

Self-assessment: post COVID-19 forbearance hierarchy of options

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As servicers continue to see an increase in the number of borrowers approaching the expiration of a COVID-19 related forbearance plan, the housing market continues to rely on servicers more than ever in their ability to respond without disruption and their rigor in following Fannie Mae guidelines.

This high-level overview is provided to help Fannie Mae servicers assess whether their post COVID-19 forbearance evaluation process is in compliance with their contractual obligations as described in their Lender Contract and the Fannie Mae *Selling and Servicing Guides* as well as with recommended practices. Covered topics include details of obtaining QRPC, the workout hierarchy for home retention, and liquidation options for borrowers that are unable to resolve their delinquency but want to avoid foreclosure.

Highlighted tasks, indicated with an orange icon (✔), are recommended.

Prior to the expiration of the forbearance plan term:

The servicer must begin attempts to contact the borrower no later than 30 days prior to the expiration of the forbearance plan term until either QRPC is achieved or the forbearance plan term has expired.

- ✔ **Per *Servicing Guide A4-2.1.04 Establishing Contact with the Borrower*, consider implementing specialized outreach campaigns via outbound calls, mail, email, or text to target loans approaching expiration of the forbearance plan term and assist COVID-19 impacted borrowers by providing next steps and offering long-term solutions.**

To achieve QRPC, the servicer must:

- Determine the ongoing reason for delinquency and whether the hardship is temporary or permanent in nature.
- Determine whether the homeowner has the ability to repay the mortgage loan debt.
- Educate the homeowner on the availability of workout options, as appropriate.
- Obtain a commitment to resolve the delinquency.

See Lender Letter **LL 2021-02** for additional details regarding QRPC

Note: Per *Servicing Guide A4-2.1-04, Establishing Contact with the Borrower*, all QRPC elements obtained must be documented in the loan file records to demonstrate that eligibility criteria were met.

Please note:

This content is informational and designed to help Fannie Mae servicers assess their operational response to COVID-19 requirements. Servicers are reminded that they are responsible for complying with all aspects of the Lender Contract, including Fannie Mae's *Selling and Servicing Guides*. In the event of any conflict between this content and the *Guides*, the *Guides* govern.

Additional resources

Servicer Self-Assessment

Lender Letter LL-2021-02, Impact of COVID-19 on Servicing

Servicers and Business Continuity

Fannie Mae Selling Guide

Fannie Mae Servicing Guide

Ask Poli

Know Your Options

Looking for more? Contact your Fannie Mae account team or the Servicer Support Center.

Evaluating the homeowner for solutions after a COVID-19 related forbearance plan ends

When QRPC is achieved with a homeowner who is approaching the expiration of the COVID-19 related forbearance period, help them understand that while repayment of all unpaid amounts is required, they are not required to repay unpaid amounts all at once.

If unable to achieve QRPC prior to the expiration of the COVID-19 related forbearance plan, the servicer must evaluate the homeowner for a COVID-19 payment deferral, and if eligible, solicit the homeowner for a COVID-19 payment deferral in accordance with the evaluation hierarchy and eligibility requirements outlined in *Lender Letter LL-2021-07, COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers* within 15 days after expiration of the forbearance plan.

Avoiding foreclosure

When talking with a homeowner who is approaching the expiration of the COVID-19 related forbearance period, help them understand that the most important thing they can do is to avoid foreclosure. Relay to the borrower that there are better options and now is the time to take action. Available options include the following:

Option 1: Reinstatement

Paying the entire past due amount all at once at the end of the forbearance period to bring the mortgage loan current.

Eligibility Criteria:

- ✓ COVID-19 related hardship is resolved
- ✓ Able to reinstate the mortgage loan

Option 2: Repayment Plan

Repaying the past due amount by paying additional funds along with the regular monthly mortgage payments over a specified time period to bring the mortgage loan current.

Eligibility Criteria:

- ✓ COVID-19 related hardship is resolved
- ✓ Unable to reinstate the mortgage loan
- ✓ Able to afford a repayment plan to cure the delinquency

Note: If the homeowner meets the minimum evaluation criteria above, the servicer must proceed with evaluating the homeowner for a repayment plan in accordance with *Servicing Guide D2-3.2-02, Repayment Plan*.

Option 3: COVID-19 Payment Deferral

Paying the entire past due amount all at once at the maturity of the loan (or earlier when the home is sold, transferred, the loan is refinanced or otherwise paid off) without changing other terms of the mortgage.

Eligibility Criteria:

- ✓ COVID-19 related hardship has been resolved
- ✓ Unable to reinstate the mortgage loan
- ✓ Unable to afford a repayment plan to cure the delinquency
- ✓ Able to resume regular monthly payments

Note: If the borrower meets the minimum evaluation criteria above, the servicer must proceed with evaluating the homeowner for a COVID-19 payment deferral in accordance with the eligibility requirements outlined in *Lender Letter LL-2021-07, COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers*.

Option 4: Fannie Mae Flex Modification

Permanently changing the original mortgage loan terms to make monthly payments more affordable.

Eligibility Criteria:

- ✔ Unable to reinstate the mortgage loan
- ✔ Unable to afford a repayment plan to cure the delinquency
- ✔ Ineligible for a COVID-19 payment deferral; or
- ✔ If the borrower does not respond to a COVID-19 payment deferral offer

Note: If the homeowner meets the minimum evaluation criteria above, the servicer must proceed with evaluating the homeowner for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria outlined in *Lender Letter LL-2021-07, COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers*.

Mortgage relief – options to leave the home

When talking with a homeowner who is approaching the expiration of the COVID-19 related forbearance period, help them understand the mortgage relief options that can help them leave their home and avoid foreclosure. Relay to the homeowner that there are better options and now is the time to take action. Available liquidation options include the following:

Option 1: Sale with Equity

When the borrower's home is worth more than the amount owed on the mortgage and other debts secured by the home, the difference is known as home equity. A sale with equity lets the borrower convert this portion of their home's value into cash that the borrower keeps or uses for other purposes when the borrower sells the property.

Eligibility Criteria:

- ✔ COVID-19 related hardship is long-term
- ✔ Unable to reinstate the mortgage loan
- ✔ Unable to afford a repayment plan to cure the delinquency
- ✔ Ineligible for a COVID-19 Payment Deferral
- ✔ Ineligible for a loan modification
- ✔ Sufficient home equity to fully satisfy the mortgage and other debts secured by the property
- ✔ Unable to afford the mortgage loan and ready or need to leave the home

Option 2: Short Sale

The mortgage servicer agrees to accept less than the balance remaining on the mortgage loan allowing the homeowner to sell the home (sometimes with relocation incentive) at a price that does not fully satisfy the mortgage debt to avoid foreclosure. Depending on the situation, the homeowner may be required to make a financial contribution toward the balance, but once the short sale is complete, the homeowner will be relieved of their responsibility to pay any remaining balance—called a “deficiency waiver”.

Eligibility Criteria:

- ✔ COVID-19 related hardship is long-term
- ✔ Unable to reinstate the mortgage loan
- ✔ Unable to afford a repayment plan to cure the delinquency
- ✔ Ineligible for a COVID-19 Payment Deferral
- ✔ Ineligible for a loan modification

- ✓ Owe more on the home than it's worth
- ✓ Unable to sell the home at a price that will satisfy the mortgage debt
- ✓ Unable to afford the mortgage loan and ready to leave the property

Note: If the homeowner meets the minimum evaluation criteria above, the servicer must proceed with evaluating the homeowner for a Fannie Mae Short Sale in accordance with *Servicing Guide D2-3.3-01, Fannie Mae Short Sale*.

Option 3: Mortgage Release™ (Deed-in-Lieu of Foreclosure)

Voluntary transfer of ownership of the property to the owner of the mortgage in exchange for a release from the mortgage loan and payments. Options are available (sometimes with relocation incentive) to help the homeowner vacate immediately; stay in the home for up to three months without paying rent; or lease the home (at market rates) for up to one year. Depending on the situation, the homeowner may be required to make a financial contribution toward the balance, but once the Mortgage Release is complete, the homeowner will be relieved of their responsibility to pay any remaining balance—called a “deficiency waiver”.

Eligibility Criteria:

- ✓ COVID-19 related hardship is long-term
- ✓ Unable to reinstate the mortgage loan
- ✓ Unable to afford a repayment plan to cure the delinquency
- ✓ Ineligible for a COVID-19 Payment Deferral
- ✓ Ineligible for a loan modification
- ✓ Owes more on the home than it's worth
- ✓ Unable or unwilling to sell the home
- ✓ Unable to afford the mortgage loan and ready to leave the property

Note: If the homeowner meets the minimum evaluation criteria above, the servicer must proceed with evaluating the homeowner for a Fannie Mae Mortgage Release in accordance with *Servicing Guide D2-3.3-02, Fannie Mae Mortgage Release (Deed-in-Lieu of Foreclosure)*.

