

## OVERVIEW

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It is Land Home Financial Services, Inc., (LHFS) responsibility to be aware of man-made or natural disasters and their affect to the mortgage loans in areas which we may offer financing. When an area has had a Federal, State Agency Disaster, Emergency Declaration issued, or may become an area in which one may be issued, LHFS must be assured that the property is not damaged and that there are no proceedings pending for the partial or total condemnation of the property. To obtain this assurance the following procedures are to be followed:

If the property is located in a specified Disaster/Emergency area an acceptable certification or if applicable, recertification of the property and value is required prior to the loan closing. Click here for [Natural Disaster Affected Areas](#). This spreadsheet will be updated as needed and notifications will be sent out accordingly.

1. If the property is located in a currently active specified Disaster/Emergency area and the appraisal has not been completed regardless of the loan type, instructions need to be relayed to the appraiser to acknowledge whether the property was affected by the disaster. If the property was affected, the appraiser must note what damage was done, the amount of repairs completed and/or still outstanding. Additionally, they must address whether the marketability has been affected.
2. If the property's appraisal was completed prior to the noted disaster/emergency occurrence and the loan has not closed/funded, or in the case of a closed FHA or VA loan that is not insured, the appraiser must complete a disaster inspection which must include interior/exterior photos, verifying the property's damage and whether the disaster event has had an impact on the property's value or marketability. The inspection should be performed by the original appraiser whenever possible. If they are unavailable it may be performed by another licensed appraiser, by a licensed Property Inspector, or a nationally recognized field company.



## CONVENTIONAL LOANS (FANNIE MAE AND FREDDIE MAC):

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- PIW for Fannie Mae and ACE for Freddie Mac - inspection waivers no longer apply. \*
- \* If property is located in an affected county/area, but geographically unlikely to have been impacted by the disaster, loan must be escalated to Underwriting Manager or Risk Manager.
  - May need to rerun AUS to ensure PIW/ ACE still applies.
- To confirm whether or not the property has been affected by the disaster the reinspection may be prior to the declared incident period end date. However, it must not occur until the circumstances presenting a potential risk to the subject property have passed.
- If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the loan closing and delivery to the specific Agency may be allowed to proceed with Senior Management's prior approval. Documentation of the professional estimates of the repair costs and evidence that there are sufficient insurance proceeds available for the borrower's benefit to guarantee the completion of the repairs will be required.
- If the property has been damaged and the damage is uninsured, or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired and re-inspected before the loan closing can proceed. A re-inspection and form 1004D Appraisal update and/or Correction Report (Part B) must be provided to document that the repairs have been re-inspected and completed.

## JUMBO LOANS

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- Follow the investor's specific requirements.
- Note: Re-Inspection fees for properties that are located in an area designated after the loan application has been taken, will meet the requirements to allow a change of circumstance for the additional fee.

## USDA LOANS:

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- Typically, will follow the above FHA disaster procedure requirements. However, prior to closing the USDA loan requirements must be confirmed with the local USDA office for the subject property.



## FHA LOANS:

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- Regardless of the disaster type or how the disaster is declared, LHFS must ensure the property was not damaged.
- For all disaster types except for PDMDA, to confirm whether or not the property has been affected by the disaster the reinspection may be prior to the declared incident period end date. However, it must not occur until the circumstances presenting a potential risk to the subject property have passed.
- FEMA incident start and end dates are critical in Presidentially Declared Major Disaster Areas specially as it relates to FHA loans.
- For PDMDA disasters, new appraisal or reinspection may not occur except as follows:
  - All properties with pending Mortgages or endorsements in Presidentially-Declared Major Disaster Areas (PDMDA-FEMA Designation DR-#) must have a damage inspection report. Report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period end date (as defined by FEMA) or a HUD waiver issued. FHA does not require a specific form for a damage inspection report.
- FEMA incident period may not always be the same as the actual start or the end dates of the disaster.
  - **Example 1: Hypothetical**
    - A 7.3 Earthquake hits Northern California and it lasts for 10 seconds.
    - The disaster itself is now over.
    - Significant damage due to earthquake resulted in a Presidentially Declared Major Disaster Area
    - The FEMA incident end date remains open due to unknown financial assistance needed.

Note: In this example (regarding FHA loans) LHFS requires a FEMA incident period end date OR HUD Waiver before accepting a new appraisal (for new loans) or disaster inspection report (for existing loans) before closing and/or endorsement.
  - **Example 2: Florida Hurricane Irma DR-4337**
    - FEMA Incident start date: 09/04/2017
    - Pre-Declaration issued date: 09/04/2017
    - Hurricane hits Florida on 09/10/2017
    - Presidentially Declared Major Disaster Area on 09/10/2017
    - FEMA posted the incident start date to be prior to the disaster itself 09/04/2017
    - HUD waiver issued on 09/19/2017
    - FEMA incident end date 10/18/2017

Note: In this example (regarding FHA loans) since LHFS has the HUD waiver as of 09/19/17, LHFS can begin accepting the new appraisal or disaster inspection report for existing loans effective 09/19/2017.



- FHA does not require the Appraiser to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.
- Damage inspections should be completed by the original Appraiser, however, if the original Appraiser is not available, another FHA Roster Appraiser in good standing with 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.
- 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.
- Streamline Refinance transactions without an appraisal will require an exterior inspection. The report is called a "Disaster Area Inspection Report (DAIR)."

## MORTGAGES PENDING CLOSING

- The following table shows re-inspection (Form 1004D) and repair escrow requirements that apply to Mortgages on Properties that have not yet closed:

Pending Mortgage Closure	
If...	Then...
The mortgage is not closed,	Inspect the Property to determine if damage exist. Provide on-site inspection with interior/exterior photographs.
No damage exists,	Close Mortgage and document inspection.
Damage exists but repair costs are below \$5,000 <sup>1</sup> and Property is habitable,	Complete repairs and close Mortgage or establish repair escrow <sup>2</sup> and close Mortgage.
Damage exists and repair costs are above \$5,000 <sup>1</sup> or the Property is not habitable,	Do not close Mortgage. Repairs must be complete prior to closing.
When....	Then...
Repairs above \$5,000 are completed and inspected with interior/exterior photographs,	Document inspection and close Mortgage.

<sup>1</sup> Subject to Investors additional requirements

<sup>2</sup> Requires Senior Management's Approval

## MORTGAGES PENDING ENDORSEMENT

- The following table shows inspection and escrow requirements that apply to Mortgages on Properties **that have closed but are not yet insured:**

Pending Mortgage Endorsement	
If...	Then...
The Mortgage is closed but not yet endorsed,	Inspect the Property to determine if damage exists. Provide drive-by inspection with exterior photographs.
No damage exists,	Endorse Mortgage and document inspection.
Damage exists but is below \$5,000 <sup>1</sup> and Property is habitable,	Complete repairs and endorse Mortgage or establish repair escrow <sup>2</sup> and endorse Mortgage.
Damage exists and is above \$5,000 <sup>1</sup> or the Property is not habitable,	Do not endorse Mortgage.
When....	Then...
Repairs above \$5,000 are completed and inspected with interior/exterior photographs,	Document inspection and endorse Mortgage.

<sup>1</sup> Subject to Investors additional requirements

<sup>2</sup> Requires Senior Management's Approval



## PRE-CLOSING APPRAISAL VALIDITY IN DISASTER AREAS

- For FHA Mortgages that are not closed prior to the declared incidental period and a damage inspection report reveals property damage, the appraisal validity period can be extended from 120 Days to a maximum of one year from the effective date of the original appraisal in these instances. Mortgages with appraisals having effective dates in excess of one year require a new appraisal.

## VA LOANS:

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- VA Interest Rate Reduction Refinanced Loans (IRRRL's) without an appraisal will require an exterior inspection. The report is called a "Disaster Area Inspection Report (DAIR)."
- VA loan closed prior to the date of the declared disaster is eligible for VA Guaranty without regard to the disaster.
- On Purchases and full Refinanced loans, where the appraisal is completed on or before the date of the declared disaster but not closed until after the declared disaster, an exterior inspection to determine the property's condition by the original appraiser must be obtained. The document must indicate if the property, despite repairs will be worth less at the time of loan closing than it was at the time of appraisal. If this is the case, the VA appraiser must update the original value estimate and the file must be returned to Underwriting to determine if the loan amount must be reduced accordingly.



## DEFINITIONS

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**Disaster:** A sudden event or a natural catastrophe, that causes great damage.

**Disaster Management Entity:** The organization required to mitigate the disaster and provide public updates (i.e. Cal Fire, Local Governments, US Department of Forestry)

**Disaster Spreadsheet:** An LHFS produced document identifying significant current disasters.

**FEMA:** Federal Emergency Management Agency. A federal agency that provides assistance in areas that have suffered a disaster or other emergency. There are four basic types:

- Emergency (EM)
  - Any occasion or instance for which, in the determination of the President, Federal assistance is needed to supplement State and local efforts and capabilities to save lives and to protect property, public health, and safety, or to lessen or avert the threat of a catastrophe in any part of the United States.
- Major Disaster (DR)
  - Presidentially Declared Major Disaster Area (PDMDA)
    - Any natural or manmade catastrophe-including those caused by hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought-or, regardless of the cause, any fire, flood, or explosion in any part of the United States, for which the President determines federal assistance is required to alleviate damage, loss, hardship, and suffering.
- Fire Management Assistance (FM)
  - Warranted when wildfire is threatening habitation.
- Pre-Declaration Activities (PDA)
  - Pre-Declaration Activities: When a declaration is reasonably likely and imminent, FEMA has limited authority to assess the impact of an event through PDAs and prepare and pre-position federal resources. An example is as preparing for a hurricane to make landfall.

**FEMA Disaster Area:** A city, county or parish designated by FEMA to be eligible for individual assistance as a result of a Natural Disaster. Public assistance can also be given to the States, Local, Tribal and Territorial Governments and certain private non-profit organizations for emergency work and the repair or replacement of the disaster damaged facilities.

**FEMA Incident Period:** An occurrence or event, natural or human-caused, that has a declared beginning and ending date as published by FEMA.

**Fannie Mae:** Federal National Mortgage Association (FNMA) is government sponsored enterprise (GSE) which purchases mortgages from lenders.

**Freddie Mac:** Federal Home Loan Mortgage Corporation (FHLMC) is a congressionally chartered corporation that purchases mortgage loans in the secondary mortgage market.

**FHA:** Federal Housing Administration is part of HUD and provides mortgage insurance for specific loans made by FHA approved lenders.

**USDA:** United States Department of Agriculture is a government agency that offers home loans to low and moderate income rural Americans.

**VA:** A mortgage that is guaranteed by the U.S. Department of Veteran Affairs.

