



Lender Letter (LL-2020-03)

Updated Mar. 31, 2020

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](#); [LL-2020-04, Impact of COVID-19 on Appraisals](#); and [Frequently Asked Questions](#).

Additions to Lender Letter on Mar. 31, 2020

- [Age of documentation](#): modifying our age of document requirements from four months to two months for most income and asset documentation.
- [Verification of self-employment](#): requiring lenders to confirm the borrower's business is open and operating within 10 business days of the note date
- [Market-based assets](#): updating policies for use of stocks, stock options, and mutual funds for down payment, closing cost costs, and reserves
- [Powers of attorney](#): providing flexibilities for use of a power of attorney
- [Remote online notarization](#): providing expansion of the use of remote online notarization
- [Lender quality control requirements](#): allowing post-closing reverifications to occur verbally or electronically, and other flexibility related to the field review of appraisals

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- [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: See each section below for the applicable effective date. Note that the *Selling Guide* and Desktop Underwriter® (DU®) messages will not be updated to reflect these temporary policies.



Age of documentation

Effective: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor's database be no more than 60 days old as of the note date.
- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the *Selling Guide*.
- Due to the federal income tax filing extension granted through Jul. 15, 2020, we are eliminating the following documentation requirements. These normally apply for income types that require copies of federal income tax returns when the mortgage has an application or disbursement date between Apr. 15th and Jul. 15th:
 - a copy of the IRS Form 4868 (*Application for Automatic Extension of Time to File U.S. Individual Tax Return*), and
 - IRS Form 4506-T (*Request for Transcript of Tax Return*) transcript confirming "No Transcript Available" for the 2019 tax year.

All other requirements contained in [B1-1-03](#), Allowable Age of Credit Documents and Federal Income Tax Returns, continue to apply.

Conversion of construction-to-permanent financing – single-closing transactions

The *Selling Guide* currently allows certain single-closing construction-to-permanent transactions with credit documents dated more than 4 months but no more than 18 months at the time of conversion to permanent financing when certain conditions are met. (See [B5-3.1-02](#), Conversion of Construction-to-Permanent Financing: Single-Closing Transactions). Among those conditions is a requirement that the credit documents are dated within 120 days of the original closing.

Consistent with the age of credit documentation requirements in this Lender Letter, this requirement is being updated to reflect that the income and asset documentation must be dated within 60 days of the original closing. All other conditions related to the age of credit documents contained in [B5-3.1-02](#) continue to apply.

Verification of self-employment

Effective: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

When a borrower is using self-employment income to qualify, the lender must verify the existence of the borrower's business within 120 calendar days prior to the note date. Due to latency in system updates or recertifications using annual licenses, certifications, or government systems of record, lenders must take additional steps to confirm that the borrower's business is open and operating. The lender must confirm this within 10 business days of the note date (or after closing but prior to delivery).

Below are examples of methods the lender may use to confirm the borrower's business is currently operating:



- evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- evidence of current business receipts within 10 days of the note date (payment for services performed);
- lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

See [B3-3.1-07](#), Verbal Verification of Employment for our existing requirements.

Market-based assets

Effective: Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

Stocks, Stock Options, and Mutual Funds

In light of current market volatility, we are making the following updates when the borrower is using stocks, stock options, or mutual funds for assets:

- When used for down payment or closing costs, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented in all cases.
- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

See [B3-4.3-01](#), Stocks, Stock Options, Bonds and Mutual Funds for our existing requirements.

Powers of attorney

Effective: Unless otherwise noted in this section below, these flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before May 17, 2020.

Selling Guide, [B8-5-05](#), Requirements for Use of a Power of Attorney, contains our requirements for powers of attorney. For loans with application dates on or before May 17, 2020, the following additional requirements for using a power of attorney apply:

- All powers of attorney must include the address of the mortgaged property.
- The existing *Selling Guide* conditions allowing persons "connected to the transaction" to serve as an attorney-in-fact or agent in refinance transactions will also now apply to purchase transactions as well as limited cash-out refinances. This includes all the related current requirements applicable to limited cash-out refinance transactions involving these persons in the *Selling Guide* (that is, excluding lender employees, limiting by loan amount and property location, requiring a recorded Internet session after the borrower has received proposed loan documents, and mandating retention of the recording).
- Unless a recorded Internet session described in the paragraph above is required, a power of attorney may only be used in a purchase transaction with a note date on or after Apr. 7, 2020, if, after the Closing Disclosure or other closing statement, as applicable, has been delivered to the borrower before closing, an employee of the lender or settlement agent explains the terms of the loan to the borrower(s) to confirm that each borrower understands them. This discussion must take place in person, telephonically, or using a video conference system, and must be memorialized by an acknowledgment by the borrowers of his or her understanding of the terms of the loan. The acknowledgment may be in writing or in a recording of the telephonic or video discussion.



- Notwithstanding anything to the contrary in the *Selling Guide* or this Lender Letter, for purchase transactions the attorney-in-fact or agent may not be the property seller, any relative of the property seller, or any direct or indirect employee or agent of the property seller, unless in any such instance such person is also a relative of the borrower.
- Whenever an attorney-in-fact or agent is an employee of the insuring title insurer or is an employee of the policy-issuing agent of the insuring title insurer, such title insurer must have issued a closing protection letter (or similar contractual protection) for the transaction for such policy issuing agent.
- Whenever a power of attorney is used at closing, whether authorized under the *Selling Guide* or under the standards in this Lender Letter, the provisions of [B1-1-01](#), Application Package Documentation requiring the borrower's personal signature of the initial Form 1003 continue to apply if the initial Form 1003 can be signed personally (including through the United States Postal Service or commercial delivery service), or signed electronically as permitted by the *Selling Guide*. If the initial Form 1003 cannot be timely signed by the borrower in these ways, then it must be signed by the holder of such power of attorney.
- Provided the power of attorney is not required to be notarized under applicable law (for example, the law governing the creation of the power of attorney, or the law of the location of the mortgaged property), the power of attorney is not required to be notarized if the transaction is a limited cash-out refinance unless
 - the attorney-in-fact or agent named in the power of attorney is employed by, or otherwise represents or is affiliated with, the title insurance company that will issue the lender's title insurance policy, and
 - such title insurance company is affiliated with the lender.
- If a power of attorney is required to be notarized, it may be remotely notarized in accordance with [A2-5.1-03](#), Electronic Records, Signatures, and Transactions (as revised by this Lender Letter) with the additional flexibility that it may be remotely notarized in all jurisdictions, even if not expressly permitted by the Guide, as long as the power of attorney is not required to be recorded. If the power of attorney is required to be recorded, it may be remotely notarized only in the jurisdictions permitted by A2-5.1-03 (as revised by the table below).
- The limitations in [B8-5-05](#) requiring at least one borrower signature of the note and security instrument are suspended.
- Under the [Guide to Delivering eMortgages to Fannie Mae](#), powers of attorney are not permitted to be used in connection with loans with electronic notes ("eNotes"). Fannie Mae is revising the eMortgage Guide effective Apr. 20, 2020 to permit eNotes to be delivered in transactions in which a printed or electronic power of attorney is used on the same conditions as those applying to paper notes, except that the power of attorney must accompany the eNote through MERS® eDelivery. In anticipation of the change in the eMortgage Guide, lenders that are authorized to deliver eNotes may begin permitting the use of powers of attorney consistent with [B8-5-05](#) and this Lender Letter immediately, provided that the eNote and related power of attorney may not be delivered to Fannie Mae through MERS eDelivery or submitted to Loan Delivery until after Apr. 20, 2020.

The following existing policies remain in effect for loans using powers of attorney authorized by the *Selling Guide* as revised by this Lender Letter:

- Lenders may not deliver loans to us that have unacceptable title impediments. Accordingly, the lender must confirm that the title insurance policy does not take exception to the power of attorney, its manner of creation, the effectiveness of its notarization (if any) or to its use in relation to the transaction in accordance with [B7-2-05](#), Title Exceptions and Impediments.
- Lenders must comply with all federal, state and local laws in accordance with [A3-2-01](#), Compliance with Laws. In addition, for Texas Section 50(a)(6) loans, lenders may only use a power of attorney to execute the note or security instrument if the power of attorney is signed at a location at which a Texas Section 50(a)(6) loan may be closed and in conformity with applicable requirements.
- The current and revised provisions of [B8-5-05](#) are always subject to the lender's determination that applicable law requires the acceptance of a power of attorney in particular circumstances. This remains in place, as does the requirement that the lender document its determination in the loan file.



Remote online notarization

Effective: These policies for remote online notarization are effective immediately for all loans and are intended to remain in effect until further notice (that is, these are not temporary flexibilities). We will incorporate these policies into the *Selling Guide* in a future update.

Due to disruption related to COVID-19, many lenders are reporting difficulty in obtaining in person notarizations and have requested increased flexibility to obtain remote notarizations (RON) to be used with eMortgage transactions as well as ink-signed transactions. *Selling Guide*, [A2-5.1-03](#), Electronic Records, Signatures, and Transactions describes our current policies with respect to using RON and with this Lender Letter will allow the following flexibilities.

Lenders may sell loans with remotely notarized loan documents in the states listed in the table below, on the following terms and conditions:

- The notarization is performed in accordance with and is legally valid under the laws and regulations of the state in which the notarization is performed, at the time it was performed, and in compliance with the Uniform Electronic Transactions Act, as adopted in such state, and the Electronic Signatures in Global and National Commerce Act.
- The notary public is licensed and physically located in the state where the notarial act occurred and, where required by law or regulation, is specifically licensed to perform a remote online notarization.
- The loan is delivered with Special Feature Code 861 if the remotely notarized document is a security instrument or amendment to the security instrument.
- The loan is not a Texas Section 50(a)(6) loan.
- The system used for the remote notarization must meet the following minimum standards:
 - at least two-factor identity authentication, including using a government-issued photo ID that has a signature, credential analysis and identity-proofing;
 - tamper-sealed notarized documents and system security sufficient to (A) prevent interference with the authenticity, integrity and security of the notarial ceremony or corruption or loss of the recording of the same, and (B) protect the communication technology, electronic record and backup record from unauthorized use;
 - the remote online notary must keep a secure electronic journal of the notarial act including evidence of identity of the principal (a video and audio conference can be the basis for satisfactory evidence of identification) and maintain a backup of the electronic record; and
 - recording of the notarial ceremony with storage for the minimum period required by applicable laws or if no period is specified in the applicable law, for seven years.
- The lender must maintain the recording of the notarial ceremony for the life of the loan.
- If the loan document is required to be recorded, then the county recorder in the state and county where the property is located must accept the remotely notarized document for recording.
- The lender makes all selling representations and warranties per the *Selling Guide*, including representations and warranties related to:
 - clear title and first lien enforceability;
 - compliance with laws and responsible lending practices; and
 - requirements regarding title insurance, including those in [B7-2-04](#), Special Title Insurance Coverage Considerations. If the notarized document is a security instrument or an amendment to a security instrument, the remote notarization must comply with the title requirements in [B7-2-04](#) and the title insurance company may not take any exception for the remotely notarized loan.
- Lenders may not require a borrower to use remote notarization and must have other notary options for borrowers available.



LIST OF STATES					
Alabama	Florida	Louisiana	Nebraska	North Dakota	Tennessee
Alaska	Idaho	Maryland	Nevada	Ohio	Texas
Arizona	Illinois	Massachusetts	New Hampshire	Oklahoma	Utah
Colorado	Indiana	Michigan	New Jersey	Oregon	Vermont
Connecticut	Iowa	Minnesota	New Mexico	Pennsylvania	Virginia
Delaware	Kansas	Missouri	New York	South Carolina	Washington
District of Columbia	Kentucky	Montana	North Carolina	South Dakota	Wisconsin
					Wyoming

If, after the publishing of this Lender Letter, a state not included in the above table expressly adopts a law that expressly permit the use of remote notarization or expressly accepts (either through state law or through the application of an express federal law) remote notarizations performed out-of-state in accordance with the laws of the state in which the notarial act is performed, remotely notarized loan documents meeting the requirements above will be permitted.

Lender quality control requirements

Effective: These temporary flexibilities are effective immediately for all loans in the process of a post-closing quality control (QC) review and all loans selected for a post-closing QC review until June 2020 QC selections.

QC processes are designed to inform organizations of the level of quality risk they are incurring, and are extremely important, especially during times of significant stress. We recognize the unique challenges in the market today related to COVID-19 and will allow temporary post-closing flexibilities related to reverifications and appraisal field reviews.

NOTE: *Recognizing the unprecedented amount of stress in the market from COVID19 disruptions and significant volume pressure, we encourage lenders to only adopt the QC flexibilities they feel are necessary.*

Reverifications

Any income, employment, and asset reverifications (required by [D1-3-02](#), Lender Post-Closing Quality Control Review of Approval Conditions, Underwriting Decisions, and Documentation) that are typically mailed can be completed verbally or electronically. If a verbal or electronic reverification cannot be completed, the lender can complete the file review without the reverification. However, to take advantage of this flexibility, the lender must:

- internally track all loans that did not have a successful reverification attempt during this time, and
- conduct a special discretionary sample of such mortgages and perform the required reverifications on the sample population upon the expiration of these flexibilities.

As reminders:

- The reporting requirements of [D1-3-06](#), Lender Post-Closing Quality Control Reporting, Record Retention, and Audit, continue to apply with respect to this special discretionary sample(s).
- Lenders are not required to perform post-closing QC reverifications if the loan has employment, income, and/or assets that have been fully validated through the DU validation service and the lender has complied with all DU messages.

Field review of appraisals

In lieu of obtaining field reviews on 10% of its random sample (as required by [D1-3-04](#), Lender Post-Closing Quality Control Review of Appraisers and Appraisals) a lender may leverage Collateral Underwriter® and other third-party tools for this 10% sample.



- If the reviewer reaches a different opinion regarding the value of the property through this process, then if possible, the lender may obtain a field review to determine whether the property value can be supported. If a field review of the property is not possible then follow self-report procedures in [D1-3-06](#), Lender Post-Closing Quality Control Reporting, Record Retention, and Audit.
- As a reminder, a desk review by the lender's QC staff is still required on the remaining 90% sample.

Prefunding QC reviews

Our prefunding review requirements in [D1-2-01](#), Lender Prefunding Quality Control Review Process, already provide a great deal of flexibility to lenders regarding both sample size and scope of review (full file or component review). We do not dictate a certain review percentage but leave that to each lender based on its unique quality situation. In addition, reverifications are not required in the prefunding space. Accordingly, we are not changing any prefunding QC requirements at this time.

The following content was published Mar. 23, 2020.

Verbal verification of employment

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.

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 [B3-4.2-01](#), Verification of Deposits and Assets) 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 [A4-2-01](#), Financial Statements and Reports, 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 [A2-5.1-03](#), Electronic Records, Signatures, and Transactions, we require that the original promissory note be in the possession of the document custodian when it certifies the loan for our purchase. See [A3-3-05](#), Custody of Mortgage Documents and [E-2-01](#), Required Custodial Documents; 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, [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 [A4-1-01](#), Maintaining Seller/Servicer Eligibility, 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](#).

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter.