

A **NRMLA** White Paper



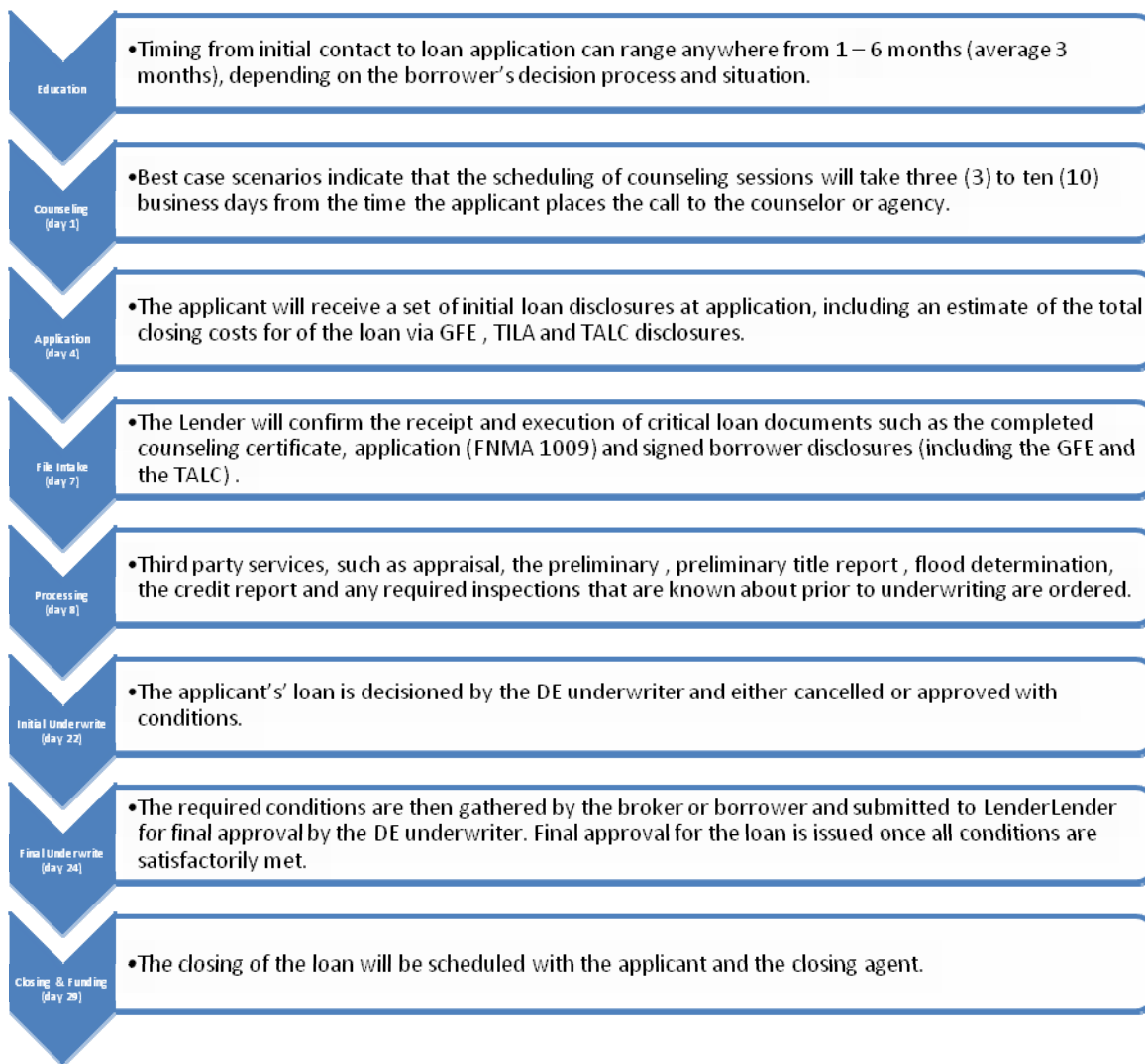
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HECM Reverse Mortgage Origination Timelines and Disclosures

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1. Introduction

It has come to the National Reverse Mortgage Lenders Association's (NRMLA) attention that there are several senior advocacy groups, state and local legislators, and federal legislators who are under the impression that seniors who choose to apply for a reverse mortgage are rushed into a decision on taking out a reverse mortgage. The impression is that once a prospective reverse mortgage applicant begins the research on reverse mortgage options, then the momentum of the originations process sweeps the prospective applicant into making an uninformed decision. With this White Paper, NRMLA demonstrates that there are several critical phases to the reverse mortgage origination process, with full and proper disclosures offered to the applicant during various phases of this process. Under the best case scenarios, a reverse mortgage will not close and fund for at least 29 business days from the day the prospective applicant reaches out to an independent, HUD-approved counselor as the first step in the process. Every opportunity to cancel the reverse mortgage application is offered to the applicant throughout this lengthy process.



2. Awareness and Education

A loan officer prepares and delivers educational materials to prospective applicants and/or their trusted advisors. Many Lenders will encourage seniors to involve their family members or other trusted advisors in the process. In addition to any company-specific educational materials, the prospective applicant is often times provided information from independent source material relating to reverse mortgages as gathered from newspapers, magazine articles, and informative web sites. Educational material is also available from HUD, AARP and the National Reverse Mortgage Lenders Association (NRMLA). The typical timing from initial contact to loan application can range anywhere from 1 – 6 months (average 3 months), depending on the borrower's decision process and situation.

3. Independent Counseling

The prospective applicant is required to attend an independent reverse mortgage counseling session with a HUD-approved counselor as selected by the applicant. A reverse mortgage Lender must provide the prospective applicant with at least five local HUD approved counseling agencies, plus the toll-free numbers for all of the HUD approved national counseling intermediaries: the National Foundation for Credit Counseling, Money Management International, CredAbility, National Council on Aging, Clearpoint Financial Solutions, Neighborhood Reinvestment Corporation and Springboard. The selection of the counselor is up to the prospective applicant and a reverse mortgage Lender is prohibited from steering the prospective applicant to a specific counselor or counseling agency.

As stated in HUD's Mortgagee Letter 2004-25, "[b]efore, during, or after the counseling session is completed, the Lender may NOT contact a counselor or counseling agency to refer a client; discuss a client's personal information, including the timing or scheduling of the counseling; or request information regarding the topics covered in a counseling session." During this mandatory, independent counseling session, the counselor is to explain the different reverse mortgage options that may be available to the prospective applicant, as well as the alternative programs to the reverse mortgage which may be available, such as fuel assistance programs, food stamps, property tax abatements and property tax deferral programs. Additionally, as per HUD's Mortgagee Letter 2009-47, only those counselors who have passed the HUD HECM testing standards may be included in the HUD approved roster of counselors. Only those on the HUD Roster of HECM Counselors can provide HECM counseling to potential HECM borrowers.

Once Counseling has been completed, the mortgage Lender is to be provided a copy of the completed counseling certificate, as signed by the counselor and prospective applicant, as proof the HUD-required counseling has been completed. No fees may be incurred on behalf of the prospective applicant, with the exception of a credit report, prior to the completion of the mandatory counseling. Best case scenarios indicate that the scheduling of counseling sessions will take three (3) to ten (10) business days from the time the applicant places the call to the counselor or agency.

4. Application and Initial Disclosures

In this phase, the prospective applicant selects a Lender or mortgage broker and initiates the application for the reverse mortgage. The reverse mortgage consultant will prepare a customized loan illustration based on the payment options selected by the applicant. The applicant will then receive a set of initial loan disclosures, including an estimate of the total closing costs for the loan via the Good Faith Estimate (GFE), Truth-in-Lending Act (TILA) and Total Annual Loan Cost (TALC) disclosures. There is a mandatory three (3) business day waiting period after the disclosures are issued [required by the Mortgage Disclosure Improvement Act (MDIA)]. ***This waiting period is only required in cases where the applicant does not receive, and sign, the application and disclosures at a face-to-face application session.***

Typically disclosures are mailed to a borrower, in which case they are deemed received by the borrower 3 business days after mailing, thus the waiting period, if mailed, is actually 6 business days. This waiting period is required by MDIA before a Lender can begin processing a reverse mortgage application or incurring costs of third party services on behalf of the applicants (i.e. ordering an appraisal). The exceptions are that a credit report may be ordered prior to the issuing of the TILA disclosure, and the borrower may have counseling and pay out of pocket for that counseling.

Note: Also in accordance with MDIA, a loan may not be closed earlier than 7 business days after the borrower receives their TILA disclosure which is typically sent with all other initial disclosures.

The set of disclosures provided to the applicant is to include:

- Servicing Disclosure Statement
- Total Annual Loan Cost (TALC)
- Borrower Certification and Authorization
- HECM Consumer Protection Measures Against Excessive Fees
- Contact Release Form for Advisors and Relatives
- Notice to Applicants
- Written List of Providers - Addendum to the Good Faith Estimate of Settlement Charges
- Truth in Lending Disclosure
- Important Terms (product specific)
- Courier Fee Agreement
- Notice Concerning Principle Residence
- Consumer Guide – “Understanding the Role of Your Mortgage Professional and the Cost of Your Reverse Mortgage
- Good Faith Estimate

5. File Intake

During this phase the Lender will confirm receipt and execution of critical loan documents such as the completed counseling certificate, the loan application (FNMA 1009), valid copies of identification such as Social Security cards, proof of date of birth, etc... and signed borrower disclosures (including the GFE and the TALC) that were sent to the borrowers. For wholesale loans, the Lender would also expect the FHA Case Assignment printout and credit report to be included in the file. The Lender may use third party vendors to independently verify the applicants' identity and to perform required OFAC (Office of Foreign Asset Controls) verification to identify any “red flags”.

File intake can take as little as one (1) business day, but in most cases will require several days if not all documents are completed, signed and provided to the Lender at the same time.

6. Loan Processing

It is at this point the third party services, such as appraisal, preliminary title report, flood determination, the credit report (for retail loans) and any required inspections that are known about prior to underwriting are ordered. If the preliminary title report indicates existing liens on the subject property, then payoff demands on these liens are subsequently requested. Once the appraisal is ordered, it is customary to take at least two (2) weeks, under a best case scenario, for the appraisal to be performed and the report to be delivered to the loan processor. The processor gathers all required documentation to submit the loan file to underwriting for review and decisioning.

7. Underwriting

Typically, a comprehensive checklist is utilized to review the applicant's loan file and supporting documentation for accuracy, compliance to FHA guidelines and to identify any red flags or items missing. An in-depth appraisal valuation is performed, including identification of any required repairs to be made so that the property meets FHA standards, and typically an AVM is pulled to validate and support the appraised value. Any variances must be reconciled. The Title to the property and ownership vesting are reviewed and approved. Special circumstances, such as properties held in a trust, Powers of Attorney, Guardianships and Conservatorships are all reviewed for approval and typically require approval by the title company as well as the Lender's underwriter. Owner occupancy of the subject property as the primary residence of the borrower(s) is verified along with all other program guidelines, such as the age of all borrowers and evidence of independent counseling. Reverse Mortgage loans are all underwritten by Direct Endorsement (DE) underwriters in accordance with FHA Home Equity Conversion Mortgage (HECM), investor (e.g. FMMA, GNMA, etc.) and individual Lender Guidelines. Lenders will utilize applicable risk tools and vendors to perform the following functions:

- death search
- identity & OFAC verification
- occupancy verification
- address verification
- Social Security number validation
- Credit Report (government debt, liens and fraud alerts)
- Internal Watch Lists are checked
- Government Exclusionary Lists Checked for all parties to transactions – Limited Denial of Participation List (LDP), Excluded Parties List System (EPLS), and Credit Alert Interactive Voice Response System (CAIVRS)

The applicant's loan is then decisioned by the DE underwriter and either cancelled or approved with conditions. This is typically known as the "initial underwrite" of the loan. Current industry standard is two (2) – four (4) business days for the initial underwriting of the loan.

During the second phase of underwriting, the required conditions are then gathered by the broker or borrower and submitted to Lender for final approval by the DE underwriter. Final approval for the loan is issued once all conditions are satisfactorily met.

Receipt of conditions could take days, weeks or months depending upon the response time of the broker or borrower and the complexity of each loan situation (for example, a loan that requires the completion of the probate of a will could take months). Subsequent review of final conditions typically takes another one to three (1-3) days once the Lender receives all required conditions from the broker or borrower.

8. Appraisal Review

A Desk Review of the appraisal by either the Lender's internal appraiser or an outside vendor may be required for certain loans meeting Lender-set criteria. Desk Reviews typically take 3-10 business days.

9. Pre-Funding Quality Control

Some Lenders have a separate Pre-Funding Quality Control department whereby certain loans meeting Lender-set criteria, or a percentage of loans selected at random may be subject to a pre-funding quality control review by an internal auditor. This process would typically take a few days.

10. Closing, Document Drawing and Funding

It is during this phase that the closing of the loan will be scheduled with the applicant and the closing agent. If existing liens are identified, then payoffs are updated accordingly. The Lender will review the final APR & final fees for accuracy and compliance with HUD guidelines, the Mortgage Disclosure Improvement Act (MDIA), Truth-in-Lending Act (TILA) & Real Estate Settlement Procedures Act (RESPA) regulations. Under a best case scenario, it takes two (2) business days to confirm all fees and payoffs, schedule a closing date and communicate to all parties involved.

Note: If the final APR calculated is out of tolerance (i.e., greater than .125% from the initial APR disclosed upfront), there is a mandatory additional waiting period (required by MDIA) of 3 business days after the revised TILA disclosure is received by the applicant(s). Again, if the revised TILA disclosure is mailed to the applicant(s) it is considered received after 3 business days, thus the waiting period if mailed could be as long as 6 business days.

The Lender will verify important closing details, such as the payment options selected by the borrower, the rate lock, how the property will be vested at closing, required hazard/flood insurance, etc..., and condition the loan accordingly with any prior to funding conditions. The legal docs are then prepared and ordered from the doc vendor, including the estimated HUD-1 Settlement Statement. The closing will be conducted by a Lender-approved settlement agent or title company and the executed documents will be returned to the Lender for review and funding approval, typically during the rescission period of the loan.

Note: After signing, the borrower has three business days in which to cancel the loan ("three day right of rescission") unless the product is the HECM for Home Purchase Product in which case a rescission period may or may not apply depending upon the terms of the loan.

The Lender will review the executed documents including the required signatures, review and clear any funding conditions, and ultimately approve the loan to fund and wire the funds to the Lender-approved settlement agent or title company.

The Final HUD-1 Settlement Statement is prepared by the settlement agent/title company upon their disbursement of the loan proceeds to or on behalf of the borrower and a copy is then mailed to the borrower and provided to the Lender.