



Borrower-Initiated Mortgage Insurance Termination Requests Using SMDU

Frequently Asked Questions

June 9, 2020

Updated policy requirements for the borrower-initiated termination of conventional mortgage insurance (MI) simplifies the process of evaluating borrower-initiated requests for MI termination. This streamlined process will deliver 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™).

Servicers were encouraged to implement the MI termination policy based on Original Value beginning Jan 1, 2019, and MI termination policy based on Current Value beginning March 1, 2019; however, implementation was required by September 1, 2019.

Borrower-Initiated MI Termination Request Policy changes

Q1. Where can I find details on borrower-initiated MI termination request requirements?

The complete requirements are described in the *Servicing Guide* [B-8.1-04: Termination of Conventional Mortgage Insurance](#).

Q2. Can a servicer solicit borrowers to terminate MI coverage using the new servicing policy guidelines regarding MI termination using SMDU?

Yes. Effective May 15, 2019, Fannie Mae's *Servicing Guide* was updated to allow servicers to solicit borrowers for MI termination based on original value only. Borrowers must contact servicers to request MI termination following a solicitation.

Q3. What are the changes to the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on Original Value of the property?

Beginning January 1, 2019, for borrower-initiated MI termination requests based on Original Value of the property, the servicer can use the Automated Valuation Model (AVM) value used by SMDU to determine the current value of the property for purposes of determining the mortgage loan's eligibility for MI termination.

Q4. 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.



Q5. What are the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on the Current Value of the property?

Beginning September 1, 2019, for borrower-initiated MI termination requests based on Current Value of the property, the servicer must use the BPO or appraisal* ordered through SMDU to verify the Current Value of the property. When the reason for ordering a BPO or appraisal is due to substantial improvements of the property, a description of those substantial improvements must be provided with the valuation request.

When an evaluation of mortgage insurance is based on the Current Value due to substantial improvements and the loan seasoning is less than two years, the loan-to-value (LTV) threshold is now 80% or less.

**if the servicer determines it is required by law*

Q6. How can the list of substantial improvements be provided to SMDU?

The list can be entered into the 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.

Q7. Are servicers required to use Fannie Mae's approved list of BPO vendors and appraisers?

Beginning September 1, 2019, servicers must use SMDU to place an order for a BPO or appraisal to evaluate borrower-initiated MI terminations based on Current Value or when an AVM can't be used in the evaluation of a borrower-initiated MI termination based on Original Value.

Q8. If the servicer orders a BPO or appraisal through SMDU to terminate MI and that value is lower than SMDU's AVM, can the AVM still be used to determine the amount the borrower needs to pay down the UPB to satisfy the LTV ratio requirement?

No, once a BPO or appraisal is successfully ordered, that value then becomes the "As Is Value" and must be used for the evaluation. The BPO or appraisal value is valid for 120 days. The 120 day count starts on the date the Valuation Order is completed, which is also the same date SMDU evaluates the loan. If the borrower disagrees with the BPO or appraised value, the servicer may submit an appeal as long as the criteria is met. See question Q11 for additional information.

Q9. What information must the servicer provide when the loan* seasoning is less than two years?

If the loan seasoning is less than two years old, the servicer must obtain the list of improvements made by the borrower *post-origination* along with the *actual* cost of these improvements. The servicer must include this information when ordering the BPO or appraisal via SMDU. The current property value will be determined by the BPO or appraisal, therefore, the servicer should not consider improvement impacts on property value when submitting the improvement costs (see question 21).

**Only applies to 1-unit principal residence or second homes. 1-4 unit investment or 2-4 unit principal residences must be seasoned at least 2 years.*

Q10. What is Fannie Mae's definition of substantial improvements?

Substantial improvements are those that impact collateral value by improving function, modernizing, enhancing market appeal, and/or extending its useful life.



Q11. 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.

Q12. What is the cost to the borrower when evaluating an MI termination request based on Original Value?

There is no cost to the borrower or the servicer for a MI termination evaluation based on the Original Value that is successfully processed through SMDU using Fannie Mae's AVM. If a borrower's Original Value evaluation for termination is denied due to an AVM not being available, doesn't meet the required confidence score, and/or can't be used in the evaluation, and a BPO or appraisal is subsequently ordered, it is at the expense of the borrower. As of September 1, 2019, a servicer must order the BPO or appraisal via SMDU. Below are the applicable costs for a BPO or appraisal.

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

For one-unit properties: When the servicer receives the fee for the valuation from the borrower, the servicer must order a BPO, or appraisal if the servicer determines it's required by law, using SMDU.

For two- to four-unit properties: When the servicer receives the fee for the valuation from the borrower, the servicer must order an appraisal using SMDU.

Q13. What will be the cost to the borrower when evaluating an MI termination request based on Current Value?

Below are the applicable costs for a BPO or appraisal, which must be at the expense of the borrower:

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

For one-unit properties: When the servicer receives the fee for the valuation from the borrower, servicer must order a BPO or appraisal if the servicer determines it's required by law, using SMDU.

For two- to four-unit properties: When the servicer receives the fee for the valuation from the borrower, servicer must order an appraisal using SMDU.



Q14. 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

Q15. 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.”*

Q16. 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.

Q17. Is there a change for verification of acceptable payment record for borrowers impacted by a disaster?

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

Using SMDU for MI Termination

Q18. 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.

Q19. Who and where do users request access to SMDU?

Most servicers already use SMDU for workout decisioning and case reporting; however, as of September 1, 2019, 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. In order to do so, users must use the Fannie Mae [MI Termination Specific Technology Manager Job Aid](#) to garner access to the SMDU UI and the MI termination role as well as use the [Fannie Mae Borrower-Initiated Request for Mortgage Insurance \(MI\) Termination Servicer 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 Value, ordering a valuation, and appealing a valuation.



Q20. 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 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 Servicer’s Reconciliation Facility (SURF™)
- Property Usage and/or Property Number of Units: Update using the [Post-Purchase Adjustment process](#)

Q21. 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.

Q22. 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.

Q23. 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.

Q24. Is SMDU replacing VMS for obtaining property values for loss mitigation activities?

No, at this time SMDU is not replacing VMS for obtaining property values for liquidation loss mitigation activities, such as foreclosure bidding instructions, a Mortgage Release™ (deed-in-lieu of foreclosure) and short sale. Servicers must continue using the VMS application and VMS Valuation Order Template to obtain values from Fannie Mae for such liquidation activities.

Q25. 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.

Q26. 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

Servicers should remember to check the Messages on the Valuation tab within SMDU for any possible status updates. For additional assistance related to valuation delays, servicers also have the option to email mi_terminations_escalations@fanniemae.com.

Q27. 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.

Q28. If a borrower appeals the valuation, what is the appeals process?

For a borrower-initiated MI termination evaluation request based on Original Value, SMDU's AVM values will be updated monthly. However, if an Original Value termination evaluation is completed on a loan, the AVM value will be updated only after 120 days have passed following the most recent evaluation date. A borrower may choose to pay for a BPO or appraisal when they believe the AVM value doesn't accurately reflect their property value.

A borrower-initiated MI termination evaluation appeal of Original or Current Value based on a BPO or appraisal may be initiated via SMDU by selecting "**Appeal Initiation Document**". Fannie Mae will require relevant data be submitted to substantiate the borrower's appeal of the value. The relevant data 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

Q29. 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.

Q30. 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.

Q31. Will there be application programming interfaces (API's) available for MI termination based on Original Value and Current Value?

Yes. An API for MI Termination data is scheduled for release in 2019. Fannie Mae APIs information can be found on the [Fannie Mae API Portal](#).

Q32. 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.

Q33. 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.

Q34. 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 the new MI termination policy should contact mi_terminations_escalations@fanniemae.com or your Customer Management Solutions Team or Portfolio Manager.