

Announcement 09-05

March 4, 2009

Amends these Guides: Servicing

Introduction of the Home Affordable Modification Program, HomeSaver Forbearance™, and New Workout Hierarchy

Background

On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan to help up to 7 to 9 million families restructure or refinance their mortgages to avoid foreclosure. As part of this plan, the Treasury Department (Treasury) announced a national modification program aimed at helping 3 to 4 million at-risk homeowners – both those who are in default and those who are at imminent risk of default – by reducing monthly payments to sustainable levels. Today, the Treasury issued uniform guidance for loan modifications across the mortgage industry. This Announcement provides guidance to Fannie Mae servicers for adoption and implementation of the Home Affordable Modification program (HMP) for Fannie Mae loans.

Under the HMP, servicers will use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments. The HMP implementation guidelines set forth in this Announcement apply to all eligible one- to four-unit owner-occupied properties securing Fannie Mae portfolio mortgages and MBS pool mortgages guaranteed by Fannie Mae. The HMP will replace the Streamlined Modification Program introduced in Announcement 08-33 and the Early Workout™ program announced in Announcement 08-31. The HMP will expire on December 31, 2012.

All servicers must participate in the program for all eligible Fannie Mae portfolio mortgages and MBS pool mortgages.

Servicers may also elect to participate in the HMP for other qualifying mortgage loans that:

- are not subject to Fannie Mae's credit loss guarantee, and
- are held by servicers in their own portfolios or are serviced by servicers for other portfolio or securitization trusts or investors.

These other qualifying mortgages are referred to as Non-GSE Mortgages in this Announcement.

As announced by the Treasury, in order for a servicer to participate in the HMP with respect to Non-GSE Mortgages, the servicer must execute a servicer participation agreement and related documents with Fannie Mae as Financial Agent for the United States (as designated by the Treasury).

This Announcement also introduces a new HomeSaver Forbearance™ foreclosure prevention option and a new Fannie Mae loan workout hierarchy. The HomeSaver Forbearance provides an additional foreclosure prevention option for borrowers who are NOT eligible for the HMP.

This Announcement covers the following topics:

- HMP Eligibility
- Underwriting
- Modification Process
- Servicer Delegation, Duties and Responsibilities
- Reporting Requirements
- Fees and Compensation
- HOPE for Homeowners
- HomeSaver Forbearance
- New Workout Hierarchy
- Retirement of the Streamlined Modification and Early Workout Programs

HMP Eligibility

Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages

A mortgage loan is eligible for the HMP if it is a Fannie Mae portfolio mortgage or MBS pool mortgage guaranteed by Fannie Mae and all of the following criteria are met:

- The mortgage loan is a first lien Fannie Mae conventional mortgage loan originated on or before January 1, 2009. Jumbo-conforming loans are eligible.
- The mortgage loan has not been previously modified under the HMP.
- The mortgage loan is delinquent or default is reasonably foreseeable; 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. Cooperative share mortgages and mortgage loans secured by one-unit condominiums and manufactured homes are eligible for the HMP.
- The property securing the mortgage loan must not be vacant or condemned.
- The borrower documents a financial hardship by completing a *Home Affordable Modification Program Hardship Affidavit* (Form 1021) and provides the required income documentation. The documentation supporting income may not be more than 90 days old (as of the date the servicer is determining HMP eligibility).
- A borrower in active litigation regarding the mortgage loan is eligible for the HMP. The servicer may not require a borrower to waive legal rights as a condition of the HMP.
- A borrower actively involved in a bankruptcy proceeding is eligible for the HMP at the servicer's discretion. Borrowers who have received a Chapter 7 bankruptcy discharge in a

case involving the first lien mortgage who did not reaffirm the mortgage debt under applicable law are eligible, provided the *Home Affordable Modification Workout Plan* (Form 3156) and *Home Affordable Modification Agreement* (Form 3157) are revised as outlined in the “Acceptable Revisions to HMP Documents” section of this Announcement.

- The borrower agrees to set up an escrow account for taxes and insurance prior to the beginning of the trial period if one does not currently exist.
- The mortgage loan is not insured or guaranteed by a federal government agency (FHA, HUD, VA, and Rural Development).
- Regular servicing option MBS pool mortgages and portfolio mortgage loans subject to lender recourse are ineligible for the Fannie Mae HMP.
- Borrowers may be accepted into the program if the HMP Workout Plan is fully executed and returned to the servicer prior to the expiration of the program on December 31, 2012.

The HMP documents will be available on eFannieMae.com. Documents include the HMP Workout Plan, the HMP Modification Agreement (also referred to as the HMP Agreement), and the HMP Hardship Affidavit (Form 1021). The HMP Workout Plan Cover letter and the HMP Agreement Cover Letter will also be available. All of these documents will be posted by Friday March 6, 2009.

Underwriting

Reasonably Foreseeable (Imminent) Default

Rather than wait for a payment default, servicers can offer the HMP when a borrower has suffered a valid hardship and a payment default is imminent (as described below). A payment default is imminent if it is likely to occur in the near future, generally within 90 days from the initial discussion with the borrower.

Determining Hardship

To determine whether a payment default is imminent, the borrower must have one of the following hardships (the term “borrower” includes any co-borrower):

1. A reduction or loss of income, e.g., unemployment, reduced job hours, reduced pay, or a decline in self-employed business earnings.
2. A change in household financial circumstances, e.g., 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).
3. An increase in expenses, e.g., monthly mortgage payment will rise or has risen, 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.
4. A lack of sufficient cash reserves to maintain payment on the mortgage. 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).

5. Excessive monthly debt payments and overextension with creditors, e.g., the borrower was required to use credit cards, a home equity loan, or other credit to make the mortgage payment.

The hardship of the borrower or co-borrower (if applicable) must be documented on the HMP Hardship Affidavit. 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 the HMP who faces imminent default 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 email to servicing_solutions@fanniemae.com.

Evaluating the Borrower's Financial Condition and Property Condition to Determine if Default is Imminent

To determine whether a payment default is imminent, 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. A servicer must examine the borrower's total assets, liabilities, combined monthly income from wages and all other identified sources of income as well as the borrower's monthly obligations (including personal debts, revolving accounts, installment loans, and normal monthly living expenses, such as food, utilities, etc.). Servicers may rely upon verbal financial information from the borrower(s) to evaluate the borrower's financial condition in determining whether a payment default is imminent, but 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.

Documenting the Reason for and Timing of Imminent Default

A servicer must document in its servicing system the basis for its determination that a payment default is imminent. The servicer's determination must include identification of the potential reasons for a borrower's imminent default, which will generally be identified in the HMP Hardship Affidavit, and the anticipated timing of the default. The servicer's documentation must also include information on the borrower's financial condition as well as the condition and circumstances of the property securing the mortgage loan. The servicer must report the reason(s) for the anticipated delinquency along with the delinquency status code 09 – Forbearance, during the trial payment period.

Borrower Solicitation

Servicers are prohibited from soliciting borrowers who are not in default for participation in the HMP. However, if a borrower who is facing imminent default contacts a servicer, the servicer may consider the HMP as a viable foreclosure prevention alternative. The servicer must make a determination that a payment default is imminent prior to sending a firm offer to a borrower.

Net Present Value (NPV) Test

A NPV test is required for all Fannie Mae mortgage loans; however, the results of the NPV test must not be used to make the modification determination for mortgage loans in any MBS Trust or any other Fannie Mae loans.

A standardized NPV model (the GSE AVM), to be published separately, will be provided for use by servicers.

To obtain a property valuation for the NPV model, servicers may use either an automated valuation model (AVM) provided that the AVM renders a reliable confidence score, or a Broker's Price Opinion (BPO). Servicers may use an AVM provided by one of the GSEs. As an alternative, servicers may rely on their own internal AVM provided that:

- (i) the servicer is subject to supervision to a Federal regulatory agency,
- (ii) the servicer's primary Federal regulatory agency has reviewed the model, and
- (iii) the AVM renders a reliable confidence.

Details on accessing a GSE AVM will be published separately.

If the GSE 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). The property valuation used cannot be 60 days or more old.

Verifying Borrower Income and Occupancy Status

Servicers may use recent verbal financial information (provided 90 days or less from the date the servicer is determining HMP eligibility) from the borrower (the term "borrower" includes any co-borrower) to calculate the targeted monthly mortgage payment. The "targeted monthly mortgage payment" includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees, as applicable (including any escrow payment shortage amounts subject to the 60-month repayment plan). Mortgage insurance is not included in the calculation of targeted monthly mortgage payment ratio (defined below).

When the borrower returns the HMP Workout Plan and related documents, the servicer must review the documentation to verify the borrower's income and determine the monthly mortgage payment ratio. A borrower will qualify for the HMP if the verified income documentation confirms that the "monthly mortgage payment ratio" is greater than or equal to 31 percent. For purposes of this Announcement, "monthly mortgage payment ratio" means the ratio of the borrower's monthly mortgage payment to the borrower's monthly gross income (or the borrowers' combined monthly gross income in the case of co-borrowers). A borrower must be reunderwritten for the HMP if the initial income information used by the servicer to solicit the

borrower and the verified income evidenced by the borrower's documentation received varies by more than plus or minus ten percent.

The servicer may not require a borrower to make an up-front cash contribution (other than the first trial period payment) in order for a borrower to be considered for the HMP.

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 from the date HMP eligibility is determined.

If the borrower is salaried:

- The borrower must provide copies of the two most recent paystubs indicating year-to-date earnings, a signed copy of the most recently filed federal income tax return, including all schedules and forms, and a signed IRS Form 4506-T (Request for Transcript of Tax Return).
- For additional income such as bonuses, commissions, fees, housing allowances, tips and overtime, servicer must obtain a letter from the employer stating that the income will in all probability continue. The servicer must average the last two years of bonus income to determine the amount to be used for qualifying.

If the borrower is self-employed, he or she must provide:

- A signed copy of a federal income tax return including all schedules and forms,
- A signed IRS Form 4506-T (Request for Transcript of Tax Return), and
- The most recent quarterly or year-to-date profit and loss statement for each self-employed borrower.

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. Servicers must determine that the income will continue for at least three years.
- Proof of full, regular and timely payments, such as deposit slips, bank statements or signed federal income tax returns.

If the borrower has other income such as social security, disability or death benefits, pension, public assistance, or unemployment:

- Acceptable documentation includes letters, exhibits, a disability policy or benefits statement from the provider that states the amount, frequency and duration of the benefit. The servicer must determine that the income will continue for at least three years.
- The servicer must obtain copies of signed federal income tax returns, IRS W-2 forms, or copies of the two most recent bank statements.

If the borrower has rental income, acceptable documentation includes:

- Copies of all pages from the borrower's most recent two years of signed federal income tax returns and Scheduled E – Supplemental Income and Loss. The monthly net rental income to be calculated for HMP purposes must equal 75 percent of the gross rent, with the remaining 25 percent being considered vacancy loss and maintenance expense.

A servicer must confirm that the property securing the mortgage loan is the borrower's primary residence as evidenced by the most recent signed federal income tax return or a credit report or other documents such as utility bills.

A servicer is not required to modify a mortgage loan if there is reasonable evidence indicating the borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification.

Monthly Mortgage Payment Ratio

Servicers must apply proposed modification terms in the following order of succession until the borrower's monthly mortgage payment is reduced to a target 31 percent payment ratio. The monthly mortgage payment may not include payments due to holders of subordinate liens. If only net income is available, the servicer must multiply the net income amount by 1.25 to estimate the monthly gross income.

Note: If a borrower has an adjustable-rate or interest-only mortgage loan, then the existing loan will convert to a fixed interest rate, fully amortizing 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 HMP Workout Plan.

Step 2: Adjust the interest rate. If the loan is an adjustable rate mortgage, set the interest rate at the current interest rate (the note rate). The "Interest Rate Cap" is the lesser of (i) the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate mortgage conforming loans, rounded to the nearest 0.125 percent, or (ii) the fully indexed and fully amortizing original contractual rate, each as of the date that the modification documentation is prepared.

- Reduce the note rate in increments of .125 percent to get as close as possible to a target 31 percent payment ratio (without going below 31 percent). The interest rate floor in all cases is 2.0 percent.
 - If the resulting rate is at or above the Interest Rate Cap, this rate will be the new note rate for the life of the modification.
 - 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 one percent 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 life of the modification.

Step 3: Extend the term and reamortize the mortgage loan by up to 480 months from the modification effective date (i.e., the first day of the month following the end of the trial period) to achieve the 31 percent payment ratio. Negative amortization following the effective date of the modification is prohibited.

Step 4: If necessary, AFTER capitalization of arrearages, reduction of the interest rate to the 2.0 percent floor, and extension of the amortization period to 40 years, the servicer must provide for principal forbearance to reduce the payment ratio to 31 percent. The amount of principal forbearance will result in a balloon payment fully due and payable upon the earliest of the borrower's sale of the property, payoff or maturity of the mortgage loan. The modified interest-bearing balance (i.e., the unpaid principal balance excluding the deferred principal balloon amount) must create a current mark-to-market LTV (current LTV based upon the new valuation) greater than or equal to 100 percent if the result of the NPV test is negative. The principal forbearance amount is non-interest bearing and non-amortizing. A principal write-down or principal forgiveness is prohibited on Fannie Mae mortgage loans.

Verifying Monthly Gross Expenses

A servicer may consider information concerning monthly obligations obtained from the borrower either orally or in writing, but must obtain a credit report for each borrower or a joint report for a married couple to validate installment debt and other liens. The monthly gross expense is the sum of the following monthly charges:

- The monthly mortgage payment, including any mortgage insurance premiums.
- 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 percent 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 percent.
- Monthly payment on a home equity line of credit (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 one percent of the balance.
- Alimony and separate maintenance payments with more than 10 months of payments remaining.
- Car lease payments, regardless of the number of payments remaining.
- Aggregate negative net rental income from all investment properties owned.
- Monthly mortgage payment for a second home (principal, interest, taxes and insurance and, when applicable, mortgage insurance, leasehold payments, homeowner association dues, condominium unit or cooperative 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 total monthly debt (housing payments plus all recurring monthly debt payments) divided by the

borrower's monthly gross income. Servicers will be required to send a letter to borrowers with a post-HMP modification back-end ratio equal to or greater than 55 percent that states the borrower must work with a HUD-approved housing counselor on a plan to reduce their total indebtedness below 55 percent. The letter must describe the availability and advantages of counseling and provide a few local HUD-approved housing counseling agencies and direct the borrower to the appropriate HUD website where such information is located. The borrower must acknowledge in writing that (s)he will obtain such counseling.

Fannie Mae encourages face-to-face counseling; however, telephone counseling is also permitted from HUD-approved housing counselors that cover 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 www.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.

The servicer should advance the cost of the HUD counseling. This fee will be reimbursed by HUD. Details of the reimbursement process will be provided in a subsequent announcement.

Mortgages with No Due-on-Sale Provision

If a mortgage that is not subject to a due-on-sale provision is modified under the HMP, the HMP will cancel the assumability feature of that mortgage.

Escrow Accounts

All of the borrower's monthly payments must include a monthly escrow amount. If the mortgage loan being considered for the HMP is a non-escrowed mortgage loan, the servicer must establish an escrow deposit account in accordance with the *Servicing Guide*, Part III, Sec. 103: Escrow Deposit Accounts. 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. The escrow account must be established prior to the beginning of the trial period.

Servicers are encouraged to perform an escrow analysis prior to establishing the trial period payment. 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 HMP 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 the HMP.

When a servicer spreads the escrow shortage identified during the HMP eligibility process over a 60-month period, any subsequent shortage that 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.

Compliance with Applicable Laws

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, including the following fair lending laws, that apply to any of its practices related to the HMP:

- Section 5 of the Federal Trade Commission Act (FTC 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.

Modification Process

Borrower Solicitation

Servicers may only solicit a borrower for the HMP if the borrower is currently two or more payments (31 or more days) past due. Once a borrower is two or more payments past due:

- A servicer may make a firm offer solicitation to borrowers for whom the servicer has recent financial information (provided within 90 days of the date the servicer is determining HMP eligibility) indicating that the borrower may qualify for the HMP. The offer must be made utilizing the HMP Workout Plan Cover Letter, enclosing the HMP Workout Plan, and a HMP Hardship Affidavit.

- If a servicer does not have delinquent borrower's recent financial information, the servicer may send a letter instructing eligible borrowers to call the servicer to discuss the details of their individual circumstances. Fannie Mae has prepared a sample Solicitation Letter (which includes Fannie Mae's logo) for the servicer's use.

A servicer may also receive calls from current or delinquent borrowers inquiring about the availability of the HMP. A servicer should work with such borrowers to obtain the borrower's financial and hardship information and to determine if the HMP is appropriate.

The servicer should notify the borrower during discussions that a modification under the HMP will cancel any assumption, variable or step-rate feature, or enhanced payment options (e.g., Timely Payment Rewards[®]) in the borrower's existing loan, at the time the loan is modified.

When discussing the HMP, the servicer should provide the borrower with information designed to help them 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 reduce legal compliance and 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.

Fannie Mae expects servicers to have adequate resources and facilities for receiving and processing the HMP 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 the HMP. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution.

Temporary Suspension of Foreclosure Proceedings

Servicing Guide, Part VIII, Section 105.01: Temporary Suspension of Proceedings

To ensure that a borrower currently at risk of foreclosure has the opportunity to apply for the HMP, 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 the HMP has been made. Except as noted herein, any foreclosure sale will be temporarily suspended while the loan is being considered for the HMP as well as for the duration of the HMP Workout Plan. Servicers should not conduct foreclosure sales on loans previously referred to foreclosure until the deadline to respond to a firm HMP Workout Plan offer has passed.

Servicers shall work with foreclosure counsel to ensure minimal impact on the timeline of the foreclosure sale if the servicer accepts payments while the HMP Workout Plan is in effect, but the borrower does not complete the HMP.

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 HMP Workout Plan as of the date that the foreclosure sale is scheduled. Accordingly, servicers of HMP loans secured by properties in

these states must proceed with the foreclosure sale if the borrower has not made the required payments prior to the foreclosure sale date.

Mortgage Insurer Approval

Fannie Mae is seeking to obtain blanket delegations of authority from each mortgage insurer so that servicers can more efficiently process HMP modifications without having to obtain mortgage insurer approval on individual loans. Fannie Mae will post on eFannieMae.com, an updated list of the mortgage insurers from which it has received a delegated authority agreement. Until Fannie Mae obtains a delegated authority agreement from a mortgage insurer on behalf of all servicers, a servicer must obtain mortgage insurer approval on a case-by-case basis. 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 the HMP.

Executing the HMP Documents

Servicers must use a two-step process that first provides a document outlining the terms of the forbearance (the HMP Workout Plan), and a separate document (the HMP Agreement), outlining the terms of the modification.

The borrower must return the signed HMP Workout Plan to the servicer within 14 calendar days after the HMP Workout Plan is sent by the servicer together with a signed HMP Hardship Affidavit, verification of income, and the first trial period payment. A servicer is encouraged to contact the borrower before the expiration of the offer if the borrower has not yet responded. Note: The borrower is not required to have the HMP Hardship Affidavit notarized.

Once the servicer determines that the borrower meets the underwriting and eligibility criteria, and has submitted good funds for the first month's trial payment, the servicer should return an executed copy of the HMP Workout Plan to the borrower.

If the servicer determines that the borrower does not meet the underwriting and eligibility standards of the HMP after the borrower has submitted a signed HMP Workout Plan to the servicer, the servicer must promptly communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative using the new workout hierarchy (refer to "New Workout Hierarchy" section for additional information).

Servicers are encouraged to send the HMP Modification Agreement Cover Letter and the HMP Agreement for execution by the borrower after receipt of the second payment under the trial period (or third payment for loans facing imminent default which require a four month trial period).

Servicers are reminded that 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 signature must not occur until after the mortgage loan has been removed from the MBS pool, if applicable, and either reclassified as a Fannie Mae portfolio mortgage or repurchased by the servicer.

Acceptable Revisions to HMP Documents

Servicers are strongly encouraged to use the HMP documents provided on eFannieMae.com. Should a servicer decide to revise the HMP documents or draft its own HMP documents, it must obtain prior written approval from Fannie Mae with the exception of the following circumstances:

- The servicer must revise the HMP documents as necessary to comply with Federal, State and local law. For example, in the event that the HMP results in a principal forbearance, servicers are obligated to modify the uniform instrument to comply with laws and regulations governing balloon disclosures.
- The servicer may include, as necessary, conditional language in HMP 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, or subordination agreements from other existing lienholders, as necessary, to ensure that the modified mortgage loan retains its first lien position and is fully enforceable as required by the Servicing Guide.
- 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 HMP Workout Plan and Section 1 of the HMP 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."

Unless a borrower or co-borrower is deceased, all parties who signed the original note and mortgage must execute the HMP documents.

Use of Electronic Records

Electronic records for HMP are acceptable as long as the electronic record complies with all other requirements of the *Servicing Guide*, and updates through guide announcements and applicable law.

Assignment to MERS

If the original mortgage loan was registered with Mortgage Electronic Registration Systems, Inc. (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 HMP Agreement:

- (a) 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.

(b) 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.

(c) MERS must be added to the signature lines at the end of the HMP Agreement, as follows:

Mortgage Electronic Registration
Systems, Inc. – Mortgagee

The servicer may execute the HMP Agreement on behalf of MERS and, if applicable, submit it for recordation.

Trial Payment Period

The servicer must service the mortgage loan during the trial period in the same manner as it would service a 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 the servicing guidelines applicable to MBS mortgage loans. (Refer to “Reclassification or Removal of MBS Loans Prior to Effective Date of Modification” section below.)

The trial payment period is three months long for loans where the payment is already in default and four months long for loans where the servicer has determined that a borrower’s payment default is imminent but no default has occurred. During the trial period, the borrower must make the second and third (and fourth for loans where the initial payment default was imminent) monthly payments in order for the HMP modification to become effective.

The borrower’s payment during the trial period must not be equal to the contractual mortgage payment in effect prior to the trial period.

Use of Suspense Accounts and Application of Payments

In accordance with the *Servicing Guide*, Part III, Section 102.06: Pending Modifications, Announcement 07-03R2, and, if permitted by the applicable 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 principal, interest, tax and insurance (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 principal, interest, tax and insurance payment should be applied to reduce any amounts that would otherwise be capitalized onto the principal balance.

Reclassification or Removal of MBS Loans Prior to Effective Date of Modification

Under the HMP Agreement, if the borrower successfully completes the trial period, the modification of the loan will automatically become effective on the first day of the calendar month immediately following the end of the trial period.

Reclassification of MBS Loans – Payment Default Imminent

For an MBS loan where the servicer has determined that a borrower's payment default is imminent, the mortgage loan must be removed from the MBS pool before the effective date of the loan modification. Accordingly, to facilitate removals of loans from MBS pools, a servicer must use Home Saver Solutions[®] Network (HSSN) to request that a loan be reclassified and purchased out of the MBS pool. 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 fourth month of the trial period, the servicer should request that the loan be reclassified during the fourth month of the trial period.
- If, prior to the close of the servicer's reclassification date in the fourth month, the borrower has not made the third payment, or the servicer has not applied the third payment, notified Fannie Mae that the payment has been made and requested reclassification, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. As a result the requirements to make the modification effective will not have been satisfied and Fannie Mae will cancel the case and the HMP modification will not be completed. The servicer must make certain that the loan modification is not implemented.

Reclassification of MBS Loans – Payment in Default

For an MBS loan that already has a payment in default at the time the HMP is negotiated, the mortgage loan must be removed from the MBS pool **before** the effective date of the loan modification. Accordingly, to facilitate removals of loans from MBS pools, a servicer must use HSSN to request that a loan be reclassified and purchased out of the MBS pool. Reclassifications are subject to the following:

- As long as the borrower has made the second 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, the servicer should request that the loan be reclassified during the third month of the trial period.
- If, prior to the close of the servicer's reclassification date in the third month, the borrower has not made the second payment, or the servicer has not applied the second payment, notified Fannie Mae that the payment has been made and requested reclassification, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. As a result the requirements to make the modification effective will not have been satisfied and Fannie Mae will cancel the case and the HMP modification will not be completed. The servicer must make certain that the loan modification is not implemented.

Thus, during the trial period it is very important that servicers timely report to Fannie Mae the receipt of funds from the borrower and promptly request reclassification of the mortgage loan.

For an MBS 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. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments totals a full payment, the borrower has been in a delinquent status (i.e., not current in monthly mortgage payments) on each of the last four monthly payment due dates and continues to be delinquent. 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. Servicers are reminded that a current MBS mortgage loan is ineligible for reclassification for the purpose of modifying the mortgage loan.

Removal of Regular Servicing Option MBS Loans – Payment in Default

Servicers of regular servicing option MBS mortgage loans are encouraged to offer the HMP for these mortgages. If a servicer decides to use the HMP for such mortgages, the servicer will be expected to follow the Treasury's Home Affordable Modification Program, sign the servicer participation agreement, obtain any third-party approvals, and comply with the requirements of this Announcement governing reporting and removal of these 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 mortgages which are not considered Fannie Mae HMP mortgages.

The servicer of a mortgage 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 as long as it remains in the MBS pool. However, once the mortgage 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, the servicer may remove the mortgage loan from the pool. Regular servicing option MBS pool mortgages and such shared-risk special servicing option MBS pool mortgages that have been removed from an MBS pool for purposes of modification

are not eligible for redelivery to Fannie Mae. Performing MBS mortgages (i.e., those that do not meet the delinquency criteria described above) are ineligible for repurchase for the purpose of modifying the mortgage.

Recording the Modification

For all mortgage loans that are modified pursuant to the HMP, the servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable. The HMP 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 \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- 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 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 \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- obtain subordination agreements from any junior lien holders, if (1) the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives) or (2) the remaining term on the mortgage loan is less than or equal to ten years and the term of the mortgage loan is being extended more than ten years beyond the original maturity date; and
- record the executed HMP Agreement if (1) State or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in the State of New York or Cuyahoga County, Ohio; (3) the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives); or (4) the remaining term on the mortgage loan is less than or equal to ten years and you are extending the term of the mortgage loan more than ten years beyond the original maturity date.

Monthly Statements

For modifications that include principal forbearance, servicers are encouraged to include the amount of the gross unpaid principal balance (UPB) on the borrower's monthly payment statement.

Performing Loan Modification and Redefault

In order for a loan modification executed under the HMP to be considered a performing loan modification and for the borrower to be considered to be in good standing under the HMP, the loan must not be 90 days past due under the MBA delinquency calculation.

If a loan modification executed under the HMP is no longer performing, then borrower and servicer incentives will no longer accrue on the mortgage loan. The servicer must evaluate the borrower on such a loan for one of Fannie Mae's other foreclosure prevention alternatives prior to commencing or resuming foreclosure proceedings. The servicer may decide to allow the borrower to cure his or her default under the modified loan through a repayment plan, HomeSaver Advance™ or other means, for example. However, once a borrower ceases to be in good standing under the HMP, the borrower will not be restored to good standing under the HMP even if the borrower cures his or her default. A borrower who defaults under an HMP modification is not eligible for a subsequent HMP.

Servicer Delegation, Duties and Responsibilities

All Fannie Mae approved servicers are eligible to participate in the HMP without obtaining prior approval from Fannie Mae.

In performing the duties incident to the servicing of mortgage loans modified under the HMP, 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; the modified terms of the modified mortgage; data supporting the modification decision; updates to payoff information and the last payment date; additional information and data as may be requested by Fannie Mae or the Compliance Agent (described below) from time to time. All such data must be compiled and reported to Fannie Mae and the Compliance Agent in the form and manner set forth in this Announcement.
- Retain all data, books, reports, documents, audit logs and records, including electronic records, related to the HMP. 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 the Compliance Agent, the servicer shall retain these records for at least 7 years from the date the data or record was created. The Compliance Agent may also notify the servicer from time to time of any additional records retention requirements resulting from litigation, or other proceedings in which the Treasury or any agents of the Treasury may have an interest, and the servicer agrees to comply with such requirements.

- Construe the terms of this Announcement 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 the HMP solely for the purposes of fulfilling its obligations hereunder.
- Comply with all lawful instructions or directions received from the Treasury and Fannie Mae.
- Develop, enforce, and review for effectiveness at least annually, an internal control program designed to ensure effectiveness of duties in connection with the HMP and compliance with this Announcement. The internal control program must include documentation of the control objectives for HMP activities, the associated control techniques, and mechanisms for testing and validating the controls.
- Provide Fannie Mae and the Compliance Agent with access to all internal control reviews that relate to duties performed under the HMP by the servicer and/or its independent auditing firm.

The Treasury will designate another party to fulfill the role of Compliance Agent in connection with the HMP. The Compliance Agent, its independent auditor and other parties designated by the Treasury shall have the right during normal business hours to conduct announced and unannounced onsite and offsite physical, personnel and information technology testing, security reviews, and audits of the servicer and to examine all books and records related to the duties and compensation received in connection with the HMP. The servicer shall take corrective actions associated with reporting and audits as directed by Fannie Mae or the Compliance Agent.

Reporting Requirements

Fannie Mae is currently developing an automated process for servicers to submit and report HMP activity and will outline the details of this process in a subsequent Announcement.

HMP Loan Set Up

All servicers must provide loan level data to Fannie Mae when each HMP loan has successfully completed the trial period. Details on the required loan level data will be provided in a subsequent announcement.

Monthly Investor Reporting and Remitting

Existing monthly Loan Activity Record (LAR) reporting requirements for Fannie Mae servicers will not change. Servicers must continue to report the standard LAR format for loan payment and payoff activity by the 3rd business day of each month for the prior month's activity (e.g., reporting to be received by April 3rd will contain March activity).

However, in addition to Fannie Mae's normal monthly LAR reporting requirements, servicers must submit a second monthly LAR to Fannie Mae, referred to as the HMP LAR. The HMP LAR must be provided to Fannie Mae beginning the month after the servicer has first provided Fannie Mae with an HMP loan set up and monthly thereafter by the 4th business day of each

month. As with standard processing, the HMP LAR will be reported during a current reporting cycle and will contain the prior month's activity. Further information on the new LAR reporting requirements will be provided in a subsequent announcement.

Servicing Guide, Part VII, Section 502.03: Reporting to Fannie Mae; and Part X, Chapter 3: Special Reporting Requirements

If the modification includes principal forbearance, the servicer should report the net unpaid principal balance (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 loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest bearing unpaid principal balance (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

Servicing Guide, Part VII, Chapter 6, Exhibit 1: Delinquency Status Codes

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.

Mortgage Insurance

Reporting to Mortgage Insurers

Servicers must maintain their mortgage insurance processes and comply with all reporting required by the mortgage insurer for loans modified under the HMP. 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 the HMP. Servicers are required to report successful HMP 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 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 MI 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.

Transfers of Servicing

When a transfer of servicing includes mortgages modified under the HMP, we require the transferor servicer to provide special notification to the transferee servicer. Specifically, the transferor servicer must advise the transferee servicer that loans modified under the HMP are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for these loans, but also agrees to assume the additional responsibilities associated with servicing these loans.

The transferee servicer must assume all of the responsibilities and duties of the HMP. 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 mortgages. The two servicers will be jointly and severally liable to us 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 loans .

Credit Bureau Reporting

In accordance with the *Servicing Guide*, Part VII, Section 107: Notifying Credit Repositories, the servicer should continue to report a "full-file" status report to the four major credit repositories for each loan under the HMP in accordance with the Fair Credit Reporting Act and credit bureau requirements. "Full-file" reporting means that the servicer must describe the exact status of each mortgage it is servicing as of the last business day of each month, consistent with the reporting requirements in the 2008 CDIA Credit Reporting Resource Guide.

Servicers must also follow the document entitled *Mortgage & Home Equity Reporting Guidelines In Response to Current Financial Conditions* (December 2008) posted on the [Consumer Data Industry's Website](#), which provides specific guidance on the credit bureau requirements for proper and consistent reporting of loan modifications.

Fees and Compensation

Servicing Fees

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 HMP becomes effective, the servicer will receive servicing fees based on our existing fee schedule for modified mortgage loans in accordance with the *Servicing Guide*, Part VII, Section 502.02: Modifying Conventional Mortgages.

Late Fees

The servicer must waive all late charges, penalties, stop payment fees or similar fees that accrued prior to HMP eligibility and must not impose any such fees on the mortgage loan during the trial period.

Administrative Costs

Servicers may not charge the borrower to cover the administrative processing costs incurred in connection with a HMP. The servicer must advance any actual out-of-pocket expenses such as any required notary fees, recordation fees, title costs, property valuation fees, borrower counseling 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).

Incentive Compensation

Timing and mechanics of the various borrower and servicer incentive compensation plan will be provided in a subsequent announcement

Servicer Incentive Compensation

A servicer will receive compensation of \$1,000 for each completed HMP. In addition, if a payment default was imminent 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, but excluding mortgage insurance) is reduced through the HMP by six percent 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 loan is a performing loan modification. The "pay for success" fee will accrue monthly but will be payable annually for each of the first three years after the anniversary of the month in which a HMP Workout Plan is executed. If and

when the loan ceases to be a performing loan modification, 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.

Borrower's Incentive Compensation

To provide an additional incentive for borrowers to keep their modified loan current, borrowers whose monthly mortgage payment (principal, interest, taxes and all related property insurance, but excluding mortgage insurance) is reduced through the HMP by six percent or more and who make timely monthly payments will earn a principal balance reduction incentive 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 five years as long as the loan is a performing loan modification. The principal balance reduction incentive 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 HMP Agreement is executed. This payment will be paid to the servicer to be applied first to any principal forbearance amount (if applicable) and then towards reducing the principal balance on the mortgage loan. If and when the loan ceases to be a performing loan modification (i.e., becomes 90 days or more past due), the borrower will lose any accrued but unapplied principal balance reduction incentive and cease to be eligible for any further incentive payments after that time, even if the borrower subsequently cures his or her delinquency.

It is anticipated that the servicer will provide monthly reports to the borrower on the borrower's incentive compensation. Further clarification will be shared in a subsequent announcement.

Servicers must place the borrower incentives into an existing custodial account.

HOPE for Homeowners

Servicers will be required to consider a borrower for refinancing into the HOPE for Homeowners program when feasible.

HomeSaver Forbearance

HomeSaver Forbearance is a new loss mitigation option available to borrowers that are either in default or for whom default is imminent and who do not qualify for the HMP. A servicer should offer a HomeSaver Forbearance if such borrowers have a willingness and ability to make reduced monthly payments of at least one-half of their contractual monthly payment. The plan should reduce the borrower's payments to an amount the borrower can afford, but no less than 50 percent of the borrower's contractual monthly payment, including taxes and insurance and any other escrow items at the time the forbearance is implemented. During the six month period of forbearance, the servicer should work with the borrower to identify the feasibility of, and implement, a more permanent foreclosure prevention alternative. The servicer should evaluate and identify a permanent solution during the first three months of the forbearance period and should implement the alternative by the end of the sixth month.

Incentive Fee

Servicers will receive a \$200 incentive fee upon successful reporting to Fannie Mae of the initiation of a HomeSaver Forbearance plan and the collection of one payment under the forbearance plan. Servicers are eligible for one HomeSaver Forbearance incentive fee during the life of the loan. A servicer will also be eligible to receive an incentive upon the successful completion of the resulting permanent foreclosure prevention alternative as outlined in Announcement 08-20 and Announcement 08-33.

Reporting Requirements

Fannie Mae is currently developing an enhanced delinquency reporting process for servicers to submit and report HomeSaver Forbearance activity and will outline the details of this process in a subsequent announcement. At this time, a servicer will be required to submit information on an encrypted Microsoft Excel[®] spreadsheet that outlines the terms of the HomeSaver Forbearance plan. Servicers are required to submit weekly HomeSaver Forbearance updates to Fannie Mae through the upload functionality in HSSN. Each weekly report must be submitted on the first business day of the following week. The weekly reports should include information on new HomeSaver Forbearance plans and on the payments received from borrowers under such plans. For any month in which the end of the month occurs on a business day other than a Friday, the servicer must provide two weekly updates:

1. One update for the business day(s) in that week to month end; and
2. One update for the business day(s) in that week for the new month

Both updates must be provided on the first business day of the following week.

A sample Excel spreadsheet outlining the data elements and the order in which the data elements must be presented is available on eFannieMae.com.

Mortgage Insurer Approval

Granting forbearance is contingent on the servicer's ability to ensure the continuation of mortgage insurance coverage. Fannie Mae is seeking to obtain blanket delegations of authority from each mortgage insurer so that servicers can grant HomeSaver Forbearances without having to obtain mortgage insurer approval on individual loans to extend the delinquency beyond the date that foreclosure proceedings would otherwise be required to begin. Fannie Mae will post and maintain on eFannieMae.com a list of the mortgage insurers from which it receives a delegated authority agreement for the HomeSaver Forbearance. Servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which we have not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of forbearance terms, payment of premiums, payment of claims, and other operational matters in connection with forbearances granted under HomeSaver Forbearance.

Servicers are reminded that, in accordance with *Servicing Guide*, Part III, Section 103.04: Advances to Cover Expenses, a servicer must advance the funds to cover the monthly remittance of the full mortgage insurance premium in the event that the borrower's deposit account does not have enough funds due to the reduction in the monthly payment amount.

New Workout Hierarchy

As a result of the introduction of the HMP and HomeSaver Forbearance, Fannie Mae is establishing a new workout hierarchy which establishes the preferred order of consideration of foreclosure prevention alternatives to resolve a delinquency. The new hierarchy supersedes the previously announced "RAMPD" hierarchy introduced in Announcement 08-14. As suggested by the hierarchy, servicers must determine if the borrower has adequate net income after expenses to repay any arrearage through a repayment plan or a HomeSaver Advance (HSA) before approving a modification. For a borrower who is experiencing a long-term or permanent financial hardship, the servicer should determine if the HMP is appropriate, and if not, should place the borrower on a HomeSaver Forbearance plan, if applicable, while considering more permanent relief options such as a modification, pre-foreclosure sale, or a deed-in-lieu of foreclosure.

Temporary Hardship

For a borrower who is expected to overcome a temporary financial hardship and be able to make future scheduled payments in addition to an amount to cure any outstanding arrearage over time, the following foreclosure prevention alternatives should be considered. Notwithstanding the options below, in the event a borrower requires a particular workout that the servicer deems to be in both Fannie Mae and the borrower's best interest, the servicer is strongly encouraged to submit the workout case to Fannie Mae for review and approval.

- Forbearance — A temporary reduction or suspension of payments which must be immediately followed by an arrangement to cure the delinquency.
- Repayment Plan — An arrangement in which a borrower agrees to pay down past due amounts while still making regularly scheduled payments.
- HSA — A monetary advance to cure a delinquent loan resulting in a separate unsecured loan for the arrearage amount.

Permanent Hardship

For a borrower who has experienced a permanent or long-term/enduring financial hardship, foreclosure prevention alternatives should be considered in the following preferred order:

- HMP — For a borrower facing imminent default or who is one or more monthly payments past due, a trial payment period followed by a permanent change to the terms of a mortgage loan.
- HomeSaver Forbearance — For a borrower who is not eligible for, or who does not meet the terms of the HMP but has the willingness and ability to make reduced monthly payments of at least half the borrower's contractual monthly payment.

- Other Forbearance — A temporary reduction or suspension of payments (subject to the limits of the governing MBS trust document under which that mortgage loan was pooled), which will culminate in a more permanent foreclosure prevention alternative listed below.

Once a borrower is on a HomeSaver Forbearance or other forbearance, the following options, along with any new programs that may become available, should be considered in the following preferred order:

- Modification — For mortgage loans that are ineligible for the HMP, such as non-owner occupied property, any permanent change to the terms of a mortgage loan, including changes to the interest rate, interest and expense capitalization, or changes to the loan term.
- Pre-Foreclosure Sale — For delinquent mortgage loans, the acceptance of a sales contract prior to a foreclosure sale resulting in a payoff of less than the total amount owed on the mortgage loan and release of the mortgage lien.
- Deed-in-Lieu — For delinquent mortgage loans, the voluntary transfer of title from a borrower to the servicer to satisfy the mortgage loan and avoid foreclosure (also called a "voluntary conveyance").

Retirement of the Streamlined Modification Program (SMP) and the Early Workout Program

Effective March 4, 2009, servicers can no longer offer the SMP to borrowers. The HMP will replace the SMP. Servicers must continue to offer the original SMP terms to borrowers that are completing SMP trial payment periods after the SMP end date. Once the borrower completes the SMP trial payment period the SMP modification will become effective. A borrower who defaults on an SMP is eligible for an HMP. However, if a borrower contacts a servicer directly to inquire about converting to the HMP prior to the execution of the SMP Agreement, and the borrower meets all the eligibility requirements of the HMP, the servicer may offer the borrower the HMP. The borrower will be required to meet all the terms of the HMP, execute the HMP Workout Plan, and enter into a new trial payment period.

The Early Workout Program was announced in Announcement 08-31. At that time, Fannie Mae promised additional information on the program. The implementation of the HMP will also replace the Early Workout Program.

Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (1-888-326-6435) if they have any questions about this Announcement.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer