

National Reverse Mortgage Lenders Association

Annual Meeting

October 28-30, 2018 San Diego, CA





Collateral Risk Assessment

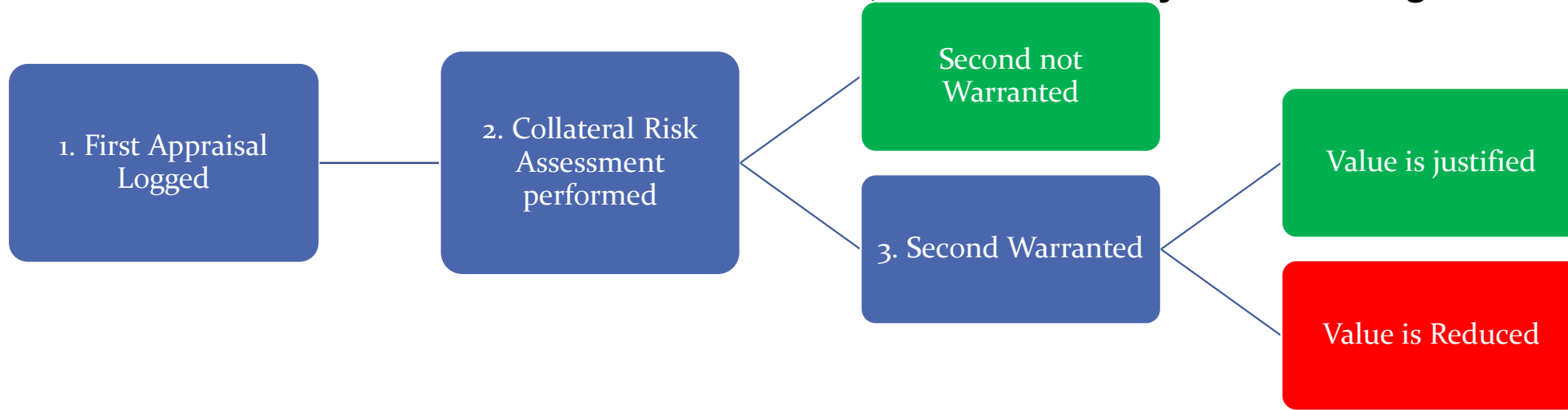
Mortgagee Letter 2018-06

Home Equity Conversion Mortgage (HECM) Program – Changes to Appraisal Submission and Assessment for all HECM Originations

- Due to the *nonrecourse nature* of the HECM, the *financial soundness* of the HECM program is contingent on receipt of an accurate determination of *property value* and *property condition*
- To mitigate risk to the MMIF as well as FHA borrowers posed by valuation of the collateral, two appraisals will be required for HECM originations, if determined necessary by the *collateral risk assessment*
- Effective with *all* case numbers assigned on or after October 1st, 2018

As the insurer of HECM loans, FHA is implementing measures to ensure that appraisals used for HECM financing are accurate.

The solution is called “Collateral Risk Assessment”, as described by the following flow chart:



As you can see, a first appraisal is completed and logged in FHA connection. FHA performs a “Collateral Risk Assessment”, and if warranted, a second appraisal will be required. When the second appraisal is returned, there will be one of two results:

- The value of the first appraisal is justified or
- The value is reduced based on the results of the 2nd appraisal

If the second appraisal is lower, that value will be used in calculating the MCA

Second Appraisal Required Response

Dear XXXXX,

Thank you for contacting the FHA Resource Center regarding a HECM Collateral Risk Assessment request for FHA Case Number XXX-XXXXXXXXXX.

FHA's HECM Collateral Risk Assessment has determined a second appraisal is required. Once the second appraisal is obtained, email the FHA Resource Center at answers@hud.gov. In the email subject line, place: 'HECM Second Appraisal Complete' and the FHA Case Number. In the body of the email indicate the **second appraisal value**. Please refer to ML 2018-06 on how to proceed once a second appraisal is obtained.

As a reminder, mortgagees are responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes .

No Second Appraisal Required Response

Dear XXX,

Thank you for contacting the FHA Resource Center regarding a HECM Collateral Risk Assessment request for FHA Case Number [xxx-xxxxxxx](#).

FHA's HECM collateral risk assessment has determined the mortgagee may continue processing without a second appraisal. Please refer to ML 2018-06 for additional details.

As a reminder, mortgagees are responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Mortgagee Responsibility

As a reminder, mortgagees are responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Mortgagees have the responsibility of identifying any issues with an appraisal as well as reconciling any discrepancies between both appraisals

Examples:

- ❑ 1st appraisal as is, no required repairs, however 2nd appraisal is subject to required repairs***
- ❑ 1st appraisal shows property zoned legal, conforming, 2nd shows legal non-conforming***
- ❑ Comparable discrepancies***
- ❑ Market Data discrepancies***

NRMLA Working group

NRMLA through the HUD Issues committee formed a working group

- Compiled a list of implementation questions-further clarification
- Identified additional questions for more detailed research and evaluation
- Make recommendations to the NRMLA Executive committee

Collateral Risk Assessment Good News vs Bad News

☐ *Good news*

Not every loan requires a 2nd appraisal

☐ *Good news*

Lenders are seeing CRA turn times as soon as quickly as thirty minutes up to 24 hours

☐ *Good news*

The interim protocol is running very smoothly

Bad news

Some loans do require a 2nd appraisal

CRA-Analysis as of 10-22-2018

Of the 70 cases where a CRA determination was made, 13 cases (19%) required a second appraisal

Currently tracking:

- Date Submitted*
- Date Received*
- 2nd Appraisal Required*
- Property type (SF, 2-4, Condo, MH)*
- Location (Urban, Suburban, Rural)*
- Property State*
- Product Type (Traditional, H2H, H4P)*

The majority of cases had the CRA determination made in 1 business day

Resources- www.hud.gov/answers

Appraisal/Property Analysis

Closing and Insuring

Condo Project Approval

Consumer Information

Credit Underwriting

Disaster Relief

FHA System Support

Forward Servicing

HUD Owned Properties

Lender Approval/Eligibility

Misrouted Contacts

Partner Approval/Eligibility

Quality Control/Compliance

Rehabilitation Programs

Reverse Mortgage Programs

Reverse Mortgage Programs

Display All Subcategories

Basic Eligibility Requirements

Counseling Requirements

HECM Collateral Assessment

HECM Servicing

Processing Guidelines

Refinance Transactions

HECM Collateral Assessment

- ▶ **Are there penalties if a Mortgagee forgets to notify HUD/FHA that they have uploaded their Home Equity Conversion Mortgage (HECM) appraisal in Electronic Appraisal Delivery (EAD) Portal and FHA Connection?**
- ▶ **Can a Mortgagee obtain two concurrent Home Equity Conversion Mortgage (HECM) appraisals before the FHA collateral risk assessment, in anticipation of a requirement for a second appraisal?**
- ▶ **Can the cost of the second appraisal for a Home Equity Conversion Mortgage (HECM) be financed?**
- ▶ **During the Home Equity Conversion Mortgage (HECM) Interim Protocols period, why is the Appraisal Expired reason, as found in the dropdown options, being used to require a second appraisal in FHA Connection (FHAC)?**
- ▶ **How can a Mortgagee obtain a copy of the collateral risk assessment on a Home Equity Conversion Mortgage (HECM)?**
- ▶ **How can a Mortgagee remove the “HECM Second Appraisal Required” case warning in FHA Connection (FHAC)?**
- ▶ **How does a Mortgagee remove a Home Equity Conversion Mortgage (HECM) second appraisal if it was entered into**

Collateral Risk Assessment- Q & A

How can a Mortgagee obtain a copy of the collateral risk assessment on a Home Equity Conversion Mortgage (HECM)?

The collateral risk assessment is a proprietary FHA process. Thus, Mortgagees will not be able to obtain a copy of the assessment.

HQ Policy Determination

All policy information contained in this knowledge base article is based upon the referenced HUD policy document. Any lending or insuring decisions should adhere to the specific information contained in that underlying policy document.

Topic Number: 2018-0029