Special Attention Of: All HUD-Approved HECM Counseling Agencies and Counselors

NOTICE H 2015-05

Issued: July 6, 2015

Expires: This Notice remains in effect until amended, superseded or rescinded.

Subject
Guidance for Home Equity Conversion Mortgage (HECM) Program Counselors providing counseling to prospective HECM mortgagors, and their Non-Borrowing Spouses.

Purpose
This Housing Notice informs HUD approved HECM counselors of recent HECM program updates to policies and requirements addressing Financial Assessments, Property Charges, Lien Seasoning, Non-Borrowing Spouse Certifications, Deferral Period, Partially-Funded Life Expectancy Set-Aside, and Servicing Fee Set-Aside. The updates and relevant guidance were announced in Mortgagee Letters (ML) 2014-21, 2014-22, 2015-02, and 2015-06.

Effective Date
The provisions of this Housing Notice are effective upon the date of the Mortgagee Letters above.

Background

FHA continues to make improvements to the HECM program, thus, HUD also issued Mortgagee Letter 2015-02, which addresses certifications for Eligible and Ineligible Non-Borrowing HECM Spouses and seasoning requirements for non-HECM liens. The policies in Mortgagee Letter 2015-02, supersede any conflicting policies in Mortgagee Letter 2014-07.

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**Changes to Housing Counseling Requirements Related to Seasoning**

In Mortgagee Letter 2014-21, FHA announced that HECM proceeds may be used to pay off existing non-HECM liens only if the liens have been in place for more than 12 months or resulted in less than $500 cash to the mortgagor, whether at closing or through cumulative draws (e.g., as with a Home Equity Line of Credit (HELOC)) prior to the date of the initial HECM loan application. Counselors must discuss seasoning requirements with prospective mortgagors.

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**Mandatory Obligations Related Changes to Housing Counseling Requirements**

Counselors should review Mortgagee Letter 2014-21 to counsel prospective HECM mortgagors on Mandatory Obligations that may limit disbursements. Mandatory Obligations are fees and charges incurred in connection with the origination of the HECM that are paid at closing or during the First 12 Month Disbursement Period. These Mandatory Obligations are a condition or a requirement for loan approval or any disbursements for a Repair Set-Aside, including the cost of repairs and the repair administration fee.

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**Property Charge Funding Requirements Changes Related to Housing Counseling Requirements**

Mortgagee Letter 2014-21 updated the Life Expectancy Set-Asides, which may be required based upon the results of the Financial Assessment. Counselors should advise prospective HECM mortgagors that a mortgagor, based on the financial assessment results, may now require either a Fully-Funded or a Partially-Funded Life Expectancy Set-Aside. For a Partially-Funded Life Expectancy Set-Aside, Counselors must advise prospective HECM mortgagor’s and Non-Borrowing Spouses of the following:

- The mortgagor will receive semi-annual payments from the Set-Aside, which must be used to pay the taxing authority or insurance carrier, or both;
- The mortgagor is responsible for making timely payments to the taxing authority or insurance carrier, or both, over the life of the loan;
- The projected amount of funds required to cover defined property charges over the estimated life expectancy of the youngest mortgagor...
and the income assumptions used to project semi-annual distributions to the mortgagor may be insufficient to cover property charges for the full length of that specified amount of time;

- No funds will be available during any applicable Deferral Period; and
- The mortgagor will no longer receive semi-annual payments and will continue to be responsible for the payment of all property charges over the life of the loan when funds are insufficient or the balance of the Set-Aside is zero.

In Mortgagee Letter 2014-22, FHA announced revisions to the HECM Financial Assessment and Property Charge Guide. Counselors must be prepared to discuss the changes set forth in the revised guide with prospective mortgagors. Counselors must ensure the mortgagors are fully informed of their obligations to pay property charges. To perform this financial assessment, income documentation will be required. Credit history and property charge payment history will also be considered by the mortgagee. The HECM mortgagee, not the HECM counselor, is responsible for performing the Financial Assessment described in Attachment 2 of ML 2014-22 as well as determining whether a Life Expectancy Set-Aside will be required.

The Reverse Mortgage Analyzer software (RMA) was modified to incorporate the financial assessment requirements and was effective as of April 27, 2015, the date financial assessment requirements became effective. Reverse mortgage counselors are reminded that the use of RMA in counseling sessions is a requirement. The use of the financial assessment component of RMA does not change the requirement for counselors to utilize the Financial Interview Tool (FIT).

Counselors shall counsel prospective mortgagors and Non-Borrowing Spouses about required certifications and the requirements for a Deferral Period. Mortgagee Letter 2015-02 defined a new type of Non-Borrowing Spouse, termed “Ineligible Non-Borrowing Spouse.” An Ineligible Non-Borrowing Spouse is a Non-Borrowing Spouse who does not meet the Qualifying Attributes requirements defined in ML 2014-07 for a Deferral Period. Counselors should inform mortgagors and Non-Borrowing Spouses that the mortgagee will request that the mortgagor and Non-Borrowing Spouse sign a certification at closing and that the age of the youngest borrower or Eligible Non-Borrowing Spouse will be used to determine the Principal Limit. The age of any Ineligible Non-Borrowing Spouse will not be used. Counselors must also ensure that the mortgagor and Non-Borrowing
Spouse are aware of all the requirements for a Deferral Period, such as in the event a Deferral Period ceases, the mortgagee must provide an Eligible Non-Borrowing Spouse with 30 days to cure a HECM that has become eligible to be called due and payable for a reason other than the mortgagor’s death.

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<td>Paperwork reduction information collection requirements contained in this Notice have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. §§ 3501-3520) and assigned OMB Control Numbers 2502-0524. Revisions are being made to OMB Control Number 2502-0524. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.</td>
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<td>Any questions regarding this Notice should be emailed to the Office of Housing Counseling at <a href="mailto:housing.counseling@hud.gov">housing.counseling@hud.gov</a>.</td>
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| Edward L. Golding  
Principal Deputy  Assistant Secretary for Housing |