

## ***Servicing Guide* Lender Letter LL-2012-06**

September 12, 2012

**To: All Fannie Mae Single-Family Servicers**

**Hardest Hit Fund<sup>®</sup> Modification Assistance Programs**

Due to recent changes by state Housing Finance Agencies (HFAs) in their Hardest Hit Fund (HHF) modification assistance programs, Fannie Mae is providing additional guidance to servicers on their roles and responsibilities in connection with these programs.

### **Effective Date**

Effective immediately, servicers must comply with this Lender Letter and accept receipt of HHF funds on behalf of a borrower in connection with an HFA modification assistance program. This requirement applies to mortgage loans held in Fannie Mae's portfolio or in an MBS pool with the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property.

### **Modification Assistance Programs**

In Servicing Announcement SVC-2011-18: *Updates to Delinquency Management and Default Prevention Requirements*, Fannie Mae issued guidance regarding the servicer's receipt of funds from a third party, such as an HFA or similar entity. Servicers must continue to work closely with the HFAs and eligible borrowers to provide necessary information for such program participation. The guidance in this Lender Letter must be applied in conjunction with Announcement SVC-2011-18 and any other applicable sections of the *Servicing Guide*. However, if the HFA guidance conflicts with Fannie Mae's servicing guidelines, servicers must adhere to Fannie Mae's requirements.

### **Loan Recasts**

An HFA modification assistance program may involve a loan recast (a reamortization only element). In a loan recast, if the borrower meets the HFA's eligibility guidelines, the HFA may approve the provision of modification assistance program funds. Servicers must accept these funds and apply them in accordance with the *Servicing Guide* (Part III, Section 102.01: Additional Principal Payments). Additionally, the borrower and servicer must execute an *Agreement for Modification of a Mortgage - Reamortization Only (HFA Modification Assistance)* ([Form 181 HFA](#)) to document the loan recast.

In accordance with the *Servicing Guide*, servicers may approve a loan recast for any current or delinquent portfolio mortgage loan, or for any current or delinquent mortgage loan in an MBS pool. Because loan recasts involving MBS pool loans are not subject to the MBS reclassification requirements provided in the *Servicing Guide*, an MBS mortgage loan does not have to be removed from the pool prior to effectuating the loan recast.

Any such loan recast will not be deemed a modification for purposes of determining eligibility for a subsequent modification in accordance with the *Servicing Guide*.

## Loan Modifications

For mortgage loans in which the terms are changed (for example, a rate reduction or term extension), servicers may only apply the HFA modification assistance funds according to Fannie Mae's requirements for a Fannie Mae HAMP modification or standard modification that requires principal forbearance in accordance with the *Servicing Guide*.

HFA modification assistance program funds for a modification involving a change in loan terms must be applied once the borrower has successfully completed a Trial Period Plan and after any MBS loan reclassification, but before the permanent Modification Effective Date. Servicers must apply these funds in accordance with Part III, Section 102.01: Additional Principal Payments of the *Servicing Guide*. If the servicer does not receive HFA funds prior to the due date of the first modified mortgage payment, the servicer must complete the modification with principal forbearance in accordance with the *Servicing Guide*.

The [Evaluation Notice \(Trial Period Plan\)](#), [Modification Cover Letter](#), and [Loan Modification Agreement](#) for a Fannie Mae HAMP modification or Fannie Mae standard modification, as applicable, have each been modified to accommodate HFA modification assistance programs.

NOTE: A borrower who has received HFA modification assistance program funds may not subsequently request reapplication of principal prepayments as outlined in the *Servicing Guide* (Part VII, Section 305: Reapplying Principal Prepayments).

## Reporting

The servicer must be able to readily identify on its servicing system any mortgage loan that involves participation in an HFA modification assistance program. Furthermore, servicers must establish processes to be able to provide this information to Fannie Mae upon request.

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Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Consultant, or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (1-888-326-6435) with any questions regarding this Lender Letter.

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