



**WEINER
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NRMLA GUIDANCE - LIMITED UNDERWRITING FOR PROPERTY CHARGES

NRMLA Guidance

- NRMLA members are encouraged, but are not required, to follow NRMLA Guidance, including this Guidance on Limited Underwriting of Property Charges.

- **GOAL: Reducing Likely Property Charge HECM Defaults**

- **Current HECM Limitations:**
 - A lender may not limit the otherwise available HECM loan payment plan options of the borrower on the basis of any capacity or credit related tests.

 - A lender is not permitted to require Property Charge related set asides (including but not limited to tax and insurance set-asides) as a condition of approving the HECM loan.

FHA COMMISSIONER: OCTOBER 5, 2011

“FHA is currently in the process of revisiting its Regulations to propose and ultimately adopt changes that are necessary to make the HECM program even more successful. Many changes that are under consideration will require notice and comment rule-making, which is a complex and lengthy process.”

FHA COMMISSIONER: OCTOBER 5, 2011 (cont'd)

“As we begin this process, I want to reiterate that HUD’s HECM criteria represent the **mandatory baseline requirements for approval of a HECM**. HUD does not prohibit the inclusion of **additional financial capacity and credit assessment criteria and processes** in the origination and approval of HECM transactions. Such criteria or processes, however, may not violate FHA statutes and regulations, or other applicable law, such as Fair Housing/Fair Lending laws, the Equal Credit Opportunity Act, Regulation B, etc. And I want to add... the importance of FHA–approved lenders engaging in **responsible business practices that conform to generally accepted practices of prudent lenders** (emphasis added).”

Recommended Limited Underwriting Guidance Key Definitions:

Property Charges - Property charges are any applicant obligations that might jeopardize the first and second lien positions created by the execution of the HECM Mortgage/Deed of Trust and any obligations that might jeopardize the financial protection of the collateralized property. Property charges consist of taxes, hazard insurance, flood insurance, ground rents, home ownership association dues and assessments.

More Key Definitions:

Capacity Test – Gross Monthly Cash Flow minus Property Charges.

Asset Dissipation - Any asset that reasonably may be considered to be liquid and easily converted into cash, including any available HECM Principal Limit amount. The assets should be amortized according to a straight line methodology based on a term that is equal to the number of months of the youngest borrower's life expectancy as determined in the TALC life expectancy tables as of loan application date.

More Key Definitions:

Principal Limit Usage(PLU) - PLU is a percentage of the Initial Principal Limit of the HECM loan which will be used to satisfy mandatory payoffs paid when the loans is funded. It is a determination of how much a borrower was required to use from HECM loan proceeds as opposed to how much the borrower elected to use. PLU is calculated by adding mandatory payoffs of liens against the property, past due Property Charges, mandatory payoffs of outstanding judgments, and repair set aside amounts, and dividing that sum by the Initial Principal Limit of the HECM loan.

THE BOTTOM LINE

The Limited Underwriting for Property Charges Guidance includes a review of the applicant's ability (capacity) and willingness to pay for ongoing Property Charges with a reverse mortgage.

CAPACITY TEST

The limited Capacity Test considers an applicant's Gross Monthly Cash Flow, which includes income from all sources, all available liquid assets, and available HECM benefits (loan tenure or term payments, and line of credit proceeds), and subtracts the mandatory Property Charges from the Gross Monthly Cash Flow.

WILLINGNESS TEST/THREE RECOMMENDED APPLICANT CONDITIONS

To test for an applicant's willingness to pay Property Charges and other risk elements, it is recommended that the originator should test for the existence of any of the following three (3) Applicant Conditions:

1. The applicant(s) had delinquent real estate taxes during the 12 month period prior to application date; or
2. The applicant(s) are not able to provide evidence of an existing homeowners' hazard insurance coverage-in-force for at least 90 days prior to application; or
3. The Principal Limit Usage (PLU) will be greater than 80%.

THE THIRD APPLICANT CONDITION: PRINCIPAL LIMIT USAGE TEST CALCULATION

Mandatory Lien Payoffs	\$ 95,000
Mandatory Judgment Payoffs	7,500
Past Due Property Taxes Payoffs	6,000
Initial Repair Set-Aside	<u>5,000</u>
Total Mandatory Payoffs	\$ 113,500
Initial Principal Limit	<u>\$ 250,000</u>
	45%
Principal Limit Usage Percentage	[113,500/250,000]

TEST RESULTS/ADDITIONAL COMPENSATING FACTORS

Based on the results of the Capacity Test and existence of any Applicant Conditions, it is recommended that the lender should: (1) decline the loan; or (2) end the limited underwriting process and continue processing the loan; or (3) consider additional Compensating Factors. Additional Compensating Factors may include but are not limited to:

1. Predefined excess equity after the close of the HECM;
2. The applicant's willingness to establish tax and/or insurance set asides;
3. Capacity Test results which exceed a certain amount; or
4. Any other compensating factors that the lender determines may be appropriate.

EFFECTIVE DATE: ASAP

It is recommended that members who chose to adopt this Guidance should do so as soon as possible. NRMLA recognizes that implementing this Guidance may involve systems changes, updating education and marketing collateral, and employee training.

EXAMPLE:

The applicants are 72 and 71 years old with \$225,000 in a 401k account, publicly-traded stocks, mutual funds, cash balance on a life insurance policy, available HECM proceeds, or other such liquid assets. The amortization period equals the youngest borrower's life expectancy as detailed in the TALC at the time of application: 14 years, or 168 months. The monthly cash flow from Asset Dissipation would therefore equal $\$225,000 / 168$, or \$1,339 per month.

EXAMPLE CAPACITY TEST CALCULATION:

Monthly Cash Flow

Social Security benefits	\$ 1,200
Pension benefits	300
Asset dissipation	1,339

Total Monthly Income \$ 2,839

Monthly Property Charges

Property taxes	\$ 200
Homeowner's insurance	100
HOA/ PUD	30

Total Monthly Property Charges \$ 330

Cash Flow After Property Charges \$ 2,509

OTHER CONSIDERATIONS

NEW HUD NOTICE: OCTOBER 28, 2011

“As a reminder, housing counseling agencies are not permitted to promote, represent, recommend or steer a client to any specific lender. However, effective immediately, counselors must advise clients that:

1. Financial and credit capacity assessment guidelines may differ from lender to lender just as lenders may offer different pricing options and different product options, and:
2. Some lenders may implement “underwriting requirements” for HECM applicants and some may not.

These new lender guidelines and those under development by FHA are intended to ensure that applicants can responsibly meet the obligations of a HECM loan. To achieve this end, counselors should continue to reinforce the borrower’s obligations to pay all required property charges and any other requirements of the loan transaction. ”

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