HECM Financial Assessment and the FHA Connection

March 2015
A G E N D A

- Introductions
- HECM Financial Assessment Overview
- HECM Financial Assessment on the FHA Connection
  - Requirements beginning April 27, 2015
    (see Mortgagee Letter 2015-06)
  - User authorizations
  - HECM Financial Assessment screen walkthrough
- Other related FHA Connection Changes
  (Appraisal Logging & HECM Insurance Application)
- Interfacing with HERMIT
- Questions & Wrap-up
Upon conclusion of today’s webinar, you will:

- Know how case data is entered in the new HECM Financial Assessment page on the FHA Connection
- Be aware of the changes pertaining to Appraisal Logging, HECM Insurance Application, and the HERMIT system as they pertain to HECM Financial Assessment
- Know where to access additional help/documentation materials for later reference in relation to HECM Financial Assessment and the FHA Connection
Materials referenced during this session include:

- **Webinar handout document available:**
  - Click *HECM Financial Assessment and FHA Connection* (listed in Reference Materials page section on the right side of the screen)

  **Day of webinar:** (available by clicking handouts icon from webinar screen—pictured below)

- **HECM Financial Assessment and Property Charge Guide**
  - Click *Revised HECM Financial Assessment and Property Charge Guide* (listed in Reference Materials page section on the right side of the screen)

- **Mortgagee Letters 2014-21 and 2014-22**
Submitting a question:
Click Q&A icon and type question in drop-down box during webinar (see tips below)

Question sample: Will the HECM Financial Assessment page be required in March or April? Is this new page also required for HECM refinance cases as well?

- Click Q&A to open question box
- Click in question box and type your question—multiple questions may be entered
- Do NOT press Enter to start a new question—just string questions together (question box has no formatting)
- Click Ask at top of the question box to submit question
  - or-
  You may edit your entered question by clicking Edit in the question box
  - or-
  You may delete previously entered questions by clicking X in the question box
- Click Q&A again to hide the question box

Note: Questions will be answered verbally—no answers will appear in this bottom portion of the question box
HECM Financial Assessment Overview

- Mortgagee Letter 2014-21 established the regulatory basis for the financial assessment required for each HECM mortgagor
- Mortgagee Letter 2014-22 provides documentation and verification standards and other guidance necessary to complete the financial assessment
- Financial assessment includes:
  - evaluation of credit history
  - evaluation of property charge payment history
  - calculation of residual income
HECM Financial Assessment Overview, continued

Financial assessment outcomes include:

- Determination of whether HECM can be approved
- If HECM can be approved, what conditions will apply?
  - No Life Expectancy Set-Aside required
  - Partially funded Life Expectancy Set-Aside required, or
  - Fully funded Life Expectancy Set-Aside required
HECM Financial Assessment Overview, *continued*

- The following required data, entered via the FHA Connection, mirrors the financial assessment process:
  - Credit history characteristics
  - Property charge payment history characteristics
  - Residual income
  - Compensating factors
  - Life Expectancy Set-Aside (LESA)

- Over time, data will provide FHA with the ability to analyze different aspects of the financial assessment and impact on loan performance
HECM Financial Assessment Overview, continued

- The financial assessment worksheet – *whether the model provided in Mortgagee Letter 2014-22 or one developed by the mortgagee* – will provide most of the information required for data entry in the FHA Connection (FHAC)
- Detailed descriptions of the data to be entered into each new field in FHAC will be provided
- Mortgagees are responsible for the accuracy of the data they enter into FHAC
Previous HUD-conducted webinar broadcast:

**HECM Financial Assessment & Property Charge Requirements for Underwriters and Processors**

On the archives page, click link to access and listen to a previous webinar broadcast of the HECM Financial Assessment and Property Charge requirements and related details.

HECM Financial Assessment Page on FHA Connection

- Page available/required for all HECM case numbers assigned on or after April 27, 2015, as per ML-2015-06
- Page will not be available for HECM case numbers assigned prior to April 27, 2015
- Information may be entered before or after completing the Appraisal Logging page
- HECM Insurance Application cannot be started until HECM Financial Assessment and Appraisal Logging are successfully processed
- FHA Connection users with Insurance Application authorization of Add/Update or greater may access the page
References/sources of case information include:

- Model HECM Financial Analysis Worksheet (included in the HECM Financial Assessment and Property Charge Guide)
- Residential Loan Application for Reverse Mortgages (Fannie Mae form 1009)
- HUD/VA Addendum to Uniform Residential Loan Application (form HUD_92900-A)
- Home Equity Conversion Loan Agreement, and
- Loan Note
New option available from Case Processing menu

Sign on to the FHA Connection:

Navigate to the Case Processing page by selecting:
- Single Family FHA
- Single Family Origination
- Case Processing
- HECM Financial Assessment
New HECM Financial Assessment Pages

Enter the HECM FHA Case Number:

FHA Case Number: 123-1234567

Current property address on record (pulled from Case Number Assignment):
Property Address: 123 HAPPy OR
SUN CITY CENTER, FL 33573-0000

Click link to access available help information for the displayed page.

User ID and date pertaining to last time page processed:
Last Action:
Date: Feb 10, 2015
Select Yes, No, N/A from the drop-down list beside each question below.

### Credit Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Taxes Current</td>
<td>No</td>
</tr>
<tr>
<td>HOA, PUD, Condo Fees Current</td>
<td>N/A</td>
</tr>
<tr>
<td>Real Estate Debt Current</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Installment Debt Current (Non-Real Estate)</td>
<td>Yes</td>
</tr>
<tr>
<td>Revolving Debt Current</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Monthly Effective Income

- Imputed Monthly Income from Dissipation of Assets
- Monthly Income from All Other Sources
- Total Monthly Income:

### Monthly Expenses

- Real Estate Debt Monthly Payments
- Non-Real Estate Debt Monthly Payments
- Other Monthly Expense Payments
- Total Monthly Expense Payments:

### Monthly Property Charges

- Total Monthly Property Charges:
Enter each amount in this page section.

Total Monthly Income must equal the sum of the previous two fields (system checks total only when page is processed).
Amount entered in *Total Monthly Income* is brought forward by the system to the same field in the *Monthly Residual Income* page section (below).

Edits to the total amount must be done in the *Monthly Effective Income* page section (where the amount is originally entered).

Field brought forth by the system from *Monthly Effective Income* page section and is *view-only* in this page section.
Enter each amount in these two page sections:
- Monthly Expenses
- Monthly Property Charges

Total Monthly Expense Payments Income must equal the sum of the previous three fields in this page section.

Monthly Property Charges Subtotal must equal the sum of the previous three fields in this page section.

Total Monthly Property Charges is the sum of:
- Monthly Property Charges Subtotal
- Monthly HOA, PUD, Condo Fees
- Monthly Other Property Charges

Enter dollar amounts using this format: nnnnnnn.nn (e.g., 1225.50) - no dollar sign. For zero amounts, enter 0 (do not leave blank).
Fields brought forth by the system from previous page sections are view-only -- no changes can be made to the totals in this page section.

Entered totals are carried forward by the system and used in the *Monthly Residual Income* page section below.

Edits to the totals must be done in the page section where the amount was originally entered.

<table>
<thead>
<tr>
<th>Monthly Effective Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Imputed Monthly Income from Dissipation of Assets</td>
<td>1000.00</td>
</tr>
<tr>
<td>Monthly Income from All Other Sources</td>
<td>500.00</td>
</tr>
<tr>
<td><strong>Total Monthly Income:</strong></td>
<td><strong>1500.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Debt Monthly Payments</td>
<td>100.00</td>
</tr>
<tr>
<td>Non-Real Estate Debt Monthly Payments</td>
<td>50.00</td>
</tr>
<tr>
<td>Other Monthly Expense Payments</td>
<td>50.00</td>
</tr>
<tr>
<td><strong>Total Monthly Expense Payments:</strong></td>
<td><strong>200.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly Property Charges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Real Estate Taxes</td>
<td>400.00</td>
</tr>
<tr>
<td>Monthly Hazard Insurance</td>
<td>50.00</td>
</tr>
<tr>
<td>Monthly Flood Insurance</td>
<td>50.00</td>
</tr>
<tr>
<td><strong>Monthly Property Charges Subtotal:</strong></td>
<td><strong>500.00</strong></td>
</tr>
<tr>
<td>Monthly HOA, PUD, Condo Fees</td>
<td>0.00</td>
</tr>
<tr>
<td>Monthly Other Property Charges</td>
<td>25.00</td>
</tr>
<tr>
<td><strong>Total Monthly Property Charges:</strong></td>
<td><strong>525.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projected Life Expectancy Property Charges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Property Charges Subtotal x 1.2</td>
<td></td>
</tr>
<tr>
<td>TALC Life Expectancy (in Months)</td>
<td></td>
</tr>
<tr>
<td>Expected Rate</td>
<td></td>
</tr>
<tr>
<td>Compounding Rate (Expected Rate + 1.25%)</td>
<td></td>
</tr>
<tr>
<td>Projected Life Expectancy Property Charge</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monthly Residual Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Size</td>
<td></td>
</tr>
<tr>
<td>Residual Income Standard</td>
<td></td>
</tr>
<tr>
<td><strong>Total Monthly Income:</strong></td>
<td><strong>1500.00</strong></td>
</tr>
<tr>
<td><strong>Total Monthly Expense Payments:</strong></td>
<td><strong>200.00</strong></td>
</tr>
<tr>
<td><strong>Total Monthly Property Charges:</strong></td>
<td><strong>525.00</strong></td>
</tr>
<tr>
<td>Residual Income:</td>
<td></td>
</tr>
<tr>
<td>Residual Income Standard</td>
<td></td>
</tr>
<tr>
<td>Residual Income</td>
<td></td>
</tr>
<tr>
<td>Monthly Residual Income Shortfall:</td>
<td></td>
</tr>
</tbody>
</table>
## Monthly Property Charges

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Real Estate Taxes</td>
<td>400.00</td>
</tr>
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<tr>
<td>Monthly HOA, PUD, Condo Fees</td>
<td>0.00</td>
</tr>
<tr>
<td>Monthly Other Property Charges</td>
<td>25.00</td>
</tr>
<tr>
<td>Total Monthly Property Charges</td>
<td>525.00</td>
</tr>
</tbody>
</table>

### Projected Life Expectancy Property Charges

- Monthly Property Charges Subtotal \( \times 1.2 \) = 600.00
- TALC Life Expectancy (in Months) = 156
- Expected Rate = 6.175
- Compounding Rate (Expected Rate + 1.25%) = 7.425
- Projected Life Expectancy Property Charge = 62400.00

### Residual Income Standard

- Total Monthly Income = 1500.00
- Total Monthly Expense Payments = 200.00
- Total Monthly Property Charges = 525.00
- Residual Income Standard = 1500.00 - 200.00 - 525.00 = 775.00
- Residual Income = 775.00

### Compensating Factors

- Property Charge Payment History
- Non-Borrowing Spouse Income
- Overtime, Seasonal, Part-time or Bonus Income
- Assets Equal to Life Expectancy Property Charges
- Access to Other Income or Resources
- Expected SSI or Pension Income
- Imputed Income from HECM
- HECM Sufficient to Pay off Debts

### Life Expectancy Set Aside Requirement

- Requirement: Select Life Expectancy Requirement
- Amount: 0.00

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Life expectancy of the youngest borrower \( \times 12 \) (see HECM Financial Assessment Worksheet, Appendix 2 for life expectancy chart). In this example, the youngest borrower is age 72 and chart lists 13 years as life expectancy. Multiply 13 years \( \times 12 \) months = 156 months.

Expected Rate entered above plus 1.25% (annual mortgage insurance premium rate).

See Sections 5.2 and 5.3 of the HECM Financial Assessment and Property Charge Guide for specific instructions on calculating this field.
Residual Income is the difference of:
- Total Monthly Income minus Total Monthly Expense Payments
- Total Monthly Property Charges

Calculate the difference of Residual Income Standard minus Residual Income. If amount is 0 or a negative number, enter 0; otherwise, enter the difference amount.

See Section 3.100 of the *HECM Financial Assessment and Property Charge Guide* for instructions on determining this field.
Click box beside each factor applicable to the borrower’s situation (check as many or none from the below list)

LESA set-aside amount is based on the selected Requirement option (on left) and the amount entered in the Projected Life Expectancy Property Charge field (pictured below). Enter as described in the following:

- If Not Required then Amount must be left blank.
- If Voluntary – Fully Funded -or- Required – Fully Funded, then Amount must equal Projected Life Expectancy Property Charge amount.
- If Required – Partially Funded, then Amount must be less than the Projected Life Expectancy Property Charge amount.

Select the Life Expectancy Set Aside (LESA) requirement option from the drop-down list (see Section 5 of the HECM Financial Assessment and Property Charge Guide for guidance on making this determination).
Upon processing the page, a message displays if errors are detected. Click Review Error(s) link to view error details at bottom of page. Fields related to the error(s) are displayed in red.

Review and correct detected error(s), then process the page again. If no further errors, the HECM Financial Assessment Results page displays (below).

Click Other Functions to display the drop-down list of other functions that can be directly accessed for the displayed case number.

Edits to HECM Financial Assessment case information may be made (as needed) until the case is endorsed.
Example 2: LESA Requirement: *Not Required*

Click Other Functions to display the drop-down list of other functions that can be accessed directly for the displayed case.
Example 3:
LESA Requirement: **Required – Fully Funded**

Click Help Links to access help information for the displayed page if needed.
Appraisal Logging Page Change

**Taxes/Insurance 1st Yr Payments** field *(in HECM Information page section)*

- Modified to allow entry of total amount of taxes and hazard/flood insurance bills paid from HECM proceeds, or funds from a life expectancy property charge set aside, within the first 12-month disbursement period
- Use sum of insurance premium and tax amounts *(if a new tax bill not issued, enter prior year’s amount multiplied by 1.2%)*
- Enter zero if taxes/insurance not paid from HECM proceeds or property charge set aside

*Previously field information was not collected and only 0 could be entered*
HECM Insurance Application Page Changes
(Worksheet Information page section)

- **Total Monthly Income:** Field name change (previously Monthly Income) and now prefilled from HECM Financial Assessment page (may not be edited on this page)

- **Real Estate Debts:** Field should not include real estate debts to be paid off with HECM proceeds at closing
HECM Insurance Application Page Changes, continued

**New Credit Scores** fields *(in Borrower Information page section)*

- Now collecting FICO credit scores for each borrower
- A minimum of 300 and maximum of 850 can be entered for each score
- Enter N/A if FICO credit scores not available for borrower
HECM Insurance Application Page Changes, continued

**Taxes/Insurance 1st Yr Payments** field *(in Mortgage Information page section)*

- Amount prefilled from Appraisal Logging page
- Field may be edited *if needed* and will update field on Appraisal Logging page
HECM Financial Assessment & HERMIT

Both the *Appraisal Logging* and *HECM Financial Assessment* pages on the FHA Connection must be successfully completed *before* case information is sent from CHUMS to the HERMIT system for Lender Setup.
Questions & Webinar Wrap-up
Submitting a question:

Click the Q&A icon at the top of your screen and type your question in the drop-down box—follow instructions listed below.

- Click Q&A to open question box
- Click in question box and type your question—multiple questions may be entered
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Additional HECM Financial Assessment questions?

E-mail them to:

HECMADMIN@HUD.GOV
- Handout still available for a short time to download.

- **We want to hear from you** - a short survey will be e-mailed to the e-mail address you used to register for this webinar. Please complete the survey to help us improve future presentations.

Thank you for your participation today!