

National Reverse Mortgage Lenders Association

Western Regional Meeting

March 25-26, 2019 Huntington Beach, CA





HECM Servicing Policies and Updates

Presenters:

- Gail Balettie, Celink, Austin, TX
- Leslie Flynn, Reverse Mortgage Solutions, Inc., Houston, TX
- Michael Kressin, Champion Mortgage, Irving, TX





Hazard Insurance/Property Claims



Types of Insurance Claims

- Hazard
 - Typically fire, fallen tree, water intrusion not related to rising water
- Windstorm/Hurricane
 - Typically tornado, hurricane (insurance rider may apply)
- Flood
 - Rising water and typically separate Flood Insurance Policy
- HO6
 - Condo or Townhome “walls in” coverage



Steps That Should be Taken

- Contact Insurance Provider
 - Report Damage
 - Determine Coverage
 - Arrange for an adjuster to visit the property
 - Flood Insurance may be a different provider



Steps That Should be Taken

- Contact your Mortgage Servicer
 - Let them know you have been affected
 - Update contact phone number and address
 - Obtain their Property Claim/Loss Draft contact number
 - Provide information regarding the loss



Damage is covered

- Insurance adjuster will determine Claim amount and provide Adjuster's Worksheet
 - Estimate of Repairs and Scope of Repairs
- Claim Check typically issued to both the Customer and Mortgagee (Servicer)
 - Check will need to be endorsed by both
- Dollar amount of claim determines disbursement schedule
 - Small claim may have initial disbursement to start work and/or complete
 - Large claim may have disbursement in 1/3's after inspections are completed



Claim Documentation

- Copy of Insurance Company's Adjusters Report
- Mortgagor's Affidavit
- Contractor Signed Contract or Proposal
- Contractor IRS W-9 Form
- Contractor License Affidavit
- Contractor Release of Lien (once work complete)
- Affidavit of Bills Paid (once work complete)



Contact Property Claim Department

- Stay in contact with the Property Claim department
- Provide update on work being completed
- Provide documents as per the claim requirement
- Inspections will be coordinated for work completed
- Final inspection is for 100% complete
- Provide support and help through the process
- Claim funds are due to the property which is the Collateral



Assignments to HUD



Assignments to HUD

Loan Eligibility

- Loan balance = 98% of Maximum Claim Amount
 - Loan Status = Active or in Bankruptcy; not Due & Payable
 - No Outstanding Property Charges or Repay Plans
 - Current Occupancy Certification
 - No open Loss Draft Claims
 - Good & Marketable Title

References: Mortgagee Letter 2017-05

HECM Handbook 4235.1, REV-1, Chapter 8 and Handbook 4330.1, REV-5, Chapter 13,



Assignments to HUD

Process

- Servicer gathers all required documents
 - Submits request in HERMIT
 - HUD's Servicer reviews and approves or conditions
 - Upon Approval, Servicer files claim in HERMIT
 - Borrower notification
 - Assignment to HUD prepared/recorded
 - Collateral sent to HUD



Assignments to HUD

Borrower Notification

- Goodbye Letter from current Servicer
 - Hello Letter from HUD's Servicer (NOVAD)
 - Prior Servicer no longer involved

Reference: Mortgagee Letter 2014-19 – HUD's Servicing Contractor



Non-Borrowing Spouse

Non-Borrowing Spouse (“NBS”) - The Background

- ▶ HECM loans become due and payable upon the death of the last borrower.
- ▶ Previously, the HECM program stipulated that only the borrower(s) on the note could be named on the title to the property of a reverse mortgage.

NBS – The Challenge

- ▶ The challenge for the NBS upon the death of the borrower:

Since the loan is immediately called due and payable, the NBS had limited choices if they wanted to remain in the property:

- ▶ Repay the entire loan balance at the lesser of 100% of loan balance or 95% of the appraised value of the property
- ▶ Refinance the loan into a new HECM or traditional mortgage (often ineligible)

NBS – The Solutions

- ▶ Loans endorsed prior August 4, 2014 (“MOE NBS”)
 - ▶ HECM program to suspend the rule requiring the NBS to repay the loan upon the borrowing spouse’s death and establishes the possibility for the NBS to be assessed for an ***assignment to HUD if they meet certain conditions***
- ▶ Loans endorsed after August 4, 2014
 - ▶ New HECM product which provides for the NBS after the borrower’s death and makes the NBS eligible for a ***repayment deferral if they meet certain conditions***

MOE NBS Loans

(effective for HECMs issued prior to 8/4/14)

- ▶ In response to a legal ruling from the U. S. District Court concerning HECM mortgages that did not contain language deferring the D&P status of the mortgages until the death of the borrower's spouse (those issued prior to 8/4/14) , FHA approved two new paths for investors/servicers to consider for these mortgages:
 - ▶ Foreclose in accordance with the contract as endorsed; or
 - ▶ Utilize the Mortgagee Optional Election ("MOE") Assignment.



MOE NBS Loans

(effective for HECMs issued prior to 8/4/14)

▶ MOE NBS Eligibility Requirements

- ▶ Legally married to the borrower at the time the loan was closed or engaged in a committed relationship where marriage was prohibited at the time.

MOE NBS Loans

(effective for HECMs issued prior to 8/4/14 loans)

- ▶ Investor/Servicer assesses all NBS to ensure all requirements are met utilizing the documents provided by the NBS
- ▶ Investor/Servicer signs a Certification that the requirements are met and there is a valid and enforceable first lien with no impediments to securing good marketable title
- ▶ The “package” is submitted to HUD for their review and acceptance
- ▶ Loan is assigned to HUD for future servicing

Newer Loans

(effective for HECMs issued 8/4/14 and after)

▶ NBS Eligibility Requirements

- ▶ HECM loan documents now contain a provision deferring D&P status until the death of the last surviving non-borrowing spouse (NBS) or until another listed default event occurs.
- ▶ NBS must be identified at the time of loan closing and named as non-borrowing spouse in the HECM documents.
- ▶ NBS must have remained married to the borrower for the duration of the borrower's lifetime.
- ▶ Certifications are signed by both at loan closing and annually thereafter.
- ▶ Loan will be considered in a "Deferral Period" for D&P and remains with the Investor/Servicer.



All NBS Loans

▶ NBS Eligibility Requirements

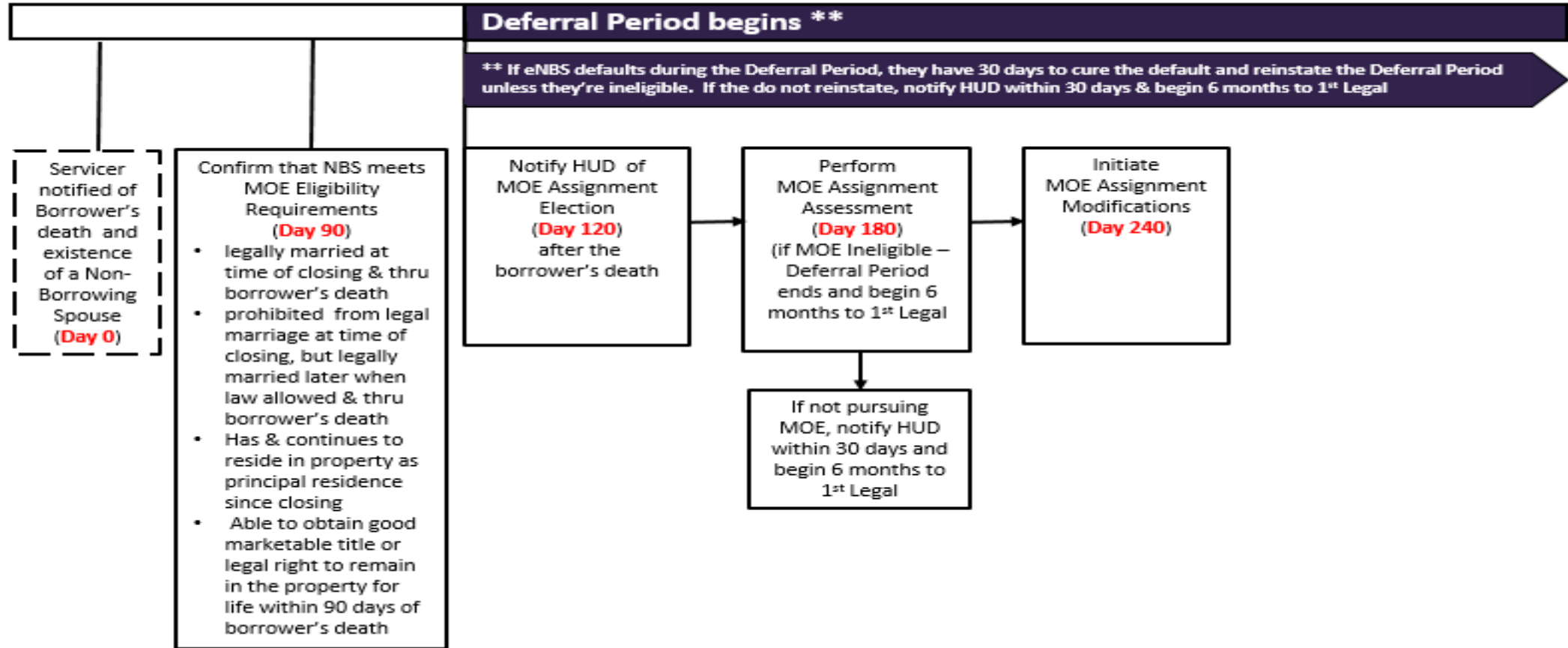
- ▶ NBS must have occupied, and continues to occupy, the property secured by the HECM loan as their principal residence
- ▶ Able to obtain marketable title or legal right to the property within 90 days following the death of the last surviving borrower
- ▶ The loan cannot be due and payable for any other reason than the death of the borrower
- ▶ Agrees to meet all the contractual obligations of the HECM borrower (remain current on taxes, insurance, HOA)
- ▶ If the NBS ceases to meet requirements, or dies, the loan is called due & payable as a result of the last surviving borrower's death (i.e., their spouse's previous death)



All NBS Loans

- ▶ The NBS must provide the following information
 - ▶ SSN (MOE only)
 - ▶ Marriage Certificate or equivalent (MOE only)
 - ▶ Borrowers death certificate
 - ▶ Evidence of title or right to remain in the property
 - ▶ Written Certification wherein for promises made, NBS will be permitted to remain for life or until they default
 - ▶ Tolling Agreement – Statute of Limitations waiver (MOE only)

Timeline




MOE NBS Issues

- ▶ Certain states' probate procedures may impede a NBS's ability to obtain title or establish legal right to remain in the property before the MOE assessment completion deadline.
- ▶ In Mortgagee Letter 2016-05, HUD provided for a 60 day extension for the following reasons:
 - ▶ The NBS to demonstrate legal title or right to remain has been secured and
 - ▶ The mortgagee to complete it's required 60 day assessment.

Repayment Plans – Timelines

- ✓ Pre-Default: borrower receives multiple notices from the taxing authority, insurance company and Servicer.
- ✓ **Default:** Borrower does not pay; Servicer advances funds
 - ✓ **Property Charge Delinquency Notice** mailed to borrower
 - ✓ Loan must be called due within 30 days, with HUD approval
 - D&P notice sent to borrower; Borrower has 30 days to respond
 - ✓ Servicer works with borrower to determine RPA eligibility
 - ✓ If eligible, RPA offered to borrower

Note: If loan is referred to Foreclosure, RPA may no longer be available



Repayment Plans – Key Highlights

Purpose: For Taxes and Insurance only; no HOA dues or assessments

- Must be signed by both borrowers
 - RPA must be approved by HUD
 - HUD will grant up to maximum of 5 years / 60 months to repay
 - RPA “broken” if full payment is not made within 60 days of payment due date
 - Multiple RPAs available if borrower qualifies

Repayment Plans – Calculation

- 4 Critical Factors: Default Balance, MCA %, Monthly Surplus Income and Maximum Term
- Required Payment based on “Monthly Surplus Income”
 - Income minus Expenses
 - Expenses include (but may not be limited to)
 - Healthcare
 - Revolving and installment debt
 - Any payment obligations
 - Utility bills and other household-related expenses
 - Monthly amount needed for property charges due over next 12 months

Repayment Plans – Calculation

- **Payments** should not be >25% of borrower's monthly surplus income and shortest term should be offered
- **Max Term** cannot exceed a total of 5 years/60 months total, even if multiple plans are offered
- **At Risk Extensions** (extension of foreclosure; loan remains D&P)
 - For ineligible borrowers or unsuccessful plans
 - Youngest living borrower must be at least 80, **and**
 - Must have some critical circumstance (documented)
 - May be eligible with HUD approval
 - Annual recertification required
- Plans outside of the above are NOT allowable

Repayment Plans – HUD Guidelines

Mortgagee Letter 2015-10 – HECM D&P Policies

- Due and Payable Notice must be sent to the mortgagor within 30 days of receiving HUD's approval to call the HECM due & payable.

Mortgagee Letter 2015-11 – Loss Mitigation Guidance for HECMs in Default due to Unpaid Property Charges

- Mortgagees may offer loss mitigation options to a borrower in default due to unpaid property charges.

Mortgagee Letter 2016-07 – Defaults <\$2k

- A HECM Servicer may delay submitting a Due & Payable request to HUD for loans with a total arrearage amount less than \$2,000.



Repayment Plans - Case Study

- HECM borrower defaulted on her property taxes by \$5,000
- Borrower did not have any remaining funds available through her reverse mortgage.
- The loan servicer advanced the \$5,000 to keep the property taxes current.

Default Amount	\$5,000
Annual Surplus Income	\$4,500
Monthly Surplus Income	\$375



Repayment Plans - Case Study

Default Amount	\$5,000
Annual Surplus Income	\$4,500
Monthly Surplus Income	\$375

Repayment Terms (months)	Monthly Repayment Amount
12	\$417
24	\$208
36	\$139
48	\$104
60	\$83

Repayment Plans - Case Study

Default Amount	\$5,000
Annual Surplus Income	\$4,500
Monthly Surplus Income	\$375

Repayment Terms (months)	Monthly Repayment Amount	Monthly Surplus Income = \$375
12	\$417	111%
24	\$208	55%
36	\$139	37%
48	\$104	28%
60	\$83	22%



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