Fannie Mae

Lender Letter LL-2017-09

November 2, 2017

To: All Fannie Mae Single-Family Servicers

Fannie Mae Extend Modification for Disaster Relief and Other Clarifications for Mortgage Loans Impacted by Disaster Events

We continue to respond and work with our servicers to assist homeowners impacted by disaster events. In doing so, we are providing this Lender Letter with additional guidance and relief developed jointly with Freddie Mac at the direction of the Federal Housing Finance Agency (FHFA). The policies in this Lender Letter are effective immediately and apply to any mortgage loan where the property securing the mortgage loan, or the borrower's place of employment, is located in a Federal Emergency Management Administration (FEMA)-Declared Disaster Area eligible for Individual Assistance impacted by a disaster on or after August 25, 2017. The policies in this Lender Letter are temporary and are effective until Fannie Mae provides further notice.

This Lender Letter provides information about the following topics:

- Fannie Mae Extend Modification for Disaster Relief
- Disbursing Hazard Loss Draft Proceeds
- Reimbursement for Property Inspection Costs to Confirm Repairs on an Insurable Loss
- Verification of Acceptable Payment Record for Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original or Current Value of the Property

Fannie Mae Extend Modification for Disaster Relief

Fannie Mae is introducing the Fannie Mae Extend Modification for Disaster Relief (Extend Mod), a temporary post-disaster forbearance mortgage loan modification. The servicer is encouraged to implement the policies related to the Extend Mod in this Lender Letter immediately; but must begin evaluating borrowers for the Extend Mod no later than February 1, 2018. If the servicer does not have mortgage loans impacted by a disaster in a FEMA-Declared Disaster Area eligible for Individual Assistance, it is not required to implement the Extend Mod. If the servicer later determines that it has mortgage loans impacted by a disaster in a FEMA-Declared Disaster Area eligible for Individual Assistance, it must implement the Extend Mod as soon as reasonably possible.

This *Lender Letter* covers the following requirements for the Fannie Mae Extend Modification for Disaster Relief:

- Reviewing for a Workout Option after a Disaster-Related Forbearance
- Determining Eligibility for a Fannie Mae Extend Modification for Disaster Relief
- Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan
- Performing an Escrow Analysis
- Determining the Fannie Mae Extend Modification for Disaster Relief Terms
- *Offering a Borrower a Fannie Mae Extend Modification for Disaster Relief*
- *Offering a Trial Period Plan and Completing a Fannie Mae Extend Modification for Disaster Relief*
- *Preparing the Loan Modification Agreement*
- *Executing and Recording the Loan Modification Agreement*
- Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification
- Processing a Fannie Mae Extend Modification for Disaster Relief for a Mortgage Loan with Mortgage Insurance

- *Handling Fees and Late Charges in Connection with a Fannie Mae Extend Modification for Disaster Relief*
- *Incentive Fees*
- Updates to Fannie Mae Cap and Extend Modification for Disaster Relief and Flex Modification

> **Note:** *The italicized and underlined topics above have not been altered from policy within the Fannie Mae Servicing Guide as of the date of this Lender Letter. If there are changes to these topics after the date of this Lender Letter, the updated guidance will supersede the existing requirements.*

Reviewing for a Workout Option after a Disaster-Related Forbearance

The servicer must attempt to establish Quality Right Party Contact (QRPC) with the borrower during the disaster-related forbearance plan, and analyze each case carefully before determining which workout option described below is most appropriate (see D2-3.1-01, Determining the Appropriate Workout Option).

The following table provides guidance and the order of evaluation for a mortgage loan modification when the property securing the mortgage loan or the borrower's place of employment is located in a FEMA-Declared Disaster Area eligible for Individual Assistance.

If the servicer is…	And…	Then the servicer must evaluate the borrower for…
able to establish QRPC with the borrower during the disaster-related forbearance plan	determines that the borrower is capable of maintaining the current contractual monthly PITI payment, including any escrow amounts disbursed by the servicer as a result of the disaster and escrow shortage needed to pay future escrow that is required to be repaid by the borrower over the 60-month escrow repayment period (see *Performing an Escrow Analysis*)	an Extend Mod; and if eligible, offer the borrower the Extend Mod. The servicer must disclose how the escrow analysis was determined, and that disbursed escrow amounts will not be capitalized but will be added to the escrow shortage needed to pay future escrow amounts resulting in an increase of the borrower's current contractual monthly PITI payment over the 60-month escrow repayment period.
	determines that the borrower can maintain the current contractual monthly PITI payment, but cannot manage the additional escrow repayment obligation to cover amounts disbursed by the servicer as a result of the disaster	a Fannie Mae Cap and Extend Modification for Disaster Relief; and if eligible, offer the borrower a Fannie Mae Cap and Extend Modification for Disaster Relief (see D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief).
	determines that the borrower is not capable of maintaining the current contractual monthly PITI payment	a Fannie Mae Flex Modification based on the *Unique Requirements for a Property Impacted by an Eligible Disaster* (see D2-3.2-12, Fannie Mae Flex Modification); and if eligible, offer a Fannie Mae Flex Modification.
not able to establish QRPC during the disaster-related forbearance plan	the mortgage loan is 90 or more days delinquent	a Fannie Mae Flex Modification based on the *Unique Requirements for a Property Impacted by an Eligible Disaster* (see D2-3.2-12, Fannie Mae Flex Modification); and if eligible, solicit the borrower for a Fannie Mae Flex Modification.

Determining Eligibility for a Fannie Mae Extend Modification for Disaster Relief

The servicer must not require a complete Borrower Response Package (BRP) or a property valuation to evaluate the borrower for an Extend Mod if the eligibility criteria are satisfied. The servicer is not required to have previously solicited the borrower for a workout option prior to offering an Extend Mod.

In order to be eligible for an Extend Mod, all of the criteria in the following table must be met.

✓	Eligibility criteria for an Extend Mod
	The property securing the mortgage loan or the borrower's place of employment must be located in a FEMA-Declared Disaster Area eligible for Individual Assistance.
	The mortgage loan must be a first lien mortgage loan.
	The mortgage loan must ▪ have been current or less than 31 days delinquent when the disaster occurred, and ▪ be 31 or more days delinquent but less than 360 days delinquent upon completion of the disaster-related forbearance plan.
	The mortgage loan must not have been previously modified with an Extend Mod as a result of the same disaster event and became delinquent.
	The mortgage loan must not be insured or guaranteed by a federal government agency (e.g., FHA, VA, or RD).
	The mortgage loan must not be subject to ▪ a recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized; ▪ a current offer for another workout option, with the exception of a Streamlined Modification Post Disaster Forbearance; ▪ an approved liquidation workout option; or ▪ an active and performing repayment plan or other non-disaster-related forbearance plan.

Determining Eligibility for a Texas Section 50(a)(6) Mortgage Loan

A Texas Section 50(a)(6) mortgage loan is eligible for an Extend Mod if the following are met:

- the requirements described in Determining Eligibility for an Extend Mod are satisfied, and
- the mortgage loan is modified in accordance with applicable law.

If the servicer receives a notice from the borrower that a mortgage loan modification fails to comply with the Texas Section 50(a)(6) requirements, the servicer must immediately, but no later than seven business days after receipt, take the actions listed in the following table.

✓	The servicer must...
	Inform Fannie Mae's Legal department by submitting a *Non-Routine Litigation Form* (*Form 20*) and including the borrower notice in its submission.
	Collaborate with Fannie Mae on the appropriate response, including any cure that may be necessary, within the 60-day time frame provided by requirements of Texas Section 50(a)(6).

Performing an Escrow Analysis

The servicer must perform an escrow analysis prior to offering a Trial Period Plan and take the actions listed in the following table.

✓	The servicer must...
	Revoke any escrow deposit account waiver and establish an escrow deposit account in accordance with Fannie Mae's requirements, unless the borrower is current on the payments for taxes, special assessments, property and flood insurance premiums, premiums for borrower-purchased MI, ground rents, and similar items.
	Not capitalize any escrow amounts disbursed and/or escrow shortage needed to pay future escrow amounts identified at the time of the mortgage loan modification; and the servicer is not required to fund any existing escrow account shortage.
	Collect any escrow amounts disbursed and/or escrow shortage needed to pay future escrow amounts from the borrower over a 60-month period unless the borrower decides to pay such funds up-front. When the servicer calculates the repayment of the escrow amounts disbursed and/or escrow shortage over a 60-month period, any subsequent shortage identified in the next annual analysis cycle must be spread out over the remaining term of the initial 60-month period.
	Ensure that if the mortgage loan has escrow payments, the borrower's modified monthly mortgage loan payments, including Trial Period Plan payments, include an escrow payment.
	Ensure that T&I premiums are paid to date if applicable law prohibits the establishment of the escrow account.

Determining the Fannie Mae Extend Modification for Disaster Relief Terms

The servicer must determine the borrower's new modified mortgage loan terms by taking the steps in the following table in the order provided in compliance with applicable law.

<table>
<tr><th>Step</th><th colspan="2">Servicer Action</th></tr>
<tr><td rowspan="4">1</td><td colspan="2">Set the modification interest rate to a fixed rate based on the requirements in the following table using the contractual interest rate in effect for the periodic payment due in the month of the evaluation date.</td></tr>
<tr><td>If the mortgage loan is…</td><td>The servicer must…</td></tr>
<tr><td>a fixed rate (including an ARM or step-rate that has reached its final interest rate)</td><td>set the modified interest rate to the borrower's contractual interest rate.</td></tr>
<tr><td>an ARM or a step-rate that has not reached its final interest rate</td><td>set the interest rate to the lesser of
▪ the Fannie Mae Modification Interest Rate,
▪ the final interest rate for the step-rate modification, or
▪ the lifetime interest rate cap for the ARM.</td></tr>
</table>

2	Extend the term in monthly increments to match the number of delinquent payments, not to exceed 12 months. **Note:** *When the mortgage loan is secured by a property where the title is held as a leasehold estate, the term of the leasehold estate must not expire prior to the date that is five years beyond the new maturity date of the modified mortgage loan. In the event that the current term of the leasehold estate would expire prior to such date, the term of the leasehold estate must be renegotiated to satisfy this requirement for the loan to be eligible for the mortgage loan modification.*

If the mortgage loan has deferred principal (principal forbearance amount), the servicer must not capitalize this amount into the interest-bearing UPB as part of the Extend Mod. Deferred principal must continue to be deferred and be payable upon the extended maturity date of the mortgage loan modification, sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB. Interest must not accrue on any deferred principal.

The Extend Mod must result in a fixed rate mortgage loan.

> **Note:** *An ARM or interest-only mortgage loan must be converted to a fully amortizing mortgage loan, and may not be a bi-weekly or daily simple interest mortgage loan.*

Offering a Borrower a Fannie Mae Extend Modification for Disaster Relief

The servicer must mail the borrower a *Streamlined Modification Post Disaster Forbearance Trial Period Plan* *Evaluation Notice* within five days of the servicer's decision to offer an Extend Mod if the mortgage loan satisfies the applicable requirements. Those requirements are described in *Determining Eligibility for a Fannie Mae Extend Modification for Disaster Relief* and *Determining the Fannie Mae Extend Modification for Disaster Relief Terms*. The servicer must make appropriate changes to the *Evaluation Notice*, and the applicable Frequently Asked Questions, to reflect the terms of an Extend Mod. See *Offering a Trial Period Plan and Completing a Fannie Mae Extend Modification for Disaster Relief* for additional information on the *Evaluation Notice* and Trial Period Plan.

If the borrower accepts a Flex Modification solicitation after the disaster forbearance by submitting the first Trial Period Plan payment (see *Soliciting the Borrower for a Fannie Mae Flex Modification* in D2-3.2-12, Fannie Mae Flex Modification), and during the Trial Period Plan contacts the servicer to obtain an Extend Mod in lieu of a Fannie Mae Flex Modification, the borrower must restart a Trial Period Plan and the servicer must send a *Streamlined Modification Trial Period Plan Notice* *Evaluation Notice* based on the borrower's monthly P&I payment obligation as described in *Determining the New Modified Mortgage Loan Terms*.

Offering a Trial Period Plan and Completing a Fannie Mae Extend Modification for Disaster Relief

For an MBS mortgage loan, the servicer must also see *Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan* in D2-3.1-02, Working with an MBS Mortgage Loan for Certain Workout Options.

The servicer must communicate with the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless and until all conditions of the mortgage loan modification have been satisfied, which is when all of the following have occurred:

- the borrower has satisfied all of the requirements of the Trial Period Plan,
- the borrower has executed and returned a copy of the Loan Modification Agreement (*Form 3179*), and
- the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) executes and dates *Form 3179*.

The servicer must send an *Evaluation Notice* (see *Sending a Notice of Decision on a Workout Option* in D2-2-05, Receiving a Borrower Response Package for the requirements of the *Evaluation Notice*) to document the borrower's Trial Period Plan, which begins on the date described in the following table.

If the servicer mails the Evaluation Notice to the borrower...	Then the servicer...
on or before the 15th day of a calendar month	must use the first day of the following month as the first Trial Period Plan payment due date.
after the 15th day of a calendar month	must use the first day of the month after the next month as the first Trial Period Plan payment due date.

The Extend Mod Trial Period Plan must be three months long.

If the borrower fails to make a Trial Period Plan payment by the last day of the month in which it is due, the borrower is considered to have failed the Trial Period Plan and the servicer must not grant the borrower a permanent Extend Mod.

The servicer must see E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations, for the requirements for suspending foreclosure.

The servicer must use the *Form Modification Cover Letter* to communicate the borrower's eligibility for a permanent Extend Mod, which must be accompanied by a completed *Form 3179*. *Form 3179* must only be revised as authorized in its instructions, and to reflect the terms of the Extend Modification for Disaster Relief.

The servicer must ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

Electronic documents, signatures, and notarizations for Extend Mods are acceptable provided they comply with Fannie Mae's requirements. See A2-5.2-01, Storage of Individual Mortgage Loan Files and Records, for Fannie Mae's requirements for electronic records.

The servicer must also follow the procedures in *Loan Modifications for an eMortgage* in F-1-35, Servicing eMortgages, for additional requirements when the modified mortgage loan is an eMortgage.

Preparing the Loan Modification Agreement

The servicer must complete the mortgage loan modification in accordance with Offering a Trial Period Plan and Completing a Fannie Extend Modification for Disaster Relief.

The servicer must prepare the Loan Modification Agreement early enough in the Trial Period Plan to allow sufficient processing time so that the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan (modification effective date). The servicer is authorized to, at its discretion, complete the Loan Modification Agreement so the mortgage loan modification becomes effective on the first day of the second month following the final Trial Period Plan payment to allow for sufficient processing time. However, the servicer must treat all borrowers the same in applying this option by selecting, at its discretion and evidenced by a written policy, the date by which the final Trial Period Plan payment must be submitted before the servicer applies this option ("cut-off date"). The cut-off date must be after the due date for the final Trial Period Plan payment set forth in the *Evaluation Notice*.

> **Note:** *If the servicer elects this option, the borrower will not be required to make an additional Trial Period Plan payment during the month (the "interim month") in between the final Trial Period Plan month and the month in which the mortgage loan modification becomes effective. For example, if the last Trial Period Plan month is March and the servicer elects the option described above, the borrower is not required to make any payment during April, and the mortgage loan modification becomes effective, and the first payment under the Loan Modification Agreement is due, on May 1.*

The servicer must incorporate into the *Form 3179* additional provisions required pursuant to its instructions, and provisions to reflect the terms of the Extend Modification for Disaster Relief.

Executing and Recording the Loan Modification Agreement

The servicer must ensure that the mortgage loan as modified complies with applicable laws, preserves Fannie Mae's lien position, and is enforceable against the borrower(s).

In order to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, the servicer must take the actions described in the following table.

✓	The servicer must...
	Ensure that the Loan Modification Agreement is executed by the borrower(s). **Note:** *The servicer may encounter circumstances where a co-borrower signature is not obtainable for the Loan Modification Agreement, for reasons such as mental incapacity or military deployment. When a co-borrower's signature is not obtainable and the servicer decides to continue with the mortgage loan modification, the servicer must appropriately document the basis for the exception in the servicing records.*
	Ensure all real estate taxes and assessments that could become a first lien are current, especially those for manufactured homes taxed as personal property, personal property taxes, condo/HOA fees, utility assessments (such as water bills), ground rent, and other assessments.
	Obtain a title endorsement or similar title insurance product issued by a title insurance company if the Loan Modification Agreement will be recorded.
	Record the executed Loan Modification Agreement if ▪ recordation is necessary to ensure that the modified mortgage loan retains its first lien position and is enforceable in accordance with its terms at the time of the modification, throughout its modified term, and during any bankruptcy or foreclosure proceeding involving the modified mortgage loan; or ▪ the Loan Modification Agreement includes assignment of leases and rents provisions.

If the mortgage loan is for a manufactured home, and the lien was created, evidenced, or perfected by collateral documents that are not recorded in the land records, the servicer must also take such action as may be necessary, including any amendment, recording, and/or filing that may be required. The servicer must ensure that the collateral documents reflect the mortgage loan modification, if necessary, in order to preserve Fannie Mae's lien status for the entire amount owed. See *Identifying Manufactured Home Mortgage Loans* in A2-5.1-02, Overview of Individual Mortgage Loan Files and Records, for additional information regarding collateral documents.

The servicer must execute and record the Loan Modification Agreement based upon the entity that is the mortgagee of record in accordance with A2-1-03, Execution of Legal Documents. In addition, the servicer must send the Loan Modification Agreement to the document custodian if the mortgagee of record is

- the servicer,
- MERS, or
- Fannie Mae, and Fannie Mae has given the servicer an LPOA that allows it to execute this type of document on Fannie Mae's behalf.

> **Note:** *If Fannie Mae's DDC is the custodian, the documents must be annotated with the Fannie Mae loan number and, if applicable, the MERS number, and mailed to The Bank of New York Mellon Trust Company, NA (see F-4-03, List of Contacts).*

When the servicer is required to send the Loan Modification Agreement to the document custodian, the servicer must follow the requirements outlined in the following table.

If the Loan Modification Agreement...	Then the servicer must...
is required to be recorded	▪ send a certified copy of the fully executed Loan Modification Agreement to the document custodian within 25 days of receipt from the borrower, and ▪ send the original Loan Modification Agreement that is returned from the recorder's office to the document custodian within five business days of receipt.
is not required to be recorded	send the fully executed original Loan Modification Agreement to the document custodian within 25 days of receipt from the borrower.

Adjusting the Mortgage Loan Account Post-Mortgage Loan Modification

After a mortgage loan modification is executed, the servicer must adjust the mortgage loan account as described in the following table.

✓	The servicer must...
	Revise the borrower's payment records to bring the mortgage loan current and provide for collection of the modified payment.
	Apply any funds that ▪ the borrower deposited with the servicer as a condition of the mortgage loan modification, ▪ have been deposited on behalf of the borrower in connection with the mortgage loan modification, or ▪ the mortgage insurer contributed in connection with the mortgage loan modification. **Note:** *Amounts due for repayment of principal, interest, or advances must be remitted promptly to Fannie Mae. The remaining funds may be used to clear any advances made by the servicer or to credit the borrower's escrow deposit account.*
	Determine if it must change the servicing fee in accordance with A2-3-02, Servicing Fees for Portfolio and MBS Mortgage Loans.

Processing a Fannie Mae Extend Modification for Disaster Relief for a Mortgage Loan with Mortgage Insurance

The Fannie Mae Cap and Extend Modification for Disaster Relief delegations also apply to the Extend Mod. The servicer must see F-2-06, Mortgage Insurer Delegations for Workout Options, for the list of conventional mortgage insurers from which Fannie Mae has obtained delegation of authority on behalf of all servicers, which allows the servicer to process an Extend Mod without obtaining separate mortgage insurer approval at the company or loan level.

Handling Fees and Late Charges in Connection with a Fannie Mae Extend Modification for Disaster Relief

The servicer must not charge the borrower administrative fees.

The servicer is authorized to assess late charges during the Trial Period Plan. The servicer must waive all late charges, penalties, stop payment fees, or similar charges upon the borrower's conversion to a permanent mortgage loan modification.

The servicer must follow the procedures in *Requesting Reimbursement for Expenses Associated with Workout Options* in F-1-06, Expense Reimbursement, for advancing funds and requesting reimbursement.

Incentive Fees

The servicer is eligible for incentive fees in accordance with F-2-02, Incentive Fees for Workout Options, as described for a Fannie Mae Cap and Extend Modification for Disaster Relief.

Changes to Fannie Mae Cap and Extend Modification for Disaster Relief

Fannie Mae is updating the eligibility requirements described in *Determining Eligibility for a Fannie Mae Cap and Extend Modification for Disaster Relief* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief, based on the following table.

Current Requirement	New Requirement
The property securing the mortgage loan must be located in a FEMA-Declared Disaster Area eligible for Individual Assistance.	The property securing the mortgage loan, or the borrower's place of employment, must be located in a FEMA-Declared Disaster Area eligible for Individual Assistance.
The mortgage loan must: ▪ have been current or less than 31 days delinquent when the disaster occurred, and ▪ be at least 60 days delinquent but less than 360 days delinquent upon completion of the disaster-related forbearance plan.	The mortgage loan must: ▪ have been current or less than 31 days delinquent when the disaster occurred, and ▪ be 31 or more days delinquent but less than 360 days delinquent upon completion of the disaster-related forbearance plan.

Changes to Fannie Mae Flex Modification

Fannie Mae is updating the eligibility requirements described in *Unique Requirements for a Property Impacted by an Eligible Disaster* in D2-3.2-12, Fannie Mae Flex Modification, based on the following table.

Current Requirement	New Requirement
The property securing the mortgage loan must be located in a FEMA-Declared Disaster Area eligible for Individual Assistance.	The property securing the mortgage loan, or the borrower's place of employment, must be located in a FEMA-Declared Disaster Area eligible for Individual Assistance.

As a reminder, if the borrower fails the Trial Period Plan, or permanent modification, for a Fannie Mae Cap and Extend Modification for Disaster Relief or an Extend Mod, the servicer may evaluate the borrower for, and if eligible offer, a Fannie Mae Flex Modification (see *Unique Requirements for a Property Impacted by an Eligible Disaster* in D2-3.2-12, Fannie Mae Flex Modification).

In addition, the servicer is authorized to use the new *Flex Modification Post Disaster Forbearance Solicitation Letter*. If the borrower contacts the servicer and prefers another mortgage loan modification, the servicer must determine eligibility for an Extend Mod or a Fannie Mae Cap and Extend Modification for Disaster Relief, and offer such mortgage loan modification as described above in *Reviewing for a Workout Option after a Disaster-Related Forbearance*. If the borrower is eligible for one of these mortgage loan modifications, the servicer must send the borrower a new Streamlined Modification Post Disaster Forbearance Trial Period Plan *Evaluation Notice* within five days of borrower's communication to the servicer, revised to reflect the borrower's monthly P&I payment obligation as described in *Determining the Fannie Mae Extend Modification for Disaster Relief Terms*, or *Determining the Fannie Mae Cap and Extend Modification for Disaster Relief Terms* in D2-3.2-10, Fannie Mae Cap and Extend Modification for Disaster Relief, as applicable.

Disbursing Hazard Loss Draft Proceeds

In an effort to get insurance proceeds for insured loss events to the borrower as expeditiously as possible, we have made temporary changes to our loss proceeds disbursement policies. The servicer must release the insurance loss proceeds based on the status of the mortgage loan when the property securing the mortgage loan suffered the insurable damage.

Mortgage Loans Current or Less Than 31 Days Delinquent

The servicer must follow the requirements described in the following table for a mortgage loan that was current or less than 31 days delinquent when the disaster event occurred.

If the insurance loss proceeds are…	Then…	And…
less than or equal to $40,000	the servicer must determine if, based on the type of repairs (e.g., damage affecting the safety, soundness, or structural integrity of the property), a licensed contractor is required to restore or repair the property	the servicer is authorized to release the insurance loss proceeds payable only to the borrower.
equal to or greater than $40,000	the servicer must ensure a licensed contractor is used to restore or repair the property	the servicer must ▪ release an initial disbursement of insurance loss proceeds up to the greater of - $40,000, - 33% of the insurance loss proceeds, or - the amount by which the release funds exceed the sum of the UPB, accrued interest, and advances on the mortgage loan; ▪ disburse any remaining funds based on periodic inspections of the progress of the repair work; and ▪ release all proceeds payable to both the borrower and the licensed contractor.

> **Note:** *If the borrower has made advance payments to the contractor, then the servicer is authorized to reimburse the borrower by releasing insurance loss proceeds payable to only to the borrower as evidenced by paid receipts. Receipts are not necessary if the insurance loss proceeds are less than or equal to $40,000.*

The servicer must conduct a final inspection to ensure all repairs are completed. If the insurance loss proceeds are less than or equal to $20,000, a final inspection is not required. If cosmetic/non-structural work items totaling less than $5,000 are outstanding at the time of final inspection, the inspection can be considered final and the inspector must note any unfinished items with estimated completion dates.

In the event that a state or jurisdiction does not require licensing of contractors, the servicer may satisfy this requirement by ensuring the contractor is bonded and insured for an amount equal to or greater than the insurance loss proceeds.

Mortgage Loans 31 Days or More Delinquent

The servicer must take the actions described in the following table for a mortgage loan that was 31 days or more delinquent when the disaster event occurred.

✓	Without regard to the amount of the loss proceeds, the servicer must…
	Ensure a licensed contractor is used to restore or repair the property. **Note:** *In the event that a state or jurisdiction does not require licensing of contractors, the servicer may satisfy this requirement by ensuring the contractor is bonded and insured for an amount equal to or greater than the insurance loss proceeds.*
	Release insurance loss proceeds payable to the borrower and the licensed contractor. **Note:** *If the borrower has made advance payments to the licensed contractor, the servicer is authorized to reimburse the borrower by releasing the insurance loss proceeds payable to the borrower only if the borrower provides the servicer with receipts confirming the advance payments were made and that the work has been completed.*
	Evaluate the borrower for a workout option in accordance with D2-3.1-01, Determining the Appropriate Workout Option.

The servicer must disburse the insurance loss proceeds as outlined in the following table.

If the insurance loss proceeds are…	Then the servicer…
less than or equal to $5,000	is authorized to make the disbursement in one payment.
greater than $5,000	▪ must release an initial disbursement of insurance loss proceeds of - 25% of the total insurance loss proceeds but no more than $10,000, or - or the amount by which the release funds exceed the sum of the UPB, accrued interest and advances on the mortgage loan; and ▪ must disburse the remaining funds in increments not to exceed 25% of the insurance loss proceeds following inspection of the repairs.

The servicer must conduct a final inspection to ensure all repairs are completed.

Reimbursement for Property Inspection Costs to Confirm Repairs on an Insurable Loss

Servicers are authorized to submit an expense reimbursement request for inspections required to confirm repairs on properties with an insured loss event for current mortgage loans pursuant to the requirements set forth in B-5-01, Insured Loss Events.

Fannie Mae will reimburse servicers a maximum of $30 for each insured loss repair inspection requested using Fannie Mae’s expense reimbursement system. Servicers are authorized to use the line item titled Hazard Loss Repair Inspection.

Servicers may begin submitting requests for reimbursement immediately and must submit these reimbursement requests for current mortgage loans no later than one year after the costs are incurred.

For insured loss repair inspection costs on delinquent mortgage loans, the servicer must follow the expense reimbursement deadlines in E-5-01, Requesting Reimbursement for Expenses.

Verification of Acceptable Payment Record for Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original or Current Value of the Property

When reviewing the borrower's written request for termination of conventional mortgage insurance based on original or current value of the property, the servicer must not consider as part of an acceptable payment record any payment that is 30 or more days past due in the last 12 months, or 60 or more days past due in the last 24 months, that is attributable to a disaster event in which the servicer provided the following:

- disaster relief, or
- a forbearance plan, repayment plan, or Trial Period Plan and the borrower complied with the terms of any such plan.

The servicer must follow all the other applicable requirements in *Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Value of the Property* and *Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Value of the Property* in B-8.1-04, Termination of Conventional Mortgage Insurance, in accordance with applicable law.

*****

We will continue to monitor the situation in the impacted areas and alert you to any additional policy updates. If you have questions about this Lender Letter, please reach out to your Fannie Mae customer delivery team.

Carlos T. Perez
Senior Vice President and
Chief Credit Officer for Single-Family