

Lender Letter LL-2010-05**April 1, 2010****TO: All Fannie Mae Single-Family Sellers****Selling Loans during Lapse of National Flood Insurance Program Authority****Introduction**

The Federal Emergency Management Agency's (FEMA) statutory authority to issue flood insurance policies under the National Flood Insurance Program (NFIP) ended as of March 28, 2010. Congress is expected to reauthorize the NFIP in the near future; until then, however, FEMA may not issue new policies, increase coverage on existing policies, or issue renewal policies. To help ensure the continued availability of mortgage financing to borrowers seeking to purchase properties located in Special Flood Hazard Areas, Fannie Mae will purchase loans secured by properties located in Special Flood Hazard Areas that do not have an active flood insurance policy as long as the conditions noted below are met.

Purchase Conditions

This policy is applicable to mortgage loans closed during the period of NFIP discontinuance and delivered to Fannie Mae before the reauthorization of the NFIP, provided such reauthorization takes place on or before April 30, 2010 and is retroactive to March 29, 2010.

Until evidence of active flood insurance is obtained, a lender may deliver a mortgage loan to Fannie Mae on the condition that the borrower can provide acceptable evidence of

- a completed application for flood insurance and a copy of a check or the final HUD-1 Settlement Statement reflecting payment of the initial premium, or
- the assignment of an existing flood insurance policy from the property seller to the purchaser.

Lenders must

- have a process in place to identify mortgaged properties securing loans sold to Fannie Mae that do not have proper evidence of active flood insurance,
- take all steps (insofar as permitted by applicable law) necessary to facilitate the issuance of coverage once the NFIP insurance authority is renewed, and
- retain documentation to support acceptable evidence of flood insurance.

Notwithstanding the provisions of this Lender Letter, the lender remains obligated for all selling representations and warranties concerning the existence of a standard policy issued under the NFIP.

As a reminder, refinance mortgage loans secured by properties in Special Flood Hazard Areas typically already have acceptable flood insurance coverage in place at the time of closing (requiring, if applicable, only a change to the mortgagee named on the policy if the refinance lender is not the original lender). As a result, these mortgage loans are subject to the above requirements only if the renewal date of the borrower's existing coverage will occur during the lapse period and prior to delivery to Fannie Mae. If coverage expires before the mortgage loan is delivered to Fannie Mae, lenders must comply with the procedures described above, adapted appropriately to a renewal.

Lenders are advised to consult counsel to determine if they have the requisite authority to originate or otherwise deal in such mortgage loans.

In delivering mortgage loans affected by this lapse, lenders must continue to use Special Feature Code 170 to indicate that the subject properties are located in Special Flood Hazard Areas and subsequently must obtain flood insurance coverage that meets the requirements of the *Selling Guide*.

Lenders who have questions about this Lender Letter should contact their Customer Account Team.

Marianne E. Sullivan
Senior Vice President
Single-Family Chief Risk Officer