

**MPF Announcement:**

2020-56

**Date:**

September 8, 2020

**Alert:**

Clarification

**New Policy**

**Policy Update**

Reminder

Training Information

**Audience:**

Compliance/Legal

Program Management

Origination

Quality Control

**Servicing**

Underwriting

**Product:**

MPF Direct

MPF Government MBS

MPF Traditional

**MPF Xtra<sup>®</sup>**

**Effective Date:**

**Immediately** (unless otherwise noted)

**Reference**

[Fannie Mae Lender Letter LL-2020-05](#)

[Fannie Mae Lender Letter LL-2020-11](#)

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## MPF Xtra Servicing Guide Updates

On August 27, 2020 Fannie Mae published several servicing updates all issued respectively, which cover the below referenced topics that are applicable to loans serviced under the MPF Xtra product:

### Updates to [Fannie Mae Lender Letter LL-2020-05: Payment Deferral](#)

- Incorporated minor revisions to better clarify the intent of certain requirements in response to Servicer inquiries.

### Updates to [Fannie Mae Lender Letter LL-2020-11: Disaster Payment Deferral](#)

- Updated the authority to offer an initial forbearance plan of up to three months without achieving QRPC in connection with a disaster event.
- Incorporated minor revisions to better clarify the intent of certain requirements in response to servicer inquiries.

To gain a full understanding of these topics, Servicers should review the entire Fannie Mae Lender Letters plus any applicable Fannie Mae Servicing Guide chapters, forms, or exhibits noted in the announcement.



# Lender Letter (LL-2020-05)

Updated Aug. 27, 2020

Jul. 15, 2020

Jun. 10, 2020

May 27, 2020

Mar. 25, 2020

## To: All Fannie Mae Single-Family Servicers Payment Deferral

We're introducing payment deferral, a new home retention workout option jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency. This workout option enables servicers to assist eligible borrowers who have resolved a temporary hardship and resumed their monthly contractual payments but cannot afford either a full reinstatement or repayment plan to bring the loan current.

Update to Lender Letter on Aug. 27, 2020

- Incorporating minor revisions to better clarify the intent of certain requirements in response to servicer inquiries.

Update to Lender Letter on Jul. 15, 2020

- Clarifying how servicing fees, guaranty fees, and excess servicing fees (if applicable) will be reimbursed for mortgage loans that receive a payment deferral

Update to Lender Letter on Jun. 10, 2020

- A reference to the updates to the workout option incentive fee structure introduced in Lender Letter [LL-2020-09](#), Incentive Fees for Retention Workout Options

Updates to Lender Letter on May 27, 2020

- Operational requirements related to reporting and completing a payment deferral
- The process for obtaining reimbursement for expenses related to a payment deferral
- Removal of Triad from the list of mortgage insurers that have granted delegation of authority for payment deferral

Lender Letter content published Mar. 25, 2020, updated May 27, 2020, Jun. 10, 2020, Jul. 15, 2020

- [Determining eligibility for a payment deferral](#)
- [Determining eligibility for a payment deferral for a Texas Section 50\(a\)\(6\) loan](#)
- [Determining the payment deferral terms](#)
- [Completing a payment deferral](#)
- [Processing a payment deferral for an MBS mortgage loan](#)
- [Reporting a delinquency status code for a payment deferral](#) **UPDATED May 27, 2020**
- [Reporting a payment deferral to Fannie Mae](#) **UPDATED May 27, 2020**
- [Processing a payment deferral for a mortgage loan with mortgage insurance](#) **UPDATED Jun. 10, 2020**
- [Handling fees and late charges in connection with a payment deferral](#)
- [Incentive fees](#) **UPDATED Jun. 10, 2020**



- [Servicing fees UPDATED Jul. 15, 2020](#)
- [Requesting reimbursement for payment deferral expenses](#)
- [Fannie Mae's workout hierarchy](#)
- [Updates to Fannie Mae Flex Modification](#)
- [Borrower Solicitation Letter \(Form 745\)](#)
- [Updates to the Investor Reporting Manual UPDATED May 27, 2020](#)
- [Appendix](#)

**Effective:** Servicers are encouraged to begin evaluating borrowers for payment deferral in accordance with this Lender Letter on or after Jul. 1, 2020; however, servicers must begin evaluating borrowers for payment deferral no later than Jan. 1, 2021. Also, these policy changes will be reflected in the Dec. 2020 update of the *Servicing Guide*, at which time we will also update the *Investor Reporting Manual*.

**The following content was published Mar. 25, 2020, Updated May 27, 2020, Jun. 10, 2020, Jul. 15, 2020, Aug. 27, 2020.**

## Determining eligibility for a payment deferral

The servicer is authorized to evaluate the borrower for a payment deferral without receiving a complete Borrower Response Package (BRP). When the servicer offers a payment deferral without receiving a complete BRP, the servicer is not required to send an [Evaluation Notice](#), or equivalent.

If the borrower submitted a complete BRP, then the servicer must evaluate the borrower in accordance with [D2-2-05, Receiving a Borrower Response Package](#). The servicer is authorized to use an [Evaluation Notice](#) but must make the appropriate changes as necessary, including to the applicable Frequently Asked Questions, to reflect the terms of the payment deferral. In order to be eligible for a payment deferral, the following criteria must be met.

✓	<b>Eligibility Criteria for a Payment Deferral</b>
	<p>The mortgage loan must be a conventional first lien mortgage loan, and may be a fixed-rate, a step-rate, or an ARM.</p> <p><b>NOTE:</b> <i>The property securing the mortgage loan may be vacant or condemned.</i></p>
	<p>The mortgage loan must meet the following delinquency parameters:</p> <ul style="list-style-type: none"> <li>▪ As of the date of evaluation, the mortgage loan must be 30 or 60 days delinquent (i.e., the borrower is not past due for more than two full monthly contractual payments); and</li> <li>▪ such delinquency status must have remained unchanged for at least three consecutive months, including the month of the evaluation.</li> </ul> <p><b>NOTE:</b> <i>The servicer must receive the borrower's full monthly contractual payment due for the month of evaluation. If the servicer has not received this full monthly contractual payment as of the date of evaluation, the borrower may still be eligible for a payment deferral if he or she makes the full monthly contractual payment by the end of the evaluation month. Refer to the Appendix for examples on determining delinquency status.</i></p>



✓	<b>Eligibility Criteria for a Payment Deferral</b>
	<p>The servicer must achieve Quality Right Party Contact (QRPC) with the borrower (see <a href="#">D2-2-01, Achieving Quality Right Party Contact with the Borrower</a> for additional information).</p> <p>Additionally, the servicer must confirm that the borrower:</p> <ul style="list-style-type: none"> <li>▪ has resolved the hardship,</li> <li>▪ is able to continue making the full monthly contractual payment, and</li> <li>▪ is unable to reinstate the mortgage loan or afford a repayment plan to cure the delinquency.</li> </ul> <p><b>NOTE:</b> <i>If the borrower’s mortgage loan previously received a Fannie Mae Home Affordable Modification Program (HAMP) Modification and the borrower remains in “good standing,” the servicer must inform the borrower that a payment deferral will result in the mortgage loan’s loss of good standing, and the borrower will lose any “pay for performance” incentive he or she might otherwise have received.</i></p>
	The mortgage loan must have been originated at least 12 months prior to the evaluation date for a payment deferral.
	The mortgage loan must not have received a previous payment deferral.
	<p>The mortgage loan must not be subject to</p> <ul style="list-style-type: none"> <li>▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized,</li> <li>▪ an approved liquidation workout option,</li> <li>▪ an active and performing forbearance plan or repayment plan,</li> <li>▪ a current offer for another retention workout option, or</li> <li>▪ an active and performing mortgage loan modification Trial Period Plan.</li> </ul>
	<p>The borrower must not have failed a non-disaster related mortgage loan modification Trial Period Plan within 12 months of being evaluated for eligibility for a payment deferral.</p> <p><b>NOTE:</b> <i>Converting from a Trial Period Plan to a forbearance plan is not considered a failed Trial Period Plan.</i></p>
	The mortgage loan must not have been modified with a non-disaster related mortgage loan modification within the previous 12 months of being evaluated for eligibility for a payment deferral.

## Determining eligibility for a payment deferral for a Texas Section 50(a)(6) loan

A Texas Section 50(a)(6) loan is eligible for a payment deferral if

- the requirements described in [Determining eligibility for a payment deferral](#) are satisfied, and
- the application of a payment deferral to the mortgage loan complies with applicable law.

If the servicer receives notice from the borrower that a payment deferral fails to comply with Texas Section 50(a)(6) requirements, the servicer must immediately, but no later than seven business days after receipt, take the actions listed in the following table.



✓	<b>The servicer must...</b>
	Inform our Legal department by submitting a <i>Non-Routine Litigation Form</i> ( <a href="#">Form 20</a> ) and include the borrower notice in its submission.
	Collaborate with us on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by the requirements of Texas Section 50(a)(6).

## Determining the payment deferral terms

The servicer must defer the past-due principal and interest (P&I) payments as a non-interest bearing balance, due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. All other terms of the mortgage loan must remain unchanged.

Any existing non-interest bearing balance on the mortgage loan remains due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.

**NOTE:** *If the servicer chooses to perform an escrow analysis, any escrow account shortage that is identified at the time of the payment deferral must not be included in the non-interest bearing balance and the servicer is not required to fund any existing escrow account shortage. In addition, the servicer is not required to revoke any escrow deposit account waiver.*

## Completing a payment deferral

The servicer must complete (i.e., submit the case via Fannie Mae’s servicing solutions system) a payment deferral in the same month in which it determines the borrower is eligible.

The servicer is authorized to use an additional month to allow for sufficient processing time (“processing month”) to complete a payment deferral. In this circumstance

- the borrower must make his or her full monthly contractual payment during the processing month, and
- The servicer must complete the payment deferral within the processing month after receipt of the borrower’s full monthly contractual payment due during that month.

**NOTE:** *The servicer must treat all borrowers equally in applying the processing month, as evidenced by a written policy.*

The servicer must send the [payment deferral agreement](#), or equivalent, to the borrower no later than five days after the completion of the payment deferral.

While use of the payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*. Also, the servicer must ensure the payment deferral agreement complies with applicable law.

**NOTE:** *If the servicer determines the borrower’s signature is required on the payment deferral agreement, it must receive the executed agreement prior to completing the payment deferral.*

The servicer’s application of a payment deferral to the mortgage loan must not impair our first lien position or enforceability against the borrower(s) in accordance with its terms.

The servicer must record the payment deferral agreement if the servicer determines that recordation is required to comply with law and ensure that the mortgage loan retains its first lien position. The servicer must obtain a title endorsement or similar title insurance product issued by a title insurance company if the payment deferral agreement will be recorded.

The servicer must also provide documents to the document custodian in accordance with the following table.



If the payment deferral agreement is...	Then the servicer must send...
not required to be signed by the borrower	a copy of the payment deferral agreement signed by the servicer to the document custodian within 25 days of the effective date of the payment deferral.
required to be signed by the borrower but not recorded	the fully executed original payment deferral agreement to the document custodian within 25 days of the effective date of the payment deferral.
required to be recorded	<ul style="list-style-type: none"> <li>▪ a certified copy of the fully executed payment deferral agreement to the document custodian within 25 days of the effective date of the payment deferral, and</li> <li>▪ the original payment deferral agreement that is returned from the recorder's office to the document custodian within 5 business days of receipt.</li> </ul>

## Processing a payment deferral for an MBS mortgage loan

The servicer must not make a manual reclassification request for mortgage loans subject to a payment deferral. In addition, MBS mortgage loans subject to a payment deferral will not be scheduled for automatic reclassification as described in [A1-3-06, Automatic Reclassification of MBS Mortgage Loans](#).

## Reporting a delinquency status code for a payment deferral **UPDATED May 27, 2020**

The servicer must report delinquency status information to us through our servicing solutions system in accordance with [D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae](#).

Unlike Fannie Mae's other workout options, payment deferral does not have a unique workout option delinquency status code. If no other delinquency status code is applicable to a mortgage loan subject to a payment deferral, the servicer must continue to report delinquency status code 42 – Delinquent, No Action until the payment deferral has been completed and the mortgage loan is brought current.

## Reporting a payment deferral to Fannie Mae **UPDATED May 27, 2020**

The servicer must submit an eligible payment deferral case to our servicing solutions system by entering loan-level information, including the applicable campaign ID to identify a payment deferral. The case must be entered in the month of evaluation, after the borrower has made any required full monthly contractual payment.

If the servicer chooses to use a processing month, the servicer must submit the payment deferral case during the processing month after receipt of the full monthly contractual payment that is due for such month.

The servicer must remit and report to us via a Loan Activity Record (LAR) the borrower's full monthly contractual payment due in the month of evaluation (or due in the processing month, if applicable) prior to completing a payment deferral in Fannie Mae's servicing solutions system.

**NOTE:** *If the servicer does not remit and report via a LAR the full monthly contractual payment at least one business day prior to the last day of the month, the servicer will not be able to complete the payment deferral case. If the UPB or LPI reported in Fannie Mae's servicing solutions system prior to application of a payment deferral does not agree with the last reported UPB or LPI in Fannie Mae's investor reporting system, the payment deferral will not be processed in Fannie Mae's investor reporting system until the discrepancy is resolved.*

See [Updates to the Investor Reporting Manual](#) in this Lender Letter for additional information.



## **Processing a payment deferral for a mortgage loan with mortgage insurance **UPDATED**** **May 27, 2020**

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We have obtained delegation of authority on behalf of all servicers from the following mortgage insurers for payment deferral: Arch MI, Essent Guaranty, Genworth, MassHousing, MGIC, National Mortgage Insurance, Radian Guaranty, RMIC, and United Guaranty.

If we have not obtained delegation of authority from the mortgage insurer for any particular workout option, the servicer must obtain this delegation or seek mortgage insurer approval.

## **Handling fees and late charges in connection with a payment deferral**

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The servicer must not charge the borrower administrative fees. It must waive all late charges, penalties, stop payment fees, or similar charges upon completing a payment deferral.

## **Incentive fees **UPDATED Jun. 10, 2020****

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The servicer is eligible for a \$500 incentive fee upon completion of a payment deferral. See Lender Letter [LL-2020-09](#), Incentive Fees for Retention Workout Options for the new temporary structure for incentive fees for completed repayment plans, payment deferrals/COVID-19 payment deferrals, and Fannie Mae Flex Modification.

## **Servicing fees **UPDATED Jul. 15, 2020****

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The servicer will continue to receive the servicing fee it was receiving prior to completing a payment deferral after a payment deferral becomes effective.

Servicing fees, guaranty fees, and excess servicing fees (if applicable) will be reimbursed for mortgage loans that receive a payment deferral at the time the mortgage loan matures or is paid-in-full through a credit to the servicer's custodial account.

## **Requesting reimbursement for payment deferral expenses**

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The servicer must pay any actual out-of-pocket expenses in accordance with the *Servicing Guide* associated with the execution of a payment deferral, including, but not limited to:

- required notary fees,
- recording costs,
- title costs, or
- any other allowable and documented expense.

We will reimburse the servicer for allowable out-of-pocket expenses in accordance with [F-1-05, Expense Reimbursement](#).

## **Fannie Mae's workout hierarchy**

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The servicer must consider a reinstatement when the mortgage loan is delinquent and it has determined that the borrower has the ability to bring the mortgage loan current.

The servicer must see Chapter D2-3, Fannie Mae's Home Retention and Liquidation Workout Options for the applicable workout option requirements. The following table provides guidance and the order of evaluation for available workout options for a conventional first lien mortgage loan. A complete BRP may not be required for each workout option.



### Temporary Hardship

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

If the hardship has...	Then the servicer must consider a...
been resolved and the borrower does not have the ability to reinstate the mortgage loan	<ul style="list-style-type: none"> <li>▪ <a href="#">D2-3.2-02, Repayment Plan</a></li> </ul>
been resolved and the borrower does not have the ability to afford a repayment plan	<ul style="list-style-type: none"> <li>▪ payment deferral</li> </ul>
not been resolved	<ul style="list-style-type: none"> <li>▪ <a href="#">D2-3.2-01, Forbearance Plan</a></li> </ul>

### Permanent Hardship

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

- [D2-3.2-06, Fannie Mae Flex Modification](#)
- [D2-3.3-01, Fannie Mae Short Sale](#)
- [D2-3.3-02, Fannie Mae Mortgage Release \(Deed-in-Lieu of Foreclosure\)](#)

**NOTE:** If a borrower requests to be evaluated for a liquidation workout option, the servicer must first evaluate the borrower for a liquidation workout option. See [D2-3.1-01, Determining the Appropriate Workout Option](#).

**NOTE:** If the property securing the mortgage loan or the borrower’s place of employment is located in a FEMA-declared Disaster Area eligible for Individual Assistance, the servicer must first consider the borrower for a payment deferral, as described in [Determining eligibility for a payment deferral](#), and in accordance with the table above, prior to evaluating the borrower for a post-forbearance mortgage loan modification in accordance with [LL-2017-09R, Fannie Mae Extend Modification for Disaster Relief \(Extend Mod\)](#).

## Updates to Fannie Mae Flex Modification

A payment deferral does not count as a mortgage loan modification when determining the number of times the mortgage loan has previously been modified for purposes of determining eligibility for a Fannie Mae Flex Modification in accordance with [Determining Eligibility for a Fannie Mae Flex Modification](#) in [D2-3.2-06, Fannie Mae Flex Modification](#).

## Borrower Solicitation Letter (Form 745)

We have posted a Borrower Solicitation Letter ([Form 745](#)) with the payment deferral option incorporated for use upon your implementation of this workout option.

## Updates to the Investor Reporting Manual UPDATED May 27, 2020

### Reporting a Mortgage Loan Eligible for a Payment Deferral

Loan activity reporting must continue on a delinquent mortgage loan that is subject to a payment deferral. If the mortgage loan is in an MBS pool, then the servicer must not request a reclassification.

The final “pre-payment deferral” UPB and LPI values in Fannie Mae’s servicing solutions system must match the last reported UPB and LPI in Fannie Mae’s investor reporting system. If the values do not match, this will cause an exception in Fannie Mae’s servicing solutions system and the payment deferral case cannot close until this discrepancy is resolved.

In our investor reporting system, the servicer must report a payment LAR with the UPB and a delinquent LPI Date equal to or less than two months. This payment LAR must be reported in the evaluation month, or the processing month if applicable, at least one business day prior to the last day of the calendar month. Failure to do so will result in the payment deferral not being processed in Fannie Mae’s servicing solutions system.





The following table provides additional instructions based on what is processed in the current reporting month prior to acceptance of the payment deferral in Fannie Mae’s investor reporting system.

If...	Then...
no LAR or a LAR without LPI and UPB movement is processed by CD22 in the current reporting month prior to the payment deferral’s acceptance	the servicer must report a subsequent LAR with LPI and UPB movement reflecting the “pre-payment deferral” activity. The payment LAR must be reported at least one business day prior to the last day of the calendar month.
a LAR with LPI and UPD movement was successfully processed and the payment deferral is accepted in the current reporting month	any subsequent LAR received in the same reporting month will be deemed “Invalid” and will be reflected as such in the Loan Activity Summary Report. A detailed list can be obtained from your Investor Reporting analyst.  <b>NOTE:</b> <i>The first LAR that Fannie Mae will accept after the payment deferral terms are reflected in the Investor Reporting system will be in the next reporting month.</i>

### Reporting a Mortgage Loan After a Payment Deferral

A payment deferral creates a non-interest bearing balance (referred to in the Investor Reporting Manual as “principal forbearance”) amount due and payable at the maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. The servicer must not calculate interest on the principal forbearance amount.

In the reporting month following the acceptance of a payment deferral, the servicer must report the mortgage loan’s

- net UPB (gross UPB minus the principal portion of the payment deferral amount) in the “Actual UPB” field on the LAR if there is no LPI movement; or
- amortized UPB based on the net UPB (gross UPB minus the principal portion of the payment deferral amount) in the “Actual UPB” field on the LAR if there is LPI movement.

**NOTE:** *The initial reduction in UPB caused by the principal forbearance must not be reported to Fannie Mae as a principal curtailment.*

The following table provides additional instructions related to reporting requirements for mortgage loans that were subject to a payment deferral and have an outstanding principal forbearance at the time of a principal curtailment, a payoff, or a repurchase.

If...	Then...
a principal curtailment is received	<ul style="list-style-type: none"> <li>▪ if the principal curtailment being applied is less than the interest-bearing UPB, the servicer must apply such principal curtailment to the interest-bearing UPB.</li> <li>▪ if the principal curtailment is greater than or equal to the interest-bearing UPB, then the servicer must apply such curtailment in the following order:               <ul style="list-style-type: none"> <li>• to the non-interest bearing balance, if any; and</li> <li>• to the interest-bearing UPB.</li> </ul> </li> </ul>



If...	Then...
a payoff or a repurchase is received	<p>the servicer must include the principal forbearance amount when reporting the principal remittance amount.</p> <p><b>NOTE:</b> <i>Principal forbearance reported on the liquidation LAR consists of the deferred principal amount, the gross interest amount, and any prior principal forbearance on the mortgage loan.</i></p> <p><b>NOTE:</b> <i>Attempting to report a payoff or a repurchase without including the principal forbearance amount will generate an exception (hard reject) upon submission of the LAR.</i></p>

**NOTE:** *Generally, servicer P&I advances will be reimbursed within three to four business days after the payment deferral has been accepted in Fannie Mae's investor reporting system.*

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 determining delinquency eligibility for payment deferral.

### Borrower Has Made Contractual Payment at Time of QRPC/Evaluation

	January	February	March	April	May
Date of QRPC/ Evaluation	—	—	—	—	May 13
Date Payment Received	January 11	February 11	No payment	April 11	May 11
Days Delinquent at Month End	0	0	30	30	30
Last Paid Installment	January	February	February	March	April
Borrower Eligible?	Yes, because the delinquency status has remained unchanged for at least 3 consecutive months, including the month of evaluation, and the borrower has made the full monthly contractual payment prior to the date of QRPC/evaluation.				

### Borrower Has Not Made Contractual Payment at Time of QRPC/Evaluation

	January	February	March	April	May
Date of QRPC/ Evaluation	—	—	—	—	May 13
Date Payment Received	January 11	No payment	March 11	April 11	No payment
Days Delinquent at Month End	0	30	30	30	TBD
Last Paid Installment	January	January	February	March	TBD
Borrower Eligible?	Although the delinquency status has remained unchanged for at least 3 consecutive months, the borrower has not made the full monthly contractual payment due in the evaluation month as of the date of QRPC/evaluation. The borrower may be eligible for a payment deferral if he or she makes the full monthly contractual payment by the end of the evaluation month.				



# Lender Letter (LL-2020-11)

Updated Aug. 27, 2020  
Jul. 15, 2020

## To: All Fannie Mae Single-Family Servicers Disaster Payment Deferral

With Lender Letter [LL-2020-05, Payment Deferral](#), we announced payment deferral, a new retention workout option jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency (FHFA). That workout option was created to assist borrowers who became delinquent due to a short-term hardship that has since been resolved. Subsequently, with Lender Letter [LL-2020-07, COVID-19 Payment Deferral](#), we announced COVID-19 payment deferral, a new retention workout option also jointly developed with Freddie Mac at the direction of FHFA and designed to help borrowers impacted by a hardship related to COVID-19 return their mortgage to a current status after up to 12 months of missed payments.

With this Lender Letter, Fannie Mae is introducing disaster payment deferral, a new retention workout option created to assist borrowers with a disaster-related hardship return their mortgage to a current status after up to 12 months of missed payments. Disaster payment deferral offers servicers:

- A solution that is simple to explain to borrowers, as the amount of their delinquency moves into a non-interest bearing balance, due and payable at maturity of the mortgage loan or earlier payoff; and all other terms of the mortgage remain unchanged.
- No trial period, resulting in fewer borrower touchpoints than required for modifications.
- An efficient automated process through Servicing Management Default Underwriter™ for evaluation and decisioning case submissions.

Updates to Lender Letter on Aug. 27, 2020

- Updating the authority to offer an initial forbearance plan of up to three months without achieving QRPC in connection with a disaster event.
- Incorporating minor revisions to better clarify the intent of certain requirements in response to servicer inquiries.

This Lender Letter contains the following:

- [Determining eligibility for a disaster payment deferral](#)
- [Determining eligibility for a disaster payment deferral for a Texas Section 50\(a\)\(6\) loan](#)
- [Performing an escrow analysis](#)
- [Determining the disaster payment deferral terms](#)
- [Completing a disaster payment deferral](#)
- [Soliciting the borrower for a post-forbearance disaster payment deferral](#)
- [Soliciting the borrower for a Fannie Mae Flex Modification](#)
- [Processing a disaster payment deferral for an MBS mortgage loan](#)
- [Reporting a delinquency status code for a disaster payment deferral](#)



- [Reporting a disaster payment deferral to Fannie Mae](#)
- [Processing a disaster payment deferral for a mortgage loan with mortgage insurance](#)
- [Handling fees and late charges in connection with a disaster payment deferral](#)
- [Incentive fees](#)
- [Servicing fees](#)
- [Paying expenses and requesting reimbursement related to a disaster payment deferral](#)
- [Default after completing a disaster payment deferral](#)
- [Evaluation hierarchy for a borrower impacted by a disaster](#)
- [Update to Fannie Mae Flex Modification eligibility criteria](#)
- [Update to forbearance plan criteria \*\*NEW Aug. 27, 2020\*\*](#)
- [Updates to the \*Investor Reporting Manual\*](#)

**Effective:** As of Oct. 1, 2020, servicers must evaluate borrowers for a disaster payment deferral in accordance with this Lender Letter in lieu of Extend Modification for Disaster Relief and Cap and Extend Modification for Disaster Relief, which will be retired as of such date.

## The following content was published Jul. 15, 2020, Updated Aug. 27, 2020

### Determining eligibility for a disaster payment deferral

The servicer must not require a complete Borrower Response Package (BRP) to evaluate the borrower for a disaster payment deferral if the eligibility criteria are satisfied.

**NOTE:** A disaster-related forbearance plan is not required for purposes of determining borrower eligibility for a disaster payment deferral.

In order to be eligible for a disaster payment deferral, the criteria in the following table must be met.

✓	<b>Eligibility Criteria for a Disaster Payment Deferral</b>
	<p>The disaster event must result in</p> <ul style="list-style-type: none"> <li>▪ a financial hardship (e.g., a loss/reduction of income or increase in expenses) that impacts the borrower’s ability to pay his or her current contractual monthly payment, and</li> <li>▪ either               <ul style="list-style-type: none"> <li>• the property securing the mortgage loan experienced an insured loss,</li> <li>• the property securing the mortgage loan is located in a FEMA-Declared Disaster Area eligible for Individual Assistance, or</li> <li>• the borrower’s place of employment is located in a FEMA-Declared Disaster Area eligible for Individual Assistance.</li> </ul> </li> </ul> <p><b>NOTE:</b> See <i>Evaluating the Extent and Nature of the Property Damage</i> in <a href="#">D1-3-01, Evaluating the Impact of a Disaster Event and Assisting a Borrower</a> for additional information on what constitutes a disaster.</p>



✓	<b>Eligibility Criteria for a Disaster Payment Deferral</b>
	<p>The servicer must achieve Quality Right Party Contact (QRPC) with the borrower (see <a href="#">D2-2-01, Achieving Quality Right Party Contact with a Borrower</a> for additional information).</p> <p>Additionally, the servicer must confirm that the borrower</p> <ul style="list-style-type: none"><li>▪ has resolved the hardship,</li><li>▪ is able to continue making the full monthly contractual payment, and</li><li>▪ is unable to reinstate the mortgage loan or afford a repayment plan to cure the delinquency.</li></ul> <p><b>NOTE:</b> <i>If the mortgage loan was previously modified pursuant to a Fannie Mae Home Affordable Modification Program (HAMP) modification under which the borrower remains in “good standing,” then the mortgage loan will not lose good standing and the borrower will not lose any “pay for performance” incentives in the following circumstances:</i></p> <ul style="list-style-type: none"><li>▪ <i>the borrower was on a disaster-related forbearance plan immediately preceding the disaster payment deferral, or</i></li><li>▪ <i>the borrower has a disaster-related hardship and the mortgage loan is less than three months delinquent.</i></li></ul>
	<p>The mortgage loan must be a conventional first lien mortgage loan, and may be a fixed-rate, a step-rate, or an ARM.</p> <p><b>NOTE:</b> <i>The property securing the mortgage loan may be vacant or condemned.</i></p>
	<p>The mortgage loan must</p> <ul style="list-style-type: none"><li>▪ have been current or less than two months delinquent at the time the disaster occurred (e.g., disaster occurs on Mar. 20, borrower has an LPI of Jan. 1) when the disaster occurred; and</li><li>▪ be equal to or greater than one month delinquent but less than or equal to 12 months delinquent as of the date of evaluation.</li></ul> <p><b>NOTE:</b> <i>If a borrower's hardship is related to disaster but he or she was two or more months delinquent as of the date the disaster occurred, and the servicer determines the borrower can maintain his or her full monthly contractual payment, then the servicer must submit a request for a disaster payment deferral through Fannie Mae's servicing solutions system for review and obtain prior approval from Fannie Mae.</i></p>
	<p>The mortgage loan must not have previously received a disaster payment deferral as a result of the same disaster event.</p> <p><b>NOTE:</b> <i>The mortgage loan may have previously received a non-disaster payment deferral.</i></p>
	<p>The mortgage loan must not be subject to</p>



✓	<b>Eligibility Criteria for a Disaster Payment Deferral</b>
	<ul style="list-style-type: none"> <li>▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized,</li> <li>▪ an approved liquidation workout option,</li> <li>▪ an active and performing repayment plan or other non-disaster-related forbearance plan,</li> <li>▪ a current offer for another retention workout option, or</li> <li>▪ an active and performing mortgage loan modification Trial Period Plan.</li> </ul>

## Determining eligibility for a disaster payment deferral for a Texas Section 50(a)(6) loan

A Texas Section 50(a)(6) loan is eligible for a disaster payment deferral if

- the requirements described in [Determining eligibility for a disaster payment deferral](#) are satisfied, and
- the application of a disaster payment deferral to the mortgage loan complies with applicable law.

If the servicer receives notice from the borrower that a disaster payment deferral fails to comply with Texas Section 50(a)(6) requirements, the servicer must immediately, but no later than seven business days after receipt, take the actions listed in the following table.

✓	<b>The servicer must...</b>
	Inform our Legal department by submitting a <i>Non-Routine Litigation Form (Form 20)</i> and include the borrower notice in its submission.
	Collaborate with us on the appropriate response, including any cure that may be necessary, within the 60-day timeframe provided by the requirements of Texas Section 50(a)(6).

## Performing an escrow analysis

If the servicer chooses to perform an escrow analysis, any escrow account shortage that is identified at the time of the disaster payment deferral must not be included in the non-interest bearing balance, and the servicer is not required to fund any existing escrow account shortage. In addition, the servicer is not required to revoke any escrow deposit account waiver.

In the event the servicer identifies an escrow shortage as the result of an escrow analysis in connection with a disaster payment deferral or as part of the next annual analysis, then the servicer must spread repayment of the escrow shortage amount in equal monthly payments over a term of up to 60 months, unless the borrower decides to pay the shortage up-front.

## Determining the disaster payment deferral terms

The servicer must defer the following amounts as a non-interest bearing balance, due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB:

- up to 12 months of past-due principal and interest (P&I) payments;
- out-of-pocket escrow advances paid to third parties, provided they are paid prior to the effective date of the disaster payment deferral; and



- servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, provided they are paid prior to the effective date of the disaster payment deferral, if allowed by state law.

All other terms of the mortgage loan must remain unchanged.

Any existing non-interest bearing balance amount on the mortgage loan remains due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.

## Completing a disaster payment deferral

The servicer must complete (i.e., submit the case via Fannie Mae’s servicing solutions system) a disaster payment deferral in the same month in which it determines the borrower is eligible.

The servicer is authorized to use an additional month to allow for sufficient processing time (a “processing month”) to complete a disaster payment deferral. The servicer must treat all borrowers equally in applying the processing month, as evidenced by a written policy.

**NOTE:** *If the mortgage loan is 12 months delinquent as of the date of evaluation, the borrower must make his or her full monthly contractual payment during the processing month. In this circumstance, the servicer must complete the disaster payment deferral within the processing month after receipt of the borrower’s full monthly contractual payment due during that month.*

The servicer must send the disaster [payment deferral agreement](#), or equivalent, to the borrower no later than five days after the completion of the disaster payment deferral.

While use of the disaster payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*. Also, the servicer must ensure the disaster payment deferral agreement complies with applicable law.

**NOTE:** *If the servicer determines the borrower’s signature is required on the disaster payment deferral agreement, it must receive the executed agreement prior to completing the disaster payment deferral.*

The servicer’s application of a disaster payment deferral to the mortgage loan must not impair our first lien position or enforceability against the borrower(s) in accordance with its terms.

The servicer must record the disaster payment deferral agreement if the servicer determines that recordation is required to comply with law and ensure that the mortgage loan retains its first lien position. The servicer must obtain a title endorsement or similar title insurance product issued by a title insurance company if the disaster payment deferral agreement will be recorded.

The servicer must also provide documents to the document custodian in accordance with the following table.

If the disaster payment deferral agreement is...	Then the servicer must send...
not required to be signed by the borrower	a copy of the disaster payment deferral agreement signed by the servicer to the document custodian within 25 days of the effective date of the disaster payment deferral.





If the disaster payment deferral agreement is...	Then the servicer must send...
required to be signed by the borrower but not recorded	the fully executed original disaster payment deferral agreement to the document custodian within 25 days of the effective date of the disaster payment deferral.
required to be recorded	<ul style="list-style-type: none"> <li>▪ a certified copy of the fully executed disaster payment deferral agreement to the document custodian within 25 days of the effective date of the disaster payment deferral, and</li> <li>▪ the original disaster payment deferral agreement that is returned from the recorder’s office to the document custodian within 5 business days of receipt.</li> </ul>

## Soliciting the borrower for a post-forbearance disaster payment deferral

If the servicer is unable to establish QRPC as described in [Determining eligibility for a disaster payment deferral](#) with a borrower on a disaster-related forbearance plan and the borrower is otherwise eligible for a disaster payment deferral, the servicer must send an offer for a disaster payment deferral within 15 days after expiration of the forbearance plan.

The servicer must solicit the borrower using the [Payment Deferral Post-Disaster Forbearance Solicitation Cover Letter](#) with the disaster payment deferral agreement or the equivalent, making any appropriate changes to comply with applicable law.

While use of the [Payment Deferral Post-Disaster Forbearance Solicitation Cover Letter](#) and disaster payment deferral agreement is optional, it reflects the minimum level of information that the servicer must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*.

The [Payment Deferral Post-Disaster Forbearance Solicitation Cover Letter](#) must include language that additional forbearance may be available if the borrower's hardship is not resolved, and that a mortgage loan modification may be available if the borrower needs payment relief.

The servicer must include instruction on how to accept the offer in the disaster payment deferral agreement. The servicer is authorized to consider the following as acceptance by the borrower, subject to applicable law:

- the borrower contacting the servicer directly in accordance with any acceptable outreach and communication method,
- the borrower returning an executed disaster payment deferral agreement, or
- any other method evidencing the borrower's acceptance as determined by the servicer.

## Soliciting the borrower for a Fannie Mae Flex Modification

If the servicer is unable to establish QRPC as described in [Determining eligibility for a disaster payment deferral](#) with a borrower on a disaster-related forbearance plan and the borrower is ineligible for a disaster payment deferral, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table in [Evaluation hierarchy for a borrower impacted by a disaster](#) and, if eligible, the servicer must send an offer for a Fannie Mae Flex Modification within 15 days after expiration of the forbearance plan.



In addition, if a borrower is eligible for a disaster payment deferral but does not respond to the disaster payment deferral offer as described in [Soliciting the borrower for a post-forbearance disaster payment deferral](#) by the acceptance date provided in the disaster payment deferral agreement, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table in [Evaluation hierarchy for a borrower impacted by a disaster](#) and, if eligible, solicit the borrower for a Fannie Mae Flex Modification within 15 days after the expiration of the disaster payment deferral offer.

**NOTE:** *In either case, the servicer is authorized to continue proactive solicitation for a Fannie Mae Flex Modification at its discretion.*

The servicer must not solicit a borrower for a Fannie Mae Flex Modification if the property has a scheduled foreclosure sale date within

- 60 days of the evaluation date if the property is in a judicial state, or
- 30 days of the evaluation date if the property is in a non-judicial state.

The servicer must send the borrower the applicable [Flex Modification Solicitation Cover Letter](#) with the Flex Modification Trial Period Plan Solicitation Offer — Not Based on an Evaluation of a BRP [Evaluation Notice](#), or the equivalent, and make appropriate changes to these documents, including the applicable Frequently Asked Questions and as needed to comply with applicable law.

## Processing a disaster payment deferral for an MBS mortgage loan

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MBS mortgage loans subject to a disaster payment deferral will not be subject to automatic reclassification as described in [A1-3-06, Automatic Reclassification of MBS Mortgage Loans](#). In addition, the servicer must not make a manual reclassification request for mortgage loans subject to a disaster payment deferral.

## Reporting a delinquency status code for a disaster payment deferral

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The servicer must report delinquency status information to Fannie Mae through Fannie Mae's servicing solutions system in accordance with [D2-4-01, Reporting a Delinquent Mortgage Loan to Fannie Mae](#).

In circumstances where the servicer chooses to use a processing month to complete a disaster payment deferral, then for the processing month it must report the same delinquency status code used when reporting the previous month's delinquency status information (i.e., delinquency status code 09 – Forbearance or 42 – Delinquent, No Action).

## Reporting a disaster payment deferral to Fannie Mae

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The servicer must submit an eligible disaster payment deferral case to Fannie Mae's servicing solutions system by entering loan-level information, including the applicable campaign ID to identify a disaster payment deferral. The case must be entered by the last day of the month in which the evaluation took place.

If the servicer chooses to use a processing month, the servicer must enter the disaster payment deferral case within the processing month, but no later than the last day of such month. If a full monthly contractual payment is required in the processing month because the mortgage loan is 12 months delinquent as of the date of the evaluation, then the servicer must remit and report via a Loan Activity Record (LAR) to Fannie Mae the borrower's full monthly contractual payment due in the processing month prior to completing the disaster payment deferral in Fannie Mae's servicing solutions system.

**NOTE:** *If the servicer does not remit and report via a LAR the full monthly contractual payment at least one business day prior to the last day of the month, the servicer will not be able to complete the disaster payment deferral case. If the UPB or LPI reported in Fannie Mae's servicing solutions system prior to application of a disaster payment deferral does not agree*



*with the last reported UPB or LPI in Fannie Mae's investor reporting system, the disaster payment deferral will not be processed in Fannie Mae's investor reporting system until the discrepancy is resolved.*

See [Updates to the Investor Reporting Manual](#) within this Lender Letter for additional information.

## **Processing a disaster payment deferral for a mortgage loan with mortgage insurance**

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We have obtained delegation of authority on behalf of all servicers from the following mortgage insurers for the disaster payment deferral: Arch MI, Essent Guaranty, Genworth, MassHousing, MGIC, National Mortgage Insurance, Radian Guaranty, RMIC, and United Guaranty.

If we have not obtained delegation of authority from the mortgage insurer for any particular workout option, the servicer must obtain this delegation or seek individual mortgage insurer approval.

## **Handling fees and late charges in connection with a disaster payment deferral**

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The servicer must not charge the borrower administrative fees. It must waive all late charges, penalties, stop payment fees, or similar charges upon completing a disaster payment deferral.

## **Incentive fees**

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The servicer is eligible for a \$500 incentive fee upon completion of a disaster payment deferral. See Lender Letter [LL-2020-09, Incentive Fees for Retention Workout Options](#) for the new temporary structure for incentive fees for completed repayment plans, payment deferrals, COVID-19 payment deferrals, disaster payment deferrals, and Fannie Mae Flex Modifications.

## **Servicing fees**

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The servicer will continue to receive the servicing fee it was receiving prior to completing the disaster payment deferral after the disaster payment deferral becomes effective.

Servicing fees, guaranty fees, and excess servicing fees (if applicable) will be reimbursed for mortgage loans that receive a disaster payment deferral at the time the mortgage loan matures or is paid-in-full through a credit to the servicer's custodial account.

## **Paying expenses and requesting reimbursement related to a disaster payment deferral**

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The servicer must pay any necessary and actual out-of-pocket expenses in accordance with the *Servicing Guide* associated with the execution of a disaster payment deferral, including, but not limited to:

- required notary fees,
- recording costs,
- title costs, or
- any other allowable and documented expense.

**NOTE:** *The above expenses must not be included in the non-interest bearing balance created by the disaster payment deferral.*

We will reimburse the servicer for allowable out-of-pocket expenses in accordance with [F-1-05, Expense Reimbursement](#).

With regard to expenses that are advanced to third-parties in accordance with our *Servicing Guide* and included in the non-interest bearing balance, the servicer will not automatically be reimbursed for expenses related to a disaster payment deferral upon



completion of the disaster payment deferral, but instead must request reimbursement from Fannie Mae. The servicer must submit its *request for expense reimbursement* for expenses advanced and included in the non-interest bearing balance within 60 days of the completion of the disaster payment deferral. See [E-5-01, Requesting Reimbursement for Expenses](#) for additional information.

## Default after completing a disaster payment deferral

If the borrower becomes 60 days delinquent within 6 months of the disaster payment deferral’s effective date and the servicer is unable to achieve QRPC, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table below and if eligible, offer the Flex Modification to the borrower no later than the 75th day of delinquency. The servicer is not required to

- receive a complete BRP from the borrower, or
- have previously solicited the borrower for a workout option.

**NOTE:** *The servicer is authorized to continue proactive solicitation for Fannie Mae Flex Modification based on reduced eligibility criteria at its discretion. The servicer must not solicit a borrower for a Fannie Mae Flex Modification based on reduced eligibility criteria if the property has a scheduled foreclosure sale date within 60 days of the evaluation date if the property is in a judicial state, or within 30 days of the evaluation date if the property is in a non-judicial state.*

✓	<b>Reduced eligibility criteria when soliciting a borrower who defaulted after completing a disaster payment deferral</b>
	The mortgage loan must be a first-lien conventional mortgage loan.
	The mortgage loan must not be subject to <ul style="list-style-type: none"> <li>▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized;</li> <li>▪ a current offer for another mortgage loan modification or other workout option;</li> <li>▪ an approved liquidation workout option; or</li> <li>▪ an active and performing repayment plan, forbearance plan, or Trial Period Plan.</li> </ul>

The servicer must send the borrower the applicable [Flex Modification Solicitation Cover Letter](#) with the Flex Modification Trial Period Plan Solicitation Offer — Not Based on an Evaluation of a BRP [Evaluation Notice](#), or the equivalent, and make appropriate changes to these documents, including the applicable Frequently Asked Questions and as needed to comply with applicable law.

If the servicer was not collecting escrows on the existing mortgage, the borrower is not required to establish an escrow deposit account as a condition of the mortgage loan modification unless otherwise required by applicable law, or the servicer confirms that the taxes and insurance premiums have not been paid and are past due.

## Evaluation hierarchy for a borrower impacted by a disaster

If the servicer determines that the borrower is unable to resolve the delinquency through a reinstatement and cannot afford a repayment plan, the servicer must evaluate the borrower for a workout option in accordance with the evaluation hierarchy in the following table.

<b>If the servicer...</b>	<b>Then the servicer must evaluate the borrower impacted by a disaster for...</b>
achieves QRPC with the borrower, regardless of whether the borrower was on a disaster-related forbearance plan	<ul style="list-style-type: none"> <li>▪ a disaster payment deferral in accordance with <a href="#">Determining eligibility for a disaster payment deferral</a>, and if eligible offer a disaster payment deferral; unless <ul style="list-style-type: none"> <li>• the servicer determines that the borrower is not capable of maintaining the current contractual monthly PITI payment, or</li> </ul> </li> </ul>



If the servicer...	Then the servicer must evaluate the borrower impacted by a disaster for...
	<ul style="list-style-type: none"> <li>• the mortgage loan is greater than 12 months delinquent; then the servicer must evaluate the borrower for</li> <li>▪ a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table below, and if eligible offer a Fannie Mae Flex Modification; unless               <ul style="list-style-type: none"> <li>• the mortgage loan is two or more months delinquent at the time the disaster occurred, or</li> <li>• the mortgage loan is less than 90 days delinquent; then the servicer must evaluate the borrower for</li> </ul> </li> <li>▪ a Fannie Mae Flex Modification in accordance with <a href="#">D2-3.2-06, Fannie Mae Flex Modification</a>, and if eligible offer a Fannie Mae Flex Modification.</li> </ul>
<p>does not achieve QRPC with a borrower who is on a disaster-related forbearance plan prior to the expiration of the plan</p>	<ul style="list-style-type: none"> <li>▪ a disaster payment deferral if the borrower is otherwise eligible in accordance with <a href="#">Determining eligibility for a disaster payment deferral</a>, and if eligible, solicit the borrower for a disaster payment deferral in accordance with <a href="#">Soliciting the borrower for a post-forbearance disaster payment deferral</a>; unless               <ul style="list-style-type: none"> <li>• the mortgage loan is greater than 12 months delinquent; then the servicer must evaluate the borrower for</li> </ul> </li> <li>▪ a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table below, and if eligible, solicit the borrower for a Fannie Mae Flex Modification in accordance with <a href="#">Soliciting the borrower for a Fannie Mae Flex Modification</a>; unless               <ul style="list-style-type: none"> <li>• the mortgage is two or more months delinquent at the time the disaster occurred; then the servicer must evaluate the borrower for</li> </ul> </li> <li>▪ a Fannie Mae Flex Modification in accordance with <a href="#">D2-3.2-06, Fannie Mae Flex Modification</a>; and if the mortgage loan is 90 or more days delinquent and the borrower is otherwise eligible, solicit the borrower a Fannie Mae Flex Modification in accordance with <a href="#">Soliciting the borrower for a Fannie Mae Flex Modification</a>.</li> </ul> <p><b>NOTE:</b> <i>If the borrower doesn't respond to the disaster payment deferral offer as described in <a href="#">Soliciting the borrower for a post-forbearance disaster payment deferral</a> by the acceptance date provided in the disaster payment deferral agreement, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria in the table below and, if eligible, solicit the borrower for a Fannie Mae Flex Modification in accordance with <a href="#">Soliciting the borrower for a Fannie Mae Flex Modification</a>.</i></p>
<p>does not achieve QRPC with a borrower who was not on a disaster-related forbearance plan</p>	<p>a Fannie Mae Flex Modification in accordance with <a href="#">D2-3.2-06, Fannie Mae Flex Modification</a>; and if the mortgage loan is 90 or more days delinquent and the borrower is otherwise eligible, solicit the borrower for a Fannie Mae Flex Modification in accordance with <a href="#">Soliciting the borrower for a Fannie Mae Flex Modification</a>.</p>

The following table provides the reduced eligibility criteria as referenced above for evaluating a borrower with a disaster related hardship for a Fannie Mae Flex Modification.



✓	<b>Reduced eligibility criteria when evaluating a borrower when a disaster related hardship for a Fannie Mae Flex Modification</b>
	The mortgage loan must be a first-lien conventional mortgage loan.
	The mortgage loan must <ul style="list-style-type: none"> <li>▪ have been current or less than two months delinquent at the time the disaster occurred, and</li> <li>▪ be at least three months delinquent.</li> </ul>
	The mortgage loan must not be subject to <ul style="list-style-type: none"> <li>▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized;</li> <li>▪ a current offer for another mortgage loan modification or other workout option;</li> <li>▪ an approved liquidation workout option; or</li> <li>▪ an active and performing repayment plan, other non-disaster-related forbearance plan, or Trial Period Plan.</li> </ul>

If the servicer was not collecting escrows on the existing mortgage, the borrower is not required to establish an escrow deposit account as a condition of the mortgage loan modification unless otherwise required by applicable law, or the servicer confirms that the taxes and insurance premiums have not been paid and are past due.

**NOTE:** *With the exception of the reduced eligibility criteria, escrow administration, and solicitation requirements when evaluating a borrower for a Fannie Mae Flex Modification in this Lender Letter, the servicer must otherwise refer to the requirements in the Servicing Guide for processing and completing a Fannie Mae Flex Modification.*

## Update to Fannie Mae Flex Modification eligibility criteria

A disaster payment deferral does not count as a mortgage loan modification when determining the number of times the mortgage loan has previously been modified for purposes of determining eligibility for a Fannie Mae Flex Modification in accordance with *Determining Eligibility for a Fannie Mae Flex Modification* in [D2-3.2-06, Fannie Mae Flex Modification](#).

## Update to forbearance plan criteria **NEW Aug. 27, 2020**

Currently, if the borrower’s hardship is due to a disaster event (as defined in *Servicing Guide Chapter D1-3, Providing Assistance to a Borrower Impacted by a Disaster Event*) and the mortgage loan is 31 or more days delinquent, the servicer is authorized to offer an initial forbearance plan term of up to 3 months without achieving QRPC if its review of the facts and circumstances (which may result from establishing contact with the borrower and/or other means, such as a property inspection) indicates that the property, the borrower’s employment, or the borrower’s income is seriously affected by a disaster event.

With this Lender Letter, we are updating our requirements to authorize the servicer to offer an initial forbearance plan term of up to three months without achieving QRPC in connection with a disaster event if:

- the property securing the mortgage loan is located in a FEMA-Declared Disaster Area eligible for Individual Assistance,
- the mortgage loan was current or less than two months delinquent at the time the disaster event occurred, and
- the mortgage loan is equal to or greater than one month delinquent.



The servicer must continue attempts to achieve QRPC during this initial three-month forbearance plan term.

## Updates to the *Investor Reporting Manual*

### Reporting a Mortgage Loan Eligible for a Disaster Payment Deferral

Loan activity reporting must continue on a delinquent mortgage loan that is subject to a disaster payment deferral. If the mortgage loan is in an MBS pool, then the servicer must not request a reclassification.

The final “pre-payment deferral” UPB and LPI values in Fannie Mae’s servicing solutions system must match the last reported UPB and LPI in Fannie Mae’s investor reporting system. If the values do not match, this will cause an exception in Fannie Mae’s servicing solutions system and the disaster payment deferral case cannot close until this discrepancy is resolved.

For a disaster payment deferral, reporting a payment LAR with LPI and UPB movement is only required if the mortgage loan is 12 months delinquent as of the date of evaluation and the servicer has chosen to use a processing month. In this instance, the borrower must make his or her full monthly contractual payment during the processing month, and the servicer must report the payment LAR at least one business day prior to the last day of the processing month. Failure to do so will result in the disaster payment deferral not being processed in Fannie Mae’s servicing solutions system.

The following table provides additional instructions based on what is processed in the current reporting month prior to acceptance of the payment deferral in Fannie Mae’s investor reporting system.

If...	Then...
<p>no LAR or a LAR without LPI and UPB movement is processed by CD22 in the current reporting month prior to the disaster payment deferral’s acceptance</p>	<p>the servicer must report a subsequent LAR with LPI and UPB movement reflecting the “pre-disaster payment deferral” activity. The payment LAR must be reported at least one business day prior to the last day of the calendar month.</p> <p><b>NOTE:</b> <i>This is applicable only in instances where the mortgage loan is 12 months delinquent as of the date of evaluation and the servicer has chosen to use a processing month.</i></p>
<p>a LAR was successfully processed and the disaster payment deferral is accepted in the current reporting month</p>	<p>any subsequent LAR received in the same reporting month will be deemed “Invalid” and will be reflected as such in the Loan Activity Summary Report. A detailed list can be obtained from your Investor Reporting analyst.</p> <p><b>NOTE:</b> <i>The first LAR that Fannie Mae will accept after the disaster payment deferral terms are reflected in the Fannie Mae’s investor reporting system will be in the next reporting month.</i></p>

### Reporting a Mortgage Loan After a Disaster Payment Deferral

A disaster payment deferral creates a non-interest bearing balance (referred to in the *Investor Reporting Manual* as “principal forbearance”) due and payable at the maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance





of the mortgage loan, or payoff of the interest-bearing UPB. The servicer must not calculate interest on the principal forbearance amount.

In the reporting month following the acceptance of a disaster payment deferral, the servicer must report the mortgage loan’s

- net UPB (gross UPB minus the principal portion of the disaster payment deferral amount) in the “Actual UPB” field on the LAR if there is no LPI movement; or
- amortized UPB based on the net UPB minus the principal portion of the disaster payment deferral amount) in the “Actual UPB” field on the LAR if there is LPI movement.

**NOTE:** *The initial reduction in UPB caused by the principal forbearance must not be reported to Fannie Mae as a principal curtailment.*

The following table provides additional instructions related to reporting requirements for mortgage loans that were subject to a payment deferral and have an outstanding principal forbearance at the time of a principal curtailment, a payoff, or a repurchase.

If...	Then...
a principal curtailment is received	<ul style="list-style-type: none"> <li>▪ if the principal curtailment being applied is less than the interest-bearing UPB, the servicer must apply such principal curtailment to the interest-bearing UPB.</li> <li>▪ if the principal curtailment is greater than or equal to the interest-bearing UPB, then the servicer must apply such curtailment in the following order:               <ol style="list-style-type: none"> <li>1. to the non-interest bearing balance, if any; and</li> <li>2. to the interest-bearing UPB.</li> </ol> </li> </ul>
a payoff or a repurchase is received	<p>the servicer must include the principal forbearance amount when reporting the principal remittance amount.</p> <p><b>NOTE:</b> <i>Principal forbearance reported on the liquidation LAR consists of the deferred principal amount, the gross interest amount, advanced escrow, servicing advances, and any prior principal forbearance on the mortgage loan.</i></p> <p><b>NOTE:</b> <i>Attempting to report a payoff or a repurchase without including the principal forbearance amount will generate an exception (hard reject) upon submission of the LAR.</i></p>

**NOTE:** *Generally, servicer P&I advances will be reimbursed within three to four business days after a disaster payment deferral has been accepted in Fannie Mae’s investor reporting system.*

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](#).