

## **RESPA November 2008 Rule**

### **FAQ --Reverse Mortgages**

**October 22, 2009**

#### **Reverse Mortgages**

**1) Q: Reverse mortgages do not have a “loan amount.” Rather there is an initial principal limit. In the loan summary section on the GFE and on page 3 of the HUD-1, what is considered the initial loan amount on a reverse mortgage?**

**A: The initial loan amount on a reverse mortgage is the initial principal limit.**

**2) Q: Reverse mortgages do not have a “loan amount”; rather there is an initial principal limit. What is considered the loan amount for purposes of Line 202 on page 1 of the HUD-1?**

**A: The initial principal limit is considered to be the loan amount for purposes of completing Line 202 on page 1 of the HUD-1 and should be listed outside of the borrower’s**

column. If there is an initial draw, the description of the initial draw may be listed on a blank line in Lines 204- 209 with the amount in the borrower's column.

The example below illustrates how this answer would appear:

202. Principal amount of new loan(s)	\$120,000.00	
203. Existing loan(s) taken subject to		
204. Initial draw		\$32,000.00

3) **Q:** In a reverse mortgage, the loan becomes due upon the occurrence of a specified event, such as the death of the borrower or the borrower no longer occupying the property for a certain period of time. What should be entered on the GFE and HUD-1/1A forms for the loan term?

**A:** If the loan term is conditioned upon a specific event in the future and the timing of that event is not known at the time the GFE is issued and the HUD-1 is prepared, (e.g. a reverse mortgage), the loan originator may enter "Not Applicable" or "N/A" for the loan term.

4) **Q:** Typically, there are no payments due on a reverse mortgage until the termination event occurs and the entire amount becomes due. What should reverse mortgage lenders fill in for "Your initial monthly amount owed for principal, interest, and any mortgage insurance is \_\_\_\_\_"?

**A:** If no loan payment for principal, interest or mortgage insurance is due for a reverse mortgage until a termination event occurs, the loan originator may enter either "Not Applicable" or "N/A" for the initial monthly payment in the appropriate spaces on the GFE and the HUD-1.

5) **Q:** In a reverse mortgage, how should the loan originator complete the answer to the question, "Even if you make payments on time, can your loan balance rise?"

**A:** In a typical reverse mortgage the loan balance will rise through accrued interest and future disbursements, if any, to the borrower. In these types of loans the box checked must indicate that the loan balance could rise. However, the maximum to which the loan balance can rise is not typically known with a reverse mortgage, and this maximum may be reported as "Unknown".

The example below illustrates how this answer would appear:

Even if you make payments on time, can your loan balance rise?	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes, it can rise to a maximum of \$ Unknown
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6) **Q:** In a reverse mortgage, how should the loan originator complete the answer to the question on the GFE, “Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?”

**A:** If no loan payment is due for principal, interest and mortgage insurance until a termination event occurs on a reverse mortgage, the loan originator may check the box “No” as the answer to the question, “Even if you make payments on time, can your monthly amount owed for principal, interest, and any mortgage insurance rise?” on the GFE.

7) **Q:** In a reverse mortgage, the loan is typically repaid after a termination event occurs and is repaid in one payment. Does the repayment of a reverse mortgage constitute a balloon payment for purposes of answering the question, “Does your loan have a balloon payment?” in the “Summary of your loan terms” on the GFE?

**A:** No, the repayment of a reverse mortgage, if the payment is due solely because a termination event occurred, is not considered a balloon payment for purposes of the GFE and HUD-1 disclosure.

8) **Q:** If a governmental loan program requires a borrower to select an “approved” service provider, such as a HUD approved housing counselor, should the service be disclosed in Block 3 or Block 6 on the GFE?

**A:** Even if a governmental loan program requires a borrower to select from only “approved” service providers (such as HUD approved housing counselors) the service must be disclosed in Block 6 on the GFE. If the loan originator selects a particular settlement service provider, the service must be disclosed in Block 3.

(Please note that this answer also applies to other loan programs, see GFE – Page 2, #1.)

9) **Q:** If the lender will establish an arrangement whereby the lender/servicer will pay items such as property taxes or homeowner’s insurance from a portion of the principal limit on a reverse mortgage, should the loan originator check the “Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.” in the escrow account information section on page 1 of the GFE?

**A:** Yes. If the lender will establish an arrangement whereby the lender/servicer will pay items such as property taxes or homeowner’s insurance from a portion of the principal limit on a reverse mortgage, the loan originator should check “Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.” in the escrow account information section on page 1 of the GFE.

The example below illustrates how this answer would appear:

Some lenders require an escrow account to hold funds for paying property taxes or other property-related charges in addition to your monthly amount owed of \$ "N/A"	
Do we require you to have an escrow account for your loan?	
<input type="checkbox"/>	No, you do not have an escrow account. You must pay these charges directly when due.
<input checked="" type="checkbox"/>	Yes, you have an escrow account. It may or may not cover all of these charges. Ask us.

10) **Q:** For a reverse mortgage, should the loan originator complete the GFE with the initial interest rate to be contained in the Note or the expected rate in the “Important dates” section on page 1 of the GFE, “The interest rate for this GFE is available through \_\_\_\_\_. After this time, the interest rate, some of your loan Origination Charges and the monthly payment shown below can change until you lock your interest rate.”?

**A:** The loan originator should disclose the initial interest rate to be contained in the Note in the “Important dates” section on page 1 of the GFE, “The interest rate for this GFE is available through \_\_\_\_\_. After this time, the interest rate, some of your loan Origination Charges and the monthly payment shown below can change until you lock your interest rate.”

11) **Q:** For a reverse mortgage in which there is no monthly payment anticipated, how should the statement, “Your initial monthly amount owed for principal, interest and any mortgage insurance is,” on the “Loan terms” section on page 3 of the HUD-1?

**A:** If no loan payment is due for principal, interest and mortgage insurance until a termination event occurs on a reverse mortgage, the initial monthly amount owed in the “Loan terms” section on page 3 of the HUD-1 should be completed with “Not Applicable” or “N/A” for the statement “Your initial monthly amount owed for principal, interest and any mortgage insurance is,” and the boxes for principal, interest and mortgage insurance should not be checked.

The example below illustrates how this answer would appear:

Your initial monthly amount owed for principal, interest, and any mortgage insurance is	s "N/A" includes <input type="checkbox"/> Principal <input type="checkbox"/> Interest <input type="checkbox"/> Mortgage Insurance
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12) Q: How should the “Total monthly amount owed including escrow payments” section on page 3 of the HUD-1 be completed for a reverse mortgage in which the lender or servicer will pay items such as property taxes or homeowner’s insurance from a portion of the principal limit?

A: In a reverse mortgage where the lender has established an arrangement that will pay for items such as property taxes or homeowner’s insurance through draws from the principal limit, the second box in the “Total monthly amount owed including escrow payments” section on page 3 of the HUD-1 must be checked. The blank following the first \$ sign must be completed with “0” and an asterisk, and all items the draw will be used for, such as property taxes, must also be checked. An asterisk must also be placed under the statement, “Total monthly amount owed including escrow account payments,” with a description such as, “Paid by or through draws from the principal limit.”

The example below illustrates how this answer would appear:

<p>Total monthly amount owed including escrow account payments</p> <p>* Paid by or through draws from the principal limit</p>	<p><input type="checkbox"/> You do not have a monthly escrow payment for items, such as property taxes and homeowner’s insurance. You must pay these items directly yourself.</p> <p><input checked="" type="checkbox"/> You have an additional monthly escrow payment of \$ 0 * that results in a total initial monthly amount owed of \$ 0 . This includes principal, interest, any mortgage insurance and any items checked below:</p> <table data-bbox="690 903 1380 997"> <tr> <td><input checked="" type="checkbox"/> Property taxes</td> <td><input checked="" type="checkbox"/> Homeowner’s insurance</td> </tr> <tr> <td><input type="checkbox"/> Flood insurance</td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<input checked="" type="checkbox"/> Property taxes	<input checked="" type="checkbox"/> Homeowner’s insurance	<input type="checkbox"/> Flood insurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/> Property taxes	<input checked="" type="checkbox"/> Homeowner’s insurance						
<input type="checkbox"/> Flood insurance	<input type="checkbox"/>						
<input type="checkbox"/>	<input type="checkbox"/>						