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# Chapter B-5, Property and Flood Insurance Loss Events and Claim Settlements

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## Property and Flood Insurance Loss Events and Claim Settlements

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### Introduction

This chapter describes requirements relating to property and flood insurance loss events and claim settlements.

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### In This Chapter

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## B-5-01, Insured Loss Events (02/14/2018)

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### Introduction

This topic contains the following:

- [Servicer Responsibilities](#)
  - [Disbursing Insurance Loss Proceeds Based on the Mortgage Loan Status and the Borrower's Intent](#)
  - [Depositing the Insurance Loss Proceeds Not Disbursed](#)
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### Servicer Responsibilities

When a property securing a mortgage loan experiences an insured loss, the servicer must 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 Based on the Mortgage Loan Status and the Borrower's Intent* for additional information).

**Note:** If the 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.

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.

Additional responsibilities depends upon whether the property can be legally rebuilt, as described in the following table.

If...	Then the servicer must...
the property cannot be legally rebuilt	use any insurance loss proceeds to reduce the outstanding mortgage loan debt.
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 below.

The following table provides a list of the servicer's responsibilities when there is an insurable loss on a property securing a mortgage loan and the property can be legally rebuilt.

✓	The servicer must...
	Obtain complete details on the damage to the property and determine the needed repairs.
	Discuss with the borrower any plans for repairing the property.  <b>Note:</b> 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 <a href="#">E-3.2-12, Performing Property Preservation During Foreclosure Proceedings (07/12/2017)</a> and the <a href="#">Property Preservation Matrix and Reference Guide</a> to ensure the property is maintained and preserved.
	Disburse the insurance loss proceeds in accordance with this <i>Guide</i> (see <i>Disbursing Insurance Loss Proceeds Based on the Mortgage Loan Status and the Borrower's Intent</i> for additional information).  <b>Note:</b> The servicer and/or the insurance company may not have reason to believe that a supplemental claim will be filed for additional damages at the time the initial loss proceeds are paid by the insurer; therefore, the servicer must disburse any insurance loss proceeds based on the requirements in this <i>Guide</i> without regards to whether supplemental loss proceeds will be received.
	Deposit any funds not disbursed into an interest-bearing account (see <i>Depositing the Insurance Loss Proceeds Not Disbursed</i> for additional information).
	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.  <b>Note:</b> 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.



✓	<b>The servicer must...</b>
	Conduct a final inspection to ensure all repairs are completed.  <b>Note:</b> If the mortgage loan is current at the time of the loss event and the insurance loss proceeds are less than or equal to \$10,000, a final inspection is not required.
	Obtain the proper lien releases, if applicable.
	Prohibit payment of fees out of the insurance loss proceeds to any public adjusters or other third parties retained by the borrower to assist with the recovery of those proceeds, unless otherwise agreed to by Fannie Mae in writing.

### **Disbursing Insurance Loss Proceeds Based on the Mortgage Loan Status and the Borrower's Intent**

If the insurance loss proceeds exceed the sum of the 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, unless the borrower agrees to other arrangements with the servicer.

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

The servicer must release the insurance loss proceeds received from the insurance carrier based on the status of the mortgage loan when the servicer receives notification of damage to the property.

#### **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 proceeds are...	Then...	And...
less than or equal to \$20,000	the servicer must determine if, based on the type of repairs (e.g., damage affecting the safety, soundness, or structural integrity of the property), a licensed contractor is required to restore or repair the property	the servicer is authorized to release the insurance loss proceeds payable only to the borrower.
greater than \$20,000, but less than \$40,000		the servicer must release the proceeds payable to both the borrower and the contractor - whether the contractor is licensed or not.



If the insurance proceeds are...	Then...	And...
equal to or greater than \$40,000	the servicer must ensure a licensed contractor is used to restore or repair the property	the servicer must <ul style="list-style-type: none"> <li>• release an initial disbursement of insurance loss proceeds up to the greater of \$40,000 or 10% of the UPB,</li> <li>• disburse any remaining funds in excess of the greater of \$40,000 or 10% of the UPB based on periodic inspections of the progress of the repair work, and</li> <li>• release all proceeds payable to both the borrower and the licensed contractor.</li> </ul>

**Note:** If the borrower has made advance payments to the contractor and/or to purchase materials, then the servicer is authorized to reimburse the borrower by releasing insurance loss proceeds payable only to the borrower as evidenced by paid receipts. Receipts are not necessary if the loss proceeds are less than or equal to \$20,000.

**Mortgage Loans 31 Days or More Delinquent:**

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

✓	<b>Without regard to the amount of the loss proceeds, the servicer must...</b>
	Ensure a licensed contractor is used to restore or repair the property.
	Release insurance loss proceeds payable to the borrower and the licensed contractor.  <b>Note:</b> If the borrower has made advance payments to the licensed contractor, the servicer is authorized to reimburse the borrower by releasing the insurance loss proceeds payable to the borrower only if the borrower provides the servicer with receipts confirming the advance payments were made and that the work has been completed.
	Evaluate the borrower for a workout option in accordance with <a href="#">D2-3.1-01, Determining the Appropriate Workout Option (11/12/2014)</a>

The servicer must disburse the insurance loss proceeds as outlined in the following table.

If the insurance loss proceeds are...	Then the servicer...
less than or equal to \$2,500	is authorized to make the disbursement in one payment.



If the insurance loss proceeds are...	Then the servicer...
greater than \$2,500	<ul style="list-style-type: none"> <li>• must release an initial disbursement of insurance loss proceeds of 25% of the total insurance loss proceeds but no more than \$10,000, and</li> <li>• must disburse the remaining funds in increments not to exceed 25% of the insurance loss proceeds following inspection of the repairs.</li> </ul>

**Mortgage Loans for Properties that are Abandoned and/or Have a Scheduled Foreclosure Sale Date:**

If the borrower wants to repair or restore the property, then the servicer must take the actions described in the following table.

✓	The servicer must...
	Evaluate the borrower for a workout option in accordance with <a href="#">Chapter D2-3, Fannie Mae's Home Retention and Liquidation Workout Options</a> .
	Follow the requirements in <a href="#">E-3.2-12, Performing Property Preservation During Foreclosure Proceedings (07/12/2017)</a> and the <a href="#">Property Preservation Matrix and Reference Guide</a> to ensure the property is maintained and preserved.
	Submit a <i>Report of Property Insurance Loss (Form 176)</i> to Fannie Mae's SF CPM division (see <a href="#">F-4-03, List of Contacts (11/08/2017)</a> ) within five business days of the servicer receiving notification of the damages.

**When the Borrower Does Not Intend to Make Repairs:**

If a borrower does not want to repair or restore the property, the servicer must take the actions described in the following table.

✓	The servicer must...
	Follow the requirements in <a href="#">E-3.2-12, Performing Property Preservation During Foreclosure Proceedings (07/12/2017)</a> and the <a href="#">Property Preservation Matrix and Reference Guide</a> to ensure the property is maintained and preserved.
	Submit <a href="#">Form 176</a> to Fannie Mae's SF CPM division (see <a href="#">F-4-03, List of Contacts (11/08/2017)</a> ) within five business days of learning of the borrower's intent not to repair or restore the property.

If the borrower is eligible for a workout option in accordance with [Chapter D2-3, Fannie Mae's Home Retention and Liquidation Workout Options](#), 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 in accordance with [Chapter D2-3, Fannie Mae's Home Retention and Liquidation Workout Options](#), but the servicer has determined that a workout option is appropriate, it must submit the case to Fannie Mae for review through Fannie Mae's servicing solutions system.



If the mortgage loan progresses to foreclosure sale, the servicer must follow the requirements in [E-3.3-04, Issuing Bidding Instructions \(08/12/2015\)](#) for determining the foreclosure sale bid amount.

The servicer must remit insurance loss proceeds to Fannie Mae depending upon the circumstance of the mortgage loan, as outlined in the following table.

If the mortgage loan progresses to a...	Then the servicer must...
short sale	at closing, remit the remaining balance of any insurance loss proceeds via CRS using remittance code 332.
Mortgage Release or foreclosure sale	<ul style="list-style-type: none"> <li>• remit the remaining balance of any insurance loss proceeds the servicer is maintaining on a mortgage loan within 30 days of issuing the REOgram via CRS using remittance code 332, and</li> <li>• wire any insurance loss proceeds that were a result of a claim filed by Fannie Mae's property recovery firm or that were received by the servicer after issuing the REOgram to Fannie Mae within 10 business days of receipt.</li> </ul> <p><b>Note:</b> The servicer must not issue any insurance loss proceeds to pay fees to its property recovery firm or any other servicer expenses, and Fannie Mae will not reimburse fees to any servicer's property recovery firm or for any other related servicer expense.</p>

**Insured Loss Repair Inspection Costs:**

The servicer is authorized to request reimbursement for insured loss repair inspection costs incurred on current and delinquent mortgage loans when required to disburse additional funds or complete a final inspection of repairs. To request reimbursement, the servicer must follow the procedures in *Requesting Reimbursement for Property Inspections and Property Preservation Expenses* in [F-1-05, Expense Reimbursement \(12/13/2017\)](#).

**Depositing the Insurance Loss Proceeds Not Disbursed**

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.

✓	The interest-bearing account must...
	Be a T&I custodial account with a depository institution that meets Fannie Mae's eligibility criteria for custodial depositories.
	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.



The servicer must pay the accumulated interest to the borrower once the repairs to the property have been completed, unless

- the borrower requests an earlier disbursement of the interest, or
- applicable law allows for the accumulated interest to be applied to the UPB.

**Note:** See [A4-1-02, Establishing Custodial Bank Accounts \(04/12/2017\)](#) for additional details; including reporting requirements for Fannie Mae.

**Related Announcements**

The following table provides references to Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SVC-2018-01</a>	February 14, 2018
<a href="#">Announcement SVC-2017-11</a>	December 13, 2017
<a href="#">Announcement SVC-2017-03</a>	April 12, 2017
<a href="#">Announcement SVC-2015-14</a>	November 25, 2015
<a href="#">Announcement SVC-2015-13</a>	October 14, 2015
<a href="#">Announcement SVC-2015-12</a>	September 9, 2015
<a href="#">Announcement SVC-2015-04</a>	March 18, 2015
<a href="#">Announcement SVC-2014-21</a>	December 10, 2014

## B-5-02, Uninsured Loss Events (12/13/2017)

When a natural disaster or other event results in an uninsured loss to the property, the servicer must take the steps listed in the following table.

Step	Servicer Action
1	Determine the damage.
2	If the property is abandoned, secure it in accordance with the requirements for a property in foreclosure in <a href="#">E-3.2-12, Performing Property Preservation During Foreclosure Proceedings (07/12/2017)</a> and the <a href="#">Property Preservation Matrix and Reference Guide</a> .