Servicing Guide Announcement SVC-2017-07

Servicing Guide Updates

August 16, 2017

The Servicing Guide has been updated to include changes related to the following:

- Consolidation of General Contract Terms, Indemnification Provisions, and Fannie Mae Trade Name and Trademarks Policy
- Fidelity Bond and Errors and Omissions Insurance Requirements
- Future Requirements for ARM Loan Servicing*
- Miscellaneous Revision*

*Policy change not applicable to reverse mortgage loans.

Consolidation of General Contract Terms, Indemnification Provisions, and Fannie Mae Trade Name and Trademarks Policy

In our ongoing efforts to simplify and consolidate duplicate content in the Selling and Servicing Guides, we have removed content from several topics in Servicing Guide Part A, Doing Business with Fannie Mae, pertaining to general contract terms, indemnification provisions, and Fannie Mae trade name and trademarks. No policy changes have been made. On August 29, 2017, the Selling Guide will be updated to reflect the following:

General Contract Terms

- A number of general contract terms from multiple topics in the Selling and Servicing Guides have been consolidated into a single, shared topic.
- The content has been rewritten, with the majority of it reformatted into an easy-to-read table.
- The delivery methods for notices of termination of the Mortgage Selling and Servicing Contract (MSSC) have been updated and incorporated.
- The assignment provisions from the MSSC have been incorporated.
- The provision regarding governing law has been streamlined.

Indemnification Provisions

We are adopting a consistent and comprehensive approach to indemnification after reviewing the indemnification requirements in the Selling Guide, Servicing Guide, Software Subscription Agreement Master Terms and Conditions (SSA), as well as the provisions of the standalone Indemnification Agreement we require sellers/servicers to sign in lieu of immediate loan repurchase or for certain types of products. With this update:

- We incorporated and standardized the process provisions from the standalone Indemnification Agreement into the Selling Guide. This update will provide increased transparency around our requirements and a shorter standalone Agreement and SSA. The process requirements will apply to all indemnification claims.
- We will incorporate the indemnification requirements from the SSA to provide consistency around our indemnification requirements.
- References to “Fannie Mae’s sole discretion” with regard to determination of “Fannie Mae Losses” have been eliminated.

Fannie Mae Trade Name and Trademarks

The terms related to the use of Fannie Mae trade name and trademarks have been reformatted into an easy-to-read table. The following table provides more detailed information on the placement of content within the Selling Guide from the impacted Servicing Guide topics.

<table>
<thead>
<tr>
<th>Impacted Servicing Guide Topics</th>
<th>New Content Location within the Selling Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2-1-05, Use of Fannie Mae Trademarks</td>
<td>A2-6-01, Fannie Mae Name and Trademarks</td>
</tr>
</tbody>
</table>
| A1-1-02, Representation and Warranty Requirements | • A2-1-03, Indemnification for Losses   
• A2-1-01, Contractual Obligations for Seller/Servicers |
| DELETED TOPIC: A1-1-01, Definition of “Seller/Servicer” | A2-1-01, Contractual Obligations for Seller/Servicers |

Effective Date

The Selling Guide updates will be published on August 29, 2017.

Fidelity Bond and Errors and Omissions Insurance Requirements

Our requirements for fidelity bond and errors and omissions insurance have not been materially updated for almost 20 years. As a result, some of the requirements are outdated and do not represent current risk management practices or market conditions.

On February 15, 2017, with Announcement SVC-2017-02, the requirements for fidelity bond and errors and omissions insurance were consolidated into the Selling Guide. On July 25, 2017, we updated the Selling Guide to reflect the following changes:

- Introduced a fidelity bond coverage amount cap of $150 million.
- Added an errors and omissions coverage amount cap of $30 million for seller/servicers that have single-family and multifamily mortgage loan portfolios. Previously, Fannie Mae had coverage cap requirements that only addressed single-family mortgage loan portfolios.
- Clarified that fidelity bond and errors and omissions insurance coverage must be equal to a percentage of the greater of the seller/servicer’s annual:
  - total UPB of single-family and multifamily mortgage loan annual originations, or
  - highest monthly total UPB of single-family and multifamily servicing of mortgage loans that the seller/servicer owns, including mortgage loans owned by the seller/servicer and serviced by others.
- Increased the maximum allowed deductible for fidelity bond and errors and omissions insurance to:
  - 10% for mortgage loan portfolios less than $1 billion, or
  - 15% for mortgage loan portfolios greater than or equal to $1 billion.
Clarified when we will consider a captive or reinsurance arrangement for fidelity bond and errors and omissions insurance.

Eliminated a surety bond requirement.

Updated fidelity bond and errors and omissions insurance coverage requirements for master servicers and subservicers to clarify that master servicers are responsible for maintaining coverage for any loans serviced by others on their behalf.

Changed the requirement for when the seller/servicer must notify us of a fidelity bond or errors and omissions insurance loss from 10 business days from the date of the loss event to within 30 days from discovery.

Clarified the provisions related to Fannie Mae’s rights under a seller/servicer’s fidelity bond and errors and omissions insurance policy.

Eliminated the annual requirement for a seller/servicer to provide a copy of the fidelity bond or errors and omissions insurance policy upon Fannie Mae’s request. (We will rely instead on related information sellers/servicers provide us annually.)

Updated Selling Guide Topics
- A3-5-01, Fidelity Bond and Errors and Omissions Coverage Provisions
- A3-5-02, Fidelity Bond Policy Requirements
- A3-5-03, Errors and Omissions Policy Requirements
- A3-5-04, Reporting Fidelity Bond and Errors and Omissions Events

Effective Date
Servicers are encouraged to implement these policy changes immediately, but must implement them by October 1, 2018.

Future Requirements for ARM Loan Servicing
To align whole loan ARM execution with the market demand for weighted average margin ARM MBS, the Servicing Guide is being updated to reflect a future change in the commitment and servicing calculation of ARM margins for whole loans. Fannie Mae currently allows the amount remitted for a post-rate adjustment to be calculated as the index plus the required net yield of the ARM product. The ARM margin calculation will be changed to require the post-rate adjustment remittance to be the index plus the net margin of the mortgage loan. See Selling Guide Announcement SEL-2017-05 for additional information.

Updated Servicing Guide Topics
- A2-3-03, Yield Differential Adjustments
- F-2-05, Historical Yield Differential Adjustment Provisions

Investor Reporting Manual 5-02, Calculations Related to Pass-through Rates, has also been updated.

Effective Date
This policy change will affect whole loan ARMs committed (and subsequently delivered) to Fannie Mae as of September 11, 2017, but will not affect ARM loan servicing until these mortgage loans become subject to their first rate resets.
Miscellaneous Revision

Servicing Guide B-8.1-04, Termination of Conventional Mortgage Insurance, has been revised to provide that the mortgage insurance termination eligibility criteria for a modified mortgage loan must be based on the terms and conditions of the modified mortgage loan, including the amortization schedule of the modified mortgage loan, and must comply with applicable law. These requirements also apply to mortgage loans modified prior to the effective date of this Announcement that have existing mortgage insurance payment obligations.

Effective Date
This policy clarification is effective immediately.

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Contact your Customer Delivery Team, Portfolio Manager, or Fannie Mae's Single-Family Servicer Support Center at 1-800-2FANNIE (1-800-232-6643) with any questions regarding this Announcement.

Carlos T. Perez
Senior Vice President and
Chief Credit Officer for Single-Family