Webinar Presentation

Provided by Padgett Law Group and ReverseVision

MARISSA YAKER

Managing Attorney of Regulatory Affairs

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ABOUT PADGETT LAW GROUP

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Padgett Law Group (PLG) is a full-service creditors' rights law firm with GSE-compliant practices in Florida, Georgia, Arkansas, Tennessee, Texas, Ohio, and Indiana. The firm's practice offers exclusive representation to institutional clients such as lenders, mortgage servicers, credit unions, banks, hedge funds, investors and other financial services industry stakeholders. Leveraging technology in our partnerships with forward-thinking clients gives Padgett Law Group the ability to focus on the aggressive management and processing of delinquent or under performing loans, providing our clients with an edge when curing or resolving these complex legal matters. Learn more at Padgettlawgroup.com

CARISSA OROZCO

Director of Business Development - Strategic Partners

ReVerse VISION

Rethink. Remortgage. Retire.

ABOUT REVERSEVISION

Since 2007, ReverseVision (RV) has been the leading reverse mortgage technology provider, serving 50 of the top reverse mortgage lenders, 100 percent of reverse investors, and more than 10,000 daily users. RV's award-winning technology now offers new APIs (Reverse-as-a-Service) that opens the total addressable market, creating new technology synergies that allows forward and reverse mortgages to coexist in the lender's core systems, helping break down adoption barriers so that mortgage bankers can serve their borrowers for life.

ReverseVision's core platform, ReverseVision Exchange (RVX), is comprehensive and proven to automate the entire reverse lending process from origination through secondary marketing. The company's technology is being successfully leveraged as a springboard that helps lenders get into the reverse space easily and efficiently. For more information, visit www.reversevision.com

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DRAFT HOME EQUITY CONVERSION MORTGAGE SECTIONS OF THE SINGLE FAMILY HOUSING HANDBOOK 4000.1

On September 29, 2021, FHA INFO #21-81 announced the availability of the draft Home Equity Conversion Mortgage (HECM) Origination through Servicing sections of the Handbook 4000.1 for stakeholder review and feedback. On November 1, 2021, FHA INFO#21-94 announced an extension to the public feedback period through December 31, 2021.

To facilitate FHA's review and analysis of the feedback received, interested stakeholders are encouraged to thoroughly review the content of the draft sections and use the Feedback Response Worksheet to provide feedback through December 31, 2021:

- View the draft HECM Origination through Servicing sections of Handbook 4000.1
- Download the Feedback Response Worksheet and add your feedback to the worksheet
- Email your completed worksheet to sfhandbook@hud.gov with the subject line: Feedback for Draft HECM Sections of Handbook 4000.1

BASIC HECM REQUIREMENTS

HECM: Home Equity Conversion Mortgage

- Not assumable
- Is Non-Recourse
- Can only be done on principal residence (as verified by written annual occupancy certificate)
- Must be FHA approved property

HECM loan amount or Principal limit, is based on age of youngest borrower (or married spouse living in the home), home value and rate

- **RATE-** CMT and SOFR indices are both allowed, most lenders use CMT as of this year
- Lower rate means more funds to the borrower
- Floor rate is 3.06 (set by HUD)- Means if the index and lender margin fall below 3.06, this will not provide any additional funds to the borrower
- Rate corresponds to PLF, or Principal Limit Factor table as set by HUD. This provides the LTV for the borrower

Basic HECM Requirements

- **AGE-** minimum requirement is 62
- **NBS=** non borrowing spouse; usually they are not 62 or they choose not to be on the loan
- **NBS Deferral:** when the primary borrower passes away, the younger spouse can remain in the home without having to pay the reverse loan balance

Basic HECM Requirements

Home Value: MCA= Maximum Claim Amount
MCA= lesser of the home value and the FHA lending limit $970,800
Difference in traditional lending
Lenders will use the PL factor (or LTV) against the MCA to know what the Principal limit is.

Example:

- Home value is $700k and PL factor is .55
- MCA is $700k and LTV is 55%= Principal Limit is $385,000

Money to the borrower before closing costs, payoffs, etc.

Example:

- Home value is $1mil and PL factor is .55
- MCA is $970,800 and LTV is 55%= Principal Limit is $533,940

No maximum mortgage amount required by FHA
If required by state law, then mortgage amount must be minimum of 150% of the MCA

Basic HECM Requirements

Similarities and Differences
Application used is the 1009 with parts IV, V, VI of the 1003

Borrowers must attend HUD HECM counseling before they can sign the application and disclosures

- This is when the FHA case number can be ordered
- Process is the same otherwise

Esign is permitted on all application and closing docs except the Note

Appraisal requirements are the same; the property must meet minimum FHA standards

- Exception is that there may be a 2nd appraisal required due to the FHA collateral risk assessment
- Different process used…no scoring system, just a requirement in FHAC

Basic HECM Requirements

Repair Set Asides

- When cosmetic repairs can be done after closing
  - Must be completed within 12mos of closing
  - Cannot cost more than 15% of MCA
  - Repairs costing more than 30% of MCA need to be reviewed at HOC center for eligibility
  - Cost must be minimum of $500
  - Funds held in escrow

Basic HECM Requirements

Other facts…

- **Trusts are permitted on HECM:** revocable and irrevocable
- **Rate Lock:** Lenders/borrowers can lock rates for 120days after the date of Case Number
  - Usually includes a float down option at no extra cost to the borrower and lender's margin is always protected
- Lender/origination fees are allowed: $2500 - $6000 based on home value (MCA)
- Esign is allowed
- Third party verification of income and assets is allowed
  - Income documentation is same as FHA traditional
- Income requirement is different…utilizes residual income table by family size and region (same as VA)

Basic HECM Requirements

Similarities and Differences

- Credit Analysis- Overview
- Biggest difference of the HECM program is the credit analysis portion or the **Financial Assessment**
- Assessment made by DE Underwriter to determine if borrower has willingness and capacity to meet their financial obligations and to determine if the HECM is a sustainable solution for the borrower.
    - Property Charges- 24 months
    - Installment Accounts- 24 months
    - Mortgages- 24 months
    - Max lates of 2x30 in months 13-24
    - Revolving- 12 months
    - No major derogatory debt= max lates of 1x90 or 3x60
- Extenuating Circumstances
- Worst case…. Fully Funded LESA
- Life Expectancy Set Aside for taxes and insurance (like an escrow account for life)

MMI Fund Increase Overview as it Relates to HECM's:

On November 15, 2021, FHA released the 2021 Annual Financial Report to Congress on the Mutual Mortgage Insurance Fund. One of the key highlights from the MMI Fund Annual Report was that the Home Equity Conversion Mortgage (HECM) reverse mortgage portfolio saw a significant improvement in its valuation. It has a stand-alone capital ratio of 6.08 percent as of September 30, 2021, compared to a negative 0.78 percent capital ratio from the previous year.

- The intent of the Home Equity Conversion Mortgage program is to ease the financial burden on elderly homeowners facing increased health, housing, and subsistence costs at a time of reduced income. FHA's mission is to serve underserved markets, which must be balanced with HUD's inherent, as well as, statutory obligation under the National Housing Act to protect the FHA insurance funds.

SERVICING OF FHA INSURED HECMs

Servicing of FHA Insured Mortgages:

Similarities with the Forward Mortgages Section:

Under this section of the HECM handbook, most of it is the standard language as it relates to whom as the right to enforce, that HECMs must be serviced by a Servicer in accordance with FHA requirements and all applicable laws. It tracks the Forward Mortgage Section verbatim.

Differences: None

Responsibility for Servicing Actions:

Similarities:

- Holders are responsible for all servicing actions, including the acts of its Servicer
- The costs associated with servicing must not be imposed on the Borrower or passed along to HUD in a claim for mortgage insurance benefits.

The Difference: Here, it goes onto to state, except for a servicing fee if agreed upon by the Borrower at origination.

- Tracks the responsibilities during Transfers of Servicing Rights verbatim
- Communication with Borrowers and Authorized Third Parties is verbatim as it relates to Forward Mortgages

Borrower Disbursements:

Difference: The draft handbook lays out Borrower Disbursements.

The Standard: Mortgagees must make all payments to the Borrower according to the current payment plan so long as the HECM is not Due and Payable subject to the Initial Disbursement Limit.

Late Charges:

Difference- Forward- The Mortgagee may consider a Borrower's payment late if the payment is received by the Mortgagee more than 15 Days after the due date. The Mortgagee may assess a late charge on the 17th Day of the month

Vs

HECM:
The Mortgagee must pay a Late Charge and interest to the Borrower for any scheduled disbursement made after the first business day of the month or any line of credit payment made more than five business days after the receipt of request for disbursement as follows: • 10 percent of the amount of the payment due to the Borrower, not to exceed 34 $500 on a single late payment; and interest at the daily HECM Note interest rate on the late payment for each Day the payment is late.

Payment Administration:

Forward: References the use of a Trust Account for collections or a special custodial account to hold all payments on the insured Mortgage.

HECM: Same standard, must use a Trust Account or a Special Custodial Account.

Servicing Fees and Charges:

Mirrors the Forward Section verbatim.

The Main Differences Due to the Nature of the Loan Type:

Set Asides. A Set-Aside refers to an amount of funds withheld by the Mortgagee from the Borrower's HECM funds for payment of certain fees and expenses.

Monthly Servicing Fee. A Monthly Servicing Fee is a fixed monthly charge for servicing activities of the Mortgagee starting in the month of loan closing and continuing through the life of the loan, including any applicable Deferral Period.

- No attorney fees may be charged for the services of the Mortgagee's attorney.
- The Mortgagee may assess and add the following fees and charges to the outstanding principal balance:
  - A maximum of $20 for changing a Borrower's payment plan;
  - Substitution of Hazard Insurance policy other than the normal time for renewing the policy; attorney or trustee fees associated with a foreclosure;
    property inspections and preservation expenses; and
  - Attorney fees and expenses when the Mortgagee is made a party to litigation by reason of the HECM.

The Main Differences Due to the Nature of the Loan Type:

Completion of Required Repairs. Refers to an agreement the Borrower may have entered into at closing to complete required repairs after closing. The provisions of this agreement are contained in the Repair Rider to the loan agreement that the Borrower signed at closing.

Insurance Coverage Administration.

- **Hazard.** For forward, it is “if the Mortgagee requires the Borrower to purchase. For HECM the Borrower is required to have, and maintain for the life of the HECM, Hazard Insurance, but may instruct the Mortgagee to purchase and make payments for this insurance. HUD and the Mortgagee may determine hazards which must be insured against.
- **Flood.** Tracks Forward in that it is required for properties located within a Special Flood Hazard Area (SFHA).

The Main Differences Due to the Nature of the Loan Type:

Substitution of Collateral. A Substitution of Collateral refers to substitution of security for the purpose of removing the dwelling to a new lot or replacing the dwelling with a similar or like kind on the existing lot under specific conditions.

Subordination Agreement. Subordination Agreement refers to an action necessary to correct the recordation order when the second HECM has been inadvertently recorded before the first. Recording a Subordination Agreement for the second HECM must result in the 6 Mortgagee's HECM lien being a first mortgage lien.

Occupancy Certification. The Mortgagee must provide the Borrower a written certification annually, for the Borrower's signature, that certifies the Borrower occupies the HECM Property as their Principal Residence. The Mortgagee must provide the certification to the Borrower within 30 Days before or after the anniversary date of the first Day of the first month after closing. The Mortgagee must verify occupancy for the life of the HECM.

The Main Differences Due to the Nature of the Loan Type:

Eligible Non-Borrowing Spouse Annual Certification. Borrowers that identified themselves as being married with an Eligible NBS at origination must submit the additional certification completed at closing on an annual basis.

Optional Assignment. Assignment refers to a Mortgagee's right to assign the HECM to HUD when the outstanding balance is equal to or greater than 98 percent of the MCA, or when the Borrower has requested a payment that will cause the outstanding balance to equal or exceed 100 percent of the MCA.

Demand Assignment. Demand Assignment refers to an assignment option where the Mortgagee chooses to assign a HECM, or a portfolio of HECMs, because the Mortgagee is unable or unwilling to reimburse HUD for payments to the Borrower made by HUD.

Record Retention-Servicing File :

- Same three year minimum record retention requirement.
- Same requirements have keeping copies of everything.

Default Servicing:

Instead of the Early Default Intervention Timeline for Forward Mortgages, HECM's must be referred to a HUD approved housing counsel agency in the area where the Property is located.

Different reasons for default compared to Forward:

- no surviving Borrower maintains the Property as their Principal Residence; • a Borrower fails to occupy the Property for a period of more than 12 consecutive months because of physical or mental illness and the Property is not the Principal Residence of at least one other Borrower; or • an obligation of the Borrower under the HECM is not fulfilled

Default Servicing:

First Legal/Reasonable Diligence Deadlines (similar to forward as it relates to 6 months) but:

- On or after September 19, 2017:
  - If a HECM has not been satisfied or the default cured in response to a Due and Payable notification, the Mortgagee must commence foreclosure by taking the first legal action identified in Appendix 5 as required by the state in which the Property is located.
  - The first legal action to initiate foreclosure must occur:
    - no later than six months after the earliest of either:
      - the date the Mortgagee notifies, or should have notified, HUD of the death of the last surviving Borrower unless there is an applicable Deferral Period;
      - the end of any applicable Deferral Period;
      - HUD's Due and Payable approval when the HECM is Due and Payable for reasons other than death; or
      - the date the Mortgagee notifies, or should have notified, HUD of the conveyance of all title and no Borrower remains on title to the Property; or
      - within the extended time frame as approved by the Secretary.

Deed in Lieu

Deed in Lieu. A Deed-in-Lieu (DIL) of Foreclosure is an option for a property owner to deed a mortgaged Property to the Mortgagee in lieu of the Mortgagee taking title through a foreclosure action.

- Due and Payable Date refers to the date when the Mortgagee notifies or should have notified the Commissioner that the Mortgage is Due and Payable under the conditions stated in the Mortgage or the date that a Deferral Period ends, or the date the Commissioner approved a Due and Payable request submitted by the Mortgagee

Claims

- **A Mortgagee must not file a claim for insurance benefits when the HECM is satisfied in full.**
- **The Mortgagee may only file a claim for insurance benefits with the contract of insurance has not terminated.**

Claims cont.

- **For Claims where Case Numbers Assigned before September 19, 2017:**
  - The Mortgagee must file a claim within 15 Days of: • the Mortgagee selling the Property acquired through foreclosure or DIL; • a sale by the Borrower or other party with legal right to dispose of the Property; • satisfaction of the HECM by the Borrower's estate or heir; or • assignment of the HECM to the Secretary
- **For Claims where Case Numbers Assigned after September 19, 2017:**
  - The Mortgagee must file a claim within 30 Days of: • the Mortgagee selling the Property acquired through foreclosure or DIL; • a sale by the Borrower or other party with legal right to dispose of the Property; or • satisfaction of the HECM by the Borrower's estate or heir. The Mortgagee must file a claim within 15 Days of assignment of the HECM to the Secretary. If the Property will not be sold within six months from the foreclosure sale date where the Mortgagee was the successful bidder, the Mortgagee must file a claim no later than 30 Days after the end of the six-month period. The Mortgagee must use a valid appraisal, substituting the appraised value for the sales price of the Property.
- **Date of Marketable Title for HECM Claims.**
  - The Mortgagee must use the latter of the following in determining the "Date of Possession and Acquisition of Marketable Title" on the claim: • the date of possession, including when eviction is required; • the date of the foreclosure sale; • the date title is obtained by a third-party bidder; or • the date the redemption period, if applicable, has ended.

PRESIDENTIALLY DECLARED MAJOR DISASTER AREAS (PDMDA)

Presidentially Declared Disaster Areas (PDMDA)

The Mortgagee must observe a moratorium on foreclosures of FHA-insured HECMs secured by Properties located in Presidentially-Declared Major Disaster Areas (PDMDA) following the disaster declaration.

The foreclosure moratorium is:

- Applicable only if the HECM is Due and Payable for reasons other than the death of the last remaining Borrower and is not subject to a Deferral Period;
- Effective for a 90-Day period beginning on the date of the disaster declaration for that area (HUD may communicate further specific guidance for extension of moratorium periods for individual disasters);
- Applicable to the initiation of foreclosures and foreclosures already in process; and
- Considered an additional period of time approved by HUD for the Mortgagee to take loss mitigation action or commence foreclosure.
- Where foreclosure has not been initiated, the Mortgagee may submit a request for an extension to HUD's foreclosure-related deadlines through Home Equity Reverse Mortgage Information Technology (HERMIT) when prohibited from performing a required activity due to the foreclosure moratorium.

Q&A

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Managing Attorney of Regulatory Affairs

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