National Homeownership Month

Home Equity Conversion Mortgage
HECM 101

June 28, 2021

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Last Updated: June 21, 2021

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Welcome and Introductions

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A Historical Look

Historical Look Back

- **1961** -The reverse mortgage is born. It was written to Nellie Young in Portland, Maine by Deering Savings & Loan. Nelson Hayes designed the loan to help the widow of his high school football coach stay in her home.
- **1969** - The concept of a reverse mortgage intrigues the Senate Committee on Aging.
- **1983** - During the first congressional hearing concerning reverse mortgage, the Senate approves a proposal to have reverse mortgages insured by the Federal Housing Administration (FHA).
- **1987** - Congress passes an FHA insurance bill called the Home Equity Conversion Mortgage (HECM) Demonstration, which is a reverse mortgage pilot program that insures reverse mortgages.

Reference: https://www.aag.com/reverse-mortgage/history/

More recent history

- **1988** - HUD gains the authority to insure reverse mortgages through the FHA when President Ronald Reagan signs the reverse mortgage bill into law. The reverse mortgage government insured loan is established.
- **1989** -The first FHA-insured HECM is issued to Marjorie Mason of Fairway, Kansas by the James B. Nutter Company of Kansas City, MO.
- **1998** - Marks the year the HECM is officially permanent!
- **2004** - FHA implements rules of HECM refinancing which allows existing HECM Borrowers to refinance.
- **2006** -The National Loan Limit of $417,000 is established.
- **2008** -The first of the Baby Boomers turn 62, resulting in a surge of HECM mortgages.

Reference: https://www.aag.com/reverse-mortgage/history/

More recent history (cont.)

- **2009** - FHA introduces HECM for Purchase. For the first time, Borrowers are able to use a HECM loan to purchase their primary residence.
- **2010** - The HECM Saver program is introduced.
- **2013** - HUD releases new policies to make the HECM product safer, stronger and less risky for the Borrower.
- **2015** - Guidelines for Financial Assessment are implemented as additional protections for consumers and reduce the risk of tax and insurance default.
- **2017** - The HECM loan limit increases to $636,150.
- **2018** - HUD issues guidance on collateral validation. This guidance became permanent on September 23, 2019.
- **2020** - HUD issues multiple policies to address the COVID-19 pandemic. These include foreclosure and eviction moratoriums. The National Loan Limit is $765,600.

Reference: https://www.aag.com/reverse-mortgage/history/

HECM Today

2021 - While still working through the fallout of COVID-19, HUD has issued several policy changes/updates including adjustable-rate indexes and the eligibility of non-Borrower spouses.

The National Loan Limit in 2021 is $822,375.

Dive Into HECMs

What is a HECM?

HECM or Home Equity Conversion Mortgage is FHA's reverse mortgage product specifically for senior homeowners.

- Allows seniors to access equity in their home
- Is a non-recourse loan
- Has no fixed maturity date
- Borrower is not required to make monthly principal and interest payments
  - Real estate taxes, hazard and flood insurance premiums and other property related expenses remain the Borrower's responsibility
  - Interest accrues to the balance on the loan
- Borrower retains ownership
- HECM is a cash flow qualification and is not Fair Isaac Corporation (FICO) score or ratio driven.
- Lender is responsible for disbursing loan proceeds according to the Borrower's payment plan.
- Lender is responsible to determine if the HECM is a sustainable solution for the Borrower.

Common HECM Terms

- **Maximum Claim Amount (MCA)** is the limit that FHA will payout on an insurance claim. The lower of Sales Price, Appraised Value, or National Loan Limit ($822,375 for cases on/after January 1, 2021 per ML 2020-42).
  - Example: If the home appraisal value is $850,000, the MCA would be $822,375.
- **Initial Principal Limit =** ~~–~~is the maximum amount, established at loan closing, the Borrower may receive from the HECM before any disbursements are made.
  - Calculating the Principal Limit:

Principal Limit = (Principal Limit Factor) x (MCA)

Reference: HUD.gov search New Principal Limit Factor Tables

HECM Transaction Types

Traditional: Borrower(s) own the subject property and will obtain a HECM for the first time

Refinance: HECM to HECM refinance of the subject property

Purchase: HECM loan proceeds are used to purchase the subject as a new principal residence

HECM Payment Plan Options

- For adjustable interest rate HECMs, the payment plan options are:
  - Tenure – Borrower receives scheduled monthly payments
  - Term – Borrower receives scheduled monthly payments
  - Line of Credit (LOC) – Borrower chooses the amount and timing of payments
  - Combination of Tenure or Term with LOC

- For fixed rate HECMs, the only payment plan option is:
  - Single Lump Sum – Borrower receives a single payment only at closing

Borrower Eligibility

- **Borrower(s) must:**
  - Be 62 years old by date of closing
  - Hold title to the property
  - Currently occupy the property as their principal residence or intend to occupy the property as their principal residence
  - Have no delinquent federal debt (can be paid at closing as a mandatory obligation or with the Borrowers own funds)
  - Not be on HUD’s LDP or excluded Parties List
  - Attend required HECM counseling
  - Sign Required Borrower Certifications
  - Meet Financial Assessment requirements

Property Eligibility

- 1- to 4-unit properties (Borrower must occupy one of the units)
- Manufactured Homes built after June 15, 1976
- FHA-approved Condominium projects and Single-Unit Approval
- New Construction properties with Certificate of Occupancy issued
  - "Under Construction" and "Proposed Construction" are not permitted
- Must meet FHA's minimum property requirements (MPR) or minimum property standards (MPS)
- Solar is acceptable
- Borrower must maintain hazard and flood insurance, if applicable.
- Leasehold: 99 years + Renewable
- A appraisal is required for all HECM transaction types
- A second appraisal may be required

Seasoning Requirements

The Final Rule effective 9/19/17:

- Existing liens must be seasoned 12 months; or
- Must have resulted in less than $500 to the Borrower at closing

At the date of the HECM closing rather than the HECM loan application.

AND

Allow the pay-off, at closing, of Home Equity Lines of Credit (HELOCs) that do not meet seasoning requirements (draws totaling less than $500 with 12 months) from Borrower funds, the HECM funds, or a combination of HECM funds and Borrower funds, as long as the draw from HECM funds does not exceed the draw limits during the first 12 months of the HECM.

Financial Assessment

- **Financial Assessment (FA):** required is required on all cases
  - New FA guide (Effective for HECM case numbers issued on or after 10/3/2016)
- Overview
  - assess credit history
  - assess property charge payment history
  - calculate residual income
    - calculate effective Income
    - calculate debts and liabilities
    - calculate family size
- Determine if:
  - criteria for Extenuating Circumstances or Compensating Factors are met;
  - a Fully Funded or Partially Funded Life Expectancy Set-Aside (LESA) for the payment of property charges is required; and
  - the HECM represents a sustainable solution for the Borrower’s financial situation.

Financial Assessment (cont.)

- Financial Assessment requirements apply to all HECMs – Traditional, Refinance, Purchase
- Financial Assessment must be performed for each Borrower
  - no “fast track” procedures
  - requiring a LESA does not mean that the full financial assessment requirements do not have to be satisfied
- Eligible Non-Borrowing Spouse (NBS) and Other Non-Borrowing Household Members (ONBHM) are considered only with respect to Compensating Factors or reducing family size when determining if residual income is sufficient
- Ineligible NBS not considered in financial assessment

Mortgage Insurance Premiums

- Initial Mortgage Insurance Premium (MIP) rate is 2 percent of the Maximum Claim Amount (MCA).
  - Applicable to all Borrowers and is no longer associated with disbursements made to or on behalf of the Borrower.
- Annual MIP rate for ALL HECM transactions is .50 percent of the outstanding mortgage balance.

HECM-to-HECM Refinance:

- CFR §206.53 Refinancing a HECM loan.
- The initial MIP paid by the mortgagee pursuant to §206.105(a) shall not exceed the difference between:
  - Three percent of the increase in the maximum claim amount for the new HECM, minus the amount of the initial MIP already charged and paid by the Borrower for the existing HECM that is being refinanced. No refunds will be given if the initial MIP paid on the existing HECM exceeds the initial MIP due on the new HECM. (cases assigned on/after 09/19/2017)

Non-Borrower Spouse-Deferral Period

- **Eligible NBS (ML 14-07 & ML 15-02)**
  - HECM counseling required. Can become an ineligible NBS if any of the qualifying attributes (defined on Slide 11) cease to be met during the life of the loan
  - Must have a SSN

- **Ineligible NBS (ML 14-07 & ML 15-02)**
  - Home is not considered the principal residence of the spouse
  - Spouses who marry the Borrower after loan closing
  - Cannot later become an Eligible NBS
  - Must have a SSN
  - HECM counseling required

Reference: Updated guidance regarding principal residence published in ML 2021-11

Non-Borrower Spouse-Deferral Period (cont.)

In order for the Deferral Period to apply to a Non-Borrowing Spouse, the Non-Borrowing Spouse must:

- Have been the spouse of a HECM Borrower at the time of loan closing and have remained the spouse of such HECM Borrower for the duration of the HECM Borrower's lifetime;

- Have been properly disclosed to the mortgagee at origination and specifically named as a Non-Borrowing Spouse in the HECM documents; and

- Have occupied, and continue to occupy, the property securing the HECM as the Principal Residence of the Non-Borrowing Spouse.

Non-Borrower Spouse Deferral Period (cont.)

- Mortgagee Letter 2019-15: Eliminated requirement for Eligible Non-Borrower Spouse (NBS) to establish good and marketable title or the legal right to remain in the property in order to qualify for deferral of Due & Payable status. This is effective for case numbers assigned BEFORE August 4, 2014.

- Mortgage Letter 2021-11: Extends policies in ML 2019-15 to ALL HECMs regardless of case number assignment date.

Due and Payable

- Loan is due and payable and HUD approval is not required when:
  - All Borrowers have died and a Non-Borrowing spouse does not exist; or
  - All Borrowers have sold the property or conveyed title to the property.
- Due and payable is deferred when the last surviving Borrower dies and an eligible Non-Borrowing spouse was identified at loan closing.
- Loan is due and payable and HUD approval is required when:
  - The property is no longer the principal residence of at least one Borrower for reasons other than death;
  - Borrower does not maintain the property as a principal residence for a period exceeding 12 months because of physical or mental illness;
  - Borrower fails to pay property charges and all attempts to rectify the situation have been exhausted;
  - The property is in disrepair and the Borrower has refused or is unable to repair the property.

HECM Counseling

- All competent Borrowers MUST complete counseling.
- All Non-Borrower spouses MUST complete counseling.
- If a Power of Attorney is invoked, the Attorney-in-Fact MUST complete counseling.
- Borrower’s name must match FHAC Insurance Application screen.
- Case number must be assigned prior to expiration of Counseling Certificate.
- Lenders **cannot** pay for counseling.
- Counselors must be on HUD’s approved list.
- Corrections cannot be made to expired certificates.

Mortgagee Letter 2021-08 – Changes to Interest Rate Requirements

This Mortgagee Letter:

- Removed approval for use of the LIBOR index for adjustable rate HECMs;
- Establishes the acceptance of the Secured Overnight Financing Rate (SOFR) index and permits mortgagees to co-mingle index types for newly originated annual adjustable interest rate HECMs when establishing the expected average mortgage interest rate using the U.S. Constant Maturity Treasury (CMT) and using the SOFR index to establish the initial mortgage interest rate (Note rate) and periodic Note Rate adjustments; and
- Sets zero as the “floor” for the index value used to determine the Note rate.
- Provides new model Note language that incorporates these changes.

Mortgagee Letter 2018-06 Collateral Risk Model

For all HECMs with case numbers assigned on/after October 1, 2018, FHA will perform a collateral risk assessment of the appraisal submitted for use in HECM origination.

- FHA will determine if a second appraisal is required, based on a collateral risk assessment.
  - If a second appraisal is required, FHA will notify the mortgagee.
  - If a second appraisal is not required, the mortgagee will be notified 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.

Mortgagee Letter 2019-16 Collateral Risk Assessment Model

To continue to sustain the HECM program as a viable financial resource for elderly homeowners and for HUD to comply with its statutory responsibilities to the Mutual Mortgage Insurance Fund (MMIF), the Secretary has determined that the changes to the HECM program announced in ML 2018-06 continue to be necessary to improve the fiscal safety and soundness of the HECM program.

Therefore, based on the referenced evaluation and pursuant to the authority granted to the Department by RMSA, this ML updates HECM requirements to eliminate the September 30, 2019 deadline in ML 2018-06 and HECM program requirements set forth in ML 2018-06 shall continue in effect.

Mortgagee Letter 2019-17 Condominium Requirements

- The Condominium Project Approval requirements in Section II.C of the *Single Family Housing Policy Handbook* 4000.1 (Handbook 4000.1) and the requirements for Units in approved projects, site condominiums, and Units in projects not approved by FHA in Section II.A.8.p, Condominiums, apply to HECMs with the additional guidance below.
- FHA will insure HECMs on Units in approved condominium projects that have been approved under the HRAP or DELRAP in accordance with Section II.C, Condominium Project Approval, of Handbook 4000.1.
  - **Requirements for Units in Approved Condominium Projects:**
    - The Mortgagee must ensure all HECMs comply with the requirements in Section II.A.8.p. Condominiums, of Handbook 4000.1 when the individual Unit is within an approved condominium project.
- All other existing HECM eligibility and program requirements remain in effect.

How to Obtain Title II Direct Endorsement Authority for HECM

- **Conditional Authority** is the authority of a Mortgagee that has applied for and received basic FHA Mortgagee approval as a Supervised, Non-supervised, or Government Mortgagee, and has not entered or completed the Test Case phase.

- To obtain **Unconditional DE authority**, the Mortgagee must successfully complete the Test Case phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to underwrite Mortgages that satisfy FHA requirements.

Eligibility Requirements & Test Case Application Process

- A Mortgagee must meet the following eligibility requirements in order to apply for and participate in FHA's Direct Endorsement (DE) Program:
    - FHA Mortgagee Approval
    - Origination Experience
    - Personnel Requirements

- The Test Case begins with the Mortgagee submitting a written application for Unconditional DE authority to the Jurisdictional Homeownership Center (HOC) for the state where the Mortgagee's home office is located.

- If the Mortgagee meets the requirements for conditional authority and submits the required documentation, the Mortgagee will receive a Test Case phase approval letter from the HOC.

- The jurisdictional HOC will also provide reference materials and a list of the specific requirements that must be met for the Mortgagee to obtain Unconditional DE authority with regards to HECMs.

Test Case Phase

- FHA requires that all new Test Case lenders participate in an entrance conference with the assigned HOC prior to beginning the process and submitting test cases.

- Mortgagees who receive a DE Program Test Case approval letter from the jurisdictional HOC, must review all Test Case results in the Loan Review System.

- The Mortgagee remains in test case status until 5 HECM Test Cases have been successfully underwritten and processed, as evidenced by FHA's issuance of a Firm Commitment.

Test Case Phase (cont.)

- Test case lenders are expected to successfully complete the Test Case phase within 12 months.

- After the Mortgagee successfully completes the required Test Cases, FHA will grant the Mortgagee approval for Unconditional DE authority for HECMs.

- The Mortgagee will receive an approval letter and may then begin submitting Mortgages to FHA for endorsement without prior review by FHA.

Reference: HUD Handbook 4000.1, Section I.A.5.iii

What Next?

- The highly anticipated HECM section of Handbook 4000.1 continues to move through the review and concurrence process.

- Look for announcements as the update progresses through the required process.

Endorsing a HECM

How to get your cases endorsed without delay

- Refrain from submitting multiple copies of the same form. For digital submissions, one copy is sufficient.
- Refrain from including internal QC documentation unless relevant to your decision to approve the case.
- Double check that all required documentation is present in the case binder.
- Make sure the correct Late Submission language is contained in your letter and that the letter is completed properly on company letterhead with all required information including your address and phone number (ML 2013-02).
- Make sure the Insurance Application Screen and Financial Assessment screen are complete, correct and submitted to FHA Connection properly.
- Make sure the loan data is correctly input into Catalyst (e.g. invalid case numbers, incorrect HOCs, incorrect submission types)

Most Common Deficiencies

- Required documentation is missing, illegible, improperly completed or the incorrect form was used. This constitutes over 90 percent of the deficiency findings.
- Required documentation supporting calculations is missing from the file - Principal Limit and Life Expectancy Set-Aside
- Property issue resolution documentation
- Minimum required investment not met
- Occupancy certification
- Income documentation-Current award letter and/or evidence of receipt

What to Do with Original Documents

The majority of Homeownership Center staff continue to telework in response to the pandemic.

Original loan documents usually included in paper case binders and pulled at endorsement will be addressed at a point in the future.

Lenders are advised to make sure to hold on to these documents pending guidance on how to proceed with their disposition.

Quick Loss Mitigation Facts

HECM Loans in Default Due to Unpaid Property Charges

- If the mortgagor has insufficient funds available under the HECM to satisfy unpaid property charges, the mortgagor is in default, the mortgage is eligible to be called due and payable. (ML 15-11)
- During a Deferral Period, disbursements cease and property charge payments using HECM proceeds is not permissible. When property charge payment during a Deferral Period are missed, the mortgagee must notify any Eligible Non-Borrowing Spouse that an obligation of the mortgage was not satisfied and that the Deferral Period is ending unless the default is cured within 30 days.

  - If the default is cured within such time, the Deferral Period Reinstatement provisions will apply.
  - If the default is not cured within such time, mortgagees must proceed in accordance with applicable regulations:
    a) to initiate foreclosure; and
    b) reasonable diligence in prosecuting foreclosure.

HECM Loans in Default Due to Unpaid Property Charges (cont.)

- Mortgagees must submit Due and Payable Requests via the Home Equity Reverse Mortgage Integrated Technology (HERMIT) system.

- Where a mortgagee has determined that a loss mitigation option is available, a mortgagee may request a Property Charge Loss Mitigation Extension in the HERMIT system to extend the aforementioned foreclosure timeframes, provided that all requirements are met.

- Mortgagees may offer the following loss mitigation options for a mortgagor in default due to unpaid property charges:
  (1) Refinancing the defaulted HECM into a new HECM according to HECM origination requirements; and
  (2) Providing information, at no cost to the mortgagor, of local assistance programs available for mortgagors.

HECM Loans in Default Due to Unpaid Property Charges (cont.)

- ML 2021-05 extends the COVID-19 Forbearance start date and HECM extension period to June 30, 2021; providing up to two additional three-month COVID-19 Forbearance periods or HECM extension periods for certain Borrowers.

https://www.hud.gov/sites/documents/15-11ML.PDF
https://www.hud.gov/sites/dfiles/OCHCO/documents/2021-05hsgml.pdf

Resources
Questions and Answers

Resources

HECM Homepage:
https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome

Mortgagee Letters:

https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee

Archived Webinars/Training:

https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars

Subscribe to FHA INFO:
https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe

Resource Center

	Option	Point of Contact	Hours Available	Comments
1	FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2	Email	answers@hud.gov	24/7/365	
3	Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

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Questions and Answers

We will not be taking live questions but will be responding to questions received in advance of this training.

Thank You!

For joining us today