

Servicing Guide Announcement SVC-2014-13

July 1, 2014

Alternative to Repurchase for Mortgage Insurance Rescission

Fannie Mae announced enhancements to the selling representations and warranties framework in Announcement SEL-2014-05: *Lender Selling Representations and Warranties Framework Updates*. One of the enhancements introduced in Announcement SEL-2014-05 was a new alternative to repurchase, an “MI stand-in.” The “MI stand-in” is defined as the full mortgage insurance (MI) benefit that would have been payable under the original mortgage insurance policy if the mortgage loan liquidates.

This Announcement covers this new repurchase alternative, the MI stand-in, and the process for consideration for an MI stand-in.

Effective Date

Policies described in this Announcement are effective for mortgage loans acquired by Fannie Mae on or after July 1, 2014.

New Alternative to Repurchase: MI Stand-In

Servicing Guide, Part I, Section 201.03.02: Notifying Fannie Mae of Rescission, Cancellation, or Claim Denial; Section 207: Repurchase or Mortgage Substitution Requirements; Section 207.01: Mortgage Loan Repurchases Requested by Fannie Mae; Section 207.02: Repurchase Requested as a Result of Mortgage Insurance Coverage Violations; Part VIII, Section 301: Underwriting/Servicing Review Files; Announcement SEL-2014-05: Lender Selling Representations and Warranties Framework Updates

Fannie Mae will not require immediate repurchase when the mortgage insurance is rescinded on mortgage loans acquired on or after July 1, 2014, as indicated above. Instead, the responsible party and the mortgage loan may be eligible for an alternative to repurchase when the MI has been rescinded if:

- the responsible party meets Fannie Mae’s eligibility criteria; and
- the only defect Fannie Mae identifies in the mortgage loan is the rescission of MI; or
- the responsible party cures all defects identified, except the MI rescission defect, during the required cure period.

If the responsible party and the mortgage loan are deemed eligible for an alternative to repurchase, then the responsible party will be offered one of two agreements for an MI stand-in.

A mortgage loan will not be eligible for the MI stand-in if:

- Fannie Mae identifies other defects during the full file quality control review which the responsible party fails to cure during the required cure period, or
- the responsible party does not respond in a timely manner or submit all of the required documents within the timeframes required by Fannie Mae.

If the responsible party cures the defects that made the mortgage loan ineligible for the MI stand-in, Fannie Mae will review the mortgage loan and responsible party for this alternative to repurchase.

Process for Consideration for an MI Stand-In

The following table describes requirements the eligible responsible party must meet after Fannie Mae receives notification that the mortgage insurance has been rescinded.

Step	Responsible Party Action
1	Receives notification from Fannie Mae that the mortgage loan has been selected for a quality control review.
2	<p>Within 30 days of receipt of the notification from Fannie Mae, submits</p> <ul style="list-style-type: none"> ▪ a full mortgage loan file, and ▪ the supporting MI documentation. <p>The supporting MI documentation includes, but is not limited to:</p> <ul style="list-style-type: none"> ▪ a copy of the MI rescission letter, ▪ all communication related to the rescission of the MI and rebuttal, and ▪ the mortgage insurer's investigation reports.
3	Receives a letter from Fannie Mae that states that the mortgage loan is eligible for an MI stand-in as an alternative to repurchase, if Fannie Mae determines that the mortgage loan is eligible for an MI stand-in.
4	<p>Within 60 days of the date of the letter,</p> <ul style="list-style-type: none"> ▪ notifies Fannie Mae of its interest in the MI stand-in, or ▪ repurchases the mortgage loan, or ▪ has the MI reinstated and provides proof of the reinstatement to Fannie Mae.
5	<p>If the responsible party indicates its interest in the MI stand-in, Fannie Mae will offer either:</p> <ul style="list-style-type: none"> ▪ an Indemnification Agreement in which the responsible party agrees to immediately pay Fannie Mae the MI stand-in amount after liquidation, or ▪ a Pledge and Security Agreement in which the responsible party agrees to immediately post liquid assets required by Fannie Mae. <p><i>NOTE: Fannie Mae will evaluate the financial condition of the eligible responsible party and determine which MI stand-in option to offer the responsible party.</i></p>
6	Executes and return the relevant documents and post collateral, if required, within the timeframe specified.



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

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