

# **HECM FINANCIAL ASSESSMENT AND PROPERTY CHARGE GUIDE**

**EFFECTIVE FOR HECM CASE  
NUMBERS ISSUED ON OR AFTER**

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# Financial Assessment Overview

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## **1.1 Purpose of the Financial Assessment**

The mortgagee must evaluate the mortgagor's willingness and capacity to timely meet his or her financial obligations and to comply with the mortgage requirements.

In conducting this financial assessment, mortgagees must take into consideration that some mortgagors seek a HECM due to financial difficulties, which may be reflected in the mortgagor's credit report and/or property charge payment history. The mortgagee must also consider to what extent the proceeds of the HECM could provide a solution to any such financial difficulties.

---

## **1.2 Documentation of Financial Assessment**

Mortgagees must include in the origination case binder documentation for the information used to conduct the financial assessment. The information must be filed on the right-hand side of the case binder behind the Form HUD-92900-A, *HUD/VA Addendum to the Uniform Residential Loan Application*.

Unless stated otherwise, Days in this Guide refer to calendar days.

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## **1.3 Loan Application Information**

All required information on income, expenses, assets and liabilities is not captured on Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages*. Mortgagees must capture additional required information using Part VI of Fannie Mae Form 1003, *Universal Residential Loan Application*, or through an alternative form developed to capture the same information. Mortgagees must ensure that the mortgagor certifies to the accuracy and completeness of the financial information provided, regardless of the form used.

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## **1.4 DE Underwriter Responsibility**

A Direct Endorsement (DE) underwriter registered in FHA Connection by the underwriting mortgagee may complete the financial assessment. The mortgagee must document its assessment of required financial information on a financial assessment worksheet that has been signed by the DE Underwriter. The Mortgagee must place this worksheet on the right-hand side of the HECM endorsement case binder directly after the request for late endorsement (if applicable). A model worksheet is provided in Appendix 1 of this Guide.

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## Financial Assessment Overview, Continued

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### **1.5 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.

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### **1.6 FHA's TOTAL Scorecard**

Mortgagees may not use FHA's Technology Open To Approved Lenders (TOTAL) Scorecard for HECMs.

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### **1.7 Mortgagor Authorization for Verification Information**

The mortgagee must obtain the mortgagor's authorization to verify the information needed to perform the financial assessment. The mortgagee must obtain a Non-Borrowing Spouse's or Other Non-Borrowing Household Member's authorization where necessary to verify specific information required to perform the financial assessment. The mortgagor's and Non-Borrowing Spouse's or Other Non-Borrowing Household Member's authorization may be accomplished through a blanket authorization form.

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### **1.8 Mortgagor Consent for Social Security Administration to Verify Social Security Number**

The mortgagee must obtain the mortgagor's signature on Part IV of Form HUD-92900-A to verify the mortgagor's Social Security number with the Social Security Administration (SSA).

The mortgagee must obtain the Non-Borrowing Spouse's signature on Part IV of Form HUD-92900-A to verify the Non-Borrowing Spouse's Social Security number with the SSA where necessary to verify specific information required to perform the financial assessment.

---

### **1.9 Tax Verification Form or Equivalent**

The mortgagee must obtain the mortgagor's signature on the appropriate Internal Revenue Service (IRS) form to obtain tax returns directly from the IRS for all mortgagors at the time the Final Fannie Mae Form 1009 is executed.

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## Financial Assessment Overview, Continued

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### **1.10 Handling of Documents**

Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of mortgagors that have been handled by, or transmitted from or through, the equipment of unknown parties or Interested Third Parties. Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through, any Interested Third Party or the mortgagor.

#### *Information Sent to the Mortgagee Electronically*

The mortgagee must authenticate all documents received electronically by examining the source identifiers (e.g., fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. The mortgagee must document the name and telephone number of the individual with whom the mortgagee verified the validity of the document.

#### *Information Obtained via Internet*

The mortgagee must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the uniform resource locator (URL) address, as well as the date and time the documents were printed. The mortgagee must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the mortgagee's visit to the URL and website.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

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### **1.11 Maximum Age of Mortgage Application Documents**

Documents used in the financial assessment may not be more than 120 Days old at the Disbursement Date. Documents whose validity for financial assessment purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting days for periods provided in this Guide, Day one is the Day after the effective or issue date of the document, whichever is later.

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## Financial Assessment Overview, Continued

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### **1.12 Appraisal Validity**

The 120 Day validity period for an appraisal may be extended for 30 Days at the option of the mortgagee if (1) the mortgagee approved the mortgagor or HUD issued the firm commitment before the expiration of the original appraisal; or (2) the mortgagor signed a valid sales contract prior to the expiration date of the appraisal.

An appraisal update must be performed before the initial appraisal, with no extension, has expired. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of 240 Days after the effective date of the original appraisal report that is being updated.

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# Credit History and Property Charge Payment History Analysis

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## 2.1 Credit History Analysis

The mortgagee must determine if the mortgagor has demonstrated the willingness to timely meet his or her financial obligations by analyzing the mortgagor's credit and property charge payment history.

Mortgagees must pay particular attention to situations where serious derogatory credit such as foreclosures, defaults, late mortgage payments and late property charge payments are on the mortgagor's record. Absent documented extenuating circumstances, serious derogatory credit under such circumstances must be viewed as especially significant events that call into question the ability of the mortgagor to manage his or her financial obligations.

---

## 2.2 General Credit Requirements

FHA's general financial assessment policy requires mortgagees to analyze the mortgagor's credit history, liabilities, and debts to determine the willingness of the mortgagor to meet his or her financial obligations.

The mortgagee must either obtain a tri-merged credit report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

The mortgagee must obtain a credit report for each mortgagor who will be obligated on the mortgage note. The mortgagee may obtain a joint report for individuals with joint accounts. The mortgagee must only obtain a credit report for a Non-Borrowing Spouse or Other Non-Borrowing Household Member where his or her income will be used as a compensating factor or to reduce family size when calculating residual income.

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## 2.3 Types of Credit History

If a traditional credit report is available, the mortgagee must use a traditional credit report. However, if a traditional credit report is not available, and the mortgagor is applying for a **HECM for purchase**, the mortgagee must develop the mortgagor's credit history using the requirements for non-traditional credit.

Mortgagees are not required to develop non-traditional credit for mortgagors seeking a **traditional or refinance HECM**. The mortgagor may be deemed to have an acceptable credit history.

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## Credit History and Property Charge Payment History Analysis, Continued

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### 2.4 Traditional Credit History – Credit Report Requirements

If the TRMCR or RMCR generates a credit score, the mortgagee must utilize traditional credit history.

Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format, and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The mortgagee must retain copies of all credit reports.

The credit report must include:

- name of the mortgagee ordering the report;
- name, address, and telephone number of the consumer-reporting agency;
- name and SSN of each mortgagor; and
- primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full 9-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding:
  - bankruptcies;
  - judgments;
  - lawsuits;
  - foreclosures;
  - tax liens; and
- for each mortgagor debt listed, the:
  - date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

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## Credit History and Property Charge Payment History Analysis, Continued

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**2.5  
Traditional  
Credit History -  
Updated Credit  
Report or  
Supplement to  
the Credit  
Report**

The mortgagee must obtain an updated credit report or supplement if the mortgagee identifies inconsistencies between any information in the mortgage file and the original credit report.

---

**2.6  
Traditional  
Credit History -  
Credit  
Information not  
Listed on  
Credit Report**

A mortgagee must develop credit information separately for any open debt listed on the mortgage application or equivalent but not referenced in the credit report by using the procedures for Independent Verification of Non-Traditional Credit History provided in Section 2.10.

---

**2.7  
Traditional  
Credit History -  
Specific  
Requirements  
for Residential  
Mortgage  
Credit Report**

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the mortgagor's employment history;
- verify each mortgagor's current employment and income through an interview with the mortgagor's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each mortgagor and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

---

**2.8  
HECM for  
Purchase Only  
Non-  
Traditional  
Credit History**

For mortgagors without a credit score, the mortgagee must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the mortgagor's credit history using the requirements outlined in Section 2.10.

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# Credit History and Property Charge Payment History Analysis, Continued

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## **2.9** **HECM for** **Purchase Only** **Non-** **Traditional** **Credit – Non-** **Traditional** **Mortgage** **Credit Report** **Requirements**

A Non-Traditional Mortgage Credit Report (NTMCR) is designed to access the credit history of a mortgagor who does not have the types of trade references that appear on a traditional credit report and used either as:

- a substitute for a TRMCR or an RMCR; or
- a supplement to a traditional credit report that has an insufficient number of trade items reported.

Mortgagees may use a NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the mortgagor; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as “satisfactory” or “acceptable,” must be formatted in a similar fashion to traditional references, and provide:

- creditor’s name;
- date of opening;
- high credit;
- current status of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

---

## **2.10** **HECM for** **Purchase Only** **Independent** **Verification of** **Non-** **Traditional** **Credit** **Providers**

The mortgagee may independently verify the mortgagor’s credit references by documenting the existence of the credit provider and that the provider extended credit to the mortgagor.

To verify the existence of each credit provider, the mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.

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# Credit History and Property Charge Payment History Analysis, Continued

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## **2.10** **HECM for** **Purchase Only** **Independent** **Verification of** **Non-** **Traditional** **Credit** **Providers** (continued)

To verify credit information, the mortgagee must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the mortgagor; and
- obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the mortgagor's rental payment history, the mortgagee must obtain a rental reference from the appropriate rental management company, provided the mortgagor is not renting from a family member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.

---

## **2.11** **HECM for** **Purchase Only** **Sufficiency of** **Credit** **References**

To be sufficient to establish the mortgagor's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the mortgagor is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - Internet service.

If the mortgagee cannot obtain all three credit references from the list above, the mortgagee may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
  - payment to child care providers made to businesses that provide such services;
  - school tuition;
- 

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## Credit History and Property Charge Payment History Analysis, Continued

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### 2.11 HECM for Purchase Only Sufficiency of Credit References (continued)

- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
  - rent-to-own (for example, furniture, appliances);
  - payment of that part of medical bills not covered by insurance;
  - a documented 12 month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
    - were made at least quarterly;
    - were not payroll deducted; and
    - caused no insufficient funds (NSF) checks;
  - automobile lease; or
  - a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments.
- 

### 2.12 Evaluating Credit History - General

The mortgagee must examine the mortgagor's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the mortgagor's ability to manage their financial obligations.

The mortgagee must not consider the credit history of a Non-Borrowing Spouse or Other Non-Borrowing Household Member.

---

### 2.13 Types of Payment Histories

The mortgagee must evaluate the mortgagor's payment histories in the following order: (1) current or previous mortgage debt and housing-related expenses; (2) installment debts; and (3) revolving accounts.

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### 2.14 Payment History on Housing Obligations

The mortgagee must determine the mortgagor's housing obligation payment history through:

- the credit report;
  - verification of rent received directly from the landlord (for landlords with no identity-of-interest with the mortgagor);
  - verification of mortgage received directly from the mortgage servicer; or
  - a review of canceled checks that cover the most recent 12-month period.
- 

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## Credit History and Property Charge Payment History Analysis, Continued

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### 2.14 Payment History on Housing Obligations (continued)

The mortgagee must verify and document the previous 12 months' housing history. For mortgagors who indicate they are living mortgage or rent-free, the mortgagee must obtain verification through the title report or other information, or if they are not the owner, from the property owner where they are residing, that the mortgagor has been living rent-free and the amount of time the mortgagor has been living rent free.

A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

---

### 2.15 Satisfactory Credit

The mortgagee may consider the mortgagor to have satisfactory credit if:

- the mortgagor has made all housing and installment debt payments on-time for the previous 12 months and no more than two 30-day late mortgage or installment payments in the previous 24 months; and
- the mortgagor has no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory credit on revolving accounts shall include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

---

### 2.16 Credit Requiring Additional Analysis

If a mortgagor's credit history does not reflect satisfactory credit as stated above, the mortgagor's payment history requires additional analysis.

The mortgagee must analyze the mortgagor's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

Where the mortgagor has not demonstrated the willingness to meet his or her financial obligations as stated above and no extenuating circumstances can be documented, the mortgagee must require a fully funded Life Expectancy Set-Aside. See Sections 5.4 and 5.9 of this Guide.

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## Credit History and Property Charge Payment History Analysis, Continued

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### 2.17 Collection Accounts

A collection account is a mortgagor's loan or debt that has been submitted to a collection agency through a creditor.

The mortgagee must determine if collection accounts were a result of:

- the mortgagor's disregard for financial obligations;
- the mortgagor's inability to manage debt; or
- extenuating circumstances.

The mortgagee must document reasons for approving a mortgagor for a HECM when the mortgagor has any collection accounts.

The mortgagor must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

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### 2.18 Charge Off Accounts

A Charge Off Account refers to a mortgagor's loan or debt that has been written off by the creditor.

The mortgagee must determine if charge off accounts were a result of:

- the mortgagor's disregard for financial obligations;
- the mortgagor's inability to manage debt; or
- extenuating circumstances.

The mortgagee must document reasons for approving a mortgagor for a HECM when the mortgagor has any charge off accounts.

The mortgagor must provide a letter of explanation, which is supported by documentation, for each outstanding charge off account. The explanation and supporting documentation must be consistent with other credit information in the file.

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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.19 Disputed Derogatory Credit Accounts

Disputed Derogatory Credit Account refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

The mortgagee must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the financial assessment.

The following items need not be considered by the mortgagee:

- Disputed medical accounts, and
- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

If the credit report indicates that the mortgagor is disputing derogatory credit accounts, the mortgagor must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

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### 2.20 Judgments

Judgment refers to any debt or monetary liability of the mortgagor created by a court, or other adjudicating body. The mortgagee must verify that court-ordered judgments are resolved or paid off prior to or at closing.

Regardless of the amount of outstanding judgments, the mortgagee must determine if the judgment was a result of

- the mortgagor's disregard for financial obligations;
- the mortgagor's inability to manage debt; or
- extenuating circumstances.

A judgment is considered resolved if the mortgagor has entered into a valid agreement with the creditor to make regular payments on the debt, the mortgagor has made timely payments for at least three months of scheduled payments and the judgment will not supersede the FHA-insured mortgage lien

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*Continued on next page*



## Credit History and Property Charge Payment History Analysis, Continued

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### 2.20 Judgments (continued)

The mortgagor cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The mortgagee must include the agreed payment amount in the mortgagor's expenses when calculating residual income.

The mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

The mortgagee must provide the following documentation:

- Evidence of payment in full, if paid prior to settlement; or
- Payoff statement, if paid at settlement; or
- Payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

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### 2.21 Delinquent Federal Non- Tax Debt

Mortgagees are prohibited from processing an application for an FHA-insured mortgage for mortgagors with delinquent federal non-tax debt. Mortgagees are required to determine whether the mortgagors have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent federal debts from public records, credit reports or equivalent, and must check all mortgagors against the Credit Alert Verification Reporting System (CAIVRS).

If a delinquent federal debt is reflected in a public record, credit report or equivalent, CAIVRS or an equivalent system, the mortgagee must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the mortgagor is ineligible for an FHA-insured mortgage until the mortgagor resolves the debt with the creditor agency.

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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.21 Delinquent Federal Non- Tax Debt (continued)

The mortgagee may not find a mortgagor ineligible solely on the basis of CAIVRS information that has not been verified by the mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the mortgagee may continue to process the mortgage application.

In order for a mortgagor with verified delinquent federal debt to become eligible, the mortgagor must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act. The mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

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### 2.22 Delinquent FHA-Insured Mortgages

If the mortgagor is currently delinquent on an FHA-insured mortgage on their principal residence, and the HECM will pay off the delinquent mortgage, the mortgagor may be eligible provided they meet all other HECM requirements.

If the mortgagor is currently delinquent on other FHA-insured mortgages associated with investment properties, they are ineligible for a new FHA-insured mortgage unless the delinquency is resolved.

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### 2.23 Delinquent Federal tax Debt

Mortgagors with delinquent federal tax debt are ineligible.

Tax liens may remain unpaid if the mortgagor has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the mortgagor has made timely payments for at least three months of scheduled payments. The mortgagor cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The mortgagee must include the agreed payment amount in the mortgagor's expenses when calculating residual income.

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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.23 Delinquent Federal tax Debt (continued)

Mortgagees must check public records and credit information to verify that the mortgagor is not presently delinquent on any Federal Debt and does not have a tax lien placed against their property for a debt owed to the federal government.

The mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

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### 2.24 HECM for Purchase Only Chapter 7 Bankruptcy

A Chapter 7 bankruptcy (liquidation) does not disqualify a mortgagor from consideration for a HECM for purchase if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time, the mortgagor must have:

- re-established good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the mortgagor:

- can show that the bankruptcy was caused by extenuating circumstances beyond the mortgagor's control; and
- has since exhibited a documented ability to manage his or her financial affairs in a responsible manner.

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.

The mortgagee must also document that the mortgagor's current situation indicates that the events which led to the bankruptcy are not likely to recur.

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### 2.25 HECM for Purchase Only Chapter 13 Bankruptcy

A Chapter 13 bankruptcy does not disqualify a mortgagor from consideration for a HECM for purchase, if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.

The mortgagee must determine that during this time, the mortgagor's payment performance has been satisfactory and all required payments have been made on time; and the mortgagor has received written permission from bankruptcy court to enter into the mortgage transaction.

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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.25 Chapter 13 Bankruptcy (continued)

The mortgagee must include the payment amount in the court-approved payment plan in the mortgagor's expenses when calculating residual income.

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.

The mortgagee must also document that the mortgagor's current situation indicates that the events that led to the bankruptcy are not likely to recur.

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### 2.26 Definition of Property Charges

Property charges include:

- all property taxes – school, city, county, state, etc.
    - Where a taxing authority has permanently waived or otherwise permanently exempted the mortgagor from payment of property taxes, i.e., taxes are not due and payable and do not accrue or result in a lien against the property, such taxes may be excluded from the financial assessment. Documentation for the waiver or exemption must be placed in the case binder.
    - Where a taxing authority has deferred the payment of property taxes, i.e., liability for taxes remains, but payment is deferred until a certain point in the future, such taxes may be excluded from the financial assessment provided:
      - that the deferral period will be in place until the death of the mortgagor or the sale of the property, whichever occurs first;
      - that a lien senior to the HECM first and second mortgages will not be created upon the termination of the deferral period; and
      - documentation on the deferral is placed in the case binder.
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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.26 Definition of Property Charges (continued)

- the mortgagor shall not participate in a real estate tax deferral program or permit any liens to be recorded against the property, unless such liens are subordinate to the insured mortgage and any second mortgage held by the Secretary;
  - homeowners/hazard insurance and flood insurance;
  - homeowners association (HOA), condominium and planned unit development (PUD) fees;
  - ground rents; and
  - other assessments levied by municipalities or under State law.
- 

### 2.27 Property Charge Payment History

The mortgagee may consider the mortgagor to have a satisfactory property charge payment history where, at the time of loan application:

- All property charges are current and there are no property tax arrearages in the prior 24 months;
- Homeowners/hazard insurance and, if applicable, flood insurance, were current and were in place for a minimum of the prior 12 months. If the mortgagor did not have homeowner's and flood insurance, mortgagors must obtain and prepay for 12 months at loan closing; and all HOA, condominium, or PUD fees are current and there were no arrearages in the prior 24 months.

The mortgagee must determine and document the reason for any late payments, e.g., disregard for financial obligations, an inability to manage debt, or if there were extenuating circumstances.

Mortgagees must also assess the mortgagor's direct experience paying taxes and insurance, rather than relying upon a lender administering an escrow account to make these payments. Situations where mortgagors have a proven history of personal responsibility for maintaining property taxes and insurance may be a factor in determining that a Life Expectancy Set-Aside is not required. Lack of experience in managing payment of taxes and insurance combined with other risk factors, may support requiring a Life Expectancy Set-Aside.

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*Continued on next page*

## Credit History and Property Charge Payment History Analysis, Continued

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### 2.28 Definition of Property Charges

Mortgagees must verify and document the payment of property charges in accordance with the following:

- Property taxes. Mortgagees must document that property taxes from all taxing authorities meet payment history criteria as described in Section 2.28 through written statements or on-line print-outs from the taxing authorities, or through copies of bills and canceled checks.
  - Homeowners/hazard insurance. If a homeowners/hazard insurance policy was in place, mortgagees must obtain the current year's insurance policy's declaration sheet.
  - Flood insurance. If flood insurance is required and was in place, mortgagees must obtain the current year's insurance policy's declaration sheet.
  - HOA, PUD and condominium fees. Mortgagees must obtain from the party levying the fees or its management agent a written statement documenting payments, or copies of bills and canceled checks.
  - Other assessments. Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting payments, or copies of bills and canceled checks.
  - Ground rents. Mortgagees must obtain from the lessor or its management agent a written statement documenting payments, or copies of bills and canceled checks.
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## Cash Flow/Residual Income Analysis

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**3.1 Purpose of the Cash Flow/Residual Income Analysis** The purpose of the cash flow/residual income analysis is 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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**3.2 Effect of Paying Off Delinquent or Defaulted Mortgages on Cash Flow/Residual Income** If the HECM is being used to pay off a delinquent mortgage or a mortgage in default, mortgagees must evaluate the circumstances leading to the delinquency or default, and determine whether the HECM pay-off represents a sustainable solution.

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**3.3 Mortgagor Income** Income from any, or all, of the sources described in Chapter 3 must be calculated and documented for all mortgagors to the extent necessary to determine that the mortgagor has residual income equal to, or exceeding, the required amount based on geographic region and family size. See Table of Residual Income in Section 3.100.

If the mortgagee can determine that the mortgagor's residual income is sufficient based on documentation for one or more specific sources, it need not pursue additional documentation for additional sources of income.

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**3.4 General Income Requirements** Effective Income refers to income that may be used in the calculation of residual income. Effective income must be reasonably likely to continue through at least the first three years of the mortgage. The mortgagee must document the mortgagor's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as effective income in accordance with the requirements listed below.

The mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the mortgagor's tax returns.

Negative income must be subtracted from the mortgagor's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.5 Income from a Non-Borrowing Spouse**

A “Non-Borrowing Spouse” is defined as the spouse, as determined by the law of the state in which the spouse and mortgagor reside or the state of celebration, of the HECM mortgagor at the time of closing and who also is not a mortgagor. Non-Borrowing Spouses may not be required to provide information on income.

A Non-Borrowing Spouse may voluntarily provide information on his or her income and mortgagees may use the residual income of the Non-Borrowing Spouse in one of two ways:

- as a compensating factor; or
- to reduce the family size by one (see Table of Residual Income in Section 3.100 of this Guide).

To be used as a compensating factor or to reduce family size, the Non-Borrowing Spouse must disclose and have his or her SSN verified and must meet the same documentation and verification standards as required for the mortgagor’s income. Non-taxable income may not be grossed up, and imputed income from dissipated assets may not be included.

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### **3.6 Income from Other Non- Borrowing Household Members**

“Other Non-Borrowing Household Member” is defined as a person who occupies the property to be secured with the HECM, who is not the spouse of the mortgagor and who also is not a mortgagor. An Other Non-Borrowing Household Member may voluntarily provide information on his or her income and mortgagees may use his or her residual income to reduce the family size. See Table of Residual Income in Section 3.100 of this Guide.

To be used to reduce family size, the Other Non-Borrowing Household Member must disclose and have his or her SSN verified and must meet the same documentation and verification standards as required for the mortgagor’s income. Non-taxable income may not be grossed up, and imputed income from dissipated assets may not be included.

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*Continued on next page*



## Cash Flow/Residual Income Analysis, Continued

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**3.7  
Grossing Up  
Non-Taxable  
Income**

The cash flow/residual income analysis will take into account Federal taxes. If no Federal taxes are paid on some or all of a mortgagor's income, it will be reflected in the expense analysis for residual income. Non-taxable income therefore, may not be "grossed up."

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**3.8  
Employment-  
Related Income  
- General**

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2. The mortgagee may use employment related income as effective income in accordance with the standards provided for each type of employment related income.

For all employment related income, the mortgagee must verify the mortgagor's most recent two years of employment and income, and document using one of the methods below.

In assessing employment income mortgagees must recognize that many mortgagors may have primary employment of less than 40 hours per week, or may have recently returned to the workforce following retirement.

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**3.9  
Traditional  
Current  
Employment  
Documentation**

The mortgagee must obtain the most recent pay stubs covering a minimum of 30 consecutive days that show the mortgagor's year-to-date earnings, and one of the following to verify current employment:

- a written Verification of Employment (VOE) covering two years; or
- an electronic verification acceptable to FHA.

Re-verification of employment must be completed within 10 Days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.

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**3.10  
Alternative  
Current  
Employment  
Documentation**

If using alternative documentation, the mortgagee must:

- obtain copies of the pay stubs covering the most recent 30 consecutive day period (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) that show the mortgagor's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### 3.10

#### Alternative Current Employment Documentation (continued)

- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.

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### 3.11

#### Past Employment Documentation

Direct verification of the mortgagor's employment history for the previous two years is not required if all of the following conditions are met:

- the current employer confirms a two year employment history, or a paystub reflects a hiring date;
- only base pay is used in calculating effective income (no overtime or bonuses); and
- the mortgagor executes IRS Form 4506, *Request for Copy of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.

If the mortgagor has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the mortgagor's employment history:

- W-2(s);
  - VOE(s);
  - electronic verification acceptable to FHA; or
  - evidence supporting enrollment in school or the military during the most recent two full years.
- 

### 3.12

#### Calculation of Effective Income - Salary

For employees who are salaried and whose income has been and will likely be consistently earned, the mortgagee must use the current salary to calculate effective income.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.13 Calculation of Effective Income - Hourly**

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the mortgagor's current hourly rate to calculate effective income.

For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

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### **3.14 Part-Time Income**

Part-Time Employment refers to employment that is not the mortgagor's primary employment and is generally performed for less than 40 hours per week. The mortgagee may use part-time income as effective income if the mortgagor has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

The mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use a 12-month average of hours at the current pay rate.

---

### **3.15 Overtime and Bonus Income**

Overtime and Bonus Income refers to income that the mortgagor receives in addition to the mortgagor's normal salary. The mortgagee may use overtime and bonus income as effective income if the mortgagor has received this income for the past two years and it is reasonably likely to continue.

Periods of overtime and bonus income less than two years may be considered effective income if the mortgagee documents that the overtime and bonus income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

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### **3.16 Calculating Overtime and Bonus income**

For employees with bonus or overtime income, the mortgagee must average the income earned over the previous two years to calculate effective income. However, if the overtime or bonus income from the current year decreases by 20 percent or more from the previous year, the mortgagee must use the current year's income.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.17 Seasonal Income**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the mortgagor works on the job. The mortgagee may consider seasonal employment as effective income if the mortgagor has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The mortgagee may consider unemployment income as effective income for those with effective seasonal employment income.

For seasonal employees with unemployment income, the mortgagee must document the unemployment income for 2 full years and there must be reasonable assurance that this income will continue.

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### **3.18 Calculating Seasonal Income**

For employees with seasonal income, the mortgagee must average the income earned over the previous two full years to calculate effective income.

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### **3.19 Employer Housing Subsidy**

Employer Housing Subsidy refers to employer provided housing assistance. The mortgagee may utilize employer housing subsidy as effective income.

The mortgagee must verify and document the existence and the amount of the housing subsidy.

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### **3.20 Calculating Employer Housing Subsidy Income**

For employees receiving an employer housing subsidy, the mortgagee may add the employer housing subsidy to the total effective income.

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### **3.21 Income from Employment with Family- Owned Business**

Family-Owned Business Income refers to income earned from a business owned by the mortgagor's family, but in which the mortgagor is not an owner.

The mortgagee may consider family-owned business income as effective income if the mortgagor is not an owner in the family-owned business.

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## Cash Flow/Residual Income Analysis, Continued

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### 3.21 Income from Employment with Family- Owned Business (continued)

The mortgagee must verify and document that the mortgagor is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1 (IRS Form 1065), or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the mortgagee must obtain copies of signed personal tax returns or tax transcripts.

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### 3.22 Calculating Income from Employment with Family- Owned Business

#### *Salary*

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the mortgagee must use the current salary to calculate effective income.

#### *Hourly*

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the mortgagor's current hourly rate to calculate effective income.

For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

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### 3.23 Commission Income

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

The mortgagee may use commission income as effective income if the mortgagor earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

For commission income less than or equal to 25 percent of the mortgagor's total earnings, the mortgagee must use traditional or alternative employment documentation.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.23 Commission Income** (continued)

For commission income greater than 25 percent of the mortgagor's total earnings, the mortgagee must obtain signed tax returns including all applicable schedules, for the last two years. In lieu of signed tax returns from the borrower, the mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

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### **3.24 Calculating Commission Income**

The mortgagee must calculate effective income for commission by using the lesser of (a) the average net commission income earned over the previous two years, or the length of time commission income has been earned if less than two years; or (b) the average net commission income earned over the previous one year. The mortgagee must calculate net commission income by subtracting the unreimbursed business expenses from the gross commission income.

The mortgagee must reduce the effective income by the amount of any unreimbursed employee business expenses, as shown on the mortgagor's Schedule A.

---

### **3.25 Self- Employment Income**

Self-Employment Income refers to income generated by a business in which the mortgagor has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships,
- corporations,
- limited liability or "S" corporations, and
- partnerships.

The mortgagee may consider self-employed mortgagor income if the mortgagor has been self-employed for at least two years.

If the mortgagor has been self-employed between one and two years, the mortgagee may only consider the income as effective income if the mortgagor was previously employed in the same line of work in which the mortgagor is self-employed or in a related occupation for at least two years.

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## Cash Flow/Residual Income Analysis, Continued

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**3.25**  
**Self-**  
**Employment**  
**Income**  
(continued)

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in effective income over the analysis period, the mortgagee must document that the business income is now stable.

A mortgagee may consider income as stable after a 20 percent reduction if the mortgagee can document the reduction in income was the result of an extenuating circumstance, and the mortgagor can demonstrate the income has been stable or increasing for a minimum of 12 months.

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**3.26**  
**Required**  
**Documentation**  
**for Self-**  
**Employed**  
**Income**

The mortgagee must obtain complete federal income tax returns, including all schedules.

In lieu of signed individual or business tax returns from the mortgagor, the mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

The mortgagee must obtain a year-to-date profit and loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the mortgagor. A balance sheet is not required for self-employed mortgagors filing Schedule C income.

If income used to calculate residual income exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return obtained from IRS is required.

The mortgagee must obtain a business credit report for all corporations and “S” corporations.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.27 Calculating Self-Employed Income**

The mortgagee must analyze the mortgagor's tax returns to determine gross self-employment income.

The mortgagee must calculate gross self-employment income by using the lesser of:

- the average gross self-employment income earned over the previous two years; or
  - the average gross self-employment income earned over the previous one year.
- 

### **3.28 Frequent Changes in Employment**

If the mortgagor has changed jobs more than three times in the previous 12-month period, or has changed lines of work, the mortgagee must take additional steps to verify and document the stability of the mortgagor's employment income. The mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
  - employment documentation evidencing continual increases in income and/or benefits.
- 

### **3.29 Gaps in Employment**

For mortgagors with gaps in employment of six months or more (an extended absence), the mortgagee may consider the mortgagor's current income as effective income if it can verify and document that:

- the mortgagor has been employed in the current job for at least six months at the time of case number assignment; and
  - a two year work history prior to the absence from employment using standard or alternative employment verification.
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## Cash Flow/Residual Income Analysis, Continued

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### **3.30 Temporary Reductions in Income**

For mortgagors with a temporary reduction of income due to a short-term disability or similar circumstance, the mortgagee may consider the mortgagor's current income as effective income, if it can verify and document that:

- the mortgagor intends to return to work;
  - the mortgagor has the right to return to work; and
  - the mortgagor can meet their financial obligations taking into account any reduction of income due to the circumstance.
- 

### **3.31 Non- Employment Sources of Income**

The mortgagee must verify and document any income used in the cash flow/residual income from the following sources:

- rental income;
  - disability benefits;
  - pension/retirement benefits (based on period of continuance);
  - annuity income;
  - Department of Veterans Affairs (VA) Benefits;
  - Social Security, disability, workman's compensation, public assistance; and
  - interest, dividend and trust income.
- 

### **3.32 Disability Benefits**

Disability benefits refer to benefits received from the SSA, Department of Veterans Affairs (VA), or a private disability insurance provider.

The mortgagee must verify and document the mortgagor's receipt of benefits from the SSA, VA, or private disability insurance provider. The mortgagee must obtain:

- a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the mortgagor's eligibility for disability benefits; or
  - equivalent documentation that establishes award benefits to the mortgagor.
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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.32**  
**Disability**  
**Benefits**  
(continued)

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as effective income. If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee may consider the income effective and reasonably likely to continue. The mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the mortgagor.

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**3.33**  
**Social Security**  
**Disability**  
**Benefits**

For Social Security Disability income, including Supplemental Security Income (SSI), the mortgagee must obtain one of the following documents:

- federal tax returns;
  - the most recent bank statement evidencing receipt of income from the SSA;
  - a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
  - a copy of the mortgagor’s Social Security Benefit Statement, Form SSA-1099/1042S.
- 

**3.34**  
**Veterans**  
**Affairs**  
**Disability**  
**Benefits**

For VA disability benefits, the mortgagee must obtain VA Form 26-8937, Verification of VA Benefits, showing the amount of the assistance and the expiration date of the benefits, if any.

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**3.35**  
**Private**  
**Disability**  
**Benefits**

For private disability benefits, the mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.

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**3.36**  
**Calculating**  
**Disability**  
**Income**

The mortgagee must use the most recent amount of benefits received to calculate effective income.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.37 Alimony, Child Support, Maintenance Income**

Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the mortgagor's minor dependent.

The mortgagee must obtain a fully executed copy of the mortgagor's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the mortgagee must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The mortgagee must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

The mortgagee must provide evidence that the claimed income will continue for at least three years. The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

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### **3.38 Calculating Alimony, Child Support, Maintenance Income**

When using a final divorce decree, legal separation agreement or court order, if the mortgagor has received consistent alimony, child support or other maintenance payments for the most recent three months, the mortgagee may use the current payment to calculate effective income.

When using evidence of voluntary payments, if the mortgagor has received consistent alimony, child support or other maintenance payments for the most recent six months, the mortgagee may use the current payment to calculate effective income.

If the alimony, child support or other maintenance payments have not been consistently received for the most recent six months, the mortgagee must use the average of the income received over the previous two years to calculate effective income. If alimony, child support or maintenance income has been received for less than two years, the mortgagee must use the average over the time of receipt.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.39 Military Income**

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay,
- Basic Allowance for Housing,
- clothing allowances,
- flight or hazard pay,
- Basic Allowance for Subsistence, and
- proficiency pay.

The mortgagee may not use education benefits as effective income.

The mortgagee must obtain a copy of the mortgagor's military Leave and Earnings Statement (LES). The mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the mortgage, military income may only be considered effective income if the mortgagor represents their intent to continue military service.

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### **3.40 Calculating Military Income**

The mortgagee must use the current amount of military income received to calculate effective income.

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### **3.41 Other Public Assistance**

Public Assistance refers to income received from government assistance programs.

Mortgagees must verify and document the income received from the government agency and that the income is reasonably likely to continue for three years.

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### **3.42 Calculating Other Public Assistance income**

The mortgagee must use the current rate of public assistance received to calculate effective income.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### 3.43 Automobile Allowances

Automobile Allowance refers to the funds provided by the mortgagor's employer for automobile related expenses.

The mortgagee must verify and document the automobile allowance received from the employer for the previous two years.

The mortgagee must also obtain IRS Form 2106, *Employee Business Expenses*, for the previous two years.

---

### 3.44 Calculating Automobile Allowance income

The mortgagee must determine the portion of the allowance that can be considered effective income.

The mortgagee must subtract automobile expenses as shown on IRS Form 2106 from the automobile allowance before calculating effective income based on the current amount of the allowance received.

If the mortgagor uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:

- the mortgagor's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Automobile Allowance refers to the amount of the automobile allowance that exceeds the mortgagor's actual automobile expenditures.

---

### 3.45 Social Security Retirement Income

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

The mortgagee must verify and document the mortgagor's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.45**  
**Social Security**  
**Retirement**  
**Income**  
(continued)

For SSI, the mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the mortgageor’s Social Security Benefit Statement, SSA Form-1099/1042S.

In addition to verification of income, the mortgagee must document the continuance of this income by obtaining from the mortgageor (1) a copy of the last Notice of Award letter, which states the SSA’s determination on the mortgageor’s eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the mortgageor (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used in calculating residual income.

If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee must consider the income effective and reasonably likely to continue. The mortgagee should not request additional documentation from the mortgageor to demonstrate continuance of Social Security income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

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**3.46**  
**Calculating**  
**Social Security**  
**Retirement**  
**Income**

The mortgagee must use the current amount of Social Security income received to calculate effective income.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.47 Pension Income**

Pension refers to income received from the mortgagor's former employer(s).

The mortgagee must verify and document the mortgagor's receipt of periodic payments from the mortgagor's pension and that the payments are likely to continue for at least three years.

The mortgagee must obtain any one of the following documents:

- federal tax returns;
  - the most recent bank statement evidencing receipt of income from the former employer; or
  - a copy of the mortgagor's pension/retirement letter from the former employer.
- 

### **3.48 Calculating Pension Income**

The mortgagee must use the current amount of pension income received to calculate effective income.

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### **3.49 Individual Retirement Account and 401(k) Income**

An Individual Retirement Account (IRA/401(k)) Income refers to income received from an individual retirement account.

The mortgagee must verify and document the mortgagor's receipt of recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.

The mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
  - the most recent bank statement evidencing receipt of income.
- 

### **3.50 Calculating Individual Retirement Account and 401(k) Income**

For mortgagors with IRA/401(k) income that has been and will be consistently received, the mortgagee must use the current amount of IRA/401(k) income received to calculate effective income. For mortgagors with fluctuating IRA/401(k) income, the mortgagee must use the average of the IRA/401(k) income received over the previous two years to calculate effective income. If IRA/401(k) income has been received for less than two years, the mortgagee must use the average over the time of receipt.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### 3.51 Rental Income from the Subject Property

Rental Income from the Subject Property refers to income received when the subject property has 2-4 units.

The mortgagee may consider rental income from existing and prospective tenants if documented in accordance with the following requirements.

#### **Limited or No History of Rental Income**

Where the mortgagor does not have a history of rental income from the subject property since the previous tax filing:

The mortgagee must verify and document the proposed rental income by obtaining an appraisal showing fair market rent [use Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report*] and the prospective leases, if available.

#### **History of Rental Income**

Where the mortgagor has a history of rental income from the subject property since the previous tax filing, the mortgagee must verify and document the existing rental income by obtaining the current lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and the mortgagor's most recent tax returns, including Schedule E, from the previous two years.

For properties with less than two years of rental income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

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### 3.52 Calculating Rental Income from the Subject Property

The mortgagee must add the net subject property rental income to the mortgagor's gross income.

#### **Limited or No History of Rental Income**

To calculate the effective income from the subject property where the mortgagor does not have a history of rental income from the subject property since the previous tax filing, the mortgagee must use the lesser of:

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*Continued on next page*



## Cash Flow/Residual Income Analysis, Continued

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**3.52**  
**Calculating**  
**Rental Income**  
**from the**  
**Subject**  
**Property**  
(continued)

- the monthly operating income reported on Fannie Mae Form 216, or
- 75 percent of the lesser of:
  - fair market rent reported by the appraiser; or
  - the rent reflected in the lease or other rental agreement

### **History of Rental Income**

The mortgagee must calculate the rental income by averaging the amount shown on the Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, the mortgagee must annualize the rental income for the length of time the property has been owned.

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**3.53**  
**Rental Income**  
**– Other Real**  
**Estate Holdings**

Rental income from other real estate holdings may be considered effective income if the documentation requirements listed below are met. If rental income is being derived from the property being vacated by the mortgagor, the mortgagor must be relocating to an area more than 100 miles from the mortgagor's current principal residence. The mortgagee must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.

### **Limited or No History of Rental Income**

Where the mortgagor does not have a history of rental income since the previous tax filing, including property being vacated by the mortgagor, the mortgagee must obtain an appraisal evidencing market rent and that the mortgagor has at least 25 percent equity in the property. The appraisal is not required to be completed by an FHA Roster appraiser.

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## Cash Flow/Residual Income Analysis, Continued

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### 3.53 Rental Income – Other Real Estate Holdings (continued)

- **Two to Four Units**  
The mortgagee must verify and document the proposed rental income by obtaining an appraisal showing fair market rent [use Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report*] and the prospective leases if available
  
- **One Unit**  
The mortgagee must verify and document the proposed rental income by obtaining a Fannie Mae Form 1004, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216, *Operating Income Statement*, showing fair market rent and, if available, the prospective lease.

#### History of Rental Income

The mortgagee must obtain the mortgagor's last two years tax returns with Schedule E.

---

### 3.54 Calculating Rental Income from Other Real Estate Holdings

#### Limited or No History of Rental Income

To calculate the effective net rental income from other real estate holdings where the mortgagor does not have a history of rental income since the previous tax filing, the mortgagee must deduct the principal, interest, taxes and insurance payment (PITI) from the lesser of:

- The monthly operating income reported on Fannie Mae Form 216, or
- 75 percent of the lesser of:
  - fair market rent reported by the appraiser; or
  - the rent reflected in the lease or other rental agreement.

#### History of Rental Income

The mortgagee must calculate the net rental income by averaging the amount shown on the Schedule E provided the mortgagor continues to own all properties included on the Schedule E.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.54**  
**Calculating**  
**Rental Income**  
**from Other**  
**Real Estate**  
**Holdings**  
(continued)

Depreciation shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, the mortgagee must annualize the rental income for the length of time the property has been owned.

For properties with less than two years of rental income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

Positive net rental income must be added to the mortgagor's effective income. Negative net rental income must be included as a debt/liability.

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**3.55**  
**Income from**  
**Boarders of the**  
**Subject**  
**Property**

Boarder refers to an individual renting space inside the mortgagor's dwelling unit.

Rental income from boarders is only acceptable if the mortgagor has a two-year history of receiving income from boarders that is shown on the tax return and the mortgagor is currently receiving boarder income.

The mortgagee must obtain two years of the mortgagor's tax returns evidencing income from boarders and the current lease.

---

**3.56**  
**Calculating**  
**Rental Income**  
**from Boarders**

The mortgagee must calculate the effective income by using the lesser of the two-year average or the current lease.

---

**3.57**  
**Investment**  
**Income**

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

The mortgagee must verify and document the mortgagor's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### 3.58 Calculating Investment income

The mortgagee must calculate Investment Income by using the lesser of

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The mortgagee must subtract any of the assets used for the required cash investment for a **HECM for purchase** from the mortgagor's liquid assets prior to calculating any interest or dividend income.

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### 3.59 Capital Gains and Losses

Capital gains refers to is a profit that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital losses refers to a loss that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

Capital gains or losses must be considered when determining effective income, when the individual has a constant turnover of assets resulting in gains or losses.

Three years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as effective income, or
  - consistently shows a loss, it must be deducted from the total income.
- 

### 3.60 Expected Income

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

The mortgagee may consider Expected Income as effective income except when expected income is to be derived from a family-owned business.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.60**  
**Expected**  
**Income**  
(continued)

The mortgagee must verify and document the existence and amount of expected income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected retirement income, the mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

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**3.61**  
**Calculating**  
**Expected**  
**Income**

Expected Income is calculated in accordance with the standards for the type of income being received. The mortgagee must also verify that the mortgagor will have sufficient income to meet his or her financial obligations between mortgage closing and the start of employment.

---

**3.62**  
**Trust Accounts**  
**Income**

Trust Income refers to income that is regularly distributed to a mortgagor from a trust.

The mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

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**3.63**  
**Calculating**  
**Trust Accounts**  
**Income**

The mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate effective income.

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**3.64**  
**Annuities or**  
**Similar Income**

Annuity Income refers to a fixed sum of money periodically paid to the mortgagor from a source other than employment.

The mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage. The mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.65**  
**Calculating**  
**Annuities and**  
**Similar Income**

The mortgagee must use the current rate of the annuity to calculate effective income.

The mortgagee must subtract any of the assets used for the required cash investment for a HECM for purchase from the mortgagor's liquid assets prior to calculating any annuity income.

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**3.66**  
**Notes**  
**Receivable**  
**Income**

Notes Receivable Income refers to income received by the mortgagor as payee or holder in due course of a note.

The mortgagee must verify and document the existence of the note. The mortgagee must also verify and document the payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the mortgage.

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**3.67**  
**Calculating**  
**Notes**  
**Receivable**  
**Income**

For mortgagors who have been and will be receiving a consistent amount of notes receivable income, the mortgagee must use the current rate of income to calculate effective income. For mortgagors whose notes receivable income fluctuates, the mortgagee must use the average of the notes receivable income received over the previous year to calculate effective income.

---

**3.68**  
**Government**  
**Assistance Non-**  
**Cash Benefits**

Mortgagees may count as income non-cash benefits being received by the mortgagor through Federal, state or local government programs, e.g., Supplemental Nutritional Assistance Program (SNAP), energy assistance, etc. In determining whether such benefits may be counted as income the mortgagee must:

- verify that the benefits are being received at the time of loan application, or that an award letter has been issued, and benefits will begin to be received within 60 days. Mortgagees may not count benefits for which the mortgagor is potentially eligible and intends to apply;
  - verify that the benefits are not subject to any specific termination date other than one related to the death of the mortgagor or the sale of the property and
  - verify that approval of the HECM will not jeopardize continued eligibility for the benefits, e.g., HECM proceeds would trigger disqualification based on program income or asset requirements.
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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.68**  
**Government**  
**Assistance Non-**  
**Cash Benefits**  
(continued)

Some benefit programs may result in a reduction in the mortgagor's expenses rather than increasing their income (e.g., the mortgagor is charged a lower rate for insurance). In these cases the reduced amount may be used in calculating expenses and must not be treated as income. See Section 3.76 for further information.

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**3.69**  
**Imputed**  
**Income from**  
**Asset**  
**Dissipation**

Regular income from interest, dividends, or other returns from the mortgagor's investments may be included in the calculation of residual income provided that such income is properly documented. Alternatively, mortgagees may estimate imputed income from dissipation of liquid assets, defined as assets that can be converted to cash within one-year without payment of an IRS penalty, using the applicable discount in the table below. However, mortgagees may not count the same asset twice, i.e., as a source of interest income and as imputed income from the dissipation of the asset.

Liquid asset sources from which imputed income may be calculated include, but are not limited to the following:

<b>Asset Source</b>	<b>Amount To Be Counted</b>
Savings and Checking Accounts, Certificates of Deposit, Roth IRAs and any other assets that are not subject to Federal taxes.	100%
Other assets that are subject to Federal taxes	85% *

\* Mortgagees may use the mortgagor's actual tax rate based on Federal tax returns from the prior tax year if tax rate is lower than 15% or no discount if mortgagor does not have a Federal tax obligation.

Mortgagees must calculate the combined value of assets and calculate income from these sources. Divide the total adjusted value by the remaining life expectancy (in months) of the mortgagor from Loan period 2 in the Assumed Loan Periods for Computations of Total Annual Loan Cost Rates provided in Appendix 2.

If the asset is jointly held with a Non-Borrowing Spouse or other party not obligated for the mortgage, the asset may be counted provided that the mortgagor provides documentation that the mortgagor has unrestricted access to that asset.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

### 3.70 Asset Dissipation Calculation Table

Mortgagees must use the table below as a guide to calculating imputed income from liquid assets. The resulting monthly amount should be entered on the financial assessment worksheet to calculate residual income.

Asset Type	Account Value		Value %		Discounted Value
Checking/Savings/Certificates of Deposit/Roth IRA and other assets not subject to Federal taxes if dissipated.	\$	x	100%	=	\$
Assets subject to Federal taxes if dissipated.	\$	x	Higher of 85% or {100% minus applicable Federal tax rate}		
Total Discounted Value					\$
minus mortgagor Funds Needed to Close					-
Adjusted Discounted Value					\$
Life Expectancy of Youngest Mortgagor In Months Life Expectancy in Years _____ x 12 =					mos.
Adjusted Discounted Value ÷ Life Expectancy in months = Total Monthly Income from Assets					\$

Where monthly income from asset dissipation is included in the residual income analysis mortgagees must attach documentation to the financial assessment worksheet identifying the specific assets used and the calculation of the monthly amount.

*Continued on next page*



## Cash Flow/Residual Income Analysis, Continued

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### 3.71

#### Assets – Checking and Savings Accounts

Checking and savings accounts refer to funds from mortgagor-held accounts.

If to be considered as part of the financial assessment, mortgagees must verify and document the existence of and amounts in the mortgagor's checking and savings accounts.

If the mortgagor does not hold the deposit account solely, all non-mortgagor parties on the account must provide a written statement that the mortgagor has full access to and use of the funds.

The mortgagee must obtain a written Verification of Deposit (VOD) and the mortgagor's most recent statement for each account.

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the most recent 2 months.

---

### 3.72

#### Assets – Cash On Hand

Cash on Hand refers to cash held by the mortgagor outside of a financial institution.

The mortgagee must verify that the mortgagor's cash on hand is deposited in a financial institution or held by the escrow/title company.

The mortgagee must verify and document the mortgagor's cash on hand by obtaining an explanation from the mortgagor describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the mortgagor's:

- income stream;
  - spending habits;
  - documented expenses; and
  - history of using financial institutions.
- 

*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.73**  
**Assets -**  
**Retirement**  
**Accounts**

Retirement Accounts refer to assets accumulated by the mortgagor for the purpose of retirement.

The mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the mortgagor's retirement accounts, the mortgagor's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

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**3.74**  
**Assets -**  
**Stocks and**  
**Bonds**

Stocks and bonds are investment assets accumulated by the mortgagor.

The mortgagee must determine the value of stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the mortgagee must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless the mortgagee verifies and documents that the bonds are eligible for redemption.

The mortgagee must verify and document the existence of the mortgagor's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the mortgagee must obtain a copy of each stock or bond certificate.

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**3.75**  
**Assets -**  
**Private Savings**  
**Clubs**

Private Savings Clubs refer to a non-traditional method of saving by making deposits into a member-managed resource pools. The mortgagee may consider private savings club funds that are distributed to and received by the mortgagor as an acceptable source of funds.

The mortgagee must verify and document the establishment and duration of the club, and the mortgagor's receipt of funds from the club. The mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

The mortgagee must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.76 Expense Analysis**

Using the credit report, Fannie Mae Form 1009, Part VI of URLA or equivalent, most recent Federal and state income tax returns, and other documents that may be available to the mortgagee (e.g., bank statements), the mortgagee must identify all secured and unsecured debts. The mortgagee must calculate:

- Federal and state income taxes;
- FICA;
- property charges for the subject property;
- estimated utility and maintenance expenses;
- installment account payments;
- any other owned property mortgage obligations (debt and property charges);
- revolving credit account payments;
- alimony and child support payments;
- judgments under payment plans against the mortgagor;
- payments required under any bankruptcy plans; and
- other obligations described in this Guide.

Where the mortgagor benefits from Federal, state or local benefit programs that reduce borrower expenses, the reduced amounts may be used to calculate expenses provided that the mortgagee complies with the requirements of Section 3.68.

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### **3.77 Liens Paid Off Using HECM Proceeds**

Where a lien against the property, such as a mortgage, is being paid off with HECM proceeds, the monthly payment associated with that lien is not included in the expense analysis.

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### **3.78 General Liabilities and Debts**

The mortgagee must determine the mortgagor's monthly liabilities by reviewing all debts listed on the credit report, Part VI of URLA or equivalent, tax returns, bank statements, and pay stubs. The mortgagee must document the reasons for exclusion of any debt listed on these documents.

All applicable monthly liabilities must be included in the expense analysis. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the mortgagor's gross monthly income. The mortgagor may not pay down the balance in order to meet the 10-month requirement.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.78**  
**General**  
**Liabilities and**  
**Debts**  
(continued)

Accounts for which the mortgagor is an authorized user must be included in an expense analysis unless the mortgagee can document that the mortgagor is not making payments on the account.

Negative income must be subtracted from the mortgagor's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the mortgagor's assets, do not require consideration in the expense analysis.

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**3.79**  
**Undisclosed**  
**Debts and**  
**Inquiries**

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the mortgagee must:

- verify the actual monthly payment amount; and
- include the payment amount in the agreement in the expense analysis;

The mortgagee must obtain a written explanation from the mortgagor for all inquiries shown on the credit report that were made in the last 90 Days. The mortgagee must document all undisclosed debt and support for its analysis of the mortgagor's debt.

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**3.80**  
**Federal Debt**

Federal Debt refers to non-delinquent debt owed to the federal government for which regular payments are being made.

The amount of the required payment must be included in the expense analysis.

The mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

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**3.81**  
**Alimony, Child**  
**Support and**  
**Maintenance**

Alimony, child support, and other maintenance are court-ordered or otherwise agreed upon payments.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.81** **Alimony, Child** **Support and** **Maintenance** (continued)

For alimony, if the mortgagor's income was not reduced by the amount of the monthly alimony obligation in the mortgagee's calculation of the mortgagor's gross income, the mortgagee must verify and include the monthly obligation in its calculation of the mortgagor's debt.

Child support and other maintenance are to be treated as a recurring liability and the mortgagee must include the monthly obligation in the expense analysis.

The mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order. The mortgagee must also obtain the mortgagor's pay stubs covering no less than 28 consecutive days to verify whether the mortgagor is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

The mortgagee must calculate the mortgagor's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or
- the monthly amount of the garnishment.

---

### **3.82** **Deferred** **Obligations**

Deferred obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. The mortgagee must verify and include deferred obligations in the expense analysis.

The mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The mortgagee must obtain evidence of the anticipated monthly payment obligation, if available.

The mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available. If the actual monthly payment is not available for installment debt, the mortgagee must utilize the terms of the debt or five (5) percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available, the mortgagee must utilize two (2) percent of the outstanding balance to establish the monthly payment.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.83 Installment Loans**

Installment loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an installment loan.

The mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement in the expense analysis.

If the credit report does not include a monthly payment for the loan, the mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

---

### **3.84 Revolving Charge Accounts**

Revolving Charge Accounts refers to a credit arrangement that requires the mortgagor to make periodic payments but does not require full repayment by a specified point of time.

The mortgagee must include in the expense analysis the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance.

The mortgagee must use the credit report to document the terms, balance and payment amount on the account, if available.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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**3.84**  
**Revolving**  
**Charge**  
**Accounts**  
(continued)

Where the credit report does not reflect the necessary information on the charge account, the mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

The mortgagee must include the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement.

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**3.85**  
**30 Day**  
**Accounts**

30-Day Accounts refer to a credit arrangement that requires the mortgagor to pay the outstanding balance on the account every month.

The mortgagee must verify the mortgagor pays the outstanding balance in full on every 30-Day account each month for the past 12 months. 30-Day accounts that are paid monthly are not included in the expense analysis. If the credit report reflects any late payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the borrower's monthly debt to be included in the expense analysis.

The mortgagee must use the credit report to document that the mortgagor has paid the balance on the account monthly for the previous 12 months. The mortgagee must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance and close the loan.

---

**3.86**  
**Business Debt**  
**in Mortgagor's**  
**Name**

Business debt in mortgagor's name refers to liabilities reported on the mortgagor's personal credit report, but payment for the debt is attributed to the mortgagor's business.

When business debt is reported on the mortgagor's personal credit report, the debt must be included in the expense analysis, unless the mortgagee can document that the debt is being paid by the mortgagor's business, and the debt was considered in the cash-flow analysis of the mortgagor's business.

When a self-employed mortgagor states that debt appearing on their personal credit report is being paid by their business, the mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the mortgagor's business.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### **3.87 Disputed Derogatory Accounts**

Disputed derogatory credit accounts refer to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

If the mortgagor has \$1,000 or more collectively in disputed derogatory credit accounts, the mortgagee must include a monthly payment in the expense analysis.

The following items are excluded from the expense analysis:

- disputed medical accounts; and
  - disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.
- 

### **3.88 Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report**

Non-derogatory disputed accounts include the following types of accounts:

- disputed accounts with zero balance
- disputed accounts with late payments aged 24 months or greater
- disputed accounts that are current and paid as agreed

If a mortgagor is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the mortgagee must analyze the effect of the disputed accounts in the expense analysis.

---

### **3.89 Contingent Liabilities**

A contingent liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment. Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

The mortgagee must include monthly payments on contingent liabilities in the expense analysis unless the mortgagee verifies that there is no possibility that the debt holder will pursue debt collection against the mortgagor should the other party default, or the other party has made 12 months of timely payments.

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*Continued on next page*



## Cash Flow/Residual Income Analysis, Continued

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**3.89**  
**Contingent**  
**Liabilities**  
(continued)

### **Mortgage Assumptions**

The mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the mortgagor's name.

### **Cosigned Liabilities**

If the cosigned liability is not included in the monthly obligation, the mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

### **Court Ordered Divorce Decree**

The mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

### **Calculation of Monthly Obligation**

The mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

---

**3.90**  
**Collection**  
**Accounts**

A collection account is a mortgagor's loan or debt that has been submitted to a collection agency by a creditor.

If the credit reports used in the analysis show cumulative outstanding collection account balances of \$2,000 or greater, the mortgagee must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds, or
  - verify that the mortgagor has made payment arrangements with the creditor, or
  - if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the expense analysis.
- 

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## Cash Flow/Residual Income Analysis, Continued

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**3.90**  
**Collection**  
**Accounts**  
(continued)

The mortgagee must provide the following documentation:

- Evidence of payment in full, if paid prior to settlement
- Payoff statement, if paid at settlement
- Payment arrangement with creditor, if not paid prior to or at settlement

If the mortgagee uses 5 percent of the outstanding balance as the monthly payment, no documentation is required.

---

**3.91**  
**Charge Off**  
**Accounts**

A Charge Off Account refers to a mortgagor's loan or debt that has been written off by the creditor.

Charge Off Accounts do not need to be included in the expense analysis.

---

**3.92**  
**Private Savings**  
**Clubs**

Private Savings Clubs refers to non-traditional methods of saving by making deposits into a member-managed resource pool.

If the mortgagor is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be included in the expense analysis.

The mortgagee must verify and document the establishment and duration of the mortgagor's membership in the club and the amount of the mortgagor's required contribution to the club.

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**3.93**  
**Federal and**  
**State Income**  
**Taxes**

Mortgagees may use current pay stubs, tax tables, or federal, state and local tax returns from the most recent tax year, to document federal, state and local taxes.

If the mortgagor's most recent tax return is more than two years old, the mortgagee must estimate current taxes using available guidance and tax tables.

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*Continued on next page*

## Cash Flow/Residual Income Analysis, Continued

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### 3.94 Maintenance and Utility Charges

Mortgagees may rely on the formula established by Department of Veterans Affairs (VA) for estimated maintenance and utilities in all states. Mortgagees should multiply the living area of the property (square feet) by \$0.14.

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### 3.95 Documentation Standards for Property Charges

Mortgagees must verify and document the amount of property charges in accordance with the following requirements:

- *Property Taxes.* Mortgagees must document the amount of property taxes due from all taxing authorities through written statements or on-line print-outs from the taxing authorities, or through copies of bills. See Section 2.18 for information on property tax waivers or deferrals.
  - *Homeowners/Hazard Insurance.* Mortgagees must obtain the current year's declaration sheet of the insurance policy. Where no homeowners/hazard insurance policy was previously in place, mortgagees shall base the cost of homeowners/hazard insurance upon the insurance quote provided to the mortgagor for the cost of homeowners/hazard insurance under the HECM.
  - *Flood Insurance.* Mortgagees must obtain the current year's declaration sheet of the insurance policy. Where no flood insurance policy was previously in place, mortgagees shall base the cost of flood insurance upon the insurance quote provided to the mortgagor for the cost of flood insurance under the HECM.
  - *HOA, PUD and Condominium Fees.* Mortgagees must obtain from the appraisal, or from a written statement from the association or its management agent, documentation on the amount of the monthly fees.
  - *Other Assessments.* Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting the amount of any other assessments.
  - *Ground Rents.* Mortgagees must obtain from the deed, the lessor or its management agent a written statement documenting the amount of the ground rent payment.
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## Cash Flow/Residual Income Analysis, Continued

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### **3.96 Expense Analysis for Non-Borrowing Spouses**

Mortgagees must analyze a Non-Borrowing Spouse's obligations from the sources specified in Section 3.76 if a Non-Borrowing Spouse's income is used as a compensating factor or to reduce family size.

The Non-Borrowing Spouse's expenses must meet the same documentation and verification standards as required for the mortgagor's expenses.

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### **3.97 Expense Analysis for Other Non- Borrowing Household Members**

Mortgagees must analyze an Other Non-Borrowing Household Member's obligations from the sources specified in Section 3.76 if his or her income is to be used to reduce family size.

The Other Non-Borrowing Household Member's expenses must meet the same documentation and verification standards as required in this Guide for the mortgagor's expenses.

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### **3.98 Property Charges as a Percentage of Gross Income**

HUD has identified situations where property charges exceed 10% of the mortgagor's gross income as carrying greater levels of risk of default. Mortgagees must calculate property charges as a percentage of gross income and enter this figure on the Financial Assessment Worksheet.

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### **3.99 Residual Income**

The mortgagor's residual income is calculated by summing the total monthly income from all sources for the mortgagors obligated on the mortgage, and subtracting from that amount the total monthly expenses.

The mortgagee's analysis must be entered on a financial assessment worksheet that identifies the specific amounts and sources of income and expenses determined through the cash flow/residual income analysis.

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## Cash Flow/Residual Income Analysis, Continued

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### 3.100 Residual Income Table

To determine if monthly residual income is sufficient to demonstrate the financial capacity of the mortgagors to meet their financial obligations, select the applicable family size, and region from the table below.

Table of Residual Incomes by Region				
Family Size	Northeast	Midwest	South	West
1	\$ 540	\$ 529	\$ 529	\$ 589
2	\$ 906	\$ 886	\$ 886	\$ 998
3	\$ 946	\$ 927	\$ 927	\$1,031
4 or more	\$1,066	\$1,041	\$1,041	\$1,160

Count all members of the household (without regard to the nature of the relationship) when determining “family size,” including a Non-Borrowing Spouse and Other Non-Borrowing Household Members.

The mortgagee may omit a Non-Borrowing Spouse and/or an Other Non-Borrowing Household Member from family size provided that their residual income is equal to or exceeds the income required for a one person family size for the geographic area in which the property is located.

The 1 person family size may only be used for a mortgagor where:

- Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages*, indicates that the mortgagor is single or unmarried; and
- for mortgagors required to file tax returns, the results of a Form 4506-T verification or copies of tax returns confirm that the mortgagor files as a single person,  
or,  
for mortgagors not required to file tax returns, the property title, credit report, or other information supports the marital status claimed by the mortgagor; and
- the mortgagor identifies him or herself as unmarried in the certification regarding marital status required by Mortgagee Letter 2014-07.

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## Cash Flow/Residual Income Analysis, Continued

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### 3.100 Residual Income Table (continued)

This documentation is not required where the Non-Borrowing Spouse or Other Non-Borrowing Household Member has been excluded from household size based on the criteria defined in this section.

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### 3.101 States Included in Regions

The Regions on the Table of Residual Income include the following states:

Region	States
Northeast	CT, MA, ME, NH, NJ, NY, PA, RI, VT
Midwest	IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
South	AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, VI, WV
West	AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

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### 3.102 Model Financial Assessment Worksheet

Mortgagees may use the HECM Financial Assessment Worksheet provided in Appendix 1 or develop their own worksheet, provided the required information on credit history, income and expenses, and the calculation of residual income is captured.

Mortgagees must also document the calculation of imputed income and maintenance and utility expenses, and identify and document any extenuating circumstances or compensating factors it relied upon in making its determination.

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# Compensating Factors and Extenuating Circumstances

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## 4.1 Extenuating Circumstances

Where the mortgagor's credit and/or property charge payment history does not meet the criteria described in Sections 2.15 and 2.28, mortgagees must consider extenuating circumstances that led to the credit/financial issues.

Extenuating circumstances beyond the mortgagor's control may include, but are not limited to:

- loss of income due to the death or divorce of a spouse that directly resulted in late payment of obligations;
- loss of income due to the mortgagor's or spouse's unemployment, reduced work hours or furloughs, or emergency medical treatment or hospitalization that directly resulted in late payments of obligations; or
- increase in financial obligations due to emergency medical treatment or hospitalization for the mortgagor or spouse, emergency property repairs not covered by homeowners or flood insurance, divorce, or other causes that directly resulted in late payments of obligations.

Mortgagees must document the presence of any extenuating circumstances as part of the financial assessment. Documentation of extenuating circumstances must demonstrate:

- the connection between the specific occurrence(s) and the measurable impact of the occurrence(s) on the mortgagor's finances;
- that no other actions taken by the mortgagor contributed to the derogatory incident(s) (e.g., assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.);
- the likelihood that these circumstances will not recur. In assessing the likelihood that the circumstances will not recur, mortgagees may consider the impact of the HECM on the mortgagor's circumstances, through the elimination of financial obligations and/or through an increase in mortgagor income; and
- the mortgagor demonstrates financial liquidity through non-HECM assets, additional sources of income, access to revolving credit or other factors that are present that enhance his or her ability to endure financial challenges.

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## Compensating Factors and Extenuating Circumstances, Continued

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### 4.1 Extenuating Circumstances (continued)

For example, if a mortgagor cited loss of income due to unemployment as the cause of late payments, the documentation should show that:

- the credit report indicates that the mortgagor had satisfactory credit prior to being unemployed;
- the mortgagor's documented income, including any unemployment compensation received, was insufficient to make timely payments on all outstanding accounts;
- the credit report indicates that the mortgagor did not incur new debt that contributed to the mortgagor's inability to meet all obligations in a timely manner; and
- the mortgagor is employed again and/or has alternate sources of income.

Documentation includes the credit report, W-2s, tax returns, statements from the mortgagor and other information.

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### 4.2 Compensating Factors – Residual Income Shortfall

In assessing whether the mortgagor has demonstrated the capacity to meet financial obligations the mortgagee may consider one or more of the following compensating factors:

- The mortgagor meets all of the following:
  - mortgagor residual income is 80%-99% of the applicable amount for his or her family size and geographic region on the Table of Residual Income in Section 3.100;
  - mortgagor has paid his or her own property charges directly for at least the last 24 months (i.e., they were not paid by a mortgagee from an escrow account) and meets the standard in Section 2.28;
  - all property charge payments have been made without incurring penalties during the last 24 months; and
  - current income is not less than income during the previous 24 months.
- Mortgagor has documented residual income from a Non-Borrowing Spouse that, if counted, would result in the mortgagor and Non-Borrowing Spouse having a combined residual income equaling or exceeding the applicable amount for their family size and geographic region on the Table of Residual Income in Section 3.100.

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## Compensating Factors and Extenuating Circumstances, Continued

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### 4.2 Compensating Factors – Residual Income Shortfall (continued)

- Mortgagor has documented overtime, bonus, part-time or seasonal income that meets the following requirements:
  - the mortgagor has received this income for at least six months and it will likely continue; and
  - if counted the mortgagor's total residual income would be equal to or exceed the applicable amount for his or her family size and geographic region on the Table of Residual Income in Section 3.100.
- The mortgagor has assets equivalent to the anticipated property charge payments for the life expectancy of the mortgagor that were not dissipated or considered in the residual income calculation;
- The mortgagor will begin receiving pension or Social Security income within the next 12 months and the amount specified in the award letter would, if counted, result in total residual income equal to or exceeding the applicable amount for his or her family size and geographic region on the Table of Residual Income in Section 3.100;
- An increase in monthly income from dissipating available HECM proceeds based on the remaining principal balance after the First 12-Month Period that, if counted, would result in a residual income equal to or exceeding the applicable amount for the mortgagor's family size and geographic region found on the Table of Residual Income in Section 3.100;
- HECM proceeds (based on original principal limit less required Repair or Life Expectancy Set-Asides) in excess of the 60% maximum draw during the First 12-Month Period, or in excess of initial draw plus maximum of 10% if over 60% at closing (including any required set-asides), that were not dissipated and counted as income, that are sufficient to pay off outstanding obligations such as revolving and installment debt that would reduce monthly payments; and
- The mortgagor has access to revolving credit or other sources that provide the mortgagor with financial liquidity that would enhance his or her ability to endure a financial crisis.

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## **Compensating Factors and Extenuating Circumstances,** Continued

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### **4.3 Documenting Extenuating Circumstances, Compensating Factors**

Mortgagees must document any extenuating circumstances to address derogatory credit and property charge payment history, and/or compensating factors to support residual income shortfalls.

Mortgagees must identify in writing on the Financial Assessment Worksheet all specific circumstances and factors it relied upon to make its favorable determination. Supporting documentation must be included in the origination case binder.

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## Property Charge Funding Requirements

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### **5.1 Life Expectancy Set- Aside**

Where the mortgagee determines that the mortgagor has demonstrated the willingness and the capacity to meet his or her property charge obligations, a Life Expectancy Set-Aside is not required. Where the mortgagee determines that the mortgagor has not demonstrated the willingness and/or the capacity to meet his or her property charge obligations, a Life Expectancy Set-Aside is required.

A Life Expectancy Set-Aside is an amount withheld from the mortgage proceeds for the payment of property charges during the life of the mortgagor. The need for a Life Expectancy Set-Aside, the funding amount of the Life Expectancy Set-Aside, and the structure of the Life Expectancy Set Aside, are based on the results of the financial assessment of the mortgagor.

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### **5.2 Projected Life Expectancy Property Charges**

In order to determine the funding amount of a Life Expectancy Set-Aside, mortgagees must first calculate the Projected Life Expectancy Property Charge Cost. The formula for calculating the Projected Life Expectancy Property Charge Cost includes:

- the projected sum of:
    - current property taxes;
    - homeowners insurance premiums; 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.
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## Property Charge Funding Requirements, Continued

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### 5.3 Life Expectancy Property Charge Cost Formula

#### FORMULA FOR CALCULATING PROJECTED LIFE EXPECTANCY PROPERTY CHARGE COST

$$\text{Projected Life Expectancy Property Charge Cost} = (1.2 \times \text{PC} \div 12) \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^m\}$$

**PC (Property Charges) ÷ 12** is the current total monthly Property Charge for property taxes, homeowners insurance and flood insurance.

**m** is the TALC life expectancy in years of the youngest mortgagor x 12 (e.g., for a 75 year old mortgagor, TALC life expectancy is 12 years x 12 months = 144).

**c** is the monthly compounding rate which is defined as the expected rate plus the annual Mortgage Insurance Premium (MIP) rate ÷ 12.

The **PC ÷ 12** is multiplied by 1.2 to take into account expected increases in property taxes and hazard and flood insurance over the life expectancy of the youngest mortgagor.

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### 5.4 Life Expectancy Set- Aside Must Be Fully Funded

Where the mortgagee determines that the mortgagor has not demonstrated the willingness to meet his or her financial obligations even where residual income is sufficient, or where the mortgagor has not demonstrated the willingness and capacity to meet his or her financial obligations, the Life Expectancy Set-Aside must be fully funded.

Through the Fully Funded Life Expectancy Set-Aside the mortgagee will use HECM proceeds to pay property taxes and insurance premiums on behalf of the mortgagor. The mortgagor remains responsible for all other property charges.

Where the Fully Funded Life Expectancy Set-Aside is required, the amount of the required Set-Aside equals the Projected Life Expectancy Property Charge Cost calculated in accordance with the formula in Section 5.3.

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## Property Charge Funding Requirements, Continued

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### 5.5 Life Expectancy Set- Aside Must Be Partially Funded

Where the mortgagee determines, based on the results of the Financial Assessment that the mortgagor has demonstrated the willingness to meet his or her financial obligations but has not demonstrated the capacity to do so, the Life Expectancy Set-Aside must be partially funded.

Through the Partially-Funded Life Expectancy Set-Aside the mortgagor will receive semi-annual payments from HECM proceeds to be used to pay property taxes and insurance premiums. The mortgagor remains responsible for timely payment of all property charges.

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### 5.6 Partially Funded Life Expectancy Set- Aside Formula

When a Life Expectancy Set-Aside must be partially funded, the amount of the required set-aside shall be calculated based on the following formula.

#### FORMULA FOR CALCULATING PARTIALLY-FUNDED LIFE EXPECTANCY SET-ASIDE

Partially Funded Life Expectancy Set-Aside =

$$(1.2 \times \text{MRIS}) \times \{ (1 + c)^{m+1} - (1 + c) \} \div \{ c \times (1 + c)^m \}$$

**MRIS** (Monthly Residual Income Shortfall) is the residual income gap - the difference between the mortgagor's monthly residual income, and the applicable amount of residual income for the mortgagor's geographic region and family size, based on the Table of Residual Income in Section 3.82.

**m** is the TALC life expectancy in years of the youngest mortgagor x 12 (e.g., for a 75 year old mortgagor, TALC life expectancy is 12 years x 12 months = 144).

**c** is the monthly compounding rate which is defined as the expected rate plus the annual mortgage insurance premium (MIP) rate ÷ 12.

The **MRIS** is multiplied by 1.2 to take into account expected increases in property taxes and hazard and flood insurance over the life expectancy of the youngest mortgagor.

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## Property Charge Funding Requirements, Continued

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### **5.7 Additional Requirement for Use of Partially Funded Life Expectancy Set- Aside**

Where the projected Partially Funded Life Expectancy Set-Aside is greater than 75% of the Projected Life Expectancy Property Charge Cost, the mortgagor is not eligible for a Partially Funded Life Expectancy Set-Aside. The mortgagee must require as a condition of mortgage approval a Fully Funded Life Expectancy Set-Aside.

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### **5.8 Life Expectancy Table**

The figure used for life expectancy is taken from the U.S. Decennial Life Tables for 1979-1981 females found at Title 12, Appendix L. The life expectancy figures to be used are provided in Appendix 2 in the fourth column titled Loan Period 2 (life expectancy) (in years). Mortgagees must select the age of the youngest mortgagor (rounded to the nearest whole year) and use the corresponding life expectancy figure found in the fourth column of the table for the mortgagor's life expectancy.

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### **5.9 Life Expectancy Set- Aside Decision Matrix**

When determining the need for a Life Expectancy Set-Aside, the mortgagee must evaluate whether the mortgagor meets residual income and credit eligibility requirements including use of extenuating circumstance criteria, compensating factor criteria and how HECM proceeds may be used in assessing income and credit qualifications.

The following tables provide guidance on when a Life Expectancy Set-Aside is not required (Table 1), a Life Expectancy Set-Aside must be fully funded (Table 2) and a Life Expectancy Set-Aside must be partially funded (Table 3).

There may be other scenarios where, based on the specific characteristics of the transaction, a Life Expectancy Set-Aside must be funded. Mortgagees must comply with the requirements reflected in the tables below, but must also evaluate carefully transactions that have different risk characteristics than those provided on Tables 1, 2 and 3. Mortgagees are reminded that it is their responsibility to provide well documented reasons for the amount by which a Life Expectancy Set-Aside has been funded when mortgagors do not meet HECM residual income, property charge payment history, and credit history standards, and financial assessment policies.

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## Property Charge Funding Requirements, Continued

**TABLE 1: Life Expectancy Set-Aside Not Required**

Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.

Key Considerations	Compensating Factors
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge Payment History Standard</li> <li>• Meets Mortgage and Installment Debt Credit History Standard</li> <li>• Meets Revolving Debt Credit History Standard</li> <li>• Residual Income <math>\geq</math>100% of Standard</li> </ul>	
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge Payment History Standard</li> <li>• Meets Mortgage and Installment Debt Credit History Standard</li> <li>• Meets, or does not meet Revolving Debt, Credit History Standard; now current on obligations</li> <li>• Base Residual Income 80% - 99% of Standard</li> </ul>	<ul style="list-style-type: none"> <li>• Mortgagor has paid property charges directly (no escrow account) demonstrating ability to manage on lower income - see other criteria associated with this compensating factor in Section 4.2 (first bullet) or</li> <li>• Other Compensating factors defined in Section 4.2 supporting additional income are available</li> </ul>
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge History Standard</li> <li>• Does Not Meet Mortgage and Installment Debt Credit History but               <ul style="list-style-type: none"> <li>○ No foreclosure, judgments, bankruptcy and</li> <li>○ Is now current on obligations and/or</li> </ul> </li> <li>• Meets or does not meet Revolving Debt Credit History Standard but               <ul style="list-style-type: none"> <li>○ Is now current on obligations</li> </ul> </li> <li>• Residual Income <math>\geq</math> 100% of Standard</li> </ul>	<ul style="list-style-type: none"> <li>• Mortgagor has paid property charges directly (no escrow account) and one or more of the following</li> <li>• HECM proceeds are sufficient to pay off outstanding obligations during initial disbursement period and/or after First 12-Month Period</li> <li>• Mortgagor non-housing assets are sufficient to pay off outstanding obligations (not included in residual income calculation)</li> <li>• Non-housing assets equivalent to projected Life Expectancy Set-Aside</li> </ul>

*Continued on next page*

## Property Charge Funding Requirements, Continued

**Table 2: Life Expectancy Set-Aside Must Be Fully Funded**

Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.

Key Considerations	Life Expectancy Set Aside Funding Conditions
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Does not meet required Property Charge Payment Standards and/or</li> <li>• Does not meet required Mortgage and Installment Debt Credit History Standards and                             <ul style="list-style-type: none"> <li>○ Foreclosure, judgments, or bankruptcy on record and/or</li> <li>○ Is not current on obligations</li> </ul> </li> <li>• Meets, or does not meet, Revolving Debt Credit History Standards</li> <li>• Does not meet Extenuating Circumstance Criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met</li> <li>• Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside</li> <li>• Mortgagor justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations</li> </ul>
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge payment history standard, (Property Charges were paid through escrow account, not by borrower directly) and</li> <li>• Does not meet required Mortgage and Installment Debt Credit History Standards and                             <ul style="list-style-type: none"> <li>○ Foreclosure, judgments, or bankruptcy on record and/or</li> <li>○ Is not current on obligations</li> </ul> </li> <li>• Meets or does not meet Revolving Debt Credit History Standards</li> <li>• Does not meet Extenuating Circumstance Standards</li> </ul>	<ul style="list-style-type: none"> <li>• Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met</li> <li>• Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside</li> <li>• Mortgagors justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations</li> </ul>
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge payment history standard (Property Charges were paid through escrow account (not by borrower directly) and</li> <li>• Incurs monthly property charges that exceed 10% of mortgagor monthly income and</li> <li>• Does not meet all Mortgage, Installment Debt Standards; indication of revolving credit issues</li> </ul>	<ul style="list-style-type: none"> <li>• Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met</li> <li>• Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside</li> <li>• Mortgagors justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations</li> </ul>



## Property Charge Funding Requirements, Continued

**Table 3: Life Expectancy Set-Aside Must be Partially Funded**

Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.

Key Considerations	Life Expectancy Set-Aside Funding Conditions
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge Payment History Standard (Property Charges Paid Through Escrow Account)</li> <li>• Meets Mortgage, Installment and Revolving History Standards</li> <li>• Has Residual Income &lt; 80% of standard and compensating factors are not sufficient to meet Residual Income Standard</li> </ul>	<ul style="list-style-type: none"> <li>• Projected partially funded Life Expectancy Set-Aside does not exceed 75% of projected fully funded Life Expectancy Set-Aside.</li> <li>• Monthly Property Charges 6% or less of Monthly Mortgagor Income</li> <li>• Principal Limit must be sufficient to partially fund Life Expectancy Set-Aside</li> </ul>
<p>Mortgagor:</p> <ul style="list-style-type: none"> <li>• Meets Property Charge Payment History Standard</li> <li>• Monthly Property charges =&gt;10% of Monthly Mortgagor Income</li> <li>• Meets Mortgage and Installment Debt Credit History Standard</li> <li>• Does, or does not, meet revolving debt credit history standard</li> <li>• Has Residual Income of 80 - 99% of Residual Income Standard</li> </ul>	<ul style="list-style-type: none"> <li>• Mortgagor has paid property charges directly (no escrow account)</li> <li>• HECM proceeds remaining after Initial 12-Month Period and/or Mortgagor Available Assets (not used in Residual Income Calculation) are sufficient to pay-off outstanding obligations;</li> <li>• Projected partially funded Life Expectancy Set-Aside does not exceed 75% of projected fully funded Life Expectancy Set-Aside; and</li> <li>• Principal Limit must be sufficient to partially fund the Life Expectancy Set Aside</li> </ul>

# Appendix 1 - Model HECM Financial Analysis Worksheet

<b>MODEL HECM FINANCIAL ASSESSMENT WORKSHEET</b> FHA CASE NO. _____									
<b>MORTGAGOR NAME</b>			<b>MORTGAGOR NAME</b>						
<b>PROPERTY STREET ADDRESS</b>			<b>PROPERTY CITY, STATE, ZIP CODE</b>						
<b>SECTION A: PROPERTY CHARGE PAYMENT HISTORY</b>									
<b>PROPERTY CHARGE</b>	<b>CURRENT</b>			<b>DELINQUENT IN LAST 24 MONTHS</b>					
REAL ESTATE TAXES	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>	NO			
OTHER ASSESSMENTS	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>	NO			
HOA/PUD/CONDO FEES	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>	NO			
HAZARD/HOMEOWNERS INSURANCE IN PLACE FOR LAST 12 MONTHS				<input type="checkbox"/>	YES	<input type="checkbox"/>	NO		
FLOOD INSURANCE IN PLACE FOR LAST 12 MONTHS				<input type="checkbox"/>	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>	N/A
<b>SECTION B: CREDIT HISTORY</b>									
<b>CREDIT ACCOUNT</b>			<b>NUMBER OF DELINQUENT PAYMENTS LAST 24 MONTHS</b>						
			<b>30 DAY</b>	<b>60 DAY</b>	<b>90 DAY</b>				
<b>SECTION C: ASSETS</b>									
<b>ASSET ACCOUNT</b>	<i>minus</i>	<b>MORTGAGOR FUNDS NEEDED TO CLOSE</b>		<b>NET VALUE</b>					

**SECTION D: CALCULATION OF IMPUTED INCOME FROM ASSET DISSIPATION**

ASSET ACCOUNT	NET VALUE		% VALUE		DISCOUNTED VALUE
		X		=	\$
		X		=	\$
		X		=	\$
		X		=	\$
		X		=	\$
<b>TOTAL DISCOUNTED VALUE OF ASSETS</b>					\$
<i>divided by</i>	<b>LIFE EXPECTANCY OF YOUNGEST MORTGAGE IN MONTHS (LIFE EXPECTANCY X 12)</b>				
<i>equals</i>	<b>TOTAL IMPUTED MONTHLY INCOME FROM ASSETS</b>				\$

**SECTION E: CALCULATION OF MAINTENCE AND UTILITY EXPENSES**

	<b>SQUARE FOOTAGE OF PROPERTY</b>	_____	<b>SQUARE FEET</b>
<i>multiplied by</i>	<b>\$0.14</b>	X _____	<b>0.14</b>
<i>equals</i>	<b>MONTHLY MAINTENANCE AND UTILITY EXPENSES</b>	\$ _____	

**SECTION F: MONTHLY EFFECTIVE INCOME**

MONTHLY INCOME SOURCE	AMOUNT	MONTHLY INCOME SOURCE	AMOUNT
EMPLOYMENT	\$	ASSET DISSIPATION	\$
PENSION/RETIREMENT	\$	OTHER (describe)	\$
SOCIAL SECURITY	\$	OTHER (describe)	\$
RENTAL INCOME	\$	OTHER (describe)	\$

**TOTAL MONTHLY EFFECTIVE INCOME FROM ALL SOURCES:**

**SECTION G: MONTHLY PROPERTY CHARGES**

PROPERTY CHARGE	ANNUAL AMOUNT	DIVIDED BY	EQUALS	MONTHLY AMOUNT
REAL ESTATE TAXES		12	=	\$
HAZARD/HOMEOWNERS INSURANCE		12	=	\$
FLOOD INSURANCE		12	=	\$
HOA/PUD/CONDO FEES		12	=	\$
OTHER (describe)		12	=	\$
OTHER (describe)		12	=	\$

TOTAL MONTHLY PROPERTY CHARGES:

**SECTION H: OTHER MONTHLY EXPENSES**

MONTHLY EXPENSE SOURCE	OUTSTANDING BALANCE	MONTHLY PAYMENT	MONTHLY EXPENSE SOURCE	OUTSTANDING BALANCE	MONTHLY PAYMENT
INCOME TAXES			JUDGMENT PAYMENTS		
FICA			BANKRUPTCY PAYMENTS		
INSTALLMENT ACCOUNTS			MAINTENANCE AND UTILITIES		
REVOLVING ACCOUNTS			OTHER (describe)		
ALIMONY AND CHILD SUPPORT			OTHER (describe)		
MAINTENANCE AND UTILITIES			OTHER (describe)		

TOTAL OTHER MONTHLY EXPENSES:

**SECTION I: RESIDUAL INCOME**

TOTAL MONTHLY EFFECTIVE INCOME FROM ALL SOURCES		\$
<i>minus</i>	TOTAL MONTHLY PROPERTY CHARGES	\$
<i>minus</i>	TOTAL OTHER MONTHLY EXPENSES	\$
<i>equals</i>	MONTHLY RESIDUAL INCOME	\$

**SECTION J: MONTHLY PROPERTY TAXES AS % OF MONTHLY INCOME**

TOTAL MONTHLY PROPERTY TAXES \$ \_\_\_\_\_

*divided by* TOTAL MONTHLY EFFECTIVE INCOME FROM ALL SOURCES \$ \_\_\_\_\_

*equals* \_\_\_\_\_ %

**SECTION K: EXTENUATING CIRCUMSTANCES**

**SECTION L: COMPENSATING FACTORS**

**RESULTS OF FINANCIAL ASSESSMENT**

PROPERTY CHARGE PAYMENT HISTORY	ACCEPTABLE	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO
CREDIT HISTORY	ACCEPTABLE	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO
RESIDUAL INCOME	ACCEPTABLE	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO
DE UNDEWRITER CHUMS ID	DE UNDERWRITER SIGNATURE			DATE	

**Appendix 2 - Appendix L to Part 1026—Assumed Loan Periods for Computations of Total Annual Loan Cost Rates**

(a) Required tables. In calculating the total annual loan cost rates in accordance with appendix K of this part, creditors shall assume three loan periods, as determined by the following table.

(b) Loan periods. (1) Loan Period 1 is a two-year loan period.

(2) Loan Period 2 is the life expectancy in years of the youngest borrower to become obligated on the reverse mortgage loan, as shown in the U.S. Decennial Life Tables for 1979-1981 for females, rounded to the nearest whole year.

(3) Loan Period 3 is the life expectancy figure in Loan Period 3, multiplied by 1.4 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

(4) At the creditor's option, an additional period may be included, which is the life expectancy figure in Loan Period 2, multiplied by .5 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

<b>Age of youngest borrower</b>	<b>Loan period 1 (in years)</b>	<b>[Optional loan period (in years)]</b>	<b>Loan period 2 (life expectancy) (in years)</b>	<b>Loan period 3 (in years)</b>
62	2	[11]	21	29
63	2	[10]	20	28
64	2	[10]	19	27
65	2	[9]	18	25
66	2	[9]	18	25
67	2	[9]	17	24
68	2	[8]	16	22
69	2	[8]	16	22
70	2	[8]	15	21
71	2	[7]	14	20
72	2	[7]	13	18
73	2	[7]	13	18
74	2	[6]	12	17
75	2	[6]	12	17

76	2	[6]	11	15
77	2	[5]	10	14
<b>Age of youngest borrower</b>	<b>Loan period 1 (in years)</b>	<b>[Optional loan period (in years)]</b>	<b>Loan period 2 (life expectancy) (in years)</b>	<b>Loan period 3 (in years)</b>
78	2	[5]	10	14
79	2	[5]	9	13
80	2	[5]	9	13
81	2	[4]	8	11
82	2	[4]	8	11
84	2	[4]	7	10
85	2	[3]	6	8
86	2	[3]	6	8
87	2	[3]	6	8
88	2	[3]	5	7
89	2	[3]	5	7
90	2	[3]	5	7
91	2	[2]	4	6
92	2	[2]	4	6
93	2	[2]	4	6
94	2	[2]	4	6
95 and over	2	[2]	3	