Editor’s Note: Most states reject the servicer as a party with legal standing to foreclose and collect on the note through Judgment. This is especially important in the securitization process where the payments are supplemented or even replaced by third parties including insurance entities and agreements like credit default swaps. While not all loans involve FNMA or Freddie Mac these rules are persuasive as to proper procedure.

Foreword

The Servicing Guide is one of the two primary guides—Selling and Servicing—that we publish to keep lenders informed of our policies and procedural requirements related to mortgages secured by one-family to four-family properties. We update these Guides periodically, and announce important policy or procedural changes as they occur by issuing Announcements. In addition, we occasionally release letters to lenders to provide special instructions that recognize geographical differences in legal requirements or market conditions or to address the need for interim operating procedures. If any of these instructions become of national significance, we will include them in the next Guide Update. Announcements and letters supplement the Guide(s) when they are issued; therefore, they should be retained until they are merged into the applicable Guide. When using these Guides, it is important to remember to consult any Announcements or letters to lenders that have been issued since the last Guide Update.

Currently, Fannie Mae transmits communications (Guides, Announcements, and letters) to lenders by (1) posting them or making them available through eFannieMae.com (an official corporate Web site of Fannie Mae), and (2) mailing printed copies to lenders that have subscribed to the print service for a fee. We also post or make available official Fannie Mae forms through eFannieMae.com. We no longer maintain in print or online an official Fannie Mae Forms Guide. Further,

Fannie Mae has given an exclusive license to Mortgage Resource Center, Inc. (“MRC”) to be its sole official electronic publisher of the Guides, Announcements, and letters to lenders and, pursuant to that license, MRC posts many of these lender communications on its AllRegs® Web site. AllRegs can be accessed either through eFannieMae.com or directly by subscription with MRC. Fannie Mae makes no representation or warranty regarding the availability, features or functionality of the AllRegs Web site.

Neither Fannie Mae nor MRC assumes any liability for any loss, damage, or cost that a lender (or any other party) may incur because of inconsistencies in Fannie Mae’s material made available by these alternative means. In the event of such inconsistencies, (1) lenders that have not subscribed to receive these lender communications by mail must comply with the Fannie Mae requirements as posted on eFannieMae.com and/or AllRegs (whether accessed through eFannieMae.com or directly), and (2) lenders that have subscribed to receive these lender communications by mail may comply with the Fannie Mae requirements as posted, or as most recently
received by mail. Further, all lenders also must comply with our requirements as they are made uniform after any such inconsistencies are resolved.

Finally, in addition to or in lieu of eFannieMae.com, Fannie Mae may utilize in the manner described above any other official Fannie Mae Web site that may exist from time to time (e.g., FannieMae.com).

This Guide provides information about how to become an approved Fannie Mae lender and about normal and routine servicing matters. If the servicer feels that a particular situation is not covered or that the procedures may not apply because of certain circumstances, it should contact its lead Fannie Mae regional office. On occasion, the servicer may need to contact other groups within Fannie Mae—such as the National Property Disposition Center, the Document Delivery Facility, etc. When that is the case, we so specify. Otherwise, the servicer's principal contact should always be its lead Fannie Mae regional office.

Conceptual Organization (09/30/05)

Conceptually, this Guide covers our standard requirements for servicing all Fannie Mae-owned or Fannie Mae-securitized one-family to four-family mortgages. For current information about any specific forms a servicer needs to use in fulfilling these requirements, see eFannieMae.com under "Forms and Documents." In developing the guide, we considered the various interrelationships that have an effect on how a particular requirement should be interpreted or on how a specific procedure should be implemented, recognizing that the interrelationships do not always conform to hard and fast rules.

To assist servicers in understanding these interrelationships, we have grouped mortgages serviced for Fannie Mae into six categories. A particular requirement may relate to mortgages in all six categories, to mortgages in a specific category, or to mortgages that fall into a subcategory within a given category. Throughout the Guide, we have tried to be as specific as possible in stating which mortgages or categories of mortgages are affected by a particular requirement. Additional information about this approach is described below.

Delivery Method: When a lender enters into a transaction to sell mortgages to us to hold in our portfolio (or to later include in MBS pools we form), we remit cash proceeds to the lender as the purchase price for the mortgages in accordance with the provisions of this Guide that are applicable to "portfolio" mortgages. When the lender enters into a transaction to sell mortgages to us that we convey to an MBS trust under the terms of our MBS program, we deliver to the lender (or its designee) mortgage pass-through certificates representing interests in the mortgages as the purchase price for the mortgages in accordance with the provisions of this Guide that are applicable to "MBS pool mortgages." In order to distinguish sales of mortgages that at least initially will be held in our portfolio from sales of mortgages for inclusion in MBS pools, from
time to time and throughout this Guide, we refer to mortgages delivered for "purchase" (in the case of mortgages purchased for cash for our portfolio) and mortgages delivered for "securitization" (in the case of mortgages purchased for MBS for inclusion in MBS pools). Of course, we acquire title to the mortgages in both types of transactions.

Portfolio mortgages may be FHA-insured, HUD-guaranteed, VA-guaranteed, RHS-guaranteed, and conventional whole mortgages or participation pool mortgages that are in either a first or second lien position. We do not always make the distinction between whole mortgages and participation pool mortgages when we discuss our requirements for portfolio mortgages; however, when it is important, we do so. Portfolio mortgages may be accounted for as the "actual/actual," "scheduled/actual," or "scheduled/scheduled" remittance type.

MBS pool mortgages may be FHA-insured, VA-guaranteed, RHS-guaranteed, HUD-guaranteed, and conventional mortgages that are in either a first or second lien position. Technically, they may be whole mortgages or participation interests in mortgages. However, we do not always make this distinction when we discuss our requirements for MBS pool mortgages since their inclusion in the MBS pool generally is the overriding consideration. When it is important to make this distinction, we do so. MBS pool mortgages are accounted for as the "scheduled/scheduled" remittance type, under either the regular or special servicing option.

Ownership Interest: For mortgages we hold in our portfolio, our ownership interest is either 100 percent (called a whole mortgage) or a lesser percentage (called a participation pool mortgage). We generally do not distinguish between whole mortgages and participation interests when we discuss our requirements. On occasion, we may specify that a remittance to Fannie Mae or our reimbursement for a certain expense relates to "our share," meaning our percentage ownership (applied to the amount of the remittance or expense) for participation interests in mortgages. In other instances, when we state that a requirement applies to whole mortgages or participation pool mortgages, we are addressing only those mortgages held in our portfolio, unless we indicate that we also are addressing mortgages in MBS pools.

Lien Type: We purchase both first and second lien mortgages to hold in our portfolio, as well as some unsecured FHA Title I loans. MBS pool mortgages may also be in a first or second lien position. General servicing requirements for a specific lien type apply to both portfolio mortgages and MBS pool mortgages, unless we specifically state that they apply only to mortgages held in our portfolio. In addition, if a requirement applies to all lien types, we may not specifically indicate that; however, when a requirement pertains to only one lien type, we clearly state the lien type to which it applies.

Loan Type: Portfolio mortgages and MBS pool mortgages may be any of these loan types: FHA, VA, RHS, HUD, or conventional. Generally, requirements based on loan
type apply to both portfolio mortgages and MBS pool mortgages; however, if they do not apply to a specific delivery method, we so state.

Remittance Type: MBS pool mortgages are accounted for as the "scheduled/scheduled" remittance type. Portfolio mortgages may be accounted for as an "actual/actual," "scheduled/actual," or "scheduled/scheduled" remittance type. Generally, when a requirement is based on "remittance type," the remittance type is the overriding factor. However, if it is necessary to make a distinction—as could be the case for a "scheduled/scheduled" remittance type mortgage held in our portfolio versus one in an MBS pool—we so state.

Servicing Option: MBS pool mortgages and portfolio mortgages that have the "scheduled/scheduled" remittance type may be serviced under either the regular or special servicing option (although various shared-risk servicing options are available on a negotiated basis). Generally, our requirements relate to all servicing options. However, because the servicer repurchases defaulted loans and thereby assumes the responsibility for losses under the regular servicing option, some of our requirements for servicing delinquent mortgages and all of those for handling acquired properties do not apply to regular servicing option MBS pool mortgages. If we think it is necessary to point this out to avoid confusion about a specific requirement, we do so.

Structural Organization (01/31/03)

The material in this Guide is organized into 12 Parts. Each Part is briefly summarized below; more detailed information on the contents of each Part can be found in the Table of Contents.

- The first part— Lender Relationships—describes the procedures for becoming an approved Fannie Mae lender, explains the terms of the contractual relationship, discusses the requirements that must be met on a continuing basis if the lender is to retain its eligibility for doing business with us, and addresses the ownership and retention of mortgage files and records.

- The second part— Mortgage and Property Insurance—discusses our requirements for maintaining and terminating (or canceling) mortgage insurance, hazard insurance, and flood insurance coverage for individual mortgages; the liability and fidelity insurance requirements we impose for project developments; and the procedures we expect a servicer to follow when an insurance loss occurs.

- The third part— General Servicing Functions—discusses general loan administration functions for servicing mortgages, such as collecting and applying mortgage payments, maintaining escrow deposit accounts, paying taxes and assessments, inspecting
properties, processing transfers of ownership, and taking other steps to protect our interests in connection with special servicing situations (such as liens and legal actions, property forfeitures or seizures, partial releases of security, balloon mortgage maturity, natural disasters, completion of rehabilitation or renovation work, and second mortgage coordination efforts).

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The fourth part— Special Adjustable-Rate Mortgage Functions—addresses the unique servicing functions related to changing the interest rate or monthly payment for adjustable-rate mortgages, for converting certain of these mortgages to fixed-rate mortgages, and for correcting errors in making different types of ARM adjustments.

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The fifth part— Special Reverse Mortgage Functions—discusses the servicing requirements that are specific to the Home Keeper conventional reverse mortgage and the FHA Home Equity Conversion Mortgage.

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The sixth part— Loan Removals or Reclassifications—addresses situations in which a mortgage is removed from our accounting records or an MBS pool prior to its maturity. These situations include payments-in-full by the borrower; a repurchase of the mortgage by the servicer; the reclassification of a delinquent special servicing option MBS pool mortgage to a portfolio mortgage; and the special assignment of an FHA Section 221 mortgage to HUD following the 20th anniversary of its endorsement for insurance.

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The seventh part— Delinquent Mortgages—discusses servicing functions that pertain only to delinquent mortgages, such as collection techniques, delinquency prevention efforts, special relief measures, loss mitigation alternatives, bankruptcy management procedures, loss mitigation, and reporting to us the status of delinquent mortgages.

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The eighth part— Foreclosures, Conveyances, and Claims—addresses foreclosure procedural requirements, conveyance and claim filing procedures, and the servicer’s general administrative and property management functions for acquired properties.

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The ninth part— Custodial and Remittance Accounting—addresses the servicer's responsibility for custodianship of mortgage funds and the reporting of cash collections.

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The tenth part— LASER Reporting System—discusses the submission of mortgage loan accounting reports to us; the various reports we provide the servicer to assist it in reconciling the information carried in its records to that which is in our records; special reporting requirements for the different remittance types, formulas and calculations we use; and procedures for correcting transactional errors.
The eleventh part—Shared Accounting and Reporting System—discusses the submission of loan accounting reports for conventional and FHA reverse mortgages, any special reporting requirements for these mortgages, and the reports we provide the servicer to assist in reconciling the information carried in its records to that which is in our records.

The twelfth part—Glossary and Index—defines words or phrases used throughout the Servicing Guide and provides key aids for locating information and using this Guide effectively.

III, 101.03: Payment Shortages (01/31/03)

Sometimes payments received from the borrower are less than the total amount due. The servicer should not automatically return these payments to the borrower. Instead, the servicer should base its decision to process partial payments on the amount of the shortage and on any special circumstances that might justify the lesser amount. If the servicer decides to accept the payment, any portion of it that equals one or more full installments should be applied. Any remaining portion should be held as "unapplied funds" until enough money to make a full installment is received.

The "total amount due" for a conventional mortgage includes any late charges or prepayment charges. Therefore, if a servicer chooses to do so, it may hold as "unapplied" a payment that does not include late charges (or any allowable prepayment premiums) that are due. The servicer may then use a portion of the subsequent payment to make up the shortage so that the payment can be applied. On the other hand, a servicer that does not choose to consider late charges and allowable prepayment premiums as part of the "total amount due" may return a "short" payment that excludes these charges. In either case, the borrower should be fully informed of the actions taken, the reasons for the specific action, and the total amount that he or she owes and is expected to pay.

A servicer must follow HUD or VA requirements related to the acceptance of payments for FHA, VA, or HUD mortgages that do not include late charges and the treatment of partial payments in general.

Regardless of the specific action the servicer takes when it receives a payment for less than the full amount due, it is still responsible for including the "scheduled" amount due in its next remittance to us if the mortgage is a "scheduled/actual" or "scheduled/scheduled" remittance type. If the mortgage is an "actual/actual" remittance type, the servicer is required to remit only the funds that were actually applied.

VII, Chapter 2: Delinquency Prevention (11/01/04)
We expect servicers to have policies that support delinquent borrowers’ efforts to meet their mortgage obligations so they can avoid foreclosure and remain in their homes when feasible. That means, among other things, using available tools that are appropriate under the circumstances to avoid foreclosure; being judicious in approaching loss mitigation efforts (e.g., not creating a loan modification that clearly cannot be supported by the borrower’s income); and promoting open and effective communication with borrowers, including giving borrowers reasonable opportunity to resolve legitimate disputes. Finally, as provided in Part VIII, Section 102, foreclosure proceedings generally should not be commenced until a borrower is past due on at least three full monthly installments.

The servicer must analyze each delinquent account to determine

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the reason for the default;

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whether the reason is a temporary or permanent condition; and

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the borrower's attitude toward the debt.

Borrowers who are experiencing temporary hardships may have difficulty making their mortgage payments. A servicer should make every effort to assist borrowers who are cooperative, acting in good faith, and willing to work out a way to prevent or cure their delinquency. This Chapter discusses some methods that may be used to assist borrowers. The servicer must determine which approach will be the most effective based on the individual circumstances.

The servicer of a second mortgage should contact the first mortgage servicer to determine the status of the first mortgage, any previous or ongoing collection efforts employed by that servicer, and the borrower's attitude during those collection efforts. The servicer must then take these things into consideration when deciding the approach it intends to use.

VII, 203: Using an Attorney to Collect Payments (01/31/03)

When a borrower has a history of delinquencies, the servicer may use an attorney to collect delinquent payments if at least two are past due. The servicer may not require the borrower to pay the attorney's fees, nor may it request reimbursement for such fees from us. The servicer must absorb the entire cost of using an attorney for this purpose.

Because the use of an attorney for collection purposes is at the servicer's discretion, the servicer is fully responsible for any consequences that result from its decision to collect delinquent payments in this manner.
We developed Risk Profiler, our behavioral scoring model, to help a servicer predict the likelihood of delinquency and subsequent foreclosure. Risk Profiler can develop a risk profile for a mortgage before it becomes delinquent based on an assessment of certain key elements—the borrower's mortgage payment history; other credit characteristics from the borrower's credit report (such as credit utilization, trade lines, balances, credit limits, and delinquencies); and the current value of the security property (using information from our proprietary database). Risk Profiler is managed internally by Fannie Mae. We will pay all of the costs associated with a servicer's use of Risk Profiler for its Fannie Mae-owned or Fannie Mae-securitized mortgages. Since Risk Profiler can predict the risk for each mortgage with a high degree of accuracy, it enables a servicer to focus its future collection and workout efforts on highest-risk and moderate-risk mortgages and to defer action on lowest-risk mortgages.

Whenever a borrower shows a disregard for the mortgage obligation or is unable to make the mortgage payments, the servicer of a whole mortgage or a participation pool mortgage that we hold in our portfolio, or of an MBS pool mortgage serviced under the special servicing option, must protect our investment by taking prudent action. The servicer should make every reasonable effort to conduct a personal face-to-face interview with the borrower and to cure the delinquency through our special relief provisions or loss mitigation alternatives before referring a loan to the foreclosure attorney or trustee. The servicer also must have inspected the property and analyzed the individual circumstances of the delinquency.

The servicer should be particularly diligent in investigating loans originated as investor properties and attempt to determine whether or not the borrower is collecting rental income from the property. If the servicer suspects the property (or any unit(s) of the property) are tenant occupied, it should take appropriate action to ascertain the actual occupancy status of the property (including detailed property inspections, conducting a skip trace, etc.). The servicer is responsible for promptly notifying its attorney (or trustee) of any change in loan status (this includes occupancy status, rental income and amounts, tenant and/or lease information, etc.).

A servicer must process foreclosures, conveyances, and claims in accordance with the provisions of the mortgage; state law; the requirements of FHA, HUD, VA, RHS, or the MI; and any special requirements that we may have. To ensure that this is done, the servicer must have an effective system for monitoring foreclosure progress. Although we do not specify a particular monitoring system,
we may review the servicer's system for adequacy on occasion. The servicer is fully responsible for any losses that occur because it mishandled the case.

To minimize a servicer’s delinquency advances for special servicing option MBS pool mortgages, we will automatically reclassify an eligible mortgage as an "actual/actual" remittance type portfolio mortgage once it becomes 90 days delinquent. After the reclassification, the servicer should follow our requirements for portfolio mortgages for all subsequent servicing actions (including conducting foreclosure proceedings). (also see Part VI, Chapter 3)

VIII, 101: Routine vs. Nonroutine Litigation (01/31/03)

A servicer generally should not initiate routine legal proceedings in our name, but in instances where it is appropriate or necessary to do so, we should be described in the legal proceedings as "Federal National Mortgage Association (Fannie Mae), a corporation organized and existing under the laws of the United States." The servicer, its legal counsel, and foreclosure attorneys or trustees should not forward papers, pleadings, and notices related to routine uncontested legal actions to us. If any routine legal proceeding becomes contested, the servicer must obtain the prior approval of regional counsel in its lead Fannie Mae regional office before it files any appeal, motion for rehearing, or similar procedure. The servicer also must notify us if the defendant in any proceeding takes any such actions. We will then provide guidance and approval of any "excess" legal fees that may be incurred. (also see Part III, Chapter 5, and Part VII, Chapter 4)

A servicer may not initiate or defend nonroutine litigation on our behalf unless it obtains prior written consent from the regional counsel in its lead Fannie Mae regional office. This will enable us to concur in the necessity for the action, the selection of legal counsel, development of legal strategy, and approval of legal fees and costs. One example of a nonroutine legal action is a case in which the servicer's legal counsel wants to pursue a judicial foreclosure in order to clear technical defects even though the security property is located in a state in which the usual method of foreclosure is by nonjudicial foreclosure. In this situation, the servicer should not commence a judicial foreclosure for a conventional mortgage without first clearing the action with us. Nonroutine litigation also includes any claim, counterclaim, or procedure that: challenges methods in which we do business; involves our status as a federal instrumentality; requires interpretation of our charter, such as removal to federal court based on our charter; claims punitive damages from us; or asserts liability against us based on actions of our servicers.

VIII, 102: Initiation of Foreclosure Proceedings (09/30/05) Possible Conflict with UCC, but Guide assumes foreclosure is subject to state law

Generally, foreclosure proceedings for a first mortgage can begin whenever at least three full monthly installments are past due. Foreclosure proceedings may
begin at once for any mortgage if the borrower is not eligible for relief from foreclosure under the Service members Civil Relief Act (or any state law that similarly restricts the right to foreclose) and the property has been abandoned or vacated by the borrower and it is apparent that the borrower does not intend to make the mortgage payments. In addition, foreclosure proceedings for any mortgage may be started immediately if

- the borrower was advised in writing of the relief provisions that were available and his or her written response indicated a lack of interest in the mortgage obligation (or gave permission for the commencement of foreclosure proceedings, if the borrower was subject to the provisions of the Service members Civil Relief Act or any state law that similarly restricts the right to foreclose); or
- income from rental of the property is not being applied to the mortgage payments and arrangements cannot be made to apply it, and it has been established that the borrower is not eligible for relief under the Service members Civil Relief Act or any state law that similarly restricts the right to foreclose. (also see Part III, Chapter 1, Exhibit 1)

We require a servicer to contact its servicing consultant or servicing specialist in its lead Fannie Mae regional office before it initiates foreclosure proceedings for an eMortgage. If the security property is located in a state in which we have Fannie Mae-retained attorneys (or trustees), the servicer must use one of the firms we have retained for the state. If we do not have any Fannie Mae-retained attorneys (or trustees) designated for the state in which the security property is located, the servicer may retain its own attorney, but we will require that attorney to work closely with an attorney that we designate.

Foreclosure proceedings for a second mortgage can begin when at least two full monthly installments are past due. As long as the servicer has complied with the requirements of the Service members Civil Relief Act and any state law that restricts the right to foreclose, it can start foreclosure proceedings for a second mortgage immediately if the first mortgage is in default and the second mortgage instrument includes a provision that the second mortgage will be considered in default, regardless of the status of its payments, if the first mortgage is in default.

Fannie Mae is at all times the owner of the mortgage note, whether the note is in our portfolio or whether we own it as trustee for an MBS trust. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, except in the limited circumstances expressly described below. We may have direct possession of the note or a custodian may have custody of the note for us. If we possess the note through a document custodian, the document custodian has custody of the note for our exclusive use and benefit.
In most cases, a servicer will have a copy of the mortgage note that it can use to begin the foreclosure process. However, some jurisdictions require that the servicer produce the original note before or shortly after initiating foreclosure proceedings. If our possession of the note is direct because the custody documents are at our document delivery facility, to obtain the note and any other custody documents that are needed, the servicer should submit a request to our Custody Department through the Loan Document Request System (LDRS) on our Web site (www.efanniemae.com). If we possess the note through a document custodian that has custody of those documents for us, to obtain the note and any other custody documents that are needed, the servicer should submit a Request for Release/Return of Documents (Form 2009) to our custodian. In either case, the servicer should specify whether the original note is required or whether the request is for a copy.

*** In some jurisdictions, only the “holder” of the note may conduct a foreclosure. In any jurisdiction in which our servicer must be the holder of the note in order to conduct the foreclosure, we temporarily transfer our possession of the note to our servicer, effective automatically and immediately before commencement of the foreclosure proceedings. When we transfer our possession, our servicer becomes the holder of the note during the foreclosure proceedings. If the borrower reinstates the loan or the servicer ceases to service the loan for Fannie Mae for any reason, then possession of the note at that time automatically reverts to Fannie Mae and the note must be returned to the document custodian. At that time, Fannie Mae also resumes being the holder, just as it was before the foreclosure proceedings. The transfer of our possession, and any reversion of possession to us, are evidenced and memorialized by our publication of this paragraph. This Guide provision may be relied upon by a court to establish that the servicer conducting the foreclosure proceeding has possession, and is the holder, of the note during the foreclosure proceeding, unless the court is otherwise notified by Fannie Mae. ***

VIII, 202: Conveyance Documents (01/31/03)

The servicer should use the type of deed or other transfer instrument that is usually used to convey a property in the state where the security property is located. The servicer should instruct the foreclosure attorney (or trustee) to include a street address for the property (in addition to the legal description) in the conveyance document(s) to ensure that our designated eviction attorney will not experience any delays in identifying the correct location of the acquired property.

Title to the property may need to be conveyed to Fannie Mae in some instances and to the mortgage insurer or guarantor in other instances. The form of conveyance is dictated by the name under which the foreclosure proceedings were conducted (as discussed in the following Sections). The servicer must send
our National Property Disposition Center a copy of the foreclosure deed (or a deed in lieu of foreclosure) or any other applicable conveyance documents within two business days after title to the property is conveyed. The document(s), which should be identified by the applicable Fannie Mae and servicer loan numbers and the servicer's name and Fannie Mae lender identification number, should either be faxed to (972) 773-7630 or sent to the following address:

Fannie Mae  
NPDC–Conveyance & Claims  
P.O. Box 650043  
Dallas, TX 75265-0043

If, during our marketing of an acquired property, we find that we need additional information, we will contact the servicer by telephone. Therefore, a servicer should retain in its individual mortgage file any and all material that could assist us in marketing, selling, or conveying the property.

VIII, 202.01: Foreclosure Conducted in Fannie Mae's Name (01/31/03) --- Power of Attorney required

When the foreclosure is conducted in our name, no conveyance document is required unless the mortgage insurer or guarantor has indicated that it will accept conveyance of the property. When that is the case, a servicer that has our limited power of attorney to execute conveyance documents should prepare, execute, and submit for recordation a warranty deed conveying title to the property to the insurer or guarantor. If the servicer does not have our limited power of attorney (or, for some other reason, is unable to convey the title directly to the insurer or guarantor), the servicer should prepare the necessary documents to convey the property to the insurer or guarantor and submit them to our National Property Disposition Center for execution at least two weeks before the title to the property will be turned over to the insurer or guarantor. We will return the document(s) to the servicer as soon as we execute them.

Editor's Note: Most states reject the servicer as a party with legal standing to foreclose and collect on the note through Judgment. This is especially important in the securitization process where the payments are supplemented or even replaced by third parties including insurance entities and agreements like credit default swaps. While not all loans involve FNMA or Freddie Mac these rules are persuasive as to proper procedure.

VIII, 202.02: Foreclosure Conducted in Servicer's Name (01/31/03)

When the foreclosure is conducted in the servicer's name, the servicer should convey title to the property to us after the property is acquired—if the mortgage is a conventional mortgage held in our portfolio, a conventional mortgage in a special servicing option MBS pool, an RHS mortgage serviced under the special
servicing option, or an FHA or VA mortgage that cannot be conveyed to HUD. However, if the servicer knows that a property can be conveyed to HUD or VA and that it is allowed to directly convey the title to HUD or VA, it should do so. In addition, title to the property should remain in the servicer's name for an FHA coinsured mortgage, an RHS mortgage serviced under the modified special servicing option or the regular servicing option, or any MBS pool mortgage serviced under the regular servicing option since the servicer is responsible for marketing and disposing of the acquired property.

In those instances in which we expect the servicer to convey title to the property to us after the property is acquired, the foreclosure attorney (or trustee) should have title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax—such as assigning the foreclosure bid or judgment to us, including language in the judgment that directs the sheriff or clerk to issue a deed in our name, or recording a grant deed to us immediately following the foreclosure sale, etc. (as discussed earlier in Section 105). The servicer should submit any deed conveying title to us for recordation on the day following the foreclosure sale. Should the mortgage insurer or guarantor decide to accept conveyance of the property after title has been conveyed to us, the servicer should follow the procedures for preparing conveyance documents for execution that are described above in Section 202.01.

VIII, 202.03: Foreclosure Conducted in MERS' Name (01/31/03)

When the foreclosure is conducted in MERS' name, the servicer should make sure that title to the property is conveyed to us after the property is acquired—if the mortgage is a conventional mortgage held in our portfolio, a conventional mortgage in a special servicing option MBS pool, an RHS mortgage serviced under the special servicing option, or an FHA or VA mortgage that cannot be conveyed to HUD. The foreclosure attorney (or trustee) should have title vested in Fannie Mae's name in a manner that will not result in the imposition of a transfer tax—such as assigning the foreclosure bid or judgment to us, including language in the judgment that directs the sheriff or clerk to issue a deed in our name, or recording a grant deed to us immediately following the foreclosure sale, etc. (as discussed earlier in Section 105). The servicer should submit any deed conveying title to us for recordation on the day following the foreclosure sale. Should the mortgage insurer or guarantor decide to accept conveyance of the property after title has been conveyed to us, the servicer should follow the procedures for preparing conveyance documents for execution that are described above in Section 202.01.

Fannie Mae Single Family
2006 Servicing Guide
Part I: Lender Relationships
I, Chapter 1: Lender Approval (09/30/05)
I, 101: Eligibility Criteria (09/30/06)
To sell and service residential first or second mortgages, a lender must

have as one of its principal business purposes the origination, selling and/or servicing of residential mortgages;

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demonstrate a proven ability to originate, sell and/or service the type of mortgage(s) for which our approval is being requested, and employ a staff with adequate experience in that area;

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be duly organized, validly existing, and properly licensed and in good standing (or otherwise authorized) to conduct its business in each of the jurisdictions in which it originates, sells, or services residential mortgages;

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have an acceptable net worth of at least $250,000 and be otherwise financially acceptable to us (A lender requesting approval in additional categories must have additional net worth in a dollar amount that represents two-tenths percent of the outstanding principal balance of any Fannie Mae portfolio it is servicing. A Fannie Mae portfolio includes mortgages or participation interests in MBS pools, first and second whole mortgages held in our portfolio, our participation interest in first and second mortgages in participation pools held in our portfolio, and multifamily mortgages.) Based on specific circumstances, we may require that the lender satisfy other financial standards or additional net worth and liquidity eligibility criteria; DISCOVERY --- INTERROGATORY AND REQUEST TO PRODUCE

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maintain internal audit and management control systems to evaluate and monitor the overall quality of its loan production and servicing activities; --- DISCOVERY ITEM OF INTERNAL AUDIT PROCEDURES --- PEOPLE, PLACES AND RECORDS CUSTODIANS and

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have in effect a fidelity bond and an errors and omissions policy and agree to modify them as necessary to meet our requirements. _- DISCOVERY ITEM

We no longer require lenders to purchase or own Fannie Mae stock as a condition of eligibility.

A lender also must satisfy any additional eligibility criteria we may impose. Such additional criteria may apply to either individual lenders, all lenders that are seeking
approval to sell and/or service certain types of mortgages, all lenders that share certain characteristics, or all lenders. We approve or disapprove a lender based on our assessment of its total circumstances; therefore, a lender that satisfies our general eligibility criteria or any special criteria we impose does not have an absolute right to be approved and should not expect our approval to be automatically forthcoming.

I, 102: Application Procedures (09/30/05)

A lender that is interested in obtaining our approval to sell and service first or second mortgages should contact our Chicago Office, which can be reached by calling our toll-free number—1-888-FANNIE8. The Chicago Office will send the lender an application kit, which includes

- an Application for Fannie Mae Approval (Form 1000); (DISCOVERY ITEM)
- an Authorization for Verification of Credit and Business References (Form 1001) -- (DISCOVERY ITEM); and
- two originals of the Fannie Mae Mortgage Selling and Servicing Contract (or, if an approved lender is already approved in an additional category, an Addendum to the existing Contract).

I, 102.02: Application Kit (03/31/02) --- DISCOVERY ITEMS

The lender must complete the application forms in detail and have an authorized senior officer sign the application. The lender must include the following information with its application. On occasion, we may require other additional information.

1. The Authorization for Verification of Credit and Business References (Form 1001), executed by all principal officers, partners, and others who own a five percent or more interest in the lender;

2. Year-end financial statements for the past two years, certified by an independent public accountant and, if more than 180 days have elapsed since the lender's last audit, an interim financial statement (A lender that is a state or federally supervised institution may satisfy this requirement by submitting its regulatory reports, along with a statement certifying that yearly audited statements are not available and that its published statements are identical to the ones submitted to its supervisory authority);

3. Evidence of fidelity bond and errors and omissions coverage;
4. Resumes of principal officers and key personnel who oversee each functional area;

5. A copy of any recent quality assurance reports and management responses;

6. Copies of signed contracts with any third parties that perform origination, quality assurance, or servicing functions for the lender;

7. The appropriate application review fee(s); and

8. The two original Mortgage Selling and Servicing Contracts (or the two Addenda), executed by an authorized senior officer.