Fannie Mae

Lender Letter (LL-2021-02)

Jan. 20, 2021

To: All Fannie Mae Single-Family Servicers
Impact of COVID-19 on Servicing

This Lender Letter contains the policies previously published in LL-2020-02 on Dec. 9, 2020, with the changes noted below. As we continue to monitor the COVID-19 pandemic and collaborate with the FHFA and Freddie Mac, as applicable, on COVID-19 related servicing policies, we will update and republish this Lender Letter as necessary. The policies in this Lender Letter are effective until Fannie Mae provides further notice, unless otherwise stated.

Jan. 20, 2021

- Extending the suspension of foreclosure-related activities
- Slightly reorganized content, with the policy impacted by an explicit expiration date showing first, and removed the following policies that have been superseded:
  - Sending a payment reminder notice
  - Principal & interest advances on delinquent mortgage loans
  - Submission of financial statements and reports
  - Reference to the post-disaster forbearance mortgage loan modifications when evaluating a borrower for a workout option after a forbearance plan

Suspension of foreclosure activities and certain bankruptcy requirements Updated Jan. 20

Servicers must continue the suspension of the following foreclosure-related activities through Feb. 28, 2021. Servicers may not, except with respect to a vacant or abandoned property:

- initiate any judicial or non-judicial foreclosure process,
- move for a foreclosure judgment or order of sale, or
- execute a foreclosure sale.

This suspension does not apply to mortgage loans secured by properties that have been determined to be vacant or abandoned.

We generally require servicers to file motions for relief from the automatic stay in bankruptcy cases upon certain milestones. In light of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and other impacts resulting from the COVID-19 National Emergency, on Apr. 8, 2020, we temporarily relieved servicers of the obligation to meet these timelines. We are continuing this temporary suspension. Servicers must continue to work with their bankruptcy counsel to determine the appropriate time to file such motions.

Mortgage Insurance Termination

When verifying an acceptable payment record for a borrower that has had a financial hardship related to COVID-19 in which the servicer provided

- a COVID-19 related forbearance plan, repayment plan, or Trial Period Plan and the borrower complied with the terms of such plan;
- a payment deferral; or
- a COVID-19 payment deferral and the borrower made three consecutive monthly payments following completion of the payment deferral,

the servicer must not consider any payment that is 30 or more days past due in the last 12 months, or 60 or more days past due in the last 24 months that is attributable to the COVID-19 financial hardship. The mortgage loan must be current when the termination is requested, which means the mortgage loan payment for the month preceding the date of the termination request was paid.

> **NOTE:** *These requirements apply when reviewing the borrower's request for termination of conventional MI based on either original or current value of the property.*

Disbursing insurance loss proceeds

In response to servicer inquiries and in an effort to repair properties that experience an insured loss event as expeditiously as possible, we are updating our requirements for determining the mortgage loan status for disbursing insurance loss proceeds for a borrower impacted by COVID-19. The servicer must consider the loan to be current or less than 31 days delinquent for purposes of disbursing insurance loss proceeds if

- the borrower experienced a COVID-19 related hardship;
- the mortgage loan was current or less than two months delinquent as of Mar. 1, 2020, the effective date of the National Emergency declaration related to COVID-19; and
- at the time of the loss event, the borrower is performing on a COVID-19 related forbearance plan, repayment plan, or Trial Period Plan.

The servicer must otherwise disburse the proceeds in accordance with *Servicing Guide* B-5-01, Insured Loss Events.

The servicer must document in the mortgage loan servicing file the date that the COVID related hardship began and the date of the insured loss event.

Impact of COVID-19 on Fannie Mae Home Affordable Modification Program (HAMP) "Pay for Performance" incentives

In LL-2020-07, *COVID-19 Payment Deferral*, we clarified that if the mortgage loan was previously modified pursuant to a HAMP modification under which the borrower remains in "good standing," then the borrower will not lose any "pay for performance" incentives if the borrower was on a COVID-19 related forbearance plan or had a COVID-19 related hardship immediately preceding the COVID-19 payment deferral. We are clarifying that, additionally, the borrower will not lose any future HAMP "pay for performance" incentives if the borrower

- immediately reinstates the mortgage loan upon expiration of the COVID-19 related forbearance plan, or
- transitions directly from a COVID-19 related forbearance plan to a repayment plan.

Modifying seller/servicer financial liquidity requirements for mortgage loans in forbearance

In response to the national emergency, we are announcing a temporary modification of the non-depository seller/servicer minimum liquidity requirement for seriously delinquent (SDQ) mortgage loans. The changes indicated below were implemented beginning with the financial quarter ending Jun. 30, 2020.

As stated in *Selling Guide* A4-1-01, Maintaining Seller/Servicer Eligibility, the minimum liquidity requirement is equal to 0.035% of the unpaid principal balance (UPB) of mortgage loans serviced by a non-depository seller/servicer for Fannie Mae, Freddie Mac, and

Ginnie Mae if the Agency SDQ rate is 6% or less. If the Agency SDQ rate is above 6%, the seller/servicer must also maintain at least an SDQ add-on of 2% of the UPB of Agency SDQ rate over 6%.

Under the existing seller/servicer eligibility requirements, the Agency SDQ Rate is defined as 100 multiplied by (the UPB of mortgage loans 90 days or more delinquent or in foreclosure for Fannie Mae, Freddie Mac, and Ginnie Mae/Total UPB of mortgage loans serviced for Fannie Mae, Freddie Mac, and Ginnie Mae). Beginning with the financial quarter ending Jun. 30, 2020, the Agency SDQ Rate will include an adjustment for mortgage loans in a COVID-19 related forbearance plan that are 90 days or more delinquent and were current at the inception of the COVID-19 related forbearance plan. The UPB of such mortgage loans shall be multiplied by .30 and added to the UPB for SDQ mortgage loans for the purposes of determining the numerator in the calculation of the Agency SDQ Rate. Refer to the Appendix link for examples.

When the COVID-19 related forbearance period ends for a mortgage loan, the mortgage loan's status will become subject to, by the end of the quarter following the end of the COVID-19 related forbearance period, the minimum financial seller/servicer eligibility requirements in place at that time.

To accommodate these changes, the Mortgage Bankers Financial Reporting Form (MBFRF Form 1002) was modified to capture forbearance activity.

Reclassification of MBS mortgage loans

The Amended and Restated 2007 Single-Family Master Trust Agreement (the "2007 Trust Agreement") applies to MBS mortgage loans with pool issue dates on or after Jun. 1, 2007 through Dec. 1, 2008. As described in *Servicing Guide* F-1-26, Reclassifying or Voluntary Repurchasing an MBS Mortgage Loan, and in accordance with the 2007 Trust Agreement, we remove such mortgage loans from the MBS pool after the sixth consecutive month of continuing forbearance. Selection for reclassification is based on the servicer's monthly delinquency status reporting to Fannie Mae.

In response to the CARES Act, we are updating our reclassification process for mortgage loans in these MBS pools when a borrower impacted by COVID-19 is provided a forbearance plan. Such mortgage loans will not be removed from the MBS pool for the duration of the forbearance plan under the CARES Act, in accordance with the 2007 Trust Agreement, which permits mortgage loans to remain in trust longer than six consecutive months when the forbearance plan is required by applicable law.

These changes became effective with the Jun. 2020 monthly delinquency status reporting cycle and will apply when the servicer reports delinquency status code 09 (Forbearance) and reason for delinquency code 022 (Energy-Environment Costs), as reassigned pursuant to this Lender Letter for reporting a hardship associated with COVID-19.

Complying with law

Servicers are reminded that in accordance with *Servicing Guide* A2-1-08, Compliance with Requirements and Laws, they must comply with applicable law even where a provision of the *Servicing Guide* may conflict with applicable law.

Attempting to establish quality right party contact (QRPC)

As described in *Servicing Guide* D2-2-01, Achieving Quality Right Party Contact with a Borrower, QRPC is a uniform standard for communicating with the borrower, co-borrower, or a trusted advisor (collectively referred to as "borrower") about resolution of the mortgage loan delinquency. We reaffirm the applicability of QRPC when working with a borrower impacted by COVID-19 to ensure the servicer understands the borrower's circumstances and determines the best possible workout option for resolving the borrower's delinquency. In the event that the servicer is unable to achieve full QRPC and offers a forbearance plan to a borrower impacted by COVID-19 in compliance with the CARES Act, the servicer is considered to be in compliance with our *Servicing Guide*.

In response to servicer inquiries and in accordance with *Servicing Guide* A4-2.1-04, Establishing Contact with the Borrower, among other requirements, the servicer is authorized to use various outreach methods to contact the borrower as permitted by applicable law, including, but not limited to:

- mail,
- email,
- texting, and
- voice response unit technology.

Reporting a reason for delinquency code

The servicer must report delinquency status information to Fannie Mae through Fannie Mae's servicing solutions system in accordance with *Servicing Guide* D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae and F-1-22, Reporting a Delinquent Mortgage Loan via Fannie Mae's Servicing Solutions System.

In an effort to enable us to identify mortgage loans where the borrower has experienced a hardship associated with COVID-19 while not resulting in a systems impact for us or you, the servicer must report reason for delinquency code 022, Energy-Environment Costs, when reporting the delinquency status of such mortgage loans to us . If the borrower's COVID-19 related hardship remains unresolved and the borrower experiences another hardship concurrently (for example, a disaster event), the servicer must continue to report reason for delinquency code 022, Energy- Environment Costs, regardless of the reason for delinquency associated with the concurrent hardship.

For mortgage loans where the servicer would have otherwise reported reason for delinquency code 022 due to Energy-Environment Costs, the servicer must now use reason for delinquency code 007, Excessive Obligations.

Property inspections and preservation

As a result of the impact of COVID-19, we are temporarily providing flexibility with respect to the completion of property inspections and preservation, including:

- inspections for properties securing a delinquent mortgage loan as described in *Servicing Guide* D2-2-10, Requirements for Performing Property Inspections;
- inspections related to hazard loss repairs as described in *Servicing Guide* B-5-01, Insured Loss Events, and
- property preservation activities as described in *Servicing Guide* E-3.2-12, Performing Property Preservation During Foreclosure Proceedings.

The following table describes when the servicer must not conduct property inspections and property preservation activities for a property securing a mortgage loan where the borrower is experiencing a hardship related to COVID-19, depending on the status of the mortgage loan at the time of the effective date of the National Emergency declaration related to COVID-19.

<table>
<tr><th>If on Mar. 1, 2020, the mortgage loan was…</th><th>Then the servicer must…</th></tr>
<tr><td>current or less than 30 days delinquent and the borrower becomes delinquent</td><td rowspan="2">not complete property inspections during the forbearance plan or an active post-forbearance plan workout option.</td></tr>
<tr><td>delinquent and the property was not vacant or abandoned</td></tr>
<tr><td>delinquent and the property was reported as vacant or abandoned</td><td>follow the property inspection requirements in Inspecting a Property Securing a Delinquent Mortgage Loan in Servicing Guide D2-2-10, Requirements for Performing Property Inspections and property preservation requirements in Servicing Guide E-3.2-12, Performing Property Preservation During Foreclosure Proceedings.</td></tr>
</table>

> **NOTE:** *For mortgage loans that are delinquent and not on a forbearance plan, servicers must continue to follow the inspection requirements in in Inspecting a Property Securing a Delinquent Mortgage Loan in* D2-2-10.

If the mortgage loan is not brought current upon expiration of the forbearance plan, or if the borrower is not approved for a post-forbearance workout option as determined based on QRPC, the servicer must follow the property inspection requirements in *Inspecting a Property Securing a Delinquent Mortgage Loan* in D2-2-10.

If the servicer is unable to complete a property inspection or property preservation activity in accordance with the *Servicing Guide*, it must document their efforts and the reason for any exception in the mortgage loan file.

> **NOTE:** *The servicer's inability to complete property inspections due to COVID-19 related impacts must not impact the servicer's disbursement of insurance loss proceeds.*

As a reminder, D2-2-10 authorizes a curbside (drive-by) inspection if there is potential danger to the inspector. Additionally, the *Property Preservation Matrix and Reference Guide* authorizes servicers to utilize alternative data or other means available to determine occupancy status when inspection results are unknown due to lack of access.

For additional questions, contact

- Property_Preservation@fanniemae.com regarding property inspections for delinquent mortgage loans
- Hazard_Loss@fanniemae.com regarding hazard loss inspections

Forbearance plan terms

When determining eligibility for a forbearance plan for a borrower impacted by COVID-19, the property securing the mortgage loan may be either a principal residence, a second home, or an investment property. The servicer must otherwise follow the requirements in *Servicing Guide* D2-3.2-01, Forbearance Plan. In response to the CARES Act, the servicer must approve forbearance plans for borrowers impacted by COVID-19 in accordance with the CARES Act.

The CARES Act states that a forbearance plan must be provided to any borrower who requests a forbearance with an attestation of the financial hardship caused by the COVID-19 emergency; and no additional documentation other than the borrower's attestation to a financial hardship caused by the COVID-19 emergency is required. Such a borrower must be provided an initial forbearance plan for a period up to 180 days, and that forbearance period may be extended for up to an additional 180 days at the request of the borrower. In accordance with D2-3.2-01, the servicer may provide an initial forbearance period, and any extended forbearance period, in separate, shorter increments. If the borrower's COVID-19 related hardship has not been resolved during an incremental forbearance period, the servicer must extend the borrower's forbearance period, not to exceed 12 months total. For a borrower impacted by COVID-19, we are temporarily eliminating the requirement that the servicer must receive our prior written approval for a forbearance plan that would result in the mortgage loan becoming greater than 12 months delinquent.

As a reminder, servicers must inform the borrower that the payments which are the subject of a forbearance plan have only been delayed or reduced, not forgiven, and that once the forbearance plan is complete, one of the following must occur:

- the mortgage loan must be brought current through a reinstatement,
- the borrower is approved for another workout option,
- the mortgage loan is paid in full, or
- the servicer refers the mortgage loan to foreclosure in accordance with applicable law.

The servicer must also inform the borrower that he or she may shorten a forbearance plan term at any time to reduce the amount of payments which are being delayed or reduced.

As stated in D2-3.2-01, the forbearance plan terms must be provided to the borrower using the appropriate Evaluation Notice, which must be revised in accordance with applicable law. In addition, the servicer must document in the individual mortgage loan file the borrower's request for forbearance and attestation as to a financial hardship caused by the COVID-19 emergency, and the terms of the initial and any extended forbearance, including the duration of the forbearance period.

Evaluating the borrower for a workout option after a forbearance plan

For borrowers who have received a forbearance plan in response to COVID-19, the servicer must begin attempts to contact the borrower no later than 30 days prior to the expiration of the forbearance plan term, and must continue outreach attempts until either QRPC is achieved or the forbearance plan term has expired. When evaluating the borrower for a workout option prior to expiration of the forbearance plan, we are providing flexibility with regard to achieving QRPC. We are eliminating the requirement that the servicer determine the occupancy status of the property and will consider the servicer obtaining the following as achieving QRPC for purposes of evaluating a borrower who has experienced a hardship resulting from COVID-19:

- determining the reason for the delinquency and whether it is temporary or permanent in nature,
- determining whether or not the borrower has the ability to repay the mortgage loan debt,
- educating the borrower on the availability of workout options, as appropriate, and
- obtaining a commitment from the borrower to resolve the delinquency.

In Lender Letter LL-2020-07, *COVID-19 Payment Deferral* we introduced COVID-19 payment deferral, a new home retention workout option jointly developed with Freddie Mac at the direction of FHFA, to assist borrowers who have resolved their COVID-19 related hardship. The servicer must evaluate borrowers for a COVID-19 payment deferral in accordance with the eligibility requirements and evaluation hierarchy described in the Lender Letter.

Credit bureau reporting

The servicer must report the status of the mortgage loan to the credit bureaus in accordance with *Servicing Guide* C-4.1-01, Notifying Credit Repositories, and applicable law, including the Fair Credit Reporting Act (FCRA) as amended by the CARES Act, for borrowers affected by the COVID-19 emergency.

Use of Fannie Mae's Disaster Response Network

Our Disaster Response Network (DRN) is operational and can be used to assist borrowers who are financially impacted by COVID-19. The DRN has trained financial counselors who will work with borrowers to create a workable budget based upon the borrower's present financial situation and assist in explaining options including obtaining unemployment benefits and any new special assistance. We encourage servicers to refer Fannie Mae borrowers to our DRN at 1-877-542-9723.

Additional resources

We offer a wealth of information and resources for servicers to help borrowers deal with the challenges assocated with COVID-19:

- Single-family Here to Help COVID-19 website
- Ask Poli Servicing
- Ask Poli Selling

We will continue to monitor the situation and alert you of any additional policy updates. Servicers who have questions about this Lender Letter should contact their Fannie Mae Account Team, Portfolio Manager, or Fannie Mae's Single-Family Servicer Support Center at 1-800-2FANNIE (1-800-232-6643).
Have Guide questions? Get answers to all your policy questions, straight from the source. Ask Poli.

Appendix

Refer to the examples below related to calculating the non-depository seller/servicer minimum liquidity requirement.

Example #1

Agency Servicing UPB: $50,000,000
Agency Servicing SDQ UPB: $3,500,000 (7% SDQ rate)
COVID-19 Portion of Agency Servicing SDQ UPB[1]: $1,000,000
The base liquidity requirement is .035% of the Agency Servicing UPB calculated as follows:

0.035%* $50,000,000 = $17,500

In the example above, the Agency Servicing SDQ rate is above the 6% threshold for the Liquidity Add-On. Under the temporary guidance, the portion of Agency SDQ loans shown above that is related to COVID-19 forbearance loans is multiplied by .30 to derive the numerator used for calculating the adjusted Agency SDQ Rate of 5.6% as follows:

$2,500,000 + ($1,000,000 *.30) = $2,800,000/$50,000,000 * 100

As shown above, the $2.5 million represents the difference between Total Agency SDQs and COVID-19 related SDQs. The $1 million * .30 is the calculation adjustment to COVID-19 SDQ loans. The combined $2.8 million is the numerator used to calculate the Agency Servicing SDQ rate. In this example, the Agency Servicing SDQ rate decreases from 7% to 5.6%-- less than 6% SDQ threshold to trigger the Liquidity Add-on. The Liquidity Add-on is ***not*** applicable in this example.

Base Liquidity Requirement:	**$17,500**
Liquidity Add-on:	**Not Applicable**
Minimum Liquidity Requirement	**$17,500**

Example #2

Agency Servicing UPB: $50,000,000
Agency Servicing SDQ UPB: $7,000,000 (14% SDQ rate)
COVID-19 Portion of Agency Servicing SDQ UPB[1]: $3,000,000
The base liquidity requirement is .035% of the Agency Servicing UPB calculated as follows:

0.035%* $50,000,000 = $17,500

In the example above, the Agency Servicing SDQ rate is above the 6% threshold for the Liquidity Add-on. Under the temporary guidance, the portion of Agency SDQ loans show above that is related to COVID-19 related forbearance loans is multiplied by .30 to derive the numerator for calculating the adjusted Agency SDQ Rate of 9.8% as:

$4,000,000 + ($3,000,000 *.30) = $4,900,000/$50,000,000 * 100

As shown above, the $4 million represents the difference between Total Agency SDQs and COVID-19 related SDQs. The $3 million * .30 is the calculation adjustment to COVID-19 SDQ loans. The combined $4.9 million is the numerator used to calculate the Agency Servicing SDQ rate. In this example, the Agency Servicing SDQ rate decreases from 14% to 9.8%-- which is above the 6% threshold to trigger the Liquidity Add-on. The Liquidity Add-on is applicable only on the UPB portion above 6% SDQ rate calculated as follows:

2%*$50,000,000*(9.8%-6.0%)= $38,000

Base Liquidity Requirement:	**$17,500**
Liquidity Add-on:	**$38,000**
Minimum Liquidity Requirement	**$55,500**

[1] COVID-19 SDQ refers to mortgage loans in a COVID-19 related forbearance plan that are 90 days or more delinquent and were current at the inception of the COVID-19 related forbearance plan.