Fannie Mae

Lender Letter LL-2017-08

October 11, 2017

To: All Fannie Mae Single-Family Servicers

Updates to Imminent Default Evaluation for a Conventional Mortgage Loan Modification

We are introducing a new imminent default evaluation that will simplify the evaluation process and result in a better user experience for both servicers and borrowers.

The new evaluation was jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency, to determine if a borrower's mortgage payment is in imminent default for purposes of determining eligibility for a conventional mortgage loan modification. As of the effective date provided below, this imminent default evaluation replaces Freddie Mac's Imminent Default Indicator™ (IDI™) as described in *Servicing Guide* D2-1-02, Using Freddie Mac's Imminent Default Indicator and *Evaluating the Borrower Using Imminent Default Indicator* in F-1-14, Preparing to Implement a Workout Option.

Effective Date

Servicers are encouraged to implement these policy changes as early as February 1, 2018; however, servicers must begin evaluating borrowers for imminent default for a conventional mortgage loan modification no later than July 1, 2018. Once implemented, servicers must evaluate borrowers according to the requirements in this Lender Letter and no longer evaluate borrowers using Freddie Mac's IDI.

Date of *Servicing Guide* Update

The policy changes in this Lender Letter will be reflected in the June 2018 update of the *Servicing Guide*.

Evaluating a Borrower for Imminent Default for a Conventional Mortgage Loan Modification

For a borrower's monthly payment to be considered in imminent default for the purpose of determining eligibility for a conventional mortgage loan modification, the borrower must satisfy

- the initial eligibility criteria, and
- either the credit or hardship eligibility criteria.

Servicers must take the steps in the following table to perform the imminent default evaluation.

<table>
<tr><th>Step</th><th>Servicer Action</th></tr>
<tr><td>1</td><td>Determine if all of the initial eligibility criteria is satisfied.

<table>
<tr><th>✓</th><th>Initial Eligibility Criteria</th></tr>
<tr><td></td><td>The mortgage loan is current or less than 60 days delinquent as of the evaluation date.</td></tr>
<tr><td></td><td>The property securing the mortgage loan is occupied as a principal residence by at least one borrower.</td></tr>
<tr><td></td><td>The borrower submits a complete Borrower Response Package (see Servicing Guide D2-2-05, Receiving a Borrower Response Package).</td></tr>
<tr><td></td><td>The borrower’s non-retirement cash reserves are less than $25,000 based on information provided in the Mortgage Assistance Application (Form 710), or equivalent.</td></tr>
<tr><td></td><td>The borrower has a hardship as documented in accordance with Form 710, or equivalent.

NOTE: An increased monthly principal and interest (P&I) payment that has occurred as result of an interest rate adjustment within the last 12 months for a previously modified mortgage loan with a step-rate feature is an acceptable hardship.</td></tr>
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<tr><td>2</td><td>Determine if either the credit or hardship eligibility criteria is satisfied.

<table>
<tr><th>Review</th><th>Eligibility Criteria</th></tr>
<tr><td>Credit</td><td>A Fair, Isaac, and Company (FICO) credit score less than or equal to 620, and either

two or more 30-day delinquencies on the mortgage loan in the six months immediately preceding the month of the evaluation; or
a pre-modification housing expense-to-income ratio greater than 40%, calculated in accordance with Calculating the Housing Expense-to-Income Ratio for Imminent Default for a Conventional Mortgage Loan Modification.

NOTE: The FICO credit score must be no more than 90 days old as of the date of evaluation. If servicers obtain multiple credit scores for a single borrower, servicers must select a representative credit score using the lower of two or the middle of three credit scores. If there are multiple borrowers, servicers must determine the representative score for each borrower and use the lowest representative score as the credit score for the evaluation.

NOTE: Servicers must not consider a missed contractual payment that becomes 60 or more days delinquent as having two or more 30-day delinquencies in the six-month period immediately preceding the month of the evaluation.</td></tr>
<tr><td>Hardship</td><td>The borrower has one of the following hardships as documented in accordance with Form 710, or equivalent:

death of a borrower or death of either the primary or secondary wage earner in the household;
long-term or permanent disability, or serious illness of a borrower, co-borrower, or dependent family member;
divorce or legal separation; separation of borrowers unrelated by marriage, civil union, or similar domestic partnership under applicable law; or
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		• an increased monthly P&I payment occurred as result of an interest rate adjustment within the last 12 months for a previously modified mortgage loan with a step-rate feature.

> **NOTE:** *Servicers must not solicit borrowers who are current or less than 30 days delinquent for a workout option.*

If the servicer requests our approval of a conventional mortgage loan modification through our servicing solutions system and the mortgage loan is current (i.e., not delinquent or in default) and we decline the borrower's request, the servicer must send an *Adverse Action Notice* (*Form 182*) to the borrower within 30 days of receipt of our decision, unless the servicer offers the borrower another retention workout option and the borrower accepts the counteroffer within the 30-day period.

While use of *Form 182* is optional, it reflects the minimum level of information that servicers must communicate and illustrates a level of specificity that complies with the requirements of the *Servicing Guide*. The following table provides requirements for the adverse action notice.

✓	**The adverse action notice must include...**
	A statement that Fannie Mae, as the owner of the mortgage loan, reviewed the mortgage loan modification request.
	Fannie Mae's contact address shown as: 3900 Wisconsin Ave, NW, Washington, DC, 20016–2892
	The reason we did not approve the request as well as the reason the servicer did not approve the request.
	The name and contact information of the credit reporting agency used to make the denial decision, if applicable.

When requesting our approval for a mortgage loan modification for a borrower facing imminent default, servicers must either

- include the draft adverse action notice in its submission to our servicing solutions system, or
- certify it has a process to send the text pre-approved by us for every adverse action notice that is sent in accordance with the requirements of the *Servicing Guide*. See *Servicing Guide* A4-2.1-06, Adverse Action Notification Certification for information on obtaining approval and certification.

Calculating the Housing Expense-to-Income Ratio for Imminent Default for a Conventional Mortgage Loan Modification

The borrower's monthly gross income is defined as the borrower's monthly income amount before any payroll deductions and includes the following items, as applicable:

- wages and salaries;
- overtime pay;

- commissions;
- fees;
- tips;
- bonuses;
- housing allowances;
- other compensation for personal services;
- Social Security payments (including Social Security received by adults on behalf of minors or by minors intended for their own support); and
- monthly income from annuities, insurance policies, retirement funds, pensions, disability or death benefits, rental income, and other income such as adoption assistance.

> **NOTE:** *Servicers must not consider unemployment insurance benefits or any other temporary sources of income related to employment (such as severance payments) as part of the monthly gross income for mortgage loans being evaluated for a mortgage loan modification.*

Servicers must then divide the borrower's pre-modification monthly housing expense, which includes the following items (as applicable), by the borrower's monthly gross income:

- P&I;
- property and flood insurance premiums;
- real estate taxes;
- ground rent;
- special assessments;
- HOA dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
- co-op corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit); and
- any projected monthly escrow shortage payment.

> **NOTE:** *Servicers must exclude monthly mortgage insurance premiums from the monthly housing expense-to-income calculation.*

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Contact your Customer Delivery Team, Portfolio Manager, or Fannie Mae's Single-Family Servicer Support Center at 1-800-2FANNIE (1-800-232-6643) with any questions regarding this Lender Letter.

Carlos T. Perez
Senior Vice President and
Chief Credit Officer for Single-Family