



Announcement 08-33

December 12, 2008

Amends these Guides: Servicing

Introduction of the Streamlined Modification Program

Background

Fannie Mae, working with the Federal Housing Finance Agency and in collaboration with the Department of the Treasury, Freddie Mac, and other participants from the HOPE NOW Alliance to support foreclosure prevention efforts, is introducing the Streamlined Modification Program (SMP). Under the SMP, a servicer will use a streamlined loan modification process to provide a borrower with an affordable monthly payment. The streamlined process allows a borrower to sign a single document at the outset of the workout process that both establishes a new monthly payment during a three-month trial period and sets forth the modification terms that will take effect if the borrower makes the new payments during the trial period. The program is available for borrowers who have missed at least three monthly payments on their existing mortgages.

Overview of the Program

Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages

Servicers will need to take a number of actions as a result of the introduction of the SMP. At a high level, the servicer will first need to identify delinquent borrowers who appear to be SMP-eligible and send them a written solicitation to obtain additional information to determine eligibility. Once the servicer has income information, the servicer may send the borrower a proposed *Multistate Streamlined Modification Program Loan Workout Plan and Modification Agreement* (Fannie Mae/Freddie Mac Uniform Instrument, Form 3169) (the "SMP Agreement"). If the borrower returns an executed SMP Agreement, remits the first trial payment, and provides the required documents, the servicer will determine whether the borrower is eligible to participate in the SMP. If the borrower is eligible, the servicer will sign the SMP Agreement and return it to the borrower to indicate that the trial period has begun. If the borrower successfully

completes the trial period, the modification terms set forth in the SMP Agreement will automatically become effective on the first day of the calendar month immediately following the trial period.

To assist servicers with implementing the SMP process, this Announcement covers the following topics:

- SMP Eligibility
- Underwriting
- Modification Process
- Reporting Requirements
- Fees and Charges

SMP Eligibility

A mortgage loan is considered eligible for the SMP if it is owned or is securitized by Fannie Mae and all of the following criteria are met:

- The mortgage loan is a first lien conforming conventional mortgage loan that was originated on or before January 1, 2008. Jumbo-conforming mortgage loans are also eligible.
- The mortgage loan is at least three full payments past due (or at least six payments in the case of a biweekly mortgage loan). This may include loans in foreclosure.
- The mortgage loan is secured by a one-unit property that is the borrower's principal residence (two- to four-unit properties are excluded).
- The current mark-to-market loan-to-value (LTV) ratio is equal to or greater than 90 percent based on a valuation provided by Fannie Mae or an appraisal, or an estimated sales price from a broker's price opinion (BPO). (Refer to the "Determining Mark-to-Market LTV" section for additional information.)
- The borrower documents a financial hardship by completing the *Streamlined Modification Program Hardship Affidavit* (Form 1023) and by providing income information. The documentation supporting income may not be more than 90 days old (as of the date the servicer is determining SMP eligibility).
- The borrower agrees to set up an escrow account for taxes and insurance prior to the beginning of the trial period if one does not currently exist and, in the event the escrow analysis uncovers a shortage, the servicer shall fund the shortage. The borrower agrees to pay the servicer any shortage amount over a 60-month period.
- The mortgage loan is not insured or guaranteed by a federal government agency (FHA, HUD, VA, and Rural Development mortgage loans).
- The mortgage loan is not a daily simple interest mortgage loan.
- The property securing the mortgage loan must not be abandoned, vacant, condemned, or in a serious state of disrepair.
- The borrower on the mortgage loan is not currently subject to a performing repayment plan or a loan modification or other workout relating to the applicable mortgage loan.

- The borrower must not be currently involved in litigation regarding the mortgage loan other than a routine foreclosure action.
- The borrower must not be currently involved in a bankruptcy proceeding.
- Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the first lien mortgage are eligible, but if the borrower did not reaffirm the mortgage debt under applicable law, the following language must be inserted in Section 1 of the SMP Agreement: “I represent that I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Agreement.”
- Regular servicing option MBS pool mortgages and portfolio mortgage loans subject to lender recourse are ineligible for a Fannie Mae SMP. (Servicers are encouraged to offer the SMP for these mortgages; however, when a servicer decides to use the SMP for such mortgages, the servicer will be expected to obtain any third-party approvals and Fannie Mae will not be responsible for any losses or expenses the servicer incurs and will not pay incentive fees for these mortgages.)

The SMP Agreement is posted on eFannieMae.com in the [Legal Documents section](#), and the new Form 1023 is posted in the [Forms section](#).

Underwriting

Verifying Borrower Income

Servicers may use recent verbal financial information (provided 90 days or less from the date the servicer is determining SMP eligibility) from the borrower to calculate the initial PITIA (defined in the “Calculating the Ratio” section). When the borrower returns the SMP Agreement and related documents, the servicer must review the documentation submitted to verify the borrower’s income to determine the final payment ratio (defined below). The borrower will qualify for the SMP if the borrower’s income verification documentation demonstrates that the proposed monthly payment is equal to a 38 percent payment ratio or lower. For purposes of this Announcement, “payment ratio” means the ratio of the borrower’s PITIA to the borrower’s gross income (or the borrowers’ combined monthly gross income in the case of co-borrowers). The borrower will qualify for the SMP if the initial income information used by the servicer to solicit the borrower and the verified income evidenced by the borrower’s documentation received varies by plus or minus ten percent.

The borrower must provide the most recent paystub for each salaried borrower and the most recently filed federal income tax return for each self-employed borrower or the most recent quarterly or year-to-date profit/loss statement for each self-employed borrower (and any other documentation as may be reasonably requested) with the signed SMP Agreement and Hardship Affidavit.

The servicer may not require a borrower to make an up-front cash contribution (other than the first trial period payment) in order for a borrower to be considered for the SMP.

Calculating the Ratio

For SMP purposes, PITIA includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, mortgage insurance, condominium association fees and homeowner's association (HOA) fees, as applicable (including any escrow payment shortage amounts subject to the 60-month repayment plan). Servicers must incorporate proposed modification terms in the following order of succession until the borrower's monthly PITIA payment is reduced to an amount equal to a 38 percent payment ratio. The PITIA may not include payments due to holders of subordinate liens. If only net income is available, the servicer must multiply the net income amount by 1.25 to estimate the monthly gross income.

Note: If a borrower has an adjustable-rate mortgage (ARM) loan and capitalization, or capitalization and a term extension, results in a 38 percent payment ratio, then the current adjustable rate will convert to a fixed rate.

The following outlines the process for determining the 38 percent payment ratio:

Step 1: Capitalize accrued interest, out-of-pocket escrow advances and costs, if allowed by state law. Late fees and penalties may not be capitalized and must be waived if the borrower satisfies all conditions of the SMP Agreement. The resulting payment could produce a 38 percent payment ratio, or less.

Step 2: Extend the term of the mortgage loan by up to 480 months from the modification effective date (i.e., the payment date following the end of the trial period). Negative amortization following the effective date of the modification is prohibited.

Step 3: Adjust the interest rate. If the loan is an ARM, set the interest rate at the current interest rate (the note rate). The lowest interest rate in all cases is 3.0 percent.

- If the note rate is below the market rate (as defined below), reduce the note rate in increments of .125 percent to achieve the 38 percent payment ratio. This reduced rate will be in effect for the first five years followed by annual interest rate increases of one percent per year (or such lesser amount as may be needed) until the interest rate reaches the maximum interest rate, at which time it will be fixed for the life of the modification. The maximum interest rate in this case is the note rate in effect on the date the SMP Agreement is prepared.
- If the note rate is above the market rate, reduce the note rate in increments of .125 percent to achieve the 38 percent payment ratio.
 - If the resulting rate is at or above the market rate, this rate will be the new note rate for the life of the modification.
 - If the resulting rate is below the market rate, this reduced rate will be in effect for the first five years followed by annual interest rate increases of one percent per year (or such lesser amount as may be needed) until the interest rate reaches the maximum interest rate, at which time it will be fixed for the life of the modification. The maximum interest rate in this case is the market rate as of the date that the SMP Agreement is prepared.

- The “market rate” is determined by using the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for conforming loans.

Step 4: Provide for principal forbearance, if necessary to reduce the payment ratio to 38 percent AFTER capitalization of arrearages, extension of the amortization period to 40 years, and reduction of the interest rate to 3 percent. The amount of principal forbearance will result in a balloon payment fully due and payable upon the earliest of the borrower’s sale of the property or payoff or maturity of the mortgage loan. The modified interest-bearing balance (i.e., the unpaid principal balance excluding the deferred principal balloon amount) must create a current mark-to-market LTV (current LTV based upon the new valuation) greater than or equal to 100 percent. The amount of the principal forbearance is non-interest bearing and non-amortizing. Principal write-downs or principal forgiveness is prohibited.

To assist a servicer in calculating the payment terms of the SMP, Fannie Mae, Freddie Mac and the Federal Housing Finance Agency have developed an SMP Workout Calculator together with instructions for using the calculator. Fannie Mae will make it available on Home Saver Solutions Network® (HSSN).

If a servicer determines that the borrower is ineligible for the SMP, the servicer must notify the borrower in writing and consider the borrower for another foreclosure prevention alternative, including another Fannie Mae modification.

Escrow Accounts

If the mortgage loan being considered for the SMP is a non-escrowed mortgage loan, the servicer must establish an escrow deposit account in accordance with the *Servicing Guide*, Part III, Sec. 103: Escrow Deposit Accounts. The escrow account must be established prior to the beginning of the trial period.

All of the borrower’s monthly payments must include a monthly escrow amount. The servicer must assume full responsibility for administering the borrower’s escrow deposit account in accordance with the mortgage documents and all applicable laws and regulations. In the event the initial escrow analysis identifies a shortage, the servicer must fund the shortage and collect such funds from the borrower over a 60-month period unless the borrower decides to pay the shortage upfront. A servicer may encourage a borrower to contribute to the escrow shortage upfront; however that is not an eligibility requirement of the SMP. Furthermore, a servicer should not delay offering an SMP if the borrower does not elect to make a contribution to the escrow shortage.

Determining Mark-to-Market LTV

The mark-to-market LTV is determined by dividing the total first lien mortgage loan balance due by a valuation provided by Fannie Mae or an appraisal, or an estimated sales price from a BPO. To be eligible for the SMP, the ratio must be equal to or greater than 90 percent.

If the servicer has previously obtained an opinion of market value or estimated sales price for a property securing the delinquent mortgage loan through either an appraisal or a recent BPO (within 90 days of the date the servicer is determining SMP eligibility), the servicer may use it to determine the mark-to-market LTV. Automated valuation models (AVMs) may not be used for this purpose.

If a servicer has not previously obtained a recent appraisal or BPO for a property securing the delinquent mortgage loan, the servicer should obtain a valuation from Fannie Mae through HSSN for purposes of calculating the mark-to-market LTV by submitting a request to Fannie Mae.

Modification Process

Delegation of Authority

All Fannie Mae approved servicers are eligible to participate in the SMP without obtaining prior approval from Fannie Mae.

Borrower Solicitation

Servicers may solicit borrowers for the SMP using three primary methods. First, a servicer may make a firm offer solicitation to borrowers for whom the servicer has recent financial information (provided within 90 days of the date the servicer is determining SMP eligibility) indicating that the borrower may qualify for the SMP. The offer must be made utilizing the Streamlined Modification Program Cover Letter, enclosing the SMP Agreement, and a Hardship Affidavit.

Second, if a servicer does not have a borrower's recent financial information, the servicer may send a letter instructing eligible borrowers to call the servicer to discuss the details of their individual circumstances. Fannie Mae has prepared a sample Solicitation Letter (which includes Fannie Mae's logo) for the servicer's use. The Solicitation Letter and the SMP Cover Letter are available on eFannieMae.com.

Servicers will have the option to use Fannie Mae's logo, by itself or with the servicer's logo, on envelopes and packages used to send the SMP solicitation materials to borrowers, provided that the servicer's name and return address are included. Servicers may download the Fannie Mae logo for use on envelopes and packages from eFannieMae.com. In addition, servicers will have the option to use Fannie Mae's logo, together with the servicer's logo, to co-brand the Solicitation Letter and the SMP Cover Letter. The servicer may choose to use only its logo, and may delete the Fannie Mae logo from the Solicitation Letter or SMP Cover Letter, but it may not use Fannie Mae's logo alone on letters. Use of the Fannie Mae logo is subject to the terms of the license on eFannieMae.com.

Third, a servicer may receive calls from borrowers directly inquiring about the availability of the SMP. In that case, the servicer should work with the borrower to

obtain the borrower's financial and hardship information and to determine if the SMP is appropriate for the borrower.

The servicer should notify the borrower during discussions that the successful completion of a modification under the SMP will cancel any assumption, variable or step-rate feature, or enhanced payment options (e.g., Timely Payment Rewards[®]) in the borrower's existing loan, at the time the loan is modified.

Fannie Mae expects servicers to have (or provide for) adequate resources and facilities for receiving and processing the SMP Agreements and any requested information that is submitted by borrowers.

Servicers should not refer loans to foreclosure or conduct foreclosure sales on loans previously referred to foreclosure until the deadline to respond to a firm offer solicitation has passed.

Loans with a Scheduled Interest Rate Change(s) during Trial Period

For mortgage loans that have an interest rate adjustment occurring during the trial period and the interest rate adjustment cannot be determined at the time of the offer, a servicer should make a three-month forbearance offer to the borrower. Fannie Mae will provide additional instructions regarding how to process and document an SMP for these loans on eFannieMae.com.

Mortgage Insurer Approval

Fannie Mae is seeking to obtain blanket delegations of authority from each Mortgage Insurer so that servicers can more efficiently process SMP modifications without having to obtain mortgage insurer approval on individual loans. Fannie Mae will post on eFannieMae.com, an updated list of the mortgage insurers from which it has received a delegated authority agreement. Until Fannie Mae obtains a delegated authority agreement from a mortgage insurer on behalf of all servicers, a servicer must obtain mortgage insurer approval on a case-by-case basis. Servicers should consult their mortgage insurance providers 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 SMP.

Executing the SMP Agreement

The borrower will be required to return the signed SMP Agreement to the servicer within 14 calendar days after the SMP Agreement is sent by the servicer together with a signed Hardship Affidavit, verification of income, and the first of three payments at the proposed new payment amount due under the trial payment period. A servicer is encouraged to contact the borrower before the expiration of the offer if the borrower has not yet responded. Note: The borrower is not required to have the Hardship Affidavit notarized.

Once the servicer determines that the borrower meets both the underwriting and eligibility criteria, and has submitted good funds for the first month's trial payment, the servicer should return an executed copy of the SMP Agreement to the borrower. The form of this SMP Agreement may not be modified unless a servicer obtains Fannie Mae's prior written consent.

If the servicer determines that the borrower does not meet the underwriting and eligibility standards of the SMP after the borrower has submitted a signed SMP Agreement to the servicer, the servicer should promptly communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative, including another Fannie Mae modification.

Trial Payment Period

The trial payment period is three months. 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.

During the trial period, the borrower must make the second and third monthly payments on or before the tenth day of the applicable calendar month in order to be considered timely. Generally, a servicer may accept the second trial payment after the tenth of the second month at its discretion and allow the borrower to continue in compliance with the SMP; however, if a servicer has information that the borrower will not meet all of the conditions of the SMP (e.g., because the borrower has moved out of the house) the servicer may either explore other loss mitigation alternatives or resume or renew pursuit of foreclosure.

Note that under the terms of the SMP Agreement, servicers are reminded that trial payments should be applied when they equal a full contractual payment (determined as of the time the SMP is offered). Fannie Mae expects that a servicer will work with foreclosure counsel to make sure that there will be minimal impact on the timeline of the foreclosure proceeding if the servicer accepts payments during the trial payment period, but the borrower does not complete the SMP. Therefore, to the fullest extent allowed by applicable law, a servicer may move forward with an existing foreclosure proceeding up to the point of sale without restarting the foreclosure. Fannie Mae recognizes, however, that in some states restarting the foreclosure process may be necessary.

Reclassification of MBS Loans Prior to Effective Date of Modification

Under the SMP Agreement, if the borrower successfully completes the trial period, the modification of the loan will automatically become effective on the first day of the calendar month immediately following the end of the three-month trial period (i.e., on the first day of the fourth month). For an MBS loan, the mortgage loan must be removed

from the MBS pool **before** the effective date of the loan modification. Accordingly, to facilitate removals of loans from MBS pools, a servicer must request in HSSN that a loan be reclassified and purchased out of the MBS pool. Such reclassifications must take place per the following:

- By no later than the servicer's cut-off date for reclassification of loans by Fannie Mae (the "servicer's reclassification date") in the second month of the trial period, but only if and after the borrower makes the second payment during the trial period and the servicer has posted the payment and submitted the information to Fannie Mae by the servicer's reclassification date.
- Should a borrower make the second payment after the servicer's reclassification date in the second month of the trial period but before the servicer's reclassification date in the third month of the trial period, the servicer can request that a loan be reclassified during the third month of the trial period as long as the servicer has posted the payment and submitted the information to Fannie Mae by the servicer's reclassification date.
- If the borrower makes the second and/or third payment after the servicer's reclassification date in the third month, it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. The SMP as documented must not be implemented and the loan will not be modified on the terms outlined in the SMP Agreement.
- If, prior to the servicer's reclassification date in the third month of the trial period, the borrower does not make the second payment, and/or the servicer does not advise Fannie Mae that the second payment has been made by the borrower and request reclassification of the loan, then Fannie Mae will cancel the case and the SMP loan modification will not be completed. The servicer should make certain that the loan modification is not implemented.

Thus, during the trial period it is very important that servicers timely report to Fannie Mae the receipt of funds from the borrower and promptly request reclassification of the mortgage loan.

For an MBS 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 default 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. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments totals a full payment, the borrower has been in a delinquent status (i.e., not current in PITIA payments) on each of the last four monthly payment due dates and continues to be delinquent. After a mortgage loan is reclassified, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification. Servicers are reminded that a current or performing MBS mortgage loan is ineligible for reclassification for the purpose of modifying the mortgage loan.

Recording the Modification

If the borrower complies with the terms and conditions of the SMP Agreement, the loan modification will automatically become effective on the first day of the month following the trial period with no further action required.

For all mortgage loans that are modified pursuant to the SMP, the servicer must take the necessary steps to ensure that the modified mortgage loan retains its first lien position and is fully enforceable. The SMP Agreement must be executed by the borrower(s) and, in the following circumstances, must be in recordable form:

- if State or local law requires a modification agreement be recorded to be enforceable;
- if the property is located in the State of New York or Cuyahoga County, Ohio;
- if the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- if the remaining term on the mortgage loan is less than or equal to ten years and the servicer is extending the term of the mortgage loan more than ten years beyond the original maturity date; or
- if the servicer's practice for modifying mortgage loans in the servicer's portfolio is to create modification agreements in recordable form.

In addition, to ensure the first lien position, servicers must:

- ensure all real estate taxes and assessments that could become a first lien are current especially those for manufactured homes taxed as personal property, personal property taxes, condominium/HOA fees, utility assessments (such as water bills), ground rent and other assessments;
- obtain a title endorsement or similar title insurance product issued by a title insurance company to ensure that the modified mortgage loan retains first lien priority if the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- obtain subordination agreements from any junior lien holders, if (1) the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives) or (2) the remaining term on the mortgage loan is less than or equal to ten years and the term of the mortgage loan is being extended more than ten years beyond the original maturity date; and
- record the executed SMP Agreement if (1) State or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in the State of New York or Cuyahoga County, Ohio; (3) the amount capitalized is greater than \$20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives); or (4) the remaining term on the mortgage loan is less than or equal to ten years and you are extending the term of the mortgage loan more than ten years beyond the original maturity date.

Monthly Statements

For modifications that include principal forbearance, servicers are encouraged to include the amount of the gross unpaid principal balance (UPB) on the borrower's monthly payment statement.

Borrower Redefault

If the borrower does not successfully complete the trial period the servicer should evaluate the borrower for one of Fannie Mae's other foreclosure prevention alternatives (including a new offer of the SMP if the borrower is still eligible). Additionally, if the borrower successfully makes the three trial payments, the loan is removed from the MBS pool (if applicable), the SMP Agreement is fully implemented, and the borrower subsequently defaults under the terms of the modified mortgage loan, the borrower can be reevaluated for the SMP or be evaluated for one of Fannie Mae's other foreclosure prevention alternatives.

Reporting Requirements

Fannie Mae is currently developing an automated process through HSSN for servicers to submit and report SMP activity and will outline the details of this process in a subsequent announcement. In the interim, a servicer will be required to submit information on an encrypted Microsoft Excel[®] spreadsheet that outlines the terms of the SMP Agreement.

Servicers are required to submit weekly SMP updates to Fannie Mae via secured e-mail to SMP_Fanniemae@fanniemae.com. Each weekly report must be submitted on the first business day of the following week. The weekly reports should include information on new SMPs and information on the SMP payments received from borrowers. On a month when the end of the month occurs on any business day other than a Friday, the servicer must provide two weekly updates:

1. One update for the business day(s) in that week to month end
2. One update for the business day(s) in that week for the new month

Both updates must be provided on the first business day of the following the week.

A sample Excel spreadsheet outlining the data elements and the order in which the data elements are to be provided will be available on eFannieMae.com by December 15, 2008.

Use of Suspense Accounts and Application of Payments

In accordance with the *Servicing Guide*, Part III, Section 102.06: Pending Modifications, Announcement 07-03R2, and, if permitted by the applicable loan documents, servicers may accept and hold as "unapplied funds" (held in a T&I custodial account) amounts received which do not constitute a full monthly, contractual principal, interest, tax and insurance (PITI) payment. However, when the total of the reduced payments held as

“unapplied funds” is equal to a full PITI payment, the servicer is required to apply all full payments to the mortgage loan. The servicer must not impose any late charges, penalties, stop payment fees or similar fees on the mortgage loan during the trial period.

Monthly Investor Reporting and Remitting

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

The servicer should report the net unpaid principal balance (UPB) (full UPB minus the forbearance amount) in the “Actual UPB” field on the Loan Activity Record for the reporting month that the modification becomes effective. 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 borrower’s sale of the property or 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 6, Exhibit 1: Delinquency Status Codes

The servicer must report a delinquency status code 09 - Forbearance - in HSSN during the trial period. The servicer must then report a delinquency status code 28 – Mortgage Modification – in HSSN to indicate that the delinquency status has appropriately changed once the borrower has successfully completed the trial period and the modification becomes effective, if applicable.

Reporting to Mortgage Insurers

Servicers are required to report successful SMP 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.

Credit Bureau Reporting

In accordance with the *Servicing Guide, Part VII, Section 107: Notifying Credit Repositories*, the servicer should continue to report a “full-file” status report to the four major credit repositories for each loan under the SMP. "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.

Fees and Charges

Servicing Fees

During the trial period, servicing fees will continue to be earned by the servicer to the extent that the borrower payments equal a contractual full payment. When the SMP becomes effective, a servicer will receive servicing fees based on our existing fee schedule for modified mortgage loans.

Administrative Costs

Servicers may not charge the borrower to cover the administrative processing costs incurred in connection with a SMP. The servicer must advance any actual out-of-pocket expenses such as any required notary fees, recordation fees, or other allowable and documented expenses. Servicers must ensure that any costs advanced are permitted under the terms of the note, security instrument, and applicable law. The servicer will submit a *Cash Disbursement Request* (Form 571) for reimbursement from Fannie Mae for actual out-of-pocket expenses.

Incentive Fee

Fannie Mae will pay an incentive fee of \$800 when the borrower successfully makes all of the payments under the trial period, the loan is removed from an MBS pool (if applicable), and the mortgage loan is modified. Incentive fee payments on eligible mortgage loans will be sent to servicers upon receipt of a closed case entered into HSSN. Fannie Mae will review eligibility for the modification incentive fee and make the final determination based on information provided by the servicer; therefore, servicers need not submit requests for payment of modification incentive fees. Modification incentive fees on eligible mortgages will be sent to servicers on a monthly basis.

Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Solution Center at 1-888-326-6438 if they have any questions about Announcement 08-33.

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