

Servicing Guide Announcement SVC-2014-19

October 17, 2014

Updates to Property (Hazard) and Flood Insurance Losses and Insurance Claim Settlements

Fannie Mae's *Servicing Guide* currently requires handling insurance losses based on the cause of the damages (disaster or non-disaster). With this Announcement, Fannie Mae is providing new guidance for handling insurance losses based on the mortgage loan status at the time the servicer receives notification of damages, regardless of the cause of the damage.

This Announcement supersedes and replaces the following sections of the *Servicing Guide* in their entirety:

- Part II, Chapter 5: Insurance Losses
- Part II, Section 501: Insurance Claim Settlements
- Part II, Section 501.01: Disposition of Insurance Proceeds Other Than for Natural Disasters
- Part II, Section 501.02: Report of Hazard Insurance Loss
- Part III, Section 1103: Insurance Claim Settlements
- Part III, Section 1103.01: Current Mortgage Loans
- Part III, Section 1103.02: Mortgage Loans 30 Days to Less Than 90 Days Delinquent or That Are Current Under the Terms of a Bankruptcy Plan
- Part III, Section 1103.03: Mortgage Loans 90 Days or More Delinquent, Mortgage Loans That Are Delinquent Under the Terms of a Bankruptcy Plan, and Mortgage Loans in Foreclosure
- Part III, Section 1103.04: Deposit of the Insurance Proceeds

Effective Date

The servicer is encouraged to implement the new policies in this Announcement immediately but must implement these new policies no later than February 1, 2015.

Servicer Responsibilities

The servicer must have written procedures to protect the interests of Fannie Mae and the borrower when an insurance loss event occurs.

When a property securing a mortgage loan experiences an insured loss, the servicer's action depends upon whether the property can be legally rebuilt, as described in the following table.

If...	Then the servicer must...
the property can be legally rebuilt,	determine the appropriate actions based on the status of the mortgage loan at the time the servicer receives notification of damages, as described in this Announcement.
the property cannot be legally rebuilt,	use any insurance loss proceeds to reduce the outstanding mortgage loan debt.

The following table provides a list of the servicer's responsibilities when there is an insurable loss on a property.

✓	The servicer must...
	obtain complete details on the damage to the property and determine the needed repairs,
	ensure the proof of loss claim is filed within the time period specified in the insurance policy and monitor the disbursement of insurance loss proceeds (See Disbursing Insurance Loss Proceeds below for additional information), <i>NOTE: If servicer is unable to establish contact with the borrower, the servicer must contact the insurance carrier to determine whether the borrower has filed the proof of loss claim. If the borrower has not filed the claim, the servicer must file a proof of loss claim under the standard mortgagee clause and collect the insurance loss proceeds on Fannie Mae's behalf.</i>
	deposit the non-disbursed funds into an interest-bearing account (See Depositing the Insurance Loss Proceeds below for additional information),
	discuss with the borrower any plans for repairing the property, <i>NOTE: If the servicer is unable to establish contact with the borrower or the property is abandoned, the servicer must ensure the property is maintained and secured by complying with the requirements in the Servicing Guide (Part VIII, Section 108: Property Maintenance and Management) and in the Property Maintenance and Management: Property Preservation Matrix and Reference Guide to ensure property is maintained and preserved.</i>
	review and approve the final plans for repair including obtaining the necessary bids to repair the property,
	monitor and inspect repairs as completed to verify the repairs comply with the final repair plan, <i>NOTE: The servicer must ensure the property inspection report accurately assesses the condition of the property, is dated, and identifies the mortgagor(s) and the property address.</i>
	conduct a final inspection to ensure all repairs are completed, and <i>NOTE: If the mortgage loan is current at the time of the loss event and the insurance proceeds are less than or equal to \$5,000, a final inspection is not required.</i>
	obtain the proper lien releases, if applicable.

If a property inspection reveals an insurable loss event and the proof of loss claim is not filed, is denied, or is curtailed due to the servicer's failure to file a timely claim, the servicer must make Fannie Mae whole for any losses relating to the property damage expenses or fees Fannie Mae incurs.

Disbursing Insurance Loss Proceeds

Servicing Guide Announcement SVC-2013-16: Updates to Assistance in Disasters

If the insurance loss proceeds exceed the sum of the Unpaid Principal Balance (UPB), accrued interest, and advances, then the servicer must issue the borrower a check for the amount by which the insurance loss proceeds exceed the UPB, accrued interest, and advances.

If the borrower wants to repair or restore the property, then the servicer must disburse the insurance loss proceeds in the manner described in the following table for all mortgage loans where:

- a foreclosure sale date has not been scheduled, and

- the property securing the mortgage loan is not abandoned.

If, at the time the servicer receives notification of damages, the mortgage loan is...	Then the servicer...	And...
current or less than 31 days delinquent,	is authorized to release an initial disbursement of insurance loss proceeds up to the greater of \$40,000 or 10% of the UPB,	must disburse the remaining funds based on periodic inspections of the progress of the repair work.
31 days or more delinquent,	is authorized to make an initial disbursement of 25% of the insurance loss proceeds but must not be more than \$10,000, NOTE: <i>If the insurance loss proceeds are less than or equal to \$2,500 the servicer is authorized to make the disbursement in one payment.</i>	must disburse the remaining funds in increments not to exceed 25% of the insurance loss proceed amount following inspection of the repairs.

If the borrower wants to repair or restore the property, the servicer must take the actions described in the following table when the servicer receives notification of damages and

- a foreclosure sale date has been scheduled, or
- the property securing the mortgage loan is abandoned.

✓	Then the servicer must...
	evaluate the borrower for a workout option in accordance with the <i>Servicing Guide</i> ,
	follow the requirements in the <i>Servicing Guide</i> (Part VIII, Section 108: Property Maintenance and Management) and the <i>Property Maintenance and Management: Property Preservation Matrix and Reference Guide</i> to ensure property is maintained and preserved, and
	submit a <i>Report of Property (Hazard) Insurance Loss</i> (Form 176) to Fannie Mae.

Additionally, there may be circumstances in which the servicer receives an insurance claim check that includes payments for contents (for example, personal property) or living expenses. The amount of the insurance claim check attributable to these items must be immediately released to the borrower.

Use of a Contractor

The servicer must determine if a licensed contractor is required based on the status of the mortgage loan when the servicer receives notification of damage to the property and the amount of the insurance loss proceeds. The servicer must have written policies and procedures for determining when a licensed contractor is required and must make it available to Fannie Mae, upon request.

Mortgage Loans Current or Less Than 31 Days Delinquent

The servicer must follow the requirements described in the following table for a mortgage loan that is current or less than 31 days delinquent at the time the servicer receives notification of damage to the property.

If the insurance loss proceeds are...	Then the servicer must...
less than \$40,000,	determine if a licensed contractor is required to restore or repair the property.
equal to or greater than \$40,000,	ensure a licensed contractor is used to restore or repair the property.

When releasing insurance loss proceeds, the servicer is authorized to release insurance loss proceeds based on the following table.

If the insurance loss proceeds are...	Then the servicer must release the insurance loss proceeds...
less than or equal to \$20,000,	payable to only the borrower.
greater than \$20,000,	payable to the borrower and the contractor.

If the borrower has made advance payments to the contractor, then the servicer may reimburse the borrower by releasing insurance loss proceeds in excess of \$20,000 payable to the borrower only. The borrower must provide the servicer with receipts/invoices that confirm that the advance payments were made.

Mortgage Loans 31 or More Days Delinquent

The servicer must take the actions described in the following table for a mortgage loan that is 31 or more days delinquent at the time the servicer receives notification of damages.

✓	The servicer must...
	ensure a licensed contractor is used to restore or repair the property,
	release insurance loss proceeds payable to the borrower and the licensed contractor, <i>NOTE: If the borrower has made advance payments, then the servicer may release the insurance loss proceeds payable to the borrower only if the borrower provides the servicer with invoices demonstrating the advance payments and that the work has been completed.</i>
	evaluate the borrower based on Fannie Mae's workout hierarchy for a workout option, and
	have written procedures for application of any insurance loss proceeds in excess of the cost to repair.

Applying Insurance Loss Proceeds

If a borrower does not want to repair the property, the servicer must:

- follow the requirements in the *Servicing Guide* (Part VIII, Section 108: Property Maintenance and Management) and the *Property Maintenance and Management: Property Preservation Matrix and Reference Guide* to ensure property is maintained and preserved, and
- submit Form 176 to Fannie Mae.

If the borrower is eligible for a workout option based on the requirements in the *Servicing Guide*, Part VII, Chapters 4 and 6, the servicer must ensure the borrower has assigned any insurance loss proceeds to Fannie Mae, if required.

If the borrower is not eligible for a workout option based on the requirements in the *Servicing Guide*, but the servicer believes that a workout option is appropriate for the borrower, then the servicer must submit the case to Fannie Mae for review through HomeSaver Solutions® Network (HSSN).

If the mortgage loan progresses to foreclosure sale, the servicer must follow the requirements in the *Servicing Guide* (Part VIII, Section 107.05: Bidding Instructions), for determining the foreclosure sale bid amount. After the foreclosure sale, the servicer must remit the insurance loss proceeds through the Cash Remittance System, using remittance code of 332, after the foreclosure sale.

Depositing the Insurance Loss Proceeds

The servicer must deposit the insurance loss proceeds not disbursed to the borrower in an interest-bearing account. The following table provides a list of account requirements.

✓	Interest-Bearing Account Requirements must...
	be for the borrower's benefit,
	yield interest equivalent to the interest the borrower could expect to obtain from a savings or money market account, and
	be in a depository institution that meets Fannie Mae's eligibility criteria for custodial depositories per the <i>Servicing Guide</i> (Part I, Section 305.06: Eligibility of Document Custodians/Custodial Depositories).

The servicer must credit to the account all interest earned on the deposited funds at least quarterly. The servicer must pay the accumulated interest to the borrower once the repairs for the property have been completed, unless the borrower requests an earlier disbursement of the interest. The servicer is required to comply with all applicable law regarding the disbursement of insurance loss proceeds.


Reporting to Fannie Mae

The servicer must submit the completed Form 176 to Fannie Mae with the servicer's recommendation for the property and insurance loss proceeds if:

- the servicer has been unable to establish contact with the borrower;
- the borrower wants to repair the property, but the foreclosure sale date has been scheduled, or the property has been abandoned; or
- the borrower does not want to repair the property.

The table below provides the information required when submitting Form 176 to Fannie Mae.

✓	The servicer must include with its submission of Form 176...
	the status of the mortgage loan (current, delinquent, in bankruptcy, or in foreclosure);
	the amount of the insurance loss proceeds;
	photographs of the damaged property, if applicable;
	complete accounting of the total debt (including UPB, accrued interest, advances, etc.);
	cost of repairs or restoration;
	impact that a total loss would have on conveyance of the property to the insurer or guarantor or on the claim settlement; and
	a recommendation on the disposition of the insurance loss proceeds.



Fannie Mae has updated the Excel version of Form 176 and made it available on [Fannie Mae's website](#). Form 176 must be submitted electronically to Fannie Mae using the dedicated mailbox: hazard_loss@fanniemae.com.

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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