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*Announcement 06-18*

*October 4, 2006*

*Amends these Guides: Servicing*

### *Conventional Mortgage Modifications*

This Announcement describes an additional option now available to servicers for modifying delinquent adjustable-rate conventional mortgages and introduces new and enhanced forms for documenting modifications of both adjustable-rate and fixed-rate conventional mortgages.

In order to avoid foreclosures of delinquent mortgages, we allow servicers to modify the terms of delinquent conventional mortgages with our prior approval and that of the mortgage insurer, if any. Currently, servicers may recommend to us modifications that extend the term of the mortgage, provide for reamortization of the outstanding debt, change adjustable-rate mortgages to fixed-rate mortgages (using the current market interest rate for the remaining term of the mortgage), capitalize delinquent interest and escrow items or advances (and costs, if allowed by state law), and/or reduce the existing interest rate to the current market rate or to a below-market interest rate. We do not, however, expect a servicer to recommend a mortgage modification to us unless the servicer has concluded, after appropriate investigation and analysis, that the modification will result in bringing the mortgage current and keeping it that way.

Servicers are reminded that while a mortgage is in an MBS pool they must not agree to any modification that would affect the mortgage term, interest rate, unpaid principal balance, or other major characteristic of the mortgage. An MBS pool mortgage can be modified if it has been removed from the MBS pool because it has four or more payments past due.

[Servicing Guide Part VII: Delinquent Mortgages; Chapter 5, Loss Mitigation Alternatives; Section 502.02: Modifying Conventional Mortgages](#)

We have recently enhanced the *Home Saver Solutions Network* to facilitate modifications of adjustable-rate mortgages that provide for the modified mortgages to remain adjustable-rate

mortgages, as opposed to changing to fixed-rate mortgages. We do not modify fixed-rate mortgages to adjustable-rate mortgages. Effective immediately, servicers may recommend to us modifications of adjustable-rate mortgages that capitalize delinquent amounts and/or extend the term of the mortgage and that provide for the mortgages to remain adjustable-rate mortgages with the same pre-modification adjustable-rate features, such as the index, change dates and limits on interest rate change, as are provided in the original mortgage documents. This enhancement will give servicers additional flexibility in tailoring mortgage modifications to help borrowers cure delinquencies. To facilitate the documentation of modifications of adjustable-rate mortgages that provide for the mortgages to retain their adjustable-rate features, we have created the *Loan Modification Agreement (Adjustable Interest Rate)* Form 3161.

We also permit servicers to recommend to us mortgage modifications that either (a) temporarily reduce the interest rates of fixed-rate mortgages, in which the reduced interest rate increases in a series of steps to a fixed, current market interest rate; or (b) increase the interest rate of adjustable-rate mortgages in a series of steps to a fixed, current market interest rate. To facilitate the documentation of such modifications, we have created the *Loan Modification Agreement (Step Interest Rate)* Form 3162.

Finally, we have enhanced our existing *Loan Modification Agreement (Fixed Interest Rate)* Form 3179, which can be used to modify either a fixed-rate mortgage or an adjustable-rate mortgage that the borrower has agreed to change to a fixed-rate mortgage. In early October 2006, the new Forms 3161 and 3162 and the enhanced Form 3179 will be available for download from our Web site at [www.efanniemae.com](http://www.efanniemae.com).

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Servicers should contact their Servicing Consultant, Portfolio Manager, or our National Servicing Organization's Customer Care Center at 1-888-326-6438 if they have any questions about this Announcement.

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