1. THIS TRANSMITS HANDBOOK 4235.1 REV-1, Home Equity Conversion Mortgages.

2. Explanation of Material Transmitted:

This handbook provides updated instructions to approved mortgagees and to HUD Field Office personnel regarding the processing and servicing of a Home Equity Conversion Mortgage (HECM). This handbook replaces 4235.1, dated August 1989, and incorporates Mortgagee Letters 90-17, 91-1 (references on pages 5 and 6 to HECMs), and 93-22. See Foreword for highlights and major changes.

3. Filing Instructions:

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Assistant Secretary for Housing- Federal Housing Commissioner

HSID: Distribution: W-3-1, W-2 (ADM), W-2 (OGC) (Z) (H) (PDR), W-3 (H) (AOG) (PDR), W-4 (H), R-1, R-2, R-3, R-3-1 (H), R-3-2, R-3-3, R-6, R-6-1, R-6-2, R-7, R-7-1, R-7-2, R-8, R-8-1

HUD-23 (9-81)

FOREWORD

This handbook describes the Department's Home Equity Conversion Mortgage (HECM) program and provides instructions for HUD staff, participating lenders, and HUD-approved counseling agencies. It combines and updates the provisions of Handbook 4235.1 (issued 8/24/89), and Mortgagee letters 90-17, 91-1 (pages 5 and 6), and 93-22. Where it is applicable, this handbook refers to other HUD handbooks for detailed procedural and policy information.
Questions not addressed in the text, or in the referenced material, should be directed to the local HUD Office, or to the Director, Single Family Development Division, Office of Insured Single Family Housing, HUD Headquarters, 451 Seventh Street, S.W., Washington, D.C. 20410-8000.

The following are highlights and changes to the handbook: (Note that in the case of handbook provision being modified or clarified, the following Paragraph references will not correlate to paragraphs in the first version of the HECM handbook. This is because Paragraphs 2, 8 and 10 were deleted; consequently, the remaining paragraph numbers have been substantially modified.)

Chapter 1:  Paragraph 1-8 expanded to describe the reservation system which was rendered obsolete by the Cranston-Gonzalez National Affordable Housing Act (NAHA) in 1990. The reservation system was previously outlined in Chapter 2. Paragraph 1-3 has been revised to reflect that a HECM is a non-recourse loan. Paragraph 1-15 has been included to outline the manner in which lenders may utilize the CHUMS Lender Access System (CLAS).

Chapter 2:  Paragraph 24 has been included to allow a counseling session to be held with a person holding a power of attorney, or with a court-appointed conservator, on behalf of a borrower lacking legal competency.

Chapter 3:  Paragraph 34A. has been expanded to clarify the means by which a property is classified as a one-, two-, three-, or four-unit property. Paragraph 3-4B. has been expanded to describe the guidelines for manufactured home eligibility. Paragraph 3-4H. has been revised to clarify flood insurance requirements. Paragraph 3-6 has been included to describe the acceptability under fair housing laws of protective covenants in retirement communities. Various paragraphs have been

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revised to reflect that HUD no longer provides an estimate of closing costs.

Chapter 4:  Paragraph 4-2B. has been revised to reflect the policy which was adopted in 1993 regarding the amount of loan origination fee which may be financed. Paragraph 4-2E. has been modified to clarify that existing liens may be subordinated rather than paid off. Paragraph 4-3 has been modified to reflect the requirement that lenders must identify potential borrowers who have been suspended, debarred, or otherwise excluded from participation in the Department's programs. Paragraph 4-4C. has been revised to reflect the existing policy that at least one borrower must be living in the home in order for the HECM to close. Paragraph 4-5 has been added to reflect the instructions that were adopted in 1993 concerning HECMs on property held in trust. Paragraph 4-6 has been added to reflect power of attorney and conservatorship guidelines. Paragraphs 4-7 and 4-8
have been revised to reflect that the Disclosure Statement for Reverse Mortgages (formerly Appendix 15) is no longer required. Paragraph 4-7B. has been modified to reflect the acceptability of a merged in-file credit report. Paragraph 4-7F. has been expanded to incorporate existing requirements regarding identification of the borrower. Various paragraphs have been revised to reflect that HUD no longer provides an estimate of closing costs.

Chapter 5: Paragraph 5-2 has been revised to indicate that the HECM spreadsheet software may no longer be downloaded from a HUD computer bulletin board. Paragraph 5-9E. has been modified to reflect that a minimum balance of $50.00 must remain in the line of credit after a withdrawal.

Chapter 6: Various paragraphs have been modified to reflect the use of the adjustable rate notes which were introduced in 1993. Paragraph 66B. has been revised to clarify the circumstances under which a figure representing 150% of the maximum claim amount is used in the mortgage. Paragraph 6-8 has been modified to reflect the policy with respect to the loan closing date that was adopted in 1993. Paragraph 6-10 has been revised to emphasize that the second mortgage is not subject to any State or local recording taxes. Paragraph 6-17B. has been added to provide instructions for maintenance of the case binder following the insurance demonstration.

Chapter 7: Paragraph 7-13 was modified to clarify the circumstances which require a MIP refund.

Chapter 8: No significant change.

Chapter 9: No significant change.

General Handbook Changes: Three chapters have been removed. Allocation of Reservations (formerly Chapter 2) was rendered obsolete by the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625, 11/28/90). That legislation increased HECM insurance authority so that reservations were no longer necessary. Lender Servicing (formerly Chapter 8) and Payoffs and Due and Payable Mortgages (formerly Chapter 10) have been incorporated into HUD Handbook 4330.1, Administration of Insured Home Mortgages. Several appendices have been renumbered. The ARM Rider and Note Allonge (formerly Appendices 5 and 6) have been discontinued. In their place, lenders must use the HECM Adjustable Rate Note and Adjustable Rate Second Note, identified as Appendices 3 and 6 in this Revision. Instructions for completing the borrower’s application (formerly Appendix 13) has been substantially revised to reflect the use of the Uniform Residential Loan Application (URLA) and the 92900-A (Addendum), and may now be found at Appendix 15. The Disclosure Statement for Reverse Mortgages (formerly Appendix 15) has been discontinued, its use is not mandated. Adjustable Rate Disclosure Statement for a Reverse Mortgage (formerly Appendix 16) was discontinued in 1990 and continues to be obsolete.
Lenders should rely on The Federal Reserve Board's Regulation Z for appropriate HECM disclosures. The Suggested Form of Periodic Disclosure ARM Notice for a Reverse Mortgage (formerly Appendix 17), was discontinued in 1990. This form is reinstated in this Revision; it is identified as "Periodic Disclosure (Suggested Form) Notice of Change in Interest Rate on Adjustable Rate HECM," and appears at Appendix 17. The CHUMS Input Worksheet (Appendix 18 in former handbook and Revision) has been revised to reflect the use of the URLA.

References:

(1) 2226.1 Single Family Mortgage Insurance Case Binder - Transfer and Retrieval
(2) 4145.1 Architectural Processing and Inspections for Home Mortgage Insurance
(3) 4150.1 Valuation Analysis for Home Mortgage Insurance
(4) 4165.1 Endorsement for Insurance for Home Mortgage Programs
(5) 4265.1 Home Mortgage Insurance - Condominium Units, Section 234(c)
(6) 4330.1 Administration of Insured Home Mortgages
(7) 4330.4 FHA Single Family Insurance Claims
(8) 4335.2 Mortgage Servicing Handbook - Secretary Held Home Mortgages
(9) 4905.1 Requirements for Existing Housing - One to Four Family Living Units
(10) 7610.1 Housing Counseling
(11) 12 CFR 226 Regulation Z
(12) 24 CFR Parts 100, 103, 104 Discriminatory Conduct Under the Fair Housing Act; Complaint Processing; Administrative Proceedings
(13) 24 CFR 203.387, 203.389, 234.285 Title Evidence for FHA-Insured Mortgages
(14) 24 CFR 206.45(a) Properties Eligible for HECM (Title)
(15) 24 CFR 3280.8 Manufactured Home Construction and Safety Standards