March 27, 2015

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


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

\[ PMLB \times (1+d) - TMLD \]

Abbreviations:
- \( d \) – (Note Rate + 0.0125)/12
- PMLB – Prior Month LESA Balance
- TMLD – This Month LESA Distribution
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.

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:


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