

Lender Letter (LL-2020-03)

Mar. 23, 2020

To: All Fannie Mae Single-Family Sellers Impact of COVID-19 on Originations

We are actively monitoring the spread of COVID-19 (coronavirus) in the United States and understand there are concerns about its potential impact on borrowers, businesses, and loan originations. Our ability to continue to serve our customers is a top priority.

The purpose of this Lender Letter is to address a number of questions and concerns that industry partners have raised to us. We are working closely with Freddie Mac under the guidance of FHFA to offer temporary measures to help ensure lenders have the clarity and flexibility to continue to lend in a prudent and responsible manner.

We are releasing information to our customers as quickly as possible and will update and republish this Lender Letter as new guidance becomes available. We also published [LL-2020-02](#), *Impact of COVID-19 on Servicing*, and [LL-2020-04](#), *Impact of COVID-19 on Appraisals*.

This Lender Letter provides information about the following:

- [Verbal verification of employment](#): Offering flexibilities related to the lender's process for obtaining the verbal verification of employment.
- [Continuity of income](#): Reminding lenders of the importance of ensuring sustainable homeownership for borrowers in light of recent events.
- [Submission of financial statements and reports](#): Extending the deadline for submission of financial statements and Form 582 to Apr. 30, 2020.
- [Notes, electronic records, and signatures](#): Reminding lenders of our existing policies regarding possession of the original promissory note before loan purchase, and electronic signature requirements.
- [Title insurance](#): Reminding lenders we accept lender's policies of title insurance written on the 2006 ALTA loan title insurance form or a local equivalent, which includes "gap coverage."
- [Business continuity plans](#): Reminding sellers and servicers to have and to follow their own business continuity and resiliency plans.

Effective: These temporary flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before May 17, 2020. Note that the *Selling Guide* and DU messages will not be updated to reflect these temporary policies.

Verbal verification of employment

Many lenders are reporting difficulty in obtaining the verbal verification of employment (VOE) due to disruption to operations of the borrower's employer. We expect lenders to attempt to obtain the verbal VOE in accordance with our existing requirements guidance. However, we will allow the following flexibilities:

- **Written VOE:** The *Selling Guide* permits the lender to obtain a written VOE confirming the borrower's current employment status within the same timeframe as the verbal VOE requirements. An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment



status may be used in lieu of a verbal VOE. In addition, the lender may obtain the VOE after loan closing, up to the time of loan delivery (though we strongly encourage getting the verbal VOE before the note date).

- **Paystub:** The lender may obtain a year-to-date paystub from the pay period that immediately precedes the note date.
- **Bank statements:** The lender can provide bank statements (or other alternative documentation as permitted by *Selling Guide* [B3-4.2-01](#)) evidencing the payroll deposit from the pay period that immediately precedes the note date.

NOTE: *If employment has been validated by the Desktop Underwriter® (DU®) validation service, the validation will remain eligible for representation and warranty relief on employment provided the lender complies with the “close by” date in the DU message. Otherwise, the guidance provided above applies.*

Continuity of income

Given the current economic climate associated with COVID-19 and its impact on employment and income, we recommend that lenders practice additional due diligence to ensure the most recent information is obtained. Lenders are strongly encouraged to help ensure any disruption to borrowers’ employment (or self-employment) and/or income due to COVID-19 is not expected to negatively impact their ability to repay the loan. During these uncertain times, it is our goal to partner with you to help ensure sustainable homeownership for the borrower.

As an example of additional due diligence for a self-employed borrower, lenders are encouraged to attempt to verify that the borrower’s business is operational closer to the note date rather than rely on our current *Guide* requirements (e.g., within 15 days instead of 120 days).

Submission of financial statements and reports

Per *Selling Guide* [A4-2-01](#), sellers/servicers must submit financial statements and the *Lender Record Information* (Form 582) within 90 days after the end of their fiscal year. While we encourage submission of this information in a timely manner and by the Mar. 31, 2020 deadline (for those with a Dec. 31 fiscal-year end), we are extending the due date to Apr. 30, 2020.

Notes, electronic records, and signatures

As a reminder, unless originated as an electronic note in accordance with *Selling Guide* [A2-5.1-03](#), we require that the original promissory note be in the possession of the document custodian when it certifies the loan for our purchase. See *Selling Guide* [A3-3-05](#) and [E-2-01](#); and the *Requirements for Document Custodians*, Sections 2.2 and 8.1 for additional detail. We require the original note to be in the possession of the document custodian before purchase of the loan to minimize transit risk and to protect our legal rights in the loan under applicable law.

In addition, the *Selling Guide* [A2-5.1-03](#) describes all of our other policies related to electronic records, signatures, and notarizations. Note that electronic signatures are permitted under the terms of the *Selling Guide* but promissory notes may not be signed electronically unless the promissory note is an electronic note sold in accordance with A2-5.1-03. Lenders that are approved to deliver eMortgages may refer to the [Guide to Delivering eMortgages to Fannie Mae](#) for additional information.

Title insurance

We understand that recording offices are closed in certain areas due to public health directives associated with COVID-19 and that such closures present challenges for lenders in complying with title requirements in *Selling Guide* Chapter B7-2. We are working to address these challenges, but in the meantime, we want to remind lenders that we accept lender’s policies of title insurance written on the 2006 ALTA loan title insurance form or a local equivalent. Covered Risk 14 in the 2006 ALTA form includes “gap



coverage” for matters arising between the loan closing date and the mortgage recording date. We will accept this as long as there is no exception for this coverage under Schedule B of the policy.

Business continuity plans

Consistent with the requirements in Business Continuity and Disaster Recovery in *Selling Guide A4-1-01*, we expect sellers and servicers to follow their own business continuity and resiliency plans. The plans must ensure the ability to regain critical business operations in the event of a disruption or disaster.

In addition, we have been in communication with the document custodians and have verified their business continuity plans are in place. Fannie Mae and impacted customers will be notified if changes to business operations at a document custodian become necessary.

As the situation evolves, we want to reassure you that, as we undertake our own corporate precautionary measures, we are open for business and continue to fulfill our mission. We have business continuity plans in place to make sure you continue to receive the service and support you need during these extraordinary times. For additional information, refer to our [website](#).

Refer to the [Frequently Asked Questions](#) on our website for additional information.
Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter.