

*Announcement 02-14*

*December 19, 2002*

*Amends These Guides: Selling and Servicing*

*Selling and Servicing Loans During Lapse of National Flood Insurance Program Authority*

The Federal Insurance and Mitigation Administration (FIMA) of the Federal Emergency Management Agency has announced that its statutory authority to issue flood insurance policies under the National Flood Insurance Program (NFIP) will lapse after December 31, 2002. Although FIMA expects Congress to re-authorize the NFIP early in the new session, there will be a period of time during which FIMA will not be able to issue new policies, increase coverage on existing policies, or issue renewal policies.

FIMA has indicated that, if new applications for flood insurance with accompanying premium payments are received by FIMA on or before December 31, 2002, coverage can be made effective after that date. Thus, we strongly encourage lenders, to the extent feasible (and as permitted by applicable law), to work with borrowers to satisfy these conditions with respect to loans being originated. This approach will be advantageous to the lender because it will avoid the possible administrative complexity of having to secure insurance some period of time after a loan is originated and will benefit the borrower by ensuring that the borrower is not exposed to uninsured flood losses (which also will benefit the lender - or Fannie Mae - as holder of the loan if a flood event occurs).

FIMA anticipates the insurance authority hiatus period will be short and we expect that, during that period, relatively few loans on properties in Special Flood Hazard Areas will be originated that are affected by the hiatus. In view of these considerations, and in order to help ensure the continued availability of mortgage financing to borrowers seeking to purchase properties located in Special Flood Hazard Areas and to facilitate the sale of the related mortgage loans, we are pleased to announce that we temporarily will purchase loans secured by uninsured properties in Special Flood Hazard Areas. This policy will apply to loans originated during the hiatus period and delivered to us until the earlier to occur of January 15, 2003 or the reauthorization of the NFIP, retroactive to January 1, 2003. Our willingness to purchase such loans is conditioned upon lenders' taking all steps (insofar as permitted by applicable law) necessary to obtain the insurance (including obtaining evidence of the submission of a completed application for flood insurance and acceptable evidence of payment of the initial premium) in order to facilitate the issuance of coverage once the NFIP insurance authority is renewed, and retaining evidence that these steps have been taken.

Further, a lender must have a process in place to ensure that the mortgaged property becomes insured as soon as possible after the reauthorization of the NFIP. In addition, lenders must include Special Feature Code 185 for each such mortgage loan on their *Loan Schedule* (Form 1068/1069) or *Schedule of Mortgages* (Form 2005) so that we are able to track such loans. Once the NFIP is reauthorized, we may contact the current servicer of the loan to confirm that flood insurance is in place.

Lenders should keep in mind that refinance mortgage loans secured by properties in Special Flood Hazard Areas typically already will 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). As a result, such loans would be subject to the above requirements only if the renewal date of the borrower's existing coverage will occur during the hiatus period and prior to our purchase of the loan. In such cases, as described above with respect to new coverage, we strongly encourage lenders to ensure that the renewal premium for such flood insurance policies is paid before January 1, 2003. Nevertheless, if it is not and the coverage will expire before the loan is sold to us, the lender must comply with the procedures described above, adapted appropriately to a renewal, as a condition to delivering the loan to us. (FIMA has indicated that it will implement procedures to facilitate the renewal of such expired policies once the NFIP insurance authority is renewed.)

Although we are willing to purchase loans on uninsured properties in Special Flood Hazard Areas during this period (subject to the procedures described above), lenders are advised to consult expert counsel to determine if they have the requisite authority to originate or otherwise deal in such loans. Further, we strongly recommend that information be provided to borrowers before such a loan is closed to inform borrowers of their risk if a flood occurs during a period of non-insurance.

Our requirement that servicers ensure that flood insurance is maintained with no lapse in coverage on properties in Special Flood Hazard Areas that secure loans currently serviced for us will continue to apply during the NFIP hiatus period. However, we recommend that servicers assess whether the effect of expiration "grace" periods applicable to NFIP flood insurance policies may make any action with respect to policies that otherwise would lapse during the hiatus period unnecessary, assuming Congress acts expeditiously to reauthorize the NFIP.

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Any lender with questions regarding handling of loans secured by properties in Special Flood Hazard Areas should contact its Customer Account Manager in its Fannie Mae regional office.

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