

# Lender Letter (LL-2020-06)

Updated: May 19, 2020

Apr. 22, 2020

## To: All Fannie Mae Single-Family Sellers Selling Loans in Forbearance Due to COVID-19

The COVID-19 pandemic has caused job loss, income reduction, and other issues impacting businesses and borrowers. As it continues to put strain on the mortgage industry, Fannie Mae and Freddie Mac, under the guidance of FHFA, are working together to assist our customers and provide liquidity to the market.

While lenders are putting in place additional due diligence to ensure borrowers have stable income with which to repay their loans, there is an increase in loans going into forbearance after loan closing and before sale to us. This Lender Letter addresses the eligibility and delivery requirements for these loans.

Updates to Lender Letter on May 19, 2020

- Effective dates: extended eligible note dates to Jun. 30 and delivery to Aug. 31

Lender Letter content published Apr. 22, 2020, Updated May 19, 2020

- [Overview](#): providing liquidity options for certain loans that have been placed into forbearance after loan closing but prior to loan sale
- [Effective dates](#): delivery to begin May 1, 2020 for loans with notes dated Feb. 1, 2020 through Jun. 30, 2020 **UPDATED May 19, 2020** to extend eligible note and delivery dates
- [Eligibility requirements for sale of loans in forbearance](#): including purchase and limited cash-out refinance transactions that are no more than one-month delinquent at the time of sale or securitization
- [Representations and warranties](#): notwithstanding this temporary purchase of loans in forbearance, reminding lenders of their responsibility for selling loans that meet our requirements **UPDATED May 19, 2020 to clarify that loans in forbearance with an acceptable payment history are eligible for enforcement relief**
- [Reporting forbearance after delivery](#): reminding servicers about reporting forbearance following loan delivery
- [Additional resources](#): listing of COVID-19 policy communications and resources **UPDATED May 19, 2020**

## Overview

In accordance with long standing policy, mortgage loans must be current at time of sale to us. Loans that have been placed into forbearance prior to sale are not considered current and are currently ineligible.

Due to the unprecedented and swift nature of the COVID-19 pandemic and its impact on the nation's employment, we are providing liquidity options for certain loans that have been placed into forbearance after loan closing but prior to loan sale. We will temporarily be purchasing (or securitizing) loans that are in forbearance that would otherwise be ineligible based on our current policies.

Our focus is to provide liquidity to the market, while also managing credit risk. As a result, we will review the volume of loans sold to us under these temporary provisions and may adjust our requirements as necessary.



## Defining forbearance

A forbearance plan is a workout option for borrowers with a temporary unresolved hardship that provides a period of reduced or suspended payments. For the purpose of this temporary sale flexibility, we define forbearance as beginning when the borrower:

- attested to or otherwise informed the lender or servicer that, after the note date, he or she has suffered financial hardship caused directly or indirectly by COVID-19 and requested forbearance; or
- was approved for a forbearance plan based on a COVID-19 related financial hardship that occurred after the note date.

A general inquiry from a borrower about forbearance without a request for forbearance does not automatically define the loan as in forbearance. Furthermore, a loan may be in forbearance without regard to whether a borrower made their first payment (for example, a borrower requests forbearance but continues to make their payments).

**NOTE:** *In connection with loans a lender intends to sell to Fannie Mae, lenders should not in any way discourage borrowers from contacting them or encourage borrowers to delay notifying them either before or after the note date if they are experiencing a COVID-19 related financial hardship.*

## Effective dates **UPDATED May 19, 2020**

Loans in forbearance due to a COVID-19 hardship with note dates on or after Feb. 1, 2020 and on or before Jun. 30, 2020 may be delivered to Fannie Mae beginning May 1, 2020 according to the following schedule:

<b>Note Dates Feb. 1 – March 31</b>			
Actual Last Paid Installment Date	Last Day to Submit Whole Loans	MBS	
		Last Day to Submit Pool	MBS Issue Month
February 1	Not eligible	Not eligible	Not eligible
March 1	May 15	May 15	May
April 1	May 31	May 22	May
May 1	May 31	May 22	May
<b>Note Dates April 1 – June 30</b>			
April 1	June 15	May 22	May
		June 15	June
May 1	July 15	May 22	May
		June 24	June
		July 15	July
June 1	August 15	June 24	June
		July 27	July
		August 15	August
July 1	August 31	July 27	July
		August 25	August

All dates in this table are in 2020.

These dates will ensure compliance with the payment history policy below. For single-closing construction-to-permanent transactions, the date the loan converts to permanent financing will be used in place of the note date.



**NOTE:** We expect loans sold to us under this option to be representative in both profile and volume of a lender's agency-eligible loan originations typically sold to Fannie Mae.

## Eligibility requirements for sale of loans in forbearance

Loans in forbearance due to a COVID-19 hardship will be eligible for sale to us if the loans comply with the following requirements.

Criteria	Terms
Eligible transactions	<ul style="list-style-type: none"> <li>▪ Purchase</li> <li>▪ Limited cash-out refinance</li> </ul>
Ineligible transactions	<ul style="list-style-type: none"> <li>▪ Cash-out refinance</li> </ul>
Payment history	Loans in forbearance cannot be more than one-month delinquent at the time the lender submits the loan data in Loan Delivery for whole loan purchase or MBS execution (refer to the effective dates above for implementation details)
MBS pools (including TBA-eligible UMBS pools)	All standard pooling policies apply (with exception allowed for inclusion of loans in forbearance and one-month delinquency)
Fannie Majors®	Loans are eligible for delivery in Fannie Majors based on the above MBS effective dates
Special Feature Code	All loans must be delivered with SFC 919, COVID Forbearance
Loan Delivery data	<p>Lenders must deliver</p> <ul style="list-style-type: none"> <li>▪ Actual Unpaid Principal Balance (whole loan and MBS)</li> <li>▪ Actual Last Paid Installment Date (whole loan and MBS)</li> <li>▪ Scheduled MBS Issue Date Unpaid Principal Balance (MBS)</li> <li>▪ First-time homebuyer data elements, if applicable (whole loan and MBS)</li> </ul> <p>Refer to the <a href="#">Job Aid</a> for additional guidance on delivering COVID-19 loans in forbearance.</p>
Loan-level price adjustment (LLPA)	<ul style="list-style-type: none"> <li>▪ 500 basis points (5.000%) for loans where any borrower is a first-time homebuyer (as defined in the <i>Selling Guide</i>), or</li> <li>▪ 700 basis points (7.000%) for all other loans</li> </ul> <p>This LLPA is in addition to any other price adjustments that are otherwise applicable to the particular transaction.</p>

## Representations and Warranties

In response to the pandemic, we reminded lenders of their obligations related to determining continuity of income and income stability in Lender Letter [LL-2020-03](#) and the related [Frequently Asked Questions](#). We have recommended that lenders practice additional due diligence to ensure the most recent information is obtained and strongly encourage lenders to help ensure any disruption to borrowers' employment (or self-employment) or income, or changes in financial position due to COVID-19 are not expected to negatively impact their ability to repay the loan.

Notwithstanding the temporary flexibility allowing the sale of loans in forbearance, the lender remains responsible for compliance with all other requirements in the *Selling Guide*, as modified by the COVID-19 Lender Letters. The lender must ensure the borrower is qualified for the loan, according to the *Selling Guide*, as of the note date. The lender's representation and warranty obligations remain unchanged.



## Enforcement relief for loans in forbearance **UPDATED May 19, 2020**

The enforcement relief framework in the *Selling Guide* currently states that loans subject to a forbearance agreement are not eligible for relief based on the borrower's payment history but may be eligible based on a quality control review. We are clarifying that we will define a loan as having an acceptable payment history if the borrower continues to make timely payments during the forbearance period and the loan meets all other Version 2 requirements.

**NOTE:** *This clarification applies to all loans that go into forbearance after sale to us, not only loans sold to us under this temporary sale flexibility. The *Selling Guide* will be updated at a later date to reflect this clarification.*

See A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility, for additional information and also see [Scenarios: Loans in Forbearance Due to COVID-19 and Representations and Warranties](#) for additional guidance.

## Reporting forbearance after delivery

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As a reminder, servicers are required to report any forbearance to Fannie Mae the next reporting month following loan delivery. Refer to the *Servicing Guide*, [C-4.3-01](#), Servicer Responsibilities Related to Investor Reporting, for information on reporting forbearance to Fannie Mae. Also see the related [Job Aid](#) on reporting COVID-19 related forbearance to Fannie Mae.

## Additional resources **UPDATED May 19, 2020**

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As a reminder, we have published other Lender Letters and helpful information regarding policies related to COVID-19.

- [LL-2020-03](#), Impact of COVID-19 on Originations
- [LL-2020-04](#), Impact of COVID-19 on Appraisals
- [COVID-19 Frequently Asked Questions](#) (Selling)
- [Ask Poli Selling](#)
- [LL-2020-02](#), Impact of COVID-19 on Servicing
- LL-2020-07, COVID-19 Payment Deferral
- [COVID-19 Frequently Asked Questions](#) (Servicing)
- [Ask Poli Servicing](#)

Lenders who have questions about this Lender Letter should contact their Fannie Mae Account Team.