

If additional funds are needed to bring a damaged or destroyed residence into compliance with applicable codes and regulations, the Borrowers should determine whether their property insurer will waive any policy provision restricting payment for the increased cost of construction resulting from enforcement of codes and regulations.

- ❑ A specified dollar amount is the maximum amount that the contractor may charge for the work
- ❑ The contractor will be paid a specified advance (if applicable, usually not exceeding 10% percent of the total contract amount) and, subsequently, on a specified draw schedule contingent on verification of satisfactory completion of specified work phases. If the mortgage status at time of notification is 31 or more days delinquent at time of loss, released funds must not exceed 25% increments of insurance loss proceeds.
- ❑ The contractor, its subcontractors and its material suppliers will provide written acknowledgment of payment for work performed and materials supplied and the necessary lien waivers or releases so that the Mortgaged Premises may remain clear of all such liens and encumbrances.
- Each scheduled work phase has been satisfactorily completed in accordance with the plans and specifications in the contract.

The Servicer may choose to have the above described oversight functions performed by its staff or by a third party (such as a specialized firm or another Servicer). However, the Servicer is liable for the performance of any third party it retains. The third party may be compensated from insurance proceeds retained by the Servicer only to the extent agreed to by the Borrower and allowed under applicable law.

8202.11: Insurance loss settlements (Future effective date 07/01/19)

(a) Servicer responsibilities

Upon notification of loss or damage to the Mortgaged Premises, the Servicer must monitor and coordinate the claim process with the Borrower and the insurer. The Servicer must take appropriate action to:

- Verify the extent of the loss or damage
- Ensure judicious disbursement of insurance proceeds for the necessary repairs

- Protect the priority of the Mortgage by obtaining, where necessary, waivers of materialman's or mechanic's liens
- Document details concerning the loss or damage, completion of the repairs and disposition of the insurance proceeds in the Mortgage file
- Prohibit payment of fees out of the insurance loss proceeds to any public adjuster or other third party retained by the Borrower to assist with the recovery of those proceeds unless agreed to by Freddie Mac in writing
- Refer to Chapter 8403 for additional requirements on abandoned properties, distressed properties or properties that pose a Risk of Property Ownership

(b) Reporting damage

The Servicer does not need to submit a report and related recommendations to Freddie Mac unless:

- The Mortgage is in foreclosure
- The Mortgaged Premises is abandoned and/or has been acquired by the Servicer through foreclosure or deed-in-lieu of foreclosure. (See Section 9603.11(b) for remittance requirements for insurance loss settlements.)
- The insured improvements have suffered a total or near total loss
- The insured improvements cannot be rebuilt
- The Servicer wishes to apply insurance proceeds to the Mortgage debt instead of repairing the property, or
- Insurance proceeds exceed the amounts required to restore the property to its original condition

If any of the above conditions exist, the Servicer must submit the recommendation along with the appropriate documentation to Freddie Mac (**see Directory 5**), within five Business Days of learning of the situation.

(c) Disbursing loss proceeds

If a Servicer receives an insurance claim check for contents or living expenses, the Servicer must release the insurance funds to the Borrower without delay.

When the Mortgaged Premises has suffered a loss, the Servicer must follow the requirements in the below table for releasing proceeds:

Insurance loss draft	Mortgage current or less than 31 days delinquent at the time of loss	Mortgage 31 or more days delinquent at the time of loss
Initial loss draft	<p>The Servicer may release insurance proceeds up to the greater of:</p> <ul style="list-style-type: none"> ■ \$40,000 ■ 33% of insurance proceeds or ■ The amount by which the release funds exceed the sum of the UPB, accrued interest and advances on the Mortgage 	<p>If the proceeds are less than or equal to \$5,000, the Servicer may disburse in one payment.</p>
		<p>If the proceeds are greater than \$5,001, the Servicer may make an initial disbursement of 25% of the insurance proceeds but no more than the greater of:</p> <ul style="list-style-type: none"> ■ \$10,000 or ■ The amount by which the release funds exceed the sum of the UPB, accrued interest and advances on the Mortgage
Additional loss drafts	<p>The Servicer may distribute remaining funds based on the repair plan reviewed and approved by the Servicer.</p>	<p>The Servicer may distribute remaining funds in increments not to exceed 25% of the insurance loss proceeds.</p>
	<p>The Servicer must inspect repairs prior to release of any remaining funds.</p>	
Funds payable	<p>If the proceeds are less than or equal to \$40,000, the Servicer may release such proceeds directly to the Borrower.</p>	<p>All checks must be made payable jointly to the Borrower and a licensed contractor.</p>

Insurance loss draft	Mortgage current or less than 31 days delinquent at the time of loss	Mortgage 31 or more days delinquent at the time of loss
	If the proceeds are greater than \$40,000, the Servicer must release such proceeds by check made payable jointly to the Borrower and contractor.	
	If the Borrower advanced payments to the contractor, then the check may be made to the Borrower for such payments advanced provided the Servicer obtains documentation of the materials and services paid by the Borrower.	

A Servicer may unilaterally apply the insurance proceeds to the Mortgage's unpaid balance only to the extent allowed by applicable law and the Security Instrument. The Borrower, however, may unilaterally decide to have the proceeds applied to the Mortgage's unpaid balance.

If repair or reconstruction of the residence is expected to take more than three months, insurance funds retained by the Servicer pending disbursement for such repair or reconstruction must be maintained in a federally insured account that pays interest to the Borrower.

The Servicer may be named as loss payee on insurance drafts and must comply with any applicable law and, where applicable, any requirement of the FHA, VA, RHS or MI.

(d) Repair or reconstruction of the Mortgaged Premises

In overseeing the repair or reconstruction of damaged or destroyed residences, the Servicer should, to the extent applicable, practicable and required, ascertain that:

- The contractor chosen by the Borrower to repair or reconstruct the residence is:
 - Duly licensed under applicable laws and regulations
 - Qualified and experienced to perform the types of work contracted
 - Financially able to complete the repair or reconstruction within scheduled time frames
- The plans and specifications for the work contracted:

- ❑ Describe repair or reconstruction that is generally consistent with the damage or destruction suffered by the residence, as reported in the proof of loss filed by the Borrower with the property insurer and as documented by the insurer's adjuster
- ❑ Establish a reasonable schedule for completion of each phase of repair or reconstruction
- The Borrower and the contractor have executed a contract by which they agree to the following:
 - ❑ The contractor will perform the work described in the plans and specifications
 - ❑ The contractor will comply with applicable codes and regulations governing residential repair or reconstruction (including, but not limited to, building codes and zoning, permit and inspection regulations).

These codes and regulations may vary from State to State and, within the same State, from county to county. Therefore, Servicers should have adequate measures in place to verify contractors' and inspectors' compliance certifications to protect Freddie Mac's and the Servicer's respective investments.

If additional funds are needed to bring a damaged or destroyed residence into compliance with applicable codes and regulations, the Borrowers should determine whether their property insurer will waive any policy provision restricting payment for the increased cost of construction resulting from enforcement of codes and regulations.

- ❑ A specified dollar amount is the maximum amount that the contractor may charge for the work
- ❑ The contractor will be paid a specified advance (if applicable, usually not exceeding 10% of the total contract amount) and, subsequently, on a specified draw schedule contingent on verification of satisfactory completion of specified work phases. If the mortgage status at time of notification is 31 or more days delinquent at time of loss, released funds must not exceed 25% increments of insurance loss proceeds.
- ❑ The contractor, its subcontractors and its material suppliers will provide written acknowledgment of payment for work performed and materials supplied and the necessary lien waivers or releases so that the Mortgaged Premises may remain clear of all such liens and encumbrances.
- Each scheduled work phase has been satisfactorily completed in accordance with the plans and specifications in the contract.

The Servicer may choose to have the above described oversight functions performed by its staff or by a third party (such as a specialized firm or another Servicer). However, the

Servicer is liable for the performance of any third party it retains. The third party may be compensated from insurance proceeds retained by the Servicer only to the extent agreed to by the Borrower and allowed under applicable law.

(e) Licensed contractor

The Servicer must follow the requirements below regarding the use of a licensed contractor.

Loss proceeds	Mortgage current or less than 31 days delinquent at the time of loss	Mortgage 31 or more days delinquent at the time of loss
Less than or equal to \$40,000	The Servicer must have policies and procedures to determine when a licensed contractor is required to repair or reconstruct the residence.	The Servicer must ensure that a licensed contractor is used to repair or reconstruct the residence.
Greater than \$40,001	The Servicer must ensure that a licensed contractor is used to repair or reconstruct the residence.	
	In the event that a State or jurisdiction does not require licensing of contractors, the Servicer may satisfy the requirement by ensuring the contractor is bonded and insured for an amount higher than the insurance proceeds.	

(f) Final inspection

The Servicer must follow the requirements below regarding the final inspection.

Loss proceeds	Mortgage current or less than 31 days delinquent at the time of loss	Mortgage 31 or more days delinquent at the time of loss
Less than or equal to \$20,000	A final inspection is not required.	A final inspection is always required to ensure all repairs are completed.
Greater than \$20,001	A final inspection is required to ensure all repairs are completed. If cosmetic/non-structural work items totaling less than \$5,000 are outstanding at the time of final inspection, the inspection can be considered final and the inspector	

Loss proceeds	Mortgage current or less than 31 days delinquent at the time of loss	Mortgage 31 or more days delinquent at the time of loss
	must note any unfinished items with estimated completion dates.	

8202.12: Lender-Placed Insurance (07/01/16)

The Seller/Servicer must require the Borrower to obtain appropriate insurance coverage in accordance with the terms of the Security Instrument, the Guide and applicable law.

The Servicer must continuously monitor the Borrower and Mortgage to ensure that adequate coverage has been obtained and remains in force. If the Borrower's coverage is cancelled or in jeopardy of cancellation due to non-payment of premium, the Servicer must attempt to continue coverage by paying the premium on behalf of the Borrower in accordance with applicable law. If the Borrower and the Servicer do not or cannot continue such coverage or if the coverage obtained is cancelled or lapses, the Servicer must obtain Lender-Placed Insurance (LPI). The Servicer must then adjust the Borrower's Escrow payments accordingly or bill the Borrower to recover the advance if the Servicer does not maintain an Escrow account for the Borrower. If the Borrower fails to reimburse the Servicer, the Servicer may recommend acceleration to Freddie Mac for the Borrower's default under the terms of the Security Instrument.

If the additional coverage cannot be obtained, the Servicer must immediately make appropriate recommendations to Freddie Mac (**see Directory 5**).

If the Servicer obtains LPI coverage for the Borrower from an LPI carrier in accordance with this section, the following apply:

- The Servicer or agents, brokers or other entities affiliated with the Servicer may not receive any compensation in the form of commissions or similar incentive-based compensation regardless of its designation as commission, bonus, fees or other type of payment from LPI carriers; and
- The Servicer may not use its own affiliated entities to insure or reinsure LPI

For purposes of this section an "entity" is "affiliated" with the Servicer when it is owned or controlled, in whole or in part, by the Servicer, including, but not limited to, a subsidiary of or in a joint venture or partnership with the Servicer. An affiliated entity shall also include any entity that owns or controls, in whole or in part, the Servicer (e.g., the parent company of the Servicer) and any entity that is under common ownership or control with the Servicer (e.g., two subsidiaries of the same parent company). An affiliated entity shall not include a publicly-traded company of whose stock the Servicer owns less than 5%.