

## **Servicing Alignment Initiative - Overview for Fannie Mae Servicers**

Through the Servicing Alignment Initiative, the Federal Housing Finance Agency (FHFA) has directed Fannie Mae and Freddie Mac to establish consistent mortgage loan servicing and delinquency management requirements for loan servicers acting on behalf of Fannie Mae and Freddie Mac.

The directive requires Fannie Mae and Freddie Mac to align servicing requirements in four key areas: (1) borrower contact, (2) delinquency management practices, (3) loan modifications, and (4) foreclosure timelines. Additionally, incentives and compensatory fees are being introduced to reinforce effective servicer execution in these areas.

Aligning the approaches used by Fannie Mae and Freddie Mac will allow servicers to streamline and simplify their processes, with the following intended outcomes:

- Improved service to borrowers as well as greater consistency and clarity in borrower communications
- More efficient processing of loan modifications
- Consistency, fairness, and efficiency in the foreclosure process
- Increased servicer accountability, reinforced by new incentives and compensatory fees

Fannie Mae and Freddie Mac will revise their respective servicing guidelines to make specific changes consistent with this alignment. It is anticipated that updated Fannie Mae guidelines will be issued to servicers during the 2<sup>nd</sup> quarter of 2011.

### **Key Servicing Alignment Policies**

#### ***Borrower Contact***

- Earlier and more frequent borrower contact
- New standards and timelines for borrower calls and call center activities
- Requirements for Quality Right Party Contact

#### ***Delinquency Management***

- Consistent written communications, notification and response timelines, and borrower solicitation and response packages
- Simultaneous evaluation of borrowers for the Home Affordable Modification program (HAMP), Home Affordable Foreclosure Alternatives (HAFA) and other available foreclosure alternatives.
- Contact continuity throughout the delinquency process, fully supporting servicers who have or will implement a single point-of-contact or similar approaches

## Loan Modifications

- Alignment to the updated Fannie Mae modification announced on April 4, 2011 in Servicing Guide Announcement SVC-2011-03
- Consistent evaluation standards, trial period, modification terms and general requirements

## Foreclosure Timelines

- Uniform revised timelines for processing of foreclosures from referral to attorney/trustee through the date of sale
- Standardized requirements for assessment of compensatory fees for foreclosure timeline violations

## Preliminary Servicing Alignment Details

Final updated Fannie Mae guidelines will be issued to servicers during the 2<sup>nd</sup> quarter of 2011.

| Borrower Contact                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| Quality Right Party Contact                 | <ul style="list-style-type: none"> <li>• Introduce a uniform definition of Quality Right Party Contact (QRPC).</li> <li>• Benchmarks will be established to measure and monitor effective QRPC.</li> <li>• Fannie Mae promotes single point of contact which supports those servicers who have or will implement single point of contact processes for the purpose of achieving contact continuity throughout the delinquency process.</li> <li>• Contact can be via telephone, e-mail, web portal, or face-to-face.</li> </ul>                                                                                                    |
| Call Center Benchmarks and Collection Calls | <ul style="list-style-type: none"> <li>• To the extent a servicer maintains a call center, provide uniform standards for contact method service levels, including:               <ul style="list-style-type: none"> <li>○ Speed to answer</li> <li>○ Abandon rate</li> <li>○ Blockage rate</li> <li>○ Live chats</li> <li>○ Email responses</li> </ul> </li> <li>• Revise timelines for collection and follow up calls during the delinquency process.</li> <li>• Call campaigns continue until contact is established and the delinquency is cured, a borrower response is received, or the borrower enters a workout.</li> </ul> |
| Foreclosure Prevention Solicitation         | <ul style="list-style-type: none"> <li>• Provides requirements for solicitation documentation that must be sent to a borrower, and will include a uniform Borrower Assistance Form, with a hardship affidavit.</li> <li>• Servicers will use this uniform Borrower Assistance Form to evaluate a borrower for all foreclosure prevention alternatives, including HAMP modifications, Non-HAMP modifications, pre-foreclosure sales, or other solutions.</li> <li>• A uniform sample solicitation package will be provided for optional use.</li> </ul>                                                                             |
| Delinquency Management                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Disclosures and Written Communications      | <ul style="list-style-type: none"> <li>• There will be a uniform requirement for servicers to consistently acknowledge certain events to borrowers at specified time periods, including receipt of a Borrower Response Package. Acknowledgement will include notices to borrowers about the evaluation process and timeline, explanation of the foreclosure process, and instances where foreclosure actions may not be halted.</li> </ul>                                                                                                                                                                                         |

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|                      | <ul style="list-style-type: none"> <li>• There will be uniform content and timing requirements for: <ul style="list-style-type: none"> <li>○ Late notices and reminder letters</li> <li>○ Notifying borrowers of receipt of incomplete or missing information</li> <li>○ Evaluation notices, which provide the workout decision to the borrower</li> <li>○ Breach letters</li> <li>○ Solicitation during the foreclosure process</li> </ul> </li> </ul>                                                                                                                       |
| Delinquency Timeline | <ul style="list-style-type: none"> <li>• Consistent timelines and requirements will be applied for managing delinquency for: <ul style="list-style-type: none"> <li>○ Property inspections</li> <li>○ Pre-referral account review</li> <li>○ Foreclosure referral</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                      |
| Case Escalation      | <ul style="list-style-type: none"> <li>• There will be unified requirements to develop and implement a process for reviewing and responding to borrower complaints and escalating those disputes that rise to the level of an escalated case, including: <ul style="list-style-type: none"> <li>○ Uniform timelines for review and response</li> <li>○ Uniform requirements for information to be included in the evaluation notice and other written communication with the borrower</li> <li>○ Uniform process for reporting escalated case activity</li> </ul> </li> </ul> |

### Loan Modifications and Foreclosure Prevention Alternatives

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| Modifications | <ul style="list-style-type: none"> <li>• Modifications specified under this initiative are aligned with the updated Fannie Mae modification announced on April 4, 2011 in Servicing Guide Announcement SVC-2011-03 <ul style="list-style-type: none"> <li>○ A non-HAMP modification solution that will include a three or four-month trial period:</li> <li>○ The modification will target loans ineligible for HAMP or have defaulted on a HAMP Trial Period Plan or permanent modification under certain circumstances.</li> </ul> </li> </ul> |
| Documentation | <ul style="list-style-type: none"> <li>• A uniform Borrower Assistance Form and associated documentation will be used to solicit and evaluate borrowers for all available workout options.</li> <li>• All borrowers must provide a signed and completed IRS Form 4506-T and required income and hardship documentation as part of their Borrower Response Package returned to the servicer.</li> <li>• New borrower solicitation documentation will replace the current documentation used for HAMP.</li> </ul>                                  |
| Benchmarks    | <ul style="list-style-type: none"> <li>• Benchmarks will be established for: <ul style="list-style-type: none"> <li>○ Completed Borrower Response Packages</li> <li>○ Foreclosure alternative pull-through rates</li> <li>○ Quality Right Party Contact</li> <li>○ Call Center performance</li> </ul> </li> </ul>                                                                                                                                                                                                                                |

### Foreclosure Timelines

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| Uniform Timelines for Referrals to Foreclosure and for Foreclosure Sales | <ul style="list-style-type: none"> <li>• Foreclosure timelines will cover the time from the payment due date to foreclosure referral to an attorney/trustee, and then through the date of sale.</li> <li>• An overall maximum number of days for a foreclosure will be established for each jurisdiction that includes two components: <ul style="list-style-type: none"> <li>○ A state standard for an uncontested foreclosure, generally based on state laws and practices governing foreclosures</li> <li>○ An allowance for permissible delays that are beyond the control of the servicer</li> </ul> </li> <li>• Foreclosure timelines will be updated.</li> </ul> |
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## Servicer Incentives and Compensatory Fees

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| <p>Borrower Response Package Incentives and Compensatory Fees</p>                                    | <ul style="list-style-type: none"> <li>• We will introduce new incentives and compensatory fees for completed Borrower Response Packages. Fannie Mae will identify servicers for inclusion in the new incentive program and we will: <ul style="list-style-type: none"> <li>○ Track those borrowers from whom the servicer collects a completed Borrower Response Package within 6 months of the date the loan became 60 days delinquent</li> <li>○ Establish a minimum incentive benchmark. If a servicer exceeds this benchmark within the 6 month period the servicer will receive \$500 for each completed Borrower Response Package collected</li> <li>○ Establish a minimum compensatory fee benchmark. If a servicer does not meet this benchmark within the 6 month period the servicer will be assessed a compensatory fee of \$500 for each loan that represents the difference between the Borrower Response Package collected and the packages the servicer was required to collect to meet the compensatory fee benchmark</li> </ul> </li> <li>• Participating servicers will not receive an incentive or be assessed a compensatory fee if the percentage for completed Borrower Response Packages for 60+ delinquent borrowers fall between the compensatory fee and incentive benchmarks.</li> </ul> |
| <p>Workout Incentives and Compensatory Fees</p>                                                      | <ul style="list-style-type: none"> <li>• Under a tiered incentive structure, servicers will receive incentives for closed modifications. <ul style="list-style-type: none"> <li>○ Non-HAMP modifications, with amounts depending on the stage of delinquency when the Trial Period Plan starts: <ul style="list-style-type: none"> <li>· \$1,600 for each closed workout for mortgages that are less than or equal to 120 days delinquent</li> <li>· \$1,200 for each closed workout for mortgages that are 121-210 days delinquent</li> <li>· \$400 for each closed workout for mortgages that are greater than 210 days delinquent</li> </ul> </li> </ul> </li> <li>• Modification incentives will be paid provided that the modification closes within 60 days of a completed Trial Period Plan.</li> <li>• Incentives will be paid out monthly provided the servicer has achieved the minimum workout pull through rates,</li> </ul>                                                                                                                                                                                                                                                                                                                                                                             |
| <p>Compensatory Fees for Foreclosure Timeline Violations and Missed Incentive Package Benchmarks</p> | <ul style="list-style-type: none"> <li>• Standardized requirements will apply for determining whether compensatory fees will be assessed, and if so, calculating compensatory fees due to failure to comply with foreclosure timeline standards and missed incentive package benchmarks.</li> <li>• Servicers will be subject to compensatory fee assessments for delayed foreclosure sales.</li> <li>• Compensatory fees will not be issued if a servicer's aggregate amount of monthly compensatory fees is below a minimum amount.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <h3>Fannie Mae Implementation</h3>                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <p>Requirements</p>                                                                                  | <ul style="list-style-type: none"> <li>• We are finalizing our requirements, which we will provide to all servicers in one or more Guide Announcement(s) in the coming months.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p>Systems and Operational Changes</p>                                                               | <ul style="list-style-type: none"> <li>• We are finalizing our necessary systems and operational changes, including any necessary changes to our servicing technology tools and investor reporting processes.</li> <li>• We will communicate systems and operational changes as part of our full requirements rollout.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p>Effective Dates</p>                                                                               | <ul style="list-style-type: none"> <li>• Through this summer, we will determine aggressive yet realistic effective dates, and where</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



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|         | possible, institute a phased set of effective dates to ensure efficient implementation by all servicers.                                                   |
| Support | <ul style="list-style-type: none"><li>• We will provide a robust set of training resources to assist servicers in implementing new requirements.</li></ul> |

Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicer Solution Center at 1-888-FANNIE5 (888-326-6435) with any questions regarding the Servicing Alignment Initiative.

Servicer understands that this document may not incorporate every requirement under, and is not to be relied on as a replacement or substitute for, the information contained in the Fannie Mae *Servicing Guide* (Guide) or Guide Announcement. Servicer is responsible for complying with the requirements of the Guide and relevant Guide Announcement(s), notwithstanding the extent to which they may be inconsistent with this document.