U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: September 28, 2018

Mortgagee Letter 2018-06

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All HUD-Approved Housing Counselors

Subject	Home Equity Conversion Mortgage (HECM) Program – Changes to Appraisal Submission and Assessment for all HECM Originations
Purpose	This Mortgagee Letter (ML) is issued pursuant to the Reverse Mortgage Stabilization Act of 2013 to provide new requirements to the Federal Housing Administration's (FHA) HECM program regulations. Under the new requirements, FHA will require a second appraisal be conducted where a collateral risk assessment of the initial appraisal submitted for use in the HECM origination determines additional support for the collateral value is required.
Effective Date	The provisions of this Mortgagee Letter are effective for all HECM originations with FHA case numbers assigned on or after October 1, 2018 through September 30, 2019. The interim procedures described below will be utilized for all case numbers assigned before the fully-automated system changes are in place, on or before December 1, 2018. If the automated system is in place before December 1, 2018, FHA will inform mortgagees through the FHA Connection Message Board as well as through FHA INFO. FHA will renew the requirements beyond Fiscal Year 2019 pending an evaluation of these program changes at 6 and 9 months to determine if the goals of the guidance have been met.

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Public Feedback	HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send any feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.
Affected Programs	This guidance applies to all HECM originations.
Affected Regulations, Mortgage Letters, and Handbook	Pursuant to the authority granted in the Reverse Mortgage Stabilization Act of 2013, the "Requirement to Validate Collateral" and the "Re-Sale Valuation Rules Superseded" sections of this ML revise and, where they conflict, supersede the HUD regulations cited at §206.115(b)(1) and §206.52(b)(3). In addition, the policies in this ML modify or supersede, where there is conflict, relevant policies in Handbook 4235.1, REV-1, Chapter 3.
Background	Since 2013, FHA has implemented various HECM program changes to mitigate financial stress to the Mutual Mortgage Insurance Fund (MMIF), while maintaining the integrity, transparency, and viability of the program. FHA's 2017 Annual Report to Congress on the financial status of the MMIF, issued November 15, 2017, reported, with regards to HECM, a negative capital ratio of 19.84 percent and a negative economic net worth of $14.5 billion. For the HECM program to meet the requirements of Federal Credit Reform in 2018 and in an effort to increase the financial viability of the HECM program, FHA issued ML 2017-12, dated August 29, 2017, revising the initial and annual Mortgage Insurance Premium rates and Principal Limit Factors for new originations. Despite these changes, projected losses for the HECM portfolio indicate the need for changes to further mitigate risk. Due to the nonrecourse nature of the HECM, the financial soundness of the HECM program is contingent on receipt of an accurate determination of property value and property condition. The eventual recovery of the mortgage proceeds is entirely dependent on receiving a sufficient sum from the sale or refinance of the subject property. To mitigate risk to the MMIF as well as FHA borrowers posed by valuation of the collateral, two appraisals will be required for HECM originations, where deemed necessary by a collateral risk assessment. The use of validation tools will enhance the credibility of the appraised value used to calculate the maximum claim amount and confidence in the soundness of the value of the collateral securing the HECM.

To help sustain the HECM program as a viable financial resource for aging homeowners, the Secretary has determined that the program changes announced in this ML are necessary to improve the fiscal safety and soundness of the HECM program and necessary for HUD to satisfy its fiduciary responsibility to the MMIF. FHA will evaluate these program changes at 6 and 9 months to determine if the goals of the guidance have been met.

Requirement to Validate Collateral

For all HECMs, FHA will perform a collateral risk assessment of the appraisal submitted for use in the HECM origination. Based on the outcome of the assessment, FHA may require a second appraisal be obtained prior to approving the HECM.

The mortgagee must not approve or close a HECM before FHA has performed the collateral risk assessment and, if required, a second appraisal is obtained. Where a second appraisal is required by FHA and provides a lower value, the mortgagee must use the lower value of the two appraisals in originating the HECM.

Re-Sale Valuation Rules Superseded

For all properties subject to this ML, additional valuation protocols required for re-sales occurring between 91 and 180 days following acquisition, cited in 24 CFR §206.52(b)(3) are superseded.

The 90-day prohibition remains in place.

Protocols for Submitting Appraisals

Interim Protocols
The following Interim Protocols will be in place until the Fully Automated Protocols are available. If the automated system is in place before December 1, 2018, FHA will inform mortgagees through the FHA Connection Message Board as well as through FHA INFO.

To initiate FHA’s collateral risk assessment and determination of the requirement for a second appraisal, the mortgagee must:

- Upload the first appraisal through FHA’s Electronic Appraisal Delivery (EAD) portal and log it on FHA Connection (FHAC) on the Appraisal Logging screen, with adequate time prior to the planned closing date, to allow for obtaining a second appraisal, if required.

- After the appraisal has been logged, email the FHA Resource Center at answers@hud.gov to indicate that the uploaded appraisal is ready for FHA's collateral risk assessment. In the email subject line, place: "HECM Appraisal Complete" and the FHA case number. The mortgagee must send a separate email for each FHA case number, after the appraisal to be used in underwriting the loan has been logged.

FHA will determine if a second appraisal is required, based on a collateral risk assessment.

- If a second appraisal is required, FHA will place a Case Warning on the file and the mortgagee will be notified through the FHA Resource Center in response to their incoming email.
- If a second appraisal is not required, the mortgagee will be notified through the FHA Resource Center in response to their incoming email that they may proceed with the underwriting process.

Where a second appraisal is required, the mortgagee must:

- Order the second appraisal from an appraiser not associated with the same appraisal company as the first appraisal.
- Use the lower value of the two appraisals to calculate the maximum claim amount.

If the second appraisal supports a lower value of the property than the value supported by the first appraisal, the mortgagee must:

- Upload the second appraisal into EAD, in the slot for the second appraisal, and log into FHAC.
- Select "Original Appraisal Expired" from the drop-down menu when logging in FHAC, as the justification for a second appraisal being submitted.
- After the second appraisal has been logged, email the FHA Resource Center at answers@hud.gov. In the email subject line, place: "HECM Second Appraisal Complete" and the FHA Case Number. In the body of the email, indicate that the second appraisal was obtained, that it supported a lower value of the property, that it has been uploaded into EAD and logged into FHAC, and that the second, lower appraisal is being used to calculate the maximum claim amount.
- After notifying FHA, proceed with the underwriting process using the second, lower appraised value to calculate maximum claim amount.

If the second appraisal supports an equal or higher value of the property than the value supported by the first appraisal, the mortgagee must:

- Email the FHA Resource Center at answers@hud.gov. In the email subject line, place: "HECM Second Appraisal Complete" and the FHA Case Number. In the body of the mail, indicate that the second appraisal was obtained and that it supported a higher or equal valuation of the property.
- Include the second, equal or higher appraisal in the case binder, but mortgagee must not upload it into EAD or use it to calculate the maximum claim amount in originating the HECM.
- After notifying FHA, proceed with the underwriting process using the first, lower appraised value to calculate maximum claim amount.

The cost of the second appraisal is eligible to be financed as part of the closing costs.

Fully-Automated Protocols (starting on or before December 1, 2018)

To initiate FHA's automated collateral risk assessment and determination of the requirement for a second appraisal, the mortgagee must:

- Upload the first appraisal through FHA's Electronic Appraisal Delivery (EAD) portal and log it on FHA Connection (FHAC) on the Appraisal Logging screen, with adequate time prior to the planned closing date to allow for obtaining a second appraisal, if required.
- After logging the first appraisal, FHAC will automatically determine if a second appraisal is required.

FHAC will not allow the mortgagee to proceed until the collateral risk assessment has been completed. If a second appraisal is not required, the mortgagee may proceed with the origination via FHAC.

If FHA's collateral risk assessment determines a second appraisal is required, the mortgagee must:

- Order the second appraisal from an appraiser not associated with the same appraisal company as the first appraisal.
- If the second appraisal supports a lower value, the lower value must be used to calculate the maximum claim amount.

To document the second appraisal, the mortgagee must:

- Upload the second appraisal into EAD, in the slot for the second appraisal, and log it in FHAC on the Appraisal Logging screen.
- After the second appraisal has been logged, proceed with the underwriting process using the lower of the two appraised values to calculate the maximum claim amount.

The cost of the second appraisal is eligible to be financed as part of the closing costs.

Paperwork Reduction Act	The information collection requirements contained in this document are approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0524, 2502-0494, and 2502-0538. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.
Questions	For additional information on this ML, please visit www.hud.gov/answers or call FHA's Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

Signature

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