Multifamily Mortgage Business Lender Letter 17-11

September 14, 2017

To: Multifamily Lenders

From: Rob Walton, Vice President, Multifamily Debt & Equity Asset Management
Larry LaGrone, Vice President, Multifamily Loss Mitigation

Subject: Asset Management Guidance for Hurricanes Harvey and Irma

Highlights

Asset Management Guidance for Hurricanes Harvey and Irma including casualty loss assessments, insurance loss proceeds, loan servicing, and frequently asked questions.

Background

The people of Fannie Mae are working with our customers, partners, and Federal and local authorities to bring relief to homeowners and renters impacted by Hurricanes Harvey and Irma (the “Hurricanes”), and are committed to helping families, neighborhoods, and communities recover in the months and years ahead. In support of this effort to help those affected by the Hurricanes, we are working diligently to gather accurate information about affected multifamily Borrowers and Properties. The purpose of this Lender Letter is to provide guidance to Servicers engaged with Borrowers and Properties in the Designated Disaster Area affected by the Hurricanes. For purposes of this Lender Letter, “Designated Disaster Area” shall mean the Designated Counties identified by the Federal Emergency Management Agency in declarations related to the Hurricanes.

Casualty Loss Assessment

As we outline in Part V, Section 416 of the Multifamily Selling and Servicing Guide (“Guide”) the Servicer should document its Servicing File with the results of its casualty loss assessment, if required, within 45 days after first learning of a casualty loss. In addition, given the magnitude of the Hurricanes, Lender Letter 17-10 states we will allow the required casualty loss assessment to be performed within 90 days following the date of the applicable Hurricane (for any Property located in the Designated Disaster Area).

To assist your efforts, Fannie Mae has compiled a list of properties (the “Property List”) in the Designated Disaster Area, based on our portfolio information. The Property List has been loaded to the Multifamily Asset Management Portal (“MAMP”) in the Catastrophic Event module. Please indicate the damage estimates for your properties referenced in MAMP. Fannie Mae recommends that you review your Fannie Mae servicing portfolio exposure in the Designated Disaster Area and add additional properties to the Property List, as appropriate.

Handling Insurance Loss Proceeds

Except as set forth in this letter, Servicers should follow Part V, Sections 416 and 417 of the Guide regarding the handling of insurance proceeds and other casualty loss insurance matters for Mortgage Loans.

  a. Insurance Proceeds on Non-Performing Mortgage Loans

Any Mortgage Loan that does not have payments being made currently is considered non-performing, including Mortgage Loans under the delegated forbearance covered in Lender Letter 17-10. Because a Mortgage Loan
without current payment is non-performing, any activity or action plans to repair and restore the Property must be coordinated with Multifamily Loss Mitigation in accordance with Part V, Section 417 of the Guide.

If Mortgage Loans are delinquent and the actions taken are consistent with the activity or action plan coordinated with Multifamily Loss Mitigation, Fannie Mae delegates to you the authority and responsibility to endorse any insurance loss drafts and checks related to damage caused by the Hurricanes, and to apply them in accordance with the agreed upon action plan (i.e., deposited in your Custodial Account to be used to repair or restore the property, applied to the outstanding debt service payments due on the Mortgage Loan or applied to the unpaid principal balance of the Mortgage Loan).

b. Policy Cancellations and Non-Renewals
Insurers with concentrations of exposure in the affected areas may cancel or not renew existing insurance policies. Servicers should closely monitor correspondence from insurers for any notices of cancellation or non-renewal. If policies are cancelled or not renewed, Servicers should work with Borrowers to obtain replacement coverage. If replacement coverage cannot be obtained, contact drawer_insurance@fanniemae.com before force placing insurance.

c. Business Income Insurance
Fannie Mae's insurance requirements, including requirements for Business Income Insurance (business interruption/rent loss insurance), are contained in Part IIIA, Section 322 of the Guide. Business Income coverage should be included with all hazard loss, windstorm, and flood insurance policies. If you determine that a Borrower does not have the appropriate Business Income coverage and the property has either (i) damage exceeding the lesser of $500,000.00 or 20% of the Mortgage Loan unpaid principal balance or (2) down units equal to or greater than 10% of the total units, please advise Multifamily Loss Mitigation.

Loan Servicing
Because of the severity of the Hurricanes, Servicers must closely monitor delinquent loans, including any Mortgage Loans under the forbearance delegated to you in Lender Letter 17-10. The process for reporting on Mortgage Loans which are delinquent due to the Hurricanes is identical to the current monthly delinquency reporting process using the Delinquency Early Warning System ("DEWS"). DEWS and delinquency reporting are more fully discussed in Part V, Section 219 of the Guide. Please indicate in the comment field whether you believe the delinquency is due to the Hurricanes.

We remind you that you remain responsible for making Delinquency Advances and Servicing Advances as required in Part V, Section 208 of the Guide. In addition, the last paid installment date for Mortgage Loans does not advance due to a Delinquency Advance by you, including Mortgage Loans under the forbearance delegated to you in Lender Letter 17-10.

Frequently Asked Questions

Q: If I exercise the delegated authority to grant a forbearance under Lender Letter 17-10, do I need an amended Limited Power of Attorney?
A: No. Fannie Mae will not require an amendment to the Servicer’s Limited Power of Attorney to exercise the forbearance delegation granted in Lender Letter 17-10.

Q: A 3-month forbearance may not be long enough for some Borrowers. Will loan modifications be considered by Fannie Mae?
A: Modifications are not available for securitized Mortgage Loans while the Mortgage Loan remains in the security trust. If a Borrower requests a modification or you propose a modification for a Mortgage Loan, you are to follow Part V, Section 711 of the Guide for Courses of Action for Non-Performing Mortgage Loans.

Q: Does a Borrower need Fannie Mae’s consent to terminate leases at a Property?
A: Generally speaking, the termination of residential leases does not require Fannie Mae’s consent until the occurrence of an Event of Default. Our pre-2011 loan document forms require Borrowers to obtain Fannie Mae’s
prior written consent before terminating non-residential leases. The current version of our loan agreement limits the need for consent prior to termination to Material Commercial Leases. Servicers and Borrowers should refer to the specific loan documents applicable to a Mortgage Loan to determine when Fannie Mae’s consent is required.

Q: Who should I contact if I have insurance-related questions?
A: Please send an email with your question to drawer_insurance@fanniemae.com.

Additional Resources

Fannie Mae Hurricane Relief website: http://www.fanniemae.com/portal/about-fm/hurricane-relief.html