

Servicing Guide Announcement SVC-2011-17

October 26, 2011

Lender-Paid Mortgage Insurance and Excess Servicing Fee on Modified Mortgage Loans

Servicing Guide, Part VII, Section 602.02.03: Executing and Processing the Modification Agreement; Part X, Section 405: Calculations Related to Servicing Fee/Excess Yield; and Announcement SVC-2011-09: Servicing Fees on Modified Mortgage Loans and Mortgagee Clause for Loans Registered with MERS

The *Servicing Guide*, Part II, Section 102: Conventional Mortgage Insurance states that the payment of renewal premiums for lender-paid mortgage insurance for conventional mortgage loans is the servicer's corporate responsibility. As such, the premiums must be paid from the servicer's own funds, which may be obtained from any source.

Effective December 1, 2011, Fannie Mae will no longer allow servicers to include a factor in the servicing fee for lender-paid mortgage insurance coverage that is paid through annual or monthly renewal premiums or allow an excess servicing fee after a mortgage loan has been modified. (Servicers are reminded that as required by the *Servicing Guide*, a modification of any MBS mortgage loan can only become effective after it has been removed from the MBS pool.)


For mortgage loans modified through Fannie Mae HAMP, the servicer is required to fund the payment of renewal premiums for lender-paid mortgage insurance from their own corporate funds. For all other Fannie Mae modifications (except for pending modifications as described below), the servicer has the option of funding the payment of renewal premiums for lender-paid mortgage insurance from:

- their own corporate funds, or
- the borrower's escrow account.

If the servicer chooses to include the lender-paid mortgage insurance as an item to be paid from the borrower's escrow account, the servicer is required to disclose this fee as required by applicable federal, state or local law. The servicer must establish the escrow deposit account in accordance with the *Servicing Guide*, Part III, Section 103: Escrow Deposit Accounts, prior to the beginning of the trial period.

As of the effective date of this Announcement, for all modifications where the trial period plan notice has been issued, the borrower is within the trial period, or the borrower has successfully completed the trial period but an executed modification agreement has not been reported in HomeSaver Solutions[®] Network, the servicer must fund payment of renewal premiums for lender-paid mortgage insurance solely from its own corporate funds and may not require the borrower to fund the premiums from an escrow account.

Servicers are reminded that lender-paid mortgage insurance coverage for conventional mortgage loans must be kept in effect until the mortgage loan is paid in full.



Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (1-888-326-6435) with any questions regarding this Announcement.

Gwen Muse-Evans
Vice President
Chief Risk Officer for Credit Portfolio Management