



# COVID-19 Investor FAQs

## Contents

Fannie Mae Assistance Policies.....	2
Servicers and Advances .....	7
Investor Reporting (Single-Family MBS & CRT) .....	8
Single-Family MBS Cash Flows .....	10
Single-Family CAS Cash Flows .....	11
Single-Family CIRT Cash Flows .....	13
Appendix.....	15
Additional Resources .....	17

**These FAQs are designed to provide a summary of Fannie Mae’s COVID response for single-family investors.**

**Investors in Fannie Mae securities should review the applicable prospectus, prospectus supplement, or offering memorandum for the transaction for a detailed description of the potential impact of loan forbearances and modifications on their investments.**



## Fannie Mae Assistance Policies

### Q1. Does Fannie Mae offer any assistance to borrowers that are impacted by the COVID-19 pandemic?

In accordance with Lender Letter [LL-2021-02, Impact of COVID-19 on Servicing](#), servicers are authorized to provide a forbearance plan to any borrower who requests a forbearance as a result of a financial hardship caused by the COVID-19 emergency. A complete borrower response package is not required. In addition, Fannie Mae's workout option hierarchy provides several options for resolving the delinquency after the forbearance plan ends. For example, if the borrower is unable to reinstate the loan or afford a repayment plan to bring the loan current, Lender Letter [LL-2021-07, COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers](#), provides guidelines for servicers to evaluate a borrower for a COVID-19 payment deferral or a Flex Modification for COVID-19 impacted borrowers. Fannie Mae's workout options were developed in alignment with Freddie Mac under the direction of the Federal Housing Finance Agency (FHFA).

### Q2. What tools does Fannie Mae have in place to assist borrowers affected by the COVID-19 pandemic?

As the world's largest manager of mortgage credit risk, Fannie Mae has comprehensive loss mitigation policies and procedures in place to address temporary and permanent hardships. These transparent industry standards for borrower assistance help Fannie Mae ensure efficiency and consistency in loss mitigation. Fannie Mae also makes proprietary tools such as [Servicing Management Default Underwriter™ \(SMDU™\)](#) available to servicers to simplify and automate loss mitigation decisioning.

One of the most effective tools available to provide rapid relief to borrowers is temporary payment forbearance (a period in which borrowers may make no payments or partial payments).

A forbearance plan (also known as payment forbearance) is appropriate if the temporary hardship has not been resolved but may reasonably be expected to be resolved within a short period of time. It is not the same as principal forbearance (i.e., deferral of a portion of the unpaid principal balance (UPB) until the loan's maturity date or early payoff of the mortgage loan), which can be utilized in certain circumstances, such as in connection with a loan modification in cases of permanent hardship.

### Q3. What are examples of a temporary hardship?

Examples of temporary hardships may include temporary loss of income due to unemployment, reduction in working hours, illness, or an increase in expenses such as a large medical bill, which has impacted the borrower's ability to make their monthly mortgage loan payment.

### Q4. What are examples of a permanent hardship?

Examples of permanent hardships may include permanent loss of income due to death, disability, divorce, illness, permanent increase in expenses such as on-going medical costs, or permanent depletion of cash reserves due to uninsured losses.



**Q5. Is Quality Right Party Contact (QRPC) required to offer a forbearance plan to a borrower impacted by COVID-19?**

As described in *Servicing Guide*, [D2-2-01, Achieving Quality Right Party Contact with a Borrower](#), QRPC is a uniform standard for communicating with the borrower, co-borrower, or a trusted advisor, about resolution of the mortgage loan delinquency. We reaffirm the applicability of QRPC when working with a borrower impacted by COVID-19 to ensure the servicer understands the borrower's circumstances and determines the best possible workout option for resolving the borrower's delinquency. In the event that the servicer is unable to achieve full QRPC and offers a forbearance plan to a borrower impacted by COVID-19 in compliance with applicable law, the servicer is considered to be in compliance with our *Servicing Guide*.

Note that all contact attempts must be documented in the mortgage loan servicer file, and that the servicer is authorized to use various outreach methods to contact the borrower as permitted by applicable law, including but not limited to:

- mail
- email
- texting, and
- voice response unit technology

Since the above list is not exhaustive, methods may also include use of technology platforms and websites if those are permitted by applicable law. See *Servicing Guide* [A4-2.1-04, Establishing Contact with the Borrower](#), for the servicer's responsibilities in its attempts to contact a borrower.

**Q6. How long can a temporary payment forbearance plan last?**

The servicer must follow the requirements in *Servicing Guide* [D2-3.2-01, Forbearance Plan](#), when evaluating the borrower for and offering a forbearance plan. At the request of the borrower, the servicer is authorized to provide an initial forbearance plan term of up to 6 months, and grant an extension of the initial forbearance term of up to an additional 6 months at the request of the borrower. The servicer is authorized to offer the 6-month terms in separate, shorter increments. In accordance with [LL-2021-02, Impact of COVID-19 on Servicing](#), for a borrower with a financial hardship relating to COVID-19, the servicer is authorized to permit a cumulative forbearance plan term of up to 12 months as measured from the start date of the initial forbearance plan, regardless of the delinquency status of the mortgage loan.

For a borrower in a COVID-19 related forbearance plan as of February 28, 2021, the servicer is authorized to grant an extension of the forbearance plan term of up to 3 months, and grant one or more forbearance plan term extensions of up to 3 months, if upon reaching a cumulative forbearance plan term of 12 months as measured from the start date of the initial forbearance plan the servicer determines that the borrower's hardship has not been resolved. The servicer's determination to extend the forbearance plan beyond 12 months must be as a result of achieving QRPC.

As noted above, in the event that the servicer is unable to achieve full QRPC and offers a forbearance plan to a borrower impacted by COVID-19 in compliance with applicable law, the servicer is considered to be in compliance with our *Servicing Guide*, [D2-2-01, Achieving Quality Right Party Contact with a Borrower](#). For mortgage loans in a COVID-19 forbearance plan as of February 28, 2021, the servicer must receive Fannie Mae's prior written approval for a forbearance plan to exceed a cumulative term of 18 months as measured from the start date of the initial



forbearance plan, or result in the mortgage loan becoming greater than 18 months delinquent. A Servicer's request for such extension must be based on QRPC and are evaluated on a case-by-case basis.

**Q7. Are there limitations to the occupancy types eligible for a temporary payment forbearance plan?**

Although forbearance plans are generally limited to borrowers whose loans are secured by a principal residence, for borrowers experiencing a financial hardship resulting from COVID-19, Fannie Mae has revised the property type eligibility. Per Lender Letter [LL-2021-02, Impact of COVID-19 on Servicing](#), when determining eligibility for a forbearance plan for a borrower impacted by COVID-19, the property securing the mortgage loan may be a principal residence, a second home, or an investment property.

**Q8. Will credit reporting be suppressed for borrowers that are impacted by COVID-19?**

Servicers must report the status of the mortgage loan to the credit bureaus in accordance with the Servicing Guide and applicable law, including the Fair Credit Reporting Act (FCRA), as amended by the CARES Act, for borrowers affected by the COVID-19 pandemic. For example, homeowners who comply with their forbearance plan and were current prior to receiving COVID-19 related forbearance should be reported as current to credit bureaus. Note that Fannie Mae is not interpreting the CARES Act on behalf of the servicers but is reminding servicers they have a legal obligation in accordance with FCRA, as amended by the CARES Act.

For more information, see Lender Letter [LL-2021-02, Impact of COVID-19 on Servicing](#).

**Q9. What options are available for borrowers after the completion of a temporary payment forbearance plan?**

After a forbearance plan is completed the mortgage loan must be brought current if the borrower intends to retain the property. The servicer must begin attempts to contact the borrower no later than 30 days prior to the expiration of the forbearance plan term and must continue outreach attempts until either QRPC is achieved or the forbearance plan term has expired. Per Lender Letter [LL-2021-02, Impact of COVID-19 on Servicing](#), for COVID-19 impacted borrowers, we are eliminating the requirement that the servicer determine the occupancy status of the property.

A loan may be brought current through:

- **reinstatement**, which is the repayment of past due amounts in a single payment; or
- approval of the borrower for another workout option, such as a:
  - **repayment plan**, which may be appropriate if the hardship has been resolved but the borrower does not have the ability to reinstate the mortgage loan, but can afford a monthly repayment plan payment in addition to their monthly mortgage payment<sup>1</sup>;
  - **COVID-19 payment deferral**, a workout option specifically designed to help borrowers impacted by a hardship related to COVID-19 and whose financial hardship is resolved return their mortgage to a current status after up to 18 months of missed payments (refer to [LL 2021-07](#)); or
  - **Fannie Mae Flex Modification for COVID-19 impacted borrowers**, as described in [LL-2021-07](#), provides reduced eligibility criteria for a Fannie Mae Flex Modification for borrowers with a COVID-19 related hardship.

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<sup>1</sup> The *Servicing Guide* [D2-3.2-02, Repayment Plan](#), indicates the total monthly repayment plan payment must not exceed 150% of the full monthly contractual payment.



- **The Fannie Mae Flex Modification** mortgage loan modification option, as described in Fannie Mae's Servicing Guide, [D2-3.2-07, Fannie Mae Flex Modification](#).

The borrower may also pay off the mortgage loan in full.

If the borrower is unable to or does not intend to retain the property with a retention workout option after forbearance, options available include a short sale, or a Mortgage Release™ (Deed-in-Lieu of Foreclosure); or the servicer refers the mortgage loan to foreclosure in accordance with applicable law.

**Q10. When a borrower refinances after COVID-19 payment deferral, is the new loan considered a cash-out refinance loan or a limited cash-out refinance loan (LCOR)?**

Amounts included in a COVID-19 payment deferral are not considered a subordinate lien. When a borrower refinances a loan that has a COVID-19 payment deferral and the amount of the COVID-19 payment deferral is included in the new loan, the new loan is eligible to be sold as an LCOR if it otherwise meets all of the requirements for an LCOR in our Selling Guide. The existence of a COVID-19 payment deferral on an existing loan does not indicate that the new loan must be delivered as a cash-out refinance. Funds applied to paying off the prior loan, including the deferred portion, are not considered cash out.

**Q11. How are the Fannie Mae Flex Modification terms determined for borrowers affected by the COVID-19 pandemic?**

The Fannie Mae Flex modification for COVID-19 impacted borrowers is designed for a borrower who needs a reduced payment because they cannot maintain their current contractual monthly P&I payment. [LL-2021-07, COVID-19 Payment Deferral and Fannie Mae Flex Modification for COVID-19 Impacted Borrowers](#), outlines reduced eligibility criteria for borrowers who have experienced a COVID-19-related hardship. When determining the borrower's new modified mortgage loan terms for a Fannie Mae Flex Modification for COVID-19 impacted borrowers, the eligible arrearages, can include the following:

- accrued interest;
- out-of-pocket escrow advances to third parties, provided they are paid prior to the effective date of the mortgage loan modification.
- servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, provided they are paid prior to the effective date of the mortgage loan modification, if allowed by state laws; and
- any outstanding non-interest bearing balance from a previously completed loan modification or a previously completed payment deferral.

**NOTE:** 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 period not to exceed 60 months unless the borrower decides to pay the amount up-front. Late charges may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan.

Thereafter, a waterfall of modification steps is applied to target a 20% reduction in the P&I portion of the monthly mortgage payment. The modification interest rate is set to a fixed rate based on the requirements in the following table using the contractual interest rate in effect for the periodic payment due in the month of the evaluation date:



If the mortgage loan is...	Then the servicer must...
A fixed rate (including an ARM or step-rate that has reached its final step)	Set the modified interest rate to the lesser of <ul style="list-style-type: none"> <li>• The Fannie Mae Modification Interest Rate, or</li> <li>• The borrower’s current contractual interest rate.</li> </ul>
An ARM or step-rate that has not reached its final interest rate	Set the modified interest rate to the lesser of <ul style="list-style-type: none"> <li>• The Fannie Mae Modification Interest Rate,</li> <li>• The final interest rate for the step-rate modification, or</li> <li>• The lifetime interest rate cap for the ARM.</li> </ul>

- Term extension to 480 months from the mortgage loan modification effective date
- Forbear principal if the post-modification MTMLTV ratio is greater than 100%, in an amount that is the lesser of
  - an amount that would create a post-modification MTMLTV ratio of 100% using the interest-bearing UPB, or
  - 30% of the gross post-modification UPB of the mortgage loan
- Finally, provide or increase principal forbearance until a 20% P&I payment reduction is achieved. The servicer must not forbear more than an amount that would create a post-mod MTMLTV ratio <80% using interest-bearing principal balance, or 30% of gross post-mod UPB.
- N O T E : Interest must not accrue on any principal forbearance. Principal forbearance is payable upon the earliest of the maturity of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.

The P&I payment must be less than or equal to the pre-modification P&I payment.

For a borrower impacted by COVID-19 to be eligible for a Flex Modification based on the reduced eligibility criteria described in Lender Letter [LL-2021-07, COVID-19 payment deferral and Fannie Mae Flex Modification For COVID-19 Impacted Borrowers](#), the mortgage loan must have been current or less than two months delinquent as of March 1, 2020, the effective date of the National Emergency declaration relating to COVID-19, and be at least 90 days delinquent; otherwise, the servicer would evaluate the borrower for a Flex Modification in accordance with Determining Eligibility for a Fannie Mae Flex Modification in [D2-3.2-07, Fannie Mae Flex Modification](#). NOTE: If a mortgage loan was originated after Mar. 1, 2020, the effective date of the National Emergency Declaration related to COVID-19, and otherwise meets the reduced eligibility criteria to receive a Fannie Mae Flex Modification, then the servicer must evaluate the borrower for a Fannie Mae Flex Modification in accordance with the reduced eligibility criteria and, if eligible, offer the Fannie Mae Flex Modification.

**Q12. Can lenders use an appraisal waiver if they obtained an exterior-only or desktop appraisal?**

No. Fannie Mae’s policy for appraisal waivers prohibits the execution of an appraisal waiver for a loan transaction for which the lender has obtained an appraisal. This includes exterior-only or desktop appraisals using the COVID-19 appraisal flexibilities. We encourage lenders to review the DU Underwriting Findings report to determine appraisal waiver eligibility prior to ordering an appraisal.

Beginning May 31, 2021 all temporary appraisal flexibilities outlined in [LL-2021-04, Impact of COVID-19 on Appraisals](#), with the exception of the HomeStyle Renovation seasoning policy, no longer apply and lenders should follow all *Selling Guide* policies.



## Servicers and Advances

### Q13. Are servicers responsible for advancing principal and interest payments during delinquency?

Fannie Mae generally offers two loan remittance types to servicers: scheduled interest / scheduled principal, known as “scheduled/scheduled” remittance and actual interest / actual principal, known as “actual/actual” remittance. Scheduled/scheduled remittance is required for loans delivered to Fannie Mae in mortgage-backed securities (MBS).

The servicer must remit principal and interest on scheduled/scheduled remittance mortgage loans regardless of whether it receives payments from the borrower, until a loan becomes four months delinquent (four consecutive missed monthly payments, the borrower becomes current, or the borrower enters into a COVID-19 payment deferral plan. Upon the loan being purchased out of the MBS trust, Fannie Mae will reimburse the servicer for any principal and interest advances made.

Effective January 2021, [Fannie Mae extended the timeframe for its delinquent loan buyout policy](#) for single-family MBS from four months past due to twenty-four months past due. Servicer advancement of scheduled principal and interest remains restricted to four months of delinquency.

For whole loan deliveries, servicers select their preferred remittance type. Generally, loans delivered through the whole loan conduit are actual/actual remittance. Under this remittance, servicers remit interest and principal the following business day after they receive at least \$2,500 in principal and interest payments, collectively, for all the loans that they service on an actual/actual basis. For actual/actual remittance, servicer advancing is not required if a borrower does not make his or her payments.

Pursuant to Fannie Mae’s guaranty of our certificates, MBS investors receive scheduled principal and interest payments for all loans in the MBS pool (regardless of remittance type of the underlying loans and regardless of the status of the borrower).

### Q14. When are servicers reimbursed for advancing principal and interest payments?

For loans that become current through a reinstatement or repayment plan, servicers recoup the advanced principal and interest as the borrower makes up the missed payments.

For loans that enter into a COVID-19 payment deferral plan, and therefore remain in the MBS trust, servicers are reimbursed by Fannie Mae for advanced principal and interest when the COVID-19 payment deferral terms are finalized and updated in Fannie Mae’s system and the mortgage loan has been brought current.

For loans that are purchased out of the MBS trust by Fannie Mae, such as delinquent loans not in one of the above plans, or loans that are purchased out of the trust prior to the completion of a permanent modification, servicers are reimbursed advanced principal and interest by Fannie Mae at the time the loan is removed from the trust.



**Q15. When are servicers reimbursed for advancing expenses to third parties?**

The servicer may request reimbursement for advances it has made for property taxes, insurance premiums, applicable HOA dues, and other out of pocket expenses by submitting a request for expense reimbursement as soon as possible after incurring an expense. For additional details, including instances when multiple requests for reimbursement are submitted in connection with the same mortgage loan, see Servicing Guide Section [E-5-01, Requesting Reimbursement for Expenses](#).

## **Investor Reporting (Single-Family MBS & CRT)**

**Q16. How will delinquent loans, including those in temporary payment forbearance, be disclosed to investors?**

Beginning with our monthly MBS disclosure file published in June 2020, for all outstanding securities, market participants can see the number of loans, percentage of loans, UPB, and percentage of UPB reported as delinquent at the pool level.<sup>2</sup> This includes loans in temporary forbearance if the borrower is only making partial or no payments, although principal and interest payments are being advanced to the certificate holder. This information was also made available in the MBS at issuance file beginning in May 2020. Beginning with the March 2021 disclosure files, we also provide delinquency data at the loan level. Previously, loan level delinquency information was only available for re-performing loan (RPL) pools. In June 2021, we expanded the enumerations in the Days Delinquent Stratification to identify delinquent loans up to 24 months delinquent.

We also provide a Borrower Assistance Plan stratification for MBS at issuance and monthly that sets forth the number of loans, percentage of loans, UPB, and percentage of UPB for mortgages underlying each security that are in a forbearance plan, repayment plan, trial period plan, other workout option, or no workout option. This field in the monthly files will be published on a one-month delay due to the timing of our servicing reporting cycle. For example, the values populated in this stratification in the monthly MBS disclosures published in July correspond to the delinquency status represented in the Days Delinquent stratification in the monthly MBS disclosures published in June. Beginning with the March 2021 disclosure files, we also now provide the Borrower Assistance Plan attribute at the loan level.

For Fannie Mae, servicers are required to report that a loan is in an active forbearance plan, even if the borrower is making contractual payments on such loan. As a result, a loan in an active forbearance plan that is making contractual payments and remains current will be disclosed as being in forbearance plan as part of Borrower Assistance Plan disclosures.

For Credit Risk Transfer (CRT), delinquency is disclosed at the loan-level. Beginning with the September 2020 remittance report (July 2020 activity), Fannie Mae replaced the loan-level forbearance indicator with the Borrower Assistance Plan attribute. The updated field will still be published on a two-month delay, which is aligned with current CRT disclosure timing. See [Appendix A](#) for additional details regarding the impact to CRT reporting.

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<sup>2</sup> Previously, this information was disclosed only for MBS issued on or after November 1, 2018.

**Q17. How does Fannie Mae report the delinquency status of loans in various borrower assistance plans to investors?**

For both MBS and CRT disclosures:

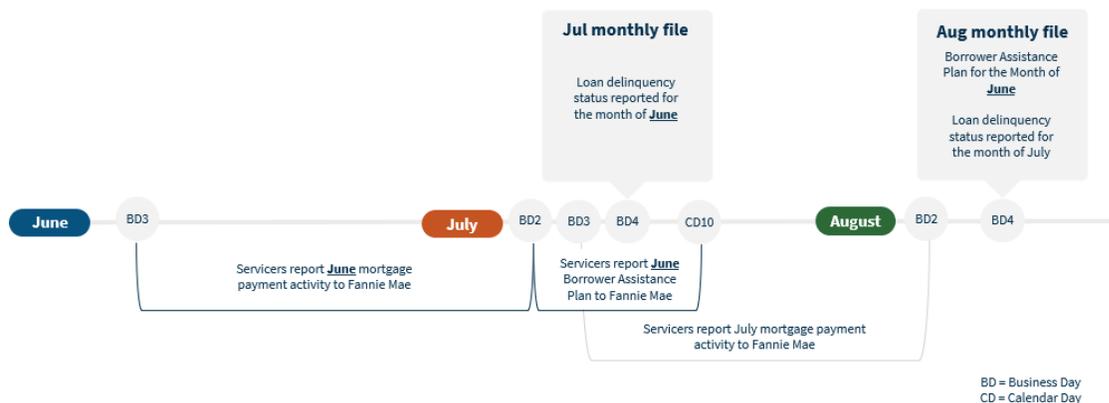
- when a loan is in a **temporary payment forbearance plan** in which the borrower is not making payments, or making partial payments<sup>3</sup>, it will be reported as delinquent.
- if the loan is brought current through a **reinstatement** (full single lump sum payment) it will be reported as current.
- if the loan is in a **repayment plan** post the temporary payment forbearance plan, it will be reported as delinquent until the repayment plan is complete. Once the borrower enters the repayment plan, the loan delinquency status will no longer increase<sup>4</sup>. As the borrower makes their agreed upon payments, the loan will be reported as progressively less delinquent until the plan is complete and the loan is reported as current.
- if the loan is in a **COVID-19 payment deferral plan**, it will be reported as current once Fannie Mae’s systems are updated with the payment deferral terms.
- if the loan is in a **modification**, it will be reported as delinquent during the modification trial period and will be reported as current once it is in a permanent modification. Loss mitigation options resulting in a modification will generally require the loan to be removed from the MBS. However, during any modification trial period, the loan will remain in the MBS until the trial period ends.

**Q18. Are all borrowers in a temporary payment forbearance plan delinquent?**

No. A borrower who enters a forbearance plan may continue making scheduled payments and thus not necessarily become delinquent.

**Q19. Why do some securities reflect delinquency but the “Borrower Assistance Plan” field is not reported?**

The data in the “Borrower Assistance Plan” stratification will be published on a one-month delay, due to the timing of our servicing reporting cycle. For example, the values populated in the borrower assistance plan stratification in the monthly MBS disclosures published in July, correspond to the delinquency status represented in the Days Delinquent stratification in the monthly MBS disclosures published in June.



<sup>3</sup> If the borrower is making partial payments under the forbearance agreement, the servicer must apply any amounts received and totaling a full contractual payment to the loan. This would advance the LPI date by one month and reduce the delinquency.

<sup>4</sup> Loan delinquency status is reported as “Days Delinquent” for MBS reporting and “Current Loan Delinquency Status” for CRT reporting.



**Q20. Why might the percentage of loans in Forbearance exceed the percentage of loans that are delinquent?**

This could be a result of two reasons:

1. Although the borrower has requested forbearance, the borrower may continue to make his or her contractual mortgage payments, or
2. the loan may have been brought current, but the servicer reporting does not reflect the exit from a borrower assistance plan until the following month.

**Q21. How does Fannie Mae disclose a loan in payment deferral to investors?**

An investor can determine if a loan is in payment deferral in both MBS and CRT disclosures by referring to three recently introduced attributes, which include:

- Alternative Delinquency Resolutions (ADR) Type,
- Number of Alternative Delinquency Resolutions (aka Alternative Delinquency Resolution Count), and
- Total Deferral Amount.

For CRT, beginning with the September 2020 remittance report (July 2020 activity), Fannie Mae introduced the ADR attributes for all outstanding CAS and CIRT transactions. More detail on the enhancements can be found in our [August 13<sup>th</sup> announcement](#).

For MBS, beginning with the December 2020 Business Day 4 MBS disclosures, Fannie Mae made available the ADR attributes through a series of loan-level and pool-level disclosure enhancements. More detail on the enhancements can be found in our [October 6<sup>th</sup> announcement](#), the [Single-Family MBS Disclosures Guide](#), and our [MBS Disclosure FAQs](#).

## Single-Family MBS Cash Flows

**Q22. How are MBS payments impacted when a borrower is in temporary payment forbearance?**

Pursuant to Fannie Mae's guaranty to the MBS Trust, MBS investors receive scheduled principal and interest for all loans in the MBS pool. While the loan is in forbearance and in a Fannie Mae MBS, investors continue to receive scheduled principal and interest even if the borrower does not make their contractual payments.

**Q23. How are MBS payments impacted by the various options at the conclusion of the forbearance period?**

A number of options are available to borrowers at the conclusion of their forbearance plan, as noted [above](#). However, with respect to our new policy change effective January 2021 whereby [Fannie Mae has extended the timeframe for its delinquent loan buyout policy](#) for single-family MBS from four months past due to twenty-four months past due, the loan will remain in the security regardless of the options, with the exceptions listed below. While the loan remains in a Fannie Mae MBS, investors continue to receive scheduled principal and interest.

- A loan is paid in full, or where the related lien is released and/or the note debt is satisfied or forgiven
- A loan is repurchased by a seller/servicer under applicable selling and servicing requirements



- A loan is entering a permanent modification, which generally requires it to be removed from the MBS. During any modification trial period, the loan will remain in the MBS until the trial period ends.
- A loan is subject to a short sale or deed-in-lieu of foreclosure
- A loan is referred to foreclosure
- A loan is in forbearance and becomes 24 months past due

## Single-Family CAS Cash Flows

### Q24. How are Connecticut Avenue Securities® (CAS) payments impacted when a borrower is in temporary payment forbearance?

Interest payments to CAS investors are not dependent upon interest collections on the Reference Obligations. As a result, reduced interest collections due to temporary payment forbearance will not affect these payments. However, principal is not distributed to CAS notes unless it is collected from the borrower. Therefore, principal collections may be reduced as a result of temporary payment forbearance. This will affect the amount of principal distributed to CAS investors.

### Q25. Will COVID-19 be treated as a casualty event under the Fixed-Severity CAS Transactions that have casualty event language?

A reference obligation that is in a forbearance period due to COVID-19 will be treated as a casualty event for CAS securities issued in the CAS 2014-C04, CAS 2015-C01, CAS 2015-C02 and CAS 2015-C03 transactions.

For these transactions (CAS 2014-C04 through CAS 2015-C03), a reference obligation that was in a forbearance period due to a casualty event at the time it became a Credit Event Reference Obligation will become a reversed credit event if the loan had a payment status reported as current at the conclusion of its forbearance period (or up to three months thereafter if necessary to allow for the expiration of any trial modification period).

### Q26. For CAS, how is payment forbearance treated with regard to the Delinquency Test in actual loss deals?

A loan in temporary payment forbearance will be reported as delinquent in CAS if the borrower is making partial or no payments during the forbearance period, and therefore will be included in the Distressed Principal Balance calculation if the loan is 90 days or more delinquent.

In November 2020, we launched the [CAS Structural and Delinquency Deal Performance Test Monitor](#) which provides additional transparency into the monthly status of CAS deal-level credit enhancement and delinquency tests, which may have implications for investor cashflows. The dashboard is available in [Data Dynamics](#).

### Q27. How does the delinquency test work for CAS transactions?

CAS actual loss transactions will allocate unscheduled principal to the subordinate classes so long as a delinquency test is satisfied such that the six months average distressed principal balance is less than 40% of the subordinate UPB minus any principal loss. The Distressed Principal Balance includes loans that are 90 days or more delinquent or are in foreclosure, bankruptcy or REO status. Because loans in an active forbearance plan



continue to roll deeper into delinquency by the number of payments not made, these loans may be included in the Distressed Principal Balance and cause the delinquency test to fail, leading to the subordinate bonds being locked out of receiving unscheduled principal. Scheduled principal, however, is still passed through to the bonds.

However, for all CAS REMIC transactions (those designated with an “R” prefix), the effect of the delinquency test can be mitigated via the allocation of the Supplemental Subordinate Reduction Amount (SSRA). In the REMIC deals, the percentage of offered notes and their corresponding reference tranches is capped at generally 5.25% or 5.50% of the current UPB of the reference pool. If this threshold is reached, the CAS notes will receive unscheduled principal even if the delinquency test is failing.

In November 2020, we launched the [CAS Structural and Delinquency Deal Performance Test Monitor](#) which provides additional transparency into the monthly status of CAS deal-level credit enhancement and delinquency tests, which may have implications for investor cashflows. The dashboard is available in [Data Dynamics](#).

**Q28. How are CAS payments impacted when a borrower enters a repayment plan?**

If the loan is in a repayment plan following the temporary payment forbearance plan, it will be disclosed as delinquent until the repayment plan is complete. As the borrower gradually repays the missed payments over the term of the repayment plan, the loan will be reported as progressively less delinquent until the plan is complete and the loan is reported as current. For the deals with casualty event reversal language, the reversal would only occur if the borrower completed their repayment plan within the three-month window after the conclusion of the forbearance period.

**Q29. How are CAS payments impacted when a borrower enters a COVID-19 payment deferral program?**

In cases where loans enter a COVID-19 payment deferral, those loans are not treated as loan modifications for CAS. Under COVID-19 payment deferral, the deferral of missed P&I payments does not affect the ongoing contractual monthly payment due from the borrower and will not result in a Modification Loss Amount to investors. Borrowers that enter into a COVID-19 payment deferral agreement will resume making their contractual P&I payments. However, the missed P&I payments are not due until the loan’s maturity or earlier pay-off. Interest payments to bondholders will continue to be made and will be based on the total loan balance, which is inclusive of all deferred amounts (including any allowable servicing advances to third parties (i.e., T&I) that are part of the deferred amount).

Upon entering into the COVID-19 payment deferral agreement, the loan will be reported as current once Fannie Mae’s systems are updated with the payment deferral terms. Treatment of the COVID-19 payment deferral program varies across CAS transactions.

- For actual loss deals, a loan entering a COVID-19 payment deferral agreement will not be included in the Distressed Principal Balance for purposes of the delinquency test.
- For fixed severity deals, because the loan becomes current when the borrower enters into the COVID-19 payment deferral agreement, a loan that was less than 6 months delinquent prior to entering the deferral agreement will not become a credit event.
- For the later fixed severity deals that contain the casualty event provision, if the loan became a credit event while in forbearance due to COVID-19 and the borrower entered into a COVID-19 payment deferral at the conclusion of his or her forbearance period, that loan would become a reversed credit event reference obligation.



If a loan in a COVID-19 payment deferral agreement subsequently defaults, the severity (in an actual loss deal) will be calculated to include any deferred interest, taxes, and insurance that is due as part of the payment deferral agreement. This treatment is consistent with loans that default and are disposed through REO dispositions, in which such costs are part of the loss calculation.

**Q30. How are CAS payments impacted when a borrower enters a loan modification?**

In cases of permanent hardship where a loan modification is pursued, the implications for CAS investors vary by modification type, as well as across deals. Fannie Mae first transferred modification costs to investors beginning with CAS 2015-C04, our first actual loss deal.

Fannie Mae transfers certain costs to CAS investors when a Modification Event occurs. A Modification Loss Amount is assessed only for loan modifications that result in a permanent interest rate reduction and/or permanent principal forbearance. Loan modification programs that only result in term extension and/or capitalization of arrears do not result in a Modification Loss Amount.

A Modification Loss Amount is passed through to noteholders on a monthly basis once a permanent modification takes effect and is applied according to a waterfall that alternates between interest and principal on the bonds in reverse sequential order.

Fannie Mae does not include modified loans in the calculation of Distressed Principal Balance for the purpose of the Delinquency Test. A modified loan would only be included in the calculation of Distressed Principal Balance if it were to become 90 days or more delinquent after modification.

## Single-Family CIRT Cash Flows

**Q31. How are Credit Insurance Risk Transfer™ (CIRT™) payments impacted when a borrower is in temporary payment forbearance?**

Premium payments to CIRT reinsurers are not dependent upon interest collections on the Reference Obligations. As a result, reduced interest collections due to temporary payment forbearance will not affect these payments. For CIRT policies, a loss is not calculated in the absence of: (1) a sale of a defaulted loan or property, or (2) an expense related to a modification, for most CIRT deals beginning with CIRT 2019-1.

**Q32. For CIRT, how is payment forbearance treated with regard to the Delinquency Test for the CIRT Limit Liability Stepdown?**

Currently, a loan in temporary payment forbearance will appear as delinquent in CIRT if the borrower is making only partial or no payments, and therefore will be included in the Total Current Balance of all seriously delinquent loans if it is three months or more past due. The Total Current Balance of all seriously delinquent loans is an input to the calculation of the Remaining Limit of Liability.

**Q33. How are CIRT deals impacted when a borrower enters a repayment plan?**

A loan in a repayment plan will appear as delinquent in CIRT until the repayment plan is complete, and therefore will be included in the Total Current Balance of all seriously delinquent loans if it is three months or more past due. The Total Current Balance of all seriously delinquent loans is an input to the calculation of the Remaining



Limit of Liability. For CIRT deals beginning with CIRT 2019-1, these loans are also included in the calculation of Estimated Pipeline Loss which is a test that determines premium capture.

**Q34. How are CIRT payments impacted when a borrower enters a COVID-19 payment deferral program?**

In cases where loans enter a COVID-19 payment deferral, those loans are not treated as loan modifications for CIRT transactions that include modification losses as a covered loss expense (CIRT 2019-1 and forward). Under COVID-19 payment deferral, the deferral of missed P&I payments does not affect the ongoing contractual monthly payment due from the borrower and will not result in a Modification Loss Amount to reinsurers. Borrowers that enter into a COVID-19 payment deferral agreement will resume making their contractual P&I payments. However, the missed P&I payments are not due until the loan maturity or earlier pay-off. Premium payments to reinsurers will continue to be made and will be based on the total loan balance, which is inclusive of all deferred amounts (including any allowable servicing advances to third parties (i.e., T&I) that are part of the deferred amount).

Upon entering into the COVID-19 payment deferral agreement, the loan will become current.

If a loan in a COVID-19 payment deferral agreement subsequently defaults, the severity will be calculated to include any deferred interest, taxes, and insurance that is due as part of the payment deferral agreement. This treatment is consistent with loans that default and are disposed through REO dispositions, in which such costs are part of the loss calculation.

**Q35. How are CIRT payments impacted when a borrower enters a loan modification?**

In cases of permanent hardship where loan modification is pursued, the implications for CIRT reinsurers vary by modification type, as well as across deals. Beginning with CIRT 2019-1, CIRT transactions began including modification losses as a covered loss expense.

Fannie Mae transfers certain costs to CIRT reinsurers when a Modification Event occurs. A Modification Loss Amount is assessed only for loan modifications that result in a permanent interest rate reduction and/or permanent principal forbearance. Loan modification programs that only result in term extension and/or capitalization of arrears do not result in a Modification Loss Amount.

For CIRT, the Modification Loss Amount is applied according to a waterfall. First, the Modification Loss Amount is applied to the product of a defined spread and the remaining retention layer. Any remaining Modification Loss Amount is then applied first to reduce the retention layer, then the monthly premium, and then the limit of liability.

## Appendix

### Appendix A. Impact to CRT reporting related to the various workout options.

CRT Disclosure Data Element	Payment Forbearance	Reinstatement	Repayment Plan	Payment Deferral	Flex Modification
Borrower Assistance Plan	F	Not Applicable or No Workout Plan	R	Not Applicable or No Workout Plan	During modification trial period, T; when modification becomes permanent, Not Applicable or No Workout Plan
Alternative Delinquency Resolution	Not Applicable	Not Applicable	Not Applicable	Payment deferral = P, COVID-19 payment deferral = C, or natural disaster payment deferral = D	Not Applicable
Alternative Delinquency Resolution Count	Null	Null	Null	Greater than zero	Null
Total Deferral Amount	Null	Null	Null	Greater than zero	Null
Modification Flag	N	N	N	N	Y, when modification becomes permanent
Non-interest bearing UPB	Null	Null	Null	Greater than zero	May be greater than zero
Current Interest Rate	No change	No change	No change	No change	May be lower than Original Interest Rate
Current Period/Cumulative Modification Loss Amount	Null	Null	Null	Null	May be greater than zero
Delinquency Status	Continues to increase to the extent that the full contractual payment is not made.	Returns to current in the period that the loan is reinstated (single lump sum payment of past due amounts).	Continues to decrease as borrower pays off past due amounts and will return to current at the end of plan.	Returns to current in the period that a borrower enters into a payment deferral plan.	Returns to current in the period that the modification becomes permanent.

CRT Disclosure Data Element	Payment Forbearance	Reinstatement	Repayment Plan	Payment Deferral	Flex Modification
Current Actual UPB	Does not decline while in forbearance if borrower makes no payments.	Single decrease when past due amounts are repaid.	Gradual decrease as past due amounts are repaid over time.	Current Actual UPB may increase to reflect any deferred amounts other than the missed principal portion of deferred payments.	May increase in the amount of capitalized arrearages.
Remaining Months to Legal Maturity	Continues to decline according to amortization schedule.	Continues to decline according to amortization schedule.	Continues to decline according to amortization schedule.	Continues to decline according to amortization schedule.	One-time increase to reflect loan maturity extension.
Maturity Date	No change	No change	No change	No change	Extended
Principal Forgiveness Amount	Null	Null	Null	Null	Null



## Additional Resources

### Contact Us

For questions, please contact the Fannie Mae Investor Help Line at 1-800-232-6643, Option 3 or by [e-mail](#).

### Resources

[Our Approach to COVID-19 Webpage](#)

[LL-2020-06, Selling Loans in Forbearance Due to COVID-19](#)

[LL-2020-08, Changes to Servicer Principal and Interest Advance Requirements](#)

[LL-2020-09, Incentive Fees for Retention Workout Options](#)

[LL-2021-02, Impact of COVID-19 on Servicing](#)

[LL-2021-03, Impact of COVID-19 on Originations](#)

[LL-2021-04, Impact of COVID-19 on Appraisals](#)

[LL-2021-07, COVID-19 Payment Deferral](#)

[Fannie Mae Selling Guide](#)

[Fannie Mae Servicing Guide](#)

[Data Dynamics](#)

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