



Borrower-Initiated MI Termination Requests Using SMDU Frequently Asked Questions

August 6, 2024

Updated policy requirements for the borrower-initiated termination of conventional mortgage insurance (MI) simplified the process of evaluating borrower-initiated requests for MI termination. This streamlined process delivers a better customer experience for both servicers and borrowers. Listed below are frequently asked questions related to the implementation of the MI termination policy using Servicing Management Default Underwriter™ (SMDU™).

Borrower-Initiated MI Termination

Q1. Where can I find Fannie Mae's MI Termination policy, including borrower-initiated requests?

Fannie Mae's MI Termination policies can be found in *Servicing Guide* [B-8.1-04, Termination of Conventional Mortgage Insurance and F-1-02, Escrow, Taxes, Assessments, and Insurance](#).

Q2. Does a servicer receive limited liability relief on the SMDU MI Termination decision for a borrower-initiated request based on the Original Value of the property?

Yes, as long as SMDU is used to evaluate and decision the borrower-initiated MI Termination request based on Original Value of the property, and the servicer uses the Automated Valuation Model (AVM) value and data used by SMDU. If a servicer updates any of the following data elements: *Total UPB, Property Usage type, Property Number of Units, Is Loan Current? Number of 30 Days or More Past Due in the Last 12 Months, Number of 60 Days or More Past Due in the Last 24 Months and/or Disaster Attestation* the servicer warrants the accuracy of the data, upon which the decision was based. Inaccurate data may impact limited liability relief. SMDU's calculation of the unpaid principal balance (UPB) for purposes of determining eligibility for MI termination based on Original Value of the property (Evaluation UPB) is based solely on the borrower's actual payments, not on the amortization schedule for the mortgage loan. Servicer is responsible for terminating MI in accordance with applicable law; including, as applicable, consideration of the amortization schedule related to the mortgage loan.

Q3. How can the list of substantial improvements be provided to SMDU?

Substantial improvements can be entered into the SMDU User Interface (SMDU UI) via the Order Valuation screen either as a line item(s) or by uploading a PDF. If the list is provided via a PDF, the PDF must not contain any unnecessary nonpublic personal information (NPI) i.e., copies of checks or credit card numbers. Servicers using the Loan Servicing Property Valuation Order Management Application Programming Interface (API) may also provide substantial improvement details as data in the Order Creation request.

Q4. What is the dollar amount or level of improvement required to meet the requirements of borrower-initiated MI termination request based on Current Value with substantial improvements?

Borrower-initiated MI termination based on Current Value with substantial improvements is an option that allows a borrower to remove MI based on the substantial improvements versus using those funds to pay down the UPB to meet the applicable MI termination LTV threshold. A good reasonableness test is the dollar amount a borrower spends on substantial improvements should be commensurate with the additional dollar amount required to reduce the UPB to meet the required LTV ratio based upon the property value at origination.



Q5. For Fannie Mae’s appraisal pricing, will prices fluctuate based on location, property type, etc.?

Fannie Mae has standardized contractual pricing for a BPO or appraisal ordered through SMDU.

Borrower Related Questions

Q6. If a servicer believes it is necessary or required to provide the AVM valuation to the borrower, may it do so?

Yes, provided that whenever the AVM valuation is provided to a borrower the following disclaimer is included in the communication: *“This estimate of value was developed by an automated valuation model that was made available to your servicer by Fannie Mae. This estimate of value is not the result of appraisal, nor was it developed by a state licensed or certified appraiser. Fannie Mae makes no representations or warranties, express or implied, regarding the property, the condition of the property, or the estimated value of the property. This estimate is intended to be used solely by the servicer. If you have concerns with this valuation, please talk to your servicer about your options, which include asking your servicer to order a BPO or appraisal.”*

Q7. Why isn’t the person who went to the borrower’s home to collect data for the home valuation the same as the individual signing the valuation report?

The data collector who visits the property is just one participant within the valuation process. The data collector may be different from the appraiser or agent that signs off on the valuation report.

Using SMDU for MI Termination

Q8. What is SMDU?

SMDU is Fannie Mae’s real-time workout decisioning and case reporting platform, available to servicers since 2011. It is available through a seamless business-to-business integration or through its web-based user interface (SMDU UI). Fannie Mae is leveraging SMDU to automate the process of evaluating borrower-initiated requests for terminating conventional MI based on either the Original Value or Current Value of the property. SMDU’s calculation of the unpaid principal balance (UPB) for purposes of determining eligibility for MI termination based on Original Value of the property (Evaluation UPB) is based solely on the borrower’s actual payments, not on the amortization schedule for the mortgage loan. Servicer is responsible for terminating MI in accordance with applicable law; including, as applicable, consideration of the amortization schedule related to the mortgage loan. SMDU is not a legal compliance platform. If the servicer believes it is necessary or required to terminate MI in accordance with applicable law, despite an MI termination ineligibility result in SMDU, the servicer may do so provided it documents the loan file accordingly.

Q9. Who and where do users request access to SMDU?

Servicers must use SMDU to evaluate borrower-initiated requests to terminate MI based on Original Value and/or Current Value as well as ordering the valuation. This can be done via the SMDU UI and/or the Mortgage Insurance (MI) Termination Evaluation and Loan Servicing Property Valuation Order Management Application Programming Interfaces (APIs).

SMDU UI: Refer to the [SMDU UI Technology Registration Job Aid](#) to request the applicable SMDU UI MI termination role. Once the user role has been granted, a user can access the *SMDU UI Borrower-Initiated Termination of MI User Guide*. This Guide provides instructions on how to use the SMDU UI to conduct a variety of actions, such as evaluating a borrower-



initiated request to terminate conventional mortgage insurance based on the Original Value and/or Current, ordering a valuation, and appealing a valuation.

APIs: For information on developing to the Mortgage Insurance (MI) Termination Evaluation or Loan Servicing Property Valuation Order Management APIs, refer to the [Fannie Mae API Portal](#).

Q10. How does SMDU determine the UPB that will be used to determine MI Termination eligibility in connection with a borrower's request for termination based on the Original Value of the Property?

SMDU's calculation of the unpaid principal balance (UPB) for purposes of determining eligibility for MI termination based on Original Value of the property (Evaluation UPB) is based solely on the borrower's actual payments, not on the amortization schedule for the mortgage loan. Servicer is responsible for terminating MI in accordance with applicable law; including, as applicable, consideration of the amortization schedule related to the mortgage loan. When a mortgage loan is being evaluated by SMDU for termination of mortgage insurance in connection with a borrower's request for termination based on the Original Value of the property and the:

- loan's latest completed workout is a COVID-19 payment deferral, disaster payment deferral or a payment deferral ("payment deferral workouts") with no prior modification, then the Evaluation UPB based solely on the borrower's actual payments will not include the non-principal deferred amounts from the payment deferral workout (i.e., Deferred Interest, Deferred Escrow Advances, Deferred Other Advances, Deferred Attorney Fees and Costs).
- loan has received multiple consecutive payment deferral workouts, then the Evaluation UPB based solely on the borrower's actual payments will not include any non-principal deferred amounts from the payment deferrals (i.e., Deferred Interest, Deferred Escrow Advances, Deferred Other Advances, Deferred Attorney Fees and Costs).
- loan's latest completed workout is one of the payment deferral workouts and had a prior modification with a principal forbearance, then the Evaluation UPB based solely on the borrower's actual payments will not include the non-principal deferred amounts from the payment deferral workout (i.e. Deferred Interest, Deferred Escrow Advances, Deferred Other Advances, Deferred Attorney Fees and Costs).
- loan's latest completed workout is a modification or there has been no prior completed workout, then the Evaluation UPB based solely on the borrower's actual payments is the total outstanding actual UPB inclusive of any existing principal forbearance amounts (if applicable).

Q11. What are a servicer's responsibilities when updating data used in the borrower-initiated MI termination request evaluation?

As part of the borrower-initiated MI termination request evaluation a servicer may use the SMDU UI to update any of the following data elements to match what is in their system of record: *Total Unpaid Principal Balance (Total UPB), Property Usage Property Number of Units, Is Loan Current?, Number of 30 Days or More Past Due in the Last 12 Months, Number of 60 Days or More Past Due in the Last 24 Months and/or Disaster Attestation*. When this occurs, the servicer is responsible for the accuracy and integrity of this updated data used in the evaluation. In addition, any data change(s) made in SMDU as part of the MI termination evaluation must also be made to the applicable Fannie Mae system as required by the Servicing Guide (see below), as soon as possible, but no later than 30 days after the SMDU MI termination evaluation.

- Total UPB: Update using Loan Servicing Data Utility (LSDU)
- Property Usage and/or Property Number of Units: Update using the Post-Purchase Adjustment process



Q12. When should a servicer update the Total Unpaid Principal Balance (UPB) in SMDU?

The Total UPB amount in SMDU should only be updated when the servicer's system reflects a different Total UPB amount. The Total UPB is defined as the outstanding actual unpaid principal balance inclusive of principal forbearance. A difference in Total UPB amounts may occur when a borrower's payment has been received and recorded in the servicer's system but has not yet been reported to Fannie Mae. If a servicer updates the Total UPB used in the evaluation, that Total UPB must reflect an actual payment received by the servicer and not a projected Total UPB based upon a borrower's promise to pay. A servicer is responsible for the accuracy of the changed Total UPB used in the evaluation.

Q13. Can a loan that was assumed less than 24 months ago be evaluated by SMDU for MI Termination based on Current Value with Substantial Improvements?

Yes. When the servicer provides the "Loan Assumption Date" to SMDU that date is used in the evaluation for MI Termination based on Current Value with Substantial Improvements.

Q14. Is there a loan age limitation for the MI Termination Substantial Improvements reason code request?

No. The MI Termination Substantial Improvements reason code may be selected for a loan of any age. LTV requirements for MI Termination Substantial Improvements are the same, regardless of age.

Q15. Will SMDU change a servicer BPO order to an appraisal if the state has a specific related statute?

No, the servicer is responsible for determining whether a BPO or appraisal is appropriate or required. SMDU has the ability for a servicer to request a BPO or appraisal, depending on geographic requirements as determined by the servicer. In some circumstances, Fannie Mae may choose to order an appraisal in lieu of a BPO for operational reasons. In these circumstances, there will be no additional charge for the appraisal.

Q16. How will the one-unit and two- to four-unit appraisals obtained through SMDU differ?

The one-unit appraisal obtained through SMDU will be an appraisal completed by a licensed or certified appraiser based upon data provided by a property inspector. These can be ordered in SMDU for single unit homes when the servicer has determined an appraisal is required by law for that jurisdiction.

The two-to-four-unit appraisal will be completed by a licensed or certified appraiser using the Small Residential Income Property Appraisal Report Form 1025.

Q17. What is the timeline for receiving the result of a BPO or appraisal ordered via SMDU?

Typically, 10 calendar days or less, but it will vary based on the time needed to coordinate access to the property. In general, delays are caused by the following:

1. Unresponsive Borrower/Delayed scheduling for access
2. Rural Properties
3. No/Limited Comparable Properties

It is important that servicers review an unread message(s) from Fannie Mae as it may include a valuation status update. Servicers can also send a message to Fannie Mae. Refer to the [SMDU UI Borrower-Initiated Termination of MI User Guide](#) for more information on receiving and sending a message from/to Fannie Mae via the SMDU UI. Messages can also be obtained through the Loan Servicing Property Valuation Order Management API. For additional assistance related to valuation delays, servicers also have the option to email mi_terminations_escalations@fanniemae.com.



Q18. When a BPO or appraisal is ordered, who will be contacting the borrower to inspect the property?

- A broker will contact the borrower to inspect the property when a BPO is ordered.
- A property inspector will contact the borrower when a one-unit appraisal is ordered.
- An appraiser will contact the borrower when a two- to four-unit appraisal is ordered.

Each respective provider will inform the borrower that they are completing the inspection on behalf of the servicer.

Q19. If a borrower disagrees with the provided valuation, what is the appeals process?

An appeal of a value for a Current Value, Current Value with Substantial Improvements, or Original Value request based on a BPO or appraisal may be initiated via the SMDU UI by selecting “**Appeal Initiation Document**”. Fannie Mae will require relevant data be submitted to substantiate the borrower’s appeal of the value. If additional comparable sales and/or listings are being submitted, they must have been available as of the date the BPO or appraisal was completed. Information that should be included with the appeal request are:

- Fannie Mae loan number
- Servicer Loan number
- Full subject property address
- Borrower name
- Additional data for review
- A brief explanation of the homeowner’s concerns

Borrowers may not appeal the AVM values utilized for Original Value. If a borrower does not believe the provided AVM value accurately reflects their property value, or if an AVM value is unavailable, they may choose to pay for a BPO or appraisal as found in [Servicing Guide F-1-02: Escrow, Taxes, Assessments, and Insurance](#). Orders for a BPO or appraisal must be initiated by the servicer through SMDU. The value from the BPO or appraisal will replace the AVM value and will be valid for 120 days.

Q20. Is there a time limit for submitting an appeal of the valuation if the homeowner disagrees with the BPO or appraisal?

The BPO or appraisal value is valid for 120 days from the date the initial valuation product is delivered to SMDU. Servicers are encouraged to submit a homeowner appeal within 60 days of initial evaluation date. This will allow adequate time for the information provided by the homeowner to be reviewed with the service provider. For clarification, submitting a homeowner appeal does not extend the 120-day expiration date.

Q21. May a servicer submit a borrower-initiated MI termination appeal of Original or Current Value if the BPO or appraisal valuation supports MI termination?

No, if the property valuation supports MI termination, the servicer may not submit an appeal of the valuation.

Q22. How can servicers remit the BPO and appraisal fees to Fannie Mae?

A BPO or appraisal returned to the servicer via SMDU during a calendar month will be invoiced the following month and will be managed through Fannie Mae invoicing.

Q23. How does a Servicer obtain access to MI Termination bills?



Users will need to request access to [Fannie Mae Invoicing](#) using the [Fannie Mae Technology Manager for Administrators Job Aid](#). Users with the new role: INV_CSRS_MI_TERMINATION_RECOVERY_USER will then be able to view and accept MI Termination bills.

Q24. How does a servicer remit payment to Fannie Mae for a BPO or appraisal used for borrower-initiated MI termination using SMDU?

Servicers must use the Cash Remittance System (CRS™) to remit payment using special remittance code 360 - MI Termination Recovery Proceeds. User information can be found in the [CRS User Guide](#).

Points of Contact

Servicers with additional inquiries related to MI termination should contact mi_terminations_escalations@fanniemae.com or your Business Account Manager.