

CHAPTER 1. GENERAL INFORMATION

1-1 LEGISLATIVE HISTORY. The Housing and Community Development Act of 1987 (P.L. 100-242, 2/5/88) established a Federal mortgage insurance program, Section 255 of the National Housing Act, to insure home equity conversion mortgages. The program is administered by the Department of Housing and Urban Development (HUD). Pursuant to the 1987 Act, the Department was authorized to insure 2,500 HECMs. These 2,500 reservations of insurance authority were allocated among the 10 HUD Regions in proportion to each Region's share of the nation's elderly homeowners. The Regional Offices of Housing then distributed the reservations among lender applicants using a random drawing method. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508, 11/5/90) increased the Department's insurance authority to 25,000 mortgages; accordingly, the reservation system was terminated, and all Federal Housing Administration (FHA) approved lenders are now eligible to participate in the HECM program.

1-2 PURPOSE OF THE PROGRAM. The program insures what are commonly referred to as reverse mortgages, and is designed to enable elderly homeowners to convert the equity in their homes to monthly streams of income and/or lines of credit.

1-3 CHARACTERISTICS OF THE MORTGAGE.

A. Loan proceeds in a home equity conversion mortgage (HECM) or "reverse mortgage" are paid out according to a payment plan selected by the borrower.

B. Unlike a traditional "forward" residential mortgage, which is repaid in periodic payments, a reverse mortgage is repaid in one payment, after the death of the borrower, or when the borrower no longer occupies the property as a principal residence.

C. The HECM is a "non-recourse" loan. This means that the HECM borrower (or his or her estate) will never owe more than the loan balance or the value of the property, whichever is less; and no assets other than the home must be used to repay the debt.

D. The HECM has neither a fixed maturity date nor a fixed mortgage amount.

---

1-1

4235.1 REV-1

---

(1-3)

E. If the lender is unable to make payments to the borrower, HUD

will assume responsibility for making payments until the lender is able to resume. If the lender will not be able to make any future payments, HUD will make payments for the remainder of the mortgage.

F.The mortgage proceeds paid by the lender and/or HUD will be secured by first and second mortgages on the property. These liens will allow the lender and HUD to recover any losses up to the value of the property when the borrower dies, or no longer maintains the property as a principal residence.

G.Eligibility Requirements (See Chapters 3 and 4).

1) Eligible borrowers are persons 62 years of age or older.

2)Eligible properties are one unit dwellings, including units in condominiums.

3)Eligible borrowers should own their homes free and clear or with liens not exceeding the principal limit. (See Paragraph 4-2E. for instructions regarding existing liens that may be paid off or subordinated.)

1-4PRINCIPAL LIMIT. The amount that the borrower can receive from a reverse mortgage is determined by calculating the principal limit. The figure increases monthly and represents the maximum payment that a borrower may receive (See Chapter 5).

A.The principal limit at origination is based on the age of the youngest borrower, the expected average mortgage interest rate, and the maximum claim amount.

1)Expected Average Mortgage Interest Rate ("expected rate"). The expected rate is fixed throughout the life of the loan and is used to determine payments to the borrower. For a fixed rate loan, the expected rate is the fixed interest rate. For an adjustable rate loan, the expected rate is the sum of the lender's margin and the U.S. Treasury Securities rate adjusted to a constant maturity of ten years.

---

1-2

4235.1 REV-1

---

(1-4A.)

2)Maximum Claim Amount. The maximum claim amount is the lesser of the appraised value of the property or the maximum mortgage amount for a one-family residence that HUD will insure in an area under Section 203(b)(2) of the National Housing Act. The maximum claim amount is established when the Conditional Commitment is issued and represents the maximum amount that HUD will pay on a claim for insurance

benefits.

B.The principal limit increases each month by one-twelfth of the sum of the expected rate and the annual mortgage insurance premium (MIP) rate of 0.5%.

C.Except in limited circumstances, the borrower will be unable to receive additional payments once the outstanding balance equals the principal limit.

1-5PAYMENT PLAN. The borrower has the choice of receiving the mortgage proceeds through five basic payment plans (See Chapter 5):

A.Tenure. Under this payment plan, the borrower will receive equal monthly payments from the lender for as long as the borrower lives and continues to occupy the property as a principal residence.

B.Term. Under this payment plan, the borrower will receive equal monthly payments from the lender for a fixed period of months selected by the borrower.

C.Line of Credit. Under this payment plan, the borrower will receive the mortgage proceeds in unscheduled payments or in installments, at times and in amounts of the borrower's choosing, until the line of credit is exhausted.

D.Modified Tenure. Under this payment plan, the borrower may combine a line of credit with monthly payments for life, or for as long as the borrower continues to live in the home as a principal residence. In exchange for reduced monthly payments, the borrower will set aside a specified amount of money for a line of credit, on which he or she can draw until the line of credit is exhausted.

---

1-3

4235.1 REV-1

---

(1-5)

E.Modified Term. Under this payment plan, the borrower may combine a line of credit with monthly payments for a fixed period of months selected by the borrower. In exchange for reduced monthly payments, the borrower will set aside a specified amount of money for a line of credit, on which he or she can draw until the line of credit is exhausted.

1-6CHANGING THE PAYMENT PLAN. The borrower will be able to change the type of payment plan throughout the life of the loan (See Chapter 5 and HUD Handbook 4330.1).

A.The borrower may change the term of payments, may receive an

unscheduled payment, may suspend payments, may establish or terminate a line of credit, or may receive the entire net principal limit (i.e., the difference between the current principal limit and the outstanding balance) in a lump sum payment.

B. With all payment plans, the lender must be able to make lump sum payments up to the net principal limit at the borrower's request.

1-7 SHARED APPRECIATION. A shared appreciation mortgage, where the borrower promises to pay the lender a percentage of the appreciation in the value of the property, in addition to the outstanding balance, when the mortgage is due and payable, is also available with all five payment plans (See Chapter 5).

A. Under this type of mortgage, the borrower may have the benefit of a lower interest rate and, therefore, higher monthly or line of credit payments.

B. A lender that offers shared appreciation mortgages must also offer comparable mortgages without shared appreciation.

C. With shared appreciation mortgages, the lender can only choose the shared premium insurance option (See Paragraph 1-11 for insurance options).

---

1-4

4235.1 REV-1

---

1-8 INTEREST RATE. Interest may accrue at a fixed or adjustable rate, as negotiated between the borrower and the lender.

A. For adjustable rate mortgages:

1) The mortgage interest rate is set at the U.S. Treasury Securities rate adjusted to a constant maturity of one year, plus a margin which is the same as the margin used to determine the expected average mortgage interest rate.

2) The lender must offer a rate that adjusts annually (with a 2% annual cap and a 5% lifetime cap), but may also offer a rate that adjusts monthly (with only a lifetime cap established by the lender).

B. Interest will accrue daily and be added to the outstanding balance monthly.

C. The borrower will not be able to change from a fixed to an adjustable rate and vice versa after closing.

1-9 COUNSELING. The borrower is required to receive counseling before the HECM application is processed. Counseling will be provided by

HUD-approved housing counseling agencies and will focus on the different types of home equity conversion mortgages available, the suitability of a home equity conversion mortgage for the borrower, and the alternatives to a home equity conversion mortgage. Refer to Chapter 2 for counseling procedures and requirements.

1-10MORTGAGE INSURANCE PREMIUM (MIP). The borrower will be charged mortgage insurance premiums to reduce the risk of loss in the event that the outstanding balance, including accrued interest, MIP, and fees, exceeds the value of the property at the time that the mortgage is due and payable. HUD will select an agent to collect MIP (see Chapter 7).

---

1-5

4235.1 REV-1

---

(1-10)

A.Types of mortgage insurance premiums:

1)A one-time non-refundable initial MIP equal to 2% of the maximum claim amount will be assessed at closing. It may be paid in cash by the borrower or may be added to the outstanding balance. It must be remitted by the lender to HUD before the loan can be endorsed.

2)A monthly MIP equal to one-twelfth (1/12) of the annual rate of 0.5% of the outstanding balance will be assessed throughout the life of the loan. The MIP will be added to the outstanding balance and remitted to HUD monthly by the lender.

B.Remittance Requirements. Both the initial and monthly MIP will be paid electronically. The lender, therefore, will be required to:

1)Establish an Pre-Authorized Debit (PAD) account for the purpose of remitting MIP payments to HUD. Refer to Appendix 23 for procedures to establish a PAD account.

2)Use a personal computer (PC), modem, and printer which are compatible with the equipment used by an agent selected by HUD to collect the MIP. Refer to Chapter 7 and Appendix 23 for details concerning equipment requirements.

1-11INSURANCE OPTIONS. At the time the loan is closed, the lender will choose between two insurance options.

A.Assignment (See Chapter 8). The lender will have the right to assign the mortgage to HUD when the outstanding balance is equal to or greater than 98% of the maximum claim amount, or when a request for a line of credit draw will cause the outstanding

balance to equal or exceed 98% of the maximum claim amount. The lender will be able to receive insurance benefits at that time.

---

1-6

4235.1 REV-1

---

(1-11)

B.Shared Premium (See HUD Handbook 4330.1). The lender holds the loan for its entire term and retains a portion of the monthly MIP. If the outstanding balance exceeds the property value at the time that the mortgage is due and payable, the lender receives insurance benefits up to the maximum claim amount and compensates for any losses with retained MIP.

1-12SERVICING. The lender is permitted to charge the borrower a servicing fee if this cost has not already been priced into the borrower's mortgage interest rate.

A.If the lender chooses to assess a servicing fee, the fee is established at closing as a monthly figure and the amount necessary to pay this fee throughout the life of the loan is calculated and set aside from the principal limit at closing (see Paragraph 5-7B. for calculations).

B.The servicing fee that may be charged on fixed rate or annually adjustable loans may not exceed thirty dollars (\$30.00) per month. The servicing fee that may be charged on monthly adjustable loans is uncapped.

C.The lender adds this fee to the borrower's outstanding balance monthly, and cannot assess any other fees to cover the costs of servicing.

1-13RECOVERY OF MORTGAGE PROCEEDS. The borrower may occupy the property until the mortgage becomes due and payable. A mortgage will become due and payable when the borrower dies, the property is no longer the borrower's principal residence, the borrower does not occupy the property for 12 consecutive months for health reasons, or the borrower violates the mortgage covenants.

A.When the mortgage becomes due and payable, the property will normally be sold by the borrower or the borrower's estate to pay off the outstanding balance on the mortgage.

B.Since a HECM is a non-recourse loan, the lender's recovery from the borrower will be limited to the value of the home. There will be no deficiency judgment taken against the borrower or the estate because there is no personal liability for payment of the loan balance.

---

1-7

4235.1 REV-1

---

(1-13)

C. When the proceeds from the sale of the property are insufficient to pay off the outstanding balance, the lender will file a claim for the difference between the proceeds from the sale of the property and the outstanding balance, up to the maximum claim amount. For further instructions with respect to filing a claim, lenders may contact the Single Family Claims Support Service Center at 703/235-9102.

1-14 DIRECT ENDORSEMENT AND COINSURANCE. Due to the mortgage lending industry's unfamiliarity with the program and the unusual nature of the program, lenders will not be able to process applications for these mortgages through the Direct Endorsement or Coinsurance Programs.

1-15 CHUMS LENDER ACCESS SYSTEM (CLAS). Lenders may utilize the CLAS system during the processing of their HECM cases. CLAS provides an electronic means of communicating with HUD on FHA mortgage applications. Lenders now have a choice of vendors; the United Communications Group [an affiliate of the Mortgage Bankers Association] offers CLAS through their ECHO network (800/929-4824), and Fannie Mae offers CLAS through their MORNET system (800/752-6440).

The following are brief descriptions of each request type in the CHUMS lender Access System (CLAS version 7.0A) that is available for use in processing a HECM loan:

A. Receiving/Assignment. This request allows the lender to request a case number and appraisal assignment for a property. CLAS Receiving and Assignment requests use interactive CHUMS screens and require HUD intervention.

B. Case Status. This request allows lenders to obtain a copy of the Case Status screen. The lender can also request a list of existing cases by address, borrower name, or borrower social security number. The requests are processed without HUD intervention.

---

1-8

4235.1 REV-1

---

(1-15)

C. MIC Case Status. This request provides the lender with MIC and

MIP information (i.e., endorsement date, MIP amount due, MIP amount received). This type of request can be made by case number only, and can be processed without HUD intervention.

D.Reports. The lender can order specialized CLAS reports. These reports include endorsement, MIP and pipeline reports. The reports are processed without HUD intervention. The reports will be generated twice a week and returned to the lender.

E.Compliance Inspectors. The lender may have a compliance inspector assigned after a case number has been issued. Requests will only be accepted if an inspector has not already been assigned to the case. These requests are processed without HUD intervention.

F.Duplicate MICs. The lender may request a duplicate MIC through CLAS. If the case number is on the system, the duplicate MIC will automatically be inserted into the local HUD office print queue. If the case has been archived, a restore of that case will be automatically triggered. When the case is restored, the duplicate will automatically be inserted into the print queue. It is the local HUD office's responsibility to print and mail the duplicate MIC to the lender. The return address on the duplicate MIC will be that of the lender who requested the duplicate. The duplicate MIC will display the message "DUPLICATE VIA CLAS". Only requests for duplicate MICs will be accepted. Original MICs cannot be printed through this feature.

G.Case Cancellation. The lender may cancel a case number through CLAS. Requests are processed without HUD intervention.

1-16BASIC PROGRAM OUTLINE. The following is a brief description of the processing of a reverse mortgage. The chapters of the handbook are generally arranged in this order.

A.The borrower receives counseling from a HUD-approved housing counseling agency. The borrower need not have contacted a lender to receive counseling.

---

1-9

4235.1 REV-1

---

(1-16)

B.The lender submits an application for valuation analysis of the property to the local HUD office, and if the property is approved, a conditional commitment is issued on the property.

C.Borrower eligibility is determined by verifying the age of the borrower and reviewing title evidence and the existing indebtedness on the property, if any. A firm commitment is issued.

D.For the purpose of estimating the borrower's principal limit before closing, the lender uses the indices in effect at the time the application is signed by the borrower. Based on this figure, the borrower chooses a payment plan.

E.On the date of closing, the expected rate, and the mortgage interest rate for adjustable rate HECMs, are set. The loan is closed and the lender chooses the assignment or shared premium option for recapturing the mortgage proceeds. The lender must also remit the initial MIP electronically to the agent.

F.Disbursement of loan proceeds to the borrower may begin.

G.When the case binder is complete, the lender submits it to the local HUD office and a Mortgage Insurance Certificate is issued, endorsing the mortgage for insurance. HUD signs the Loan Agreement.

H.The lender adds the monthly MIP to the outstanding balance and remits the premium to HUD. The monthly MIP accrues daily on the outstanding balance on the loan at a rate equivalent to an annual rate of one half of one percent. Lenders who have chosen the shared premium option will retain a portion of the monthly premium.

I.When the indebtedness on the mortgage equals 98% of the maximum claim amount, or if a request for a line of credit draw will cause the outstanding balance to equal or exceed 98% of the maximum claim amount, and any time thereafter:

1)Lenders that have chosen the assignment option may assign the mortgage to HUD and receive a payment on a claim not greater than the maximum claim amount.

---

1-10

4235.1 REV-1

---

(1-16I.)

2)Lenders that have chosen the shared premium option will not have the option of assigning the mortgage to HUD.

J.When the mortgage becomes due and payable,

1) The borrower or his or her estate will pay:

a.An amount equal to the lesser of the mortgage balance or the sales proceeds, if the property is sold by the borrower or his or her estate for at least 95% of the fair market value of the property.

b.The outstanding balance will include an amount equal to the lender's share of any appreciation in the property's value, if the mortgage has a shared appreciation agreement.

2)Otherwise, the lender will recapture the mortgage proceeds from the acquisition and sale of the property.

K.If the proceeds from the sale of the property are not sufficient to pay the outstanding balance, lenders that have chosen the assignment option but have not assigned the mortgage and lenders that have chosen the shared premium option may submit a claim for insurance benefits up to the maximum claim amount.

---

1-11

4235.1 REV-1

---

This page intentionally left blank.

---

1-12