Fannie Mae

COVID-19 Frequently Asked Questions

In response to the COVID-19 national emergency, Fannie Mae and Freddie Mac have provided temporary guidance to lenders on several policy areas to support mortgage originations. These FAQs provide additional information on the temporary policies. We will be adding more FAQs, therefore we encourage you to check in frequently for updates.

Q1. **Do Fannie Mae's existing disaster policies in the *Selling Guide* and the *Servicing Guide* apply to the COVID-19 pandemic?**

No, Fannie Mae's existing policies related to disasters do not apply to loans impacted by COVID-19. Instead, lenders and servicers can follow the guidance in Lender Letters LL-2020-02, *Impact of COVID-19 on Servicing*, LL-2020-03, *Impact of COVID-19 on Originations* and LL-2020-04, *Impact of COVID-19 on Appraisals*. All guidance specific to COVID-19 will be communicated through Lender Letters and FAQ documents such as this.

Q2. **Given the unprecedented and rapid instances of voluntary and mandated business closures, and the concerns over whether employees will continue to be paid, is updated income documentation required prior to closing?**

Not at this time; however, it is recommended that lenders perform additional due diligence which may include actions such as obtaining updated YTD paystubs for the pay period that immediately precedes the note date and ensuring the employer is open for business.

Q3. **If a recent paystub or bank statement is obtained in lieu of the verbal verification of employment (VOE), and the documentation evidences reduced hours and/or pay due to the pandemic, what are the next steps?**

Continue to follow the requirements and guidance in the *Selling Guide* Chapter B3-3 related to income stability and calculation. For example, for declining variable income, the requirements and guidance for declining income trends in the *Selling Guide* B3-3.1-01, General Income Information are applicable. In those cases, the reduced amount of declining variable income can only be used for qualifying if it has since stabilized and there is no reason to believe the borrower will not continue to be employed at the current level. In no instance may income be averaged over the period of declination.

Q4. **Are there acceptable alternatives if a lender is unable to obtain a verbal verification of employment (VOE)?**

Yes, please reference the guidelines and flexibilities announced in Lender Letter LL-2020-03, *Impact of COVID-19 on Originations*.

Q5. **Does the lender remain responsible for the representations and warranties related to the borrower's employment status when using one of the verbal VOE flexibilities?**

Yes. The lender's representations and warranties related to the borrower's employment status do not change. We are allowing certain documentation flexibilities due to the unique circumstances resulting from the COVID-19 pandemic to address the issue lenders have raised due to disruption of employer operations and their inability to be reached by phone. Lenders are not required to use these flexibilities if they are not comfortable with them.

Q6. **The borrower is self-employed and owns a business that is closed due to the pandemic. Can the income be used to qualify?**

No, if the business is not operating, the income may not be used to qualify.

Q7. **Can I use the requirements for income while on temporary leave?**

Yes, refer to the requirements in the *Selling Guide* B3-3.1-09, Other Sources of Income.

Q8. **Does the tax deadline extension issued as a result of the COVID-19 emergency affect documentation requirements?**

Lenders should continue to obtain the most recent year's tax return filed by the borrower as indicated in *Selling Guide* B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns. However, lenders are not required to obtain a copy of the IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, until the point at which the tax deadline extension has expired. Accordingly, lenders are not required to review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance.

Q9. **Is there any impact to the DU validation service for loans with income or employment validation?**

If income or employment has been validated by the Desktop Underwriter® (DU®) validation service, the validation will remain eligible for representation and warranty relief on income and employment provided the lender complies with the terms of the DU messages.

For employment validation, the lender must comply with the "close by" date in the DU message. Otherwise, the guidance in LL-2020-03, *Impact of COVID-19 on Originations* related to obtaining a verbal VOE (or allowable alternative) would apply.

Q10. **Can a closing agent or other affiliated party sign loan documents on the borrower's behalf using a power of attorney (POA)?**

Yes, but only for refinance transactions subject to the restrictions in *Selling Guide* B8-5-05 Requirements for Use of a Power of Attorney.

For refinance transactions, an individual who would otherwise be prohibited from serving as an attorney-in-fact or agent may execute the required loan documents on behalf of the borrower(s), provided all the following conditions are met:

- The attorney-in-fact or agent is not an employee of the lender.
- The power of attorney expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.
- The power of attorney expressly authorizes the attorney-in-fact or agent to execute the required loan documents on behalf of a borrower only if the borrower has, to the satisfaction of the attorney-in fact or agent in a recorded, interactive session conducted via the Internet, both
    - confirmed his or her identity; and
    - reaffirmed, after an opportunity to review the required loan documents, his or her agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required loan by such attorney-in-fact or agent.

Q11. **What are Fannie Mae's requirements concerning "gap coverage" in lenders' title insurance policies?**

The *Selling Guide* Chapter B7-2 requires a loan title insurance policy, written on the 2006 ALTA loan title insurance form or local equivalent, be obtained by a lender before a mortgage loan is sold to Fannie Mae.

The 2006 ALTA form includes "gap coverage" in Covered Risk 14 for matters arising between the date a mortgage loan is closed and when the mortgage is recorded. Similarly, if title insurance is obtained on an alternate form, the *Selling Guide* requires coverage be provided for the period between the closing date of the loan and the date when the mortgage is recorded.

We understand that recording offices are closed in many areas in response to public health directives associated with the COVID-19 outbreak and continue to work on addressing these challenges.

Q12. **Are you making any changes to your QC practices with respect to loans impacted by COVID-19, including the flexibilities announced in Lender Letter LL-2020-03?**

No, we are not making any changes to our QC practices with respect to these loans at this time. See *Selling Guide* Chapter D2-1 for a description of our quality control practices. The remedies framework will continue to apply, including the repurchase alternatives and appeal process as indicated in *Selling Guide* A2-3.2-03. Note that these flexibilities announced in Lender Letter LL-2020-03, *Impact of COVID-19 on Originations* generally do not change our overall credit standards.