



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

March 27, 2015

MORTGAGEE LETTER 2015-09

TO: ALL APPROVED MORTGAGEES

Subject Home Equity Conversion Mortgage (HECM) Program – Life Expectancy Set-Aside Growth Rate and Clarification to Section 3.98 of the HECM Financial Assessment and Property Charge Guide

Purpose This Mortgagee Letter establishes a monthly growth rate for Life Expectancy Set-Asides and clarifies a discrepancy between the HECM Financial Assessment and Property Charge Guide and the model HECM Financial Assessment Worksheet transmitted with Mortgagee Letter 2014-22.

Effective Date The requirements defined in this Mortgagee Letter are effective for all HECM case numbers assigned on or after April 27, 2015.

Affected Handbooks The requirements in this Mortgagee Letter supplement and revise requirements in Section 3 and 5, *Property Charge Funding Requirements*, of the HECM Financial Assessment and Property Charge Guide that is attached to Mortgagee Letter 2014-22.

Life Expectancy Set-Aside Growth Rate The Life Expectancy Set-Aside (LESA) is used for the payment of property taxes, and hazard and flood insurance premiums, and will increase each month at a rate equal to one-twelfth of the sum of the mortgage interest rate (Note Rate), plus the annual mortgage insurance premium rate (currently 0.0125 or 1.25%), from the date the loan is funded. The LESA amount is determined at origination and its balance is adjusted monthly by applying the formula below. The LESA amount itself is not recalculated.

Formula

$$\text{PMLB} * (1+d) - \text{TMLD}$$

Abbreviations:

d – (Note Rate + 0.0125)/12

PMLB – Prior Month LESA Balance

TMLD – This Month LESA Distribution

Property Taxes and Percentage of Gross Income

In Section 3.98, of the HECM Financial Assessment and Property Charge Guide attached to Mortgagee Letter 2014-22, the Federal Housing Administration (FHA) required mortgagees to compute *property charges* as a percentage of gross income. On the model HECM Financial Assessment Worksheet, Appendix 1 of the HECM Financial Assessment and Property Charge Guide, FHA provided a space for mortgagees to enter *property taxes* as a percentage of gross income.

In order to resolve this inconsistency, Section 3.98 is revised as follows:

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

Revised HECM Financial Assessment Worksheet

The model HECM Financial Assessment Worksheet (Worksheet) has been revised and replaces the Worksheet in Appendix 1 of the HECM Financial Assessment and Property Charge Guide that is attached to Mortgagee Letter 2014-22. The revised Worksheet is available for download from HUD's web site at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/mode.

Information Collection

The information collection requirements contained in this document 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 number 2502-0524, 2502-0429, and 2505-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Questions

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

Signature

Biniam Gebre
Acting Assistant Secretary for Housing-
Federal Housing Commissioner
