FannieMae

Lender Letter LL-2012-09

November 13, 2012

To: All Fannie Mae Single-Family Sellers and Servicers

Additional Flexibilities for Mortgage Loans Impacted by Hurricane Sandy

As the northeast part of the country continues to recover from the effects of Hurricane Sandy, Fannie Mae is continuing to support lenders and servicers as they attempt to handle the underwriting and servicing of mortgage loans affected by the storm. Fannie Mae recently issued a *Selling Guide* Announcement that established new disaster policies pertaining to property inspections and new appraisals, and a Servicing Notice that provided disaster assistance guidance for borrowers who were affected by Hurricane Sandy.

Fannie Mae is now offering additional flexibilities for mortgage loans affected by Hurricane Sandy, as defined by the Federal Emergency Management Agency (FEMA). FEMA has designated disaster areas that are eligible for individual assistance as a result of Hurricane Sandy. Lenders and servicers must continue to monitor the FEMA website as new eligible disaster areas continue to be identified as damage assessments and processing of requests for federal assistance are completed.

This Lender Letter describes updates to the following policies for mortgage loans impacted by Hurricane Sandy:

Selling

- Pricing
- Age of Credit and Appraisal Documentation
- Clarification of Announcement SEL-2012-12, *Disaster Policy and Updates to DU Refi Plus and Refi Plus Property Policies*

Servicing

- Forbearance
- Discontinuance of Legal Action
- Special Relief Measures
- Delays in Closing
- Borrower Income Documentation
- Insurance Claims
- Deposit of Insurance Proceeds
- Waiving of Late Fees
- Reporting to Credit Bureaus
- Bidding Instructions

Selling

Pricing

For certain eligible loans delivered into MBS pools as part of a bulk transaction on or after December 1, 2012, the pricing will be the same as if the loans had been delivered on November 30, 2012, under the applicable pool purchase contract. For mortgage loans to be eligible, they must meet the following requirements:

- be eligible for delivery under the lender's applicable flow MBS contract that was in effect on November 30, 2012;
- have a lock date on or before October 30, 2012 ("Price Lock Date" in Loan Delivery application);
- be secured by a property located in a FEMA designated disaster area eligible for individual assistance; and
- be delivered to Fannie Mae as part of a bulk transaction on or before February 28, 2013, into pools with issue dates of March 1, 2013, or earlier. The cut-off date for delivery of the bulk loan data file to Fannie Mae is January 31, 2013.

The pricing that will apply to such mortgage loans will be the lender's applicable base MBS guaranty fee and loan-level price adjustments, all as of November 30, 2012. Guaranty fee buyup and buydown ratios that will apply will be based on the applicable buyup or buydown grid in effect at the time of delivery.

Age of Credit and Appraisal Documentation

For mortgage loans impacted by Hurricane Sandy, the following requirements apply to both manually underwritten loans and loan casefiles underwritten through Desktop Underwriter® (DU®):

- The mortgage loan must be secured by a property located in a FEMA designated disaster area eligible for individual assistance.
- The loan must have an application date on or before November 1, 2012, and the note date must be after November 1, 2012.
- The property valuation documentation, including appraisals, DU Refi Plus™ property fieldwork waiver offers, or other negotiated property inspection waiver offers, must be dated no more than 180 days before the note date.
- The underwriting documentation, including but not limited to the DU Underwriting Findings report, credit reports, verifications of income and assets, must be dated no more than 180 days before the note date.

> NOTE: *Lenders may disregard the message in the DU Underwriting Findings report that indicates if the loan casefile has not already closed, the credit report has expired.*

- Verbal verifications of employment and self-employment verification requirements remain unchanged at 10 business days prior to the note date for employment income, and within 30 calendar days prior to the note date for self-employment income.

Clarification of Announcement SEL-2012-12, Disaster Policy and Updates to DU Refi Plus and Refi Plus Property Policies

In Fannie Mae's disaster policy published in Announcement SEL-2012-12, Fannie Mae stated that for mortgage loans other than DU Refi Plus and Refi Plus that are damaged but the damage does not affect the safety, soundness, or structural integrity of the property, the lender must ensure that professional estimates of the repair costs are obtained and that sufficient insurance proceeds are held for the borrower's benefit to guarantee the completion of the repairs.

Fannie Mae is clarifying that the lender must obtain documentation of the estimates of the repair costs. The insurance proceeds are not required to be held by the lender but rather the lender must ensure that sufficient proceeds are available for the borrower's benefit. (This clarification applies to all loans impacted by a disaster, and not just those impacted by Hurricane Sandy.)

Servicing

Forbearance

For borrowers with properties located in the hardest hit areas of Hurricane Sandy that receive the classification of a FEMA declared disaster area eligible for individual assistance, when a servicer achieves Quality Right Party Contact (QRPC) during the initial 90-day disaster relief period and the borrower was current or 90 days or less delinquent at the time of the disaster, the servicer will now be permitted to offer forbearance to the borrower for up to 12 months from the time the disaster occurred. Fannie Mae approval is not required for the 12-month forbearance period if it is otherwise needed. The servicer may use its discretion to determine the length of forbearance to offer based on the extent of damage to the property and/or financial impact to the borrower.

Servicers may also offer up to 12 months forbearance for borrowers located in the FEMA declared disaster areas eligible for individual assistance who are successfully performing under an active Trial Period Plan for a loan modification but experiencing financial difficulty due to Hurricane Sandy. Upon completion of the forbearance, the servicer must offer the borrower the option of starting a new Trial Period Plan toward a permanent modification. Additional information will be provided in the coming weeks with operational directions to servicers for loans transitioning between a Trial Period Plan and forbearance. Upon completion of the forbearance, if the borrower is unable to restart a Trial Period Plan, the servicer must consider other foreclosure prevention alternatives for the borrower.

Servicers are reminded that any forbearance arrangement that extends for a period longer than six months must be in writing as outlined in the *Servicing Guide,* Part VII, Section 403: Forbearance. When applicable, the servicer must receive pre-approval by the mortgage insurer, FHA, Rural Development, or VA to avoid jeopardizing benefits of any applicable insurance or guaranty.

Discontinuance of Legal Action

Effective with this Lender Letter, servicers must suspend any foreclosure sale on a property located within the FEMA declared disaster area eligible for individual assistance for 90 days from the date of the disaster. Fannie Mae is also imposing a 90-day eviction suspension on REO properties located within the FEMA declared disaster area eligible for individual assistance. The suspension covers only eviction lockouts. All other aspects of evictions actions will proceed during this period.

For properties located within the federally designated disaster areas but outside the FEMA declared disaster area eligible for individual assistance, Fannie Mae's standard disaster relief provisions require servicers not to begin or continue any legal action until they can review the effect the disaster may have had on the condition of the property or the borrower's employment or income status. These provisions also make it clear that foreclosure proceedings may begin (or continue) only when foreclosure is the only alternative.

The table below illustrates the forbearance plans and foreclosure sale and eviction suspensions for servicers to offer to borrowers based upon mortgaged property location and loan status.

Maximum Number of Months of Forbearance for Properties Impacted by Hurricane Sandy			
FEMA Declared Disaster Areas	**Forbearance**		**Foreclosure Sale/ Eviction Suspension**
	Less than or Equal to 3 Months Delinquent	**Greater than 3 Months Delinquent**	
No Post Storm QRPC	3 Months[1]	3 Months [1]	3 Months[1]
Post Storm QRPC	Up to 12 Months[3]	Up to 6 Months[2]	3 Months[1]
Federally Designated Disaster Areas but Non-FEMA Declared Disaster Areas			
No Post Storm QRPC	3 Months[1]	3 Months[1]	Assess Impact of Disaster
Post Storm QRPC	Up to 6 Months[2]	Up to 6 Months[2]	Assess Impact of Disaster

Notes:
[1] *Servicing Guide*, Part VII, Section 406: Disaster Relief
[2] *Servicing Guide*, Part VII, Section 403: Forbearance
[3] In this Lender Letter, includes active Trial Period Plans

When applicable, the servicer must receive pre-approval by the mortgage insurer, FHA, Rural Development, or VA to avoid jeopardizing benefits of any applicable insurance or guaranty.

Special Relief Measures

When forbearance is granted, servicers must try to contact borrowers to determine what additional steps can be taken to tailor solutions that address the particular circumstances faced by each borrower. Under Fannie Mae's Special Relief Measures described in Part III, Section 1102: Special Relief Measures, servicers must evaluate on an individual case basis a mortgage loan that is (or becomes) seriously delinquent as the result of the borrower incurring extraordinary damages or expenses related to a disaster, such as Hurricane Sandy. Although relief can be granted to any borrower whose property is damaged or whose income is affected by the hurricane, the servicer should concentrate its efforts on borrowers whose mortgage loans are secured by properties located within federally defined disaster areas. When determining the appropriate relief provisions to offer, the servicer should take into consideration any uninsured losses, extended unemployment, or extraordinary expenses related to the disaster and the potential effect on the borrower's ability to pay his or her mortgage loan payment. Fannie Mae has several types of special relief provisions to help borrowers affected by a disaster (see Part VII, Chapter 3: Delinquency Prevention). The servicer must be familiar with the terms of each of these provisions.

Delays in Closings

In Announcement SVC-2012-19*, Standard Short Sale/HAFA II and Deed-in-Lieu of Foreclosure Requirements*, servicers were instructed that the property valuation for a short sale must be dated or refreshed by Fannie Mae within 90 calendar days of the short sale approval. With this Lender Letter, for properties located within a federally declared disaster area that were not damaged by Hurricane Sandy but had an approved short sale scheduled for closing that was delayed due to Hurricane Sandy, Fannie Mae will allow the closing to be extended to 180 calendar days of the short sale approval date. Servicers are not required to obtain updated documentation or refresh an expired valuation if the closing occurs within 180 days of the short sale approval date. If the property was damaged or its value was impacted by the storm, Fannie Mae requires the servicer to obtain a new property valuation.

Borrower Income Documentation

To assist servicers in evaluating borrowers for foreclosure prevention alternatives, Fannie Mae is revising the policy for the aging of income documentation required for the borrower response package for consideration of a foreclosure prevention alternative as outlined in Part VII, Section 205.04: Borrower Response Package. Currently, the income documentation may be used if it is not more than 90 days old at the time of the subsequent evaluation. Fannie Mae is extending the age of the borrower income documentation for borrowers located in the federally declared disaster areas to not more than 180 days old at the time of the subsequent evaluation for a Fannie Mae foreclosure prevention alternative.

Insurance Claims

Servicers are responsible for taking prompt action to protect the interests of the borrower and Fannie Mae when a hazard or flood insurance loss occurs. This involves working closely with the insurance carrier (for insured losses), the borrower, repair contractors, and other lienholders. Fannie Mae's existing policies must be followed for properties located in the FEMA declared disaster areas eligible for individual assistance when insurance proceeds are received for a property that is not a principal residence or has not suffered a total or near-total loss as outlined in Part II, Chapter 5: Insurance Losses.

For borrowers receiving insurance proceeds for properties which suffered a total or near-total loss by Hurricane Sandy that are the borrower's principal residence and current or 30 days or less delinquent, Fannie Mae is revising the guidelines for release of the insurance proceeds. Servicers may release insurance proceeds up to the greater of $40,000 or 10% of the unpaid principal balance. Servicers may release proceeds received less than $20,000 directly to the borrower, while proceeds greater than $20,000 must be released payable to the borrower and the contractor.

When a servicer received insurance proceeds to cover the loss of the borrower's contents or personal property or off-residence living expenses, servicers must immediately release these funds to the borrower.

<table>
<tr><th colspan="4">Guidelines for Disbursement of Insurance Proceeds for Properties Impacted by Hurricane Sandy</th></tr>
<tr><th colspan="3">Principal Residence</th><th>Second Homes and Investment Properties</th></tr>
<tr><th></th><th>Current or less than 30 days delinquent</th><th>30 days or more delinquent</th><th>All loan status</th></tr>
<tr><td>Property has NOT suffered a total or near-total loss</td><td>Follow existing guidance[1]</td><td rowspan="2">Follow existing guidance[1]</td><td rowspan="2">Follow existing guidance[1]</td></tr>
<tr><td>Property has suffered a total or near-total loss</td><td>The servicer may release insurance proceeds up to the greater of $40,000 or 10% of the unpaid principal balance, as follows:
■ $20,000 or less: the servicer may release proceeds directly to the borrower.
■ Greater than $20,000: proceeds must be made payable to both the borrower and the contractor.</td></tr>
<tr><td>Insurance proceeds for losses related to contents</td><td colspan="3">Insurance proceeds received for losses on contents or living expenses must be released to the borrower immediately.</td></tr>
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Notes:
[1] *Servicing Guide*, Part II, Chapter 5: Insurance Losses

Deposit of Insurance Proceeds

Servicers are reminded that when insurance loss proceeds are deposited into an interest-bearing account, the account must be for the borrower's benefit, must yield an amount of interest that is equivalent to the interest that the borrower could expect to obtain from a passbook savings account or a money market account, and must be in a depository institution that meets Fannie Mae's eligibility criteria for custodial depositories. The depository account also must provide for all interest earned on the funds to be credited to the account at least quarterly. The servicer must pay the accumulated interest to the borrower at the end of the reconstruction period for the property, unless the borrower requests an earlier disbursement. 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 claim proceeds attributable to these items should be immediately released to the borrower as outlined in Part III, Section 1103.04: Deposit of the Insurance Proceeds

Waiving of Late Fees

Servicers are reminded that when they become aware that a property has incurred damage or when a missed payment is likely the result of hardship due to a natural disaster (see Part III, Section 1101: Evaluating the Damage), it should waive any late payment charges. It is Fannie Mae's expectation that all servicers of Fannie Mae mortgage loans will provide this relief to these borrowers.

Reporting to Credit Bureaus

Servicers are also reminded to suspend credit reporting for borrowers granted forbearance related to disaster relief as provided in Part VII, Section 403: Forbearance.

Bidding Instructions

The servicer should not issue bidding instructions to the foreclosure attorney (or trustee) if its preforeclosure property inspection reveals (or the servicer otherwise discovers) that the property has incurred significant hazard damage (but a claim has not been filed with the insurance carrier). Instead, the servicer must contact the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (1-888-326-6435) or email Fannie Mae at servicing_solutions@fanniemae.com to determine whether or not a hazard insurance claim should be filed and, if so, what foreclosure bid should be entered. In any instance in which a hazard or flood insurance claim had been filed, the servicer may issue the bidding instructions without contacting Fannie Mae, as long as it instructs the foreclosure attorney (or trustee) to reduce the otherwise applicable final bid amount by the amount of the outstanding hazard or flood insurance claim as provided in Part VIII, Section 107.05: Bidding Instructions.

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Lenders who have questions about the selling aspects of this Lender Letter should contact their Account Team. Servicers should contact their Servicing Consultant, Portfolio Manager, Investor Reporting Business Analyst, or Fannie Mae's National Servicing Organization's Servicing Solutions Center at 1-888-FANNIE5 (1-888-326-6435) with any questions regarding this Lender Letter.

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