



Borrower-Initiated Mortgage Insurance Termination Requests Using SMDU™

Frequently Asked Questions

February 6, 2019

Updated policy requirements for the borrower-initiated termination of conventional mortgage insurance (MI) will simplify the process of evaluating borrower-initiated requests for MI termination. This streamlined process will deliver a better customer experience for both servicers and borrowers. Listed below are frequently asked questions related to the implementation of the MI termination policy using Servicing Management Default Underwriter™ (SMDU™).

Servicers are encouraged to implement the MI termination policy based on Original Value as early as Jan 1, 2019, and MI termination policy based on Current Value as early as March 1, 2019, (when the capability to do so using SMDU becomes available); however, implementation is required by September 1, 2019.

Borrower-Initiated MI Termination Request Policy changes

Q1. Where can I find details on the new borrower-initiated MI termination request announcement?

The complete details on the updated policy changes are described in [Lender Letter LL-2018-09](#) and included in the December *Servicing Guide* update.

Q2. What are the changes to the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on Original Value of the property?

Beginning on January 1, 2019, for borrower-initiated MI termination requests based on Original Value of the property, the servicer can use the Automated Valuation Model (AVM) value used by SMDU to determine the current value of the property for purposes of determining the mortgage loan's eligibility for MI termination.

Q3. What are the changes to the requirements for borrower-initiated requests for MI termination of conventional mortgage insurance based on the Current Value of the property?

Beginning on March 1, 2019, for borrower-initiated MI termination requests based on Current Value of the property, the servicer can use the BPO or appraisal* ordered through SMDU to verify the Current Value of the property. When the reason for ordering a BPO or appraisal is due to substantial improvements of the property then a description of those substantial improvements must be provided with the valuation request.

When an evaluation of mortgage insurance is based on the Current Value due to substantial improvements and the loan seasoning is less than two years, the loan-to-value (LTV) threshold is now 80% or less.

**if the servicer determines it is required by law*

Q4. If the servicer orders a BPO or appraisal through SMDU to terminate MI and that value is lower than SMDU's AVM, can the AVM still be used to determine the amount the borrower needs to pay down the UPB to satisfy the LTV ratio requirement?

No, once a BPO or appraisal is successfully ordered, that value then becomes the "As Is Value" and must be used for the evaluation. The BPO or appraisal value is good for 120 days. The 120 day count starts on the date the Valuation Order is completed, which is also the same date SMDU evaluates the loan. If the borrower disagrees with the BPO or appraised value, the servicer may submit an appeal as long as the criteria is met. See question Q11 for additional information.



Q5. Will SMDU change a servicer BPO order to an appraisal if the state has a specific related statute?

No, the servicer is responsible for determining whether a BPO or appraisal is appropriate or required. SMDU has the ability for a servicer to request a BPO or appraisal, depending on geographic requirements as determined by the servicer. In some circumstances, Fannie Mae may choose to order an appraisal in lieu of a BPO for operational reasons. In these circumstances, there will be no additional charge for the appraisal.

Using SMDU for MI Termination

Q6. What is SMDU™?

SMDU is Fannie Mae's real-time workout decisioning and case reporting platform, available to servicers since 2011. It is available through a seamless business-to-business integration or through its web-based user interface (SMDU UI). Fannie Mae is leveraging SMDU to automate the process of evaluating borrower-initiated requests for terminating conventional MI based on either the Original Value or Current Value of the property.

Q7. Who and where do users request access to SMDU?

Most servicers are already using SMDU for workout decisioning and case reporting; however, beginning on January 1, 2019, users can evaluate borrower-initiated requests to terminate MI based on Original Value using the SMDU UI. In order to do so, users must use the Fannie Mae [MI Termination Specific Technology Manager Job Aid](#) to garner access to the SMDU UI and the MI termination role as well as use the [Fannie Mae Borrower-Initiated Request for Mortgage Insurance \(MI\) Termination Servicer User Guide](#). This Guide provides instructions on how to use the SMDU UI to evaluate a borrower-initiated request to terminate conventional mortgage insurance based on the Original Value.

An updated User Guide with instructions on how to use the SMDU UI to order a BPO or appraisal and use SMDU to evaluate a borrower-initiated request to terminate conventional mortgage insurance based on the Current Value is forthcoming.

Q8. What are a servicer's responsibilities when they update data used in the borrower-initiated MI termination request evaluation?

As part of the borrower-initiated MI termination request evaluation a servicer may update any of the following data elements to match what is in their system of record: Unpaid Principal Balance (UPB), Property Usage and Property Number of Units. When this occurs, the servicer is responsible for the accuracy and integrity of this updated data used in the evaluation. In addition, any data change(s) made in SMDU as part of the MI termination evaluation must also be made to the applicable Fannie Mae system as required by the Servicing Guide (see below), as soon as possible, but no later than 30 days after the SMDU MI termination evaluation.

- Total Unpaid Principal Balance (UPB): Update using Servicer's Reconciliation Facility (SURF™)
- Property Usage and/or Property Number of Units: Update using the [Post-Purchase Adjustment process](#)

Q9. Is SMDU replacing VMS for obtaining property values for loss mitigation activities?

No, at this time SMDU is not replacing VMS for obtaining property values for liquidation loss mitigation activities, such as foreclosure bidding instructions, a Mortgage Release™ (deed-in-lieu of foreclosure) and short sale. Servicers must continue using the VMS application and VMS Valuation Order Template to obtain values from Fannie Mae for such liquidation activities.



General Questions

Q10. Does a servicer receive limited liability relief on the SMDU MI Termination decision for a borrower-initiated request based on the Original Value of the property?

Yes, as long as SMDU is used to evaluate and decision the borrower-initiated MI Termination request based on Original Value of the property, and the servicer uses the Automated Valuation Model (AVM) value and data used by SMDU. If a servicer updates the UPB, property usage type or number of units they are warranting the accuracy of the data, for which the decision was based. Inaccurate data may impact limited liability relief.

Q11. If a borrower appeals the valuation, what is the appeals process?

For a MI termination evaluation request based on Original Value, SMDU's AVM values will be updated monthly. However, if the AVM value used in the evaluation is less than the Property Value at origination or the property purchase price, as applicable, then the AVM value will only be updated after 120 days of the evaluation. A borrower may choose to pay for a BPO or appraisal when they believe the AVM value doesn't accurately reflect their property value.

Beginning on March 1, 2019, a dispute of the Current Value (based on a BPO or appraisal) may be initiated by the servicer using SMDU. Fannie Mae will require relevant data be submitted to substantiate the borrower's dispute of the value. The relevant data must have been available as of the date the BPO or appraisal was completed.

Q12. If a servicer believes it is necessary or required to provide the AVM valuation to the borrower, may it do so?

Yes, provided that whenever the AVM valuation is provided to a borrower the following disclaimer is included in the communication: *"This estimate of value was developed by an automated valuation model that was made available to your servicer by Fannie Mae. This estimate of value is not the result of appraisal, nor was it developed by a state licensed or certified appraiser. Fannie Mae makes no representations or warranties, express or implied, regarding the property, the condition of the property, or the estimated value of the property. This estimate is intended to be used solely by the servicer. If you have concerns with this valuation, please talk to your servicer about your options, which include asking your servicer to order a BPO or appraisal."*

Q13. For Fannie Mae's appraisal pricing, will prices fluctuate based on location, property type, etc.?

Fannie Mae has standardized contractual pricing for a BPO or appraisal ordered through SMDU.

Q14. What is the cost to the borrower when evaluating an MI termination request based on Original Value?

There is no cost to the borrower or the servicer for a MI termination evaluation based on the Original Value that is successfully processed through SMDU using Fannie Mae's AVM. If a borrower's Original Value evaluation for termination is denied due to an AVM not being available, doesn't meet the required confidence score, and/or can't be used in the evaluation, and a BPO or appraisal is subsequently ordered, it is at the expense of the borrower. A servicer should use their current process to order a BPO or appraisal until March 1, 2019.

Beginning on March 1, 2019, a servicer can order a BPO or appraisal via SMDU. Below are the applicable costs for a BPO or appraisal, which will continue to be at the expense of the borrower:

Valuation Type	Cost
BPO	\$ 150
Appraisal one-unit	\$ 325
Appraisal two- to four-unit	\$ 750



For one unit properties: When the servicer receives the fee for the valuation from the borrower, the servicer must order a BPO, or appraisal if the servicer determines it's required by law, using SMDU.

For two- to four-unit properties: When the servicer receives the fee for the valuation from the borrower, the servicer must order an appraisal using SMDU.

Q15. What will be the cost to the borrower when evaluating an MI termination request based on Current Value?

Below are the applicable costs for a BPO or appraisal, which must be at the expense of the borrower:

Valuation Type	Cost
BPO	\$ 150
Appraisal one-unit	\$ 325
Appraisal two- to four-unit	\$ 750

For one unit properties: When the servicer receives the fee for the valuation from the borrower, servicer must order a BPO or appraisal if the servicer determines it's required by law, using SMDU.

For two- to four-unit properties: When the servicer receives the fee for the valuation from the borrower, servicer must order an appraisal using SMDU.

Q16. How will the one-unit and two-to-four unit appraisals obtained through SMDU differ?

The one-unit appraisal obtained through SMDU will be an appraisal completed by a licensed or certified appraiser based upon data provided by a property inspector. These can be ordered in SMDU for single unit homes when the servicer has determined an appraisal is required by law for that jurisdiction.

The two-to-four unit appraisal will be completed by a licensed or certified appraiser using the Small Residential Income Property Appraisal Report Form 1025.

Q17. How can servicers remit the BPO and appraisal fees to Fannie Mae?

A BPO or appraisal returned to the servicer via SMDU during a calendar month will be invoiced the following month and will be managed through Fannie Mae invoicing.

Q18. Are servicers required to use Fannie Mae's approved list of BPO vendors and appraisers?

Beginning on March 1, 2019, servicers can use SMDU to place an order for a BPO or appraisal to evaluate borrower-initiated MI terminations based on Current Value or when an AVM can't be used in the evaluation of a borrower-initiated MI termination based on Original Value.

Q19. What is Fannie Mae's definition of substantial improvements?

Substantial improvements are those that impact collateral value by improving function, modernizing, enhancing market appeal, and/or extending its useful life.



Q20. What information must the servicer provide when the loan* seasoning is less than two years?

If the loan seasoning is less than two years old, the servicer must obtain the list of improvements made by the borrower *post-origination* along with the *actual* cost of these improvements. The servicer must include this information when ordering the BPO or appraisal via SMDU. The current property value will be determined by the BPO or appraisal, therefore, the servicer should not consider improvement impacts on property value when submitting the improvement costs (see question 21).

*Only applies to 1-unit principal residence or second homes. 1-4 unit investment or 2-4 unit principal residences must be seasoned at least 2 years.

Q21. What is the dollar amount or level of improvement required to meet the requirements of borrower-initiated MI termination request based on Current Value with substantial improvements?

Borrower-initiated MI termination based on Current Value with substantial improvements is an option that allows a borrower to remove MI based on the substantial improvements versus using those funds to pay down the UPB to meet the applicable MI termination LTV threshold. A good reasonableness test is the dollar amount a borrower spends on substantial improvements should be commensurate with the additional dollar amount required to reduce the UPB to meet the required LTV ratio based upon the property value at origination.

Q22. Can a servicer solicit borrowers to terminate MI coverage using the new servicing policy guidelines regarding MI termination using SMDU?

The policy and SMDU are not intended to be used by a servicer to solicit borrowers to terminate MI. The purpose of the updated servicing policy and the use of SMDU is to provide servicers with a more efficient process to evaluate borrower-initiated MI termination requests.

Q23. When should a servicer update the unpaid principal balance (UPB) in SMDU?

The UPB amount in SMDU should only be updated when the servicer's system reflects a different UPB amount. A difference in UPB amounts may occur when a borrower's payment has been received and recorded in the servicer's system but has not yet been reported to Fannie Mae. If a servicer updates the UPB used in the evaluation, that UPB must reflect an actual payment received by the servicer and not a projected UPB based upon a borrower's promise to pay. A servicer is responsible for the accuracy of the changed UPB used in the evaluation.

Q24. What is the timeline for receiving the result of a BPO or appraisal ordered in SMDU?

Typically, 10 calendar days or less, but it will vary based on the time needed to coordinate access to the property.

Q25. When a BPO or appraisal is ordered, who will be contacting the borrower to inspect the property?

- A broker will contact the borrower to inspect the property when a BPO is ordered
- A property inspector will contact the borrower when a one-unit appraisal is ordered
- An appraiser will contact the borrower when a 2-4 unit appraisal is ordered.

Each respective provider will inform the borrower that they are completing the inspection on behalf of the servicer.

Q26. Will there be APIs available for MI termination based on Original Value and Current Value?

Yes. An API for MI Termination data is scheduled for release in 2019. Fannie Mae APIs information can be found on the [Fannie Mae API Portal](#).



Q27. How does a servicer remit payment to Fannie Mae for a BPO or appraisal used for borrower-initiated MI termination using SMDU?

Servicers must use the Cash Remittance System (CRS™) to remit payment using special remittance code 360 - MI Termination Recovery Proceeds. User information can be found in the [CRS User Guide](#).

Borrowers impacted by a disaster

Q28. Is there a change for verification of acceptable payment record for borrowers impacted by a disaster?

When verifying the borrower's acceptable payment record for MI termination the servicer must not consider any payment that is 30 or more days past due in the last 12 months, or 60 or more days past due in the last 24 months, that is attributable to a disaster event in which the servicer provided disaster relief, a forbearance plan, repayment plan, or Trial Period Plan and the borrower complied with the terms of any such plan.

Points of Contact

Servicers with additional inquiries related to the new MI termination policy should contact mi_terminations_escalations@fanniemae.com or your Customer Delivery Team or Portfolio Manager.