



## Lender Letter LL-2018-06

**December 26, 2018**

### **To: All Fannie Mae Single-Family Sellers** **Impact of Federal Government Shutdown**

Federal employees across the country may be affected by the federal government shutdown, including employees who work for government contractors, vendors, and other businesses that rely on work from government agencies or that offer goods and services to members of the government workforce in their localities.

We are providing temporary guidance on selling and servicing policies that may be impacted by the federal government shutdown that occurred on December 22, 2018. This guidance assumes that the shutdown will be temporary in nature. These temporary policies are effective immediately, and will automatically expire when the federal government resumes full operations. If the shutdown lasts for a prolonged period, we may provide additional guidance.

### **Selling Policies**

#### **Employment Directly Affected by the Shutdown**

For borrowers employed by the federal government or other individuals whose employment is directly impacted by the shutdown, a loan is not rendered ineligible for purchase or securitization by Fannie Mae solely based upon the shutdown. The following guidance relates to our standard employment policies:

- If the lender is unable to obtain a verbal verification of employment (VOE) during the shutdown, the *Selling Guide* already permits the lender to obtain the verbal VOE after loan closing, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible for sale to us.
- For borrowers in the military, the *Selling Guide* currently allows for a Leave and Earnings Statement dated within 30 calendar days (or 31 days for longer months) prior to the note date in lieu of a verbal VOE.
- If a borrower is furloughed on or after closing of the mortgage loan due to the shutdown, the loan remains eligible for sale, provided the lender has been able to obtain all required documentation (for example, paystubs, IRS W-2s, verbal VOEs) prior to delivery of the loan.
- If employment has been validated by the Desktop Underwriter® (DU®) validation service, the validation will remain eligible for representation and warranty relief on employment provided the lender complies with the “close by” date in the DU message. Otherwise, the standard guidance provided above related to obtaining a VOE would apply.

### **Government Verifications**

In some instances, we require validation through a government agency, such as the IRS and the Social Security Administration (SSA), for certain documentation or information provided by the borrower. During the shutdown, these requests may not be processed. We are implementing the following temporary policies with regard to those two agencies.

**IRS Transcripts:** We require lenders to have each borrower (regardless of income source) complete and sign a separate IRS Request for Transcript of Tax Return (Form 4506-T) at or before closing, except when all of a borrower’s income has been validated by the DU validation service. We do not require lenders to obtain tax transcripts from the IRS prior to closing, but do require that it be included as part of the lender’s post-closing quality control processes (unless all borrower income has been validated through the DU validation service).

As part of the DU validation service, DU can validate certain income types using tax transcript data obtained from an eligible verification report. As a result of the shutdown, requests for those verification reports may not be fulfilled with the



IRS and may remain in pending status until normal operations resume. DU will continue to return validation messages for tax transcript verification reports received before the shutdown, but will not be able to access any new verification reports for validation.

**Social Security Number Validation:** When data integrity issues pertaining to the borrower's Social Security number are identified, a lender may be required to validate the Social Security number with the SSA using SSA-89. Because these requests may not be processed during the shutdown, Fannie Mae is temporarily revising this policy to enable lenders to obtain the verification prior to delivery of the loan. If the Social Security number cannot be validated prior to delivery, the loan is not eligible for sale to Fannie Mae.

## **Selling Loans Requiring Flood Insurance**

On December 21, 2018, legislation was passed that extends the National Flood Insurance Program's (NFIP's) authorization to May 31, 2019. However, the NFIP may have limited ability to issue new policies, issue increased coverage on existing policies, or issue renewal policies during the shutdown. To help ensure the continued availability of mortgage financing to borrowers seeking to purchase properties located in Special Flood Hazard Areas (SFHAs), we will purchase loans secured by properties located in SFHAs that do not have an active flood insurance policy as long as the conditions noted below are met.

Lenders are reminded that Fannie Mae accepts flood policies from private insurers that provide equivalent terms and conditions of coverage provided under the standard policy of the NFIP for the appropriate property type.

## **Conditions for Loan Purchase**

This policy is applicable to mortgage loans closed and purchased or securitized by Fannie Mae during the shutdown.

Until evidence of active flood insurance is obtained, a lender may deliver a mortgage loan to Fannie Mae on the condition that the borrower can provide acceptable evidence of

- a completed application for flood insurance and a copy of a check or the settlement statement reflecting payment of the initial premium, or
- the assignment of an existing flood insurance policy from the property seller to the purchaser.

Lenders must

- have a process in place to identify mortgaged properties securing loans sold to Fannie Mae that do not have proper evidence of active flood insurance,
- take all steps (insofar as permitted by applicable law) necessary to facilitate the issuance of coverage once the shutdown ends, and
- retain documentation to support acceptable evidence of flood insurance.

When selling mortgage loans affected by the shutdown, lenders must provide all applicable loan delivery data elements and special feature codes, including:

- Special Feature Code 170, or
- Property Flood Insurance Indicator (ULDD Sort ID 65) = TRUE and Special Flood Hazard Area Indicator (ULDD Sort ID 24) = TRUE.

Regardless of the provisions of this Lender Letter, the lender remains obligated for all selling representations and warranties concerning the existence of a standard policy issued under the NFIP or an equivalent policy from a private insurer.

As a reminder, refinance loans secured by properties in SFHAs typically already have acceptable flood insurance coverage in place at the time of closing. Such policies only require a change to the mortgagee named on the policy if the refinance lender is not the original lender. As a result, these mortgage loans are subject to the above requirements only if the renewal date of the borrower's existing coverage will occur during the shutdown and prior to sale to Fannie Mae. If



coverage expires before the mortgage loan is sold, lenders must comply with the procedures described above, adapted appropriately to a renewal.

Lenders are advised to consult counsel to determine if they have the requisite authority to originate or otherwise deal in such mortgage loans.

## **Servicing Policies**

### **Servicing Loans Requiring Flood Insurance**

The servicer must track properties securing mortgage loans for which new policies, an increase in coverage or renewal of existing policies would have occurred during the shutdown and must retrospectively perform all steps (insofar as permitted by applicable law) necessary to facilitate the issuance of proper flood insurance coverage. The servicer must retain documentation to support acceptable evidence of flood insurance.

### **Other Servicing Policies**

The shutdown may impact a borrower's ability to make scheduled mortgage payments. To assist borrowers who are unable to make their monthly mortgage loan payment as a result of the shutdown, the servicer can offer forbearance. The servicer must follow *Servicing Guide* [D2-3.2-01, Forbearance Plan](#).

A borrower who is currently performing on a repayment plan or Trial Period Plan and is impacted by the shutdown may seek consideration for a forbearance plan. If the borrower does convert from a repayment plan or a Trial Period Plan to a forbearance plan, the borrower may subsequently be eligible for a repayment plan or modification upon successful completion of forbearance plan and if eligible, must be placed on a new repayment plan or Flex Modification Trial Period Plan.

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Lenders who have questions about this Lender Letter should contact their Fannie Mae account team.

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