U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

November 10, 2014

Mortgagee Letter 2014-21

To: All Approved Mortgagees

Subject

Revised Changes to the Home Equity Conversion Mortgage (HECM) Program Requirements

Purpose

This Mortgagee Letter consolidates and revises policy requirements issued under Mortgagee Letters 2013-27 and 2013-33, and therefore supersedes Mortgagee Letters 2013-27 and 2013-33, in their entirety.

This Mortgagee Letter also revises the requirements of Mortgagee Letter 2014-11 to clarify a mortgagor with a fixed interest rate HECM may be reimbursed for the costs of materials, under certain conditions, when repairs must be completed after loan closing.

Background

Since the 2009 housing and economic recession, the HECM portfolio has experienced major mortgagor demographic and behavioral changes that have contributed to additional risks to the Mutual Mortgage Insurance Fund (MMIF). Some of the changes include shifting from a predominately adjustable interest rate mortgage with mortgagors electing to receive payments over time using the line of credit or modified tenure/term payment options to a fixed interest rate mortgage where mortgagors draw down all funds at the time of loan closing; younger mortgagors with higher amounts of property indebtedness; and increasing property charge defaults. These and other factors have caused higher payouts of insurance claims.

Many of these changes are highlighted in the June 28, 2012, "Reverse Mortgages Report to Congress" that was published by the Consumer Financial Protection Bureau.

FHA's Fiscal Year 2013 report to Congress on the financial status of the MMIF, issued December 13, 2013, while noting improvements in the stability of the HECM portfolio due to an improved economic forecast and the effects of recent policy changes, reported continued stress in the HECM program. FHA was required to take a mandatory appropriation at the close of Fiscal

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Background (continued)

Year 2013 primarily due to projected losses on the HECM portfolio. Congress passed and the President signed the Reverse Mortgage Stabilization Act of 2013, which amends section 255(h) of the National Housing Act. This amendment authorizes the Secretary to "establish, by notice or mortgagee letter, any additional or alternative requirements that the Secretary, in the Secretary's discretion determines are necessary to improve the fiscal safety and soundness of the program." The Secretary has determined that the changes announced in this Mortgagee Letter are necessary to improve fiscal soundness and protect the viability of the HECM program. These critical program changes will realign the HECM program with its original intent, and thereby aid in the restoration of the MMIF and help ensure the continued availability of this important program.

Effective Date

The policy requirements in this Mortgagee Letter are effective as follows:

Policy Description	Effective Date
Adaptation of Model Loan Documents	All case numbers assigned on or after March 2, 2015
Seasoning Requirements for Existing Non-HECM Liens	All case numbers assigned on or after December 15, 2014
Reimbursement for Required Repairs Completed by Mortgagor	All case numbers assigned on or after November 10, 2014
Initial Disbursement Limits	All case numbers assigned on or after November 10, 2014
Mandatory Obligations for Traditional and Refinance Transactions	All case numbers assigned on or after March 2, 2015
Mandatory Obligations for Purchase Transactions	All case numbers assigned on or after March 2, 2015
Initial and Annual MIP Structure	All case numbers assigned on or after November 10, 2014
Initial Mortgage Insurance Premium Calculation for Refinance Transactions	All case numbers assigned on or after November 10, 2014
Credit Standing and Financial Assessment Requirements	All case numbers assigned on or after March 2, 2015
Financial Assessment and Property Charge Funding Requirements	All case numbers assigned on or after March 2, 2015

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Effective Date (continued)

Policy Description - Continued	**Effective Date -** Continued
Unused Life Expectancy Set-Aside Funds During a Deferral Period	All case numbers assigned on or after March 2, 2015
Unused Life Expectancy Set-Aside Funds upon Termination of the Loan	All case numbers assigned on or after March 2, 2015
Assignment of Mortgage to the Secretary	All case numbers assigned on or after November 10, 2014

Affected Regulations, Mortgagee Letters, and Handbooks

Pursuant to the authority granted in the Reverse Mortgage Stabilization Act of 2013, the requirements in this Mortgagee Letter revise and, where they conflict, supersede the HUD regulations cited in the table below. Additionally, HUD is utilizing its general authority to impose administrative requirements to revise and supersede, where they conflict, with the Mortgagee Letters and HUD Handbooks in the table below.

The table below highlights current policy and regulatory items that are affected in whole or in part by these changes.

Code of Federal Regulation (CFR)
24 CFR §206.3 Definitions
24 CFR §206.27 Mortgage Provisions
24 CFR §206.29 Initial Disbursement of Mortgage Proceeds
24 CFR §206.31 Allowable Charges and Fees
24 CFR §206.32 No Outstanding Unpaid Obligations
24 CFR §206.37 Credit Standing
24 CFR §206.43 Information to Mortgagor
24 CFR §206.53 Refinancings
24 CFR §206.105(a) Amount of Mortgage Insurance Premium (MIP)
24 CFR §206.205 Property Charges
Handbooks
4235.1 REV-1, Chapter 1-16 Basic Program Outline
4235.1 REV-1, Chapter 3-5 Requirements for Existing Housing
4235.1 REV-1, Chapter 4-3 Mortgage Credit Eligibility Requirements
4235.1 REV-1, Chapter 4-7 Required Mortgage Credit Documentation
4235.1 REV-1, Chapter 4-8 Mortgage Credit Analysis
4235.1 REV-1, Chapter 5

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Affected Regulations, Mortgagee Letters, and Handbooks (continued)

Handbooks - Continued
4330.1 REV-5, Chapter 13
Mortgagee Letters and Housing Notices
Mortgagee Letter 2014-11
Mortgagee Letter 2013-33 – is superseded in its entirety
Mortgagee Letter 2013-27 – is superseded in its entirety
Mortgagee Letter 2013-01 – is superseded in its entirety
Mortgagee Letter 2010-34 • All references to HECM Saver and HECM Standard initial MIP options • Initial MIP Calculation for Refinance Transaction Examples • Principal Limit Factor Tables • FHA Connection Case Number Assignment Screen Changes
Mortgagee Letter 2009-34
Housing Notice 2013-01

Adaptation of Model Loan Documents

FHA is revising the model loan documents to include the requirements defined in this Mortgagee Letter. The revised model loan documents will be accessible from the following website prior to the effective date of the Financial Assessment: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/model_documents.

Mortgagees must revise the model documents to ensure compliance with other Federal, State and local laws, and may do so without HUD approval.

Seasoning Requirements for Existing Non-HECM Liens

Mortgagees may only permit the payoff of existing non-HECM liens using HECM proceeds if the liens have been in place longer for 12 months or resulted in less than $500 cash to the mortgagor, whether at closing or through cumulative draws (e.g., as with a Home Equity Line of Credit (HELOC)) prior to the date of the initial HECM loan application.

Mortgagees must review the HUD-1 from the transaction that resulted in a lien that is to be paid off using HECM proceeds, the payoff statement and, if applicable, the most recent HELOC statement or its equivalent, to ensure that the lien had either been in place for more than 12 months or that it resulted in less than $500 to the mortgagor, whether at closing or through cumulative draws. The HUD-1, payoff statement, and if applicable, most recent HELOC statement or its equivalent, must be included in the case binder.

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Seasoning Requirements for Existing Non-HECM Liens (continued)

Guidance provided in Mortgagee Letters 2006-20 and 2009-49 regarding subordinate liens resulting from state and local court judgments, judgment liens, and Federal judgments and debts, remains in effect.

Reimbursement for Required Repairs Completed by Mortgagor

Required repairs that are estimated to cost less than 15% of the maximum claim amount can be completed after loan closing using a Repair Set-Aside. For fixed and adjustable interest rate HECMs, the mortgagee may reimburse the mortgagor for the actual cost of materials from the Repair Set-Aside, provided that the following requirements are met first:

- Mortgagee receives invoices or sales receipts for materials ordered and paid for by mortgagor;
- Mortgagee ensures that the property is inspected one or more times by a Inspector approved by the Secretary;
- Form HUD 92051, Compliance Inspection Report, is completed and signed by the mortgagee; and
- A copy of the completed and signed Form HUD 92051 and a copy of the invoices or sales receipts for materials ordered are uploaded to the Home Equity Reverse Mortgage Information Technology (HERMIT) System.

Mortgagees may not reimburse mortgagors for any labor the mortgagors performed.

All other existing requirements for the completion of repairs and the administration of the Repair Set-Aside remain in effect.

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Mortgagee Letter 2014-21, Disbursement Limits

Overview – Disbursement Limits

This section of the Mortgagee Letter sets forth limitations on the amount of mortgage proceeds that can be advanced at loan closing and during the First 12-Month Disbursement Period after loan closing; defines what fees and charges are considered Mandatory Obligations; requires mortgagees to monitor and track disbursements to ensure the Initial Disbursement Limit is not exceeded; and specifies the items that must be included in the Initial Disbursement Limit and initial MIP calculation.

Policy and Definitions

Below are policy requirements and definitions applicable to adjustable and fixed interest rate HECMs:

- Mandatory Obligations: Fees and charges incurred in connection with the origination of the HECM that are permitted, under this Mortgagee Letter, to be:
  - paid at loan closing or during the First-12 Month Disbursement Period that are a condition or a requirement for loan approval; or
  - any disbursements for a Repair Set-Aside, including the cost of repairs and the repair administration fee.

- Eligibility for an additional 10% of the Principal Limit: When the mortgagor’s Mandatory Obligations exceed 50% of the Principal Limit, the mortgagor is eligible to take an additional 10% of the Principal Limit amount. Mortgagors may, but are not required, to take all or part of the additional 10% (up to the full Principal Limit) at loan closing or during the First 12-Month Disbursement Period or after the First 12-Month Disbursement Period. At loan closing, mortgagors must notify the mortgagee of the amount of the additional 10% of the Principal Limit that they intend to draw at the time of loan closing or during the First 12-Month Disbursement Period so that the correct amount of initial MIP is collected.

- First 12-Month Disbursement Period: Begins on the day of loan closing and ends on the day before the anniversary date of loan closing. When the day before the anniversary date of loan closing falls on a Federally-observed holiday, Saturday or Sunday, the end period will be on the next business day.

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Policy and Definitions Policy and Definitions (continued)

Definitions only for Adjustable Interest Rate HECMs

- Initial Disbursement Limit: The maximum disbursement to the mortgagor allowed at loan closing and during the First 12-Month Disbursement Period is the greater of 60% of the Principal Limit; or the sum of Mandatory Obligations, plus an additional 10% percent of the Principal Limit. The Initial Disbursement Limit shall not exceed the Principal Limit amount established at loan closing.

Definitions only for Fixed Interest Rate HECMs

- Borrower's Advance: Borrower's Advance means the funds advanced to Mortgagor at closing which may not exceed the greater of 60% of the Principal Limit; or Mandatory Obligations, plus an additional 10% of the Principal Limit. The sum of all advances permitted under the mortgage cannot exceed the Principal Limit. The mortgagor may bring other available funds to closing to bring the sum of all anticipated advances within the Principal Limit.

Determining and Tracking the Initial Disbursement Limit

The mortgagee is responsible for determining the maximum Initial Disbursement Limit for Adjustable Interest Rate HECMs.

Mortgagees must monitor and track all disbursements that occur at loan closing and during the First 12-Month Disbursement Period to ensure the total amount of the disbursements does not exceed the maximum Initial Disbursement Limit or Principal Limit. Where a mortgagor has a Servicing Fee Set-Aside, the disbursement of the fixed monthly servicing fee charges may exceed the Initial Disbursement Limit or First 12-Month Disbursement Period restrictions.

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Tracking Disbursements Made During the First 12-Month Disbursement Period for Adjustable Interest Rate HECMs

The Initial Disbursement Limit and First 12-Month Disbursement Period are applicable to payment plan changes that occur during the First 12-Month Disbursement Period.

Line of Credit: During the First 12-Month Disbursement Period, if a requested disbursement would exceed the Initial Disbursement Limit, the mortgagee may make a partial disbursement to the mortgagor for the amount that will not exceed the limit. Once the First 12-Month Disbursement Period ends, the mortgagor may request subsequent disbursements up to the available Principal Limit.

Tenure and Term Payments: Mortgagees must ensure Tenure and Term monthly payments made to the mortgagor during the First 12-Month Disbursement Period do not exceed the Initial Disbursement Limit.

Upon the expiration of the First 12-Month Disbursement Period, adjustments to Term and Tenure payments may be recalculated using the available Principal Limit by having the mortgagor sign the appropriate paperwork to change the payment amount and/or payment option.

If the mortgagor makes a partial repayment of the principal balance (outstanding loan balance) during the First 12-Month Disbursement Period, the mortgagee must increase the amount of principal available to the mortgagor by the amount applied toward the outstanding loan balance, up to an amount not to exceed the Initial Disbursement Limit, as applicable, and the Principal Limit.

If the mortgagee receives repayment from insurance or condemnation proceeds after restoration or repair of the damaged property, then the available Principal Limit and mortgage balance shall be reduced by the amount of such proceeds.

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Mandatory Obligations for Traditional and Refinance Transactions

Mandatory Obligations for HECM traditional and refinance transactions include:

- Initial MIP;
- Loan origination fee;
- HECM counseling fee;
- Reasonable and customary amounts, but not more than the amount actually paid by the mortgagee for any of the following items:
    - Recording fees and recording taxes, or other charges incident to the recordation of the insured mortgage;
    - Credit report;
    - Survey, if required by the mortgagee or the mortgagor;
    - Title examination;
    - Mortgagee's title insurance;
    - Fees paid to an appraiser for the initial appraisal of the property
- Repair Set-Asides;
- Repair administration fee;
- Delinquent Federal debt;
- Amounts required to discharge any existing liens on the property in accordance with this Mortgagee Letter;
- Customary fees and charges for warranties, inspections, surveys, engineer certifications;
- Funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by appraiser;
- The total amount of property tax and flood and hazard insurance charges scheduled for payment during the First 12-Month Disbursement Period from a Fully-Funded Life Expectancy Set-Aside. Mortgagees must use the actual insurance premium and actual tax amount.
- Property tax, flood and hazard insurance payments required by the mortgagee to be paid at loan closing;
- Other charges as authorized by the Secretary; and
- For adjustable interest rate HECMs:
    - The total amount of property charge payments scheduled for payment from the mortgagor authorized option as set forth in § 206.205 during the First 12-Month Disbursement Period; and
    - The total amount of semi-annual disbursements scheduled to be made during the First 12-Month Disbursement Period to the mortgagor from a Partially-Funded Life Expectancy Set-Aside.

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Mandatory Obligations for Purchase Transactions

Mandatory Obligations for HECM purchase transactions include:

- Initial MIP;
- Loan origination fee;
- HECM counseling fee;
- Reasonable and customary amounts, but not more than the amount actually paid by the mortgagee for any of the following items:
    - Recording fees and recording taxes, or other charges incident to the recordation of the insured mortgage;
    - Credit report;
    - Survey, if required by the mortgagee or the mortgagor;
    - Title examination;
    - Mortgagee's title insurance;
    - Fees paid to an appraiser for the initial appraisal of the property
- Delinquent Federal debt;
- Fees and charges for real estate purchase contracts, warranties, inspections, surveys, engineer certifications;
- The total amount of property tax and flood and hazard insurance charges scheduled for payment during the First 12-Month Disbursement Period from a Fully-Funded Life Expectancy Set-Aside. Mortgagees must use the actual insurance premium and actual tax amount;
- Property tax, flood and hazard insurance payments required by the Mortgagee to be paid at loan closing;
- The amount of the principal that is advanced towards the purchase price of the subject property;
- Other charges as authorized by the Secretary; and
- For adjustable interest rate HECMs:
    - The total amount of property charge payments scheduled for payment for the mortgagor authorized option as set forth in § 206.205 during the First 12-Month Disbursement Period; and
    - The total amount of semi-annual disbursements scheduled to be made during the First 12-Month Disbursement Period to the mortgagor from a Partially-Funded Life Expectancy Set-Aside.

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Disbursements Included in the First 12-Month Disbursement Period and Initial MIP Calculations

The following items must be included in the Initial Disbursement Limit, Borrower's Advance, and initial MIP calculations:

Adjustable Interest Rate HECMs

- The amount of Mandatory Obligations;
- The amount disbursed to the mortgagor made at loan closing; and
- The amount of the available Initial Disbursement Limit not taken by the mortgagor at loan closing.

Fixed Interest Rate HECMs

- The amount of Mandatory Obligations; and
- The amount disbursed to the mortgagor at loan closing.

For adjustable and fixed interest rate HECMs, the Servicing Fee Set-Aside is not included in the Initial Disbursement Limit, Borrower's Advance or the initial MIP calculation.

Mortgagee Letter 2014-21, MIP

Initial and Annual MIP Structure

HUD charges an initial MIP of 0.50 percent (0.50%) of the Maximum Claim Amount (MCA) when the mortgagor's Initial Disbursement Limit or the Borrower's Advance is 60% or less of the Principal Limit. HUD charges an initial MIP of 2.50 percent (2.50%) of the MCA when a mortgagor's Initial Disbursement Limit or the Borrower's Advance is greater than 60% of the available Principal Limit.

Where the mortgagor elects to take an Initial Disbursement Limit or Borrower's Advance of 60% or less and HUD charges an initial MIP of 0.50%, the sum of disbursements made during the First 12-Month Disbursement Period must not exceed 60% of the Principal Limit.

The mortgagee must calculate the initial MIP, which is to be remitted to HUD, based on the amount of funds the mortgagor has elected to be made available during the First 12-Month Disbursement Period.

The existing annual MIP rate for all HECMs is 1.25%.

Disbursements made During the First 12-Month Disbursement Period	Initial MIP	Annual MIP
Amounts of 60 % or less of the Principal Limit	0.50 Percent	1.25 Percent
Amounts greater than 60 % of the Principal Limit	2.50 Percent	1.25 Percent

Initial MIP Calculation for Refinance Transactions

For all refinance transactions, mortgagees and counselors must determine the amount of initial MIP due to HUD by calculating the initial MIP due on the new HECM and subtracting the initial MIP paid in connection with the existing HECM. If the result is positive, the amount must be remitted to HUD as the initial MIP on the refinance. No refunds will be given if the amount is negative.

Formula:
(1) New MCA multiplied by new initial MIP (%) = New MIP
(2) Old MCA multiplied by old initial MIP (%) = Old MIP
(3) Subtracting the result of (2) from the result of (1) yields the MIP amount owed to HUD

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Applicability of Initial MIP

The initial MIP changes are applicable to all interest rate indices and payment plan options.

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Mortgagee Letter 2014-21, Credit Standing and Financial Assessment

Overview – Credit Standing and Financial Assessment

An increasing number of tax and hazard insurance defaults by mortgagors led FHA to establish in Mortgagee Letter 2013-27 a requirement for a Financial Assessment of a potential mortgagor's financial capacity and willingness to comply with mortgage provisions. Mortgagee Letter 2013-28 provided mortgagees with a Guide for this Financial Assessment.

On September 12, 2013, HUD published in the Federal Register a Notice entitled, "Changes to the Home Equity Conversion Mortgage Program Requirements: Financial Assessments – Solicitation of Comment," (Docket No. FR-5735-N-01) requesting comments on the new Financial Assessment and funding requirements for the payment of property charges. After reviewing comments received in response to the publication of the Federal Register Notice, HUD has revised its requirements for the Financial Assessment and the funding requirements for the payment of property charges. Mortgagees must rely on the requirements in this Mortgagee Letter and Mortgagee Letter 2014-22, HECM Financial Assessment and Property Charge Requirements and its attachment for performing the Financial Assessment of all prospective mortgagors.

Effective for case numbers assigned on or after March 2, 2015, mortgagees must complete a Financial Assessment of all prospective mortgagors prior to loan approval, and must fully comply with the requirements set forth in Mortgagee Letter 2014-22 and the attached *HECM Financial Assessment and Property Charge Guide.*

Financial Assessment of Mortgagors for Adjustable and Fixed Interest Rate Mortgages

Mortgagees must rely on policy guidance in this Mortgagee Letter and refer to the revised *HECM Financial Assessment and Property Charge Guide* attached to Mortgagee Letter 2014-22, to complete the financial assessment required for prospective mortgagors. The revised *HECM Financial Assessment and Property Charge Guide* includes specific guidance on:

- performing the credit history/property charge payment history and cash flow/residual income analysis;
- documenting and verifying credit, income, assets and property charges;
- evaluating extenuating circumstances and compensating factors;
- evaluating the results of the Financial Assessment in determining eligibility for the HECM;
- determining whether a Life Expectancy Set-Aside will be required and whether the Set-Aside must be fully or partially funded; and
- completing a HECM Financial Assessment Worksheet.

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DE Underwriter Responsibility

The HECM Financial Assessment must be completed by a Direct Endorsement (DE) Underwriter registered in FHA Connection by the underwriting mortgagee. The mortgagee must document its assessment of required financial information on a financial worksheet that has been signed by the DE Underwriter.

Use of FHA's TOTAL Scorecard

The use of FHA's Total Scorecard for HECM Financial Fssessments is not permitted. The FHA TOTAL Scorecard is designed to evaluate the creditworthiness of Forward Mortgages only.

Property Analysis

Mortgagees must follow FHA established guidelines with regard to the property analysis for HECMs; including a determination of the need for any set asides to complete required repairs.

Credit History Analysis and Credit Report

Mortgagees must perform a credit history analysis, in accordance with FHA guidelines, for each prospective mortgagor to determine if the mortgagor has demonstrated the willingness to meet their financial obligations by analyzing each mortgagor's credit and property charge history.

FHA will permit mortgagees to order a credit report prior to the completion of HECM counseling if the mortgagee wishes to perform a preliminary credit review of the mortgagor's financing obligations. The preliminary credit review is not required and cannot take the place of the Financial Assessment required by this Mortgagee Letter.

Mortgagees may only collect the cost of the credit report at loan closing. If the HECM does not close, the mortgagor may not be charged.

Cash Flow/ Residual Income Analysis

Mortgagees must perform a cash flow/residual income analysis, in accordance with FHA guidelines, to determine the capacity of the mortgagor to meet his or her documented financial obligations with his or her documented income.

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Non-Discrimination in Performing Financial Assessments

The mortgagee must fully comply with all applicable provisions of:

- Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- The Fair Credit Reporting Act, Public Law 91-508;
- The Equal Credit Opportunity Act, Public Law 94-239; and
- 12 CFR Part 202.

The Financial Assessment must be conducted in a uniform manner that shall not discriminate because of race, color, religion, sex, age, national origin, familial status, disability, marital status, actual or perceived sexual orientation, gender identity, source of income of the mortgagor, or location of the property.

Mortgagee Letter 2014-21, Financial Assessment and Property Charge Funding Requirements

Overview – Financial Assessment and Property Charge Funding Requirements

This Mortgagee Letter updates the property charge funding options that may be required by the mortgagee based on the results of the Financial Assessment. Mortgagee Letter 2013-27 provided mortgagees with two options for the payment of property charges with HECM proceeds: a Life Expectancy Set-Aside required by the Mortgagee based on results of the Financial Assessment or a mortgagor authorization for payment of property charges from Term or Tenure payments or draws from the Line of Credit if a Life Expectancy Set-Aside is not required by the Mortgagee as a condition of loan approval.

This Mortgagee Letter streamlines this approach into a single Life Expectancy Set-Aside that may be fully-funded, partially-funded, or not required, depending upon the results of the Financial Assessment. A mortgagor not otherwise required to fund a Fully-Funded Life Expectancy Set-Aside may elect to fully-fund.

Definition of Property Charges

Property charges are obligations of the mortgagor and are defined as property taxes, hazard insurance premiums, any applicable flood insurance premiums, ground rents, condominium fees, planned unit development fees, homeowners' association fees, and any other special assessments that may be levied by Municipalities or State law.

Life Expectancy Set-Aside Determination and Calculations

Effective with case numbers assigned on or after March 2, 2015, a Life Expectancy Set-Aside for the payment of the following property charges: 1) property taxes including special assessments levied by Municipalities or State Law, 2) hazard insurance premiums, and 3) applicable flood insurance premiums is required for certain HECMs based on the Financial Assessment results.

The Fully-Funded Life Expectancy Set-Aside is available for both adjustable and fixed interest rate HECMs when required by the mortgagee based on the results of the Financial Assessment or if the mortgagee does not require a Life Expectancy Set-Aside and the mortgagor elects to have one. The Partially-Funded Life Expectancy Set-Aside is only available for an adjustable interest rate HECM when required by the mortgagee based on the results of the Financial Assessment.

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Life Expectancy Set-Aside Determination and Calculations (continued)

Calculating the Projected Cost of Property Charges
The projected cost of property charges that will be required over the life expectancy of the youngest mortgagor shall be calculated based on:

- The sum of the current property taxes and hazard and flood insurance premiums;
- A factor to reflect increases in tax and insurance rates;
- The HECM expected average mortgage interest rate; and
- The life expectancy of the youngest mortgagor.

Calculating the Fully-Funded Life Expectancy Set-Aside Amount
The amount withheld from the mortgage proceeds will equal the projected cost of current property taxes and hazard and flood insurance premiums as defined above.

Calculating the Partially-Funded Life Expectancy Set-Aside Amount
The amount withheld from the mortgage proceeds is based on a calculation of the gap in residual income and may not exceed the projected cost of property charges defined above.

In no event shall the mortgagee require any Life Expectancy Set-Aside to be funded in excess of the projected cost of the property charge amount.

Mortgagees must use the revised *HECM Financial Assessment and Property Charge Guide* to:

- Determine whether a Life Expectancy Set-Aside is required;
- View the formula for calculating the projected costs of property charges; and
- View the formulas for calculating the Fully and Partially-Funded Life Expectancy Set-Aside amounts.

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Voluntary Property Charge Funding Options - Adjustable

If the mortgagee does not require a Life Expectancy Set-Aside, a mortgagor who selects an adjustable interest rate HECM may:

- Elect to have a Fully-Funded Life Expectancy Set-Aside; or
- Elect to have the mortgagee pay such charges in accordance with existing requirements at §206.205; or
- Elect to be responsible for independent payment of all property charges.

Any voluntary election to have funds withheld by the mortgagee to pay property charges cannot be cancelled by the mortgagor.

Voluntary Property Charge Funding Options - Fixed

If the mortgagee does not require a Life Expectancy Set-Aside, a mortgagor with the fixed interest rate HECM may:

- Elect to have a Fully-Funded Life Expectancy Set-Aside; or
- Elect to be responsible for independent payment of all property charges.

Any voluntary election to have funds withheld by the mortgagee to pay property charges cannot be cancelled by the mortgagor.

Information to the Mortgagor

Fully-Funded Life Expectancy Set-Asides
For Fully-Funded Life Expectancy Set-Asides, mortgagees must inform the mortgagor of the following:

- Funds will be used to pay the taxing authority or insurance carrier directly;
- The mortgagee is responsible for making timely payments to the taxing authority or insurance carrier when funds are sufficient;
- The projected amount of funds required to cover the allowed property charges over the estimated life expectancy of the youngest mortgagor may be insufficient to cover property charges for the full length of that specified amount of time;
- No funds will be available during any applicable Deferral Period for an eligible Non-Borrowing Spouse;
- The mortgagor is responsible for the payment of all property charges over the life of the loan when funds are insufficient or the balance of the Set-Aside is zero; and

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Information to the Mortgagor (continued)

- Life Expectancy Set-Aside funds are exhausted or the annual analysis shows that the remaining funds will not be sufficient to pay the next year's allowed property charge payments and the mortgagor will be responsible for paying all future property charges.

Partially-Funded Life Expectancy Set-Asides
For Partially-Funded Life Expectancy Set-Asides, mortgagees must inform the mortgagor of the following:

- The mortgagor will receive semi-annual payments from the Set-Aside, which must be used to pay the taxing authority and/or insurance carrier;
- The mortgagor is responsible for making timely payments to the taxing authority and/or insurance carrier over the life of the loan;
- The projected amount of funds required to cover defined property charges over the estimated life expectancy of the youngest mortgagor and the income assumptions used to project semi-annual distributions to the mortgagor may be insufficient to cover property charges for the full length of that specified amount of time;
- No funds will be available during any applicable Deferral Period for an eligible Non-Borrowing Spouse;
- The mortgagor will no longer receive semi-annual payments and will continue to be responsible for the payment of all property charges over the life of the loan when funds are insufficient or the balance of the Set-Aside is zero; and
- Life Expectancy Set-Aside funds are exhausted or the annual analysis shows that the remaining funds will not be sufficient to pay the next year's semi-annual distributions.

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Mortgagee Responsibilities for the Life Expectancy Set-Aside

Fully-Funded Life Expectancy Set-Aside
When servicing HECMs for which property charges are paid through a Fully-Funded Life Expectancy Set-Aside, mortgagees are responsible for ensuring that:

- Payments are disbursed before bills become delinquent;
- Early payments are made to take advantage of a discount (whenever it is to the mortgagor's benefit);
- Life Expectancy Set-Aside funds are not held in an escrow account;
- Payments for property charges are added to the mortgage balance when the mortgagee disburses funds to the taxing authority, insurance carrier, or the mortgagor;
- The mortgagor is notified, in writing, within 15 calendar days of the annual analysis when remaining funds are exhausted or are not sufficient to pay the next year's property charge payments and the mortgagor will be responsible for paying the property charges.

If there are no funds or insufficient funds remaining in the Set-Aside, the mortgagee must ensure:

- The mortgagor is notified, in writing, within 30 days of the mortgagee receiving notification that a property charge payment is outstanding;
- Recommends the mortgagor speak with a HUD-Approved Housing Counselor; and
- HUD is informed within 30 days of the mortgagee receiving notification that a property charge payment is outstanding.

Partially-Funded Life Expectancy Set-Aside
When servicing HECMs for which funds are distributed to the mortgagor from a Partially-Funded Life Expectancy Set-Aside, mortgagees are responsible for ensuring that:

- Life Expectancy Set-Aside funds are disbursed to the mortgagor semi-annually;
- The taxing authority and/or insurance carrier received the mortgagor's payment;
- Life Expectancy Set-Aside funds are not held in an escrow account;
- Payments disbursed to the mortgagor for the payment of property charges are added to the mortgage balance when funds are disbursed by the mortgagee;

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Mortgagee Responsibilities for the Life Expectancy Set-Aside (continued)

- The mortgagor is notified, in writing, within 15 calendar days of the annual analysis when remaining funds are exhausted or are not sufficient to make the next semi-annual disbursement to the mortgagor and the mortgagor will be responsible for using their own funds from other sources to pay future property charges.

If there are no funds or insufficient funds remaining in the Set-Aside, the mortgagee must ensure:

- The mortgagor is notified, in writing, within 30 days of the mortgagee receiving notification that a property charge payment is outstanding;
- Recommends the mortgagor speak with a HUD-Approved Housing Counselor; and
- HUD is informed within 30 days of the mortgagee receiving notification that a property charge payment is outstanding.

Life Expectancy Set-Aside Annual Analysis

Mortgagees are responsible for performing an annual analysis of Life Expectancy Set-Asides to determine whether the funds are sufficient to make required distributions for the next year.

Where funds are exhausted or there is an insufficient balance determination, the mortgagee must notify the mortgagor, in writing, within 15 calendar days of the annual analysis of the determination that remaining funds are exhausted or insufficient. The mortgagor is responsible for future payment of property charges when the funds of a Fully-Funded Life Expectancy Set-Aside account are insufficient or no longer available. For Partially-Funded Life Expectancy Set-Aside accounts, the mortgagor continues to be responsible for paying property charges from other income sources.

The notice to the mortgagor shall include:

- The remaining Set-Aside balance; and
  - For adjustable interest rate HECMs, the remaining funds shall be transferred to a Line of Credit.
  - For fixed interest rate HECMs, the remaining funds shall not be disbursed to the mortgagor.

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Mortgagor Non-Payment of Property Charges – Fully-Funded Life Expectancy Set-Aside – Adjustable Rate HECMs

For adjustable interest rate HECMs, if the Fully-Funded Life Expectancy Set-Aside is exhausted and the mortgagor fails to make property charge payments:

The mortgagee must use the available Principal Limit to pay the outstanding property charge amount in full and charge the mortgagor's account.

In addition, within 30 days of the mortgagee receiving notification that a property charge payment is outstanding, the mortgagee must notify the mortgagor, in writing:

- Funds were advanced from the Principal Limit and no funds remain in the Set-Aside to cover future property charge payments;
- Provide a 30 day period for the mortgagor to respond to the mortgagee explaining the circumstances that led to the non-payment;
- Recommend the mortgagor speak with a HUD-Approved Housing Counselor to receive free assistance in exploring viable alternatives to comply with the terms of the mortgage; and
- Explain funds were disbursed from the Principal Limit, thus reducing the amount of HECM proceeds that will be available for future draws.

Mortgagor Non-Payment of Property Charges - Partially-Funded Life Expectancy Set-Aside

1. If a mortgagor with a Partially-Funded Life Expectancy Set-Aside fails to make property charge payments when due and funds remain in the Set-Aside, then the mortgagee must:

    - Immediately suspend future semi-annual payments to the mortgagor from the Partially-Funded Life Expectancy Set-Aside. Scheduled and unscheduled payments from the mortgagor's payment option may continue;
    - Disburse funds from the Partially-Funded Life Expectancy Set-Aside to pay the full amount owed for the past due property charge;
    - Within 30 days of the mortgagee receiving notification that a property charge payment is outstanding, notify the mortgagor, in writing, that funds were advanced from the Set-Aside to pay the outstanding property charge;
    - Provide a 30 day period for the mortgagor to respond to the mortgagee explaining the circumstances that led to the non-payment; and
    - Recommend the mortgagor speak with a HUD-Approved Housing Counselor to receive free assistance in exploring viable alternatives to comply with the terms of the mortgage.

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Mortgagor Non-Payment of Property Charges - Partially-Funded Life Expectancy Set-Aside (continued)

Based on the circumstances documented by the mortgagor, the mortgagee may either:

- Require the mortgagor to repay the full amount of funds advanced from the Partially-Funded Life Expectancy Set-Aside by the mortgagee to the taxing authority or/and insurance provider so that upon the mortgagee's receipt of reimbursed funds, the semi-annual Partially-Funded Life Expectancy Set-Aside payments to the mortgagor are restarted; or
- Continue the suspension of semi-annual payments to the mortgagor indefinitely and require the mortgagor to make future property charge payments. The remaining funds will then be used to pay future property charge payments in the event the mortgagor fails to make the payment.

2. If the Partially-Funded Life Expectancy Set-Aside is exhausted and the mortgagor fails to make property charge payments when due, then the mortgagee must use funds available in the Principal Limit to pay the outstanding property charge amount in full and charge the mortgagor's account.

   In addition, within 30 days of the mortgagee receiving notification that a property charge payment is outstanding, the mortgagee must notify the mortgagor, in writing:

   - Funds were advanced from the Principal Limit and no funds remain in the Set-Aside to cover future semi-annual payments;
   - Provide a 30 day period for the mortgagor to respond to the mortgagee explaining the circumstances that led to the non-payment;
   - Recommend the mortgagor speak with a HUD-Approved Housing Counselor to receive free assistance in exploring viable alternatives to comply with the terms of the mortgage; and
   - Explain funds were disbursed from the Principal Limit, thus reducing the amount of HECM proceeds that will be available for future draws.

Unused Life Expectancy Set-Aside Funds During a Deferral Period

During a Deferral Period, no funds of any kind may be disbursed, even if funds remain in a Life Expectancy Set-Aside.

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Unused Life Expectancy Set-Aside Funds upon Termination of the Loan

When the loan is due and payable, regardless of the mortgagor's payment plan, any funds that remain in a Life Expectancy Set-Aside shall not be disbursed to the mortgagor, estate, or non-borrowing spouse.

Assignment of Mortgage to the Secretary

If the insured first mortgage is assigned to the Secretary, or if payments are made through the second mortgage under the Demand Assignment process, the Secretary is not required to assume responsibility for property charge payments, but may continue to administer payments for property charges for mortgagors from any funds available in a Life Expectancy Set-Aside.

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Information Collection

The information collection requirements contained in this document are pending approval 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 2502-0059, 2502-0524 and 2502-0429. 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

Please address any questions about the topics addressed in this Mortgagee letter to the FHA Call Center at 1-800-CALLFHA. Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483). For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

Biniam Gebre
Acting Assistant Secretary for Housing-
Federal Housing Commissioner