

A decorative horizontal band with a light blue background and darker blue wavy lines, resembling water or a stylized landscape, spans the width of the slide.

# **A Loan That's Closed Isn't Finished**



# Agenda

General Servicing Topics

Maturity Events

Servicing Hot Topics



# General Servicing Topics

# Payment Disbursements

## Scheduled Monthly Payments to Borrower

- 1<sup>st</sup> Payment sent on first business day of month following funding
- Subsequent payment disbursed on first business day of each month

## Line of Credit Requests

- Written request submitted to servicer
- Can be mailed or faxed to servicer
- Servicer must confirm that funds are available
- Funds must be disbursed to borrower within five business days from receipt of request

# Repayments

## Repayments

- Borrowers are permitted, but not required, to make repayments towards a reverse mortgage.
- Open-ended loan: Repayments decrease the current loan balance and increase funds available to the borrower for future draws.
- Closed-end loan: Repayments decrease the current loan balance. Redraws are not allowed.

# Statement of Accounts

Statements will vary from one Servicer to the next, but will contain the same basic information:

- Monthly Statement
  - Current Balances
  - Interest Rates
  - Monthly Loan Activity
  - Principal Limit
- Annual Statement
  - Servicer may send out annual statements detailing the activity and accruals for the prior year
- 1098
  - For borrowers that have *paid* more than \$500 in interest
- Interest Rate Changes
  - Monthly or annually – mailed 25 days prior to the interest rate change date

# Assignment to FHA

Holder *may* request assignment when:

- Loan balance reaches 97.5% of max claim amount
- Set aside repairs have been completed
- MIP payments current

Requirements

- Loan is not in default (the loan may not be due and payable)
- Title must be clear and marketable
- The servicer must be current in making payments to the borrower

*Optional* – some lenders elect not to assign

FHA pays claim up to 100% of max claim amount



# Maturity Events

# Annual Occupancy Verification

- Certificate is mailed to borrower each year
- Document must be signed and returned by borrower timely
- Failure to return signed certificate may result in loan default
- Borrower must inform servicer of absences from property longer than two (2) months

# Default/Maturity Event

- Occupancy
- Death
- Failure to complete required repairs
- Failure to pay taxes and/or insurance
- Improper transfer of title
- Disrepair of property

# Occupancy

- Borrower allowed to be away from home for up to 12 consecutive months
- Potential additional time allowances for mission trips
- If permanently not returning to home OR away for more than 12 months, loan is in default
- HUD approval needed to call loan due and payable

# Death

- Death of the last surviving borrower
- Servicers use variety of tools to obtain death information
- No HUD approval needed to call loan due and payable
- “Condolence Letter” is mailed by servicer

# Due and Payable

- No HUD time extension approval needed for the first six (6) months
- Potential two (2) additional 90-day extensions available
- Total time potentially available: 1 year from maturity event
- Borrower (or estate) must be working closely with servicer to update on progress
- Time extensions are not guaranteed

# Servicing Hot Topics

Tax & Insurance Defaults

Repairs

Non-Borrower Spouse

New Investors/HMBS

# T&I Defaults

- Reverse mortgage borrowers are responsible to maintain Taxes and Insurance (T&I) on their mortgaged property. The borrower may elect to have the servicer pay the T&I through a set-aside, or the borrower may make the payments themselves.
- If the borrower elects to make the T&I payments themselves, proof of payment may be required each year.
- A first year set-aside is set up at closing if the borrower elects to have the servicer pay either the taxes and/or the insurance. If the borrower decides to continue with a set-aside after the first year, arrangements will need to be made with the servicer to ensure adequate funds are being withheld for future payments.
- The servicer is responsible for confirming T&I payments either through utilization of third parties or directly themselves. If the servicer's phone calls and/or letters are not successful in confirming payment, lender placed insurance will be obtained as required, and any delinquent taxes due, inclusive of penalties, will be paid by the servicer.

# T&I Defaults

- If the servicer advances the funds to make payments, the servicer will contact the borrower and attempt to establish a repayment plan.
- If the borrower does not agree to a repayment plan, or defaults on a repayment plan, the servicer will request HUD approval to call the loan Due and Payable.
- HUD approval is required to call the loan Due and Payable due to non-payment of Taxes and Insurance.

# Repair Administration

- Required repairs to the subject property will be determined by an underwriter following a review of the appraisal. The funds to complete repairs are allocated from the loan proceeds as a repair set-aside
- There is an initial time frame established in the repair rider to complete the repairs with possible extensions up to one year from the closing date. The servicer will monitor the completion of the repairs by maintaining continued communication with the borrower through correspondence, telephone calls, and inspections. Only repairs listed on the repair rider will be paid with repair set-aside proceeds.

# Repair Administration

## Time Frames

- Initial Repair Period
- Extensions
- Suspension of Payments - If the required repairs are not complete by the completion due date as stated on the repair rider, the repair administrator suspends any future scheduled monthly payments and the ability to withdraw funds from their Line of Credit until the required repairs are certified as being complete.

## Monitoring of Progress

- Follow-up Letters/Calls
- Inspections

# Repair Administration

## Completed Repairs

- Final Inspection
- Lien Waivers
- Payments
  - o Borrower
  - o Contractor
  - o Other

## Default Process

- Determination that an incurable default exists
- Referral for foreclosure/approval
- Foreclosure approval from HUD
- Completion of foreclosure process

# Non-Borrower Spouse

Why does this occur?

- Risks involved in this process
- What should be done to protect the:
  - Borrower and Non-Borrower Spouse
  - Lender/Servicer

# New Investors/HMBS

- FNMA was previously the only primary investor in the marketplace in early 2008
- GNMA HMBS became available in 2<sup>nd</sup> quarter 2008
  - o Allows Lenders to securitize to GNMA or sell to other investors who can securitize with GNMA
- Minimum pool size:
  - o \$1,000,000
  - o At least three HECM participations related to three distinct HECM loans
- Pooling parameters:
  - o Fixed rate HECM loans cannot be pooled with adjustable rate loans
  - o Adjustable rate HECM loans must have the same reset date
  - o HECM participations must have a spread of between 6 and 75 basis points below the HECM note rate
- No Multiple Issuer pools

# New Investors/HMBS

- Issuers may develop their own systems
- Issuers may contract with a Participation Agent/Master Servicer
- Issuer or Participation Agent (whoever is performing the servicing function) must successfully complete the GNMA testing
- Issuers are required to monitor a borrower's compliance:
  - o Maturity event
  - o Borrower default
- Required Repurchase Event
  - o 98% MCA
  - o At time of Foreclosure Sale
- Optional Repurchase Event
  - o Determined by each Issuer if there is a loan event that they would want to repurchase
- No loan substitutions

# Panelist

- Linda Bridges, Assistant Vice President, Wells Fargo Home Mortgage
- Ryan LaRose, Executive Vice President, Celink
- H. Marc Helm, Chief Operating Officer, Reverse Mortgage Solutions, Inc.
- Carol Norton, FVP, Financial Freedom



# Conclusion

Question and Answer Session