

National Reverse Mortgage Lenders Association

Western Regional Meeting & Expo

May 23-24, 2022 Irvine, CA





Servicing Panel Discussion

A Loan Officer's Guide to Reverse Mortgage Servicing

First Things First – Privacy Protection

Before Death of Borrower	Permissions
Alternate Contact on Loan Application	Used only to locate Borrower; cannot discuss account
Authorized Third-Party	Can discuss account
Attorney-in-Fact, Guardian or Conservator	Can discuss account and can act on behalf of the borrower

Note: Loan Officers must provide written Borrower Authorization

First Things First – Privacy Protection

After Death of Borrower	Permissions
Authorized Third-Party	No longer authorized to discuss account
Attorney-in-Fact, Guardian or Conservator	No longer authorized to discuss account or act on behalf of borrower
Executor Personal Representative of the Estate (with supporting documentation)	Can discuss account-specific information and can act on behalf of borrower (i.e., Short Sales/DIL)

Note: Loan Officers must provide written authorization from authorized party.



Line of Credit Draws

- POA should sign "*Name, Attorney-in-Fact for <Borrower Name>*"
- Funds released within 5 business days from receipt of a completed draw request
- Servicer may have online portal available for draw requests
- Direct Deposit or Check
- **Encourage Direct Deposit**
- Subject to First Year Restriction (IDL)



Initial Disbursement Limit

A borrower is limited to what they can borrow in the first year of the loan based on the Initial Disbursement Limit (IDL).

- Some borrowers use up IDL with their initial starting UPB (as they are paying off their 1st mortgage, financing closing costs, etc.).
- When any IDL is left over, borrower can access that up to first year restriction.

Example: IDL = \$100,000 and starting UPB of \$100,000: No draw in first year.

- If \$10K prepayment is made, and loan is open-ended, they can re-borrow that \$10K in the first year.
- Overall, they are not exceeding the \$100K IDL in the prepayment/reborrow scenario.

A borrower cannot access more than their IDL in the first year.



Prepayments

- Borrower can make prepayments at any time

Payment Application:

- First to MIP
 - Second to Servicing Fees
 - Third to Interest
 - Fourth to the remaining portion of the Principal Balance
-
- LOC: Must maintain a nominal balance in Line of Credit to keep loan open
 - A HECM borrower with a LOC can re-borrow 100% of any prepayments made, subject to first-year restriction.



Payoff Quotes

- Must be requested by an authorized party or be accompanied by a signed Borrower's Authorization
- Only incurred fees are included in the payoff quote
- Turn time longer for loans in default or foreclosure (must get current incurred fees from attorneys/vendors)
- If loan is in Foreclosure, quote will take longer to prepare (gather fees incurred from vendors) and have a shorter good-through date



Repair Rider

1. Completion Date specified in Repair Rider to Loan Agreement
2. Maximum of 12 months (including any extensions)
3. Failure to complete Repairs by deadline = Default (LOC frozen)
4. Contact Servicer regularly to report progress
5. Repair inspection required prior to disbursement of funds
6. Lien Waiver required from contractors to close out repairs
7. Upon completion and inspection, any remaining funds in Repair Set Aside can be accessed by Borrower if loan is open-ended; if closed ended, no additional funds available.



Loss Drafts

1. Borrower should contact their Insurance Carrier(s) and file a claim ASAP
2. Document repairs due to the incident
3. Insurance Adjuster will inspect the damage to determine claim proceeds
4. Contact Servicer regularly to report progress
5. Repair inspection required prior to disbursement of funds
6. Lien Waiver required from contractors to close out repairs
7. Upon completion and inspection of 100%, any remaining funds will be sent to borrower
8. HUD requires evidence that all repairs are satisfactorily completed. Servicers cannot cut and release checks like forward mortgage servicers.
9. Checks are typically made payable jointly to servicer and borrower as servicer is Loss Payee.



Default/Maturity Events and Resolution

Occupancy - move out of all borrowers

- One borrower moves back into property and certifies occupancy

Property Charges - failure to pay taxes, insurance, HOA, etc...

- Repayment plan (excluding HOA), At Risk Extension or Borrower Financial Assistance Program

Property Condition - Failure to maintain condition/condemnation

- Repair or Sell property, execute a Deed-in-Lieu of Foreclosure

Title Transfer - no borrower remains on title

- Return at least one borrower to title (if trust, contact servicer ahead of time for approval)

Death - of last remaining borrower or non-borrowing spouse

- Payoff Loan or refinance
- Short Sale – if default, sell for 95% of market value; if no default, sell for 100%
- Deed-in-Lieu – title must be clear, property broom-swept and authorized representative must be appointed to convey title



Occupancy

- Borrowers should notify their Servicer if they will be out of home for >2 months
- Borrowers can be out of their home for up to 12 months for health reasons
 - Process:
 - 1st cert mailed annually within 30 days of closing date anniversary
 - 2nd cert mailed 30 days later
 - Phone calls begin 30 days later
 - Property Inspection ordered (possibly a door knock)
 - Send to HUD for approval call due & payable

Verbal verification is not sufficient. HUD requires the signed or e-Signed Occupancy Cert form that includes the required HUD-prescribed certification language. Servicer may provide eSign capability.



Taxes & Insurance - LESAs

Purpose: Set Aside for Tax & Insurance Payments


- **Fully-Funded LESA:** required when borrower *has not* demonstrated a satisfactory credit history and/or property charge payment history, even if residual income is sufficient. **Property charges will be paid by the servicer out of the LESA Set-Aside.**
- **Partially-Funded LESA:** required when borrower *has* demonstrated a satisfactory credit & property charge payment history, but residual income is not sufficient. The borrower will receive semi-annual payments designed to bring residual income up to the standard. **The Borrower is responsible for the payment of all property charges.**



Taxes & Insurance - LESAs


Restrictions:

- A LESA cannot be cancelled or changed during the life of the loan.
- The funds are set aside for the specific intent of payment of property charges (Taxes & Insurance only) and a borrower may not access them for any other reason.
- If the borrower passes away, any Non-Borrowing Spouse (NBS) would **NOT** have access to the LESA and LESA payments cease (LESA is established based on borrower's age).



Property Charges – Taxes & Insurance

- Servicers send letter cycles pre and post due date
- **Property Charge Delinquency Letter (PCDL):**
 - States an obligation of borrower to pay property charges has not been met;
 - States failure of borrower to pay property charges will result in loan becoming D&P;
 - Includes the amount advanced by the Servicer;
 - Provides notice of availability of Housing Counseling;
 - Provides notice of all available loss mitigation options the mortgagee may offer.
- *Points to be aware of:*
 - *Mortgagee must be a named payee on insurance policy*
 - *HO-6 coverage required on condominiums (“walls-in” coverage)*



Taxes & Insurance – Default Remedies

1. **Repayment Plan** – ref. ML 2015-11
 - Term length depends upon income
 - May be required to repay before MCA reaches 98%
 - Payment cannot >25% of the borrower's monthly surplus income
 - Taxes & Insurance only; Cannot include HOA dues
 - <\$2k default – D&P is deferred
2. **At Risk Extension of Foreclosure**
 - Youngest living mortgagor is at least 80 *and* has critical circumstances
 - Must be supported with documentation and renewed annually
3. **Borrower Financial Assistance Programs**



U.S. Treasury HAF Program - \$9.9 Billion Available to Assist Borrowers in Property Charge Default

U.S. Treasury allocated \$9.9 billion for aid to homeowners who were adversely impacted by COVID to be distributed through state administrators for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, and displacement of homeowners experiencing financial hardship after January 2020.

Key Points:

- Each state program is different and run by different program administrators
- All but 10 states + Puerto Rico and DC accepting borrower applications via online portals
- Borrowers must apply; Servicers cannot apply on behalf of the borrower
- 6–12 week turn time to fund once a borrower submits complete HAF application and all required documentation

What have Servicers done to get the word out to borrowers about the HAF program?

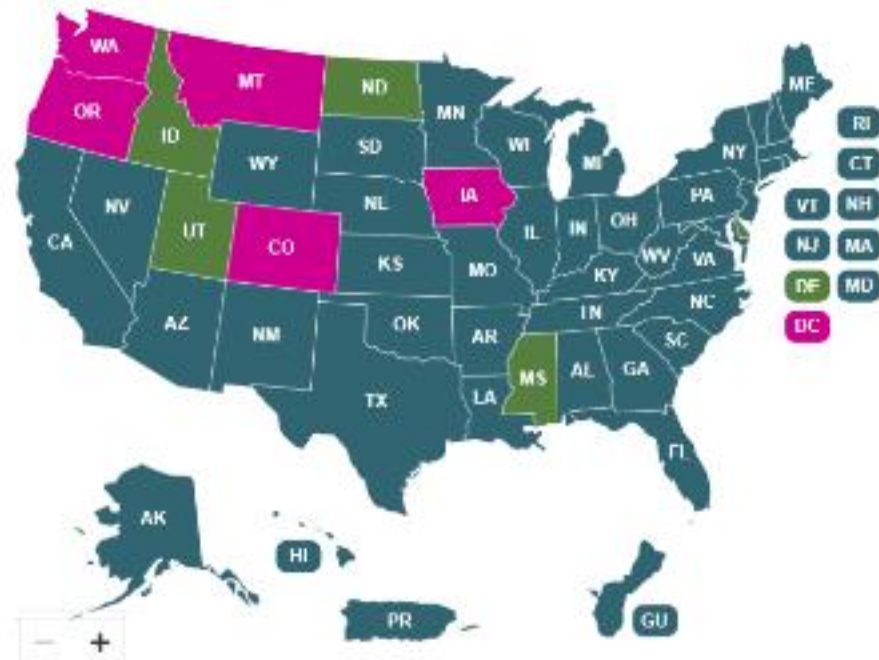
- ✓ Monthly statement messaging since January
- ✓ Servicer websites have been updated with a HAF message & link
- ✓ Outbound dialer campaigns ongoing (including Spanish for Puerto Rico borrowers)
- ✓ Email campaigns to reach borrowers with property charge defaults in states accepting applications



HAF Program – NCSHA (National Council of State Housing Agencies)

- <https://www.ncsha.org/homeowner-assistance-fund/>

■ HAF program open ■ Pilot program running ■ Preliminary information available





Preparing for Maturity / Death

Encourage Borrowers to Prepare for Maturity & Inform their Heirs:

- Name and Phone Number of Servicer
- Recent Account Statement
- POA or Authorized Third Party letter
- Copy of Last Will & Testament
- Death Certificate



Maturity / Death

Process:

- Upon notification: Demand Letter Sent
 - HUD prescribed language; 30 days to satisfy debt or provide letter stating intentions with property/loan

- 90 days later – Servicer initiates first legal action of Foreclosure
 - Required 6 months after death/default; FC timeframes vary by jurisdiction
 - Earlier in states where opening probate is required to meet first legal (MD, DC, DE, ME & NH)

- Estate can request up to 2 90-day extensions of FC
 - With proof property is being marketed – listing agreement, sales contract

- Probate completed if required in jurisdiction



Loan Officers Can Help Borrowers Avoid Pitfalls

Please provide Borrower email addresses at loan boarding

Occupancy Defaults: Some Borrowers don't understand their annual obligation

- Borrower doesn't certify until loan called due or in foreclosure
 - Fees (inspections, legal, appraisal) may be incurred and charged to the loan
 - Once the default is resolved, a new annual cycle may begin shortly after.
 - Borrower must verify occupancy for the new cycle even if they just cleared the default from the previous cycle – must be certified annually

Property Charge Defaults: Borrower is not responsive to Loss Mitigation

- PCDL letter sent within 30 days of servicer advance of funds
- Borrower must be responsive to be evaluated for loss mitigation (Repayment Plan, At Risk extension, Short Sale, DIL, Financial Assistance)

Death Defaults: Servicer doesn't always receive timely notice of death. Servicer must:

- Mail demand letter within 30 days of last remaining borrower's death
- Notify HUD within 60 days of actual date of death
- Order a maturity appraisal (on FHA Case #s <9/2017) within 30 days of notice of death



Resources

NRMLA Consumer Guides: <https://www.nrmlaonline.org/category/consumer-guides>

- What You Need to Know About Your HECM After Closing
- What Do I Do When My Loan is Due?

HUD Websites:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmhome

http://portal.hud.gov/hudportal/HUD?src=/topics/information_for_senior_citizens

Counseling - 800-569-4287

https://www.hud.gov/program_offices/housing/sfh/hcc