



Announcement 08-14

June 16, 2008

Amends these Guides: Servicing

Introduction of HomeSaver Advance™

Introduction

Servicing Guide, Part VII, Chapter 5, Loss Mitigation Alternatives

Fannie Mae is introducing a new loss mitigation option that is designed to cure the delinquency on a first lien mortgage loan when a repayment plan is not feasible. This loss mitigation option, HomeSaver Advance (HSA), is the preferred option to a capitalization-only modification. Servicers can begin offering this loss mitigation option effective with the date of this Announcement.

Purpose

This Announcement describes the requirements related to this new loss mitigation option. The HSA allows the delinquency on mortgage loans meeting certain eligibility criteria that are securitized by Fannie Mae, including a Pooled from Portfolio (PFP) mortgage loan, as well as whole loans held in our portfolio, to be cured at an earlier stage. This option will also allow MBS mortgage loans to remain in MBS pools.

The intent of HSA is to allow a delinquent borrower, who is able to make future scheduled payments but is unable to pay past due amounts immediately, to cure the delinquency by entering into a new unsecured loan for the arrearage amount. HSA is the preferred option to a capitalization-only modification. HSA is documented by the execution of an unsecured promissory note.

Fannie Mae's *Servicing Guide*, Part VII, Chapter 5, Loss Mitigation Alternatives, will be amended to include the HSA as a standard loss mitigation option. All previous HSA delegations are now null and void. Servicers are permitted to agree to an HSA without prior Fannie Mae or mortgage insurer approval, provided that the first lien mortgage loan, the borrower, and the terms of the HSA Loan Documents (as defined below) conform to

the guidelines included in this Announcement (Delegated HSA). In addition, servicers must ensure they have the ability to originate and administrate HSA loans in accordance with all of the requirements of this Announcement.

Note: This Announcement also allows for Non-Delegated HSA loans, whereby loans can be submitted to Fannie Mae for review. Furthermore, this Announcement supersedes the HSA Servicing Delegation that some servicers may have been granted.

Background

Currently, Fannie Mae allows servicers to modify the terms of delinquent conventional mortgage loans after the mortgage loans have been removed from MBS (and are then held in our portfolio as reclassified MBS loans) or whole loans with our prior approval and prior approval from the mortgage insurer, if applicable. Servicers may recommend to us modifications that

- extend the term of the mortgage;
- provide for reamortization of the outstanding debt;
- change ARMs to fixed-rate mortgages (using the current market interest rate for the remaining term of the mortgage);
- modify ARMs by retaining the adjustable rate feature in certain circumstances;
- capitalize delinquent interest and escrow items or advances (and costs, if allowed by state law); or
- reduce the existing interest rate to the current market rate or to a below-market interest rate.

Workout Hierarchy

Fannie Mae has established a workout hierarchy, referred to as RAMPD, which recommends the preferred order of consideration for the use of loss mitigation options to resolve a delinquency.

- **R**epayment Plan — an arrangement in which a borrower agrees to pay down past due amounts while still making regularly scheduled payments;
- **A**dvance — HomeSaver Advance — a monetary advance to cure a delinquent loan resulting in a separate unsecured loan for the arrearage amount;
- **M**odification — any change to the terms of a first lien mortgage loan, including changes to the interest rate, loan balance, or loan term;
- **P**re-Foreclosure or Short-Sale — the acceptance of a sales contract prior to the foreclosure sale resulting in a payoff of less than the total amount owed on the first lien mortgage loan; and
- **D**eed-in-Lieu — the voluntary transfer of title from a borrower to the servicer to satisfy the first lien mortgage loan and avoid foreclosure (also called a "voluntary conveyance").

As suggested by the hierarchy, servicers must determine if the borrower has adequate net income after expenses to repay the arrearage through a repayment plan or HSA before approving a modification. For a borrower who is experiencing an insurmountable financial hardship, the servicer must consider more permanent relief options such as a pre-foreclosure sale or a deed-in-lieu.

Eligibility Criteria

Effective with the date of this Announcement, any MBS mortgage loan that is purchased or securitized by Fannie Mae (including a PFP mortgage loan) as well as any whole loan that is held in our portfolio is considered eligible for the HSA loss mitigation option if all of the following eligibility criteria are met.

Mortgage Eligibility

- The mortgage loan must be a first lien, including cooperative share loans.
- The first lien mortgage loan may secure a principal residence, second home, or investment property. Owner occupancy is not required.
- At least six monthly payments have been paid on the existing first lien mortgage loan since the date of loan closing.
- At least two full monthly payments of principal and interest (P&I), taxes, and insurance (or P&I only if taxes and insurance are not escrowed) are due and unpaid. Two payments are considered to be past due on the 32nd day after the due date of the first unpaid installment. There is no maximum delinquency criteria for the use of the HSA option; however, the HSA **may not** be used to reinstate a foreclosed first lien mortgage loan (e.g., during a foreclosure redemption period).
- The borrower must have made at least 12 payments on a first lien mortgage loan that has previously been modified to cure a delinquency, if applicable.
- The first lien mortgage loan must not be an FHA-insured mortgage loan. Servicers of FHA-insured mortgage loans should utilize FHA's Partial Claim loss mitigation option in lieu of the HSA, if applicable. Loans guaranteed by the Department of Veterans Affairs and the USDA Rural Development's Guaranteed Loan Program are eligible for an HSA.

The HSA option is not secured by real estate and, therefore, does not have a loan-to-value restriction and no property valuation is required.

Borrower Eligibility

If the first lien mortgage loan is eligible for an HSA, the servicer must ensure that the borrower meets all of the qualifications listed below.

- The borrower must have successfully resolved the reason for delinquency.
- The borrower must demonstrate a long-term financial capacity to resume making the payments on the first lien mortgage loan, any subordinate mortgage loans, and all

- other monthly obligations, (including personal debts, revolving accounts, installment loans, and normal monthly living expenses, such as food, utilities, etc.).
- The borrower must have surplus income to support payments due under the first lien mortgage loan, subordinate liens, the HSA note, and all other monthly obligations, plus at least \$200 in monthly net income after expenses. Cases with less than \$200 in monthly net income after expenses may be submitted through Fannie Mae's Home Saver Solutions® Network (HSSN) Workout Profiler for Fannie Mae review and decision as a Non-Delegated HSA. Refer to the Servicer Responsibilities section below for instructions on how to calculate net income after expenses.
 - The borrower must not have the ability to cure the arrearage using a standard repayment plan with a period of nine months or less.
 - The borrower must be willing to obtain an HSA and agree to the terms of repayment.
 - The borrower must not have previously obtained an HSA in connection with their delinquent first lien mortgage loan; the HSA option may only be utilized once during the term of a first lien mortgage loan.
 - The borrower may only have a maximum of two HSA notes outstanding on two separate first lien mortgage loans at one time and the borrower must not have an active, unpaid HSA loan that was issued in connection with a property that has previously been sold.
 - The borrower must not be currently involved in an active bankruptcy proceeding.
 - The borrower may not have received a Chapter 7 bankruptcy discharge in a case involving the first lien mortgage, unless the mortgage debt was reaffirmed under the applicable legal standard.

Servicing Options

For first lien mortgage loans owned or securitized by Fannie Mae and serviced under the special servicing option

- The HSA loan will be serviced by a designated third-party servicer. Refer to the Third-Party Servicer of HSA Notes section below for additional information.
- Fannie Mae will compensate servicers for the successful completion of an HSA by paying a \$600 incentive fee to servicers. The following criteria must be met:
 - The HSA must meet all the eligibility criteria. Fannie Mae will review the information provided by the servicer to determine compliance with eligibility.
 - The borrower must make the first three full monthly payments that are due after the HSA is closed. These three payments must be made within the month due.
- The incentive fee payments will be sent to servicers within 30 days after the borrower has made the required three monthly payments.

For regular servicing option MBS pool mortgage loans, the servicer may utilize HSA.

However:

- Fannie Mae will not advance the HSA funds to cure the delinquency. The servicer must advance its own funds to reinstate the loan, and have an HSA note executed payable to the servicer.

- The servicer must service the HSA note.
- No incentive fee will be paid by Fannie Mae.

Legal Requirements and HSA Loan Documents

Fannie Mae requires servicers to comply with any legal requirements applicable under local, state or federal law or regulation, including, but not limited to, licensing, disclosure or notice requirements, and the requirements of our *Selling and Servicing Guides*. For example, Arizona's lending laws would preclude a servicer licensed as an Arizona Consumer Lender that is not a national bank, savings association, or credit union from granting a consumer loan of \$6,000 or less with a loan term of 180 months. Servicers with questions related to legal requirements applicable to the origination of the HSA note should contact its legal counsel or call Fannie Mae's Servicing Solutions Center at 1-888-326-6438 (option 2 – Servicing).

With this Announcement, servicers are notified that the definition of "Mortgage" in the *Servicing Guide*, Part XII, Glossary, is expanded to include HSA (even though HSA is an unsecured loan), except where context makes clear that the provision applies only to a secured loan. Accordingly, among other things, the selling warranties set forth in the Mortgage Selling and Servicing Contract apply to the sale of each HSA to Fannie Mae.

The borrower must execute the appropriate *HomeSaver Advance™ Truth-in-Lending Disclosure Statement and Promissory Note* (Form 3721 or 3721.33 as applicable, referred to as HSA note) and *HomeSaver Advance™ Closing Certification and Instruction* (Form 3720, referred to as HSA certification). (The HSA note and HSA certification are collectively referred to as the HSA Loan Documents.) Upon execution of the HSA Loan Documents, the servicer of the first lien mortgage loan will verify that the HSA Loan Documents are fully and legally executed, and the information set forth in the HSA note is complete and accurate. The HSA Loan Documents shall not be revised or amended except as necessary to comply with applicable federal, state, and local laws and regulations. The servicer will endorse the note "in blank" as set forth in *Selling Guide* Part IV, Section 204, Endorsement of the Note, and transmit the original HSA Loan Documents to Fannie Mae's third-party servicer via overnight courier (see Document Delivery section below).

The HSA Loan Documents are posted on Fannie Mae's Web site for viewing, printing, or downloading in Microsoft® Word and PDF formats. In addition, there is a Summary document for each instrument that includes instructions on completion of the form. Servicers may access these forms at

<https://www.efanniemae.com/sf/formsdocs/documents/specialpurpose/>

Note: The HSA Loan Documents have recently been revised from the versions used under the HSA Servicing Delegation. Servicers must use the revised forms for all HSA loans closed on or after the date of this Announcement.

HSA Required Note Provisions

The following provisions apply to all HSAs:

- The HSA proceeds must fully reinstate the first lien mortgage loan, and the servicer is required to advance the last paid installment date to bring the loan current.
- The HSA funds may be used to pay only delinquent principal, interest, tax and insurance deposits, escrow advances, as well as foreclosure and bankruptcy fees and costs that would otherwise be reimbursed by Fannie Mae, if applicable. The servicer may also include in the HSA the amount of advances to pay delinquent homeowner association dues required to protect our first lien mortgage loan. The servicer may include up to six months of such advances if paid monthly (and up to one year if paid annually) in the amount of the HSA. For first lien mortgage loans for which Fannie Mae bears the risk of loss (including loans sold to us for cash and PFP loans), the amount of the HSA note may not exceed the lesser of 15 percent of the original unpaid principal balance of the first lien mortgage loan or \$15,000.00. Exceptions to this maximum amount may be made by Fannie Mae. Servicers may submit Non-Delegated HSA cases that exceed the HSA limits through HSSN Workout Profiler for Fannie Mae's decision. For first lien mortgage loans in which the lender bears the full risk of loss, the amount of the HSA note may not exceed the lesser of 15 percent of the original loan amount or \$20,000.00.
- The minimum amount of the HSA note is \$1,000.01.
- The servicer may not include late charges or any other ancillary fees and costs in the amount of the HSA. Servicers must waive any late payment charges associated with the current delinquency to provide further relief to HSA borrowers. Fannie Mae encourages servicers to waive all previously assessed and unpaid late charges associated with a prior delinquency as well as other fees and costs (other than those addressed above) remaining owed after application of the HSA funds to the delinquent first lien mortgage loan.
- All parties who signed the first lien mortgage loan must execute the HSA Loan Documents.

Repayment Terms

- HSA notes have a term of 15 years.
- The HSA note will not accrue interest and requires no payment for the first six months of the term.
- Thereafter, payments will equal the HSA note amount plus the annual interest rate of five percent amortized over 174 months.
- Any amounts remaining owed become fully due and payable upon borrower's sale or transfer of the property securing the first lien mortgage loan other than by operation of law. The note is not due and payable upon refinancing of the first lien mortgage loan.
- Prepayment fees are not permitted.
- The HSA note must accrue interest in arrears and have a payment due date of the first day of the month. The six-month period of zero interest rate accrual will begin on the

first day of the month following execution of the HSA note. Interest will begin to accrue on the first day of the seventh month, with the first payment due on the first day of the eighth month after the HSA note is executed.

Example

If an HSA note is executed on February 15, 2008, the six-month period of zero interest rate accrual begins on March 1, 2008. Interest will begin to accrue on September 1, 2008, with the first payment due on October 1, 2008.

Correction of HSA Funding Errors

If the amount of the HSA results in more than what is needed to cure the allowable arrearages on the first lien mortgage loan, the amount of the overage **may not** be paid to the borrower or applied to the outstanding first lien mortgage loan. The servicer should contact the National Servicing Organization's Servicing Solutions Center for further guidance. If the amount of the HSA results in less than what is needed to cure the allowable arrearages and the borrower cannot afford to contribute the amount of the difference, the HSA must be corrected or cancelled and re-originated.

Fannie Mae may periodically review the disposition of HSA proceeds to ensure that the proceeds were appropriately applied to allowable arrearages. If the proceeds were applied to pay unauthorized amounts, or otherwise originated improperly, Fannie Mae may demand that the originating servicer repurchase the HSA.

Servicer Responsibilities

The servicer must calculate the monthly net income after expenses by comparing the borrower's combined monthly net income from wages and all other identified sources of income to the borrower's monthly obligations (as previously defined above in the Borrower Eligibility section) for the same period, making necessary adjustments for income fluctuations. For ARM loans scheduled to adjust within the next 12 months, the servicer must project the borrower's net income after expenses using an anticipated mortgage payment based on the current rate plus the amount of the cap by which the interest rate can change on any given adjustment date. For both fixed rate loans and ARMs, if the calculation of monthly net income after expenses is less than \$200, the HSA option may not be used without prior approval from Fannie Mae. For the HSA option, the use of verbal financial information from the borrower is acceptable.

Borrowers should be encouraged to contribute available funds toward paying down the delinquency, thereby reducing the amount of the HSA note. Servicers may not assess any fees or charges to the borrower or third-party servicer with respect to HSA.

If the servicer elects not to waive the remaining late charges and other fees and costs from a previous delinquency, and instead engages in a payment plan or other collection efforts for the unpaid charges, the monthly payment plan amount must be considered in the calculation of the borrower's net income after expenses. The servicer cannot impose

a payment plan if it reduces the monthly net income after expenses to less than \$200, and the servicer cannot deny the borrower an HSA for failure to pay those charges or make satisfactory payment arrangements for those charges. The servicer must disclose in writing any late charges and other fees and costs from a previous delinquency that will remain after the application of the HSA funds.

For first lien mortgage loans with an HSA, servicers are reminded that if the borrower has waived an escrow deposit account and the borrower subsequently fails to pay the taxes and/or insurance when due (and the servicer advances its own funds to pay any outstanding bills), the servicer must revoke the waiver and begin collecting funds for an escrow deposit account to pay future bills. Refer to the *Servicing Guide*, Part III, Section 103, Escrow Deposit Accounts, for additional information.

Submitting HSA loans to Fannie Mae

The servicer must report the HSA using Delinquency Status Code 19 – Partial Reinstatement – in HSSN to indicate that the servicer is working with the borrower to facilitate an HSA in order to avoid foreclosure. A servicer must continue to report each month that the borrower is being considered for an HSA until the first lien mortgage loan becomes current, liquidated, or the borrower fails to execute and return the HSA note within thirty (30) days of transmittal or otherwise demonstrates unwillingness to agree to an HSA.

When servicers have determined the borrower meets all eligibility criteria and have executed an HSA note with a borrower, they must submit the closed case information through HSSN's Create/Submit a Closed HomeSaver Advance Case. Servicers should not submit closed, Delegated HSA cases until all required documents have been executed and returned from the borrower.

Servicers are encouraged to submit loan, borrower, and financial information on any potential HSA case that does not meet the eligibility guidelines described herein through HSSN Workout Profiler for Fannie Mae's consideration.

Example 1

The borrower does not have a monthly net income after expenses of \$200 or greater. The servicer should submit this loan through Workout Profiler as a Non-Delegated HSA.

Example 2

The proposed HSA note amount exceeds the lesser of 15 percent of the original UPB or \$15,000. The servicer should submit this loan through Workout Profiler as a Non-delegated HSA case.

Fannie Mae's Response to Submitted Cases

A Delegated HSA case successfully submitted as a closed HSA case to HSSN will get a response that the case has been submitted and closed successfully. A Non-Delegated

case successfully submitted through Workout Profiler will receive a status of “Awaiting Review” until Fannie Mae makes a decision regarding the HSA workout option. Fannie Mae will notify the servicer by email when a decision is made. Assuming a servicer receives approval from Fannie Mae, issues the HSA Loan Documents to the borrower, and the borrower returns the executed HSA Loan Documents, the servicer may close the case by selecting the Close Approved Cases link in HSSN.

Delivery of Documents and Funding

Servicers who utilize the HSA workout option must be able to prepare and coordinate execution of the HSA Loan Documents and deliver them to our third-party servicer at the address listed below (see Document Delivery section). The third-party servicer will validate that the HSA loan data submitted by the Servicer on HSSN matches the HSA Loan Documents submitted by the servicer. In addition, the third-party servicer will validate proper signature execution and endorsement of the HSA Loan Documents.

Within three business days from receipt of the HSA Loan Documents, Fannie Mae will remit the HSA amount to the servicer of the first lien mortgage loan by electronically depositing the funds in the funding account the servicer has established for cash deliveries or using wiring instructions provided by the servicer to a separate non-MBS custodial account. (Servicers must not use an MBS custodial account for receipt of HSA funds.) Prior to submitting any HSA Loan Documents to Fannie Mae, the servicer should submit new wiring instructions using the *Lender’s Designation/Deletion of Payee Information* (Fannie Mae Form 482) for all nine-digit seller/servicer numbers that will be closing HSA loans.

Servicers Receipt of Funds

The servicer, upon receipt of the advance, must ensure that the first lien mortgage loan is brought current (fully reinstated) by applying the HSA funds first to the delinquent principal, interest, tax and insurance payments and then to foreclosure-related fees and costs, if applicable. Once the servicer has credited the borrower’s account with the proceeds of the HSA, the servicer will then follow the applicable cash flow process.

If the monthly remittance type is...	Then the servicer must...
Scheduled/Scheduled for a portfolio or MBS pool mortgage loan serviced under the special servicing option	Use the HSA proceeds to reimburse itself for delinquency advances or servicing advances (or reimburse the P&I custodial account for advances made from collections on hand that represented funds not yet due for remittance to Fannie Mae) made on the individual mortgage loan.
Actual/Actual for a portfolio mortgage loan or a PFP mortgage loan	Use the HSA proceeds to remit the P&I payments to Fannie Mae in the servicer’s next scheduled remittance and then reimburse itself for any servicing advances

	not previously reimbursed by Fannie Mae.
Scheduled/Actual	Use the HSA proceeds to reimburse itself for delinquency advances or servicing advances (or reimburse the P&I custodial account if the “scheduled” interest advances were made from collections on hand that represented funds not yet due for remittance to Fannie Mae) made on the individual mortgage loan.

Additional Servicer Responsibilities

The servicer must have the ability to identify whether a borrower on a first lien mortgage loan currently has an HSA, allowing the HSA to be referenced in any payoff statement for the first lien mortgage loan. In the event of a sale or transfer, this reference must remind the borrower that the HSA note is due and payable in full. This reference must clearly state that payoff of the HSA note is not required to release the first lien mortgage loan. In the event of a refinance, this reference should clearly remind the borrower that the HSA note must continue to be paid. Lastly, the servicer must be able to promptly redirect any HSA note payments received to the third-party servicer (or other party designated by Fannie Mae). An example of such a reminder to be included with the payoff statement is as follows:

NOTE: Our records indicate that you have a HomeSaver Advance™ note, which must be paid in full if you sell your property. Please contact your HomeSaver Advance note servicer for payoff information with respect to that loan. Payoff of the HomeSaver Advance note is not required to release the first lien mortgage loan related to this payoff statement.

The servicer represents, warrants, and agrees that all right, title, and interest in the HSA note is sold, transferred, set over, and otherwise conveyed by the servicer to Fannie Mae as of the date of Fannie Mae’s funding of the HSA note. The servicer further represents and warrants that there is no agreement with any other party for servicing of the HSA note.

Third-Party Servicer of HSA Notes

Servicers are reminded that, for regular servicing option MBS pool mortgage loans, the servicer of the first lien mortgage loan must arrange for the servicing of the HSA note. Fannie Mae has engaged a third-party servicer to service the HSA notes related to first lien mortgage loans in which Fannie Mae bears the risk of loss. Servicers of the first lien mortgage loan should provide the borrower with appropriate written notification relative to the transfer of the HSA note to the third-party servicer, and the requirement for the borrower to make the HSA payments directly to the third-party servicer.

At this time, Fannie Mae has selected Dyck O'Neal, Inc. as the third-party servicer for HSA notes. From time to time, Fannie Mae may elect to change the third-party servicer, and will provide servicers with advance notice of any such changes.

Document Delivery

The servicer of the first lien mortgage loan must deliver the original HSA note to the third-party servicer at the address listed below via overnight courier no later than (a) the next business day after the servicer receives the executed HSA note from the borrower, or (b) thirty (30) days from the date of execution of the HSA note, whichever is earlier. If an HSA note is first received by the third-party servicer more than thirty (30) days after the execution date, Fannie Mae may, in our sole and absolute discretion, choose to consider the HSA note null and void.

Dyck O'Neal, Inc.
Attn: HSA Coordinator
15301 Spectrum Drive
Suite 450
Addison, TX 75001
Phone (800) 447-2481

Time extensions may be granted by Fannie Mae's National Servicing Organization in the event document delivery is delayed by events beyond the control of the servicer.

Servicers should contact our National Servicing Organization's Servicing Solutions Center at 1-888-326-6438 (option 2 – Servicing) if they have questions about Announcement 08-14.

Michael A. Quinn
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