Additional Insight into Credit Risk Transfer Reporting for Disaster Relief

Overview of 2017 Hurricane Response

One year has passed since the 2017 hurricane season that impacted homeowners in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. Fannie Mae's standing disaster relief policies allowed lenders and servicers to provide expedient assistance to borrowers, enabling them to focus on recovery and rebuilding. The primary tool for immediate borrower relief available to servicers is a payment forbearance plan, which was widely implemented following last year's hurricanes. Payment forbearance grants immediate relief by permitting borrowers to reduce or suspend their regular mortgage payments during a time of temporary hardship.

Honoring our commitment to provide transparency to our investor partners, Fannie Mae enhanced its monthly reporting disclosures around the use of forbearance for our credit risk transfer (CRT) programs, Connecticut Avenue Securities®(CAS) and Credit Insurance Risk Transfer™ (CIRT™), shortly after the hurricanes. Now that a year has elapsed since the hurricanes, we provide insight into reporting for disaster relief and workout methods, and reflect on credit performance trends in affected regions. Investors may find this guidance useful for analyzing the performance of affected loans, and for developing performance expectations in the event of future natural disasters.

Immediate Relief through Payment Forbearance

As detailed in our Hurricane Relief FAQs published last year, servicers are authorized to grant an initial forbearance plan to a borrower who they suspect has been impacted by a natural disaster, whether they have achieved contact with the borrower or not. The terms of forbearance plans are variable depending on borrower circumstances, as described below.

Initial forbearance:

- Up to 3 months: If contact has not been made, a servicer may offer an initial forbearance plan of up to 3 months if the borrower has a hardship due to a disaster event and the mortgage loan is 31 or more days delinquent.
- Up to 6 months: If the servicer has made contact with the borrower and if other eligibility criteria for a forbearance plan are met as described in Section 2-3.2-01 of the Fannie Mae Servicing Guide.

Plan extension:

- Up to 6 months: After an initial forbearance plan of up to 6 months, the servicer is authorized to grant an extension of the initial forbearance plan of up to 6 months, for a total of 12 months.
- Over 12 months: The servicer must receive Fannie Mae's prior written approval for a forbearance plan to exceed a cumulative term of 12 months, as measured from the start date of the initial forbearance plan.

As long as the borrower is on an active disaster-related forbearance plan, the servicer must suspend the reporting of mortgage loan delinquencies to the credit bureaus. Reporting to credit bureaus is also suspended while the borrower is in a repayment plan or a trial modification associated with disaster-related delinquencies.

CRT Disclosure

In an effort to provide greater transparency to investors, Fannie Mae provides several fields that help illustrate the status of a loan in various stages of its lifecycle.

Forbearance Indicator: Fannie Mae added a forbearance indicator field to the monthly reporting files for our CRT programs starting in December 2017. This field is typically populated using information reported by the servicer for the entire duration of the payment forbearance plan.

Current Loan Delinquency Status: While a loan is in forbearance, its delinquency status will continue to deteriorate (i.e., the number of months delinquent will continue to increase) to the extent that the full scheduled payment is not made.

Modification Flag: A payment forbearance plan is not a modification; therefore, loans in an active payment forbearance plan are not reported as being modified.

Next Steps in Borrower Assistance

Payment forbearance enables Fannie Mae to quickly provide needed relief to numerous borrowers while servicers on the ground determine how to best address the long-term needs of borrowers. After a loan is granted payment forbearance, servicers evaluate the individual situation of each borrower in order to determine the appropriate next steps. Fannie Mae generally delegates these loss mitigation efforts to servicers, many of whom leverage Fannie Mae's Servicing Management Default Underwriter™ (SMDU™) tool. The servicer must first achieve contact with the borrower, and depending on the workout method and level of delinquency, a Borrower Response Package that documents income and hardship may be required to properly evaluate the borrower's situation. If the hardship is determined to be temporary, a reinstatement or a repayment plan may be the most appropriate course of action. If the borrower is facing a more permanent hardship, the servicer will evaluate the borrower for a loan modification. The last options in the workout hierarchy are a short sale and deed-in-lieu of foreclosure. **Exhibit 1** describes the various workout method and how those workout methods appear in CRT disclosures.

Exhibit 1: Loan Workout Methods in CRT Reporting

Workout Method	Description	Forbearance Indicator[1]	Current Loan Delinquency Status[2]	Modification Flag[3]
Reinstatement	After a borrower's temporary hardship has ended, they may repay the amount of forborne principal. A reinstatement generally occurs when the borrower pays the full forborne balance in one payment. In the period of reinstatement, the scheduled principal amount due will be in the amount of forborne principal (plus any regularly scheduled payment due).	Not reported as being in forbearance in CRT monthly reporting.	Loan reported as current in the period after the reinstatement occurs in full.	Not reported as modified in CRT monthly reporting.
Repayment Plan	The servicer may implement a repayment plan in which the borrower will make payments of up to 150 percent of their prior scheduled mortgage payment until the forborne balance is completely repaid. This workout method is generally appropriate for borrowers that have experienced a temporary hardship. The repayments will appear as elevated scheduled principal amounts.	Not reported as being in forbearance in CRT monthly reporting.	Loan continues to appear as delinquent until the full forborne balance is repaid. As the borrower makes up delinquent payments, the number of months in delinquency will decline.	Not reported as modified in CRT monthly reporting.
Loan Modification	Loan modifications result in a change to the terms of the mortgage note. Before a modification becomes permanent, a borrower must make trial payments to ensure that they can sustain the new loan terms. After three to four consecutive payments, a trial modification is converted into a permanent modification. If a borrower fails the trial modification, the loan will generally not return to forbearance. This is generally a sign that the borrower's hardship is not temporary, and the loan will continue through either a pre-foreclosure sale or through the foreclosure process.	Neither trial nor permanent modifications are reported as being in forbearance in CRT monthly reporting.	During the trial period, a loan will continue to roll into deeper delinquency even though the borrower is making payments since the payments do not conform to the terms of the original mortgage. Once a modification becomes permanent, the borrower's delinquency status is reset, and the loan is marked as current.	During the trial period, a loan is not reported as modified in CRT monthly reporting. A loan is only reported as modified when a permanent modification is finalized.
Short Sale/Deed-in-Lieu of Foreclosure	A pre-foreclosure sale (short sale) is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed. In the case of a deed-in-lieu of foreclosure, the deed to the real property is transferred back to the servicer. Ownership will then transfer to Fannie Mae and the property managed as Real Estate Owned (REO).	Not reported as being in forbearance in CRT monthly reporting.	The loan will continue to become more delinquent until the sale of the property, at which point the Zero Balance Code will be populated with code 03 for a short sale or 09 for a deed-in-lieu.	Not reported as modified in CRT monthly reporting.

[1] Forbearance Indicator after the stated loan workout method has gone into effect.
[2] Current Loan Delinquency Status after the stated loan workout method has gone into effect.
[3] Modification Flag after the stated loan workout method has gone into effect.

Taking Stock of Loan Performance in Hurricane-Affected Regions

With a year of performance history since the 2017 hurricanes, the market has started to take stock of loan outcomes in the affected regions. At the time of the storms, approximately 8.2 percent of the unpaid principal balance (UPB) referenced by the CAS and CIRT programs was located in a county that was affected by Hurricanes Harvey, Irma, and Maria[4]. Of the UPB in hurricane-affected regions that was current as of the August 2017 activity period, approximately 4.2 percent became 60 days or more delinquent between the September 2017 and December 2017 activity periods. After peaking in the November 2017 activity date, delinquencies in hurricane-affected regions declined as a result of borrowers self-curing, as well as the loss mitigation strategies discussed above. As of the July 2018 activity period, just 1.2 percent of the UPB in hurricane-affected regions is 60 days or more delinquent, compared to a 60-day+ delinquency rate of 35 basis points overall.

Exhibit 2 below illustrates the borrower relief and workout methods employed for this population of loans, as reported in monthly remittance data.

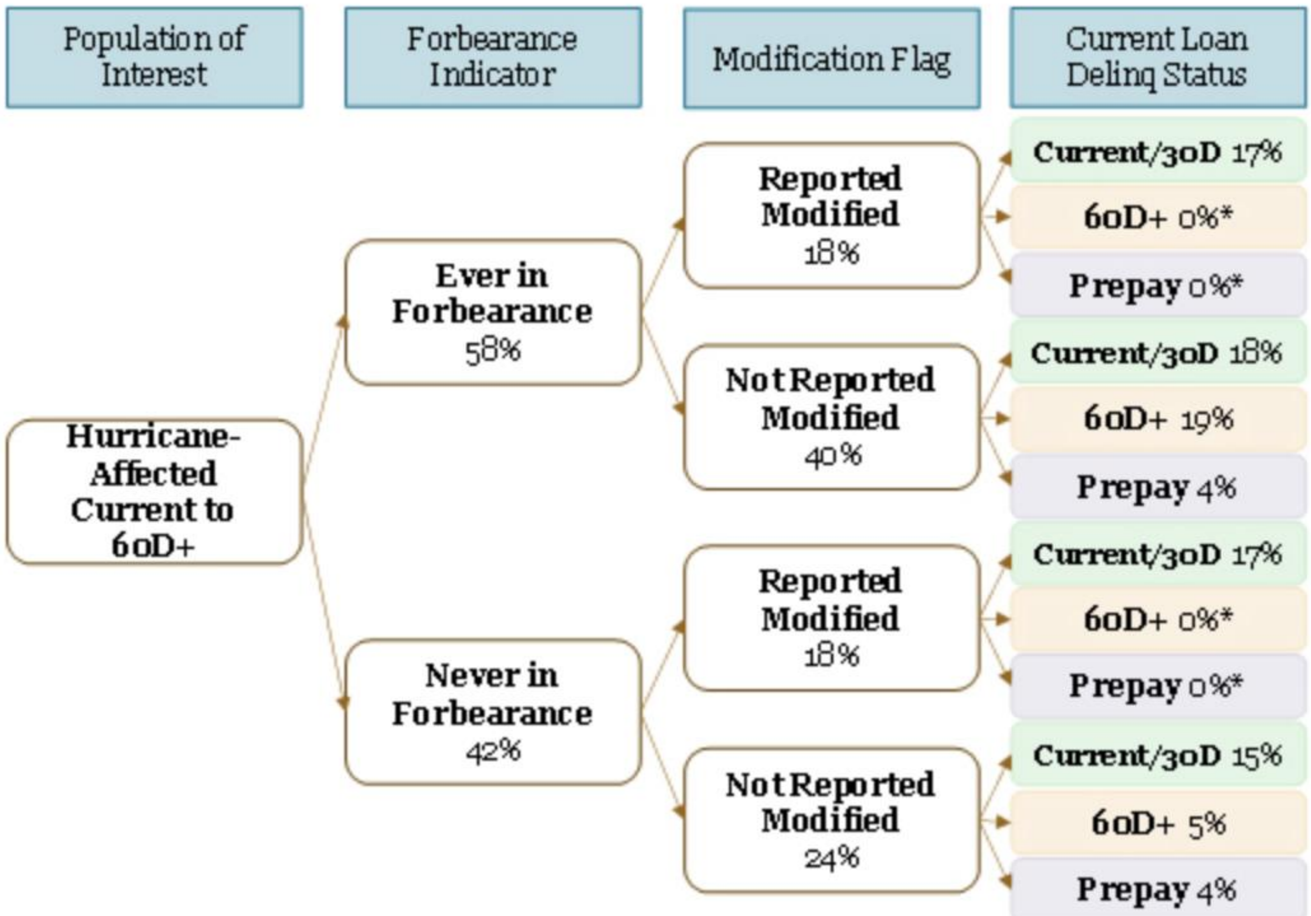
Forbearance Indicator: Analyzing the monthly reporting files, we found that 58 percent of the UPB that became delinquent in hurricane-affected regions was marked as being in payment forbearance sometime between September 2017 and July 2018, the most recent activity period for which data is available publicly. Of those borrowers, the average time in forbearance was 4 months. Forbearances started to ramp up as of the December 2017 activity date and peaked as of the March 2018 activity date.

Modification Flag: Approximately 36 percent of loans in hurricane-affected regions that became delinquent is now reported as modified. Half of this population was modified after being reported as being in forbearance, while the other half was never reported as being in forbearance. For loans that were in forbearance and are now modified, the median number of months between the time that a loan is no longer reported as being in forbearance to the time that a loan is reported as being modified is approximately 5 months, although shorter intervals may be observed. During this time, the borrower may be in trial period and/or there may be a lag in reporting.

Current Loan Delinquency Status: Less than 2 percent of loans that are reported as modified is 60-days+ delinquent as of the most recent activity period, July 2018. However, it is too soon to draw conclusions about modification success rates given that many of these modifications were finalized in recent months. The performance of loans not reported as modified is mixed. More than half of these loans are either current or have prepaid. Based on the reporting practices discussed in this commentary, the loans that remain 60 days or more delinquent may be in the process of reinstatement/repayment, may be in the trial modification period, may have converted to a permanent modification that has not yet been reported, may have failed the trial modification, may be in the process of a short sale/deed-in-lieu of foreclosure, or may be still be in forbearance.

[4] For purposes of this analysis, we define hurricane-affected loans as those located in counties designated by FEMA for Individual Assistance.

Exhibit 2: Loan Performance in Hurricane-Affected Regions



*Note: This analysis isolates loans in hurricane-affected regions that were current in August 2017 and became at least 60 days delinquent between September 2017 and December 2017. It tracks their subsequent performance through the July 2018 activity date. Numbers may not sum due to rounding. Numbers with an * are non-zero but less than 0.5 percent.*

The data disclosed in this commentary is based on information reported to us by sellers and servicers. We cannot guarantee that all such information is free from error. In addition, servicers may not always follow the best practices discussed in this commentary. We recommend that investors use their best judgment when analyzing the data.

Conclusion

Fannie Mae stands with those affected by disasters as they work to recover and rebuild their communities, and is focused on providing support and assistance during such times of crisis. We also honor our commitment to our investor partners by providing transparency into loan performance. Please reach out to the Fannie Mae Investor Help Line at 1-800-232-6643 or by e-mail with feedback or questions.

Additional Resources

- Fannie Mae's Disaster Relief webpage
- Fannie Mae's Credit Risk Transfer programs
- Sign up for news and commentary or Data Dynamics