. MBS Reporting is available 24 hours a day.

A servicer may transmit its security balances any time after its month-end cut-off (and completion of its pool-to-security balance reconciliation). A servicer may submit corrections to this data at any time up until the 5:00 p.m. (eastern time) deadline on the second business day of the month following the reporting period. *Exhibit 2: MBS Security Balance Input Record* includes the format and file layout that the servicer should use to submit MBS security balance information via the MBS Reporting application.

Because it is important that Fannie Mae get accurate and timely security balances each month to facilitate securities trading, it may impose the following compensatory fees for late or repeatedly incorrect reporting of aggregate security balances for MBS pools:

- For the first instance of late or inaccurate reporting, Fannie Mae may charge a servicer that reports late for five or fewer pools \$250. Fannie Mae may charge a servicer that reports late or inaccurately for more than five pools \$50 per pool, up to a maximum of \$25,000.
- For the second instance of late or inaccurate reporting (if it occurs within one year of the first instance), Fannie Mae may charge a servicer that reports late or inaccurately for five or fewer pools \$500.

Fannie Mae may charge a servicer that reports late or inaccurately for more than five pools \$100 per pool, up to a maximum of \$100,000.

- For subsequent instances of late reporting or for repeated instances of inaccurate reporting (if they occur within one year of the most recent instance), Fannie Mae may charge a servicer that reports late or inaccurately for ten or fewer pools \$1,000. Fannie Mae may charge a servicer that reports late or inaccurately for more than ten pools \$100 per pool.

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Exhibit 1

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## **Exhibit 1: Formulas for Determining Interest Remittances for Mortgage Reinstatements for Scheduled/Actual Remittance Types (01/31/03)**

A. Interest Recovery (For FRMs and Unadjusted ARMs)

- $\text{Previously Reported UPB} \times \text{Pass-through Rate} \div 12$ 
  - × Fannie Mae's Percentage Interest
  - × Number of Months that have elapsed from the Previously Reported LPI Date through the end of the Reporting Period

---

Interest Amount Required to Bring Mortgage Current

B. Interest Recovery (For Adjusted ARMs)

- $\text{Previously Reported UPB} \times \text{Pass-through Rate} \div 12$ 
  - × Fannie Mae's Percentage Interest
  - × Number of Months that have elapsed from the Previously Reported LPI Date until the LPI Date that the New Pass-through Rate becomes effective.

---

Interest Amount to be Remitted at Previous Pass-through Rate

- $\text{Previously Reported UPB} \times \text{New Pass-through Rate} \div 12$ 
  - × Fannie Mae's Percentage Interest
  - × Number of Months that have elapsed from the LPI Date that the New Pass-through Rate became effective through the end of the Reporting Period

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Interest Amount to be Remitted at New Pass-through Rate

- Interest Amount to be Remitted at Previous Pass-through Rate  
+ Interest Amount to be Remitted at New Pass-through Rate

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Total Interest Amount Required to Bring Mortgage Current

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**Fannie Mae Investor  
Reporting System**

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Special Reporting  
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Exhibit 1

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Exhibit 2

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## Exhibit 2: MBS Security Balance Input Record (01/31/03)

The following format applies to security balance reports that are submitted by the MBS Reporting application or by file upload via the Web.

### *Fannie Mae MBS Reporting Layout (MDIB)*

<b>Header Record</b> Record Length: 96 bytes			
Field Name	Start Position	Field Length	Field Format
Record ID	1	2	"[A]"
Servicer Number	3	9	X(9)
Balance Contact Title "R" for Mr. "S" for Ms.	12	1	X(1)
Balance Contact Name	13	24	X(24)
Balance Contact Phone	37	15	X(15)
Pass-Thru Rate Contact Title "R" for Mr. "S" for Ms.	52	1	X(1)
Pass-Thru Rate Contact Name	53	24	X(24)
Pass-Thru Rate Contact Phone	77	15	X(15)
Version Number	92	5	"2.10"

<b>Detail Record</b> Record Length 129 bytes (54 without comments)			
Field Name	Start Position	Field Length	Field Format
Record ID	1	2	"[B]"
Servicer Number	3	9	X(9)
Pool Number	12	6	X(6)

**Fannie Mae Investor Reporting System**

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<b>Detail Record</b> Record Length 129 bytes (54 without comments)			
Field Name	Start Position	Field Length	Field Format
Security Balance	18	14	9(11).9(2)
Unscheduled Principal	32	14	9(11).9(2)
Pass-Through Rate	46	8	9(3).9(4)
Correction Flag	54	1	X(1)
Comment (optional)	55	75	X(75)

<b>Trailer Record</b> Record Length: 17 bytes			
Field Name	Start Position	Field Length	Field Format
Record ID	1	2	"[C"
Servicer Number	3	9	X(9)
Number of Detail Records	12	6	9(6)

*MSSS MBS Reporting Layout*

Field	Type	Column	Format	Default Value	Comment
Servicer Number	CHAR	1	X(9)	Blank	
Pool Number	CHAR	12	X(6)	Blank	
Pool Prefix	CHAR	18	X(2)	Blank	
Security Balance	NUM	20	9(11).9(2)	0.0	
Pass-Through Rate	NUM	40	9(3).9(2)	0.0	
Pool Type	CHAR	50	X(1)	'F'	F=Fixed, A=ARM, D=Deferred Eligible
Comment	CHAR	55	X(35)	Blank	



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Exhibit 2

Field	Type	Column	Format	Default Value	Comment
Previous Balance	NUM	140	9(10).9(2)	0.0	
Scheduled Principal	NUM	160	9(10).9(2)	0.0	
Unscheduled Principal	NUM	180	9(10).9(2)	0.0	
Principal & Interest	NUM	200	9(10).9(2)	0.0	
Wtd. Avg. Note Rate	NUM	220	9(3).9(2)	0.0	
Origination Date	CHAR	230	X(8)	Blank	

*MBS Reporting Export Layout*

	Data Field	Format	Length	Offset	Comment
1	Servicer Number	9(9)	9	1	
2	Pool Number	X(6)	6	10	XX9999 or 999999
3	Security Balance	9(11).99	14	16	
4	Unscheduled Principal	9(11).99	14	30	
5	Pass-Through Rate	9(3).9(4)	8	44	
6	Edit Status	X	1	52	'N' – Not Edited 'P' – Passed 'W' – Warned 'F' – Failed
7	Submission Status	X	1	53	'N' – Not Submitted 'V' – Not Submitted/Revised 'R' – Resubmitted 'S' – Submitted
8	Pool Prefix	XXX	3	54	
9	Issue Date	999999	6	57	YYMMDD
10	Maturity Date	999999	6	63	YYMMDD
11	First Amortization Date	999999	6	69	YYMMDD
12	Projected Pass-Through Rate	9(3).9(4)	8	75	

## Fannie Mae Investor Reporting System

### Special Reporting Requirements

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	Data Field	Format	Length	Offset	Comment
13	Prior Month Pass-Through Rate	9(3).9(4)	8	83	
14	Minimum Accrual Rate	9(3).9(4)	8	91	
15	Maximum Accrual Rate	9(3).9(4)	8	99	
16	Current WAC from the Fannie Mae investor reporting system	9(3).9(4)	8	107	
17	Current WAM from the Fannie Mae investor reporting system	999	3	115	
18	Interest Only Flag	X	1	118	
19	Deferred Interest Flag	X	1	119	
20	Projected Balance	9(11).99	14	120	
21	Prior Month UPB	9(11).99	14	134	
22	Constant P&I	9(11).99	14	148	
23	Scheduled Principal	9(11).99	14	162	
24	Original Balance	9(11).99	14	176	
25	Projected Deferred Interest	9(11).99	14	190	
26	Pool Type	X	1	204	MAST version 'S' – Single Pool 'M' – Major/multiple pool 'G' – mega 'P' – PPS
27	MBS Express Flag	X	1	205	
28	Remittance Day	9(2)	2	206	
29	PTR Type	X	1	208	'F' – Fixed 'A' – ARM 'D' – Deferred Interest (type of ARM)
30	Next Rate Change Due Date	9(6) 'YYMMDD'	6	209	
31	Pass Through Rate Change Due Flag	X	1	215	'Y' – Yes 'N' – No

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	<b>Data Field</b>	<b>Format</b>	<b>Length</b>	<b>Offset</b>	<b>Comment</b>
32	Sub Type	X	4	216	
33	Index Value	9(3).9(4)	8	220	
34	Current Margin	9(3).9(4)	8	228	
34	Number of Loans Changing	9(6)	6	236	This is the number of loans in the pool that are changing due to a rate change.
35	Current Loan Count	9(6)	6	242	This is the number of loans in the pool.
36	Comment	X(75)	75	248	
37	Pool Transfer Date	9(6) 'YYMMDD'	6	323	
38	Projected MBS3+	9(12).99	15	329	(aka "Projected Unscheduled Principal")

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**Fannie Mae Investor  
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Special Reporting  
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Exhibit 2

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## **Chapter 4. Formulas and Calculations (01/31/03)**

In the update process, the Fannie Mae investor reporting system performs numerous calculations to project or validate data related to the UPB of a mortgage loan, the interest rate that is charged to the borrower, the rate at which interest on the mortgage loan is passed through to Fannie Mae, the servicing compensation the servicer is permitted to retain, and the guaranty fees that are payable to Fannie Mae. This *Chapter* discusses those calculations and the various mathematical formulas Fannie Mae uses to perform them.

### **Section 401 Mathematical Formulas (01/31/03)**

The Fannie Mae investor reporting system uses a number of mathematical formulas in the update process for either computational or editing purposes. The servicer may wish to incorporate them into its own systems to reduce the potential for rejected transactions.

The following formulas appear as exhibits to this *Chapter*:

- *Exhibit 1: Monthly Fixed Installment Formula*
- *Exhibit 2: Regular Amortization Formula*
- *Exhibit 3: Negative Amortization Formula*
- *Exhibit 4: Reverse Amortization Formula*
- *Exhibit 5: Servicing Fee/Yield Differential Adjustment Formula*

### **Section 402 Calculations Related to Principal Payments (01/31/03)**

Calculations related to principal payments can take several forms—those used to determine the principal reduction for a mortgage loan following application of a borrower’s monthly (or biweekly) payment or an additional principal payment, those used when a mortgage loan is paid off or repurchased, those used to verify the actual or scheduled UPB for a mortgage loan, and those used to reconcile the aggregate balances of all mortgage loans in an MBS pool to the balance of the related security and to determine the amount of any pool deficiency. A calculation may differ based on the remittance type and delivery type for a mortgage loan. If Fannie Mae has only a participation interest in a portfolio or MBS mortgage loan, the principal calculation must factor in Fannie Mae’s

percentage interest in the mortgage loan to determine the exact data to reflect in Fannie Mae's records.

Section 402.01  
Monthly Principal  
Payments (01/31/03)

Because the servicer must send Fannie Mae the actual principal collected from the borrower each month for a monthly payment mortgage loan that is an actual/actual or scheduled/actual remittance type, the calculation for determining principal payments for this type of mortgage loan differs from the one used for mortgage loans that are the scheduled/scheduled remittance type (which requires the servicer to send Fannie Mae the scheduled principal reduction, whether or not it is collected from the borrower).

- To determine the **actual** principal remittance amount for a monthly payment mortgage loan that has either an actual/actual or a scheduled/actual remittance type, subtract the current month's actual UPB from the prior month's actual UPB and multiply the result by Fannie Mae's percentage interest.
- To determine the **scheduled** principal remittance amount for a monthly payment mortgage loan that is a scheduled/scheduled remittance type (regardless of whether it is a portfolio mortgage loan or an MBS mortgage loan), subtract the current month's scheduled UPB from the prior month's scheduled UPB and multiply the result by Fannie Mae's percentage interest.

Section 402.02  
Biweekly Principal  
Payments (01/31/03)

Biweekly payment mortgage loans held in Fannie Mae's portfolio are accounted for as the scheduled/actual and the actual/actual remittance types, while those in MBS pools are accounted for as the scheduled/scheduled remittance type. This means that the principal payment is calculated differently.

- To determine the **actual** principal remittance amount for a scheduled/actual biweekly payment mortgage loan held in Fannie Mae's portfolio, subtract the current month's actual UPB from the prior month's actual UPB and multiply the result by Fannie Mae's percentage interest.
- To determine the **actual** principal remittance amount for a actual/actual biweekly payment mortgage loan held in Fannie Mae's portfolio, subtract the current actual UPB from the UPB as of the last

reported loan activity and multiply the result by Fannie Mae's percentage interest.

- To determine the *scheduled* principal remittance amount for a biweekly payment mortgage loan in an MBS pool, subtract the current month's scheduled UPB from the prior month's scheduled UPB and multiply the result by Fannie Mae's percentage interest.

Section 402.03  
Principal Balance Paid  
Off (01/31/03)

The amount of principal paid when a borrower pays off his or her mortgage loan is the same regardless of the remittance or delivery type of the mortgage loan. However, the principal payment to Fannie Mae will differ depending on whether the servicer is required to send Fannie Mae only "actual principal collections" or "scheduled principal reductions."

To determine the principal balance paid off, multiply

- the prior month's *actual* UPB by Fannie Mae's percentage interest, if the mortgage loan has an actual/actual (except actual/actual biweekly) or scheduled/actual remittance type, or
- the prior month's *scheduled* UPB by Fannie Mae's percentage interest, if the mortgage loan has a scheduled/scheduled remittance type (regardless of whether it is a portfolio mortgage loan or an MBS mortgage loan).

To determine the principal balance paid off for an actual/actual biweekly mortgage loan, multiply

- the actual UPB, as of the last reported loan activity, by Fannie Mae's percentage interest.

Section 402.04  
Principal Balance  
Repurchased (03/31/05)

Mortgage loans with actual/actual, scheduled/actual, or scheduled/scheduled remittance types that were sold to Fannie Mae as cash purchases may have been purchased at par or at a discount or premium price. Mortgage loans with the scheduled/scheduled remittance type sold to Fannie Mae as part of an MBS pool would have been purchased at par. This means that if the servicer has to repurchase the mortgage loan, the principal balance repurchased calculation will differ.

- To determine the principal balance repurchased for an actual/actual (excluding biweekly) or a scheduled/actual remittance type portfolio mortgage loan, multiply the prior month's actual UPB by the original purchase price, then multiply the result by Fannie Mae's percentage interest.
- To determine the principal balance repurchased for a scheduled/scheduled remittance type portfolio mortgage loan (sold as cash), multiply the prior month's scheduled UPB by the original purchase price, then multiply the result by Fannie Mae's percentage interest.
- To determine the principal balance repurchased for an actual/actual biweekly mortgage loan, multiply the UPB as of the last reported loan activity, by the original purchase price, then multiply the result by Fannie Mae's percentage interest.
- To determine the principal balance repurchased for an MBS mortgage loan that has the scheduled/scheduled remittance type, multiply the prior month's scheduled UPB by Fannie Mae's percentage interest.

Section 402.05  
Actual UPB (01/31/03)

The actual UPB of a mortgage loan in a given month is calculated the same way for all remittance or delivery types except actual/actual biweekly. To determine the current month's actual UPB of a mortgage loan except actual/actual biweekly, use this calculation:

$$\begin{array}{r} \text{Previous Month's UPB} \\ - \text{Current Month's Principal Collection} \\ \hline \text{Current Month's UPB} \end{array}$$

To determine the current actual UPB of an actual/actual biweekly mortgage loan, use this calculation:

$$\begin{array}{r} \text{Previous reported UPB} \\ - \text{Current principal collected} \\ \hline \text{Current UPB} \end{array}$$



Section 402.06  
Scheduled UPB  
(01/31/03)

This current UPB must equal the UPB on the servicer's trial balance at the end of the activity month.

A scheduled UPB must be calculated only for monthly payment portfolio mortgage loans that are the scheduled/scheduled remittance type and biweekly and monthly payment scheduled/scheduled remittance type mortgage loans that are in MBS pools. The calculations are the same for both delivery types; however, they will differ depending on the due date of the mortgage loan installments and whether the mortgage loan payments are current, delinquent, or prepaid.

**A. Monthly payments due on first day of month.** When a monthly payment mortgage loan has payments due on the first day of each month, the scheduled UPB is generally equal to the actual UPB of the mortgage loan amortized to one month beyond the reporting period. While this calculation will work for current and delinquent mortgage loans, it does have to be modified slightly to accommodate prepaid mortgage loans.

1. When a mortgage loan is *current*, the ending scheduled UPB is calculated as follows:
  - $(\text{Ending Actual UPB} \times \text{Note Rate}) \div 12 = \text{Gross Interest Amount}$
  - $\text{Monthly Installment} - \text{Gross Interest Amount} = \text{Principal}$
  - $\text{Ending Actual UPB} - \text{Principal} = \text{Ending Scheduled UPB}$
2. When a mortgage loan is *delinquent*, the ending scheduled UPB is calculated by using the above calculation for current mortgage loans, repeating it for each month the mortgage loan is delinquent, plus the additional month required to take the amortization one month beyond the reporting period.
3. When a mortgage loan is *prepaid* for one month, the scheduled UPB is equal to the actual UPB. However, if the mortgage loan is prepaid two or more months, the actual UPB will need to be "reverse amortized" for each prepaid installment (beyond one) to achieve the correct scheduled UPB. The following calculation for this should be repeated for each prepaid installment that needs to be "reverse amortized":

- Ending Actual UPB + Monthly Installment = Adjusted UPB
- Interest Rate ÷ 12 = Interest Factor (to 9 decimal places)
- Actual UPB ÷ (1 + Interest Factor) = Scheduled UPB

**B. Monthly payments due on any other day of the month.** When a monthly payment mortgage loan has payments due on any day other than the first day of each month, the scheduled UPB is equal to the actual UPB if the mortgage loan is current. If the mortgage loan is delinquent or prepaid, adjustments to the actual UPB are needed to develop the correct scheduled balance.

1. The calculation for the ending scheduled UPB for a *delinquent* mortgage loan, which has to be repeated for each delinquent installment that needs to be amortized to bring the balance to the correct scheduled balance for the reporting period, is as follows:
  - (Ending Actual UPB × Note Rate) ÷ 12 = Gross Interest Amount
  - Monthly Installment - Gross Interest Amount = Principal
  - Ending Actual UPB - Principal = Ending Scheduled UPB
2. The calculation for the ending scheduled UPB for a *prepaid* mortgage loan, which should be repeated for each prepaid installment that needs to be “reverse amortized” to bring the balance to the correct scheduled balance for the reporting period, is as follows:
  - Ending Actual UPB + Monthly Installment = Adjusted UPB
  - Interest Rate ÷ 12 = Interest Factor (to 9 decimal points)
  - Adjusted UPB ÷ (1 + Interest Factor) = Scheduled UPB

**C. Biweekly payments.** When a mortgage loan provides for biweekly payments, the scheduled UPB is equal to the actual UPB after all biweekly payments due on or before the first day of the month following the reporting month are credited (whether or not they were actually collected).

**D. Calculations Related to Daily Simple Interest Loans.** Interest accrues daily (based upon a 365-day year) up to but not including the date a payment is received that reduces principal. Then, starting on the date the principal was reduced, interest accrues on the new balance. Note the following example:

Balance of March 5 (and assuming interest is fully satisfied to this date):  
\$10,000.00

Payment of \$500.00 received on March 24 (effective date = March 24 with interest accrued through March 23)

Interest rate = 5.5%

Fannie Mae's system will calculate interest on \$10,000.00 for 19 days (March 5 to March 24) @ 5.5%.

$$10,000.00 \times 0.055/365 \times 19 = 28.63$$

28.63 would be applied to interest and 471.37 would go to principal, bringing the new UPB to \$9,528.63. Starting on **March 24**, Fannie Mae's system would calculate interest on the new UPB, **\$9,528.63**.

When a payment is made by a borrower, accrued interest is satisfied first, then principal with the payment effective, driving the interest calculation.

Section 402.07  
Security Balance  
(01/31/03)

Each MBS pool has a corresponding security balance. The security balance for any given month is determined by reducing the prior month's security balance for the pool by the sum of the current month's scheduled principal payments and any unscheduled principal payments (such as curtailments, payoffs, and repurchases) for mortgage loans in the pool and comparing the result to the sum of the current scheduled UPBs of all the mortgage loans in the pool. The lesser of the two figures becomes the current month's security balance for the pool. The following example illustrates this calculation.

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**Fannie Mae Investor Reporting System**

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**Formulas and Calculations**

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<b>Loan</b>	<b>Prior Month's Scheduled UPB</b>	<b>Scheduled Principal</b>	<b>Current Month's Scheduled UPB</b>
A	\$94,599.45	\$13.72	\$94,585.73
B	\$94,585.59	\$13.86	\$94,571.73
C	\$94,571.59	\$14.00	\$94,557.59
D	\$94,557.45	\$14.14	\$.00 <sup>1</sup>
Total	\$378,314.08	\$55.72	\$283,715.05

Prior Month's Security Balance	\$378,369.80
- Current Month's Scheduled Principal	- 55.72
Calculated Security Balance	\$378,314.08

Calculated Security Balance	\$378,314.08
Sum of Current Month's Scheduled UPB	\$283,715.05 <sup>2</sup>

<sup>1</sup>Loan was paid off.

<sup>2</sup>Since this is the lesser of the two, it becomes the current month's security balance.

**Section 402.08  
Pool-to-Security Balance  
Reconciliation (01/31/03)**

There are two methods for performing a pool-to-security balance reconciliation. The first method compares the scheduled UPBs in the servicer's records to the security balance the servicer reported as follows:

Sum of Scheduled UPBs per Servicer's Records
- Security Balance Reported by Servicer
Pool-to-Security Difference

The second method of calculating the pool-to-security balance reconciliation compares the actual balance for the mortgage loans in an MBS pool (the mortgage loan collateral) to the aggregate security balance for that pool to determine whether the security is over collateralized or under collateralized. The calculation, which is discussed in more detail in

*Section 105, Pool-to-Security Balance Reconciliation (01/31/03)*, is as follows:

Pool Principal Balance
+ Prepaid Principal Installment
- Delinquent Principal Installment
- Scheduled Principal
+ Liquidated Principal Installment
<hr/>
Adjusted Pool Principal Balance
- Ending Security Principal Balance
<hr/>
Difference <sup>1</sup>
<hr/>

<sup>1</sup>A negative difference means the security is under collateralized; a positive difference means it is over collateralized.

**Section 402.09**  
**Pool Deficiency Amount**  
**(01/31/03)**

Each month, the servicer of an MBS pool must report a security balance to Fannie Mae. Fannie Mae compares the balance to the one calculated by the investor reporting system. If the security balance reported by the servicer is higher than Fannie Mae's calculated security balance, a pool deficiency exists. This calculation is as follows:

Sum of the investor reporting system's Scheduled UPBs
- Servicer's Reported Security Balance
<hr/>
Difference (Pool Deficiency, if negative)

**Section 403**  
**Calculations Related to**  
**Interest Payments**  
**(01/31/03)**

Calculations related to interest payments can take several forms—those used to determine the interest allocation of a borrower's monthly (or biweekly) payment, those used to determine the amount of interest Fannie Mae is due when a mortgage loan is paid off, and those used to determine

the amount of interest Fannie Mae is due when a mortgage loan is repurchased.

For all remittance types, the pass through rate is generally is determined when Fannie Mae purchases the mortgage loan and remains in effect from that point forward—although the rate may change under certain circumstances (see *Section 404, Calculations Related to Pass-through Rates (01/31/03)*.) If Fannie Mae has only a participation interest in a portfolio or MBS mortgage loan, the interest calculation must factor in its percentage interest in the mortgage loan to determine the exact amount of interest it is due.

Section 403.01  
Monthly Interest  
Payments (01/31/03)

Interest payments due to Fannie Mae each month for monthly payment mortgage loans vary depending on the remittance type of the mortgage loan. For an actual/actual remittance type mortgage loan, the servicer sends Fannie Mae interest only if it is actually collected from the borrower, while it must send Fannie Mae interest for a scheduled/actual or a scheduled/scheduled remittance type mortgage loan whether or not it is collected from the borrower. The calculations used for determining the amount of interest due are basically the same, except that the interest for a scheduled/scheduled remittance type mortgage loan will be based on a scheduled UPB since principal payments for that type of mortgage loan must be sent to Fannie Mae whether or not they are collected.

1. To determine the interest payment for a monthly payment mortgage loan that has either an actual/actual or a scheduled/actual remittance type, use this calculation:

$$(\text{Prior Month's Actual UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Pass-through Interest Remittance Amount}$$

2. To determine the interest payment for a monthly payment mortgage loan that is a scheduled/scheduled remittance type (regardless of whether it is a portfolio mortgage loan or an MBS mortgage loan), use this calculation:

$$(\text{Prior Month's Scheduled UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Scheduled Interest Remittance Amount}$$

3. To determine the interest payment for a monthly payment mortgage loan that is an actual/actual remittance type that is prepaid, use this calculation:

$$(\text{Prior Months Actual UPB} \times \text{Pass-through Rate}) / 12 \times (\text{number of months prepaid}) \times (\text{Fannie Mae's Percentage Interest}) = \text{Pass-through Interest Remittance Amount}$$

4. To determine the interest payment for a monthly payment mortgage loan that is a scheduled/actual remittance type that is prepaid, use this calculation:

$$(\text{Prior Months Actual UPB} \times \text{Pass-through Rate}) / 12 \times (\text{Fannie Mae's Percentage Interest}) = \text{Pass-through Interest Remittance Amount}$$

The receipt of a curtailment in a given month will not affect the interest calculation for that month. Interest for the current month will be computed based on the previous month's ending UPB (if the mortgage loan has an actual/actual or a scheduled/actual remittance type) or on the prior month's scheduled UPB (if the mortgage loan has a scheduled/scheduled remittance type).

Section 403.02  
Biweekly Interest  
Payments (01/31/03)

Interest payments related to scheduled/actual biweekly payment mortgage loans must be sent to Fannie Mae each month whether or not they are collected from the borrower. Interest payments related to actual/actual biweekly payment mortgage loans must be reported to Fannie Mae as received. Because biweekly mortgage loans in Fannie Mae's portfolio are accounted for as the scheduled/actual and actual/actual remittance types and those in MBS pools as the scheduled/scheduled remittance type, the calculations for determining the amount of interest due differ slightly (since the interest for an MBS mortgage loan is based on a scheduled UPB because the payments had to be sent to Fannie Mae even though they may not have been collected from the borrower).

1. To determine the interest payment for a biweekly payment mortgage loan that is a scheduled/actual remittance type, use this calculation:

$(\text{Prior Month's Actual UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Pass-through Interest Remittance Amount}$

2. To determine the interest payment for an actual/actual biweekly payment mortgage loan, use this calculation:
  - $(\text{Actual UPB} \times \text{Pass-through Rate}/365) \times 14 \text{ days} \times \text{Fannie Mae's Percentage Interest} = \text{Pass-through Interest Remittance Amount}$
  - The receipt of a curtailment may have an impact on the calculation of interest on an actual/actual biweekly mortgage loan. Curtailments must be reported as a separate principal only transaction as received, indicating the transaction type and effective date of the application. Interest on the regularly scheduled biweekly payment, which is reported separately from the curtailment, is calculated as follows:
    - Use the UPB prior to receipt of curtailment and calculate interest up to but not including the date of the curtailment.
    - Use the UPB after the curtailment to calculate the remaining interest for the payment period.
    - Report the total interest calculated.

Note: Actual/Actual biweekly loans are amortized every 14 days using a 365-day basis year for interest calculation.

3. To determine the interest payment for a biweekly payment mortgage loan that is a scheduled/scheduled remittance type MBS mortgage loan, use this calculation:

$(\text{Prior Month's Scheduled UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Scheduled Interest Remittance Amount}$



**Section 403.03  
Interest Paid Off  
(01/31/03)**

The amount of interest collected when a borrower pays off his or her mortgage loan is determined by the type of mortgage loan and the date of the payoff. The interest due Fannie Mae, however, also will differ depending on the remittance type of the mortgage loan.

1. For portfolio mortgage loans that are the actual/actual remittance type, the interest due Fannie Mae differs depending on the type of mortgage loan. A full month of interest will be based on a 360-day year, while a partial month's interest will be based on a 365-day year.
  - For VA, RD, FHA Title I, and conventional first and second mortgages loans, the interest should be computed from the LPI date up to, but not including, the date the payoff funds are received, using this calculation:
    - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 12 = \text{One Month's Interest}$
    - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 365 = \text{One Day's Interest}$
    - $\text{One Month's Interest} \times \text{Number of Full Months of Interest Due (if mortgage loan is delinquent)} = \text{Accrued Monthly Interest Due}$
    - $\text{One Day's Interest} \times \text{Number of Days of Partial Month of Interest Due} = \text{Accrued Daily Interest Due}$
    - $(\text{Accrued Monthly Interest Due} + \text{Accrued Daily Interest Due}) \times \text{Fannie Mae's Percentage Interest} = \text{Total Payoff Interest}$
  - For other FHA mortgage loans and HUD-guaranteed Section 184 mortgage loans, the interest should be computed from the LPI due date up to the date of payoff (if the funds are received on an installment due date) or through the end of the month due date\* (if the funds are received after an installment due date), using this calculation:
    - $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 12 = \text{One Month's Interest}$

- (One Month’s Interest × Number of Full Months of Interest Due) × Fannie Mae’s Percentage Interest = Total Payoff Interest

\* When the installment due date of an FHA mortgage loan falls on a non-work day, the receipt of the payoff funds shall be considered received on the installment due date if received on the next working day.

2. For most portfolio mortgage loans that are the scheduled/actual remittance type, the type of mortgage loan or the date of the payoff has no effect on the calculation of the interest due Fannie Mae. Fannie Mae is due one-half of one month’s interest, calculated as follows:

$$(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 24 \times \text{Fannie Mae's Percentage Interest} = \text{Payoff Interest}$$

However, the interest calculation for FHA Title I loans that are the scheduled/actual remittance type is the same as the calculation for FHA Title I loans that are the actual/actual remittance type (as discussed in 1. above).

3. For portfolio mortgage loans and MBS mortgage loans that are the scheduled/scheduled remittance type, the type of mortgage loan or the date of the payoff has no effect on the calculation of the interest due Fannie Mae. Fannie Mae is due one full month’s interest, calculated as follows:

$$(\text{Prior Month's Scheduled UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Scheduled Payoff Interest (also see Part VI, Section 106, Remitting Payoff Proceeds (01/31/03))}$$

Section 403.04  
Interest Repurchased  
(01/31/03)

When an actual/actual remittance type mortgage loan is repurchased, Fannie Mae is due interest from the LPI date up to, but not including, the repurchase date. However, when a scheduled/actual or a scheduled/scheduled remittance type mortgage loan is repurchased, Fannie Mae is due a full month of interest in all cases. A full month of interest will be based on a 360-day year, while a partial month’s interest will be based on a 365-day year.

1. Repurchase interest for an actual/actual remittance type mortgage loan is calculated as follows:

- $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 12 = \text{One Month's Interest}$
- $(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 365 = \text{One Day's Interest}$
- $\text{One Month's Interest} \times \text{Number of Full Months of Interest Due (if mortgage loan is delinquent)} = \text{Accrued Monthly Interest Due}$
- $\text{One Day's Interest} \times \text{Number of Days of Partial Month of Interest Due} = \text{Accrued Daily Interest Due}$
- $(\text{Accrued Monthly Interest Due} + \text{Accrued Daily Interest Due}) \times \text{Fannie Mae's Percentage Interest} = \text{Total Repurchase Interest}$

2. Repurchase interest for a scheduled/actual remittance type mortgage loan is calculated as follows:

$$(\text{Prior Month's UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Ownership} = \text{Repurchase Interest}$$

3. Repurchase interest for a scheduled/scheduled remittance type portfolio or MBS mortgage loan is calculated as follows:

$$(\text{Prior Month's Scheduled UPB} \times \text{Pass-through Rate}) \div 12 \times \text{Fannie Mae's Percentage Interest} = \text{Scheduled Repurchase Interest}$$

**Section 404  
Calculations Related to  
Pass-through Rates  
(01/31/03)**

Generally, the pass-through rate for a mortgage loan is established when Fannie Mae purchases or securitizes the mortgage loan and remains in effect for the life of the mortgage loan. However, this is not true for ARMs since a new pass-through rate must be determined at any time the interest rate of the mortgage loan changes (including a change related to the conversion of the mortgage loan to a fixed interest rate). In addition, some MBS pools require interest to be passed through at a weighted-average pass-through rate, rather than the pass-through rate of the individual mortgage loans, which means that the weighted-average pass-through rate for any given pool could change as often as monthly. Calculations for

determining the applicable pass-through rates in these situations are included in this *Section*.

Section 404.01  
Pass-through Rates for  
Converted ARMs  
(01/31/03)

When an ARM in Fannie Mae’s portfolio converts to a fixed-rate mortgage loan, a new interest rate and a new pass-through rate must be determined. The calculation for these rates is the same regardless of whether the mortgage loan has an actual/actual or a scheduled/actual remittance type.

The new interest rate for the mortgage loan is calculated by increasing the applicable Fannie Mae required yield by 0.625% (or 0.875% if the property is a co-op unit), and rounding the result to the nearest 0.125%. (See *Part IV, Section 104.01, Monthly Conversion Options (01/31/03)*, and *Section 104.02, Other Conversion Options (01/31/03)*, for a discussion on how to determine Fannie Mae’s required yield.) This new interest rate must then be reduced by a servicing fee of 0.375% (or the applicable negotiated servicing fee percentage) to develop the new pass-through rate for the converted mortgage loan.

Section 404.02  
Pass-through Rates for  
ARM Adjustments  
(01/31/03)

There are two methods for determining the new pass-through rate when the interest rate for an ARM changes—the “top-down” method and the “bottom-up” method. Both methods can be used for actual/actual and scheduled/actual remittance type portfolio mortgage loans. The “top-down” method should be used for mortgage loans in most weighted-average structure MBS pools (excluding ARM Flex Plus pools), while the “bottom-up” method should be used for mortgage loans in stated-structure MBS pools and ARM Flex Plus MBS pools.

**A. “Top-down” method.** The following calculation illustrates the “top-down” method of determining the new pass-through rate for an ARM after an interest rate change:

New Interest Rate

- Servicing Fee Rate
- Guaranty Fee Rate (for MBS Mortgage Loans only)
- Excess Yield (if applicable)

---

New Pass-through Rate

**B. “Bottom-up” method.** The calculation for determining the new pass-through rate for an ARM after an interest rate change under the “bottom-up” method involves six steps:

- Determine the net mortgage loan margin by subtracting the servicing fee (and, if the mortgage loan is in an MBS pool, the guaranty fee) from the mortgage loan margin.
- Verify Fannie Mae’s required margin (as reflected on the Trial Balance Report).
- Determine the “uncapped” pass-through rate by adding the lesser of Fannie Mae’s required margin or the net mortgage loan margin (or, in the case, of an MBS mortgage loan, by adding the required margin) to the index value used to determine the new mortgage loan interest rate.
- Determine the minimum pass-through rate by subtracting the per adjustment downward cap from the current pass-through rate and comparing the result to the pass-through rate floor (as reflected on the Trial Balance Report). If the result is higher than the pass-through rate floor, it is the new minimum pass-through rate; otherwise, the pass-through rate floor is the new minimum pass-through rate.
- Determine the maximum pass-through rate by adding the per adjustment upward cap to the current pass-through rate and comparing the result to the pass-through rate ceiling (as reflected on the Trial Balance Report). If the result is lower than the pass-through rate ceiling, it is the new maximum pass-through rate; otherwise the pass-through rate ceiling is the new maximum pass-through rate.
- Determine the new pass-through rate by comparing the “uncapped” pass-through rate to the minimum and maximum pass-through rates. If the “uncapped” pass-through rate is less than the minimum pass-through rate, the minimum pass-through rate will be the new pass-through rate. If the “uncapped” pass-through rate is greater than the minimum pass-through rate and less than the maximum pass-through rate, it will be the new pass-through rate. If the “uncapped” pass-through rate is greater than the maximum pass-through rate, the maximum pass-through rate will be the new pass-through rate.

Section 404.03  
Weighted-Average Pass-  
through Rates (01/31/03)

ARM Flex MBS pools and ARM Flex Plus MBS pools (and any other weighted-average coupon MBS pools) require that interest be passed to Fannie Mae based on the weighted-average of the accrual rates for all of the mortgage loans in the pool at the time the pass-through takes place.

The weighted-average pass-through rate is calculated in two steps:

- Multiply the prior scheduled UPB for each mortgage loan in the pool by the net interest rate (the pass-through rate) for that mortgage loan to obtain a product, then separately sum both the prior scheduled UPBs for all of the mortgage loans in the pool and the products for all of the mortgage loans in the pool.
- Divide the sum of the products for all of the mortgage loans in the pool by the sum of the prior scheduled UPBs for all the mortgage loans in the pool, rounding to three decimal places, to determine the weighted-average pass-through rate for the pool for the current month.

Example:

Loan	Prior Month's Scheduled UPB	Pass-through Rate	Product
A	\$94,599.45	5.00%	4729.9725000
B	\$85,585.59	5.25%	4493.2434750
C	\$105,571.59	5.125%	5410.5439875
D	\$54,557.45	5.00%	2727.8725000
<b>Total</b>	<b>\$340,314.08 (e)</b>		<b>17361.6324625 (f)</b>

$$(f) / (e) \quad 17361.6324625 / \$340,314.08$$

Weighted Average PTR = 5.102%  
(rounded to 3 decimal  
places)

**Section 405  
Calculations Related to  
Servicing Fee/Excess  
Yield (01/31/03)**

All mortgage loans have a servicing fee that is specified at the time the mortgage loan is purchased or securitized and that generally remains constant over the life of the mortgage loan (although it may change when an ARM is converted to a fixed-rate mortgage loan). Some ARM MBS pools allow variances in the individual servicing fee for a mortgage loan from time to time to achieve a fixed margin for the MBS pool. In addition, some mortgage loans have excess yield because the mortgage loan interest rate is higher than the sum of Fannie Mae's required yield and the minimum required servicing fee. Excess yield is not always guaranteed over the life of the mortgage loan.

To calculate the servicing fee for an ARM in an MBS pool that has a fixed MBS margin, use the following:

$$\begin{array}{r} \text{Mortgage loan} \\ \text{Margin} \\ - \text{ Fixed MBS Margin} \\ - \text{ Guaranty Fee Rate} \\ \hline \text{Servicing Fee Rate} \end{array}$$

To calculate excess yield for any mortgage loan, use the following:

$$\begin{array}{r} \text{Note Rate} \\ - \text{ Pass-through Rate} \\ - \text{ Servicing Fee Rate} \\ - \text{ Guaranty Fee Rate (for MBS Mortgage Loan only)} \\ \hline \text{Excess Yield} \end{array}$$

**Section 406  
Calculations Related to  
Weighted-Average  
Guaranty Fee (09/30/96)**

Some MBS pools include mortgage loans that have different guaranty fee rates so that a single guaranty fee cannot apply to the entire pool. In this case, a weighted-average guaranty fee must be calculated each month to

determine the amount of the guaranty fee remittance due Fannie Mae.

The weighted-average guaranty fee is calculated in four steps:

- Multiply the prior scheduled UPB for each mortgage loan in the pool by the applicable guaranty fee rate for that mortgage loan to obtain a product, then separately sum both the prior scheduled UPBs for all of the mortgage loans in the pool and the products for all of the mortgage loans in the pool.
- Divide the sum of the products for all of the mortgage loans in the pool by the security balance for the pool to develop a weighted-average guaranty fee rate.
- Divide the weighted-average guaranty fee rate by 12 to determine the guaranty fee factor.
- Multiply the security balance for the pool by the guaranty fee factor to determine the guaranty fee amount for the pool for the current month.

Example:

Loan	Prior Month's Scheduled UPB	Guaranty Fee Rate	Product
A	\$94,599.45	0.05%	47.2997250
B	\$85,585.59	0.12%	102.7027080
C	\$105,571.59	0.150%	158.3573850
D	\$54,557.45	0.25%	136.3936250
<b>Total</b>	<b>\$340,314.08 (e)</b>		<b>444.7534430 (f)</b>
Wgtd. Ave. Guar Fee		(f) / (e) = (g)	\$0.0013069 (g)
Guar Fee Rate Factor		(g) / 12 =	0.000108908 (h)
Guar Fee for Pool for Current Month (rounded to 2 decimal places)		(e) * (h)	\$37.06



## Exhibit 1: Monthly Fixed Installment Formula (01/31/03)

Step 1 Determine the monthly interest rate factor by dividing the annual interest rate by 12. Carry the quotient out to 10 decimal places and then round to 9 decimal places by adding .0000000005.

Let:

I = annual interest rate  
i = monthly interest rate factor

Then:

$$i = \frac{I}{12} + .0000000005$$

Step 2 Calculate the payment for each \$1,000 of the loan amount. The calculation is carried out to 7 decimal places, and then rounded to 6 decimal places by adding .0000005.

Let:

i = monthly interest rate factor  
N = remaining term of the mortgage loan (in months)  
P = payment per \$1,000 of loan amount

Then:

$$P = \frac{(1,000)(i)}{1 - \left[ \frac{1}{1+i} \right]^N} + .0000005$$

Note: This formula cannot be used to determine the monthly payment per \$1,000 for GPM loans. HUD publishes factors for the FHA GPM loans. Those factors are also used for VA GPM loans.

Step 3 Divide the original loan amount by 1,000 and multiply by the payment per \$1,000 of loan amount. Round the result to 2 decimal places by adding .005. The final answer is the monthly fixed installment.

Let:

OLA = original loan amount  
P = payment per \$1,000 of loan amount  
P&I = monthly fixed installment

Then:

$$P \& I = \frac{OLA}{1,000} \times P + .005$$

Note: When calculating a new payment for an ARM, use the UPB instead of the original loan amount.

Example: The monthly fixed installment for a \$70,000 30-year mortgage loan with an interest rate of 15.5% would be determined as follows:

$$\begin{aligned} \text{Step 1 } i &= \frac{.155000}{12} + .0000000005 \\ i &= .129166667 + .0000000005 \\ i &= .012916667 \end{aligned}$$

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Exhibit 1

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$$\begin{aligned} \text{Step 2} \quad P &= \frac{(1,000)(.012916667)}{1 - \left[ \frac{1}{1 + .012916667} \right]^{360}} + .0000005 \\ P &= \frac{12.916667}{1 - .009850580} + .0000005 \\ P &= \frac{12.916667}{.990149421} + .0000005 \\ P &= 13.045170 \\ \text{Step 3} \quad P\&I &= \frac{70,000}{1,000} \times 13.045170 + .005 \\ P\&I &= 913.1619 + .005 \\ P\&I &= \$913.16 \end{aligned}$$

Note: Calculation of the actual/actual biweekly mortgage loan is different than that of a regular amortizing loan. The following represents the actual/actual biweekly mortgage loan installment formula.

Step 1 Calculate monthly payment for appropriate term loan (e.g. 15-year, 30-year).

- $UPB \times [(annual\ interest\ rate/12 - 1) / (1\ annual\ interest\ rate/12^{-term})] = monthly\ payment$

Step 2 Biweekly payment

- Monthly payment/2

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**Formulas and Calculations**

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Exhibit 1

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Example: The monthly fixed installment for a \$100,000 30-year actual/actual biweekly mortgage loan with an interest rate of 7% would be determined as follows:

Step 1 Monthly payment

$$100000 \times [(.070/12 - 1)/(1 - .070/12^{-360})] = \$665.30$$

Step 2 Biweekly payment

$$665.30/2 = \$332.65$$

Actual/Actual biweekly loans are amortized every 14 days using a 365-day basis year for interest calculation.

## Exhibit 2: Regular Amortization Formula (09/30/96)

Step 1 Determine the monthly interest rate factor by dividing the annual interest rate by 12. Carry the quotient out to 10 decimal places and then round to 9 decimal places by adding .0000000005.

Let:

$$\begin{aligned} I &= \text{annual interest rate} \\ i &= \text{monthly interest rate factor} \end{aligned}$$

Then:

$$i = \frac{I}{12} + .0000000005$$

Step 2 Calculate the interest portion of the monthly payment by multiplying the UPB by the monthly interest rate factor. Add .005 for rounding.

Let:

$$\begin{aligned} i &= \text{monthly interest rate factor} \\ \text{UPB}(\text{old}) &= \text{present UPB} \\ I &= \text{interest portion of the monthly payment} \end{aligned}$$

Then:

$$I = i \times \text{UPB}(\text{old}) + .005$$

Step 3 Determine the principal portion of the monthly payment by subtracting the interest portion from the monthly fixed installment.

Let:

P&I = monthly fixed installment  
I = interest portion of the monthly payment  
P = principal portion of the monthly payment

Then:

$P = P\&I - I$

Step 4 Reduce the present unpaid balance by the principal portion of the monthly payment to determine the UPB after amortizing for one payment.

Let:

UPB (old) = present UPB  
P = principal portion of the monthly payment  
UPB (new) = UPB after amortization

Then:

$UPB (new) = UPB(old) - P$

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Exhibit 2

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**Example:** The first month's amortization for a \$70,000 30-year mortgage loan with an annual interest rate of 15.5% and a monthly fixed installment of \$913.16 would be computed as follows:

$$\begin{aligned} \text{Step 1 } i &= \frac{.155000}{12} + .0000000005 \\ i &= .0129166667 + .0000000005 \\ i &= .012916667 \\ \text{Step 2 } I &= (70,000) (.012916667) + .005 \\ I &= \$904.17 \\ \text{Step 3 } P &= \$913.16 - \$904.17 \\ P &= \$8.99 \\ \text{Step 4 } \text{UPB (new)} &= \$70,000 - \$8.99 \\ \text{UPB (new)} &= \$69,991.01 \end{aligned}$$

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Exhibit 2

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## Exhibit 3: Negative Amortization Formula (09/30/96)

Step 1 Determine the monthly interest rate factor by dividing the annual interest rate by 12. Carry the quotient out to 10 decimal places and then round to 9 decimal places by adding .0000000005.

Let:

$$\begin{aligned} I &= \text{annual interest rate} \\ i &= \text{monthly interest rate factor} \end{aligned}$$

Then:

$$i = \frac{I}{12} + .0000000005$$

Step 2 Calculate the interest portion of the monthly payment by multiplying the UPB by the monthly interest rate factor. Add .005 for rounding.

Let:

$$\begin{aligned} i &= \text{monthly interest rate factor} \\ \text{UPB (old)} &= \text{present UPB} \\ I &= \text{calculated interest portion of the monthly payment} \end{aligned}$$

Then:

$$I = i \times \text{UPB (old)} + .005$$

Step 3 Determine the monthly payment shortage by finding the difference between the calculated interest and the monthly fixed installment.

Let:

P&I = monthly fixed installment

I = calculated interest

P = the monthly payment shortage and the amount by which the UPB will increase

Then:

$P = I - P\&I$

Step 4 Develop the new UPB by increasing the present UPB by the amount of the monthly payment shortage.

Let:

UPB (old) = present UPB

P = monthly payment shortage (or the addition to principal)

UPB (new) = UPB after the negative amortization

Then:

$UPB (new) = UPB (old) + P$

**Example:** The first month's amortization for a \$70,000 30-year GPM loan (or an ARM that has negative amortization under the first payment) with an interest accrual rate of 15.5% and a monthly fixed installment of \$717.19 would be computed as follows:

$$\begin{aligned} \text{Step 1} \quad i &= \frac{.155000}{12} + .0000000005 \\ i &= .0129166667 + .0000000005 \\ i &= .012916667 \\ \text{Step 2} \quad I &= .012916667 \times 70,000 + .005 \\ I &= \$904.17 \\ \text{Step 3} \quad P &= \$904.17 - \$717.19 \\ P &= \$186.98 \\ \text{Step 4} \quad \text{UPB (new)} &= \$70,000 + \$186.98 \\ \text{UPB (new)} &= \$70,186.98 \end{aligned}$$

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Formulas and Calculations

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Exhibit 3

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## Exhibit 4: Reverse Amortization Formula (09/30/96)

Step 1 Determine the monthly interest rate factor by dividing the annual interest rate by 12. Carry the quotient out to 10 decimal places and then round to 9 decimal places by adding .0000000005.

Let:

$$\begin{aligned} I &= \text{annual interest rate} \\ i &= \text{monthly interest rate factor} \end{aligned}$$

Then:

$$i = \frac{I}{12} + .0000000005$$

Step 2 Develop the UPB that will result from the reversal of the payment.

Let:

$$\begin{aligned} \text{UPB (old)} &= \text{present UPB} \\ \text{P\&I} &= \text{fixed monthly interest rate factor} \\ i &= \text{monthly interest rate factor} \\ \text{UPB (new)} &= \text{UPB following the reversal} \end{aligned}$$

Then:

$$\text{UPB (new)} = \frac{\text{UPB(old)} + \text{P \& I}}{1+i}$$

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Exhibit 4

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Step 3            Subtract the new UPB from the old UPB to determine the amount of principal that was reversed.

Let:

$$\begin{array}{lcl} \text{UPB (new)} & = & \text{UPB following the reversal} \\ \text{UPB (old)} & = & \text{present UPB} \\ P & = & \text{amount of principal reversed} \end{array}$$

Then:

$$P = \text{UPB (new)} - \text{UPB (old)}$$

Step 4            Subtract the amount of principal that was reversed from the fixed installment to determine the amount of interest that was reversed.

Let:

$$\begin{array}{lcl} P\&I & = & \text{monthly fixed installment} \\ P & = & \text{amount of principal reversed} \\ I & = & \text{amount of interest reversed} \end{array}$$

Then:

$$I = P\&I - P$$

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Exhibit 4

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Example: The reversal of one month's amortization for a loan that has a UPB of \$69,991.01, an annual interest rate of 15.5%, and a monthly fixed installment of \$913.16 would be determined as follows:

$$\begin{aligned} \text{Step 1} \quad i &= \frac{.155000}{12} + .0000000005 \\ i &= .0129166667 + .0000000005 \\ i &= .012916667 \\ \text{Step 2} \quad \text{UPB (new)} &= \frac{\$69,991.01 + \$913.16}{1 + .012916667} \\ \text{UPB (new)} &= \frac{\$70,904.17}{1.012916667} \\ \text{UPB (new)} &= \$70,000.00 \\ \text{Step 3} \quad P &= \$70,000 - \$69,991.01 \\ P &= \$8.99 \\ \text{Step 4} \quad I &= \$913.16 - \$8.99 \\ I &= \$904.17 \end{aligned}$$

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Formulas and Calculations

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Exhibit 4

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## Exhibit 5: Servicing Fee/Yield Differential Adjustment Formula (09/30/96)

Step 1 Divide the annual servicing fee rate by the annual interest rate to determine the monthly servicing fee factor. Carry the quotient out to 7 decimal places and round to 6 by adding .0000005.

Let:

sf = annual servicing fee rate  
i = annual interest rate  
s/f = monthly servicing fee factor

Then:

$$s/f = \frac{sf}{i} + .0000005$$

Step 2 Determine the calculated monthly interest amount by multiplying the UPB by the annual interest rate and dividing by 12. Limit the answer to 3 decimal places.

Let:

UPB = present UPB  
i = annual interest rate  
I = calculated monthly interest rate

Then:

$$I = \frac{UPB \times i}{12}$$

Step 3            Multiply the calculated monthly interest amount by the monthly servicing fee factor to determine the amount of the monthly servicing fee due the servicer. Add .005 for rounding.

Let:

I            =        calculated monthly interest amount  
s/f          =        monthly servicing fee factor  
SF          =        amount of servicing fee due

Then:

SF          =         $I \times s/f + .005$

Note: Always use calculated interest instead of interest collected to ensure a servicing fee on any deferred interest that is capitalized.

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Exhibit 5

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Example: The first month's servicing fee for a \$70,000 30-year mortgage loan that has an annual interest rate of 15.5% and an annual servicing fee of 0.375% would be determined as follows:

$$\begin{aligned} \text{Step 1} \quad s/f &= \frac{.00375}{.15500} + .0000005 \\ s/f &= .0241935 + .0000005 \\ s/f &= .024194 \\ \text{Step 2} \quad I &= \frac{70,000 \times .15500}{12} \\ I &= \frac{1085000.000}{12} \\ I &= \$904.166666 \\ I &= 904.166 \\ \text{Step 3} \quad SF &= (904.166 \times .024194) + .005 \\ SF &= 21.875392204 + .005 \\ SF &= \$21.88 \end{aligned}$$

Note: Use this same method to calculate yield differential due the servicer. Just substitute the monthly yield differential rate for the servicing fee rate in Step 1.

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Formulas and Calculations

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Exhibit 5

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## Chapter 5. Fannie Mae–Generated Reports (01/31/03)

Fannie Mae’s investor reporting system has the ability to update each servicer’s reports individually; therefore, Fannie Mae continuously produces reports summarizing activity reported by a servicer. This means that a servicer has some control over the amount of time it has to review and reconcile its Fannie Mae investor reporting system reports—the sooner it submits its reports to Fannie Mae, the more time it has to review and reconcile the activity reports Fannie Mae returns following the update of the Fannie Mae investor reporting system records for the servicer.

After Fannie Mae processes the servicer’s information into its computer system, Fannie Mae produces reports to highlight the reported activity. These reports are designed to assist the servicer in reconciling the monthly information generated from the Fannie Mae investor reporting system with its internal records. They are sent in time to reach the servicer by the 25th day of each month. To ensure the accuracy of Fannie Mae’s records, the servicer should reconcile all of the reports Fannie Mae generates to its internal records monthly. Occasionally, Fannie Mae may ask the servicer to submit these reconciliations to Fannie Mae.

### Section 501 Lender Recap Report (01/31/03)

The Lender Recap Report, which consists of four sections, provides a summary of the transactions processed for the previous month’s activity. This report appears as *Exhibit 1: Lender Recap Report*.

- Section I, which is called the Portfolio Summary Report, lists (by remittance type) the beginning and ending portfolio totals for loan count, monthly P&I payment, actual UPB, scheduled UPB, and UPB acquired. It also provides information on activity related to transfers of servicing.
- Section II compares the amount of P&I reported with a Transaction Type 96 (Loan Activity Record) to the amount of P&I applied according to Fannie Mae’s calculations.
- Section III calculates the shortage or surplus for the current period by comparing the amount of cash applied by Fannie Mae.

- Section IV, which is called the Error Summary Total Report, provides information about the total number of rejected transactions. It categorizes “hard” rejects (those that are critical enough to prevent Fannie Mae from updating its records) by remittance type and by reject error message. It also categorizes “soft” rejects (those that create a shortage/surplus but do not prevent Fannie Mae from updating its records) by remittance type (but not by error message).

**Section 502  
Remittance Update  
Report (09/30/96)**

The Remittance Update Report, which consists of five different parts, summarizes the various remittance and delivery types in the servicer’s portfolio. Each of the five parts consists of six sections available on eFannieMae.com. This report appears as *Exhibit 2: Remittance Update Report*.

- Section A (Portfolio Summary) summarizes the servicer’s portfolio by remittance type.
- Section B (Rejected Transactions, Fannie Mae Lender Changes, Erroneously Coded Transactions), which will be produced monthly, lists “hard” rejects only. Section B.1 (Rejected Transactions) lists “soft” rejects for most mortgage loans (although it is not produced for biweekly payment MBS mortgage loans). For the most part, error messages in Sections B and B.1 are shown as encoded values—except for the primary reason for the rejection, which appears in words. Each month, Fannie Mae will provide a reject code listing to assist the servicer in interpreting its report.
- Section C (Accepted Transactions) lists each transaction that was processed and accepted by the investor reporting system.
- Section D (Loans Added) lists each mortgage loan that has been added to the investor reporting system, and explains the reason for the addition.
- Section E (Loans Removed) lists each mortgage loan that has been removed from the investor reporting system, and explains the reason for the removal.
- Section F (Loan Adjustments and Remittance Corrections) isolates Fannie Mae adjustments and remittance corrections.

**Section 503  
Monthly Payment/Rate  
Change Report  
(09/30/96)**

The Monthly Payment/Rate Change Report lists all variable-rate or variable-payment mortgage loans for which Fannie Mae is projecting an interest rate and/or monthly payment change. For mortgage loans that have scheduled monthly interest rate changes, the report will reflect the payment change rather than the projected interest rate change. The servicer should transmit a Transaction Type 83 (Payment/Rate Change Record) to notify Fannie Mae that the anticipated change (including a change in the pass-through rate, if applicable) has been made, or Fannie Mae will apply its projected payment/rate change at the scheduled effective change date. This report appears as *Exhibit 3: Monthly Payment/Rate Change Form*.

**Section 504  
Final Maturity Due  
Report (01/31/03)**

The Final Maturity Due Report lists all mortgage loans for which the final maturity date has occurred, or will reach the final maturity date within the next twelve months, without the mortgage loan having been removed from Fannie Mae's investor reporting system. The report also lists any mortgage loans that will reach their final maturity in the next reporting period. This report appears as *Exhibit 4: Final Maturity Due Report*.

**Section 505  
Trial Balance Report  
(01/31/03)**

The Trial Balance Report, which is available in a machine-readable format on a cartridge, electronically through a service bureau or on eFannieMae.com, gives the status of each mortgage loan in the servicer's portfolio after the Fannie Mae investor reporting system activity for the month has been applied. The report consists of three parts—loan accounting data, selected ARM loan data, and selected loan static data. This report appears as *Exhibit 5: Trial Balance Report*.

- The loan accounting data part of the trial balance includes for each mortgage loan within a given remittance type the following information: mortgage loan payment; LPI date; note rate; actual UPB; UPB acquired; pass-through rate; and, for MBS mortgage loans, the scheduled LPI date, UPB, and guaranty fee rates. This part of the report is produced on a monthly basis.
- The selected ARM loan data part of the trial balance includes, but is not limited to, the following loan attributes: frequency of the payment and interest rate changes; the next payment and interest rate adjustment dates; the mortgage loan margin and Fannie Mae's required margin; the current interest rate, servicing fee, and excess yield; the pass-through rate; the LPI date; the P&I installment; the percentage cap for the rate and payment changes; the note rate ceiling

and floor; the “look back” period for the rate and payment changes; guaranty fee rate; and rate rounding method code. This part of the report is produced only when there are payment/rate changes due or past due.

- The selected loan static data part of the trial balance includes selected data elements providing key information about a mortgage loan. The servicer may submit this part of the trial balance to Fannie Mae to correct or update the information that Fannie Mae carries in its records. Fields that may be changed or updated include: original LTV ratio, mortgage insurer code, servicing option (for MBS mortgage loans), ARM plan number, number of dwelling units, original note rate, and property type (for PUD, condo, or co-op units). In addition, Fannie Mae will update the deferred interest balance (for negotiated transactions that have this feature) and report it on the trial balance. This part of the report is produced on a monthly basis.

**Section 506  
Shortage/Surplus  
Analysis Report  
(01/31/03)**

The Shortage/Surplus Analysis Report, which consolidates information from certain sections of the Lender Recap Report and the Remittance Update Report, is produced monthly. It summarizes (by remittance type) cash received and reported activity, the difference between the current month’s shortage/surplus and the previous month’s shortage/surplus, and the total dollar differences between the servicer’s reported figures and Fannie Mae’s records for the current month’s rejected transactions. This report appears as *Exhibit 6: Shortage/Surplus Analysis Report*.

**Section 507  
Action Code Reject  
Report (01/31/03)**

The Action Code Reject Report, which lists (by rejection type) all rejected loans that had action codes reported, is produced monthly. This report is generated only if a servicer was rejected liquidation. Each action code is categorized separately, with each loan listed with its Fannie Mae loan number, servicer identification number, and action date. This report appears as *Exhibit 7: Action Code Reject Report*.

**Section 508  
Pool Deficiency  
Summary/Guaranty  
Fees to be Paid Report  
(01/31/03)**

The Pool Deficiency/Guaranty Fees to be Paid Report, which compares the ending scheduled balance for each MBS pool (as computed by the investor reporting system) to the balance the servicer reports, is produced monthly for MBS pools that consist of monthly payment mortgage loans (but not for pools of biweekly payment mortgage loans). The report also computes



the guaranty fees that are due based on the balance the servicer reports. This report appears as *Exhibit 8: Pool Deficiency Summary/Guaranty Fees to Be Paid Report*.

**Section 509  
Pool-to-Security  
Reconciliation Detail  
Report (01/31/03)**

The Pool-to-Security Reconciliation Detail Report, which identifies the difference between the adjusted pool balance that is derived from the servicer’s reported transactions and the “reported” security balance for the pool, is produced monthly to assist the servicer with reconciliations for all of the MBS pools it services. This report appears as *Exhibit 9: Pool-To-Security Reconciliation Detail Report*.

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**Fannie Mae Investor  
Reporting System**

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Fannie Mae-Generated  
Reports

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Section 509

June 10, 2011

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Exhibit 1

# Exhibit 1: Lender Recap Report (09/30/96)

RUN DATE 06/10/92 RUN TIME 17:55:20		FANNIE MAE LENDER REPORTING SYSTEM		PAGE : 1	
REPORT: LRRO1201		TO:		FOR QUESTIONS CONTACT: WILLARD SCOTT 203-364-3456	
INVESTOR: FANNIE MAE		LENDER NO:			
SECTION I. PORTFOLIO SUMMARY		LENDER RECAP REPORT			
	LOAN COUNT	MORTGAGE PAYMENT	ACTUAL UPB	SCHEDULED UPB	UPB ACQUIRED
SCHEDULED/SCHEDULED (MRS)					
BEGINNING BALANCES	5	2,459.33	244,837.92	244,703.72	244,774.04
ENDING BALANCES	5	2,459.33	244,837.92	244,568.41	244,638.73
TRANSFERS IN	0	0.00	0.00	0.00	0.00
TRANSFERS OUT	0	0.00	0.00	0.00	0.00
SCHEDULED/SCHEDULED (MBS)					
BEGINNING BALANCES	0	0.00	0.00	0.00	0.00
ENDING BALANCES	14	2,579,466.91	39,606,396.94	39,148,925.11	39,148,951.74
TRANSFERS IN	15	2,580,271.55	42,299,076.20	41,012,790.91	41,012,817.54
TRANSFERS OUT	0	0.00	0.00	0.00	0.00
TOTAL PORTFOLIO PROCESSED					
BEGINNING BALANCES	5	2,459.33	244,837.92	244,703.72	244,774.04
ENDING BALANCES	19	2,581,926.26	39,851,234.86	39,393,493.52	39,393,580.47
TRANSFERS IN	15	2,580,271.55	42,299,076.20	41,012,790.91	41,012,817.54
TRANSFERS OUT	0	0.00	0.00	0.00	0.00

RUN DATE 06/10/10 RUN TIME 17:55:20		FANNIE MAE LENDER REPORTING SYSTEM		PAGE: 2	
REPORT: LRRO1201		LENDER NO: RR01201		INVESTOR: FANNIE MAE	
		AS OF 12/31/87			
SECTION II. LOAN ACTIVITY REPORTS DETAIL VERSUS FNMA APPLIED					
REMITTANCE TYPE	LENDER INTEREST	DETAIL PRINCIPAL	APPLIED INTEREST	PRINCIPAL	REFERENCE INTEREST
ACTUAL/ACTUAL	N/A	N/A	N/A	N/A	N/A
SCHEDULED/ACTUAL	387,187.25	3,153,220.77	393,264.53	1,864,001.11	6,077.28
SCHD/SCHD MBS	387,187.25	3,153,220.77	393,051.95	1,863,005.80	3,864.70
SCHD/SCHD MRS ACO	0.00	0.00	2,212.58	1,864,001.11	6,212.58
TOTAL	387,187.25	3,153,220.77	393,264.53	1,864,001.11	6,077.28
SECTION III. SHORTAGE/SURPLUS SUMMARY					
		REMITTANCE		METHOD	
		ACTUAL/ACTUAL	SCHEDULED/ACTUAL	SCHEDULED/SCHEDULED	TOTAL
A. CASH RECEIVED VIA NDC		N/A	N/A	0.00	0.00
TOTAL CASH RECEIVED		N/A	N/A	0.00	0.00
B. LAST MONTH SHORT/SRPL BAL		N/A	N/A	0.00	0.00
C. ADJUSTMENTS TO SHORT/SRPL		N/A	N/A	0.00	0.00
D. APPLIED PRINC AND INTEREST		N/A	1,480.65	1,480.65	1,480.65
E. SHORTAGE/SURPLUS THIS MONTH		N/A	1,480.65	1,480.65	1,480.65
SECTION IV. ERROR SUMMARY TOTAL					
ERROR CODE/MESSAGE		SCHEDULED/SCHEDULED (MRS)	SCHEDULED/SCHEDULED (MBS)	TOTAL LOAN COUNT	
353	REJ - LENDER PASS THRU RATE CHANGE PAST DUE	00	02	02	
	TOTAL HARD REJECTS	00	02	02	
	TOTAL SOFT REJECTS	00	01	01	
	LOAN NOT REPORTED	05	05	10	

June 10, 2011

Exhibit 2

**Exhibit 2: Remittance Update Report (09/30/96)**

REPORT:	LR01401	TO:	FANNIE MAE LENDER REPORTING SYSTEM	PAGE	1
INVESTOR:	FANNIE MAE	FOR QUESTIONS CONTACT:		AS OF	10/31/90
<p>           RUN DATE 11/19/90            RUN TIME 12:33:48            REPORT: LR01401            INVESTOR: FANNIE MAE         </p>	<p>           BANK FOR SAVINGS            DIXIE HIGHWAY KY 41017            MITCHELL            LENDER NO:         </p>	<p>           202-752-3367         </p>	<p>           REMITTANCE UPDATE REPORT         </p>		
<p>PART I. REMITTANCE TYPE: ACTUAL INTEREST/ACTUAL PRINCIPAL (WHOLE LOANS)</p> <p>* SECTION A: PORTFOLIO SUMMARY</p>					
	LOAN COUNT	MORTGAGE PAYMENT	ACTUAL UNPAID PRINCIPAL BALANCE	UNPAID PRINCIPAL BALANCE ACQUIRED	
1. BEGINNING BALANCES	246	116,109.32	12,002,359.03	12,002,359.03	
2. LOANS ADDED					
A. PURCHASES	12	5,863.02	592,959.34	592,959.34	
B. READS	0	0.00	0.00	0.00	
C. REPLACING TRANSFERS	0	0.00	0.00	0.00	
D. SUBSTITUTIONS	0	0.00	0.00	0.00	
E. OTHER	0	0.00	0.00	0.00	
3. LOANS REMOVED					
A. PAYOFFS	2	719.26	68,428.90	68,428.90	
B. FORECLOSURES	0	0.00	0.00	0.00	
C. REPURCHASES	0	0.00	0.00	0.00	
D. SERVICING TRANSFERS	0	0.00	0.00	0.00	
E. SUBSTITUTIONS	0	0.00	0.00	0.00	
F. SALES	0	0.00	0.00	0.00	
G. OTHER	0	0.00	0.00	0.00	
4. FANNIE MAE ADJUSTMENTS	0	0.00	0.00	0.00	
5. PAYMENT/RATE CHANGES	0	0.00	0.00	0.00	
6. PRINCIPAL AMORTIZATION	0	0.00	16,241.32	16,241.32	
7. ENDING BALANCES	256	121,253.08	12,510,648.15	12,510,648.15	
8. INTEREST APPLIED		101,963.65			
9. PRINCIPAL APPLIED		84,670.22			
10. BUYDOWN FUNDS APPLIED		0.00			

**Fannie Mae Investor Reporting System**

Fannie Mae-Generated Reports

Exhibit 2

June 10, 2011

RUN DATE 11/19/90	FANNIE MAE	PAGE 48
RUN TIME 12:33:48	LENDER REPORTING SYSTEM	AS OF 10/31/90
REPORT : LRRO1401	BANK FOR SAVINGS	FOR QUESTIONS CONTACT:
INVESTOR : FANNIE MAE	DIXIE HIGHWAY	202-752-3367
	MITCHELL	
	LENDER NO: 41017	
	REMITTANCE UPDATE REPORT	
PART II - REMITTANCE TYPE - SCHEDULED INTEREST/ACTUAL PRINCIPAL (WHOLE LOANS)		
* SECTION B: REJECTED TRANSACTIONS (HARD)		
LOAN NUMBER	BEG/END INT RATE	BEG/END MORTGAGE PAYMENT
ID/POOL NUMBER	PASS THRU RATE	LPI DATE
		BEG/END ACTUAL UNPAID PRINCIPAL BAL
		BEG/END SCHED UNPAID PRINCIPAL BAL
		INTEREST
		PRINCIPAL
		ACT CODE
		ACTION DATE
NO ACTIVITY THIS REPORTING PERIOD		

LOAN NUMBER ID/POOL NUMBER	BEG/END INT RATE	BEG/END PASS THRU RATE	BEG/END MORTGAGE PAYMENT	BEG/END LPI DATE	BEG/END ACTUAL UNPAID PRINCIPAL BAL	BEG/END SCHED UNPAID PRINCIPAL BAL	INTEREST	PRINCIPAL	ACT CODE	ACTION DATE
1160152553 01014249 10	10.3750	10.1250	451.80	09/90	49,000.00					
LAR REPORTED:	10.3750	10.1250	451.80	10/90	48,979.63		421.03			20.37
APPLIED:				10/90	48,979.63		413.49			20.37
DIFFERENCE:							7.54			0.00

PRIMARY MESSAGE : 304 INTEREST REMITTED NOT = TO FANNIE MAE CALCULATED  
SECONDARY MESSAGE :

RUN DATE 11/19/90  
 RUN TIME 12:33:48  
 REPORT: LRRO1401  
 INVESTOR: FANNIE MAE

FANNIE MAE  
 LENDER REPORTING SYSTEM  
 BANK FOR SAVINGS  
 DIXIE HIGHWAY  
 MITCHELL  
 KY 41017  
 LENDER NO:  
 REMITTANCE UPDATE REPORT

FOR QUESTIONS CONTACT:  
 202-752-3367

PAGE 3  
 AS OF 10/31/90

PART I. REMITTANCE TYPE: ACTUAL INTEREST/ACTUAL PRINCIPAL (WHOLE LOANS)  
 \* SECTION B.1: REJECTED TRANSACTIONS (SOFT)

**Fannie Mae Investor Reporting System**

Fannie Mae-Generated Reports

Exhibit 2

June 10, 2011

RUN DATE	11/19/90											PAGE	70
REPORT:	LRRO1401											FOR QUESTIONS CONTACT:	
INVESTOR:	FANNIE MAE											202-752-3367	
REMITTANCE UPDATE REPORT													
PART V. REMITTANCE TYPE: SCHEDULED INTEREST/SCHEDULED PRINCIPAL (MBS POOL)													
* SECTION C: ACCEPTED TRANSACTIONS AND FNMA KEYED TRANSACTIONS													
MBS POOL NUMBER: 001667													
LOAN NUMBER	BEG/END INT RATE	BEG/END PASS THRU RATE	BEG/END LOAN BALANCE PAYMENT	BEG/END DATE	BEG/END ACT UNPAID PRINCIPAL BAL	BEG/END SCHED UNPAID PRINCIPAL BAL	INTEREST	PRINCIPAL	ACT CODE	ACTION DATE			
1650392419	13.0000	12.5000	175.74	09/90	5,517.20	5,401.23							
11-10-000123440													
001667													
LAR	13.0000	12.5000	175.74	10/80	5,381.23	5,263.79	56.26	137.44					
1650392428	13.0000	12.5000	331.86	09/90	27,846.53	27,816.34							
11-10-000125231													
001667													
LAR	13.0000	12.5000	331.86	10/90	27,798.20	27,767.49	289.75	48.85					
1650392435	13.0000	12.5000	253.05	09/90	9,940.33	9,794.97							
11-10-000125613													
001667													
LAR	13.0000	12.5000	253.05	10/90	9,769.97	9,622.76	102.03	172.21					
1650392437	14.0000	12.5000	298.44	09/90	20,985.94	20,932.34							
11-10-000129279													
001667													
LAR	14.0000	12.5000	298.44	10/90	20,932.34	20,878.11	218.05	54.23					



June 10, 2011

**Fannie Mae Investor Reporting System**

Fannie Mae-Generated Reports

Exhibit 2

RUN DATE 11/19/90 RUN TIME 12:33:48		FANNIE MAE LENDER REPORTING SYSTEM		PAGE 42							
REPORT: LRRO1401		TO: BANK FOR SAVINGS DIXIE HIGHWAY KY 41017 MITCHELL		FOR QUESTIONS CONTACT: 202-752-3367							
INVESTOR: FANNIE MAE		LENDER NO:									
PART I. REMITTANCE TYPE		ACTUAL INTEREST/ACTUAL PRINCIPAL (WHOLE LOANS)		REMITTANCE UPDATE REPORT							
* SECTION D: LOANS ADDED											
ADD TYPE	LOAN NUMBER/ID	NOTE RATE	PASS THRU RATE	SERV FEE RATE	EXCESS YIELD RATE	PURCHASE DATE	LPI DATE	MORTGAGE PAYMENT	ACTUAL UNPAID PRINC BALANCE	UNPAID PRINC BALANCE ACQUIRED	
PURCHASES	1160153698 0101424210	10.1250	9.8750	0.2500	0.0000	10/09/90	10/90	505.49	56,975.45	56,975.45	
	1160153703 0101424310	10.0000	9.7500	0.2500	0.0000	10/09/90	10/90	482.67	54,975.66	54,975.66	
	1160153715 0101425111	10.0000	9.7500	0.2500	0.0000	10/09/90	10/90	315.93	35,984.07	35,984.07	
	1160153727 0101425510	9.8750	9.6250	0.2500	0.0000	10/09/90	10/90	436.35	50,227.17	50,227.17	
	1160153739 0101427310	9.8750	9.6250	0.2500	0.0000	10/09/90	10/90	593.96	68,400.00	68,400.00	
	1160153741 0101427610	10.0000	9.7500	0.2500	0.0000	10/09/90	10/90	230.98	26,320.00	26,320.00	
	1160153753 0101425710	9.8750	9.6250	0.2500	0.0000	10/09/90	10/90	640.18	59,853.57	59,853.57	
	1160153765 0101427210	9.7500	9.5000	0.2500	0.0000	10/09/90	10/90	455.53	43,000.00	43,000.00	
	1160153777 0101430610	9.8750	9.6250	0.2500	0.0000	10/09/90	10/90	631.01	48,000.00	48,000.00	
	1160153789 0101430810	9.8750	9.6250	0.2500	0.0000	10/09/90	10/90	597.50	56,000.00	56,000.00	
	1160154393 0101370310	11.0000	10.6250	0.3750	0.0000	10/24/90	10/90	370.32	38,663.81	38,663.81	
PURCHASES	1160154498 0101284817	10.5000	10.2500	0.2500	0.0000	10/29/90	10/90	603.10	54,559.61	54,559.61	
SUMMARY		LOAN COUNT									
PURCHASES		12									
TOTAL		12									

**Fannie Mae Investor Reporting System**

Fannie Mae-Generated Reports

Exhibit 2

June 10, 2011

RUN DATE	11/19/90	PAGE	55					
RUN TIME	12:33:48	AS OF	10/31/90					
REPORT: LRRO1401		FOR QUESTIONS CONTACT:	202-752-3367					
		FANNIE MAE LENDER REPORTING SYSTEM						
		BANK FOR SAVINGS FSB						
		DIXIE HIGHWAY KY 41017						
		MITCHELL						
INVESTOR: FANNIE MAE		LENDER NO:						
		REMITTANCE UPDATE REPORT						
PART II REMITTANCE TYPE SCHEDULED INTEREST/ ACTUAL PRINCIPAL (WHOLE LOANS)								
* SECTION E: LOANS REMOVED								
REMOVAL TYPE	LOAN NUMBER/ID	NOTE RATE	PASS THRU RATE	L100 DATE	LPI DATE	MORTGAGE PAYMENT	ACTUAL UNPAID PRINC BALANCE	UNPAID PRINC BALANCE ACQUIRED
PAYOFFS	2000320854 1163011	10.5000	10.2500	10/17/90	09/90	292.72	31,205.30	31,205.30
SUMMARY				LOAN COUNT				
PAYOFFS						292.72	31,205.30	31,205.30
TOTAL						292.72	31,205.30	31,205.30

June 10, 2011

Exhibit 2

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RUN DATE 11/19/90
RUN TIME 12:33:48
REPORT: LRR01401
INVESTOR: FANNIE MAE

FANNIE MAE
LENDER REPORTING SYSTEM
TO: BANK FOR SAVINGS
DIXIE HIGHWAY KY 41017
MITCHELL
LENDER NO:
FOR QUESTIONS CONTACT:
202-752-3367
PAGE 45
AS OF 10/31/90

REMITTANCE UPDATE REPORT
PART I. REMITTANCE TYPE: ACTUAL INTEREST/ACTUAL PRINCIPAL (WHOLE LOANS)
* SECTION F: LOAN ADJUSTMENTS AND REMITTANCE CORRECTIONS
GROUP I: LOAN ADJUSTMENTS
LOAN NUMBER/
LENDER LOAN ID
FIELD NAME
EFF DATE
NXT CHG DATE
OLD VALUE
NEW VALUE
DIFFERENCE

NO ACTIVITY THIS REPORTING PERIOD

GROUP II: REMITTANCE CORRECTIONS
LOAN NUMBER/
LENDER LOAN ID
FIELD NAME
EFF DATE
NXT CHG DATE
OLD VALUE
NEW VALUE
DIFFERENCE

NO ACTIVITY THIS REPORTING PERIOD
    
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**Fannie Mae Investor  
Reporting System**

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Fannie Mae-Generated  
Reports

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Exhibit 2

June 10, 2011

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June 10, 2011

Exhibit 3

### Exhibit 3: Monthly Payment/Rate Change Form (09/30/96)

FANNIE MAE LENDER REPORTING SYSTEM		INVESTOR: FANNIE MAE		PAGE 17							
LENDER NO: LRRD2201		AS OF 10/31/90									
MONTHLY PAYMENT	NOTE RATE	PASS THRU RATE	CHANGE FORM								
<p>*** PLEASE REVIEW THE FANNIE MAE PROJECTIONS FOR DUE AND PAST DUE INTEREST RATE PASS-THRU RATE AND PAYMENTS LISTED BELOW ***            ENTER CORRECTIONS BELOW THE FIELD REQUIRING CHANGES AND RETURN THIS FORM WITH THE LENDER ACTIVITY REPORT FOR PERIOD ENDING: 11/90            THE INFORMATION PROVIDED IN THIS MONTHLY PAYMENT/NOTE RATE/PASS THROUGH RATE CHANGE FORM (LR02201) IS BASED ON DATA AVAILABLE IN            FANNIE MAE'S LENDER DATABASE AND IS FURNISHED SOLELY FOR OUR LENDERS' CONVENIENCE IN MAKING THEIR OWN ESTIMATES OF THE            APPLICABLE ARM RATES. THIS INFORMATION MUST NOT BE USED, WITHOUT FULL VALIDATION BY THE LENDERS, IN ESTABLISHING ACTUAL NOTE RATES            OR PASS-THROUGH RATES, OR FOR ANY PURPOSE OTHER THAN THAT STATED ABOVE.</p>											
EFFECT. DATE	INT RATE	PASS THRU RATE	PAYMENT	LOAN NUMBER/ID	EFFECT. DATE	INDEX VALUE	NEW INTEREST RATE	PASS THRU RATE	NEW MORTGAGE PAYMENT	EXT TERM	CONVERT
01/91	0	0	0	2000040829	01/91	7.6200	9.1200	8.6200	288.26	---	---
				0038703	/	.	.	.	.	---	---
01/91	0	0	0	2000040837	01/91	7.6200	9.1200	8.6200	390.87	---	---
				0038786	/	.	.	.	.	---	---
01/91	0	0	0	2000227871	01/91	7.6200	10.1200	9.5700	300.91	---	---
				0106443	/	.	.	.	.	---	---

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**Fannie Mae Investor  
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Exhibit 3

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Exhibit 4

**Exhibit 4: Final Maturity Due Report (09/30/96)**

RUN DATE 11/19/90 RUN TIME 12:53:48 REPORT: LRR02801		FANNIE MAE LENDER REPORTING SYSTEM		PAGE 1								
INVESTOR: FANNIE MAE		TO: MADISON AVE TN 38173		AS OF 10/31/90								
FOR QUESTIONS CONTACT: 202-752-2764		LENDER NO.										
FINAL MATURITY DUE REPORT												
REMITTANCE TYPE	ACTUAL INTEREST/ACTUAL PRINCIPAL	NUMBER OF MOS OVERDUE	MATURITY DUE DATE	POOL/CERT NO	FANNIE MAE LOAN NUMBER	LENDER LOAN ID	BALLOON LOAN	LOI DATE	PASS THRU RATE	MORTGAGE PAYMENT	ACTUAL UNPAID PRINC BALANCE	
03	08/90	03	08/90	1240404199	0225136	N	08/90	9.2500	125.75	0.52		
03	08/90	03	08/90	1240410289	022367-7	N	08/90	9.0000	83.37	781.33		
03	08/90	03	08/90	1240410356	022477-4	N	08/90	7.7500	545.00	1,690.72		
REMITTANCE TYPE TOTAL:											LOAN COUNT	3

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Exhibit 4

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Exhibit 5

Exhibit 5: Trial Balance Report (09/30/96)

RUN DATE 11/19/90 RUN TIME 14:44:04 REPORT: LRR03201		FANNIE MAE LENDER REPORTING SYSTEM LENDER NO:		INVESTOR: FANNIE MAE		PAGE AS OF 10/31/90 335			
PART A. LOAN ACCOUNTING DATA									
LOAN NUMBER/ID	MORTGAGE PAYMENT	LPI DATE	NOTE RATE	ACTUAL UNPAID PRINC BALANCE	ACTION CODE	DATE	PASS THRU RATE	SCHEDULED UNPAID PRINC BALANCE	UNPAID PRINC BAL ACQUIRED
RBS POOL NUMBER: 1030									
1655781485	567.14	11/90	10.5000	61,494.86			10.0000	61,494.86	61,494.86
219386-0									
1655781486	1,714.68	10/90	10.5000	187,300.37			10.0000	187,224.57	187,224.57
219406-6									
1655781487	365.90	11/90	10.5000	39,935.56			10.0000	39,935.56	39,935.56
219407-4									
1655781488	1,037.77	09/90	10.5000	113,359.44			10.0000	113,267.29	113,267.29
219490-0									
1655781489	457.36	11/90	10.5000	49,514.23			10.0000	49,514.23	49,514.23
219532-9									
1655781490	658.61	10/90	10.5000	71,821.28			10.0000	71,791.11	71,791.11
219535-2									
1655781491	690.63	10/90	10.5000	75,439.73			10.0000	75,409.20	75,409.20
219551-0									
1655781492	1,051.95	10/90	10.5000	114,908.20			10.0000	114,861.70	114,861.70
219552-6									
1655781493	863.51	10/90	10.5000	94,286.48			10.0000	94,247.98	94,247.98
219610-3									
1655781494	1,555.72	10/90	10.6250	168,086.03			10.0000	168,018.57	168,018.57
219619-4									
1655781495	942.18	10/90	10.5000	102,834.12			10.0000	102,791.74	102,791.74
219620-2									
1655781496	1,066.41	10/90	10.6250	115,219.06			10.0000	115,172.82	115,172.82
219644-2									
1655781497	402.94	10/90	10.5000	44,014.84			10.0000	43,997.03	43,997.03
219697-0									
1655781498	1,166.29	11/90	10.5000	127,294.66			10.0000	127,294.66	127,294.66
219655-3									
1655781499	646.26	10/90	10.5000	70,565.03			10.0000	70,536.21	70,536.21
219912-3									
1655781500	471.09	10/90	10.5000	51,458.90			10.0000	51,438.08	51,438.08
220105-1									
1655781501	1,361.13	10/90	10.5000	148,580.35			10.0000	148,519.30	148,519.30
220132-5									
1655781502	614.70	10/90	10.5000	67,119.20			10.0000	67,091.79	67,091.79
220165-5									
1655781503	759.85	10/90	10.7500	81,358.44			10.0000	81,307.25	81,307.25
220303-2									
POOL TOTAL:	23,389.24			2,546,375.83				2,545,506.42	2,545,506.42
LOAN COUNT:	29								

**Fannie Mae Investor Reporting System**

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Exhibit 5

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RUN DATE 11/19/90 RUN TIME 14:44:04		FANNIE MAE LENDER REPORTING SYSTEM		PAGE 337											
REPORT: LRB53101		TO: MADISON AVE TN 38173		FOR QUESTIONS CONTACT: AS OF 10/31/90											
INVESTOR: FANNIE MAE		LENDER NO:		202-752-2764											
PART B: SELECTED ARM LOAN DATA		REMITTANCE TYPE: ACTUAL/ACTUAL													
FMMA/LENDER LOAN ID	FRD CHG PRT RT	NEXT ADJUST RATE	MTG REQ MG	INT RATE	SERVICE FEE EXCESS YIELD	GUAR FEE THRU	P AND I PAYMENT	LPT DATE	RATE CAP PRT CAP	FLOOR	CEILING	IN LBK CD	M M P I	M M T A	N R C
1010112328	012 012	01/91 01/91	1-5000	9.5000	0.5000	0.0000	438.97	09/90	0.0000	99.9999	07 045	6 2	0 1	0	
1010112330	003804-2	012 012	1-5000	9.5000	0.5000	0.0000	719.32	10/90	7.5000	08.0000	07 005	6 2	0 1	0	
1010112342	003810-9	012 012	1-5000	9.5000	0.5000	0.0000	385.51	10/90	7.5000	99.9999	07 045	6 2	0 1	0	
1010112378	003813-3	012 012	1-5000	9.5000	0.5000	0.0000	375.46	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033320	003826-5	012 012	1-5000	9.5000	0.5000	0.0000	411.92	05/90	7.5000	08.0000	07 045	6 2	0 1	0	
1030033332	003809-1	012 012	1-5000	9.5000	0.5000	0.0000	459.27	10/90	7.5000	08.0000	07 045	6 2	0 1	0	
1030033394	003814-1	012 012	1-5000	9.5000	0.5000	0.0000	868.76	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033409	003823-2	012 012	1-5000	9.5000	0.5000	0.0000	532.60	10/90	7.5000	08.0000	07 045	6 0	1 1	0	
1030033411	003824-0	012 012	1-5000	9.5000	0.5000	0.0000	409.40	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033423	003825-7	012 012	1-5000	9.5000	0.5000	0.0000	634.85	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033435	003829-9	012 012	1-5000	9.5000	0.5000	0.0000	699.79	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033514	003831-5	012 012	1-5000	9.5000	0.5000	0.0000	414.15	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033526	003882-8	012 012	1-5000	9.5000	0.5000	0.0000	947.03	10/90	7.5000	08.0000	07 045	6 2	1 1	0	
1030033875	003889-3	012 012	1-5000	9.8750	0.5000	0.0000	565.29	06/89	7.5000	08.0000	07 045	6 2	1 1	0	
1120419082	003925-5	012 012	2-5000	10.6250	0.5000	0.0000	808.48	10/90	2.0000	13.5000	07 045	6 2	1 0	0	
2040384		012 012	2-5000	10.5000	0.5000	0.0000	1,228.14	10/90	2.0000	13.5000	07 045	6 2	1 0	0	
1120419111		012 012	2-5000	10.5000	0.5000	0.0000	1,228.14	10/90	2.0000	13.5000	07 045	6 2	1 0	0	
2040368			2-5000						0.0000	0.0000	0.0000				

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Exhibit 5

RUN DATE 11/19/90 RUN TIME 14:44:04 REPORT: LRR53601		FANNIE MAE LENDER REPORTING SYSTEM LENDER NO:		INVESTOR: FANNIE MAE		PAGE 351			
PART C: SELECTED LOAN STATIC DATA				REMITTANCE TYPE: ACTUAL/ACTUAL					
LOAN NUMBER/ LENDER LOAN ID	ORIGINAL LTV	MI CODE	SERVING OPTION	DEFRD INTEREST BALANCE	PLAN NUMBER	ORIGINAL NOTE RATE	NO. UNITS	PROPERTY TYPE	TIMESAVER PLUS
1030033423	95	7		0.00	9	0.0000	1	1	M
1030033435	95	2		0.00	5	0.0000	1	1	M
1030033514	95	1		0.00	9	0.0000	1	1	M
1030033526	90	2		0.00	9	0.0000	1	1	M
1030033538	80			0.00	9	0.0000	1	1	M
1030033629	95	17		0.00	9	0.0000	1	1	M
1030033631	95	7		0.00	9	0.0000	1	1	M
1030033643	95	17		0.00	9	0.0000	1	1	M
1030033679	90	1		0.00	9	0.0000	1	1	M
1030033681	95	7		0.00	9	0.0000	1	1	M
1030033693	90	2		0.00	9	0.0000	1	1	M
1030033708	95	7		0.00	9	0.0000	1	1	M
1030033813	80			0.00	9	0.0000	1	1	M
1030033825	90	2		0.00	9	0.0000	1	1	M
1030033849	80			0.00	9	0.0000	1	1	M
1030033851	95	7		0.00	9	0.0000	1	1	M
1030033875	80			0.00	9	0.0000	1	1	M
1030033887	95	2		0.00	9	0.0000	1	1	M
1030033899	80			0.00	9	0.0000	1	1	M
1030033904	95	1		0.00	9	0.0000	1	1	M

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**Fannie Mae Investor  
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Exhibit 5

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Exhibit 6

# Exhibit 6: Shortage/Surplus Analysis Report (09/30/96)

REPORT	TO:	FANNIE MAE LENDER REPORTING SYSTEM	PAGE
RUN DATE 11/19/90 RUN TIME 12:33:48 REPORT: LRR52801	FANNIE MAE LENDER REPORTING SYSTEM BANK FOR SAVINGS DIXIE HIGHWAY KY 41017 MITCHELL KY 41017 LENDER NO:	FOR QUESTIONS CONTACT: 202-752-3367	1 AS OF 10/31/90
INVESTOR: FANNIE MAE	SHORTAGE/SURPLUS ANALYSIS REPORT		
SECTION I. CASH DIFFERENCE			
1. CASH RECEIVED (PROCESSING MONTH)	:	186,641.41	
2. - REPORTED P & I (ACTIVITY MONTH)	:	0.02	
EXPLANATION OF DIFFERENCE:			
SECTION II. CALCULATION OF CURRENT MONTH SHORTAGE/SURPLUS			
3. = CASH DIFFERENCE	:	186,641.39	
4. CASH RECEIVED (PROCESSING MONTH)	:	186,633.87	
5. - APPLIED P & I (ACTIVITY MONTH)	:	0.00	
6. + SHORTAGE/SURPLUS ADJUSTMENT	:	7.54	
SECTION III. CURRENT MONTH REJECTIONS (FROM LRR01401)			
7. = PROJECTED CURRENT MONTH SHORTAGE/SURPLUS	:	0.00	
8. + REJECTED LIQUIDATIONS (PART I, SECTION B)	:	0.00	
9. + REJECTED CURTLEMENTS (PART I, SECTION B)	:	0.00	
10. + LAR REJECTED DUE TO PMT/NOTE RATE CHANGE (PART I, SECTION B)	:	7.54	
11. + OTHER REJECTIONS (PART I, SECTION B)	:	7.54	
12. + SOFT REJECTS (PART I, SECTION B.1)	:	7.54	
SECTION IV. CURRENT MONTH SHORTAGE/SURPLUS ANALYSIS			
13. = TOTAL REJECTIONS	:	7.52	
14. PROJECTED CURRENT MONTH SHORTAGE/SURPLUS (FROM LINE 7)	:	7.52	
15. - CASH DIFFERENCE (FROM LINE 3)	:	7.54	
16. - TOTAL REJECTIONS (FROM LINE 13)	:	0.00	

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**Fannie Mae Investor  
Reporting System**

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Exhibit 6

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Exhibit 7

## Exhibit 7: Action Code Reject Report (09/30/96)

RUN DATE 11/19/90	PAGE 1
RUN TIME 12:33:48	AS OF 10/31/90
REPORT: LRS2901	
FANNIE MAE LENDER REPORTING SYSTEM	
FOR QUESTIONS CONTACT: 202-752-2764	
TO: MADISON AVE TN 38173	
INVESTOR: FANNIE MAE	
REPORT: LRS2901	
LENDER NO: 16386-000-7	
ACTION CODE REJECT REPORT	
LOAN NO. LENDER LOAN ID ACT DATE	LOAN NO. LENDER LOAN ID ACT DATE
-----	-----
ACTION CODE 60: LOAN REMOVED - PAYOFF	
1654749288 10/31/90	
TOTAL NUMBER OF LOANS = 01	
ACTION CODE 70: LOAN REMOVED - HELD FOR SALE	
1600429826 10/10/90	
TOTAL NUMBER OF LOANS = 01	
GRAND TOTAL = 02	

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**Fannie Mae Investor  
Reporting System**

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Exhibit 7

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Exhibit 8

# Exhibit 8: Pool Deficiency Summary/Guaranty Fees to Be Paid Report (09/30/96)

RUN DATE 10/11/90 RUN TIME 22:58:35		FANNIE MAE LENDER REPORTING SYSTEM		PAGE 1	
REPORT: LRR53901		TO: NATIONAL BANK STONE BOULEVARD 29226 SC 29226		FOR QUESTIONS CONTACT: 202-752-2745	
INVESTOR: FANNIE MAE		LENDER NO:		AS OF 09/30/90	
SECURITY BALANCE AS OF 10/01/90		PROJECTED SCHEDULED PRINC		PROJECTED SECURITY BALANCE	
POOL SCHEDULED UPB		POOL DEFICIENCY		GUAR RATE	
GUAR FEES DUE 11/90					
050698	500,919.77	0.05-	263.91	500,635.81	0.1200
051482	500,919.77	0.01-	236.87	503,183.11	0.0000
051482	1,199,939.03	0.02-	622.31	1,199,336.52	0.0000
TOTALS	2,204,278.81	0.08-	1,123.29	2,203,155.44	50.09

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**Fannie Mae Investor  
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Exhibit 8

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Exhibit 9

## Exhibit 9: Pool-To-Security Reconciliation Detail Report (09/30/96)

FANNIE MAE LENDER REPORTING SYSTEM		FOR QUESTIONS CONTACT:		PAGE
TO: NATIONAL BANK		202-752-2745		1
REPORT: LRA54101		STONE BOULEVARD 29226 SC		
INVESTOR: FANNIE MAE		LENDER NO:		AS OF 09/90
POOL TO SECURITY RECONCILIATION DETAIL				
1. ENDING ACTUAL UPB (X SOLD)	050268	050310	091482	
2. + PREPAID INSTALLMENT PRINCIPAL	501.181.48	503.578.34	1.200.417.52	
3. - DELINQUENT INSTALLMENT PRINCIPAL	0.00	0.00	0.00	
4. + SCHEDULED PRINCIPAL	261.09	233.16	617.10	
5. - ADJUSTED POOL BANK AMT	0.00	0.00	0.00	
6. = ADJUSTED POOL BANK AMT	500.928.77	503.401.69	1.199.959.43	
7. - CALLED IN SECURITY BALANCE	500.928.77	503.591.79	1.199.959.05	
8. = DIFFERENCE	0.62	1.70	0.38	

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**Fannie Mae Investor  
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Exhibit 9

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## Chapter 6. Correction of Errors (01/31/03)

Generally, two types of transactional errors in servicer reporting may occur—those transactions that the system identifies and rejects and those transactions that the system accepts although the servicer reported the transaction by mistake. However, errors in making ARM adjustments also may represent a different type of transactional error—one in which the servicer updates Fannie Mae’s records with the correct information, but erroneously adjusts the mortgage loan in its records and communicates the incorrect information to the borrower. This type of transactional error could result in the mortgage loan balance in Fannie Mae’s records being incorrect (and may require an adjustment to the servicer’s previous remittances to Fannie Mae).

- **To correct a transaction that the system rejected**, the servicer generally needs only to resubmit the transaction in the next reporting period. These transactions may relate to either payment collection or mortgage loan status. The Fannie Mae investor reporting system is able to retain selected rejected transactions and recycle them in subsequent update cycles. Rejected transactions that will be recycled include payment/note rate changes and liquidation action codes. This recycling means that the servicer will not have to resubmit these transactions unless it is aware that the original information it submitted was incorrect. Fannie Mae will recycle payment/note rate transactions for 6 months; liquidation transactions, for 12 months. (If the rejected transaction involves an ARM adjustment error that has been communicated to the borrower, the servicer should discuss the correction of the rejection with its Fannie Mae investor reporting system representative to ensure that the proper corrective action is taken, given the particular circumstances of the adjustment error.)
- **To correct a transaction that the servicer reported by mistake**, the method of correction depends on the type of transaction. If the transaction related to payment status, it generally can be resubmitted in the next reporting period. If it related to *fee collection*, the servicer may report in the next reporting period any fees that it failed to report or may reverse any reported fees that should not have been reported. If the transaction related to *mortgage loan status*—and does not involve

the correction of an ARM adjustment error—the servicer generally can correct the transaction in the current reporting period as long as the correction can be made before the final transactions for the reporting period have to be transmitted to Fannie Mae. If the correction cannot be made that quickly, the servicer can resubmit the transaction in the next reporting period, unless the reported transaction removed the mortgage loan from the Fannie Mae investor reporting system. In that case, the servicer must notify Fannie Mae so it can process an adjustment to correct the error.

- **To correct a transaction that relates to an erroneous ARM adjustment**, the servicer must first discuss the error with its Fannie Mae investor reporting system representative before it takes any corrective action to adjust Fannie Mae’s records or the servicer’s previous remittances. The servicer must not electronically submit a Transaction Type 83 (Payment/Rate Change Record) until after its Fannie Mae investor reporting system representative authorizes the correction.

Additional information about correcting errors related to mortgage loan status—liquidation transactions and ARM adjustment error corrections—is included in *Section 601, Correcting Liquidation Transactions (01/31/03)*, and *Section 602, Correcting ARM Adjustment Errors (01/31/03)*.

**Section 601  
Correcting Liquidation Transactions (01/31/03)**

The action codes that relate to payoffs, repurchases, assignments, deeds-in-lieu, and foreclosures— codes 60, 65, 67, 70, 71, and 72—are categorized as liquidation transactions. A liquidation transaction removes the mortgage loan from the Fannie Mae investor reporting system. Therefore, it is not possible to change either the action code or action date through the regular investor reporting process if the error is discovered after the final transactions for the reporting period have been transmitted to Fannie Mae. These changes must be processed through either Fannie Mae’s investor reporting system representative or through Fannie Mae’s National Property Disposition Center (or both), depending on the nature of the change and on whether the mortgage loan has been added to Fannie Mae’s Receivable Control File.

Section 601.01  
Erroneous  
Payoff/Repurchase  
Transaction (01/31/03)

When an Action Code 60 (payoff) or an Action Code 65 or 67 (repurchase) is reported, the mortgage loan is removed from the investor reporting system, the payoff (or repurchase) proceeds are calculated and compared to the servicer's reported remittance, and any difference is added to (or subtracted from) the servicer's shortage/surplus account. A change in the *action date* for an Action Code 60, 65, or 67 can affect the amount of interest that was calculated and can result in the need for an adjustment to the servicer's shortage/surplus account. Therefore, to change an action date for one of these codes, the servicer should submit written notice and justification for the change to its Fannie Mae investor reporting system representative.

A paid-off or repurchased mortgage loan that Fannie Mae held in its portfolio may need to be re-added to the Fannie Mae investor reporting system (or an appropriate adjustment made to Fannie Mae's records) if an Action Code 60, 65, or 67 is being changed to another action code. In these cases, Fannie Mae may need to cancel satisfaction documents, re-file custody documents, execute new legal documents, or begin property disposition efforts—depending on the action code that is being reported. For that reason, requests to change Action Codes 60, 65, or 67 to other codes (or to no code) should be directed to Fannie Mae's National Property Disposition Center. (See *Section 305, Reversal of Curtailments/Removals (01/31/03)*, for a discussion regarding the reversal of removal transactions related to MBS mortgage loans.)

Section 601.02  
Changing Receivable  
Control File Transaction  
to Payoff/Repurchase  
Transaction (01/31/03)

When an Action Code 70, 71, or 72 is reported, the mortgage loan is removed from Fannie Mae's investor reporting system and added to a Receivable Control File. Therefore, if one of these action codes was reported when an Action Code 60, 65, or 67 should have been used to report a payoff or repurchase, the mortgage loan may need to be re-added to the Fannie Mae investor reporting system (or an appropriate adjustment made). In these cases, Fannie Mae may need to execute satisfaction documents or warranty deeds, file custody documents, end property disposition efforts, etc.—depending on the exact nature of the change. For that reason, these requests for changes should be directed to Fannie Mae's National Property Disposition Center.

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## Fannie Mae Investor Reporting System

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### Correction of Errors

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Section 602

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#### Section 601.03 Changing Receivable Control File Transaction to Referral Transaction (01/31/03)

A reported Action Code 70, 71, or 72 would have removed the mortgage loan from Fannie Mae's investor reporting system and added it to the Receivable Control File. Therefore, if one of these action codes needs to be changed to reflect an action that normally precedes the liquidation of a mortgage loan, the mortgage loan will have to be re-added to the Fannie Mae investor reporting system database. Requests to re-add erroneously reported removals of this type should be directed Fannie Mae's National Property Disposition Center to ensure that any REOgram that was previously submitted is canceled and that Fannie Mae discontinues its property disposition efforts. If the servicer obtained custody documents from Fannie Mae when the servicer reported the original removal action code, it should return them if they are no longer needed. The servicer should report the correct status of the mortgage loan in the next delinquency status information it submits to Fannie Mae.

#### Section 601.04 Changing Receivable Control File Transaction to Different Receivable Control File Transaction (01/31/03)

A reported Action Code 70, 71, or 72 would have removed the mortgage loan from the Fannie Mae investor reporting system and added it to the Receivable Control File; however, corrections can be made to records in that file as long as the correction would result in the mortgage loan remaining in the file. Therefore, the action date can be adjusted or one of these action codes can be changed to another of the codes in the Receivable Control File by notifying Fannie Mae in writing, providing all of the information that is necessary to make the change. The notice should be sent to Fannie Mae's National Property Disposition Center so Fannie Mae can adjust its property disposition efforts (since these action codes relate to acquired properties):

- If the *original* action code was a 70 or 72 and the *new* action code is a 71, the servicer must notify the National Property Disposition Center to cancel any REOgram notice that was submitted previously.
- If the *original* action code was a 71 and the *new* action code is a 70 or 72, the servicer must submit an REOgram to notify the National Property Disposition Center about the property acquisition.

#### Section 602 Correcting ARM Adjustment Errors (01/31/03)

An ARM adjustment error can affect a servicer's Fannie Mae investor reporting system reports or remittances in different ways, depending on whether the information reported to Fannie Mae agrees with the adjustment data provided to the borrower and on whether it passes or fails Fannie Mae's validation edits. Three different situations can occur.



- In the first situation, the servicer could erroneously adjust a mortgage loan and communicate the incorrect information to the borrower, but update Fannie Mae's records with the correct information. When this happens for an adjustment error that involves both an incorrect interest rate and monthly payment, the UPB in Fannie Mae's records will fall somewhere between the balances developed by applying the borrower's actual monthly payment at the incorrect interest rate and at the correct interest rate. The remittance to Fannie Mae will involve a reconciliation of the P&I remittances at the actual monthly payment and the incorrect interest rate, at the actual monthly payment and the correct interest rate, and at the correct monthly payment and interest rate.
- In the second situation, the servicer could erroneously adjust a mortgage loan and communicate the incorrect information to both the borrower and Fannie Mae. In this instance, Fannie Mae's validation edits could reject the erroneous transaction, which means that Fannie Mae would not update its records for any payments applied after the erroneous adjustment (although Fannie Mae would update the scheduled security balance for an MBS mortgage loan). When the correct data is reported to Fannie Mae and Fannie Mae's records for a portfolio mortgage loan are updated for the payments that have been applied, Fannie Mae will "bill" the servicer for the correct interest and principal amounts. If the remittances the servicer had been making for the mortgage loan were based on the incorrect adjustment data, the correction of the rejected transaction would create a "shortage" or "surplus." A rejected transaction for an MBS mortgage loan would result in a difference in the pool-to-security balance reconciliation that would need to be adjusted.
- In the third situation, the servicer could erroneously adjust a mortgage loan and communicate the incorrect information to both the borrower and Fannie Mae. However, in this instance, the erroneous adjustment data could pass Fannie Mae's validation edits, which means that Fannie Mae could update its records for any payments applied after the erroneous adjustments. Because this situation can result in numerous permutations based on the type of error and the number of erroneous payments that were applied, the remainder of this *Section* concentrates on correcting errors related to this situation.

A servicer should provide the following information to its Fannie Mae investor reporting system representative to support a request for a correction of an ARM adjustment error: a brief cover letter that explains the exact nature of the error and supporting documentation for the proposed corrective action (such as copies of the servicer's ARM audit analysis for the mortgage loan, the mortgage note and ARM rider, payment history records, corrected amortization schedules, the lender's negotiated contract, purchase advices etc.). (Also see *Part IV, Section 507, Effect on Remittances / Fannie Mae Investor Reporting System Reports* (01/31/03).)

Section 602.01  
Portfolio Mortgage Loans  
vs. MBS Mortgage Loans  
(01/31/03)

The effect that an ARM adjustment error has on a servicer's remittances to Fannie Mae or on the preparation of its Fannie Mae investor reporting system reports will vary depending on whether Fannie Mae purchased the mortgage loan to hold in its portfolio or as part of an MBS pool. ARM adjustment errors for portfolio mortgage loans generally are easier to correct since the servicer needs to address only the individual mortgage loan that was incorrectly adjusted. If a mortgage loan is in an MBS pool, the servicer will have to address the effect of the error on both the individual mortgage loan and on the MBS pool (since the error may have resulted in an incorrect security balance and/or pool accrual rate or weighted-average pool accrual rate).

The pool accrual rate for a stated-structure MBS pool is determined by adding the MBS margin to the applicable index value on each interest change date. Therefore, it is possible for the servicer to calculate a correct pool accrual rate, even though it incorrectly calculates the new interest rates for individual mortgage loans. On the other hand, the weighted-average pool accrual rate for ARM Flex and ARM Flex Plus MBS pools is based on a weighted average that is determined by using the net mortgage loan interest rates for the individual mortgage loans in the pool, so an error for an individual mortgage loan could affect the rate for the pool. An adjustment error for a mortgage loan in a stated-structure pool that involved only an incorrect payment amount will not affect the pool accrual rate as long as it is discovered before an interest rate change; however, if the mortgage loan is in an ARM Flex or ARM Flex Plus MBS pool, the weighted-average accrual rate could be affected since the error affects the UPB that is used in determining the weighted average. In some cases, even though the interest rate for an individual mortgage loan may be calculated incorrectly, the servicer may make offsetting errors that result in a correct

security balance and/or pool accrual rate (or weighted-average pool accrual rate for an ARM Flex or ARM Flex Plus MBS pool).

Section 602.02  
Interest Rate and  
Payment Change Errors  
(01/31/03)

When an ARM adjustment error involved an interest rate and payment change error and the error resulted in the use of a **lower** interest rate (and related monthly payment, if applicable) than that which should have been required, the mortgage loan would have amortized at a faster pace, thus creating a lower UPB than that which would have resulted from amortization of the borrower's actual payment at the correct, higher interest rate. When this happens, the servicer would base its remittances for a portfolio mortgage loan on an incorrect UPB and probably on an incorrect pass-through rate. On the other hand, if the mortgage loan were in an MBS pool, the servicer's scheduled principal remittances would be affected by the incorrect application between P&I in the servicer's records; the servicer's scheduled interest remittances would be understated by the incorrect principal reduction and, possibly, by the determination of an understated incorrect weighted-average pool accrual rate; and the security balance would be lower than it would have been had the borrower's actual payments been amortized using the correct, higher interest rate, assuming that there were no offsetting errors. Since Fannie Mae has decided that the borrower will not be required to make up undercharges, the servicer will not need to change the mortgage loan balance in Fannie Mae's investor reporting system records even though too little of the borrower's payment would have been applied to interest and too much to principal.

- **Portfolio mortgage loan.** Fannie Mae will treat the over-application of principal as a curtailment that was previously applied and will either adjust the servicer's shortage/surplus account to reflect the servicer's under-remittance of interest or advise the servicer to increase its next remittance by the amount of additional interest due Fannie Mae.
- **MBS mortgage loan.** The servicer's principal over-remittance cannot be recovered from the security holder—even though the security balance will be lower than it should have been—since the over-remittance will have been considered as the remittance of an “unscheduled principal payment.” The servicer will need to send Fannie Mae the difference between the interest that was applied using the incorrect balance and, if applicable, weighted-average pool accrual

rate and the interest that should have been applied using the “correct” balance and rate.

When an ARM adjustment error involved an interest rate and payment change error and the error resulted in the use of a *higher* interest rate (and related monthly payment) than that which should have been required, the mortgage loan would have amortized at a slower pace, thus creating a higher UPB than that which would have resulted from amortization of the borrower’s actual payment at the correct interest rate. When this happens, the servicer would base its monthly remittance for a portfolio mortgage loan on an incorrect UPB and probably on an incorrect pass-through rate. On the other hand, if the mortgage loan were in an MBS pool, the servicer’s scheduled principal remittances would be affected by the incorrect application between principal and interest in the servicer’s records; the servicer’s scheduled interest remittances would be overstated by the incorrect principal reduction and, possibly, by the determination of an overstated incorrect weighted-average pool accrual rate; and the security balance would be higher than it would have been had the borrower’s actual payments been amortized using the correct, lower interest rate, assuming that there were no offsetting errors.

Although the servicer would have applied too much of the borrower’s payment to interest and too little to principal, the servicer will not need to change the mortgage loan balance in Fannie Mae’s investor reporting system records since Fannie Mae does not require it to change the borrower’s actual UPB. (Fannie Mae will recover the principal under-remittance as the higher UPB amortizes. Fannie Mae is not obligated to pay the servicer any interest on the amount of its over-remittance because the servicer is responsible for the accuracy of its ARM adjustments.)

- **Portfolio mortgage loan.** Fannie Mae will either adjust the servicer’s shortage/surplus account to reflect the servicer’s over-remittance of interest or advise the servicer to reduce its next remittance by the amount of the overpaid interest.
- **MBS mortgage loan.** Fannie Mae will *not* refund the servicer’s over-remittance of interest since it is not recoverable from the security holder.

**Section 602.03  
Interest Rate Change  
Error Only (01/31/03)**

When an ARM adjustment error involved an interest rate change error only and the error resulted in the use of a **lower** interest rate than that which should have been required, the mortgage loan would have amortized at a faster pace, thus creating a lower UPB than that which would have resulted from amortization of the borrower's actual payment at the correct, higher interest rate. When this happens, the servicer would base its remittances for a portfolio mortgage loan on an incorrect UPB and probably on an incorrect pass-through rate. On the other hand, if the mortgage loan were in an MBS pool, the servicer's scheduled principal remittances would be affected by the incorrect application between principal and interest in the servicer's records; the servicer's scheduled interest remittances would be understated by the incorrect principal reduction and, possibly, by the determination of an understated incorrect weighted-average pool accrual rate; and the security balance would be lower than it would have been had the borrower's actual payments been amortized using the correct, higher interest rate, assuming that there were no offsetting errors. Since Fannie Mae has decided that the borrower will not be required to make up undercharges, the servicer will not need to change the mortgage loan balance in Fannie Mae's investor reporting system records even though too little of the borrower's payment would have been applied to interest and too much to principal.

- **Portfolio mortgage loan.** Fannie Mae will treat the over-application of principal as a curtailment that was previously applied and will either adjust the servicer's shortage/surplus account to reflect the servicer's under-remittance of interest or advise the servicer to increase its next remittance by the amount of additional interest due Fannie Mae.
- **MBS mortgage loan.** The servicer's principal over-remittance cannot be recovered from the security holder—even though the security balance will be lower than it should have been—since the over-remittance will have been considered as the remittance of an “unscheduled principal payment.” The servicer will need to send Fannie Mae the difference between the interest that was applied using the incorrect balance and, if applicable, weighted-average pool accrual rate and the interest that should have been applied using the “correct” balance and rate.

When an ARM adjustment error involved an interest rate error only and the error resulted in the use of a **higher** interest rate than that which should

have been required, the borrower will not actually have paid too much, rather his or her actual payment would merely have been misallocated between principal and interest. This means that the servicer will need to report a curtailment to Fannie Mae to reduce the UPB of the mortgage loan by the amount of the interest overcharge, rather than refunding the overcharge to the borrower.

- **Portfolio mortgage loan.** The servicer does not have to remit the funds for the curtailment since it has already over remitted interest to Fannie Mae. However, if the servicer cannot process a curtailment (which is normally a “cash” transaction) without remitting funds, it may report a “noncash” adjustment for the amount by which the UPB in Fannie Mae’s records needs to be reduced—as long as its Fannie Mae investor reporting system representative agrees to this approach. The principal under-remittance and the interest over-remittance will be offsetting entries so there is no effect on the servicer’s shortage/surplus account and neither Fannie Mae nor the servicer owes the other any money.
- **MBS mortgage loan.** The servicer will need to remit the amount of the principal under-remittance to Fannie Mae as an “unscheduled principal payment” and to reduce the security balance accordingly. Even though the servicer over remitted interest to Fannie Mae, Fannie Mae will not refund that over-remittance to the servicer since it is not recoverable from the security holder.

In this instance, Fannie Mae is not obligated to pay the servicer any interest on the amount of its over-remittance for either a portfolio mortgage loan or an MBS mortgage loan because the servicer is responsible for the accuracy of its ARM adjustments.

Section 602.04  
Payment Change Error  
Only (01/31/03)

When an ARM adjustment error involved a payment change error only and the error resulted in the use of a *higher* monthly payment than that which should have been required, the mortgage loan would have amortized at a faster pace, thus creating a lower UPB than that which would have resulted from amortization of the mortgage loan using the correct monthly payment. When this happens, the servicer would base its remittances on an incorrect UPB (and, possibly, on an incorrect weighted-average pool accrual rate, if the mortgage loan is in an ARM Flex or ARM Flex Plus MBS pool). Fannie Mae generally will treat the over-application of

principal as a curtailment that was previously applied and leave the existing UPB in place. (For a portfolio mortgage loan, Fannie Mae will either adjust the servicer's shortage/surplus account to reflect the servicer's under-remittance of interest or advise the servicer to increase its next remittance by the amount of the additional interest due Fannie Mae. For an MBS mortgage loan, no adjustment is necessary because there was no principal over-remittance or interest under-remittance since the over-application of principal was treated as a previously applied curtailment.) However, if the borrower elected to receive a refund of the principal overcharge (or was otherwise given credit for the overcharge), the UPB of the mortgage loan must be increased by the amount of the overcharge by reporting the reversal of a curtailment.

- **Portfolio mortgage loan.** Fannie Mae will either adjust the servicer's shortage/surplus account to reflect the previous principal over-remittance or advise the servicer to decrease its next remittance by the amount of the overpaid principal.
- **MBS mortgage loan.** The servicer's principal over-remittance (which results from the curtailment reversal) cannot be recovered from the security holder since it will have been considered as the remittance of an "unscheduled principal payment." The only way the servicer can recover this principal over-remittance is if it subsequently has a curtailment or payoff for a mortgage loan in the same MBS pool. The servicer will need to send Fannie Mae the difference between the interest that was applied using the incorrect balance and, if applicable, weighted-average pool accrual rate, and the interest that should have been applied using the "correct" balance and rate.

When an ARM adjustment error involved a payment change error and the error resulted in the use of a *lower* monthly payment than that which should have been required, the mortgage loan would have amortized at a slower pace, thus creating a higher UPB than that which would have resulted from amortization of the mortgage loan using the correct monthly payment. When this happens, the servicer would base its monthly remittance on an incorrect UPB (and, possibly, on an incorrect weighted-average pool accrual rate if the mortgage loan is in an ARM Flex or ARM Flex Plus MBS pool). Although the servicer would have applied too much of the borrower's payment to interest and too little to principal, the servicer will not need to change the mortgage loan balance in Fannie

Mae's investor reporting system records since Fannie Mae will not require the borrower to make up the principal undercharge.

- **Portfolio mortgage loan.** Fannie Mae will either adjust the servicer's shortage/surplus account to reflect the servicer's over-remittance of interest or advise the servicer to decrease its next remittance by the amount of the overpaid interest.
- **MBS mortgage loan.** Fannie Mae will *not* refund the servicer's over-remittance of interest since it is not recoverable from the security holder.

In this instance, Fannie Mae is not obligated to pay the servicer any interest on the amount of its over-remittance for either a portfolio mortgage loan or an MBS mortgage loan because the servicer is responsible for the accuracy of its ARM adjustments.



## **Part XI: Fannie Mae Reverse Mortgage Reporting System (01/31/03)**

This *Part*—Fannie Mae Reverse Mortgage Reporting System—discusses Fannie Mae’s general requirements for reporting on the status of reverse mortgage loans it holds in its portfolio. It explains the transactions the servicer must report to Fannie Mae and the turnaround documents Fannie Mae provides to the servicer.

This *Part* consists of two *Chapters*:

- *Chapter 1*—Reporting Specific Transactions—addresses Fannie Mae’s requirements for the six reportable types of transactions that are used to update its records and the status of individual reverse mortgage loans.
- *Chapter 2*—Fannie Mae–Generated Reports—discusses the turnaround reports Fannie Mae provides the servicer to assist in reconciling its records to Fannie Mae’s records.

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**Fannie Mae Reverse  
Mortgage Reporting  
System**

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Introduction

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Part XI

June 10, 2011

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## **Chapter 1. Reporting Specific Transactions (01/31/03)**

Fannie Mae's Reverse Mortgage Reporting System is a Web-based application that provides access to the Fannie Mae Reverse Mortgage database, which includes information about each reverse mortgage loan in a servicer's portfolio. Fannie Mae carries multiple balances for each mortgage loan—the total loan balance, the amount in any repairs set-aside, the amount in any T&I set-aside, the amount in any line of credit, and the amount of any draws made at closing. When the servicer transmits transaction records to Fannie Mae, the system will evaluate the data and respond to the servicer with the results. The system will update the database for each error-free transaction by debiting or crediting the appropriate balance or by transferring an amount from one balance to another. If the system notifies the servicer about an erroneous transaction, the servicer can correct the error and resubmit the rejected transaction.

Fannie Mae's Reverse Mortgage Reporting System enables Fannie Mae to process servicing transactions on the same day the servicer transmits them to Fannie Mae—up until 3:00 p.m. (eastern time) on the last calendar day of each month. Any transaction that Fannie Mae receives after this cut-off time will be processed with the following month's activity as a "prior-period" adjustment. As a result of the daily processing, Fannie Mae is able to have its records updated at the close of business on the last day of the month and to disburse servicing fees and mortgage insurance to the servicer by the third business day of the following month.

The servicer must report loan-level detail for reverse mortgage loans to Fannie Mae as each specific activity occurs. The types of activity that must be reported for an individual mortgage loan are summarized under five different transaction types—payment plans, partial prepayments, "unscheduled" payments to the borrower, loan status maintenance, and payoffs. Each transaction type has its own action reporting codes to describe specific activities associated with that type of transaction. The servicer must also submit trial balance information for its reverse mortgage loan portfolio and report transfers of servicing involving reverse mortgage loans to Fannie Mae.

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## Fannie Mae Reverse Mortgage Reporting System

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Reporting Specific  
Transactions

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Section 101

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### Section 101 Payment Change Transactions (01/31/03)

As soon as the servicer receives the borrower's acknowledgment of the terms of a requested payment plan change, the change must be reported to Fannie Mae. A payment plan change may involve a change from one payment plan to another or a change in the terms of the borrower's payment plan.

The servicer must report not only the new payment plan (or terms), but also the reason for the change:

- Payment plans must be identified as one of the following: (1) a term payment plan (for FHA HECMs only), (2) a tenure payment plan, (3) a modified term payment plan (for FHA HECMs only), (4) a modified tenure payment plan, or (5) a line of credit payment plan.
- The reason for the change must be identified as one of the following: (1) access growth for T&I, (2) access growth for repairs, (3) access growth for purchase adjustment, or (4) borrower's request. (Also see *Part V, Section 103, Changes to Borrower's Payment Plan (01/31/03)*, and *Section 203, Changes to Borrower's Payment Plan (01/31/03)*.)

### Section 101.01 Change from One Plan to Another (01/31/03)

If the borrower is changing from one payment plan to another, the servicer must indicate the new payment plan and the reason for the change when it reports the payment plan change transaction. The additional information that the servicer will need to report will depend on the type of new payment plan the borrower selected, and on whether the servicer is paying taxes and insurance premiums on the borrower's behalf.

- When the new payment plan is a **term payment plan**, the servicer must indicate the number of remaining months during which the borrower should receive scheduled payments; the amount of the scheduled payments; the effective date of the plan change; and, if the servicer is withholding funds from the scheduled payments to pay taxes and insurance premiums, the amount (or percentage) to be withheld and the beginning and ending dates for the withholding.
- When the new payment plan is a **tenure payment plan**, the servicer must indicate the amount of the scheduled monthly payment to the borrower; the effective date of the plan change; and, if the servicer is withholding funds from the scheduled payments to pay taxes and

insurance premiums, the amount (or percentage) to be withheld and the beginning and ending dates for the withholding.

- When the new payment plan is a **modified term payment plan**, the servicer must indicate the number of remaining months during which the borrower should receive scheduled payments; the amount of the borrower's line of credit reserve; the amount of the scheduled payments; the effective date of the plan change; and, if the servicer is withholding funds from the scheduled payments to pay taxes and insurance premiums, the amount (or percentage) to be withheld and the beginning and ending dates for the withholding.
- When the new payment plan is a **modified tenure payment plan**, the servicer must indicate the amount of the scheduled monthly payment to the borrower; the amount of the borrower's line of credit reserve; the effective date of the plan change; and, if the servicer is withholding funds from the scheduled payments to pay taxes and insurance premiums; the amount (or percentage) to be withheld and the beginning and ending dates for the withholding.
- When the new payment plan is a **line of credit payment plan**, the servicer must indicate the amount of the borrower's line of credit reserve and the effective date of the plan change.

Section 101.02  
Change in Terms of  
Existing Plan (01/31/03)

There may be instances in which a borrower requests a change in the terms of his or her existing payment plan (or in which the servicer initiates a change to recover advances it made or to give the borrower credit for monies he or she is due). Generally, these payment changes should be reported in the same way that the servicer reports a change from one plan to another, except that the servicer should indicate the borrower's existing payment plan when it reports the payment plan change transaction (since the same plan will remain in effect, albeit with modified terms). (Also see *Section 101.01, Change from One Plan to Another (01/31/03)*.)

Section 101.03  
Change in Withholding  
Amount (01/31/03)

The servicer generally withholds an amount from the borrower's scheduled monthly payment only if the borrower requests the servicer to make T&I payments on his or her behalf. The servicer may also assume responsibility for making these payments—and withhold the appropriate amount from the borrower's scheduled payments—if the borrower fails to pay T&I payments that he or she agreed to pay. There will also be occasions in

which a servicer that has been withholding funds from the borrower's scheduled payment to pay taxes and insurance premiums on the borrower's behalf will no longer need to do so.

To begin withholding funds from a borrower's scheduled payments, the servicer should report a payment plan change to reflect the amount (or percentage) to be withheld and the beginning and ending dates for the withholding, following the general procedures for reporting changes from one payment plan to another. Should the servicer need to discontinue its withholding for taxes and insurance premiums, it should report a payment plan change, showing the appropriate scheduled monthly payment and indicating a "zero" withholding amount. (Also see *Section 101.01, Change from One Plan to Another (01/31/03)*.)

**Section 102  
General Servicing  
Transactions (01/31/03)**

There are four types of general servicing transactions that the servicer will need to report to Fannie Mae—partial prepayments received from the borrower, "unscheduled" payments made to (or on behalf of) the borrower, loan status maintenance, and payoffs/repurchases.

- A partial prepayment occurs when the borrower submits funds to be applied toward repayment of the mortgage loan debt.
- An "unscheduled" payment occurs when the borrower requests a draw against the line of credit or when the servicer removes funds from a set-aside account.
- Loan status maintenance occurs when there has been a change in the loan status, which may mean that payments to the borrower will need to be stopped or resumed; that action has been taken to liquidate the loan; that the borrower has declared bankruptcy; etc.
- A payoff occurs when the borrower (or his or her estate) repays the mortgage loan debt in full; a repurchase occurs when the servicer fulfills a contractual obligation by repurchasing the mortgage loan from Fannie Mae.

**Section 102.01  
Partial Prepayment  
Transactions (01/31/03)**

The servicer must report any partial prepayments it receives from the borrower, and remit the funds to Fannie Mae within 24 hours after it receives them. The servicer should also provide certain additional information to Fannie Mae—the amount of the prepayment, the type of

account balance that should be credited as the result of the transaction, and the effective date of the repayment.

Any partial prepayment received from the borrower will decrease the balance of the loan (and increase the borrower's net principal limit). The servicer may select from the following action codes in the Fannie Mae Reverse Mortgage Reporting System to instruct Fannie Mae about the application of the repayment.

- *Action Code 80* is used to indicate that the prepayment should be applied to reduce the loan balance for an FHA HECM unless the borrower has a line of credit payment plan (in which case, Code 81 should be used). Code 80 may also be used to reduce the loan balance for a Home Keeper mortgage if the borrower has a tenure payment plan.
- *Action Code 81* is used to indicate that the prepayment should be credited to the borrower's net line of credit (under a line of credit payment plan, modified term, or a modified tenure payment plan).
- *Action Code 82* is used to indicate that the prepayment should be credited to the repairs set-aside account.
- *Action Code 83* is used to indicate that the prepayment should be credited to the T&I set -aside account.
- *Action Code 84* is used to indicate that the prepayment should be credited to the first year's property charges set-aside account.

Section 102.02  
Unscheduled Payment  
Transactions (01/31/03)

The servicer must report any unscheduled payments it makes to the borrower or to another party on the borrower's behalf. The servicer must also provide certain additional information to Fannie Mae—the amount of the unscheduled payment, the type of account balance that should be debited or credited as the result of the transaction, and the effective date of the unscheduled payment.

An unscheduled payment will increase the borrower's loan balance (and decrease the borrower's net principal limit). The servicer may select from the following action codes in the Fannie Mae Reverse Mortgage Reporting

System to instruct Fannie Mae about the purpose of the unscheduled payment.

- *Action Code 41* is used to indicate that the unscheduled payment relates to an interim payment for repair work, which should be debited against the repairs set-aside account. This action code cannot reduce the set-aside to zero. A different action code is used for the final payment.
- *Action Code 42* is used to indicate that the unscheduled payment relates to an interim payment of the first year's property charges, which should be debited against the first year's property charges set-aside account. This action code cannot reduce the set-aside to zero. A different action code is used for the final payment.
- *Action Code 43* is used to indicate that the unscheduled payment relates to taxes or insurance premiums the servicer is paying on the borrower's behalf, which should be debited against the T&I set-aside account.
- *Action Code 44* is used to indicate that the unscheduled payment relates to a draw the borrower requested from his or her net line of credit, which should be debited against the borrower's credit line.
- *Action Code 45* is used to indicate that the unscheduled payment relates to the final payment for repair work, which should be debited against the repairs set-aside account. The system will apply any remaining funds to the net line of credit.
- *Action Code 46* is used to indicate that the unscheduled payment relates to the final payment of the first year's property charges, which should be debited against the first year's property charges set-aside account. The system will apply any remaining funds to the net line of credit.
- *Action Code 47* is used to indicate that the unscheduled payment relates to the fee for any appraisal report the borrower is required to obtain in connection with the acceleration of the debt, which should be used to establish an appraisal fee set-aside account (and thus will be added to the borrower's loan balance).



- *Action Code 48* is used to indicate that the unscheduled payment relates to an advance to prevent a tax lien from being placed because the borrower failed to pay the real estate taxes for the security property, which should be debited against the borrower's line of credit if it includes enough funds to make the payment.
- *Action Code 49* is used to indicate that the unscheduled payment relates to a fee that is charged to the borrower for processing a payment plan change request, which should be debited against the borrower's line of credit.
- *Action Code 90* is used to reimburse the servicer for an unscheduled payment that relates to a fee that is charged to the borrower for processing unscheduled taxes, which should be debited against the borrower's line of credit.
- *Action Code 91* is used to reimburse the servicer for an unscheduled payment that relates to a fee that is charged to the borrower for processing unscheduled insurance, which should be debited against the borrower's line of credit.
- *Action Code 92* is used to reimburse the servicer for an unscheduled payment that relates to a fee that is charged to the borrower for processing an unscheduled inspection, which should be debited against the borrower's line of credit.
- *Action Code 93* is used to reimburse the servicer for an unscheduled payment that relates to a fee that is charged to the borrower for processing an unscheduled appraisal, which should be debited against the borrower's line of credit.
- *Action Code 94* is used to reimburse the servicer for an unscheduled payment that relates to a fee that is charged to the borrower for processing unscheduled property preservation, which should be debited against the borrower's line of credit.

Section 102.03  
Loan Status Maintenance  
Transactions (01/31/03)

The servicer must report loan status maintenance transactions to Fannie Mae as they occur. Loan status maintenance transactions relate to the suspension or resumption of the borrower's scheduled payments, the initiation of bankruptcy or other litigation, referrals to an attorney (or

trustee) for foreclosure action or acceptance of a deed-in-lieu, referrals to HUD for a determination of whether to accelerate the debt, the issuance of a demand for repayment, or liquidation of the loan. When reporting a loan status maintenance transaction, the servicer must report one of the following action codes to provide a more detailed explanation of the exact status of the mortgage loan. The servicer may report different action codes in the Fannie Mae Reverse Mortgage Reporting System for the mortgage loan from time to time.

- *Action Code 01* is used to notify Fannie Mae that the borrower has requested suspension of his or her scheduled payments for a period of time and that Fannie Mae should cease its automatic disbursement of these payments as of the effective date the servicer specifies.
- *Action Code 02* is used to notify Fannie Mae that the borrower has requested the resumption of previously suspended scheduled payments and that Fannie Mae should once again begin its automatic disbursement of these payments as of the effective date the servicer specifies. This code can also be used to notify Fannie Mae that it can once again make any scheduled payments to a borrower that it had suspended when the demand for repayment was issued, because the borrower has cured his or her default.
- *Action Code 11* is used to notify Fannie Mae that the loan has been referred to foreclosure due to the borrower's death.
- *Action Code 12* is used to notify Fannie Mae that the loan has been referred to foreclosure due to the borrower's non-occupancy of the property.
- *Action Code 13* is used to notify Fannie Mae that the loan has been referred to foreclosure due to unpaid T&I.
- *Action Code 14* is used to notify Fannie Mae that the loan has been referred to foreclosure due to other reasons.
- *Action Code 15* is used to notify Fannie Mae that the borrower declared bankruptcy or that other litigation involving the borrower or the security property was initiated on the date the servicer specifies.

- *Action Code 20* is used to notify Fannie Mae that a deed-in-lieu has been approved by Fannie Mae and is in process.
- *Action Code 50* is used to notify Fannie Mae that a Home Keeper mortgage or an FHA HECM was referred to HUD for a decision to accelerate the debt (as the result of any default other than the nonpayment of T&I) on the date the servicer specifies.
- *Action Code 51* is used to notify Fannie Mae that a Home Keeper mortgage or an FHA HECM was referred to HUD for a decision to accelerate the debt (as the result of the borrower's failure to pay taxes and insurance premiums) on the date the servicer specifies.
- *Action Code 52* is used to notify Fannie Mae that an FHA HECM was referred to HUD for a decision to accelerate the debt (as the result of other reasons) on the date the servicer specifies.
- *Action Code 53* is used to notify Fannie Mae that an FHA HECM was referred to HUD for a decision to accelerate the debt; however, the servicer is setting up a repayment plan to clear the default.
- *Action Code 55* is used to notify Fannie Mae that a Notice of Immediate Payment was issued for a Home Keeper mortgage or that a Repayment Notice was issued for an FHA HECM on the date the servicer specifies.
- *Action Code 56* is used to notify Fannie Mae that an FHA HECM was referred to HUD for a decision to accelerate the debt (as result of borrower's non-occupancy of the property) on the date the servicer specifies.
- *Action Code 57* is used to notify Fannie Mae that an FHA HECM was referred to HUD for a decision to accelerate the debt (as the result of borrower's non-payment of T&I) on the date the servicer specifies.
- *Action Code 58* is used to notify Fannie Mae that an FHA HECM was referred to HUD for a decision to accelerate the debt (as the result of other reasons) on the date the servicer specifies.

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- *Action Code 70* is used to indicate that a property was acquired at a foreclosure sale on the date the servicer specifies, and that Fannie Mae can begin its property disposition efforts.
- *Action Code 71* is used to notify Fannie Mae that a third party acquired the property at a foreclosure sale on the date the servicer specifies, as well as to notify Fannie Mae that a “short” payoff that Fannie Mae or HUD approved was finalized on the date the servicer specifies.
- *Action Code 72* is used to notify Fannie Mae that an FHA HECM has been liquidated and is pending conveyance (and assignment) to HUD on the date the servicer specifies.

#### Section 102.04 Payoff and Repurchase Transactions (01/31/03)

The servicer must report the borrower’s payment of the mortgage loan in full or the servicer’s repurchase of the mortgage loan from Fannie Mae on the same day it transmits the funds to Fannie Mae. (Payoffs cannot be processed on the last day of the month; therefore, Fannie Mae will process any payoffs received on that day as a “prior-period” adjustment in the following month.)

The servicer must provide certain additional information to Fannie Mae—the amount received from the borrower for a payoff transaction, the amount of repurchase proceeds that will be drafted from the servicer’s custodial account, the reason for a payoff, and the effective date of the payoff or repurchase. The borrower’s payment in full of the debt will set both the borrower’s loan balance and net principal limit to zero.

The servicer may select from the following action codes in the Fannie Mae Reverse Mortgage Reporting System to describe a mortgage loan payoff or repurchase.

- *Action Code 31* is used to explain that the mortgage loan was paid off on the effective date the servicer specifies as the result of the borrower’s death.
- *Action Code 32* is used to explain that the mortgage loan was paid off on the effective date the servicer specifies as the result of the borrower’s move to a different residence.

- *Action Code 33* is used to explain that the mortgage loan was paid off on the effective date the servicer specifies and that the borrower will continue to reside in the property.
- *Action Code 34* is used to explain that the mortgage loan was paid off on the effective date the servicer specifies for any other reason for termination.
- *Action Code 35* is used to explain that the mortgage loan was paid off on the effective date the servicer specifies, but the servicer is not aware of the reason for the payoff.
- *Action Code 65* is used to indicate that the servicer is repurchasing the mortgage loan from Fannie Mae as of the effective date the servicer specifies.
- *Action Code 66* is used to indicate that the mortgage loan has been refinanced as of the effective date the servicer specifies.

**Section 103  
Servicing Transfer  
Transactions (01/31/03)**

After the servicer's Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center has approved a transfer of servicing for some or all of the reverse mortgage loans the servicer is servicing for Fannie Mae, the servicer can notify Fannie Mae to transfer the mortgage loans from the transferor to the transferee servicer in the Fannie Mae Reverse Mortgage Reporting System. This notification can relate to all of the servicer's reverse mortgage loans, all of the servicer's Home Keeper mortgages, all of the servicer's FHA HECMs, or selected reverse mortgage loans of either type.

The servicer's notification (which is the file format) for a servicing transfer transaction must include the following, which can be found within the Fannie Mae Reverse Mortgage Reporting System under the "help" option:

- a. Transaction designator – 05 (which identifies the transaction as Servicer Transfer).
- b. The nine-digit Fannie Mae transferor and transferee servicer numbers.
- c. Transfer option (which identifies the mortgage loans to be transferred).

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- d. Fannie Mae loan number (for each loan to be transferred if transfer option) – 4: Specific Loans.
- e. Effective date of the servicing transfer.
- f. Delete loan indicator.

**Section 104  
Trial Balance  
Transactions (04/01/10)**

The servicer is required to complete and submit its trial balance transaction files to Fannie Mae via the Fannie Mae Reverse Mortgage Reporting System by the sixth calendar day of each month. The Fannie Mae Reverse Mortgage Reporting System will perform a reconciliation of loan balance record differences in the trial balance transaction file and produce two reports: Report 28 – Trial Balance Reconciliation Exception, and Report 29 – Trial Balance UPB Compare.

The trial balance comparison transaction must identify the servicer's nine-digit Fannie Mae lender identification number, the subservicer's nine-digit Fannie Mae lender identification number (if applicable), the Fannie Mae loan number of each mortgage loan, and the reporting period (or effective date) of the trial balance. For each mortgage loan identified on the trial balance, the following information must be provided:

- type of payment plan,
- loan balance,
- current interest rate,
- net principal limit,
- line of credit reserve (if applicable),
- net line of credit (if applicable),
- first year property charge set-aside (if applicable),
- T&I set-aside (if applicable),
- repairs set-aside (if applicable),

- servicing fee set-aside,
- scheduled payment (if applicable),
- indicator (C = Complete or P = Partial),
- tolerance level, and
- term (if applicable).

After the servicer submits its trial balance transaction, the system will perform reconciliation and respond with the results. The results will be displayed on Report 28 – Trial Balance Reconciliation Exception. If there are no differences between Fannie Mae’s records and the information the servicer submitted, the following message will appear: “Of the loan attributes entered, none were found to differ.” If there are differences, the reconciliation report will show the difference between the data the servicer showed in its trial balance and that in Fannie Mae’s database, identifying the individual components that need to be reconciled.

In addition, the servicer must reconcile the loan balances under a separate report, Report 29 – Trial Balance UPB Compare. The servicer is also required to provide additional data fields for loans with balance differences on this report. To facilitate this, two new reports—the Reverse Mortgage Detail Report and the Reverse Mortgage Summary Report—have been created and must be completed by the servicer. These new reports, along with the Reverse Mortgage Reports Category Definitions, a defined list of fields used in the reports, are available on the Fannie Mae Reverse Mortgage Reporting System page on eFannieMae.com. The servicer must e-mail the completed encrypted reports by the 20th calendar day of the month to its Fannie Mae reverse mortgage analyst.

Section 104.01  
Reconciliation  
Requirements (01/15/10)

Any loan identified and reported with a balance difference greater than \$250 must be reconciled within 90 days from the date the difference was identified and reported. Fannie Mae may issue repurchase letters for loans that remain unreconciled at the expiration of the 90-day resolution period.

In some cases, resolution will require a repurchase of the loan. Self-identified repurchase discrepancies within the 90-day timeframe may be

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eligible for redelivery in certain circumstances. Loans where Fannie Mae has issued repurchase letters are not eligible for redelivery.

As a condition of servicers' approval to service reverse mortgage loans for Fannie Mae, servicers must demonstrate a proven ability to service reverse mortgage loans and must employ a staff with adequate experience in this area. (Refer to the *Selling Guide, A1-1-01, Application and Approval of Lender*, for additional information.)

Section 104.02  
New Assessments for  
Non-Compliance with  
Reporting (04/01/10)

If a servicer fails to comply with any of the above reporting requirements, or if an incomplete report is received, the following fees may be assessed:

\$500 for the **first** occurrence in a 12-month period.

\$750 for the **second** occurrence in a 12-month period.

\$1,000 for the **third** occurrence in a 12-month period.

A **fourth** occurrence in a 12-month period may result in a transfer of servicing by Fannie Mae.



## Chapter 2. Fannie Mae–Generated Reports (01/31/03)

A servicer of reverse mortgage loans must have servicing systems in place that enable it to track loan activity and report that activity to Fannie Mae each month. Fannie Mae expects the servicer to reconcile its records to the reports Fannie Mae provides each month; therefore, at a minimum, the servicer's system must be able to track loan balances, disbursements to borrowers, servicing fee payments, interest accruals, and line of credit activity.

The Fannie Mae Reverse Mortgage Reporting System produces a number of reports to assist a servicer in tracking its loan activity and reconciling its records to Fannie Mae's. On a daily basis, a servicer is able to obtain a cash report that it can use to reconcile its custodial accounts. Then, on the morning after Fannie Mae's month-end processing is completed, the servicer can obtain a series of reports that summarize the status of the servicer's reverse mortgage loan portfolio.

### Section 201 Daily Disbursement Reconciliation Reports (01/31/03)

The Disbursement Reconciliation Reports show disbursements of scheduled payments, unscheduled payments, partial prepayments/payoffs, servicing fees, and mortgage insurance premiums, as well as adjustments to additional scheduled payments. It is available after the ACH process is completed each day. This enables the servicer to view the ACH activity Fannie Mae disbursed and use it in reconciling bank statements.

### Section 202 Monthly Reports (01/31/03)

A number of reports are available to the servicer on a scheduled basis each month, generally immediately following the completion of Fannie Mae's month-end processing.

- **Monthly Disbursement Reconciliation Reports.** These reports summarize the disbursements of scheduled payments, unscheduled payments, servicing fees, mortgage insurance premiums, total reimbursements, partial prepayments/payoffs, and adjustments to additional scheduled payments that appear on all of the daily Disbursement Reconciliation Reports.
- **Net Principal Limit (Report 3) and Line of Credit Report (Report 4).** These reports shows all monthly activity that affects the net principal limit or line of credit balances for all of the reverse

mortgage loans in the servicer's portfolio. A servicer may also request this report for specific loans or for a specific date range only by contacting Fannie Mae's Single Family Operations Group.

- **Loan Adjustment Report (Report 5).** This report shows all of the adjustments and reversals for the required reporting period. The report is generated if adjustments to the servicer's monthly activities have been processed.
- **Portfolio Loan Balance Report (Report 6 and Report 7).** This report, which is available in a detailed or summary format, shows loan-level detail for all of the components of the loan balances for the servicer's reverse mortgage loan portfolio for any given month, any action codes that affected the balances in that month, the beginning loan balance, any activities made during the reporting period, and the ending balance. The servicer should use the Loan Balance Report for detail to review the beginning balance, interest on the beginning balance, mortgage insurance premiums on beginning balance, scheduled payment, interest on scheduled payment, mortgage insurance premiums on scheduled payment, unscheduled payment(s), interest on unscheduled payments, mortgage insurance premiums on unscheduled payment, partial prepayment, interest on partial prepayment, mortgage insurance premiums on partial prepayment, service fee, interest on adjustment to loan balance, mortgage insurance premiums on adjustment to loan balance, and ending balance.

The servicer should use the Loan Balance Report Summary to review the activities posted for each loan during the month and to identify those for which the servicer's and Fannie Mae's records have ending balance deficiencies. The servicer must perform this reconciliation each month and research (and resolve) the identified discrepancies in a timely manner. Specifically, the servicer should compare the data for these loan-level components—mortgage loan interest rate; beginning balance; adjustments made during the reporting period; amount of unscheduled payments; a prepayment, payoff, or repurchase credited to the account; amount of scheduled payment; interest accrued prior to purchase; amount of mortgage insurance premium (for an FHA HECM only); interest accrued during the reporting period; servicing fee; and ending balance—as well as the total portfolio loan count.

- **Servicer Portfolio Summary Report (Report 19).** This report shows the beginning balance, loan count, loans added, loans removed, monthly activity, ending balances, and other statistics for the servicer’s reverse mortgage loan portfolio.
- **Reconciliation Exception Report (Report 28).** This report shows the differences in loan balances that are identified by the monthly comparison between the trial balance the servicer submits and the balances in Fannie Mae’s database. Only those mortgage loans that have a component that needs to be reconciled are included in the report.
- **Reverse Mortgage Rate Changes Report (Report 8).** This report shows the new interest rate calculation for all mortgage loans that have scheduled interest rate changes in the next reporting period. This report is available to the servicer on the second business day of each month. If the servicer disagrees with Fannie Mae’s calculated rates, it should use this report as a turnaround document, making appropriate changes and transmitting it to Fannie Mae on the next business day after the servicer obtained the report.
- **Reverse Mortgage Rate Changes Report – Newly Purchased Loans (Report 8B).** This report shows the new interest rate calculation for all mortgage loans that have scheduled interest rate changes in the next reporting period. The report for newly purchased loans is generated on the last business day at the end of the month-end process and will be available starting the subsequent first business day.
- **Early Warning Report (Report 21).** This report identifies problems or items that may need attention before they are updated. This report will display all loans that have one of the following:
  - UPB equal to or greater than 95% of the maximum claim amount,
  - net principal limit equal to or less than zero, or
  - line of credit balance less than or equal to \$50.00.
- **First Year Property Charge Rollover Report (Report 20).** This report lists the mortgage loans that will reach their one-year

anniversary in the following reporting month, and still have a balance in their First Year Property Charge Set-aside.

- **Servicing Transactions Upload Report (Report 26).** This report displays the status transactions submitted daily through the upload process on the Servicing Transactions file upload format.
- **Servicing Transfer Data Log Report (Report 27).** This report displays the status of the transaction submitted, through the upload process, as part of a servicing transfer request.
- **Trial Balance UPB Compare Report (Report 29).** This report lists all loans by servicer number that were found to be out of balance during a specific reporting period in the Trial Balance Reconciliation Exception Report for the Loan Balance amount.
- **Trial Balance Upload Report (Report 31).** This report lists the rejected loans that are submitted through the upload process in the Trial Balance File.
- **Monthly Servicer Data Extract Download Report (Report 35).** This extract is a file of all loans belonging to each servicer.
- **Scheduled Payment Rejection Report (Report 39).** This report lists all scheduled payments that were rejected for exceeding the maximum claim amount.

## **Part XII: Glossary and Table of Acronyms and Abbreviations (03/28/11)**

This *Part*—Glossary and Table of Acronyms and Abbreviations—defines words or terms that are used throughout this *Guide*.

Some of the defined words or terms in this Glossary are commonly used terms that relate to servicing or accounting functions in general. Other terms are specific to Fannie Mae.

### **Glossary (03/28/11)**

#### **A**

*Accelerate the debt.* To call the entire remaining balance of the mortgage due and payable immediately because of a default in one or more of the mortgage provisions. The debt also may be accelerated for other reasons, such as a transfer of the property.

*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 lender's servicing spread.

*Acquired property.* A property for which Fannie Mae has gained title through foreclosure or acceptance of a deed-in-lieu; often referred to as real estate owned (REO).

*Actual/actual remittance type.* A remittance type that requires the lender to remit to Fannie Mae only the actual interest due (if it is collected from borrowers) and the actual principal payments collected from borrowers.

*Adjustable-rate mortgage (ARM).* A mortgage that permits the lender to adjust its interest rate periodically on the basis of movement in a specified index.

*A.M. Best Company.* A company that establishes financial-strength ratings for insurance carriers by evaluating their balance sheet strength, operating performance, and business profile.

*Amortization.* Gradual reduction of the mortgage debt through periodic payments scheduled over the mortgage term.

*Amortization schedule.* A timetable for payment of a mortgage that shows the amount of each payment that should be applied to P&I and the remaining UPB after each payment is applied.

*Appraisal.* A report that sets forth an opinion or estimate of value.

*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 and the pool will coincide, the pass-through rate for a mortgage will not increase on any change date in which the interest rate cap limits the interest rate that is charged to the borrower.

*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 mortgages in the pool and to the pass-through rate for the pool. This means that the pass-through rate for a mortgage may continue to increase even when no further increases can be made to the borrower's interest rate.

*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 mortgage payments.

*Assumption.* A transaction in which the purchaser of real property takes over the seller's existing mortgage; the seller remains liable for the mortgage unless released by the lender from this obligation. The terms describing whether or not the loan is assumable are typically set forth in the security instrument.

*Assumption and release agreement.* A written agreement whereby Fannie Mae releases a borrower from personal liability under the mortgage because a second party (the property purchaser) has agreed to meet the borrower's obligations under the mortgage.

*Automated Clearing House (ACH).* An electronic drafting system that debits (or credits) an authorized bank account and electronically transfers funds to (or from) another designated account.

*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 mortgages and MBS mortgages. It also is used to transfer funds related to reverse mortgages.

*Automated valuation model (AVM).* AVMs are statistically based computer programs that use real estate information, such as comparable sales, property characteristics, tax assessments, and price trends, to provide an estimate of value for a specific property.

**B**

*Balloon mortgage.* A mortgage that has level monthly payments that would fully amortize it over a stated term, but which provides for a lump-sum payment to be due at the end of an earlier specified term.

*Balloon payment.* The outstanding balance due on a balloon mortgage that must be paid in a lump sum at the end of the mortgage term.

*Bankruptcy.* A legal proceeding in federal court in which a debtor seeks to restructure his or her obligations to creditors pursuant to the Bankruptcy Code. This generally affects the borrower's personal liability for a mortgage debt, but not the lien securing the mortgage.

*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 property and the unsecured portion is equal to the difference between the UPB of the mortgage 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.

*Basis point.* One one-hundredth of 1%. For example, 7.5 basis points equal 0.075% or 0.00075.

*Best's Insurance Reports.* A publication issued by the A.M. Best Company, which establishes ratings for hazard insurance carriers by evaluating their assets and liabilities.

*Biweekly payment mortgage.* A mortgage that requires payments to reduce the debt every two weeks (instead of the standard monthly payment schedule). The 26 (or possibly 27) biweekly payments usually are drafted from the borrower's bank account.

*Borrower.* The person to whom credit is extended. On a mortgage loan, the person who has an ownership interest in the security property, signs the security instrument, and signs the mortgage/deed of trust note (if his or her credit is used for qualifying purposes). See also *co-borrower*.

*Broker.* A third-party entity that processes the mortgage loan application, and may also underwrite and close the mortgage loan. Typically, the mortgage loan is closed in a lender's name; the lender funds the loan and then sells it to Fannie Mae.

*Broker price opinion (BPO).* A written estimate of the probable sales price of a property performed by a real estate broker or sales person with or without an interior property inspection. Commonly used for quality control and loss mitigation.



*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.

*Buydown account.* An account in which funds are held so that they can be applied as part of the mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.

**C**

*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.

*Capitalization.* The addition of certain amounts due under the mortgage—such as T&I payments made by the servicer or delinquent interest installments—to the UPB of the mortgage, either because the borrower was unable to pay them or the servicer paid them on the borrower’s behalf.

*Cash Remittance System.* 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 unscheduled P&I remittances for MBS pools that have the MBS Express remittance cycle, as well as special remittances for all mortgages.

*Cash reserves.* Liquid assets such as cash, savings, money market funds, or marketable stocks or bonds (excluding retirement accounts).

*Cash-out refinance transaction.* A refinancing transaction in which the amount of money received from the new loan exceeds the total of the money needed to repay the existing first mortgage, closing costs, points, and the amount required to satisfy any outstanding subordinate mortgage liens.

*Certificates of Deposit Index.* An index that is used to determine interest rate changes for certain ARM plans. It represents the weekly average of secondary market interest rates on 6-month negotiable CDs.

*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.

*Closing costs.* Money paid by the borrower to effect the closing of a mortgage loan. This generally includes an origination fee, title exam, title insurance, survey, attorney's fees, and such prepaid items as T&I escrow payments.

*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).

*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.

*Combined loan-to-value (CLTV) ratio.* A ratio that is used for a mortgage that is subject to subordinate financing, which is calculated by dividing the sum of (1) the UPB of the first mortgage, (2) the UPB of any HELOC from which the borrower has withdrawn funds, and (3) the UPB of all other subordinate financing, by the lower of the property's sales price or appraised value.

*Community lending mortgage.* A mortgage 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.

*Compensatory fee.* A fee Fannie Mae charges as compensation for damages that may be incurred as the result of a lender's failure to comply with a specific policy or procedure or to emphasize the importance Fannie Mae places on a particular aspect of the lender's performance.

*Concurrent mortgage sale.* An exchange of mortgages of like terms and quality between Fannie Mae and another lender.

*Concurrent sales participation pool mortgage.* A mortgage that is part of a participation pool that was created as a result of a concurrent mortgage sale.

*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.

*Conditional right to refinance.* A provision in Fannie Mae’s balloon mortgage documents that gives a borrower the right to refinance the balloon mortgage on (or shortly before) the balloon maturity date—as long as certain eligibility criteria are satisfied.

*Condominium (condo).* A unit in a condo project. Each unit owner has title to his or her individual unit, an undivided interest in the project’s common areas, and, in some cases, the exclusive use of certain limited common areas.

*Conforming mortgage loan.* A conventional mortgage 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.

*Construction site insurance.* A type of property insurance that is obtained for improvements that are being constructed; it protects against losses during the construction period that are the result of theft, vandalism, and acts of nature (including fire, flood, and wind damage).

*Construction-to-permanent mortgage.* A mortgage that provides funds for the acquisition or refinancing of unimproved land and the construction of a residential dwelling on the land.

*Conventional mortgage.* A mortgage that is not insured or guaranteed by a federal government agency—FHA, HUD, VA, or RD. Conventional mortgages delivered to Fannie Mae must also be conforming mortgages.

*Convertible ARM.* A type of ARM that includes an option for the borrower to change the mortgage to a fixed-rate mortgage in the early years of the mortgage term.

*Cooperative (co-op) corporation.* A business trust entity that holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

*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.

*Cooperative (co-op) share loan.* A loan secured by a co-op unit that finances (or refinances) the purchase of an ownership interest and the accompanying occupancy rights in a co-op housing corporation. It is secured by an assignment of the occupancy agreement and a pledge of the cooperative shares.

*Cost of Funds Index (COFI).* An index that is used to determine interest rate changes for certain ARM plans. It represents the weighted average of the cost of savings, borrowings, and advances to member banking institutions of the Federal Home Loan Bank of San Francisco (the 11th District).

*Cramdown.* See *bankruptcy cramdown*.

*Credit life insurance.* A type of insurance often bought by a borrower to pay off the mortgage debt if the borrower dies while the policy is in force.

*Credit score.* A numerical value that ranks an individual according to his or her credit risk at a given point in time, as derived from a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance. When this term is used by Fannie Mae, it is referring to the classic FICO score developed by Fair Isaac Corporation.

*Custodial account.* A bank account that a lender must establish to hold the funds of others—the borrower and Fannie Mae—as opposed to any account established to hold the lender's corporate funds.

*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.

**D**

*DEA.* Drug Enforcement Agency.

*Debt.* Borrowed money, the repayment of which may be either secured or unsecured, with various possible repayment schedules.

*Deed-for-Lease (D4L) program.* A program that allows qualified borrowers (or tenants) with properties transferred through a deed-in-lieu to remain in their home by executing a lease in conjunction with the deed-in-lieu.

*Deed-in-lieu of foreclosure.* A transfer of title from a delinquent borrower to the lender in satisfaction of the mortgage debt to avoid foreclosure; also called a voluntary conveyance.

*Default.* The failure to make a mortgage payment or to otherwise comply with one or more covenants of the mortgage.

*Deficiency judgment.* A personal judgment created by court decree for the difference between the amount of the mortgage indebtedness and any lesser amount recovered from the foreclosure sale (the deficiency). The judgment is against any person who is liable for the mortgage debt.

*Delinquency.* The failure to make a mortgage payment (or payments) when due.

*Delinquency advance.* An amount advanced by a lender in respect of interest or principal on one or more mortgage loans, as required by their servicing contract, even though the lender has not collected the actual funds from the related borrowers. A lender may reimburse itself for delinquency advances from subsequent collections in accordance with its servicing contract.

*Demand deposit account.* A bank account in which the funds are available for withdrawal at any time without penalty.

*Demotech, Inc.* A company that establishes ratings for property and casualty insurance carriers and title insurance companies by evaluating their assets and liabilities.

*Desktop Underwriter (DU).* Fannie Mae's automated underwriting system.

*Deterioration.* A loss in value that is caused by deterioration in the physical condition of a property's improvements.

*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.

*Discount.* The amount by which the sales price of a note is less than its face value. The purpose of a discount is to adjust the yield upward in lieu of interest.

*Document custodian.* A financial institution that maintains custody of certain mortgage documents on behalf of Fannie Mae.

*Due-on-sale provision.* A provision in a mortgage that allows the lender to demand full payment of the outstanding balance if the mortgaged property is transferred without the lender's permission.

*Due-on-transfer provision.* See *due-on-sale provision*. This terminology is typically used for second mortgages.

## **E**

*Early delinquency counseling.* A requirement for certain loan products in which lenders must offer financial counseling to borrowers in the event of default. This counseling emphasizes the importance of making mortgage payments on time or, if that is not possible, provides advice to borrowers about working through financial difficulties by proper budgeting, entering into repayment plans, etc., in the early stages of delinquency.

*Early payment default underwriting review.* A review of the lender's initial underwriting for a mortgage that becomes delinquent during the early years of the mortgage term. Fannie Mae generally conducts this review only if its automated risk assessment models identify the mortgage as having a high probability of actually going to foreclosure.

*Electronic.* Relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

*Electronic record.* A contract or other record created, generated, sent, communicated, received, or stored by electronic means.

*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.

*Errors and omissions coverage.* A type of indirect loss insurance used to cover losses that occur because of an error or neglect on the part of an employee to whom a specific responsibility has been assigned.

*Escrow account.* A trust account that is established to hold funds allocated for the payment of a borrower's property taxes and assessments by special assessment districts, ground rents, insurance premiums, condo or homeowners' association or PUD association dues, and similar expenses, as they are received each month in accordance with the borrower's mortgage documents and until such time as they are disbursed to pay the related bills.

*Escrow shortage.* The amount by which the current escrow account balance falls short of the target balance at the time of the escrow analysis. This amount may not be capitalized.

*ESIGN.* Electronic Signatures in Global and National Commerce Act. A federal law that gives broad legal effect to the use of electronic signatures and records in interstate commerce.

*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 ARMs, this also may be the amount by which the net mortgage margin exceeds its required margin.

**F**

*FAIR Plan.* Fair Access to Insurance Requirement Plan; a program established within a state to provide access to insurance for property owners in designated urban areas or specific beach and windstorm areas.

*Fannie Mae.* Federal National Mortgage Association.

*Fannie Mae-retained attorneys.* A group of attorneys who are eligible to receive foreclosure and bankruptcy referrals on Fannie Mae loans in specific jurisdictions.

*Fannie Majors.* See *multiple pool*.

*FBI.* Federal Bureau of Investigation.

*FDIC.* Federal Deposit Insurance Corporation; a federally sponsored corporation that administers the federal deposit insurance system.

*Fee simple estate.* An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condo project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

*FEMA.* Federal Emergency Management Agency. A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the Special Flood Hazard Areas in which Fannie Mae requires flood insurance.

*FHA.* Federal Housing Administration; part of HUD. A federal agency that provides mortgage insurance on loans made by FHA-approved lenders.

*FHA coinsured mortgage.* A mortgage (insured under FHA Section 244) for which FHA and the originating lender share the risk of loss in the event of the borrower's default.

*FHA HOPE for Homeowners.* The FHA's temporary refinance program to help borrowers at risk of default and foreclosure refinance into more affordable, sustainable mortgage loans.

*FHA-insured mortgage.* A mortgage that is insured by the FHA; may be referred to as a "government" mortgage.



*FHA Title I loan.* An FHA-insured loan a borrower who has little equity in the security property can use to finance modest, nonremovable improvements that protect or improve the basic livability of his or her property (such as those related to structural additions or alterations, exterior finishing, roofing, heating and cooling systems, insulation, and interior finishing). The loan may be a first mortgage, a subordinate mortgage, or an unsecured loan.

*Fidelity bond.* A type of bond that is obtained by an employer to protect against economic loss from dishonest acts of its employees.

*Fidelity insurance.* A type of insurance that a condo or PUD homeowners' association or a co-op corporation obtains to protect itself against economic loss from dishonest acts of anyone who either handles (or is responsible for) funds that the association or corporation holds or administers, whether or not that individual receives compensation for services.

*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 amount.

*First mortgage.* A mortgage that is the primary lien against a property.

*First year property charges set-aside.* Funds that are "netted out" of the borrower's principal limit for a reverse mortgage if the borrower asks the servicer to make tax or insurance premiums on his or her behalf and the amount to be assessed during the first year cannot be withheld from payments that are made to the borrower.

*Fiscal year.* Any 12-month period used for financial reporting and preparation of balance sheets, profit and loss statements, and other financial summaries.

*Fitch, Inc.* A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories by evaluating their assets and liabilities.

*Fixed installment.* That portion of a mortgage payment that is applied toward principal and interest. When a mortgage negatively amortizes, the fixed installment does not include any amount for principal reduction.

*Fixed-rate mortgage.* A mortgage that provides for only one interest rate for the entire term of the mortgage. This could either be fully amortizing or have an interest-only feature.

*Flood insurance.* Insurance that compensates for physical property damages resulting from flooding. It is required in federally designated Special Flood Hazard Areas.

*Forbearance.* Willingness to refrain, in full or in part, from pursuing remedies against a delinquent borrower for a period of time (specified or unspecified), but without modification of the loan terms. See also *modification*; *special forbearance*.

*Foreclosure.* The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

*Freddie Mac.* Federal Home Loan Mortgage Corporation. A congressionally chartered corporation that purchases mortgages in the secondary mortgage market.

*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.

*Full payment amount.* The monthly payment required, at each interest change date, to amortize the then outstanding principal balance of an ARM (or GPARM) at the new interest rate over the remaining mortgage term.

*Fully amortized mortgage loan.* A mortgage that has a monthly payment sufficient to amortize the unpaid principal balance over the mortgage term.

**G**

*Graduated-payment adjustable-rate mortgage (GPARM).* A mortgage that combines the features of a GPM and an ARM. Payments are increased yearly during the graduated-payment period and do not necessarily reflect changes in the interest rate during that period. At the end of any graduated-payment period, if there is no option for an additional graduated-payment period, the mortgage characteristics are those of a regular ARM.

*Graduated-payment amount.* The monthly payment established during a graduated-payment period. It will not be sufficient to fully amortize the mortgage so it will result in negative amortization.

*Graduated-payment mortgage (GPM).* A mortgage that has its initial monthly payments set at an amount lower than that required for full amortization of the debt. The payments are then increased by a specified percentage each year during the graduated-payment period. At the end of the period, payments are in an amount that will fully amortize the mortgage.

*Graduated-payment period.* The term over which a GPM's or GPARM's payments are less than the amount required to fully amortize the mortgage. During this period, payments usually increase every 12 months so that the mortgage can become fully amortizing at the end of the period.

*Ground rent.* The amount of money that is paid for the use of land when title to a property is held as a leasehold estate, rather than as fee simple.

*Group home.* A residential structure utilized for occupancy by persons with disabilities.

*Growing-equity mortgage (GEM).* A fixed-rate mortgage that provides for scheduled payment increases over an established period of time, with the increased amount of the monthly payment applied directly toward reduction of the unpaid principal balance of the mortgage.

*Guaranty fee.* Compensation that a lender pays Fannie Mae for the right to participate in the MBS program. The amount of the fee will differ depending on whether the lender selects the regular or special servicing option.

*Guaranty fee buydown.* An agreement to reduce the guaranty fee remittance rate for an MBS mortgage below the contractual rate for the applicable servicing option and remittance cycle in return for the lender's payment of a fee to Fannie Mae.

*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.

*Guide.* The Fannie Mae *Selling Guide* and *Servicing Guide*, as modified, amended, or supplemented from time to time.

## H

*Hazard insurance.* Insurance coverage that compensates for physical damage—by fire, wind, or other natural disasters—to the property.

*Home Affordable Foreclosure Alternative (HAFA).* A program intended to mitigate the impact of foreclosure on borrowers who are eligible for but unsuccessful under HAMP; it simplifies and streamlines the use of the preforeclosure sale and deed-in-lieu options. Fannie Mae's HAFA provides financial incentives to servicers and borrowers who utilize a short sale or a deed-in-lieu to avoid a foreclosure on eligible loans.

*Home Affordable Modification Program (HAMP).* A uniform loan modification process intended to provide eligible borrowers with sustainable monthly payments.

*Home Equity Conversion Mortgage (HECM).* An FHA-insured reverse mortgage that permits homeowners who are at least 62 years of age to withdraw their cash equity from their home.

*Home equity line of credit (HELOC).* A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain cash advances at his or her discretion, up to an approved amount that represents a specified percentage of the borrower's equity in a property.

*Home Keeper Mortgage.* Fannie Mae's conventional reverse mortgage product.

*Home mortgage.* A residential mortgage secured by a one- to four-unit property.

*Homeowners' association (HOA).* A nonprofit corporation or association that manages the common areas of a PUD or condo project. In a condo project, it has no ownership interest in the common areas. In a PUD project, it holds title to the common areas.

*Homeowner's insurance.* Insurance coverage available for owner-occupied properties to protect against personal liability and physical property damages for a dwelling and its contents.

*HomeSaver Advance (HSA).* A loss mitigation option that is designed to cure the delinquency on a first-lien mortgage loan when a repayment plan is not feasible. The intent of HSA is to allow a delinquent borrower, who is able to make future scheduled payments but is unable to pay past-due amounts over a short time frame, to cure the delinquency by entering into a new unsecured loan for the arrearage amount.

*HomeSaver Forbearance.* A temporary loss mitigation option available to delinquent borrowers (or borrowers facing imminent default) who do not qualify for HAMP. This option was retired in 2009 and replaced with the PRP.

*HomeSaver Solutions Network (HSSN).* Fannie Mae's system of record for everything related to loss mitigation. HSSN is accessible through the Asset Management Network (AMN) and is available on [eFannieMae.com](http://eFannieMae.com).

*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.

*HUD.* U.S. Department of Housing and Urban Development.

*HUD-1.* HUD-1 Settlement Statement is the standard form used to itemize services and fees charged to the borrower by the lender, broker, or other parties to the settlement.

*HUD-guaranteed mortgage.* A mortgage originated under Section 184 of the Housing and Community Development Act of 1992, which created the Native American Housing Loan Guarantee Fund.

I

*IDC Financial Publishing, Inc.* An organization that publishes an analysis and conclusion as to the relative qualities of financial ratios of commercial banks, savings banks, savings and loan associations, and credit unions.

*Index.* A number used to compute the interest rate for an ARM. The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, as stated in the note.

*Index disclosed to the borrower.* The value of the selected index for an ARM that is given to the borrower when the mortgage is closed. When subsequent index values differ from this value, it reflects changes in market conditions.

*Initial interest rate.* The original interest rate of the mortgage when it is closed. This rate (which is often referred to as the “start rate”) changes for ARMs. Also referred to as the “initial note rate.”

*Installment debt.* Borrowed money that is repaid in several successive payments, usually at regular intervals, for a specific amount and for a specified term (for example, an automobile loan or a furniture loan).

*Institutional lender.* A financial institution that invests in mortgages and keeps them in its own portfolio.

*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.

*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 GPMs and ARMs with payment change limitations.

*InterestFirst mortgage.* A Fannie Mae mortgage loan product that contains an interest-only feature. See *interest-only feature*.

*Interest rate buydown plan.* An arrangement wherein the property seller or any other party deposits money into an account so that it can be released each month to reduce the borrower's monthly payments during the early years of a mortgage. During the specified period, the borrower's effective interest rate is "bought down" below the actual mortgage interest rate.

*Interest rate cap.* For an ARM, a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note. For HAMP modifications, 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 modification agreement is prepared.

*Interest rate change date.* The date on which the mortgage interest rate changes for an ARM/GPARM; the date on which interest begins to accrue at a new rate for an ARM MBS pool. The date after the pool is issued must be the same for all of the mortgages in the pool.

*Interest rate change interval.* The period that elapses between interest rate change dates for an ARM/GPARM.

*Interest rate differential.* See *yield difference*.

*Interest-only feature.* A feature that allows borrowers to pay only the monthly interest due for a fixed period, followed by a fully amortizing period. Interest-only loans can have a fixed or adjustable interest rate.

*Investor-purchased mortgage insurance.* Mortgage insurance coverage obtained by Fannie Mae after the purchase of a mortgage; a type of financial backing used for some second mortgages in lieu of borrower-purchased or lender-purchased mortgage insurance.

*IRS.* Internal Revenue Service.

*Issue date.* The first day of the month in which securities backed by an MBS pool are issued.

*Issue date principal balance.* The principal balance of each mortgage 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).

**J**

*Junior lien.* Any lien that is subsequent to the claims of the holder of a prior (senior) lien.

**L**

*Late charge.* A penalty that a borrower must pay when a mortgage payment is made a stated number of days (usually a minimum of 15) after its due date.

*Lease.* A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

*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.

*Lender Contract.* Refers to all of the lender or servicer's contracts and commitments with Fannie Mae.

*Lender-purchased mortgage insurance.* Mortgage insurance coverage for a conventional mortgage that the lender 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 mortgage payment.



*Liability insurance.* Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party.

*LIBOR index.* An index that is used to determine interest rate changes for certain ARM plans. LIBOR is an acronym for "London Interbank Offered Rate." It represents the interest rates at which banks lend to each other within the London interbank market.

*Limited cash-out refinance transaction.* A refinancing transaction in which the mortgage amount generally is limited to the sum of the UPB of the existing first mortgage, closing costs (including prepaid items), points, and the amount required to satisfy any mortgage liens if the documented proceeds of the subordinate financing were solely used to acquire the property (if the borrower chooses to satisfy them), and other funds for the borrower's use (as long as the amount does not exceed the lesser of \$2000 or 2% of the principal amount of the new mortgage).

*Limited payment amount.* The monthly payment established for an ARM/GPARM when the mortgage limits the amount by which a payment can change. It will not be sufficient to fully amortize the mortgage so it will result in negative amortization.

*Line of credit payment plan.* A reverse mortgage payment plan available for FHA HECM loans that provides for payments to be made to the borrower whenever he or she requests a disbursement. The borrower specifies the amount of the disbursement (or draw) each time he or she requests a payment.

*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.

*Loan-to-value (LTV) ratio.* The relationship between the UPB of the mortgage and the property's value (or sales price, if it is lower).

*"Lookback" period.* The date on which the index value that will be used to establish the next interest rate change for an ARM is determined. It is a specified number of days (usually 30 to 45) before the interest rate change date.

**M**

*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 preforeclosure sale, it is the sum of the current UPB of the mortgage, interest (computed at the note rate) from the LPI date through the expected date of closing, and miscellaneous expenses, less any cash contributions from the borrower or property purchaser.

*Mandatory delivery commitment.* A whole loan commitment that generally requires the lender to deliver eligible mortgages 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.

*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.

*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 As Soon As Pooled Plus transaction.

*Margin differential.* The margin shortage that occurs when the net mortgage margin is less than Fannie Mae's required margin.

*“Market-rate” option.* A post-conversion disposition option that allows the lender to determine whether it wants to redeliver a repurchased convertible ARM that was in an MBS pool to Fannie Mae following its conversion to a fixed-rate mortgage or to retain the repurchased mortgage for its portfolio.

*Master Agreement.* A negotiated contract that enables lenders to submit multiple transactions—both standard and negotiated—under the terms of a single agreement. Terms are specifically negotiated with each lender.

*Master servicer.* The contractually responsible servicer of a mortgage or pool of mortgages that is included in a subservicing arrangement.

*Maximum claim amount.* The lesser of the appraised value of a property and the maximum loan amount that FHA can insure for a one-family residence in the area where the property is located; a component that is used in determining a borrower’s principal limit for an FHA HECM loan.

*MBS.* See *mortgage-backed security*.

*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).

*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.

*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 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 lender specifies or a weighted-average margin. A fixed MBS margin is attained by varying the servicing fee for individual mortgages 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 lender specifies, thus developing a different MBS margin for each mortgage.

*MBS mortgage.* A mortgage (or participation interest in a mortgage) that is part of an MBS pool.

*MBS pool.* All of the mortgages or participation interests in mortgages (delivered under one or more contracts) that will back an individual issuance of MBS.

*MBS pool delivery.* Group or groups of mortgages (or participation interests in mortgages) delivered by a lender 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 mortgages (or participation interests) to be held in Fannie Mae's portfolio. Deliveries under this program are, therefore, referred to as MBS pool deliveries.

*MERS.* Mortgage Electronic Registration System, Inc. An electronic system that assists lenders, investors, and others in tracking mortgages, servicing rights, and security interests, thus streamlining and reducing the costs associated with servicing transfers, lien releases, and quality control processes related to registered mortgages.

*MI Direct process.* A mortgage insurance claims process where Fannie Mae files the primary mortgage insurance claims on all conventional first mortgages on which Fannie Mae bears the risk of loss and are insured under a master primary policy issued by certain participating mortgage insurers.

*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 current has been (or will be) materially adversely affected by military service.

*Modification.* The act of changing any of the terms of the mortgage by agreement between the borrower and the note holder.

*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.

*Modified special servicing option.* A servicing option that was previously available for RD mortgages 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.

*Modified tenure payment plan.* A reverse mortgage payment plan available for FHA HECM loans that provides for the borrower to set aside part of his or her principal limit at origination to establish a line of credit that can be drawn on at any time and to receive the rest of the principal limit over time in the form of scheduled equal monthly installments.

*Modified term payment plan.* A reverse mortgage payment plan available for FHA HECM loans that provides for the borrower to set aside part of his or her principal limit at origination to establish a line of credit that can be drawn on at any time and to receive the rest of the principal limit in the form of scheduled equal monthly installments over a fixed term.

*Monthly mortgage payment ratio.* The amount of the monthly mortgage payment divided by the borrower's gross monthly income. For purposes of HAMP, the monthly mortgage payment includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condo fees, HOA fees, and co-op maintenance fees (as applicable) and any applicable escrow shortage payments subject to the 60-month repayment plan. The monthly mortgage payment does not include mortgage insurance premiums or payments due to subordinate-lien holders.

*Monthly payment.* The monthly payment of P&I collected by mortgage lenders. This may also include escrow items for T&I and is therefore called the housing payment.

*Monthly payment mortgage.* A mortgage that requires payment to reduce the debt once a month.

*Monthly remittance.* The total of the interest and principal distribution amounts that a lender 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.

*Moody's Investors Service.* A credit rating agency that, among other things, assigns credit ratings to debt issuers and the debt instruments themselves, as well as to title insurance companies and custodial depositories, by evaluating their assets and liabilities.

*Mortgage.* Collectively, the security instrument, the note, the title evidence, and all other documents and papers that evidence the debt (including the chattel mortgage, security agreement, and financing statement for a co-op share loan).

*Mortgage-backed security (MBS).* An investment instrument that represents an undivided interest in a pool of mortgages.

*Mortgage impairment insurance.* A type of insurance coverage that protects the lender against the lack or inadequacy of insurance coverage for a specific mortgage if the lender is not directly responsible for the insufficiency.

*Mortgage insurance (MI).* A financial backing type under which a private insurer (and sometimes a state or local entity) insures the mortgagee against losses from borrower default, by agreeing to cover a percentage of the losses in return for the payment of a specified mortgage insurance premium.

*Mortgage interest rate.* The rate of interest in effect for the periodic installment due. For fixed-rate mortgages or for ARMs that have an initial fixed-rate period, it is the rate in effect during that period. For ARMs after any initial fixed-rate period, it is the sum of the applicable index and the mortgage margin (rounded as appropriate and subject to any per-adjustment caps or lifetime interest rate ceilings).

*Mortgage interest rate ceiling.* For an ARM, the maximum mortgage interest rate over the life of the loan. It is determined by applying a lifetime cap to the initial mortgage interest rate.

*Mortgage loan.* An individual secured loan that is sold to Fannie Mae as a whole loan or in a pool of mortgages underlying Fannie Mae-guaranteed MBS. The term includes a participation interest in a mortgage loan where context requires. In this *Guide*, a mortgage loan also may be referred to as a mortgage or a loan.

*Mortgage margin.* The amount that is added to the index value to establish the mortgage interest rate on each interest rate change date (subject to any limitations on the interest rate change) for an ARM.

*Mortgage note.* The note or other evidence of indebtedness for a mortgage loan.

*Mortgage Selling and Servicing Contract (MSSC).* The contract that establishes the basic legal relationship between a lender and Fannie Mae.

*Mortgagee interest insurance.* See *mortgage impairment insurance*.

*Multiple pool.* An MBS pool that consists of pools of mortgages delivered by more than one lender; also called Fannie Majors.

## **N**

*National Flood Insurance Program (NFIP).* A federal program enabling property owners in participating communities to purchase insurance protection against losses from flooding.

*National Underwriting Center.* A Fannie Mae quality control unit located in Dallas, Texas, which conducts underwriting performance reviews for selected purchased mortgages, as well as post-purchase reviews for mortgages that have early payment delinquencies and foreclosed mortgages.

*Negative amortization.* A gradual increase in the mortgage debt that occurs when the monthly installment is not sufficient for full application to both principal and interest. This interest shortage is added to the UPB to create “negative” amortization.

*Net line of credit.* The amount of a borrower's line of credit for a reverse mortgage that is available to be withdrawn at any specific point in time. At origination, it will be equal to the original line of credit less any set-asides for repairs or first year property charges. At other times, it will be equal to the original line of credit less any set-asides or previous draws the borrower has made.

*Net mortgage margin.* The mortgage margin shown in the ARM note and rider after the minimum servicing fee has been subtracted.

*Net note rate.* The mortgage interest rate after the applicable servicing fee and any guaranty fee for Fannie Mae's various product types have been subtracted.

*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 mortgage payment, current credit score, delinquency status) and various assumptions to determine the value of a modification as compared to no modification.

*Net principal limit.* The amount of money available to a borrower who has a reverse mortgage at any specific point in time. It will be equal to the principal limit less the sum of any payments made to the borrower, any financed closing costs, the servicing fee allocation, and any set-asides, plus the amount of any repayments the borrower has made.

*Net principal limit at origination.* The borrower's original principal limit is reduced by any allowable closing costs or third-party fees that the borrower wants to finance, an allocation for the expected servicing fees that will be paid over the life of the mortgage (based on a flat monthly servicing fee of between \$15 and \$30), and, if applicable, set-asides to reserve funds for the payment of the first year's property charges and the costs of property repairs that must be completed as a condition of granting the mortgage, as well as by any loan advances that will be made at loan closing. The principal limit that remains after these adjustments are made, which is called the "net principal limit at origination," is the amount used to determine the line of credit or scheduled payments that will be available to the borrower.



*Net worth.* The value of all of a company's (or individual's) assets—including cash—less its total liabilities. It is used to indicate financial strength.

*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.)

*Notice of Commencement.* A notice that is produced by the Bankruptcy Court when a person files bankruptcy that is provided to all creditors in the bankruptcy petition (including the servicer of a mortgage loan if the servicer is listed as a creditor). The notice may include several important dates—such as the date and time for the initial meeting of creditors, the date by which all claims must be filed, the date for the hearing on confirmation of a borrower's Chapter 13 reorganization plan, and the deadline for objecting to the discharge of a debt or the confirmation of a reorganization plan.

*Notice of default.* A formal written notice (usually to the mortgage insurer or guarantor) that a default has occurred and legal action may be taken as a result of the default.

*Notice of immediate payment.* The notice that the servicer sends to a borrower who has a Home Keeper reverse mortgage to call the mortgage due and payable because the borrower no longer occupies the property as a principal residence or has otherwise defaulted under the terms of the mortgage.

*Notice of non-approval.* For borrowers not approved for a HAMP modification, this notice must provide the primary reason or reasons for the non-approval. The notice must also describe other foreclosure prevention alternatives for which the borrower may be eligible, if any, including but not limited to other modification programs, preforeclosure sale, or deed-in-lieu, and identify the steps the borrower must take in order to be considered for those alternatives.

o

*Office of Thrift Supervision (OTS).* The regulator of the thrift industry. It replaced the Federal Home Loan Bank Board (FHLBB).

*Original line of credit.* A borrower's total line of credit for a reverse mortgage, including any funds that must be used for specific purposes. It is equal to the principal limit plus any set-asides for repairs or first year property charges.

*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.

*Owners' association.* See *homeowners' association*.

**P**

*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.

*Par.* The face value of the mortgage (the UPB) equals its selling price (100%—there are no discounts or premiums).

*Participation certificate.* The instrument that evidences an undivided interest in mortgages and obligations secured thereby.

*Participation interest.* An individual interest in a mortgage, as specified in the applicable participation certificate.

*Participation pool.* The group of mortgages that backs a participation certificate. Fannie Mae purchases only a percentage interest in each of the mortgages. That interest is the same percentage that is specified on the participation certificate.

*Participation pool mortgage.* A mortgage 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. For mortgages 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 change interval.* The period that elapses between the payment change dates for an ARM/GPARM.

*Payment change limitation.* A restriction on the amount that the payment for an ARM or GPARM can change on any payment change date, called a “per adjustment” cap.

*Payment plan.* The manner in which the loan proceeds for a reverse mortgage are paid out to the borrower.

*Payment rate.* The percentage rate used to calculate the mortgage payment when the payment will not fully amortize the mortgage. It differs from the interest accrual rate.

*Payment Reduction Plan (PRP).* A plan that provides a borrower with temporary payment relief while the servicer and borrower work together to find the appropriate permanent foreclosure prevention solution. PRP offers an additional foreclosure prevention solution for borrowers who are ineligible for HAMP.

*Planned unit development (PUD).* A real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, a parking space). Fannie Mae does not purchase or securitize mortgages secured by PUD projects; it does purchase or securitize mortgages on individual units in a project.

*Pool.* A collection of mortgages (or participation interests) delivered pursuant to one or more pool purchase contracts that secure an individual issuance of MBS.

*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.

*Pool issue date.* The first day of the month in which MBS are issued.

*Pool purchase contract.* A contract between Fannie Mae and a lender to buy and sell mortgages 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.

*Pool purchase transaction.* Any MBS transaction between Fannie Mae and a lender in which Fannie Mae purchases a group of mortgages or participation interests from the lender for the sole purpose of backing all or part of an issuance of MBS.

*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.

*Portfolio mortgage.* A whole mortgage purchased by Fannie Mae to hold in its mortgage portfolio.

*Post-foreclosure underwriting review.* A review of the lender's initial underwriting for a foreclosed mortgage that Fannie Mae's automated risk assessment models identify as having a high degree of risk. The scope of the review will vary depending on the results of the automated risk assessment of the mortgage.

*Prearranged refinancing agreement.* A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

*Preforeclosure 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.

*Prepayment premium.* A charge or penalty that a borrower may be required to pay during the early years of a mortgage if he or she prepays the mortgage in full or pays large sums to reduce the unpaid balance.

*Principal distribution amount.* For a particular remittance date, Fannie Mae's share of the aggregate principal portions of the monthly installments for mortgages in an MBS pool that became due from the second day 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.

*Principal limit.* The total borrowing power that is available to a borrower when a reverse mortgage is originated. The amount of cash that is available when a Home Keeper mortgage is originated (which is called the “principal limit”) is a function of the age and number of borrowers, the value of the property, and (for some older mortgages originated before August 10, 2000) whether the borrower chose an equity share feature.

*Project development.* A condo, PUD, or co-op housing project.

*PUD.* See *planned unit development*.

*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.

*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.

**R**

*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.

*RD-guaranteed mortgage.* A mortgage that is guaranteed by the Rural Development agency; may be referred to as a “government” mortgage.

*Reclassification.* The movement of a delinquent special servicing option MBS mortgage 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).

*Recognition agreement.* An agreement on the part of a co-op corporation to recognize specific rights of lenders who finance share loans in the project (or those of the lenders’ successors and assigns).

*Recourse.* The obligation of the lender to cover losses the buyer incurs as a result of a default on the note. Under a whole loan transaction, a lender that sells a mortgage to Fannie Mae under the “with recourse” servicing option assumes the entire risk of borrower default, while a lender that sells a mortgage 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.)

*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.

*Regular servicing option.* A guaranty fee option for an MBS pool under which the lender assumes the entire risk of loss from a borrower default; a servicing option for RD-guaranteed mortgages under which the servicer is fully responsible for any losses not recovered from the RD. (See *recourse* for the equivalent term for a whole loan delivery.)

*Regularly amortizing mortgage.* A collective term that Fannie Mae uses to differentiate “forward” mortgage from reverse mortgages. Mortgages that fall into this category include fully amortizing mortgages, partially amortizing mortgages (such as balloon mortgages or mortgages with an interest-only feature), and mortgages that provide for the deferment of interest accruals during any portion of the mortgage term (by allowing negative amortization).

*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 mortgage 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 mortgage payments that come due during the rehabilitation (or renovation) period.

*Reinstatement.* The curing of a delinquency by paying all past-due installments to bring the mortgage to a current status.

*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.

*Release of liability.* A formal agreement absolving a borrower from responsibility under a mortgage because another party has agreed to assume the mortgage obligations.

*Relief provision.* One of the methods used to cure delinquencies by establishing formal short-term arrangements to repay the delinquent installments. Relief provisions include temporary indulgence, special forbearance, liquidating plans, and military indulgence. The term also encompasses benefits that are provided to borrowers by law (e.g., the Servicemembers Civil Relief Act or any similar state law) by reason of military service, which may apply whether or not there is a delinquency.

*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 mortgages generally have only a single remittance cycle (regardless of the remittance type), but MBS mortgages have three different remittance cycles (standard, RPM, and MBS Express).

*Remittance date.* The date on which a 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.

*Remittance type.* A way of determining the composition of the servicer's required remittance to Fannie Mae. For portfolio mortgages, there are three types (actual/actual, scheduled/actual, and scheduled/scheduled).

*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.

*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.

*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.

*Repairs set-aside.* An amount that is “netted out” of a borrower’s principal limit for a reverse mortgage, which is then set aside to pay for required repair work as it is completed.

*Repayment notice.* The notice that the servicer sends to a borrower who has an FHA HECM to call the mortgage due and payable because the borrower no longer occupies the property as a principal residence or has otherwise defaulted under the terms of the mortgage.

*Repayment plan.* An arrangement made to repay delinquent installments or advances; formal repayment plans are called relief provisions.

*Repurchase date.* The date through which interest must be calculated when a lender is required to repurchase a mortgage or an acquired property from Fannie Mae; the date on which the lender redelivers mortgages funded in certain early funding transactions to Fannie Mae for whole loan purchase or for securitization under an As Soon As Pooled Sale transaction.

*Repurchase price.* The percentage of par that the lender must apply to the unpaid balance or outstanding debt of a mortgage 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.

*Request for Modification and Affidavit (RMA).* A form the borrower uses to document his or her financial hardship in connection with HAMP.



*Required margin.* Fannie Mae's commitment margin for each ARM plan plus all applicable adjustments.

*Required yield.* Fannie Mae's posted commitment yield plus all applicable adjustments. This yield does not include a servicing fee.

*Residential home mortgage.* A mortgage that covers a one- to four-unit dwelling that is used to provide living accommodations.

*Residential mortgage credit report.* A detailed account of the credit, employment, and residence history (as well as public records information) of an individual.

*Retained-attorney network (RAN).* See *Fannie Mae-retained attorneys*.

*Reverse mortgage.* A mortgage for which the borrower receives the proceeds based on the terms of a payment plan that he or she selects, rather than as a lump sum at loan closing. The mortgage usually is repaid in one payment (from the proceeds of the sale of the house or from the settlement of the borrower's estate), rather than through periodic payments. The mortgage is not due and payable as long as the borrower occupies the property as a principal residence and does not violate any of the mortgage covenants.

*Revolving accounts.* An arrangement for credit in which the customer receives purchases or services on an ongoing basis prior to payment. Repayment is usually at regular intervals but not for a specified amount or term.  
Example: charge cards.

*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.

*Rural Development (RD).* A government agency within the U.S. Department of Agriculture (USDA) that makes direct loans and guarantees mortgages secured by residential properties located in rural areas, concentrating on borrowers who meet income eligibility requirements. Formerly the Rural Housing Service (RHS).

**S**

*Sales contract.* A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale.

*“Same month” MBS mortgage.* A mortgage in an MBS pool that is closed in the month in which the pool is issued and has its first payment due two months later. “Odd due date” mortgages will be considered as “same month” MBS mortgages if their first payment is due in the month following the issue date of the pool.

*“Same month” pooling.* An option for creating MBS pools that allows a lender to include in a pool mortgages that close in the same month that the related MBS is issued (which means that they will have their first payment due two months after the MBS issue date).

*Scheduled payment.* A reverse mortgage payment that is made to a borrower under the terms of a payment plan that calls for payments to be made at stated intervals over a defined term or until the borrower no longer occupies the property as a principal residence or otherwise defaults under the terms of the mortgage; the payment that is due for any given month (or any given biweekly payment period) for a regularly amortizing mortgage.

*Scheduled/actual remittance type.* A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due (whether or not it is collected from borrowers) and the actual principal payments that it collects from borrowers.

*Scheduled/scheduled remittance type.* A method of sending mortgage payments to Fannie Mae requiring lenders to remit the scheduled interest due and the scheduled principal due (whether or not payments are collected from borrowers).

*Second mortgage (or subordinate lien mortgage loan).* A mortgage that has a lien position subordinate to the first mortgage. Also called subordinate lien mortgage loan.

*Security.* An ownership interest in a pool of mortgages, which is evidenced by a book-entry account within the Federal Reserve's book-entry system.

*Security balance.* The balance for an MBS mortgage (or a participation interest in an MBS mortgage) that is determined by reducing Fannie Mae's share of the issue date principal balance of the mortgage 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 mortgages (or participation interests) in the pool as of any date, which is equal to the aggregate issue date principal balances of the mortgages (or participation interests) less any subsequent principal distribution amounts.

*Servicemembers Civil Relief Act.* The federal law that restricts enforcement of civilian debts against U.S. military personnel, and may reduce the rate of interest owed, if the borrower entered the U.S. military after the debt was incurred.

*Servicer's Reconciliation Facility (SURF).* A loan activity reporting system designed to allow servicers to report and view loan-level portfolio data.

*Servicing compensation.* The income that a servicer receives for the collection of payments and management of operational procedures related to a mortgage. It includes a base servicing fee, plus late charges, fees charged for special services, yield differential adjustments or excess yield, and, sometimes, prepayment premiums.

*Servicing fee.* The monthly fee, generally expressed in basis points, that a lender retains from borrowers' interest payments as compensation for servicing loans on an investor's behalf.

*Servicing spread.* The fixed percentage amount for each mortgage 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.

*Set-aside.* Funds for a specified use that are “netted out” when determining a borrower’s principal limit for a reverse mortgage. Uses for a set-aside include the payment of expenses for repairs that were required as a condition of originating the mortgage and accruals to pay first year property charges (if the borrower wants the servicer to pay them and they cannot be withheld from payments made to the borrower).

*Single pool.* An MBS pool that consists of mortgages or participation interests delivered by a single lender.

*Single-family mortgage loan.* A mortgage loan secured by a property that contains one to four residential dwelling units.

*Special feature codes (SFC).* Codes that Fannie Mae uses to identify certain characteristics related to individual mortgage loans, mortgage products, or negotiated transactions. A lender must specify these codes when they apply to mortgages delivered to Fannie Mae.

*Special Flood Hazard Area.* The land in the flood plain within a community having at least a 1% chance of flooding in any given year, as designated by FEMA.

*Special forbearance.* One of the relief provisions that provides for a period of reduced or suspended payments, followed by a repayment plan that typically involves larger than usual payments, to enable the borrower eventually to cure the entire delinquency. (See *forbearance*; *relief provision*.)

*Special remittance.* A remittance, which generally is of a nonrecurring nature for an individual mortgage, that relates to a mortgage that has been liquidated through a preforeclosure or foreclosure sale or the acceptance of a deed-in-lieu. It also may relate to a mortgage that has been paid in full, a mortgage for which Fannie Mae has advanced funds to protect its security, or a mortgage still in Fannie Mae’s portfolio that requires a purchase adjustment.

*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 Mae will bear all losses not recovered from the RD. (See *recourse* for an equivalent term for a cash delivery.)

*STABLE home mortgage.* An ARM that has both fixed and adjustable characteristics, with the higher margin providing the stability of a fixed-rate mortgage and the fractional index providing the flexibility of an ARM.

*Standard pricing option.* A pricing method under which all mortgages delivered under a single commitment will be priced based on the relationship of their specific pass-through rate to the commitment's single required yield. Standard pricing can result in either a par price or a discount price, but not a premium price.

*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).

*Subordinate financing.* Any mortgage or other lien that has priority lower than that of the first mortgage.

*Subservicer.* A lender that has contracted with the contractually responsible servicer of a mortgage or pool of mortgages to perform the ongoing servicing activities for the mortgage or pool.

*Subservicing arrangement.* An arrangement wherein the contractually responsible servicer of a mortgage or pool of mortgages hires another servicer to perform its servicing functions.

*Sum of the digits interest calculation.* See *rule of 78s*.

*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.

**T**

*“Take-out” option.* A post-conversion disposition option that requires the lender to redeliver as a whole loan a repurchased convertible ARM that was in an MBS pool following its conversion to a fixed-rate mortgage and to continue any recourse or credit enhancement that initially applied to the mortgage (unless Fannie Mae agrees that it is no longer needed).

*Target monthly mortgage payment ratio.* For purposes of HAMP, as close as possible but no less than 31% of the borrower’s gross monthly income.

*Temporary indulgence.* One of the relief provisions that allows an additional 30 days before Fannie Mae takes more formal action to cure a delinquency. During that time, Fannie Mae expects the mortgage to be reinstated or the borrower to agree to some formal repayment plan.

*Temporary interest rate buydown.* A temporary reduction in the effective interest rate that a borrower pays during the early years of a mortgage term, which is made possible by the property seller or another acceptable party depositing a lump sum of money into a buydown account so that it can be released each month to reduce the borrower’s payments.

*Tenure conversion factor.* A factor that is used to determine the new payments for a Home Keeper reverse mortgage when a borrower changes to a payment plan that provides for scheduled payments. It is the ratio of the maximum monthly tenure payment available to the borrower at origination to the maximum line of credit available to that same borrower at origination.

*Tenure payment plan.* A reverse mortgage payment plan available for FHA HECM loans that provides for the borrower to receive scheduled equal monthly installments beginning on the first day of the month after loan closing and continuing over time.

*Term payment plan.* A reverse mortgage plan available for FHA HECM loans that provides for the borrower to receive scheduled equal monthly installments over a fixed term.

*Texas Section 50(a)(6) mortgage.* A mortgage originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions.

*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.

*Title insurance.* Insurance against loss resulting from defects in the title to real property.

*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.

*Treasury index.* An index that is used to determine interest rate changes for certain ARM plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury’s daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

*Trial payment period.* A three-month period prior to the HAMP 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.

*Trial period offer deadline.* The last day of the month in which the HAMP trial period plan effective date occurs. The servicer must receive the borrower’s first trial period payment on or before this date.

*Trial period plan cut-off date.* The date by which a borrower's last HAMP trial period payment must be received for the modification to be effective the first day of the month following the last trial period month. The cut-off date must be after the due date of the final trial period payment. A servicer must treat all borrowers the same when applying the trial period plan cut-off date as evidenced by a written policy.

*Trial period plan effective date.* The effective date of the HAMP trial period plan. If the servicer completes and transmits the trial period plan to the borrower on or before the 15th day of a calendar month, the servicer should insert the first day of the next month as the trial period plan effective date. If the servicer completes and transmits the trial period plan to the borrower after the 15th day of a calendar month, the servicer should use the first day of the second month as the trial period plan effective date.

*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.

## U

*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.

*Underwriting performance review.* An after-the-fact review and risk assessment for a sampling of the mortgages Fannie Mae purchases or securitizes to ensure that they satisfy Fannie Mae's mortgage eligibility criteria and underwriting guidelines.

*Uniform Commercial Code (UCC).* A uniform law drafted and/or approved by the Commissioners on Uniform State Laws governing commercial transactions (sales of goods, etc., but excluding law dealing with real property).

*Uniform Electronic Transactions Act (UETA).* A uniform law drafted and/or approved by the Commissioners on Uniform State Laws governing the use of electronic signatures and records.



*Unique hardship.* An event or financial hardship that is unlikely to re-occur and is not a natural or manmade disaster; is temporary in nature or of limited scope, but impacts many borrowers; may involve property damage, hazard in the dwelling, or other adverse property conditions; creates financial hardship that impacts the ability of the borrower to continue making payments on the mortgage loan; may involve uncertainty regarding whether insurance will cover the losses incurred; and has been designated as a “unique hardship” by Fannie Mae.

*Unit mortgage.* A mortgage (or share loan) on an individual residential unit in a PUD, condo, or co-op project.

*Unscheduled payment.* A reverse mortgage payment that is made to a borrower under a line of credit payment plan, which is determined by the borrower’s request for a specific payment amount to be paid on a specific date; any payment that the servicer deducts from the borrower’s line of credit for a reverse mortgage to make payments on the borrower’s behalf (for example, to pay for repairs or taxes and insurance premiums); a payment that Fannie Mae receives from a borrower who has a regularly amortizing mortgage, which represents funds being paid for a reason other than to make the scheduled payment that is due.

**V**

VA. U.S. Department of Veterans Affairs.

*VA-guaranteed mortgage.* A mortgage that is guaranteed by the U.S. Department of Veterans Affairs; may be referred to as a “government” mortgage.

*VA no-bid buydown.* The mortgage holder’s agreement to waive or satisfy a portion of the mortgage indebtedness for a VA mortgage to reduce it to an amount that would result in the net value of the property exceeding the unguaranteed portion of the indebtedness (which would result in VA establishing a bid price for a foreclosure sale when it otherwise would not). The waiver may take the form of a reduction in the UPB; a credit to the borrower’s escrow or unapplied funds account; a forgiveness of unpaid, accrued interest; or any combination of these credits.

*Voluntary conveyance.* See *deed-in-lieu of foreclosure*.

**W**

*Weighted-average pool accrual rate.* The weighted average of the net mortgage interest rates of the mortgages in a weighted-average ARM MBS pool, which is the rate at which interest will accrue on the MBS.

*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 mortgages in the pool.

*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.

*Whole mortgage loan.* A mortgage loan that Fannie Mae owns in its entirety (or one in which its percentage interest is 100%) and holds in Fannie Mae's portfolio. It may be an actual/actual, scheduled/actual, or scheduled/scheduled remittance type.

**Y**

*Yield.* Return on an investment.

*Yield differential adjustment.* An amount paid to the servicer of a whole first mortgage when the initial interest rate of a mortgage exceeds Fannie Mae's required yield for the commitment under which the mortgage was purchased. For ARMs, a yield differential adjustment occurs if there is excess "margin" rather than yield.

## Table of Acronyms and Abbreviations

A/A	actual/actual remittance type
ACH	Automated Clearing House
ADS	Automated Drafting System
APR	annual percentage rate
ARM	adjustable-rate mortgage
AVM	Automated Valuation Model
BPO	broker price opinion
CLTV	combined loan-to-value
CMT	Constant Maturity Treasury
COFI	Cost of Funds Index
DEA	Drug Enforcement Agency
DIL	deed-in-lieu
D4L	Deed-for-Lease
DU	Desktop Underwriter
EDI	Electronic Data Interface
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration

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**Glossary and Table of  
Acronyms and  
Abbreviations**

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FHLBB	Federal Home Loan Bank Board
FRM	fixed-rate mortgage
GAAP	generally accepted accounting principles
GEM	growing-equity mortgage
GPARM	graduated-payment adjustable-rate mortgage
GPM	graduated-payment mortgage
GSE	government-sponsored enterprise
HAFA	Home Affordable Foreclosure Alternative
HAMP	Home Affordable Modification Program
HECM	Home Equity Conversion Mortgage
HELOC	home equity line of credit
HOA	homeowners' association
HSSN	HomeSavers Solutions Network
HUD	Department of Housing and Urban Development
IDI	Imminent Default Indicator
LAR	loan activity record
LIBOR	London Interbank Offered Rate
LLPA	loan-level price adjustment
LPI	last paid installment
LTV	loan-to-value

MHA	Making Home Affordable
MBS	mortgage-backed security
MI	mortgage insurer or mortgage insurance
MSSC	Mortgage Selling and Servicing Contract
NFIP	National Flood Insurance Program
NPV	net present value
OTS	Office of Thrift Supervision
P&I	principal and interest
PFP	Pooled from Portfolio
PRP	Payment Reduction Plan
PUD	planned unit development
RAN	retained attorney network
RD	Rural Development
REO	real estate owned
RMA	Request for Modification and Affidavit
RPM	Rapid Payment Method
S/A	scheduled/actual remittance type
SFC	special feature code
S/S	scheduled/scheduled remittance type
SURF	Servicers Reconciliation Facility
T&I	taxes and insurance

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**Glossary and Table of  
Acronyms and  
Abbreviations**

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UCC	Uniform Commercial Code
UETA	Uniform Electronic Transactions Act
UPB	unpaid principal balance
VA	U.S. Department of Veterans Affairs
WAC	weighted-average coupon
WAM	weighted-average maturity