



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

NRMLA Annual Conference:
Federal Housing Administration
HECM Servicing

October 25, 2011



FEDERAL HOUSING ADMINISTRATION



HUD Participants

- Sharon Lundstrom – Director, National Servicing Center
 - HECM servicing topics
- Sarah P. Martin – Chief, Single Family Claims Branch
 - HECM claim topics



Policy Update: ML 2011-16

Rescission of ML 2008-38

- ML 2011-16 – issued April 5, 2011 to rescind ML 2008-38:
 - Removes the restriction on sale of property to related parties.
 - When HECM becomes due and payable as result of mortgagor's death and property is conveyed by will or operation of law to mortgagor's estate or heirs (including a surviving spouse who is not obligated on HECM note) that party may satisfy the HECM mortgage by paying the lesser of mortgage balance or 95% of appraised property value.



Policy Update: M/L 2011-16 continued

- Follows guidance found in HUD Regulations 24 CFR Part 206 and HUD HECM Handbook 4235.1
- Regulations state, in part, “[i]f the mortgage is due and payable at the time the contract for sale is executed, the borrower may sell the property for at least the lesser of the mortgage balance or five percent under the appraised value” (*i.e.*, 95% of the appraised value). HUD interprets the word “sale” to include any **post-death conveyance of the mortgage property (even by operation of law) to the borrower’s estate or heirs.**
- Must provide documentation of the post-death conveyance -- such as by deed or in suitable format according to state law -- with claim package.



Claim Status and Servicing Requirements

- Mortgagee Letter 2005-30 identifies first public legal action required to initiate foreclosure in all states and US territories; and reasonable diligence timeframes for completing foreclosure.
 - Applies to forward mortgages and HECMs.
 - Regulations require commencement of foreclosure within six months of giving notice the mortgage is due and payable, or within six months from date of mortgagor's death, if applicable.
 - Secretary may approve additional time to meet this requirement
 - Regulations make provisions for delays caused by state law or requirements.
 - Mortgagee's Comments – annotate mention to the 90-day automatic "servicer" extension and date of the mortgagor's death.



Claim Status and Servicing Requirements

- Claim amounts are based on sale price or appraisal based submissions:
 - Regulations require mortgagees to sell acquired properties for appraised value, or a lesser amount approved by the Secretary.
 - Sales for less than appraised value without HUD approval will result in reduction of the claim for the difference.
- Reasonable and customary closing costs for short sales and sales of acquired properties are reimbursed according to guidelines in identified in HUD's FAQs.
 - HUD does not dictate what closing costs servicers can pay, only what HUD will reimburse
- Claims are curtailed from the first missed timeframe date until claim settlement
 - HUD will take under consideration suggestions to allow minor gaps in required timeframes



Auto “Servicer” Extension

- Authorized if borrower/estate is attempting to sell or pay off the loan following due and payable event.
- Form HUD-50012 is not necessary for this automatic “servicer” extension.



Auto Servicer Extension, continued

- Must correctly identify the following dates and information on Form HUD-27011, Single Family Application for Insurance Benefits, for claims with a “servicer” extension of time :
 - Item 11 - date of the first legal action to initiate foreclosure
 - Item 19 - expiration date of the automatic extension period
 - Item 29 - due and payable date
 - Mortgagee’s Comments – Enter date of mortgagor’s death and refer to the 90-day automatic “servicer” extension.



Claim Status and Servicing Requirements

Expected claim processing improvements, based on recent contract awards:

1. Logging and imaging of claim packages. Contract awarded July 2011. Contractor has logged and imaged all HECM claim packages on hand as of 10/21/2011.
2. Claim-processing contractors: Dedicated to process HECM claims. They are hiring staff. We are arranging for contractor employees' system access. Hands-on training to begin Nov. 1.



HECM Claim Preparation

- Provide the following data elements in Mortgagee's Comments, Part A, HUD-27011:
 - Max Claim Amount: \$xxx,xxx
 - Date of death: xx/xx/xxxx
 - Appraisals – List appraisal date and amount for each. For example:
 - 02/01/2010 \$100,000
 - 03/01/2011 \$97,000
 - 08/15/2011 \$95,000
 - Annotate “auto servicer extension,” if applicable
- DO NOT include any photos or copies of photos from the appraisal packages and/or property inspections.



HECM Claim Package

“Assembly Instructions” #1 of 2

Assemble HECM claim package submissions in the following order. This will streamline claim review and decrease processing time:

- 27011 – Single Family Application for Insurance Benefits
 - Part A
 - Part B
 - Part C
 - Part D
 - Part E
- IACS (F12) screen prints
 - MU02 and MU03
 - or Mortgage Insurance Certificate
- Due and payable approval letter/Notification of Death to HUD/Mortgagor request for Deed-in-lieu
- Third-party Sale Documentation (if applicable)
- Loan Transaction (Payment) History



HECM Claim Package

“Assembly Instructions” #2 of 2

- Extension approvals (if applicable)
- Approved variance (if property was sold for less than the appraised value)
- Part C expense documentation
- Part D expense documentation (as applicable):
 - Block 305 documents
 - Block 306 documents
 - Block 307 documents
 - Block 311 documents
- Part E expense documentation (as applicable)
 - Block 408 – Signed HUD-1 Settlement Statement
 - Block 409 Appraisal Invoices
- Appraisal Package(s)



HECM Claim Processing

- Common reasons for returning claim packages:
 - Holder or Servicer Number not consistent with IACS or with information in blocks 35 or 36 – mortgagee and servicer, respectively.
 - Dates out of sequence.
 - Due and payable notification document not included.
 - Insurance terminated in IACS.
 - Outstanding mortgage balance (block 17) not consistent with loan transaction history.
 - Borrower information incorrect.
 - Dates on claim form not supported by claim documents.
 - Missing original signature.
 - Negative claim – the sales proceeds exceeded total claim amount
 - Date deed filed for record (bl. 10) is after Date form prepared (bl. 6)
 - Lack of signed HUD-1 form – for sale based claims



HECM Claim Processing, cont'd

Common reasons for reducing claim payment:

- Reimbursement requested for disallowed sales closing costs.
- Discrepancy between reimbursement requested on claim form and supporting invoices/paid bill receipts.
- Appraisal packages not included with claim, when claiming reimbursement of appraisal fees.
- Reason for not performing full, interior appraisal not annotated by appraiser on invoice.
- Expenses incurred outside of allowable period.



Questions?