

FHA HECM OVERVIEW

&

SUBMISSION PROCESS

May 25, 2011

Presented By

JMAC Lending

HECM

(Home Equity Reverse Mortgage)

DEFINITION:

- A loan against home equity providing cash advances to the borrower
- No repayment until a future time

HECM Basic Information

Borrower retains home

Cash advances available

All allowable loan fees can be included

Loan balance rises

No repayment is required until future time

Non-recourse loan

Eligible Homeowners


Age 62 and over (all owners)

Occupy home as principal residence

Own home

HECM Categories

- HECM Traditional (first time program participant)
- HECM Refinance (refinance existing HECM)
- HECM Purchase (use proceeds to purchase house)



Forward Mortgage
Versus
Reverse Mortgage

FORWARD vs. REVERSE

Forward

Purpose:

- To purchase a home

Start of loan:

- No equity

During the loan:

- Monthly payments made
- Loan balance goes down
- Equity grows

End of loan:

- Owes nothing
- Has substantial equity

Reverse

Purpose:

- To generate income

Start of loan:

- Substantial equity

During the loan:

- Monthly payments rec'd
- Loan balance goes up
- Equity declines

End of loan:

- Owes substantial amount
- Has much less, little or no equity



RESOURCE MATERIAL

HECM References

⌘	4235.1 - HECM Handbook	⌘	2010-34
		⌘	2010-09
		⌘	2009-49
⌘	4330.1 (Section 13) HECM Servicing Handbook	⌘	2009-47
		⌘	2009-44
		⌘	2009-34
		⌘	2009-21
		⌘	2009-11
⌘	4905.1 - Minimum Property Requirements Handbook	⌘	2009-11
		⌘	2009-10
		⌘	2009-07
		⌘	2008-38
		⌘	2008-35
⌘	24CFR 206	⌘	2008-34

Case Number Assignment

Ordered thru FHA Connection by JMAC

HECM Standard (traditional)

HECM Refinance (HECM to HECM)

HECM Purchase

Ensure Property Address is correct

Assign an FHA approved Appraiser

Use Proper ADP

ADP Code Table

	Saver	Standard
HECM Assignment/Fixed	971	951
HECM Assignment/ARM	972	952
HECM Condominium/Fixed	977	957
HECM Condominium/ARM	978	958



HECM FEATURES

HECM Features

Funds can be used for any purpose

No income verification


No credit score requirement

Asset verification required only if
borrower funds required to close

HECM Features

Loan Due and Payable, when last surviving borrower

- Passes away
- Sells home
- No longer occupies property as primary residence



MAXIMUM
CLAIM
AMOUNT
(MCA)

Maximum Claim Amount

The Maximum Claim Amount is:

- The maximum dollar amount that HUD will pay on a claim
- The lesser of:
 - The appraised value or
 - The maximum FHA county limit for one-family residence or
 - Purchase Price (if a purchase transaction)

Maximum Claim Amount Example

Appraised Value - \$200,000

FHA HECM County Loan Limit - \$625,500

Maximum claim amount = **\$200,000**

(**Lesser** of the appraised value or FHA county loan limit)

Purchase Transactions (use purchase price if lower)



PRINCIPAL LIMIT

Principal Limit Table

<http://www.hud.gov/offices/hsg/sfh/hecm/hecmhomelenders.cfm>

Principal Limit

Loan amount advance(s) depend on factors

Age of youngest borrower

Value of home or FHA mortgage limits (MCA)

Expected interest rate

Cost of the loan

Payment plan selected by the borrower



HECM COUNSELING

Counseling Requirements

MTG LTRS 04-25, 04-48 & 05-44

• HUD-approved Housing Counseling Agency

• **Face-to-Face or telephone counseling**

• **All parties to be vested at HECM closing must receive counseling.**

****It is recommended that Vested Spouses Receive Counseling
Regardless of Borrowing Status****

HECM Counseling

Homeowner must receive counseling from a HUD-approved housing counseling agency

- Certificate issued to the homeowner

- Homeowner submits certificate to lender for processing of loan application

HECM Counseling

Counseling Certificate (HUD 92902) is required and must contain:

- Name of counseling agency and counselor
- Employer identification number
- Signed and dated by counselor/borrowers
- Expiration date of 180 calendar days - Borrower has 180 days to initiate the HECM process with a lender.

HECM Counseling

Financial implications of a HECM

Alternatives and options regarding each payment plan

Advantages and disadvantages of a HECM

Calculate the maximum funds available

Explain the typical costs required to obtain loan

Counseling

Topics covered during counseling

- ✓ Options, other than a HECM
- ✓ Other home equity options
- ✓ Disclosure information

HECM Counseling

Face-to-face

Approved housing counseling agency

Telephone counseling

Seniors may prefer telephone counseling for a variety of reasons, including limited mobility and health conditions

Prohibited Lender Activities

✓Lenders may not charge the borrower for fees and services rendered prior to completion of counseling (**BIG NO NO**)

Prohibited Lender Activities

- ↳ Lender activities ***prohibited*** prior to counseling:
- ↳ Any activity wherein the borrower(s) may incur an obligation to pay for a service.
- ↳ **Counselor steering is not permitted**

Permitted Lender activities

Mortgagee Letter 04-25

- ↳ Lender activities ***permitted*** prior to counseling:
 - ↳ Initial application
 - ↳ Explain program
 - ↳ Discuss eligibility
 - ↳ Provide information on fees and charges
 - ↳ Describe potential financial implications
 - ↳ Provide copies of mortgage Note and Loan agreement



MORTGAGE
CREDIT
ELIGIBILITY

Mortgage Credit Eligibility Recap

- ❖ **All borrowers**

- ❖ 62 years old at time of application

- ❖ Subject property must be principal residence for the majority of any calendar year.

Mortgage Credit Eligibility

- Delinquent debts owed to Federal Government must be
 - Brought current
 - Paid or otherwise satisfied
 - Satisfactory repayment plan (verified in writing)
 - May use HECM funds

Mortgage Credit Eligibility

➤ **CAIVRS Claim**

If presently delinquent or claim paid in the last 3 years, not eligible

Mortgage Credit Eligibility

➤ Suspension and Debarments

Borrower(s) or Loan Officer appears on:

LDP (Limited Denial Of Participation) or

GSA (General Services Administration's)

Application not eligible for insurance

Mortgage Credit Documentation

- Documentation required on all borrowers
 - Tri-merge Credit Report
 - Public Record Information
 - Title report
 - Evidence of social security number
 - Evidence of age

Mortgage Credit Documentation

- Good Faith Estimate & Truth-in-lending
- Verification of deposit (as applicable)
- ARM disclosure
- Loan cost disclosure
- Final URLA (Fannie Mae 1009)
and HUD/VA Addendum to URLA
(Form 92900-A pages 1 thru 4)



CLOSING COST

Allowable Closing Costs

- Origination Fee - max. 2% of MCA up to \$200,000 and 1% of the amount of over \$200,000 not to exceed \$6,000 (minimum is \$2500)
- Appraisal Inspection Fees
- Credit report
- Verification of Deposit - actual cost
- Document Preparation
- Property Survey
- Title Examinations/Title Insurance Policy

Allowable Closing Costs

- Settlement Agent Fee
- Recording Fees
- Pest tests and treatments
 - Notary Fee
- Courier Fee
- Flood Certification Fee
 - Attorney Fee



PAYMENT
PLANS
OPTIONS

Payment Plan Options

Five different options

- Line of credit
- Tenure
- Term
- Modified Term
- Modified Tenure

Payment Plan Options

Line of Credit

Borrower(s) may draw up to maximum amount until credit line is exhausted. May be paid down and redrawn by borrower(s)

Payment Plan Options

Tenure

Borrower receives monthly payments from lender as long as borrower occupies the property as the primary residence

Payment Plan options

☞ **Term**

- ✓ Borrower receives monthly payment from lender for period of time selected by the borrower

Payment Plan Options

Modified Term

Combination of line of credit with monthly payments for a fixed number of months

Payment Plan Options

Modified Tenure

Combination of line of credit with monthly payments as long as one borrower remains in the home

Payment Changes

The borrower may Change payment options during the term of the loan

↳ Maximum allowable charge per change \$20.00



ELIGIBLE PROPERTIES

HECM Valuation

📖 Handbooks 4235.1 Ch. 3, 4150.1, 4150.2, 4905.1

📄 Mortgagee Letters 96-15, 96-41, 00-10, 05-48.

Eligible Properties

- Home must meet FHA minimum property requirements (4905.1 handbook)

Eligible Properties

 New or existing properties that are 100% complete

 1-4 units (Maximum FHA single-family county limit)

CREDIT REPORT

Needed for all borrowers

Types of reports accepted:

RMCR

Tri-Merge

IDENTIFICATION OF BORROWER

Evidence of date of birth and SSN verification is required.

Acceptable documents include, social security card, birth certificate, drivers license, passport or 1099.

VERIFICATION OF ASSETS

Only required if cash is needed to close

Purchase Transactions:

- No gap financing allowed

- Must be borrower's own funds

- Gift funds are allowed

HECM SUBMISSION CHECKLIST

JMAC Lending

HECM Submission Checklist

- Flood Certificate
- Flood Insurance- **if applicable**
- FHA Connection- **(MUST REFLECT JMAC LENDING AS LENDER)**
- Initial Application (1009) - (4 pages)
- Initial Application Addendum (HUD/VA addendum)
- Good Faith Estimate
- Total Annual Loan Cost Rate
- Amortization Schedule - Annual Projections
- Reverse Mortgage Comparison
- HECM Consumer Protection Against Excessive fees Disclosure
- Annuity disclosure
- HECM TIL- Important Terms Disclosure
- Borrowers Certification and Authorization
- Borrower Notification
- Tax & Insurance Disclosure
- Equal Credit/Fair Credit/Gov't Loans
- Right to Privacy and Bankruptcy Disclosure
- Housing Discrimination of 1977 Disclosure
- State Specific Disclosures- **if applicable**
- Anti-Coercion Disclosure
- Notice of Availability of Appraisal
- Alternative Contact and Information Release Authorization
- Customer Identification - Patriot Act
- Reverse Mortgage Repair Acknowledgment
- Occupancy Certification
- Lead Based Paint Certification
- HECM Anti-Churning Disclosure - **(REQUIRED for HECM to HECM refinances)**
- HECM Refinance Worksheet - **(REQUIRED for HECM to HECM refinances)**
- Counseling Disclosure
- List of HUD Approved Counselors
- Counseling Certificate
- LDP print out
- GSA print out
- CAIVRS print out
- Credit Report - Tri-merge
- Social Security number verification
- Evidence of DOE
- VOD/Gift Letter - **if applicable**
- Attorney Opinion Letter & Copy of Trust Agreement (all pages, amendments) - **if closing in a Trust**
- Guardianship, Conservatorship, Power of Attorney - **if closing with a POA**
- Affiliated Business Arrangement Disclosure Statement - **if applicable**
- Ownership Interest Certification - **if removing spouse/other party from title**
- Certificate Regarding Hotel & Transient Use - **if property is multi-unit**
- Preliminary Title Report
- Last Vesting Deed- **(Must include 24 months chain of Title)**
- Repair Inspections/bids - **if applicable**
- Condominium documentation- FHA approved Condo ID or Spot Condo affidavit