

**Announcement SVC-2010-14****September 21, 2010****Home Affordable Modification Program: Introduction of Second Lien Modification Program****Introduction**

In several previous announcements, Fannie Mae announced the eligibility, underwriting, and servicing requirements for the Home Affordable Modification Program (HAMP). Under HAMP, servicers use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments for first-lien mortgage loans.

On August 13, 2009, the US Department of Treasury (Treasury) published Supplemental Directive 09-05, introducing the Second Lien Modification Program designed to work in tandem with HAMP. On March 26, 2010, Treasury revised that policy guidance in Supplemental Directive 09-05 Revised, which replaced Supplemental Directive 09-05 in its entirety.

Together, HAMP and the Second Lien Modification Program (2MP) create a comprehensive solution to help borrowers achieve greater affordability by lowering payments on both first-lien and second-lien mortgage loans. This Announcement provides guidance to Fannie Mae servicers for the adoption and implementation of the 2MP for Fannie Mae loans.

All Fannie Mae-approved servicers must participate in the program for all eligible Fannie Mae second-lien mortgage loans. Servicers are required to implement the 2MP program no later than January 1, 2011.

This Announcement covers the following topics for Fannie Mae's 2MP program:

- Modification Eligibility
- Modification Process
- Use of Suspense Accounts and Application of Payments
- Reporting Requirements
- Mortgage Insurers
- Fees and Costs
- Incentive Compensation
- Compliance
- Record Retention
- Transfer of Servicing

**Modification Eligibility**

Second-lien mortgage loans must meet the following requirements to be eligible for this program:

- Only second liens with corresponding first liens that have been modified under HAMP are eligible for a modification under 2MP.
- The second lien must have been originated on or before January 1, 2009 to be eligible.
- Second liens (current or delinquent) with an unpaid principal balance (at initial consideration for the second lien modification) of less than \$5,000 or a pre-modification scheduled monthly payment less than \$100 cannot be modified under 2MP.
- A second lien can be modified only once under 2MP.
- A mortgage loan that is subordinate to a second lien is ineligible under 2MP. Modification of such a subordinate mortgage loan in place of the second lien will not satisfy the servicer's obligation under 2MP to modify the second lien.
- A home equity loan that is in first lien position is not eligible under 2MP and should be evaluated for modification under HAMP.
- A mortgage lien that would be in second-lien position but for a tax lien, a mechanic's lien, or other non-mortgage related lien that has priority is eligible under 2MP.
- A second lien on which no interest is charged and no payments are due until the first lien is paid in full (for example, FHA partial claim liens or equity appreciation loans) is not eligible under 2MP.
- Borrowers may be accepted into the program if a fully executed 2MP modification agreement is in the servicer's possession on or before December 31, 2012.
- Full or partial extinguishment of principal options are prohibited.
- Deferring or waiving of accrued interest is prohibited.

### **Borrowers in Bankruptcy**

Borrowers in active bankruptcy cases are eligible for 2MP if the borrower, borrower's counsel, or bankruptcy trustee contacts the servicer to request consideration. With the borrower's permission, a bankruptcy trustee may contact the servicer to request a 2MP modification. The servicer is not required to solicit these borrowers for 2MP when they are under bankruptcy protection.

Borrowers who are currently in a trial period plan and subsequently file for bankruptcy may not be denied a 2MP permanent modification on the basis of the bankruptcy filing. The servicer and its counsel must work with the borrower or borrower's counsel to obtain any court or trustee approvals required in accordance with local court rules and procedures.

### **Coordination with Other Making Home Affordable Programs**

To ensure alignment of all programs within the Making Home Affordable (MHA) Program, the servicer must resubordinate junior liens within its servicing portfolio to facilitate the modification of a first lien under HAMP.

### **Modification Process**

When a borrower's first lien is modified under HAMP, the servicer of a Fannie Mae second-lien mortgage loan must offer to modify the borrower's second lien. In addition, if the borrower's first lien is modified under HAMP, the servicer of a Fannie Mae second-lien mortgage loan must dismiss any outstanding foreclosure action on the borrower's second lien.

The 2MP modification offer may be prepared during the HAMP trial period for loans approved for a trial period plan under the fully verified protocol required in the *Servicing Guide*, Part VII,

Chapter 610.04.07: Trial Payment Period, or on or after the date the HAMP modification becomes effective. In addition, the permanent modification of the second lien under 2MP may not become effective unless and until the permanent modification of the first lien becomes effective under HAMP.

## **Matching Second Liens to HAMP First Liens**

In order to facilitate the communication of HAMP modification information between first- and second-lien servicers, Lender Processing Services (LPS) maintains a database of second liens that may be eligible under 2MP and that are serviced by servicers participating in 2MP. Information from the database will be used to match first and second liens and to notify second-lien servicers of the HAMP modification status and details necessary for the second-lien servicer to offer a 2MP modification to the borrower. Servicers must enter into a contract directly with LPS to facilitate this program and will be required to pay a one-time set-up fee and nominal transaction fees for each second lien matched, regardless of whether a 2MP modification is completed.

As part of its contract with LPS, the servicer will agree to provide LPS with information regarding all eligible second liens that it services. If the servicer identifies matching first and second liens on its own system, it should work with LPS so that the required loan information is accurately reflected in the LPS database. In addition, the servicer will provide monthly updates of this information to LPS. The information provided to LPS will be used for matching first and second liens to facilitate 2MP modifications and for program analysis and reporting.

LPS will provide matching information to servicers of Fannie Mae second-lien mortgage loans via a secure transmission. Reporting requirements, including a *2MP Data Dictionary* and *2MP Data Dictionary Appendix*, are available on [HMPAdmin.com](http://HMPAdmin.com).

## **Reliance on First-Lien Data**

The terms of the HAMP modification of the first lien will be used to determine the terms of the 2MP modification of the second lien. The servicer is not required to verify any of the financial information provided by the borrower in connection with the HAMP modification of the first lien. In general, modification of first-lien mortgage loans under HAMP confers a benefit on any associated second-lien mortgages.

Because a HAMP-modified first-lien mortgage loan was, as required by HAMP guidelines, delinquent or faced imminent default before modification, the servicer may reasonably conclude that default is foreseeable with respect to a related second-lien mortgage loan. It is also reasonable to conclude that the combination of the modification of the first lien and the second lien under HAMP guidelines will be Net Present Value (NPV) positive. As a result, the second-lien servicer is not required to perform an additional NPV test on the related second-lien mortgage loan.

Furthermore, post-foreclosure recoveries of second-lien mortgages, as a class, are likely to be *de minimis* if the first-lien mortgage is delinquent or at risk of default. Accordingly, it is reasonable for servicers to conclude that modification of second-lien mortgages in accordance with this guidance is likely to provide an anticipated recovery on the outstanding principal mortgage debt that, as a class, will exceed the anticipated recovery through foreclosure.

Unless there is evidence of fraud or misrepresentation (such as when the second-lien servicer is aware that a property is not owner-occupied), there is no additional responsibility on the part of the second-lien servicer to verify the information provided by the first-lien servicer through LPS. If the second-lien servicer identifies evidence of fraud or misrepresentation, the servicer should not proceed with the 2MP modification and must notify the HAMP Program Administrator at [Escalations@HMPAdmin.com](mailto:Escalations@HMPAdmin.com).

## **Standard Modification Steps**

Servicers must follow the standard modification steps set forth below in the stated order of succession to modify the second lien.

### **Step 1: Capitalization**

Capitalize accrued interest and servicing advances (costs and expenses incurred in performing second-lien servicing obligations, such as those related to preservation and protection of the security property and the enforcement of the mortgage) paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by applicable state law.

The servicer should capitalize only those third party delinquency fees that are reasonable and necessary. Late fees and other ancillary income fees (for example, insufficient funds fees, over limit fees, and annual fees) may not be capitalized and must be waived unless the borrower fails to make the 2MP trial period payments and the second lien is not modified. If applicable state law prohibits capitalization of past due interest or any other amount, the servicer must collect such funds from the borrower over a 60-month repayment period unless the borrower decides to pay the amount upfront.

### **Step 2: Reduce Interest Rate**

Reduce the interest rate of the second lien to 1.0%. After five years, the interest rate on the second lien will reset at the then-current interest rate on the HAMP-modified first lien. If applicable, following the initial interest rate reset, the interest rate of the modified second lien will reset on the same terms and schedule as the interest rate of the HAMP-modified first lien. At any time, the servicer may, in its discretion, offer a rate of interest that is lower than the HAMP modified first lien.

**Example:** The interest rate cap on the modified first lien is 6.5%. The interest rate on the modified first lien is fixed at 5.0% for the first five years and then increases by 1.0% in year six to 6.0%, and by 0.5% in year seven to 6.5%. Thereafter, the interest rate remains at 6.5% for the remaining term of the first lien.

Accordingly, the interest rate of the modified second lien will be fixed at 1.0% for the first five years and then increase by 5.0% in year six to 6.0%, and by 0.5% in year seven to 6.5%.

### **Step 3: Extend Term**

If the original term of the second lien is shorter than the remaining term of the HAMP-modified first lien, extend the term of the second lien to be the lesser of the term of the HAMP-modified first lien or 480 months. The term, however, should not exceed 480 months.

### **Step 4: Principal Forbearance**

If there was principal forbearance on the HAMP-modified first lien, forbear principal on the second lien in the same proportion. The proportion of the required second-lien forbearance

should be based on the ratio of the principal forbearance amount of the HAMP-modified first lien to the total unpaid principal balance of the HAMP-modified first lien on its modification effective date.

**Example:** The total unpaid principal balance amount of the HAMP-modified first lien on its modification effective date is \$100,000 and the amount of principal forbearance on the first lien is \$10,000. Therefore, the servicer must forbear 10% of the second lien. If the total unpaid principal balance of the second lien on the modification effective date is \$40,000, the servicer must forbear a total of \$4,000.

The ratio for determining the amount of principal forbearance should not include any principal forgiveness amount granted by the servicer of the first-lien mortgage loan.

All loans modified under 2MP must result in closed-end second liens. If the second lien is an open-end line of credit, the servicer must terminate the borrower's ability to draw additional amounts on the credit line when the 2MP modification becomes effective. In addition, immediately upon notification that the first lien is entering a HAMP trial period or has been modified under HAMP, the servicer should terminate the borrower's ability to draw additional amounts on open-end lines of credit if permitted by applicable law and the second-lien loan documents. When terminating the borrower's ability to draw additional amounts under an open line of credit, the servicer of the second lien must provide the borrower with disclosures in a manner consistent with applicable law.

## **Compliance with Applicable Laws**

Fannie Mae reminds each servicer (and any subservicer it uses) to be aware of, and in full compliance with all federal, state, and local laws (including statutes, regulations, ordinances, administrative rules and orders that have the effect of law, and judicial rulings and opinions), as referenced in the *Servicing Guide*, Part VII, Chapter 610.03.10: Compliance with Applicable Laws.

## **Borrower Communication**

When discussing 2MP, the servicer must provide the borrower with information designed to help the borrower understand the modification terms that are being offered and the modification process. Such communication should help minimize potential borrower confusion, foster good customer relations, improve legal compliance, and reduce other risks in connection with the transaction. The servicer also must provide the borrower with clear and understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable him or her to make informed decisions. The servicer should inform the borrower during discussions that a modification under the 2MP will cancel any assumption, variable or step-rate feature, or enhanced payment options in the borrower's existing loan at the time the loan is modified.

The servicer must inform the borrower that the 2MP loan modification will not become effective unless and until

- the modification of a corresponding first lien becomes effective under HAMP, and
- the borrower has made all required 2MP trial period payments in accordance with this Announcement.

## **Trial Period Requirements**

The borrower must demonstrate the ability and willingness to support the modified payment on the second lien; therefore, a trial period will be required. The effective date of the trial period will be set forth in the Trial Period Plan. In most cases, the effective date is the first day of the month following the servicer's mailing of the offer for the Trial Period Plan. The trial payment period is three months long for mortgage loans where the payment is already in default and four months long for mortgage loans where the servicer has determined that a borrower's payment default is imminent but no default has occurred. The borrower must be current under the terms of the Trial Period Plan at the end of the trial period in order to receive a permanent modification.

The borrower must make each trial period payment no later than 30 days from the date it is due in order to receive a 2MP modification. However, the servicer may use business judgment in accepting late payments when there are mitigating circumstances and must document that decision in the servicing file. Although the borrower may make scheduled payments earlier than expected, the early payments do not affect the length of the trial period or accelerate the 2MP modification effective date.

The servicer must service the mortgage loan during the trial period in the same manner as it would service a loan in forbearance. During the trial period for MBS mortgage loans, the mortgage loan will remain in the related MBS pool and the servicer must continue to service the mortgage loan under the servicing guidelines applicable to MBS mortgage loans. (Refer to the Reclassification or Removal of MBS Loans Prior to Effective Date of Modification section below.)

If the borrower complies with the terms and conditions of the Trial Period Plan, the 2MP loan modification will become effective on the first day of the calendar month following the trial period as specified in the Trial Period Plan and the Agreement.

If the HAMP-modified first lien falls out of good standing while the second lien is in a trial period, the servicer is not required to offer a 2MP modification to the borrower. Additionally, if the servicer has information that the borrower does not meet all of the eligibility criteria for HAMP (for example, because the borrower has moved out of the house), the servicer should explore other foreclosure prevention alternatives prior to resuming or initiating foreclosure.

## **Borrower Response**

Timely payment by the borrower of the first 2MP trial period payment is evidence of the borrower's acceptance of the terms of the 2MP trial offer. If the trial period is not accepted by the last day of the month in which the first trial period payment is due, the servicer may permanently withdraw the offer and will not be obligated to modify the second lien. The withdrawal notice must be in writing and must be sent within 10 business days of the withdrawal decision.

## **Effective Date of 2MP Modification**

The modification of a second lien may not become effective unless and until

- the modification of a corresponding first lien becomes effective under HAMP, and

- the borrower has made all required 2MP trial period payments in accordance with this Announcement.

The servicer must offer a 2MP trial period plan to eligible second-lien borrowers within 120 calendar days of the date the servicer receives the first and second lien matching information from LPS.

The first-lien HAMP modification must have occurred any time prior to the 2MP modification and must remain in good standing.

### **Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification**

For an MBS mortgage loan to be eligible for reclassification from an MBS pool for the purpose of modification, the mortgage loan must have been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency.

A delinquent MBS mortgage loan that is serviced under the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property generally will be removed from its MBS pool in accordance with Fannie Mae's procedures for automatic reclassification of delinquent MBS mortgage loans as portfolio mortgage loans.

For MBS mortgage loans that are not subject to Fannie Mae's automatic reclassification process, Fannie Mae will select for reclassification those mortgages that are part of an MBS pool that are serviced under the special servicing option or a shared-risk MBS pool for which Fannie Mae markets the acquired property and that are reported through HomeSaver Solutions<sup>®</sup> Network (HSSN) as having made all of the required 2MP trial period payments in the final month of the trial period. Thus, during the trial period it is very important that the servicer reports to Fannie Mae in a timely manner the receipt of funds from the borrower.

Servicers are reminded to comply with the guidance for reclassification provided in Announcement 09-35, *Updates to the Home Affordable Modification Program - MBS Mortgage Loans*. The following guidance is provided to servicers with respect to certain circumstances that may arise.

**Servicer receives all trial period payments and the required documentation by the deadline for canceling the reclassification:** When the borrower provides the final trial period payment and the required documentation and the servicer confirms 2MP eligibility by the end of the deadline for canceling mortgage loans scheduled for reclassification, the reclassification of that MBS mortgage loan will occur in the final month of the trial period and the modification effective date for the related MBS mortgage loan will be the first day of the month following the final month of the trial period.

**Servicer receives all trial period payments but not the required documentation by the deadline for canceling the reclassification:** When a servicer receives the last trial period payment prior to the deadline for canceling mortgage loans scheduled for reclassification but all of the required documentation is not received and verified by the reclassification cancellation deadline, the servicer must cancel the reclassification request. When a servicer has canceled

the reclassification, the mortgage loan will be automatically included in the Reclassification Request Report in the following month.

If the servicer is able to obtain all of the required documentation and confirm that the borrower meets 2MP eligibility before the last day of the final month of the trial period, Fannie Mae will remove the mortgage loan from the pool in the month following the last month of the trial period. The modification of the loan will still become effective on the first day of the calendar month immediately following the final month of the trial period. The servicer must execute the modification agreement and update the Officer Signature Date in HSSN to close the modification only after the servicer has confirmed that the mortgage loan is reclassified.

If the servicer is unable to receive and validate the required documentation by the end of the trial period, the servicer must ensure that the reclassification does not occur and that the loan modification is not implemented.

Servicers are reminded that Modification Agreements must be signed by an authorized representative of the servicer and must reflect the actual date of signature by the servicer's representative. As noted above, the signature must not occur until after the mortgage loan has been removed from the MBS pool and reclassified as a Fannie Mae portfolio mortgage. Servicers can confirm that Fannie Mae has reclassified a mortgage loan by reviewing the Purchase Advice that is posted on the Servicer's Reconciliation Facility (SURF<sup>™</sup>). Servicers are also reminded that payments received should only be applied in accordance with the modified terms once the servicer has confirmed that Fannie Mae has reclassified the mortgage loan.

## **Borrower Notice**

When a borrower is evaluated for 2MP and the borrower is not offered a 2MP modification, the servicer must report a reason code specified in the [2MP Data Dictionary Appendix](#) (available on HMPadmin.com).

The servicer is also required to mail a notice to the borrower no later than 10 days following the date of the servicer's determination that a 2MP modification will not be offered. Such notices may be sent electronically only if the borrower has previously agreed to exchange correspondence relating to the modification with the servicer electronically. The content of the notice to the borrower may vary depending on the information intended to be conveyed or the determination made by the servicer.

All notices must be written in clear, non-technical language, with acronyms and industry terms explained in a manner that is easily understandable. The explanation(s) should relate to one or more of the reason codes specified in the *2MP Data Dictionary Appendix*.

## **2MP Modification Documents**

Fannie Mae will not issue standard modification documents for 2MP. Servicers may employ their existing second-lien modification documents, revised as necessary to include 2MP program requirements and to comply with applicable federal, state, and local laws. At a minimum, the modification documents used must include the following:

1. A representation by the borrower that under penalty of perjury, all documents and information provided by the borrower to the servicer are true and correct.

2. A statement from the borrower that the modification documents supersede the terms of any modification, forbearance, trial period plan, or workout plan previously entered into in connection with the borrower's second lien.
3. A statement from the borrower that the borrower will comply with and is bound by all covenants, agreements, and requirements of his or her loan documents except to the extent that such loan documents are modified by the Modification Agreement.
4. A statement from the borrower that the loan documents are composed of duly valid, binding agreements, enforceable in accordance with their terms.
5. A statement from the borrower that nothing in the Modification Agreement shall be understood or construed to be a satisfaction or release in whole or in part of the obligations contained in the loan documents as modified by the modification agreement.
6. A due on sale provision to the extent enforceable under federal law.
7. A statement that prohibits any subsequent assumption of the loan after modification.
8. A statement that declares any provision providing for a penalty for full or partial prepayment of the modified principal balance null and void.
9. A statement that the borrower agrees that the modification agreement will be null and void if the servicer does not receive all necessary title endorsement(s), title insurance product(s) and/or subordination agreement(s).
10. A statement in which the borrower agrees to execute any documents, including corrected documents and replacements for lost documents, necessary to consummate the transactions contemplated in the modification agreement.
11. A statement from the borrower that if the second lien is an open-end line of credit, the borrower consents to the termination of his or her ability to draw additional amounts on the line.
12. A statement in which the borrower consents to the disclosure of his or her personal information, including the terms of the modification, to
  - Treasury for purposes related to HAMP and 2MP;
  - any investor, insurer, or guarantor that owns, insures, or guarantees his or her mortgage;
  - the servicer of his or her first lien;
  - Fannie Mae and Freddie Mac as necessary for either entity to perform its respective obligations as financial agents of Treasury in connection with HAMP and 2MP; and
  - companies that perform support services for HAMP and 2MP, including marketing HAMP or 2MP, conducting surveys or providing marketing research or other borrower outreach, data processing, and technical systems consulting.

### **Assignment to MERS™**

If the original second lien was registered with Mortgage Electronic Registration Systems, Inc. (MERS) and the originator elected to name MERS as the original mortgagee of record, solely as nominee for the lender named in the security instrument and the note, the servicer must follow the requirements in the *Servicing Guide*, Part VII, Chapter 610.04.06: Executing the HAMP Documents.

### **Use of Suspense Accounts and Application of Payments**

During a trial period plan, and if permitted by the applicable loan documents, the servicer must accept and hold as "unapplied funds" (held in a custodial account) amounts received which do not constitute a full monthly contractual payment. However, when the total of the reduced payments held as "unapplied funds" is equal to a full contractual payment, the servicer is

required to apply the payment to the second lien. Any unapplied funds remaining at the end of any 2MP trial period that do not constitute a full monthly contractual payment should be applied to reduce any amounts that would otherwise be capitalized as part of the modified principal balance.

If, following a 2MP modification, a principal curtailment is received on a loan that has a principal forbearance, the servicer must apply the principal curtailment to the interest-bearing unpaid principal balance (UPB). If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, then the curtailment should be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest-bearing UPB.

## **Monthly Statements**

For modifications that include principal forbearance, the servicer is encouraged to include the amount of the gross UPB on the borrower's monthly payment statement.

## **Reporting Requirements**

### **Reporting to Fannie Mae Through HSSN**

For all Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae (including lender recourse loans), the servicer must enter loan-level 2MP data by submitting a delegated case into HSSN when the servicer has received a successfully executed Trial Period Plan. Additionally, the servicer must record in HSSN receipt of the trial period payments due under the plan.

The servicer must use HSSN to request reclassification for MBS mortgage loans as outlined in the Reclassification or Removal of MBS Mortgage Loans section of this Announcement when appropriate. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments total a full payment, the borrower has been in a delinquent status (i.e., not current in contractual payments) on each of the last four monthly payment due dates and continues to be delinquent.

After a mortgage loan is reclassified, if applicable, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

### **Monthly Investor Reporting and Remitting**

Existing monthly Loan Activity Record (LAR) reporting requirements for Fannie Mae servicers will not change. The servicer must continue to report the standard LAR format for loan payment by the third business day and for payoff activity by the second business day of each month for the prior month's activity (for example, payoff reporting to be received by April 2nd will contain March activity).

### ***Servicing Guide, Part VII, Section 502.03: Reporting to Fannie Mae and Part X, Chapter 3: Special Reporting Requirements***

If the modification includes principal forbearance, the servicer should report the net UPB (full UPB minus the forbearance amount) in the "Actual UPB" field on both LARs for the reporting

month that the modification becomes effective. The initial reduction in UPB caused by the principal forbearance should not be reported to Fannie Mae as a principal curtailment. The interest reported on the LAR must be based on the net UPB.

If the modification includes principal forbearance resulting in a balloon payment due upon the borrower's sale of the property or the payoff or maturity of the mortgage loan, interest must never be computed on the principal forbearance amount, including at the time of liquidation. When reporting a payoff or repurchase of the mortgage loan, the principal reported on the LAR must include the principal forbearance amount. Attempting to report a payoff or repurchase without including the principal forbearance amount will generate an exception upon submission of the LAR.

## **Delinquency Status Reporting**

### ***Servicing Guide, Part VII, Chapter 7, Exhibit 1: Delinquency Status Codes***

The servicer must report a Delinquency Status Code 09 - Forbearance during the trial period.

The servicer must then report a Delinquency Status Code 28 – Modification once the borrower has successfully completed the trial period and the modification becomes effective, if applicable.

In the event that the borrower files bankruptcy during the trial period, the servicer must continue to report Delinquency Status Code 09 – Forbearance until the borrower either successfully completes the trial period (in which case the status code would be changed to Delinquency Status Code 28 – Modification) or fails (in which case the status code would be changed to reflect the appropriate bankruptcy status code).

## **Reporting to Treasury**

In addition to reporting to Fannie Mae, each servicer must report periodic 2MP loan activity to Treasury through the servicer web portal accessible through [HMPAdmin.com](http://HMPAdmin.com). Servicers are not required to report to Fannie Mae, as 2MP Program Administrator, the initiation of 2MP trial periods or the receipt of 2MP trial period payments.

However, the servicer is required to provide to Fannie Mae, as 2MP Program Administrator, the loan setup attributes set forth in the [2MP Data Dictionary](#) as applicable to this Announcement, no later than the fourth business day of the month in which the second-lien modification is effective.

Beginning the month after the loan setup file is provided, the servicer must begin reporting activity on all 2MP loans on a monthly basis, using the attributes set forth in the *2MP Data Dictionary*. (For a full description of and further detail on these attributes, servicers should refer to the [2MP Data Dictionary Appendix](#).)

The Fannie Mae 2MP reporting and payment processes are currently under development by Fannie Mae, in its capacity as 2MP Program Administrator. Subsequent guidance will be provided when the Fannie Mae 2MP reporting processes are available. While servicers are not required to report Fannie Mae 2MP data to Treasury until then, during this interim period they must collect and store information on all Fannie Mae 2MP transactions so that the necessary data can be reported when the processes are in place.

The servicer is required to provide to Fannie Mae, as 2MP Program Administrator, loan attributes for all second liens for which modifications were not approved, approved but not accepted, or approved but defaulted on the trial period plan by the borrower in a given month. These loan attributes must be reported no later than the fourth business day of the following month. The servicer should look for a full description and detail of these attributes in the *2MP Data Dictionary* and *2MP Data Dictionary Appendix*.

## **Reporting to Credit Bureaus**

Servicers must report a “full-file” status report to the credit repositories for each loan under 2MP in accordance with the Fair Credit Reporting Act as well as other applicable law and credit bureau requirements as provided by the Consumer Data Industry Association (CDIA). “Full file” reporting means that the servicer must describe the exact status of each mortgage it is servicing as of the last business day of each month. Following the modification of a second-lien mortgage loan under 2MP, the servicer should use Special Comment Code “CN” to identify loans being paid under a modified payment agreement as described in the guidance below provided by CDIA.

### **Trial Period Reporting**

- If the borrower was current with payments prior to the trial period and he or she makes each trial period payment on time, the servicer must report the borrower as current (Account Status 11) during the trial period and report Special Comment Code ‘AC’ (Paying under a partial payment agreement).
- If the borrower was delinquent (at least 30 days past the due date) prior to the trial period and the reduced payments do not bring the account current, the servicer must report the Account Status Code that reflects the appropriate level of delinquency and report Special Comment Code ‘AC’ (Paying under a partial payment agreement).

### **Post Modification Reporting**

Servicers should continue to report one tradeline under the original Account Number.

- Date Opened - the date the account was originally opened
- Original Loan Amount - the original amount of the loan, including the balloon payment amount, if applicable. If the principal balance increases due to capitalization of delinquent amounts due under the loan, the Original Loan Amount should be increased to reflect the modified principal balance
- Terms Duration - the modified terms
- Scheduled Monthly Payment Amount - the new amount as per the modified agreement
- Current Balance - the principal balance (including the balloon payment amount, if applicable), plus the interest and escrow due during the current reporting period
- Account Status Code - the appropriate code based on the new terms of the loan
- Special Comment Code - CN
- K4 Segment - used to report the Balloon Payment information, if applicable:
  - Specialized Payment Indicator - 01 (Balloon Payment)
  - Payment Due Date - the date the balloon payment is due which is equal to maturity of the amortizing portion of the loan. (Note: The payoff date can be used in this field.)
  - Payment Amount - the amount of the balloon payment in whole dollars only

## **Mortgage Insurers**

### **Mortgage Insurer Approval**

Granting a modification is contingent on the servicer's ability to ensure the continuation of mortgage insurance coverage. Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can grant modifications without having to obtain mortgage insurer approval on individual mortgage loans to extend the delinquency beyond the date that foreclosure proceedings would otherwise be required to begin. Fannie Mae has posted and will maintain on [eFannieMae.com](http://eFannieMae.com) a list of the mortgage insurers from which it receives a delegated authority agreement for the second-lien modification. Servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which Fannie Mae has not yet received a delegated authority agreement.

### **Reporting to Mortgage Insurers**

Servicers must maintain their mortgage insurance processes and comply with all reporting required by the mortgage insurer for mortgage loans modified under the 2MP. Servicers should consult with the mortgage insurer for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under the 2MP.

Servicers are required to report successful 2MP modifications and the terms of those modifications to the appropriate mortgage insurers, if applicable, within 30 days following the end of the trial period and in accordance with procedures that currently exist or may be agreed to between servicers and the mortgage insurers.

## **Fees and Costs**

### **Servicing Fees**

During the trial period, servicing fees will continue to be earned by the servicer to the extent that the borrower's payments equal a contractual full payment. When the 2MP modification becomes effective, the servicer will receive servicing fees based on Fannie Mae's existing fee schedule for modified mortgage loans in accordance with the *Servicing Guide*, Part VII, Section 602.02: Modifying Conventional Mortgage Loans.

### **Late Fees**

All late charges, penalties, stop payment fees, or similar fees must be waived upon successful completion of the trial period.

### **Administrative Costs**

The servicer may not charge the borrower to cover the administrative processing costs incurred in connection with a 2MP. The servicer must pay any actual out-of-pocket expenses such as any required notary fees, recordation fees, title costs, property valuation fees, credit report fees, or other allowable and documented expenses. Fannie Mae will reimburse the servicer for

allowable out-of-pocket expenses. However, the servicer will not be reimbursed for the cost of the credit report(s).

## **Incentive Compensation**

2MP servicer or borrower incentives will not be paid if

- either the first or second lien is no longer in good standing under HAMP or 2MP, respectively, or
- either the first or second lien is paid in full.

New incentives identified in this Announcement are applicable only for all Fannie Mae 2MP modifications on Fannie Mae mortgage loans and are effective with cases closed in HSSN after the date of this Announcement. All 2MP incentive fees will be paid via Fannie Mae's payment process, in its capacity as 2MP Program Administrator, after the servicer has reported the 2MP modification transaction to the Program Administrator. Servicers must not include requests for the incentive fee for eligible 2MP loans in the *Cash Disbursement Request* (Form 571).

With respect to incentives predicated on a 6 percent reduction in the borrower's monthly second-lien payment, the reduction will be calculated by comparing the second lien monthly payment prior to modification and the borrower's payment under 2MP.

## **Servicer Incentive Compensation**

The servicer of a second lien will receive one-time compensation of \$500 for each second-lien modification that becomes effective under 2MP. If a particular borrower's monthly second-lien payment is reduced through the 2MP by 6 percent or more, the servicer will also receive an annual "pay for success" fee of \$250 for up to three years as long as both the HAMP modification and the 2MP modification remain in good standing and have not been paid in full as of the date the "pay for success" payment is made.

"Pay for success" fees do not accrue during the trial period. These fees accrue monthly and are payable annually for each of the first three years after the anniversary of the date the 2MP modification becomes effective. This compensation is in addition to any servicer incentive compensation for which the servicer may be eligible in connection with a HAMP first-lien modification.

If either the HAMP modification or the 2MP modification ceases to be in good standing (defined below) or either loan is paid in full, the servicer will cease to be eligible for any further 2MP incentive payments after that time, even if the borrower subsequently cures his or her delinquency. Undisbursed incentive payments, even if accrued, will not be made.

## **Borrower Incentive Compensation**

If a borrower's monthly second-lien payment is reduced through 2MP by 6 percent or more, the borrower will receive an annual "pay for performance" principal balance reduction payment of up to \$250 for up to five years following the effective date of the second-lien modification. Both the HAMP modification and the 2MP modification must remain in good standing and have not been paid in full as of the date the "pay for performance" payment is made.

“Pay for performance” principal balance reduction payments do not accrue during the trial period. These payments will accrue monthly as long as the borrower is current on both the first and second liens and makes his or her monthly payment on time (that is, the payment is made by the last day of the month in which the payment is due). They will be applied annually for each of the first five years after the anniversary of the date the 2MP modification became effective. The payments will be made to the servicer of the second lien to be applied towards reducing the UPB on the second lien.

If either the modified first lien or the modified second lien ceases to be in good standing (defined below) or either loan is paid in full, the borrower will be ineligible to receive 2MP incentive payments already accrued or to accrue any future 2MP incentive payments, even if the borrower subsequently cures his or her delinquency. Undisbursed incentive payments, even if accrued, will not be made.

### **Re-default and Loss of Good Standing**

If a borrower misses three consecutive payments at any time on his or her second lien following the execution of a 2MP modification (that is, three monthly payments are due and unpaid on the last day of the third month), the second lien is no longer considered to be in “good standing.” A loan that is not in good standing permanently loses eligibility to receive further servicer and borrower incentives and reimbursements under the program. Undisbursed incentive payments to borrowers and servicers will not be made. Once lost, good standing cannot be restored and eligibility for incentives and interest reimbursements cannot be reclaimed, even if the borrower fully cures the delinquency. Further, the second lien is not eligible for another 2MP modification.

### **Compliance**

The servicer must comply with 2MP requirements and must document all aspects of the execution of loan evaluation, loan modification, and accounting processes. The servicer must develop and execute a quality assurance program, similar to that established for HAMP, that includes either a statistically based (with a 95 percent confidence level) or a 10 percent stratified sample of loans modified, drawn within 30 to 45 days of modification, and reported on within 30 to 45 days of review. In addition, a trending analysis of the results of the servicer’s quality assurance program must be performed on a rolling 12-month basis.

### **Record Retention**

#### ***Servicing Guide, Part I, Section 405: Record Retention***

Servicers are reminded that unless otherwise directed by Fannie Mae, they must retain all documentation for mortgage loans owned or securitized by Fannie Mae in accordance with the *Servicing Guide*, or for such longer period as may be required pursuant to applicable law.

For 2MP loans, the servicer must retain all documents and information received during the process of determining borrower eligibility for 2MP, including evidence of application of each modification step for a period of seven years from the date of document collection or, in accordance with the *Servicing Guide*, for four years from the date the mortgage loan is liquidated (measured from the date of payoff or the date any applicable claims proceeds are received), whichever is later.

The servicer must retain all documents and information related to the monthly payments during and after any trial period, as well as incentive payment calculations and such other required documents.

In addition, the servicer must retain detailed records to document the reason(s) for any trial modification failure.

## **Transfers of Servicing**

When a transfer of servicing includes mortgage loans modified under 2MP, Fannie Mae requires the transferor servicer to provide special notification to the transferee servicer. Specifically, the transferor servicer must advise the transferee servicer that mortgage loans modified under the 2MP are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for these mortgage loans, but also agrees to assume the additional responsibilities associated with servicing these mortgage loans.

The transferee servicer must assume all of the responsibilities and duties of HAMP. However, the transferee servicer's assumption of these responsibilities, duties, and warranties will in no way release the transferor servicer from its contractual obligations related to the transferred mortgage loans. The two servicers will be jointly and severally liable to Fannie Mae for all warranties and for repurchase, all special obligations under agreements previously made by the transferor servicer or any previous servicer or servicer (including actions that arose prior to the transfer), and all reporting, compliance, and audit oversight related duties regarding the transferred mortgage loans.

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Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (888-326-6435) with any questions regarding this Announcement.

Gwen Muse-Evans  
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