FannieMae

Servicing Guide Announcement SVC-2015-02

January 14, 2015

Mortgage Insurer Deferred Payment Obligation and Calculation of Indemnification Claim

Fannie Mae is amending its policies and requirements related to the following:

- Deferred Payment Obligation (DPO) and Repurchase Price or Make Whole Payment Amount
- Calculation of Indemnification Claim for Loss of Mortgage Insurance Benefits

Policy Change Effective Date

The servicer must implement the policy changes in this Announcement immediately.

Date of Servicing Guide Update

These policy changes will be reflected in A1-3, Repurchases, Indemnification, and Make Whole Payment Requests in the February 2015 monthly update of the *Servicing Guide*.

Deferred Payment Obligation and Repurchase Price or Make Whole Payment Amount

Fannie Mae is adding new requirements related to non-bifurcated mortgage loans and mortgage insurer deferred payment obligations ("DPO's"). A DPO is defined as the unpaid portion of the mortgage insurance claim where the failure to pay the full amount due is solely attributable to the mortgage insurer's financial inability to pay or its insolvency. For purposes herein, such a mortgage insurer shall be referred to as a "DPO mortgage insurer."

Fannie Mae bears the risk of loss that a DPO-related claim filed with a mortgage insurer for a properly delivered and serviced mortgage loan that meets all of Fannie Mae's eligibility requirements is not ultimately collectible. The mortgage insurer's financial inability to pay a claim or its insolvency is not considered to be a failure by the servicer to keep mortgage insurance coverage in force, as otherwise required by A1-3-03, Repurchase Obligations Related to Bifurcated Mortgage Loans.

For mortgage loans where there is a demand for repurchase or a make whole payment amount due to Fannie Mae because of a breach of the selling representations and warranties for non-bifurcated mortgage loans, the servicer must remit the full amount of the repurchase price or make whole payment as indicated in A1-3-02, Fannie Mae-Initiated Repurchases, Indemnifications, and Make Whole Payment Requests. The repurchase price or make whole payment amount must not be reduced by the fact that the mortgage loan was insured by a DPO mortgage insurer.

Once the responsible party completely satisfies all of its payment obligations to Fannie Mae with respect to the repurchase or make whole demand for a selling breach of representation or warranty, Fannie Mae agrees to execute such documents as are necessary to convey all its rights to the DPO to the responsible party provided that Fannie Mae will at all times retain the right to be indemnified according to *Indemnification for Losses* in A1-1-03, Nature of the Contractual Relationship. The responsible party will succeed to all of Fannie Mae's rights, title, and interest in any remaining DPO on the subject mortgage loan. Fannie Mae will no longer have any claim to the remaining DPO, if any, pending on the subject mortgage loan. The servicer must then notify the DPO mortgage insurer that any future DPO payments must be remitted to the responsible party (or through the servicer to the responsible party) and not to Fannie Mae.

It is the responsibility of the responsible party to pursue the collection from the DPO mortgage insurer of any DPO that is outstanding following Fannie Mae's receipt of the repurchase price or make whole funds.

Calculation of Indemnification Claim for Loss of Mortgage Insurance Benefits

As a result of an indemnification claim for the loss of the mortgage insurance benefit due to a servicing breach, Fannie Mae may demand that the servicer indemnify Fannie Mae with respect to the insurance benefit that would have been paid by the mortgage insurer if the claim had been allowed. If the indemnification claim for the loss of the mortgage insurance benefit due to a servicing breach involves a DPO mortgage insurer, Fannie Mae will calculate the indemnification claim as the amount it would have received in mortgage insurance benefits from the DPO mortgage insurer if the claim had been allowed and if the servicer had not committed a servicing breach. As the DPO mortgage insurer's regulator approves additional payments on the claims outstanding, Fannie Mae will bill the servicer for any increases in the amount payable on such claims after the initial indemnification claim is filed.

For example, if the DPO mortgage insurer is paying allowed claims at a rate of 60%, and a $30,000 claim is denied in full or coverage is cancelled due to a servicing breach, Fannie Mae's current indemnification claim to the servicer for the loss of the mortgage insurance benefit would be for 60% of the $30,000 claim, or $18,000 ($30,000 x 60%). If the DPO mortgage insurer is later permitted to increase the cash payment (and as a result, decrease the DPO) on such allowed claims from 60% to 70%, Fannie Mae will bill the servicer for an additional 10% of the amount Fannie Mae estimated would have constituted the mortgage insurance benefit if the claim had been allowed, or $3,000 ($30,000 x 10%). The servicer is reminded that Fannie Mae is not limited to indemnification as a remedy when the servicer breaches the Lender Contract.

The servicer must contact mi_mail@fanniemae.com with any questions regarding the DPO billings.

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The servicer must contact its 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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