



## Lender Letter LL-2018-03

July 18, 2018

### To: All Fannie Mae Single-Family Servicers Mortgage Insurance Termination

To simplify the process of evaluating borrower-initiated requests for the termination of conventional mortgage insurance (MI), we are updating our requirements. These new requirements will result in a better customer experience for both servicers and borrowers.

Our requirements related to borrower-initiated conventional MI termination requests have been changed to reflect the following:

- For borrower-initiated MI termination requests based on original value, allowing the use of Fannie Mae's Automated Property Service™ (APS) to verify the current value of the property, resulting in servicers no longer being required to warrant the property value;
- For borrower-initiated MI termination requests based on current value, allowing the use of broker price opinions (BPOs) through our Valuation Management System (VMS) to verify the current value of the property;
- For borrower-initiated MI terminations based on current value with property improvements, changing the loan-to-value (LTV) threshold from 75% or less to 80% or less and providing examples of what are considered substantial improvements;
- Allowing borrower-initiated terminations to be evaluated based on a borrower's written or verbal request;
- Incorporating into the *Servicing Guide* changes announced in [LL-2017-09, Fannie Mae Extend Modification for Disaster Relief and Other Clarifications for Mortgage Loans Impacted by Disaster Events](#), related to evaluating a borrower's request for termination of MI for any mortgage loan that is impacted by disaster; and
- Removing outdated original value termination requirements.

Unless stated otherwise, these requirements will replace the following sections in the *Servicing Guide*:

- "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](#); and
- "Verifying Property Value for Mortgage Insurance Termination" in [F-1-02, Escrow, Taxes, Assessments, and Insurance](#).

#### Effective Date

Servicers are encouraged to implement these policy changes as early as APS and VMS become available on January 1, 2019; however, servicers are required to implement these changes by March 1, 2019, unless otherwise noted in this Lender Letter.

#### Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Original Value of the Property

The servicer must take the following steps to evaluate the borrower's request for MI termination because of a curtailment:



1. Verify the LTV ratio, or combined loan-to-value (CLTV) ratio if applicable, of the mortgage loan meets our eligibility criteria.

The following table describes the LTV ratio, or CLTV ratio if applicable, eligibility criteria.

If the mortgage loan is...	Then...
a first lien mortgage loan secured by a one-unit principal residence or second home	the LTV ratio eligibility criterion is met on the date the mortgage loan balance is first scheduled to reach 80% (or actually reaches 80%) of the original value of the property.
a first lien mortgage loan secured by a one- to four-unit investment property or a two- to four-unit principal residence	the LTV ratio eligibility criterion is met on the date the outstanding principal balance of the mortgage loan reaches 70% percentage of the original value of the property.
a second lien mortgage loan	the CLTV eligibility criterion is met on the date the sum of the outstanding principal balances of all mortgage loans secured by the property reaches 70% of the value of the property at the time the second lien mortgage loan was originated.

**NOTE:** *The servicer must determine the original value of the property in accordance with applicable law.*

2. Verify the borrower has an acceptable payment record.

An acceptable payment record is achieved when the mortgage loan

- is current when the termination is requested, which means the mortgage loan payment for the month preceding the date of the termination request was paid;
- has no payment 30 or more days past due in the last 12 months; and
- has no payment 60 or more days past due in the last 24 months.

**NOTE:** *When assessing the payment history for a mortgage loan that has been outstanding for fewer than 24 months (or for a current borrower who assumed a mortgage loan within the last 23 months), the servicer must apply the acceptable payment record criterion to the length of time the mortgage loan has been outstanding (or that has elapsed since the current borrower assumed the mortgage loan).*

The 12- and 24-month payment histories must be measured backward from the later of the date

- the balance is first scheduled to reach, or actually reaches, 80% of the original value of the property; or
- the borrower actually requests termination.

3. Verify the current value of the property is not less than its original value.

The servicer must obtain a property valuation from Fannie Mae's APS or follow the *Ordering Property Values for Mortgage Insurance Termination* section below to verify that the current value of the property is at least equal to the original value of the property and take the required actions based on the following table.



If ...	Then the servicer must...
APS renders a current property value with a reliable confidence score and the value is at least equal to the original value of the property	terminate the MI and notify the borrower within 30 days of receiving the value.
APS renders a current property value with a reliable confidence score and the value is less than the original value of the property	deny the borrower's request for termination unless the borrower: <ul style="list-style-type: none"> <li>▪ pays down the mortgage loan balance to the point that it satisfies Fannie Mae's applicable LTV or CLTV ratio eligibility criterion, or</li> <li>▪ chooses to verify that the current value of the property is at least equal to the original value of the property by following the <i>Ordering Property Values for Mortgage Insurance Termination</i> section below.</li> </ul>
APS does not render a property value with a reliable confidence score	deny the borrower's request for termination unless the borrower chooses to verify that the current value of the property is at least equal to the original value of the property by following the <i>Ordering Property Values for Mortgage Insurance Termination</i> section below.
The BPO or appraised value is at least equal to the original value of the property	terminate the MI and notify the borrower within 30 days of receiving the value.
The BPO or appraised value is less than the original value of the property	deny the borrower's request for termination unless the borrower pays down the mortgage loan balance to the point that it satisfies Fannie Mae's applicable LTV or CLTV ratio eligibility criterion.

**NOTE:** The APS value will only be updated after 120 days.

The servicer must notify the borrower if the request for termination is denied and provide the grounds for denial, including the results of the APS value, BPO, or appraisal used to make the determination. This notice must be sent within 30 days of the date the servicer received the APS value, BPO, or appraisal, if applicable.

### **Borrower-Initiated Termination of Conventional Mortgage Insurance Based on Current Value of the Property**

If the borrower's request for termination includes the information necessary to reach a decision, the servicer must evaluate the request based on the following:

1. Verify the LTV ratio, or CLTV ratio if applicable, of the mortgage loan meets Fannie Mae's eligibility criteria.

Satisfaction that the mortgage loan meets the applicable LTV ratio or CLTV ratio eligibility criterion must be evidenced by obtaining a property valuation from Fannie Mae's VMS application as described in *Ordering Property Values for Mortgage Insurance Termination* below.



The following table describes the LTV ratio (or CLTV ratio, if applicable) eligibility criteria.

If the mortgage loan is...	Then...
a first lien mortgage loan secured by a one-unit principal residence or second home	<p>the LTV ratio must be:</p> <ul style="list-style-type: none"> <li>▪ 75% or less, if the seasoning of the mortgage loan is between two and five years; or</li> <li>▪ 80% or less, if the seasoning of the mortgage loan is greater than five years.</li> </ul> <p>If Fannie Mae's minimum two-year seasoning requirement is waived because the property improvements made by the borrower increased the property value, the LTV ratio for the first lien mortgage loan must be 80% or less.</p> <p><b>NOTE:</b> <i>The borrower must provide details to the servicer on the property improvements made since the mortgage loan's origination. Improvements that increase value are typically renovations that substantially improve marketability and extend the useful life of the property (e.g. kitchen and bathroom renovations and/or the addition of square footage). Repairs that are made to keep the property maintained and fully functional are not considered improvements.</i></p>
a first lien mortgage loan secured by a one- to four-unit investment property or a two- to four-unit principal residence	the LTV ratio must be 70% or less, regardless of the seasoning of the mortgage loan.
a second lien mortgage loan	the CLTV ratio must be 70% or less, regardless of the seasoning of the mortgage loan.

2. Verify the borrower has an acceptable payment record.

An acceptable payment record is achieved when the mortgage loan

- is current when the termination is requested, which means the mortgage loan payment for the month preceding the date of the termination request was paid;
- has no payment 30 or more days past due in the last 12 months; and
- has no payment 60 or more days past due in the last 24 months.

**NOTE:** *When assessing the payment history for a mortgage loan that has been outstanding for fewer than 24 months (or for a current borrower who assumed a mortgage loan within the last 23 months), the servicer must apply the acceptable payment record criterion to the length of time the mortgage loan has been outstanding (or that has elapsed since the current borrower assumed the mortgage loan).*

If a mortgage loan has been assumed, the servicer must not agree to the termination unless the current borrower has a 24- month payment history for the mortgage loan.



The servicer must notify the borrower if the request for termination is denied and provide the reasons for denial, including the results of the BPO or appraisal. This notice must be sent within 30 days after the latter of the date the servicer received

- the borrower's request for termination, or
- the BPO or appraisal.

## Ordering Property Values for Mortgage Insurance Termination

The BPO or appraisal to determine the current value of the property is at the expense of the borrower. As soon as the servicer receives the applicable fee for the valuation from the borrower, on one unit properties it must order a BPO, or appraisal if the servicer determines it is required by law, using Fannie Mae's VMS application and the updated [VMS Valuation Order Template](#). On two- to four- unit properties, the servicer must order an appraisal using Fannie Mae's VMS application and the updated [VMS Valuation Order Template](#). The borrower must be charged for the cost of the BPO or appraisal based on the following table.

Valuation Type	Cost
BPO	\$150
Restricted appraisal one-unit	\$325
Appraisal two- to four-unit	\$750

If the borrower is requesting MI termination based on current value of the property because of property improvements made by the borrower, the servicer must include details of the property improvements provided by the borrower in the [VMS Valuation Order Template](#).

## Verification of Acceptable Payment Record for Borrowers Impacted by a Disaster

Effective immediately, when verifying the borrower's acceptable payment record for MI termination the servicer must not consider 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.

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Contact your Fannie Mae account team, Portfolio Manager, or Fannie Mae's Single-Family Servicer Support Center at 1-800-2FANNIE (1-800-232-6643) with any questions regarding this Lender Letter.

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