

# Declared Disaster Policy

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# Declared Disaster Policy

Mortgage Lending Division

Version 2.0 – 04/24/20



## DOCUMENT OVERVIEW

<b>Purpose</b>	When major disasters occur, steps must be taken to ensure that the security on each loan is protected. This policy provides requirements for ensuring that the security on each loan is protected, as set forth by Carrington Mortgage Services, LLC. (CMS).
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## Document Overview (continued)

### Related Topics

- [CMS Product Matrices](#)
- [Fair Lending Policies and Practices](#)
- [Underwriting Guidelines](#)
- [Underwriting Policy](#)

### Revision History

Date	Version	Description of Change
04/24/20	2.0	<ul style="list-style-type: none"><li>Added <b>Pandemic Disaster</b> description and requirements.</li><li>Added new <b>Recording Office Closures</b> section with policy and gap coverage requirements.</li></ul>
02/18/20	1.9	<ul style="list-style-type: none"><li>Updated <b>Monitoring and Communication &gt; Responsibilities</b> to reflect current process whereby Vendor notifies MLD of FEMA Declared Disasters.</li><li>Updated <b>Conventional Appraisal Re-Inspections</b> to add FHLMC appraisal requirements for the effective date of the appraisal report, which must be no more than 180 days, as applicable, before the Note Date,</li><li>Revised <b>FHA Inspection Criteria</b> to clarify new requirements that 1) the Disaster Area Property Inspection Report must be dated after the incident period end date, as defined on FEMA's website or 14 calendar days from the Incident Period start date, whichever is earlier and 2) If a different Appraiser than the original Appraiser is used to inspect the Property, the Appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.</li></ul>
03/13/19	1.8	<ul style="list-style-type: none"><li>Revised the <b>Policy &gt; Overview</b> section to clarify the policy applies to CMS MLD - Retail, Wholesale and Correspondent channels and that some products may not be available to Correspondent Sellers.</li><li>Revised <b>VA Appraisal Re-Inspections and Natural Disaster Policy</b> section to remove requirements for an Interior Inspection and Interior Photographs.</li></ul>
11/14/17	1.7	Revised the <b>Pending Endorsements</b> section to add requirements for repairs totaling over \$5,000.
10/06/17	1.6	<ul style="list-style-type: none"><li>Revised the <b>Properties Located in Major Disaster Areas</b> section to clarify re-inspection requirements.</li><li>Revised <b>Conventional Appraisal Re-Inspections</b> section to clarify re-inspection requirements.</li><li>Revised <b>FHA Streamline Re-Inspections</b> section to clarify re-inspection requirements.</li><li>Revised <b>VA Appraisal Re-Inspections and Natural Disaster Policy</b> section to clarify re-inspection requirements</li><li>Added <b>USDA Streamline Assist Re-Inspection</b> section.</li></ul>

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## Document Overview (continued)

### Revision History (continued)

Date	Version	Description of Change
02/28/17	1.5	<ul style="list-style-type: none"><li>Revised the <b>Responsibilities</b> section with CMS-MLD Admin department.</li><li>Revised the <b>General Inspection Requirements</b> section to align with the appraiser requirements stated in the Appraisal Management Policy.</li></ul>
01/22/16	1.4	Revised the <b>FHA Streamline Re-Inspections</b> requirement to remove the Fannie Mae 2075 form requirement.
12/21/15	1.3	Revised the <b>FHA Streamline Re-Inspections</b> requirement to start from the Note date rather than the submission date.
03/03/15	1.2	Removed reference to HomePath program that is no longer offered.
08/28/14	1.1	Updated <b>Responsibilities</b> section.
01/18/13 (05/07/13)	1.0	New document. Re-branded document with new logo (05/07/13).

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## POLICY

**Overview** Disasters, both natural and manmade, can cause varying degrees of damage and create a potential risk. This policy provides general guidelines that must be followed in the event of a major disaster by the CMS Mortgage Lending Division (MLD) Retail, Wholesale and Correspondent channels.

**Please note:** some products may not be available to Correspondent Sellers. Refer to the CMS Correspondent Seller Guide for eligible products.

**Definition** For the purpose of this policy, a major disaster is defined as a disaster that causes substantial damage to numerous homes. Disasters include, but are not limited to:

- Hurricanes
- Earthquakes
- Floods
- Landslides
- Tornadoes
- Wildfires
- Volcanic eruptions
- Civil unrest
- Terrorist attacks

## DECLARED DISASTER

**FEMA Declared Disaster** Once the federal government has declared a disaster with **individual assistance** (i.e., assistance to individuals and households), FEMA issues a Disaster Notification at <http://www.fema.gov/> and identifies the impacted counties. Inspections and re-inspections must be completed on properties within a declared disaster area with individual assistance.

**Note:** A disaster declared with public assistance (assistance to state and local governments and certain nonprofit organizations for emergency work and the repair and replacement of disaster-damaged facilities) does not require a re-inspection.

**Pandemic Disaster** A Pandemic Disaster is an **epidemic** (a sudden disease outbreak) that becomes very widespread and affects a whole region, a continent, or the world due to a susceptible population. An epidemic affects more than the expected number of cases of disease occurring in a community or region during a given period of time.

FEMA may issue a Disaster Notification with **individual assistance** that identifies impacted areas during a Pandemic Disaster; however, assistance is typically provided in the form of crisis counseling and property inspections and re-inspections are not required.

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## MONITORING AND COMMUNICATION

**Responsibilities** SWBC Lending Solutions, an approved vendor, issues notices to the Carrington entities, including the Mortgage Lending Division (MLD) of CMS, when a FEMA declared disaster has occurred and provides updates as necessary.

The CMS-MLD Admin Department is responsible for maintaining a list of impacted areas, communicating the list to the affected MLD Associates and executives via email.

## INSPECTIONS AFTER A DECLARED DISASTER

**Properties Located in Major Disaster Areas** In the event that a subject property, on which the loan has not yet funded, is located in an area that is declared a federal disaster area, CMS must ensure that the property continues to meet the collateral requirements of its investors.

If an appraisal was completed prior to the incident date of the disaster, a re-inspection will be required. Every effort must be made to ensure the inspection is completed by the same appraiser who completed the first inspection. If it is not possible to use the same appraiser, evidence of the failed attempts to secure the appraiser for another inspection must be documented in the loan file.

**Note:** Re-inspections are a valid Change of Circumstance, as allowed by an act of God, war, disaster, or other emergency.

If an appraisal was not required due to a property inspection waiver or the product type (i.e., USDA Streamline Assist), an inspection report may still be required. For product-specific requirements, refer to the applicable program details in the "Inspections after a Declared Disaster" section below.

When product-specific requirements apply, an inspection will be required up to and including 90 days from the date the natural disaster occurred, prior to the Note date. There may be a situation where a longer timeframe is instituted.

**Note:** CMS does not lend on properties located within the Coastal Barrier Resource System.

**General Inspection Requirements** Appraisals must be ordered through a CMS-approved Appraisal-Management-Company (AMC). An appraiser (CMS will only accept appraisals from Certified Residential or General Appraisers. Licensed appraisers and Trainees are unacceptable to CMS) must perform the property inspection. Photographs of the subject property must be attached to the Disaster Area Property Inspection Report. The appraiser who performs the inspection should review the original appraisal report and be able to certify that his/her personal inspection of the building revealed no indications of significant disaster-related damages. The appraiser's Disaster Area Property Inspection Report must address the physical condition of the site and improvements; it does not need to address value trends. If the condition of the subject property is acceptable, the value conclusion made prior to the disaster is acceptable.

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## Inspections after a Declared Disaster (continued)

### Conventional Appraisal Re-Inspections

Properties must have a re-inspection completed if the original appraisal was completed prior to the disaster date. All re-inspections must be submitted on a Disaster Area Property Inspection Report (or if work is required, a Fannie Mae Form 1004D/Freddie Mac Form 442 to confirm the repairs are complete) and include the following:

- A statement from the appraiser that the subject property has not sustained any damage from the disaster.
- A statement from the appraiser regarding the neighborhood conditions as they relate to disaster damage.
- A photograph of the subject property.
- If property damage is found, an itemized list of the damages with repair estimates must be included.
- If property damage is structural or there are other complex damages, a qualified third party must inspect the damaged and provide evidence that the property has been satisfactorily repaired.
- Regardless of the estimated cost to complete, all repairs must be completed prior to the loan being cleared to close.

**Note:** The effective date of the appraisal report for Freddie Mac loans must be no more than 180 days, as applicable, before the Note Date.

### FHA Inspection Criteria

All properties pending loans or endorsements in disaster areas must have a Disaster Area Property Inspection Report that identifies and quantifies dwelling damage if the original appraisal was completed prior to the disaster date. The following inspection criteria apply:

- Damage inspections should be completed by the original FHA Roster Appraiser, even if the inspection shows no damage to the property. However, if the original appraiser is not available, another FHA Roster Appraiser in good standing and having geographic competence in the affected market may be used. If a different Appraiser is used to inspect the Property, the Appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.
- Report must be dated after the incident period end date, as defined on FEMA's website or 14 calendar days from the Incident Period start date, whichever is earlier.
- For loans that have not yet closed, FHA requires an onsite inspection with interior/exterior photos. (FHA does not require a specific form for a damage inspection report.)
- For loans that have closed but have not been endorsed, FHA requires a drive-by inspection with exterior photos.
- Inspections must include a statement as to the dwelling habitability and whether sustained damage is \$5,000 or less or above \$5000.

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## Inspections after a Declared Disaster (continued)

### FHA Inspection Criteria (continued)

- For damages of \$5,000 or less, the appraiser must provide the lender with a Disaster Area Property Inspection Report that includes an itemized repair estimate with costs.
- For damages of over \$5,000, the CMS must obtain an itemized estimate from a qualified third-party (e.g., a licensed contractor or insurance company).
- All damages must be repaired by licensed contractors or per local jurisdictional requirements.
- All damages, regardless of amount, must be repaired and the property restored to pre-loss condition with appropriate and applicable documentation.

### FHA - Final Repair Inspection and Reporting Requirements

When repairs are completed on properties where loans have not closed, the following requirements apply:

- A final on-site inspection, with interior/exterior photos, is required by an FHA Roster Appraiser.
- Fannie Mae form 1004D Appraisal Update and/or Completion Report must be used to determine if there has been a change in the value of the property and to confirm that repairs are complete.
- An appraisal update may only be performed by the original appraiser.
- FHA requires form 1004D, Parts A and B, to be completed by the original appraiser. If the market value has declined since the effective date of the original appraisal, a new appraisal is required that supports the loan amount prior to closing.

### FHA Inspection and Repair Requirements

#### Pending Loans

If a property is located in a declared disaster area, and the FHA loan on the property has not yet been closed, the property must be inspected to determine if damage exists, and an on-site inspection, with interior/exterior photos, must be provided in the loan file.

- If no damage exists, proceed with closing the loan and document the inspection in the loan notes.
- If damage exists totaling \$5,000 or less, and the property is habitable, complete the repairs and close the loan or establish a repair escrow and close the loan. Document the inspection in the loan notes.
- If damage exists totaling over \$5,000, or if the property is uninhabitable, do not close the loan. The repairs must be complete prior to closing and another inspection, with interior/exterior photos, must be conducted and documented in the loan notes.

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## Inspections after a Declared Disaster (continued)

### **FHA Inspection and Repair Requirements (continued)**

#### **Pending Endorsements**

If a property that is located in a declared disaster area has closed but has not yet been endorsed, the property must be inspected to determine if damage exists, and a drive-by inspection, with exterior photos, must be provided with the loan file.

- If no damage exists, the loan will be endorsed by FHA. The inspection must be documented in the loan notes.
- If damage exists totaling \$5,000 or less, and the property is habitable, repairs must be completed and a re-inspection must take place before the loan can be endorsed. The initial inspection and re-inspection must be documented in the loan notes.
- If damage exists totaling over \$5,000, or the property is uninhabitable, the loan will not be endorsed by FHA.
- When repairs totaling over \$5,000 are completed and inspected with interior/exterior photographs, complete the repairs, document the inspection and completion of the repairs, and endorse the loan.

For closed loans that are not yet endorsed, FHA requires form 1004D Part B only. The form can be completed by an FHA Roster Appraiser in good standing. The use of this form does not extend the appraisal validity period of the original appraisal beyond 1 year, as noted above.

### **FHA – 203(K) Rehabilitation Mortgages**

The requirement for a dwelling to be completed more than one (1) year preceding the date of the application for mortgage insurance under Section 203(k) does not apply to properties in the disaster area.

Damaged residences are eligible for Section 203(k) mortgage insurance, regardless of the age of the property. Residences need only to have been completed and ready for occupancy for the eligibility under Section 203(k).

### **FHA - Pre-Closing Appraisal Validity in Disaster Areas**

For loans that are not closed prior to the incident period in disaster areas where a Disaster Area Property Inspection Report reveals property damage, the appraisal validity period is extended from 120 days to a maximum of one (1) year from the effective date of the original appraisal. In no instance will an appraisal that has an effective date beyond one (1) year be acceptable for loan closing.

### **Insuring the Loan in FHAC**

When insuring the loan in FHAC, CMS must indicate that the property is located in a Disaster Area and has sustained damage.

### **FHA Streamline Re-Inspections**

FHA Streamline transactions do not require a property re-inspection in accordance with HUD guidelines.

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## Inspections after a Declared Disaster (continued)

### **VA Appraisal Re-Inspections and Natural Disaster Policy**

Properties for VA loans (full document and IRRRL) do not require re-inspection if the loan transaction has already closed (documents are signed) prior to the disaster date. A re-inspection will be required if the loan closed after the disaster date.

Properties being purchased and/or refinanced with a VA loan that are located within a FEMA declared disaster area requiring re-inspection must be re-inspected by a licensed appraiser, home inspector, or fee appraiser verifying the following on a Disaster Area Property Inspection Report (or if work is required, a Fannie Mae Form 1004D/Freddie Mac Form 442 to confirm the repairs are complete):

- Exterior inspection indicating the property is still standing and in acceptable condition.
- Written description of the neighborhood condition.
- Photographs of the exterior of the property.
- If property damage is found, an itemized list of damages with repair estimates must be included.
- If property damage is structural or there are other complex damages, a qualified third party must inspect the damages and provide evidence that the property has been satisfactorily repaired.
- If the local jurisdiction requires building permits, inspections, and/or a certificate of occupancy, they must be included in the file.
- Regardless of the estimated cost to complete, all repairs must be completed prior to the loan being cleared to close.
- A Lender Certification is required to affirm that the property has been inspected to ensure that it was not damaged in the recently declared disaster or has been restored to its pre-disaster condition or better. This CMS certification must be signed by the lender.
- The Veteran will also need to complete a certification.
- The VA Underwriter must make the following comments on the VA Loan Summary (VA Form 26-0286), "Lender and Veteran Disaster Certifications Enclosed."
- If local laws require a property inspection, a copy of the required inspection report, meeting local building authority criteria, must be included in the loan file.
- On purchase transactions, the Veteran may not pay for disaster inspections or repairs.
- If there appears to be any indication of decline in value since the original appraisal was completed, the VA Fee Appraiser must update the value on the appraisal. The Veteran is permitted to pay for the appraisal revision.
- The lender must determine that the borrower remains employed and income has not declined as a result of the disaster or any other factor.

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## Inspections after a Declared Disaster (continued)

<b>USDA Appraisal Re-Inspections</b>	<p>Properties being purchased and/or refinanced with USDA loans that are located within a FEMA declared disaster area must be re-inspected by a licensed appraiser, home inspector, or fee appraiser verifying the following on a Disaster Area Property Inspection Report (or if work is required, a Fannie Mae Form 1004D/Freddie Mac Form 442 to confirm the repairs are complete):</p> <ul style="list-style-type: none"><li>• Exterior inspection indicating the property is still standing, in acceptable condition, and has not sustained damage.</li><li>• Written description of the neighborhood condition.</li><li>• Photographs of the subject property.</li><li>• If property damage is found, an itemized list of the damages with repair estimates must be included.</li><li>• If property damage is structural or there are other complex damages, a qualified third party must inspect the damage and provide evidence that the property has been satisfactorily repaired.</li><li>• If local jurisdiction requires building permits, inspections, and/or a certificate of occupancy, they must be included in the file.</li><li>• Regardless of the estimated cost to complete, all repairs must be completed prior to the loan being cleared to close.</li></ul>
<b>USDA Streamline Assist Re-Inspections</b>	<p>USDA Streamline Assist transactions require a property re-inspection prior to loan closing.</p>

## RECORDING OFFICE CLOSURES

<b>Policy</b>	<p>This section applies to all loan programs in cases where there are Recording Office Closures due to a natural disaster or pandemic outbreak. CMS will not proceed with the closing or funding in impacted counties in the states of Hawaii, North Carolina and Virginia that require recording prior to disbursement where the Recording Offices are closed and the security instrument cannot be recorded.</p>
<b>Title Insurance and Gap Coverage</b>	<p>Although recording offices may close physical locations due to a natural disaster or pandemic outbreak, many continue to accept documents for electronic recording. Where electronic recording is not available, title insurance companies may insure title over the gap created between closing and the eventual recording of the applicable security instrument. CMS will require “gap” coverage as a condition to the issuance of title insurance in that circumstance.</p>

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## VERIFICATIONS OF INCOME/EMPLOYMENT

**Policy** This section applies to all loan programs. For product-specific information, check the applicable program details in the “Inspections after a Declared Disaster” section above.

CMS associates must use diligence when completing verbal verifications of income/employment for borrowers living and working in areas affected by a declared disaster to ensure the Borrower’s employment and income will continue.

## DAMAGED PROPERTIES

**Policy** This section applies to all loan programs. For product-specific information, check the applicable program details in the “Inspections after a Declared Disaster” section above.

**Properties with Significant Damage** Any damage that affects health, safety, habitability, soundness, or structural integrity is considered significant and must be repaired before the loan is eligible for purchase by an investor.

**Properties with Minor Damage** Repairs will not be required for a property with minor damage that does not affect health, safety, habitability, soundness, or structural integrity. However, professional estimates of the repair costs should be obtained and an escrow account established with sufficient funds to guarantee completion of the repairs.

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**End of Policy**