Streamlined Modification Program: MBS Pools Frequently Asked Questions

December 17, 2008

Q1: Is it correct to assume that the Streamlined Modification program (SMP) will be available for eligible delinquent borrowers whose loans are in Fannie Mae MBS pools as well as whole loans held in Fannie Mae's portfolio?

Yes. The program applies to eligible delinquent borrowers whose loans are owned by Fannie Mae as whole loans in Fannie Mae's portfolio as well as to loans that are in Fannie Mae's MBS.

Q2: Are all loans that are eligible for modifications (including those modifications undertaken with the newly announced Streamlined Modification Program) required to be removed from Fannie Mae MBS pools?

Yes. Pursuant to our trust documents that govern MBS issued through the end of 2008, Fannie Mae must purchase a loan out of an MBS pool before a modification with a borrower becomes effective. Although Fannie Mae has a limited authority under the 2009 Trust documents to make certain modifications effective while a loan remains in a pool, we currently plan to continue our current servicing policy and practice of removing a loan from a pool before a modification becomes effective. Please review our most recent MBS Prospectus on fanniemae.com for additional information on how and when we exercise our right to purchase delinquent mortgage loans from a pool for the purpose of modification.

Q3: How long must loans be delinquent before being purchased from Fannie Mae MBS pools and modified?

Under all our trust documents and under our current servicing policies and practices, we may purchase a delinquent loan when our direct servicer confirms to us that four consecutive months have elapsed since the payment date to which monies totaling a full monthly loan payment were last applied by the direct servicer.

Under all our trust documents, we also may purchase a loan from the pool if the loan has been in a state of continuous delinquency during the period from the first missed payment date through the fourth consecutive payment date (even though the borrower may have made some payments during that period). Under our current servicing policies and practices, we use this method of removing a loan from a pool only to effect a modification. We may, however, in the future, revise our servicing policies and practices to use this method more often.

Our 2009 trust agreement also allows us the flexibility, in certain circumstances, to purchase a mortgage loan from a trust at any time after a delinquent mortgage loan has been in a continuous state of delinquency, without having been fully cured with respect to payments required by the mortgage documents, during the period from the first missed payment date through the second consecutive payment date. Under our current servicing policies and practices, this flexibility is only available in extraordinary circumstances and after obtaining our prior written consent.

Q4: Will the loans to be modified under this program be purchased out of MBS pools at a par dollar price as has been past practice?

Yes. Pursuant to our trust documents and as disclosed in our MBS prospectuses, we typically purchase a delinquent loan at the stated principal balance of the mortgage loan plus one month's interest on that loan at the pass-through rate. See our MBS Prospectuses for additional information.

Q5: Will the SMP alter loan characteristics in ways that require removal from the MBS pool? For example:

- **Change in mortgage interest rate**
- **Change in mortgage term**
- **Deferred principal**

All of the above examples are potential modifications under the Streamlined Modification Program, depending on the borrower's circumstances, and all would require the loan's removal from the MBS pool since they are modifications.

Q6: How are borrowers being notified that they are eligible for the Streamlined Modification Program?

Servicers may solicit borrowers for the SMP using three primary methods. First, a servicer may make a firm offer solicitation to borrowers for whom the servicer has recent financial information indicating that the borrower may qualify for the SMP. The offer must be made utilizing the Streamlined Modification Program Cover Letter, enclosing the SMP Agreement, and a Hardship Affidavit. Second, if a servicer does not have a 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. Third, a servicer may receive calls from borrowers directly inquiring about the availability of SMP. In that case, the servicer should work with the borrower to obtain the borrower's financial and hardship information and to determine if the SMP is appropriate for the borrower.

Q7: The FHFA statement says that servicers will receive a fixed payment of $800 for each loan modified through the Streamlined Modification Program as an incentive to encourage servicers to work constructively with delinquent borrowers on this program. Will Fannie Mae make these payments to servicers? If so, how will these servicer incentive payments be funded?

Yes. Fannie Mae will make these payments to servicers. The payments will be paid out of Fannie Mae's general corporate funds. Fannie Mae currently compensates servicers for their work in connection with various other loss mitigation efforts as well.

Q8: What are the characteristics of properties that are eligible for the Streamlined Modification Program?

An eligible property must be an owner-occupied, primary residence. The properties must be single-family dwellings, cooperatives, condominiums, or manufactured housing units. No two- to four-family properties are eligible nor are investor properties. See FHFA's announcement for additional information.

Q9: What are the credit characteristics of eligible mortgages?

The mortgage must have been originated on or before January 1, 2008. With respect to delinquency, the borrower must be at least three payments past due and the loan may be in the foreclosure process. The borrower cannot be in bankruptcy. The current mark-to-market loan-to--value ratio must be equal to or greater than 90 percent. In addition, the borrower must successfully complete a trial period by making three monthly payments in an amount representing the payment required under the proposed modification. See our Guide Announcement 08-33, Introduction of the Streamlined Modification Program, dated December 12, 2008, for additional information regarding eligibility.

Q10: Is the 38% debt-to-income ratio a front-end ratio or a back-end ratio?

The debt-to-income ratio represents a front-end ratio. For a borrower to qualify for the SMP, the proposed monthly payment must be equal to a 38 percent payment ratio or lower, in which the "payment ratio" represents the ratio of the borrower's PITIA to the borrower's gross income (or the borrowers' combined monthly gross income in the case of co-borrowers). PITIA includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, mortgage insurance, condominium association fees and homeowner's association (HOA) fees, as applicable. The PITIA may not include payments due to holders of subordinate liens. If the debt-to-income ratio exceeds the SMP program ratio Fannie Mae may still approve a loan modification on terms that meet its standard loss mitigation criteria.

Q11: Is it correct to surmise that in all cases, borrowers eligible for the Streamlined Modification Program will be required to ultimately repay all required principal? Are there any instances in which a portion of principal of a loan modified under the Streamlined Modification Program will be forgiven?

Once a loan is identified to participate in the Streamlined Modification Program and is purchased from a pool, the investor will receive the outstanding principal of the loan in the form of a prepayment in full. No principal will be forgiven under the Streamlined Modification Program although principal forbearance is allowed in some cases (in the form of a balloon payment of principal due at maturity or sale or payoff). See our recent MBS Prospectus for additional information about our loss mitigation policies and the impact to investors of a purchase of a delinquent loan from a pool for the purpose of a modification.

Q12: What is the difference between the SMP and the Early Workout™ loss mitigation alternative?

Both programs are intended to modify loans after a trial period during which the borrower successfully makes payments at the modified level. However, the SMP is a specific coordinated relief effort among Fannie Mae, Freddie Mac, FHFA, and HOPE NOW to avoid foreclosure for a specific segment of borrowers who have missed three payments. The Early Workout program is a separate initiative being developed by Fannie Mae to assist distressed borrowers in various stages of delinquency, including those who are current on their loan payments but facing imminent default.

For more information

Please contact the Fixed-Income Securities Investor Helpline at 1-800-237-8627 or 202-752-5858.