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To: All Fannie Mae Single-Family Mortgage Servicers and Sellers

Subject: LL02-05: Hurricane-Related Mortgage Servicing and Underwriting Policies

This Lender Letter provides additional guidance for underwriting and servicing of mortgages for borrowers who have been impacted by Hurricane Katrina and/or Hurricane Rita (“the Hurricanes”). On September 19, we issued guidance on special relief measures for existing mortgages, as well as for new mortgages that lenders were ready to deliver to us. Since then, we continue to be in frequent contact with our customers who are working with borrowers who have been affected by the Hurricanes.

Helping borrowers take care of their existing home and mortgage obligation continues to be the most important work for our customers and for Fannie Mae. As we continue to develop solutions to address these borrowers' needs, we also have begun to address the challenges faced by many of these families who will be buying new homes.

This Lender Letter covers these topics:

- Property inspections
- Disposition of property insurance proceeds
- Underwriting flexibilities when making new mortgages for borrowers affected by the Hurricanes
- Property appraisals in areas affected by the Hurricanes
- Mortgage Underwriting and Servicing Questions and Answers

Servicing Policies

Property Inspections. We typically expect servicers to have a property inspected whenever they have reason to believe the property has been damaged. Following the Hurricanes, particular attention was initially applied to the counties and parishes that were designated by the Federal Emergency Management Agency (“FEMA”) as eligible for Individual Assistance (“FEMA Disaster Areas”). As more information became available, we learned that most of the property damage occurred in a much smaller area within the FEMA Disaster Areas. To help our servicers better focus their resources, we have provided each servicer with a list of mortgages secured by properties most likely to have incurred damage. We developed these lists using area damage assessments provided by FEMA. Servicers should have inspections

done for all properties on their list. We recognize that, in some cases, inspections cannot yet be done because some houses are not accessible; in other cases, inspections may not be necessary because servicers already have sufficient information provided by the borrower and/or the insurer.

For mortgages secured by properties not on a servicer's list, but still located in a FEMA Disaster Area, these inspection guidelines apply:

- If the servicer has been in contact with the borrower, and the borrower reports that the property has been damaged, an inspection must be done.
- If the servicer has not been in contact with the borrower, and the mortgage is current, no inspection is required.
- If the servicer has not been in contact with the borrower, and the mortgage becomes 60-days delinquent, an inspection must be done.

The property inspection report should include the following information:

- overall type(s) and level of damage in the neighborhood
- level of damage (e.g., none, minimal, heavy, total loss) to the property (including the interior, when accessible)
- assessment of any wind, flood, fire, or mold damages, or environmental contamination
- any government citations or postings on the property
- availability and safety of gas, electric, water, and sewage services
- whether the property is habitable
- photographs (typically front, rear, and damages)
- any borrower contact information that is learned
- appropriate borrower, property, and loan number information

Fannie Mae will reimburse servicers up to \$30 for each inspection of a property on the list we have provided. We have developed a streamlined reimbursement process for servicers that submit requests for groups of 25 or more inspections. The reimbursement requests should be submitted as follows:

- Prepare a Microsoft Excel spreadsheet that includes the servicer name, the Fannie Mae seller/servicer number, the Fannie Mae loan number, the servicer loan number, the property address, and the inspection fee (the lesser of the actual cost or \$30). The spreadsheet should include the total amount being requested for reimbursement.
- Submit the spreadsheet via e-mail to hurricane_assistance@fanniemae.com.

Servicers who submit fewer than 25 property inspection reimbursement requests should follow our standard cash disbursement guidelines using Fannie Mae's *Cash Disbursement Request* (Form 571).

Servicers should maintain copies of the inspection documents, including photographs, and must be able to submit them to us, as required for loan workout and insurance disbursement recommendations.

Disposition of the Property Insurance Proceeds. In some situations, servicers are required to get our approval for the disposition of insurance proceeds (Servicing Guide Part II, Section 501.02 and Servicing Announcement 05-06). To help expedite this process, servicers can now electronically complete and send the information. Through www.efanniemae.com, servicers can access the *Report of Hazard Insurance Loss* (Form 176) and e-mail it to hazard_loss@fanniemae.com.

Attachment 1 contains additional servicing related questions and answers.

Underwriting Policies

Over time, our customers will face many underwriting questions due to circumstances related to the hardships caused by the Hurricanes. Such situations will include:

- a family buying a new home before they have sold their previous home, or otherwise resolved the mortgage on their previous home; and/or
- a borrower whose credit history has been negatively affected as a result of expenses and/or income reduction attributable to the Hurricanes.

This section addresses these and other underwriting issues. Attachment 1 contains additional information in response to other underwriting questions we have received.

Principal Residence Properties. To qualify as a principal residence, borrowers must intend to occupy the new home as their primary residence. When borrowers still own a previous home located in a FEMA Disaster Area, they must indicate what they intend to do with that property. If they do not plan on returning to that property, the new home would be considered the borrowers' new principal residence. If, however, the borrowers intend to repair and return to their previous residence, the lender should underwrite the new mortgage as a second home.

Qualifying Ratios. When a borrower is purchasing a new home, yet still has an outstanding mortgage on a property located in a FEMA Disaster Area, the lender may exclude the mortgage payment on the previous residence from the qualifying ratio calculation provided:

- the previous residence is uninhabitable and either heavily damaged or destroyed, or condemned and is, therefore, unlikely to be repaired;
- the lender obtains a property inspection of the previous residence confirming that the previous residence is uninhabitable and either heavily damaged or destroyed, or condemned; and

- the borrower provides the lender with information indicating he or she is working with the servicer to appropriately address his or her mortgage obligation and agrees that any property insurance proceeds will be applied to the mortgage on the damaged home. We are providing a sample form that can be used to satisfy this requirement (see Attachment 2). Once a lender collects this signed form, a copy must be sent to the servicer of the previous mortgage.

Our debt-to-income ratio standard is a guideline, and we recognize that there are legitimate reasons for exceeding this guideline as long as the lender, in its assessment of the comprehensive risk for the mortgage, identifies and documents the factors that justify a higher ratio. The lender's assessment of the borrower's monthly debt obligation should consider credit card and other debt balances pre- and post-Hurricane (using applicable billing statements and receipts) and how those balances could be paid (using anticipated insurance proceeds, relief funds, etc.). Debt incurred due to the Hurricanes may be excluded from the qualifying ratio for the mortgage if the lender concludes that the borrower can reasonably expect to receive funds in the near future to apply toward this additional debt.

Credit History. We believe a borrower's credit history prior to the Hurricanes is likely to present a better indication of how well he or she manages credit. Accordingly, the lender may give primary consideration to the account and payment information prior to the Hurricanes. Any adverse or derogatory credit information that directly resulted from the effects of the Hurricanes, including a foreclosure or deed-in-lieu of foreclosure, may be disregarded. A borrower with a bankruptcy filing, even if the bankruptcy is related to hardship caused by the Hurricanes, will need to demonstrate an acceptable credit history for at least two years following the bankruptcy.

For a borrower with a credit history that has been weakened by Hurricane-related hardships, the lender must be satisfied that the borrower's pre-Hurricane credit management demonstrates the borrower's willingness and ability to make the payments on the new mortgage obligation. (For more information, please refer to the Selling Guide Part X, Chapters III and VIII.) The lender must document its assessment of the borrower's credit history and the basis for the conclusion that the borrower had an acceptable credit history just prior to the Hurricane.

Underwriting Flexibility Requirements. These underwriting flexibilities are effective immediately and will remain in effect for mortgages closed on or before December 31, 2006.

These underwriting flexibilities apply to:

- mortgages for principal residences (except for the second home guidance provided earlier);
- purchase money or limited cash-out refinance transactions; and
- all product types.

When using any one of the flexibilities described above (or as indicated in Attachment 1), lenders must include Special Feature Code 625 as part of the delivery data on the *Loan Schedule* (Form 1068 and 1069) or *Schedule of Mortgages* (Form 2005).

Property Appraisals in Disaster Areas

At least for the short-term, appraisers are likely to experience difficulty appraising properties located in the areas impacted by the Hurricanes for three reasons: the uncertainty of the general economic conditions in the market areas; the lack of post-Hurricane comparable market data to measure the impact on property values; and, in some cases, the uncertainty regarding the condition of the property.

Market Areas Impacted by the Hurricanes. Appraisers must use all available market data in their analyses of properties in areas that were impacted by the Hurricanes. The appraiser's analysis must focus on the community in which the subject property is located, taking into consideration the influence of market forces on property values. Property location is a fundamental characteristic that influences the value of residential real estate. As a result, it is a critical factor that must be considered in the appraisal process. Neighborhood characteristics and trends also influence the value of properties; therefore, they also are key elements in the appraisal process.

Generally accepted appraisal standards and our appraisal report forms and guidelines require the appraiser to perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of properties in a particular neighborhood. The appraiser performs a neighborhood analysis to understand the value-influencing characteristics in the market area and to identify the market area that is subject to the same influences as the subject property. The neighborhood analysis enables the appraiser to define the area from which to select the market data needed to perform a reliable sales comparison analysis.

The appraiser's neighborhood analysis for the market areas affected by the Hurricanes is a critical part of the appraisal process. The appraiser must use post-Hurricane comparable sales (closed sales and/or contracts for sale) from the subject neighborhood and competing neighborhoods as the basis for the value conclusion for post-Hurricane appraisal reports. We recognize that, in the short-term, there will be limited post-Hurricane comparable sales available to measure the impact of the Hurricanes; therefore, the appraiser may need to use pre-Hurricane closed sales to supplement post-Hurricane closed sales and/or contracts for sale to develop a value conclusion. The appraiser may submit more than three comparable sales to support the value opinion, as long as at least three are closed sales. As comparable sales become more available, the appraiser will be able to use only post-Hurricane closed sales and contracts for sale. We will accept mortgages secured by properties in market areas with physical damage as long as the appraiser is able to develop an accurate opinion of the market value for the property based on post-Hurricane closed sales or contracts for sale.

We also recognize that, in the short-term, there may be no post-Hurricane comparable sales available to measure the impact of the Hurricanes for some neighborhoods. In such cases, the appraiser will not be able to develop an accurate post-Hurricane opinion of market value

because post-Hurricane comparable sales are not available. If the appraiser cannot develop an accurate opinion of market value, the mortgage will not be eligible for delivery to Fannie Mae.

Market Areas Experiencing Short-Term Appreciation. We have been asked about the eligibility of mortgages secured by properties in areas that have experienced short-term appreciation in value because of the increased demand for undamaged housing; some question whether the increased value may be sustainable. We will accept mortgages secured by properties that have experienced short-term appreciation as long as the appraiser's adjustments to the comparable sales for the increase in value are representative of the market. "Time" adjustments must be supported by comparable sales. In such cases, the appraiser must analyze and support the "time" adjustments in the appraisal report with either post-Hurricane closed sales or contracts for sale. This level of analysis will enable the appraiser to measure the impact of the Hurricanes on property values and to develop an accurate opinion of market value. If the appraiser cannot arrive at an accurate opinion of market value because there is no post-Hurricane comparable sales data available, the mortgage will not be eligible for delivery to Fannie Mae.

"As-Is" Versus "As-Repaired" Appraisals. We also have been asked when properties in the areas impacted by the Hurricanes should be appraised "as-is" versus "as-repaired," and what type of property inspection is required. Appraisals on properties located in the areas affected by the Hurricanes must be based on interior and exterior property inspections. Our policy permits an appraisal to be based on the "as-is" condition of the property as long as no conditions exist that affect the livability, soundness, or structural integrity of the property, and the appraiser's opinion of value reflects the "as-is" condition of the property. When conditions exist that affect the livability, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs ("as-repaired"), and the lender must obtain a completion report from an appraiser before it delivers the mortgage to us.

We do not consider the appraiser to be an expert in the field of environmental hazards. The typical residential appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any adverse conditions (such as evidence of mold or any other substance that may pose health or safety concerns, or conditions that may affect the livability, soundness, or structural integrity of the property) that were observed during the inspection of the subject property, or information that he or she became aware of during the normal research involved in performing the appraisal. In situations where a condition may need repair but the appraiser may not be qualified to make that decision, the property must be appraised subject to an inspection by a qualified professional.

Appraisals with Supplemental Statements or Limiting Conditions. Some lenders have asked for guidance on how to address appraisers' concerns about their ability to measure the impact of the Hurricanes. Specifically, lenders are concerned about appraisal reports that contain supplemental statements or limiting conditions, such as the following:

"The effective date of this appraisal assignment is subsequent to Hurricane Katrina and/or Hurricane Rita. The scope of this appraisal assignment does not include the

measurement of any effect of the Hurricanes on the real estate market or on the value of the subject property. Therefore, the value opinion and other conclusions expressed in this appraisal report are subject to the extraordinary assumption that the Hurricane had no effect on the value or marketability of the subject property. The users of this appraisal report are cautioned that if this extraordinary assumption is incorrect, the value opinion and other conclusions expressed in this report could be significantly different.”

This and similar statements represent a limiting condition to the appraisal, which could result in an inaccurate value conclusion because the dynamics of the market are ignored. Although we will permit an appraiser to add certain certifications to an appraisal report, we will not purchase or securitize a mortgage when an appraiser has added a limiting condition to the appraisal report. We recognize, however, that, in the short-term, there may be limited market data available to measure the impact of the Hurricanes. In view of this, we will accept the following additional appraiser’s certification and notice in the market areas affected by the Hurricanes:

“The effective date of this appraisal assignment is subsequent to Hurricane Katrina and/or Hurricane Rita. The appraiser has researched and analyzed all reasonably available data to arrive at an accurate appraisal of the subject property. The reader is cautioned that as additional data become available the value conclusion in this report may be affected.”

The use of this additional certification and notice does not relieve the appraiser from arriving at an accurate and supported opinion of value based on all available information. We expect the appraiser to consider and use all available market data in his or her appraisals.

We will continue to work with our lenders, appraisers, and other interested parties to develop and provide additional property valuation guidance. We will make every effort to offer sound advice and to help meet the needs of the local community as we work with our lenders and their appraisers.

Fannie Mae issued additional guidance to our lenders in Lender Letter 01-05. A copy of that Lender Letter can be found at www.efanniemae.com/sf/guides/ssg/hurrelief/index.jsp.

Lenders should contact their Customer Account Manager, Underwriting Consultant, Portfolio Manager, or Servicing Consultant if they have any questions about this Lender Letter.

Pamela S. Johnson
Senior Vice President

Attachments

Attachment 1

UNDERWRITING AND SERVICING QUESTIONS AND ANSWERS

Underwriting Questions and Answers

- Q.1 How should a borrower's net rental income be calculated if his or her investment property suffered major damage as a result of the Hurricanes and is not currently being rented?**

The full amount of the mortgage payment for the investment property must be included in the net rental income (loss) calculation and factored into the debt-to-income ratio.

- Q.2 In instances when employment or income cannot be verified, will W-2s and tax returns need to be requested from the Internal Revenue Service ("IRS")? What other forms of alternative documentation can be used?**

Previous Employment - If the lender verifies that the company that previously employed a borrower (prior to the Hurricane) still exists, but the borrower has lost all documentation, a verbal employment verification covering a two-year period is sufficient. If the lender verifies that the company no longer exists due to the Hurricanes, the borrower's stated job history on the *Uniform Residential Loan Application* (Fannie Mae Form 1003) will be deemed adequate if it is reasonable to the lender.

Current Employment/Existing Job (post-Hurricane) – A lender should verify the borrower's employment to ensure the company is still in operation in order to consider the income in qualifying the borrower for the mortgage. The lender should obtain verbal or written confirmation from the employer of the borrower's start date, previous year's income, year-to-date income, and current salary. Also, a recent pay stub issued after the Hurricanes supporting the monthly salary must be provided. The requirements of Selling Guide Part X, Chapter 4, Section 401 for stability and continuity of income must be met.

Current Employment/New Job - The income from a new job may be used in qualifying the borrower for the mortgage. The requirements of Selling Guide Part X, Chapter 4, Section 401 for stability and continuity of income must be met.

- Q.3 Will Fannie Mae permit a borrower's anticipated future employment and income to be considered in qualifying for the mortgage?**

We will permit the borrower's anticipated future employment and income to be considered in qualifying for the mortgage provided that the borrower has an employment contract.

- Q. 4 Will Fannie Mae permit a borrower's temporary income, which is anticipated to end in the near future, to be considered in qualifying for the mortgage?**

A lender should not include a borrower's temporary income when qualifying the borrower for the mortgage because the income will not continue.

- Q. 5 Will Fannie Mae allow greater flexibility on a trailing secondary wage earner's anticipated income when the borrowers are relocating because of the Hurricanes?**

Lenders may now consider 100 percent of the trailing secondary wage earner's documented income from his or her previous employment, even if the income represents more than 30 percent of total qualifying income. All other requirements in the Selling Guide Part X, Chapter 4, Section 402.26 apply.

- Q. 6 How should self-employed borrowers be underwritten when their documentation has been destroyed, but they will continue to operate their business in the same geographic area?**

If a self-employed borrower has lost all tax documentation, the lender must obtain filed forms directly from the IRS. Lenders may use IRS Form 4506-T, *Request for Transcript of Tax Return*, or other appropriate documentation, to obtain the tax information from the IRS.

The lender should analyze the location and nature of the borrower's business to determine the likelihood the borrower will maintain his or her business and income stream if his or her business operates within the areas impacted by the Hurricanes. A lender should analyze the demand for the product or service offered by the business, the financial strength of the business, and the ability of the business to continue generating sufficient income to enable the borrower to meet his or her total monthly debt obligation.

- Q. 7 How should a borrower with employment gaps due to the Hurricanes be underwritten?**

Employment gaps due to the Hurricanes may be disregarded if the borrower is currently employed.

- Q. 8 Are funds received from the government (e.g., FEMA) an eligible source of income?**

These funds are not an eligible source of income because these funds are non-routine income that will not continue and, in most cases, are paid in a lump sum. These funds, however, may be applied toward the borrower's down payment and closing costs.

- Q. 9 If a new deposit account is opened after the Hurricanes, what will be required to evidence that the recently deposited funds have not been borrowed?**

The source of funds for new bank accounts opened since the Hurricanes must be explained by the borrower and supported with documentation, and the lender must consider such documentation to be reasonable.

- Q. 10 How should existing asset accounts be documented if bank statements, deposit slips, cancelled checks, etc., were lost due to the Hurricanes?**

Existing bank accounts should be verified by a Verification of Deposit (VOD) or with bank statements reissued by the bank (or a letter from the bank). Lenders may use their discretion in obtaining other types of documentation (e.g., online bank statements, ATM receipts, etc.).

- Q. 11 Will grant funds or subsidies received from federal, state, and local governments (e.g., FEMA) be an eligible source of funds for a borrower's down payment and/or closing costs?**

Yes, these will be an acceptable source of funds for down payment and closing costs. This topic is covered in the Selling Guide Part X, Chapter 6, Section 603.08.

- Q. 12 Will Fannie Mae allow borrowers impacted by the Hurricanes to use large amounts of cash received from various sources as eligible assets?**

Yes, lenders may consider funds received by the borrower from FEMA, the insurer, or charitable organizations as part of the borrower's minimum down payment contribution.

- Q. 13 Will Fannie Mae waive a borrower's required minimum cash down payment/contribution requirements when he or she receives a gift?**

Yes, we will waive a borrower's required minimum cash down payment/contribution requirements, regardless of the loan-to-value ratio (or combined loan-to-value ratio) and permit the borrower to use funds received as a personal gift from a relative, domestic partner, fiancé, or fiancée to make the entire down payment for a mortgage.

- Q. 14 Will Fannie Mae allow the down payment, closing costs, and prepaid items to come from disaster loans (e.g., Small Business Administration loans)?**

Disaster relief loans, which are generally administered by the Small Business Administration ("SBA"), are low interest rate loans that may be either secured or unsecured. The lender should review the borrower's SBA loan documents to determine the eligible use of funds. If permitted by the SBA loan documents, a borrower may use a lump sum disaster relief loan to pay closing costs and prepaid items and to satisfy our down payment requirements. The borrower does not have

to make a minimum cash down payment from his or her own funds in order for the disaster relief loan to be credited toward the down payment. The monthly payment for the SBA loan must be included in the borrower's total monthly debt obligation. Refer to the Selling Guide Part X, Chapter 6, Section 603.08.

Q. 15 Will Fannie Mae increase the interested party contribution limits for borrowers impacted by the Hurricanes?

Fannie Mae's interested party contribution limits will continue to apply (e.g., 3 percent for principal residences with LTV > 90 percent). Refer to the Selling Guide Part X, Chapter 6, Section 602.02.

Q. 16 Many of the homeowners impacted by the Hurricanes may not be able to meet their monthly debt obligations, resulting in late payments. Under what circumstances will a lender be allowed to manually underwrite mortgages if late payments exist?

Expanded Approval (“EA”) Recommendations - If a mortgage is submitted to Desktop Underwriter and receives an EA recommendation, the lender must determine if the EA recommendation was a direct result of the derogatory credit attributable to the Hurricanes and must ensure that no bankruptcies were filed within the 24-month period prior to the credit report date (regardless if the bankruptcy is attributable to the Hurricanes). If the derogatory credit report is attributable to the Hurricanes and if no bankruptcies have been filed in the last 24-month period, the lender may follow the policy for “Errors in the credit report” as specified in Chapter 5 in the Guide to Underwriting with Desktop Underwriter. The mortgage may be delivered under standard pricing arrangements and must be coded with Special Feature Code 343 at delivery to Fannie Mae. These mortgages are subject to pricing arrangements described in the applicable Master Agreement, Variances, Pool Purchase Contract, Negotiated Commitment Contract, and the Selling Guide. These mortgages are not eligible for the limited waiver of representations and warranties.

Refer with Caution Recommendations - If a mortgage is submitted to Desktop Underwriter and receives a Refer with Caution recommendation, the lender must determine if the recommendation was a direct result of the derogatory credit attributable to the Hurricanes and must ensure that no bankruptcies were filed within the 24-month period prior to the credit report date (regardless if the bankruptcy is attributable to the Hurricanes). If the derogatory credit report is attributable to the Hurricanes and if no bankruptcies have been filed in the last 24-month period, the lender may follow the policy for “Refer with Caution Recommendation” in Part X, Chapter 2, Section 202.05 of the Selling Guide. These mortgages are not eligible for the limited waiver of representations and warranties.

Lenders are reminded that it is Fannie Mae's policy for servicers not to report delinquencies to the credit repositories if the missed payment is likely attributable to the hardship caused by a natural disaster.

Servicing Questions and Answers

Q. 17 Are borrowers who live outside the FEMA Disaster Areas eligible for Fannie Mae's disaster relief provisions?

Borrowers who live outside the FEMA Disaster Areas are eligible for Fannie Mae's disaster relief provisions if the borrower experienced a loss of employment or other loss of income as a direct result of the Hurricanes. Each case must be evaluated individually. We expect servicers to apply reasonable judgment when following the established procedures in the Servicing Guide when granting relief to borrowers who have incurred loss of income related to the Hurricanes.

Q. 18 Are borrowers who live outside the FEMA Disaster Areas and who are caring for individuals who were directly impacted by the Hurricanes eligible for Fannie Mae's disaster relief provisions?

Yes, borrowers who live outside the FEMA Disaster Areas and who are caring for individuals who were directly impacted by the Hurricanes are eligible for Fannie Mae's disaster relief provisions. Each case must be evaluated individually. We expect servicers to apply reasonable judgment when following the established procedures in the Servicing Guide when granting relief to borrowers who have incurred extraordinary expenses due to caring for individuals impacted by the Hurricanes.

Q. 19 Can a servicer extend the term of Fannie Mae's special forbearance beyond 18 months followed by a repayment plan?

Our Servicing Guide provides for forbearance terms as long as 18 months, and (in natural disaster cases like Hurricane Katrina and Hurricane Rita) Fannie Mae approval is not required for longer periods if needed. If forbearance is granted, servicers must try to contact the borrower to determine what additional steps can be taken to tailor solutions that address the particular circumstances faced by the borrower. Servicers are reminded that an MBS pool mortgage that has become delinquent as to 24 installments may not remain in its pool, and that while a mortgage is in an MBS pool, its interest rate cannot be reduced, unpaid principal cannot be forgiven, and its maturity date cannot be extended. Refer to the Servicing Guide Part I, Chapter 2, Section 208.05.

Q. 20 Can a servicer select the relief plan it thinks is most appropriate for the situation?

Yes, servicers can exercise judgment in determining the appropriate disaster relief plan among the options set forth in the Servicing Guide. Servicers must try to contact borrowers to determine what additional steps can be taken to tailor solutions that address the particular circumstances faced by each borrower. We will not object to any reasonable relief plan the servicer develops in accordance with the guidelines set forth in the Servicing Guide as long as it does not

jeopardize our lien position or reduce the amount of any future claims that might be filed for hazard insurance, for flood insurance, or with FHA, HUD, VA, RHS, or the mortgage insurer. We also want to remind our servicers that while a loan is in an MBS pool, its interest rate cannot be reduced, unpaid principal cannot be forgiven, and its maturity date cannot be extended.

Q. 21 Can a servicer release all of the insurance proceeds to a borrower?

In all instances, the servicer must manage the process for the disposition of insurance proceeds in a manner that ensures that the repairs are completed. If the property has not suffered a total or near-total loss and the mortgage is current at the time of the natural disaster, then a servicer must evaluate the circumstances of the case and make an appropriate determination with regard to the amount and timing of the disbursement of the insurance proceeds. Our requirements have limitations on disbursements to borrowers with properties that suffered a total or near-total loss, or to borrowers who were delinquent prior to the disaster. Refer to the Servicing Guide Announcement 05-06.

Agreement for Borrowers Whose Prior Principal Residence is Uninhabitable as a Result of Hurricane Katrina and/or Hurricane Rita ("Hurricane") Damage

To be completed in duplicate originals.

Borrower and Property Information

Borrower Name	Current Phone Number
Co-Borrower Name	Current Temporary Address

Prior Residence - Prior Loan Information (complete as fully as borrower's surviving records permit)

Property Address	Servicer Name
	Servicer Address
Loan Number	Servicer Contact Name
Loan Balance	Servicer Phone Number

Prior Residence - Insurance Information (complete as fully as borrower's surviving records permit)

Hazard Insurer's Name	Hazard Insurer's Phone Number
Hazard Insurer's Address	Hazard Policy Number
Hazard Insurance Agent's Name	Hazard Insurance Agent's Phone Number
Hazard Insurance Agent's Address	Claim Filed? <input type="checkbox"/> Yes <input type="checkbox"/> No
Flood Insurer's Name	Flood Insurer's Phone Number
Flood Insurer's Address	Flood Policy Number
Flood Insurance Agent's Name	Flood Insurance Agent's Phone Number
Flood Insurance Agent's Address	Claim Filed? <input type="checkbox"/> Yes <input type="checkbox"/> No

Agreement

The undersigned borrower or borrowers (referred to herein as "Borrowers") have advised that Borrowers' Prior Residence is in a major disaster area (as defined by the Federal Emergency Management Agency, known as "FEMA") and is currently uninhabitable (i.e., heavily damaged, destroyed, or condemned) as a result of the Hurricane; and that the Prior Loan referred to above is secured by a mortgage or deed of trust on the Prior Residence; and

The Borrowers have applied to _____ ("Lender") for a loan ("New Loan") to be secured by a first mortgage or deed of trust on the property listed below ("New Principal Residence") so Borrowers can purchase the property, and Borrowers agree that they will occupy the property as their new principal residence; and

The Borrowers understand and agree that Lender will mail this Agreement to the Prior Lender in connection with making the New Loan, and agree that Lender may do so.

Based on the information provided by the Borrowers above, Lender is willing to provide certain underwriting flexibilities in making the New Loan. In consideration of the benefits provided to Borrowers by such flexibilities, Borrowers agree as follows:

1. Any funds for property damage to the Prior Residence caused by the Hurricane that Borrowers (jointly or individually) receive before the Lender makes the New Loan will be assigned when (or before) the New Loan is made, and any such funds received after the New Loan is made will be assigned to the lender/servicer ("Prior Lender") for the Prior Loan (up to, but not exceeding, the amount which will repay such Prior Loan in full), on the condition that the Prior Lender apply such funds to the outstanding balance of the Prior Loan.
2. Such funds shall include hazard, flood, or any other type of property insurance proceeds, received by Borrowers (jointly or individually) in consideration of loss of, or damage to, the Prior Residence, whether received by Borrowers directly and exclusively, jointly with the Prior Lender, or as co-payee with the Prior Lender.
3. Borrowers shall take all actions as may be necessary to ensure that all such funds (up to, but not exceeding, the amount which will repay the Prior Loan in full) are assigned and transferred to the Prior Lender, insofar as that has not already occurred.
4. Borrowers will work with the Prior Lender to seek a mutually agreeable resolution of the Prior Loan obligation.
5. The Prior Lender is an intended third-party beneficiary of this Agreement.

New Principal Residence Property Address

Borrower's Name	Borrower's Signature	Date
Co-Borrower's Name	Co-Borrower's Signature	Date