

Lender Letter LL-2012-12

December 20, 2012

To: All Fannie Mae Single-Family Servicers

Mortgage Loans Impacted by Hurricane Sandy

Fannie Mae is providing additional guidance to servicers in dealing with borrowers with properties or employment located in a federally declared disaster area who had been performing on a Trial Period Plan but were placed on a forbearance plan due to financial difficulty caused by Hurricane Sandy and who are now transitioning back to a Trial Period Plan.

This Lender Letter focuses on the following areas:

- Conversion of an Existing Forbearance
- Evaluation of Mortgage Loans on a Fannie Mae HAMP Trial Period Plan
- Evaluation of Mortgage Loans on a Fannie Mae Standard Modification Trial Period Plan
- Property Inspections
- Reporting Requirements
- Effective Date

Conversion of an Existing Forbearance

***Servicing Guide*, Part III, Chapter 11: Assistance in Disasters and Part VII, Chapter 4, Section 403: Forbearance**

The servicer must advise the borrower that, upon completion of the forbearance period, the borrower must complete a new 3-month Trial Period Plan before the modification will become permanent. The servicer's evaluation of the borrower for the new 3-month Trial Period Plan should be completed no later than 30 days prior to the completion of the forbearance. If the borrower is able to remit funds to partially reinstate the mortgage loan's delinquent payments to the delinquency status in effect immediately prior to the initiation of the forbearance plan, the servicer must accept the partial reinstatement and evaluate the borrower using the criteria described in the following paragraphs.

Evaluation of Mortgage Loans on a Fannie Mae HAMP Trial Period Plan

The borrower's financial situation has not worsened as a result of Hurricane Sandy

Upon completion of the forbearance plan, the servicer must offer the borrower the opportunity to establish a new 3-month Trial Period Plan toward achieving a permanent modification. The servicer is not required to conduct a new eligibility evaluation of the borrower and must rely upon the borrower's pre-forbearance eligibility determination.

When moving into a permanent modification, the servicer must apply the HAMP standard mortgage loan modification waterfall outlined in the *Servicing Guide*, Part VII, Section 609.02.06: Standard Mortgage Loan Modification Waterfall, to determine the terms of the permanent modification. If the amount needed to forbear

is greater than the current allowable threshold per Fannie Mae policy, the servicer must submit the case to Fannie Mae for review.

For this option, the borrower is not required to provide any additional financial documentation. The borrower will be eligible for all HAMP-related incentives if he or she successfully completes the permanent modification. The HAMP-related incentives will be paid to borrowers based upon completion of the new Trial Period Plan and performance on a permanent HAMP modification.

The borrower's financial situation has worsened as a result of Hurricane Sandy

If the borrower requires additional assistance to resume a Trial Period Plan, the servicer must obtain updated financial documentation from the borrower to determine whether he or she has the capacity to perform under a Trial Period Plan and permanent modification, or whether another loss mitigation alternative may be more appropriate. (Refer to the *Servicing Guide*, Part VII, Section 205.04: Borrower Response Package, for details on the necessary documentation.)

In performing its evaluation, the servicer must follow Fannie Mae's workout hierarchy provided in Part VII, Section 401: Fannie Mae's Workout Hierarchy. Additionally, if the borrower does not have access to the required documentation (for example, documentation was damaged or lost in the hurricane or is otherwise unavailable), the servicer must submit the request to Fannie Mae for review.

The servicer must rely on the borrower's verbal representation in determining whether or not their financial situation has worsened.

Evaluation of Mortgage Loans on a Fannie Mae Standard Modification Trial Period Plan

Upon completion of the forbearance plan, the servicer must offer the borrower the opportunity to establish a new 3-month Trial Period Plan toward achieving a permanent modification.

The borrower's financial situation has not worsened as a result of Hurricane Sandy

If the borrower is able to remit sufficient funds to partially reinstate the mortgage loan to the delinquency status in effect prior to the initiation of the forbearance plan, the servicer must accept the partial reinstatement and establish a new 3-month Trial Period Plan using the same terms as the pre-forbearance Trial Period Plan. Also, the servicer is not required to conduct a new eligibility evaluation of the borrower and must rely upon the borrower's pre-forbearance eligibility determination.

However, if the borrower is not able to partially reinstate the mortgage loan to the delinquency status prior to the initiation of the forbearance plan, the servicer must calculate the terms of the new Trial Period Plan using the updated unpaid principal balance, which will include additional delinquent interest and non-interest arrearage amounts that must be capitalized. The new Trial Period Plan monthly payment amount must be less than or equal to the pre-forbearance Trial Period Plan monthly payment amount. If the servicer is unable to achieve a Trial Period Plan monthly payment less than or equal to the pre-forbearance Trial Period Plan payment, the servicer must submit the case to Fannie Mae for review.

As is true for HAMP Trial Period Plans for borrowers whose financial situation has not worsened, the borrower is not required to provide any additional financial documentation.

The borrower's financial situation has worsened as a result of Hurricane Sandy

If the borrower elects to maintain the same Trial Period Plan monthly payment in effect during the pre-forbearance Trial Period Plan, the servicer may proceed with establishing the new 3-month Trial Period Plan, using the process described in "The borrower's financial situation has not worsened as a result of Hurricane Sandy" section immediately above.

However, if the borrower requires additional assistance to resume a Trial Period Plan, the servicer must obtain updated financial documentation to determine whether the borrower has the capacity to perform under the Trial Period Plan and permanent modification, or whether another loss mitigation alternative may be more appropriate. (Part VII, Section 205.04: Borrower Response Package of the *Servicing Guide* provides details on the necessary documentation.)

The servicer must rely on the borrower's verbal representation in determining whether or not their financial situation has worsened.

Additionally, if the borrower does not have access to the required documentation (for example, documentation was damaged or lost in the hurricane or is otherwise unavailable), the servicer must submit the request to Fannie Mae for review.

Property Inspections

***Servicing Guide*, Part III, Chapter 3: Property Inspection**

Servicers are reminded of their responsibility for safeguarding the integrity of the property securing a mortgage loan Fannie Mae has purchased or securitized. These responsibilities include making periodic inspections of the property (including its interior) to prevent unnecessary deterioration and advancing funds for repairs if necessary to protect Fannie Mae's investment.

Reporting Requirements

***Servicing Guide*, Part VII, Section 702: Reporting Monthly Mortgage Loan Status.**

When a servicer determines that a borrower successfully performing under an active Trial Period Plan for a mortgage loan modification is experiencing financial difficulty due to Hurricane Sandy and the borrower enters into an approved forbearance plan, the servicer must cancel the current Trial Period Plan for the mortgage loan modification. The servicer must then report the mortgage loan status using the forbearance delinquency status code, the effective date of forbearance, the forbearance program type code, and other required information beginning in the month in which the forbearance plan became effective.

Effective Date

Servicers must implement the policies outlined above immediately.

Lenders who have questions about the selling aspects of this Lender Letter should contact Fannie Mae's National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (1-888-326-6435) with any questions regarding this Lender Letter.

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