To: Reverse Mortgage Lenders

From: Saundra Mitchal

Date: January 4, 2000
Subject: New Policy Statement
(Reverse Mortgage Letter 2000-01)

Following is an addendum to our current policies governing the selling and servicing of the Home Equity Conversion Mortgage (HECM) and the Home Keeper® Mortgage. The new policy relates to the set aside provision for the payment of taxes and insurance and is effective for all loan applications taken beginning March 1, 2000.

Each lender shall assess each reverse mortgage applicant at loan application for property tax delinquency of one year or greater. The delinquency date is defined as the date after which a penalty will be assessed by the related taxing authority. The lender shall include documentation of the timely payment or lack thereof as part of the underwriting process and as part of the permanent loan file (Note: Such documentation can be in the form of the Title Report). Each lender shall also determine whether the applicant has hazard insurance in place. For those situations where the applicant is delinquent on such charges at loan application or the applicant is in a tax deferral program, the lender shall make the following representations and shall take the following steps:

1. The lender represents that (except to the extent it has reduced the amount of the set-aside in accordance with paragraph 5 below) it has set aside the sum of (i) three years of property tax payments on the related property at the then current assessment and property tax rate and (ii) three years of hazard insurance premiums at the greater of (a) the coverage required by Fannie Mae or (b) the coverage actually purchased by the borrower and set aside the entire amount of such at origination.

   When delivering a loan to Fannie Mae with a set aside for taxes and insurance, the lender shall enter the amount of such set aside in the field, "First Year Properly Charges" via ShAReS®.

2. Should the borrower subsequently fail to pay property taxes or hazard