

LENDER GUIDELINES



UNDERWRITING

Confidential and Proprietary
December, 2015 - Updated

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RECENT UPDATES

The following information was added or updated in HighTechLending Inc. Underwriting Guide.

Revision	
10/1/2015 Leased Solar	Properties with leased solar are eligible for Reverse financial as long as the filing/lien on the property is released prior to or at closing.

GUIDELINES

CREDIT

ADP Codes

For FHA Case Assignments on or after September 30, 2013, the following ADP codes apply:

ADP Description	ADP Code
HECM Fixed	961
HECM ARM	962
HECM Condo / Fixed	967
HECM Condo / ARM	968

Age

All borrowers must be within **90 days of their 62nd birthday at time of initial Application (1009)**. All borrowers must be **at least 62 years old when they sign the final Application (1009)** and the HUD/VA Addendum (*Form HUD 92900-A*). See **Date of Birth**.

Alternate Contact Information

All reverse mortgage applications should include an alternate contact person. The information for the alternate contact should be completed on the 1009 application. The contact person's name, complete address, phone #, and relationship to borrower are required. In the event HighTechLending Inc. is unable to reach the borrower(s), the person whose name appears as the alternate contact will be contacted for assistance in locating the borrower(s). Loan details will not be discussed with this alternate contact unless the borrower(s) authorizes such information to be released.

Application

A transaction is considered an application when the following **nine (9) data elements** are obtained and the prospect has indicated their intent to apply:

- Borrower Name (s)
- Social Security Number
- Gross Monthly Income
- Subject Property Address (*not TBD*)
- Estimated Value of Subject Property
- Principal Limit
- Interest Rate
- Product Type / Margin
- Date of Birth

Application – Completed Definition

- For Reg. B purposes, a “completed application” date is the date on which a decision on the loan request can be made. HTL defines this as the date the following items have been received:
 - the written application, and
 - the counseling certificate, and
 - the appraisal, and
 - title report, or
 - the latest date of receipt of any of these items, if they are not submitted together.
- The loan request must be approved, cancelled or denied **within 30 days of a “completed application” date.**

Assets and Verification

- Verification of source of funds to close and/or all assets being used to qualify is required.
- For purchases, source of Earnest Money Deposits (*EMD*) must also be verified.
- Any large or unusual deposits or if the account was recently opened, must be sourced and contain a credible explanation.
- Any liquidation of retirement and/or investment funds must be paper trailed to closing or through other borrower account(s).

Checking and Savings Accounts:

- Checking and savings accounts refer to funds from mortgagor-held accounts.
- If to be considered as part of the financial assessment, mortgagees must verify and document the existence of and amounts in the mortgagor's checking and savings accounts.
- If the mortgagor does not hold the deposit account solely, all non-mortgagor parties on the account must provide a written statement that the mortgagor has full access to and use of the funds.
- The mortgagee must obtain a written Verification of Deposit (*VOD*) and the mortgagor's most recent statement for each account.
 - If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required.
 - If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the **most recent 2 months**.

Cash on Hand:

- Cash on Hand refers to cash held by the mortgagor outside of a financial institution.
- The mortgagee must verify that the mortgagor's cash on hand is deposited in a financial institution or held by the escrow/title company.
- The mortgagee must verify and document the mortgagor's cash on hand by obtaining an explanation from the mortgagor describing how the funds were accumulated and the amount of time it took to accumulate the funds.
- The mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the mortgagor's:
 - Income stream;
 - Spending habits;
 - Documented expenses; and
 - History of using financial institutions

Retirement Accounts:

- Retirement Accounts refer to assets accumulated by the mortgagor for the purpose of retirement.
- The mortgagee must obtain **the most recent two months or quarterly statement** to verify and document the existence and amounts in the mortgagor's retirement accounts, the mortgagor's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

Stocks and Bonds:

- Stocks and bonds are investment assets accumulated by the mortgagor.
- The mortgagee must determine the value of stocks and bonds from **the most recent two months or quarterly statement.**
- If the stocks and bonds are not held in a brokerage account, the mortgagee must determine the current value of the stocks and bonds through third party verification.
 - Government-issued savings bonds are valued at the original purchase price, unless the mortgagee verifies and documents that the bonds are eligible for redemption.
- The mortgagee must verify and document the existence of the mortgagor's stocks and bonds by obtaining brokerage statement(s) for each account for **the most recent two months.**
 - Evidence of liquidation is not required.
- For stocks and bonds not held in a brokerage account the mortgagee must obtain a copy of each stock or bond certificate.

Private Savings Clubs:

- Private Savings Clubs refer to a non-traditional method of saving by making deposits into a member-managed resource pools. The mortgagee may consider private savings club funds that are distributed to and received by the mortgagor as an acceptable source of funds.
- The mortgagee must verify and document the establishment and duration of the club, and the mortgagor's receipt of funds from the club.
- The mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.
- The mortgagee must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

Gift Funds:

- A satisfactory gift letter is required along with proof of the source of gift from the giftor via bank statements. Gift Letter must contain the following items: *(See below for sample of Gift Letter)*
 - The dollar amount.
 - Name of the Donor, Donor's signature, address and telephone number.
 - Donor relationship to the borrower.
 - Borrower's name and Borrower's signature.
 - Subject property address
 - The letter must state that no repayment is required.
 - Include language asserting that the funds were not made available to the donor from any person or entity with an interest in the sale of the property.
- Proof of receipt by the borrower *(i.e. deposit slip, bank statement showing deposit)* or the closing agent is also required.
- Gifts cannot have implied repayment and must be from an acceptable donor.
- Acceptable donors include but are not limited to:
 - Family relatives
 - Borrower's employer or labor union
 - A close friend – must have a clearly defined relationship and documented interest in the borrower
 - A charitable organization and or a government agency or public entity that has a program providing home ownership assistance.
- Gift funds would not be converted to a cash flow/residual income amount to be factored into the financial assessment.

Gift Letter

I, _____, hereby certify that I/We given/will give a gift of

\$ _____ to _____, my _____
DOLLAR AMOUNT RECIPIENT RELATIONSHIP

for the premises located at _____
PROPERTY ADDRESS

on _____.
DATE

I/We certify that this is a bona fide gift and there is no obligation, expressed or implied, to repay this sum in cash or other services of any kind now or in the future.

I/We understand that this gift will require documentation, including proof I/We have given the gift from the account listed below, and proof that the funds have been received by the applicant or the applicant's attorney prior to settlement.

THE LENDER may confirm that the funds came from the account listed below:

Name of Depository or other Source: _____

Address of Same: _____

Account Number: _____

I/We Certify that the funds given to the applicant were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent, builder, loan officer, or any entity associated with them.

SIGNATURE OF DONOR

TELEPHONE NUMBER

DONOR ADDRESS

SIGNATURE OF RECIPIENT

SIGNATURE OF RECIPIENT

NECESSARY DOCUMENTATION FOR ALL LOANS (FANNIE MAE, FREDDIE MAC, FHA, USDA, VA):

- 1. Verification that gift funds were deposited into applicant's bank account (bank statement) or attorney trust account (escrow letter)
- 2. Donor's bank statement evidencing funds came from donor's account

WE ARE AWARE OF THE FOLLOWING: I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage, as applicable under the provision of Title 18, United States Code, Section 1014 and Section 1010.

Sale of Personal Property:

- The sale of personal property is an acceptable source of funds with a 3rd party estimate of value, proof of ownership, copy of the bill of sale and paper trail funds from buyer to borrower (*check or wire*).
 - If mortgagors receive more than the estimate, only the estimated amount may be included.
- A cash sale is not acceptable.

Borrowed Funds:

- Funds acquired by an unsecured loan or a collateralized loan are not an acceptable source of closing or earnest-money funds.

Unacceptable Sources of Closing Funds:

- Unsecured loans
- Collateralized loans
- Credit card advances
- Sweat Equity
- Trade Equity
- Rent Credit
- Seller, broker or lender credits or incentives on a HECM purchase
- Foreign funds not seasoned in a U.S. Bank for 60 days

Borrower Eligibility

- All borrowers must be 62 years of age or older on the day they sign the closing documents.
- Borrower(s) must be residing in the subject property as their primary residence. However, if co-borrower is in hospital, nursing home or rehabilitation center, etc. an exception may be permitted.
- Borrower(s) must be a U.S. citizen or a lawful resident alien.
 - Permanent Resident Aliens
 - ‡ *A copy of the **front and back** of the resident alien card indicating permanent residency is required.*
 - Non-Permanent Resident Aliens
 - ‡ *The borrower must occupy the property as their principal residence.*
 - ‡ *The borrower must have a valid Social Security Number.*
 - ‡ *The borrower must be eligible to work in the US and can provide an Employment Authorization Document (EAD) issued by the US Citizenship and Immigration Services.*

Borrower with more than one FHA Insured Loan

Any borrower applying for a HECM loan that currently has an FHA-insured forward loan on a different property (*not the subject property*) must qualify based on one of the following exceptions to be eligible for a 2nd FHA-insured Loan.

- Relocation
 - If the borrower is relocating and re-establishing residency in another area not within reasonable commuting distance from the current principal residence, the borrower may obtain another mortgage using FHA insured financing and is not required to sell the existing property covered by a FHA-insured mortgage.
 - The relocation need not be employer mandated to qualify for this exception.
 - If the borrower returns to an area where he or she owns a property with an FHA-insured mortgage, it is not required that the borrower re-establish primary residency in that property in order to be eligible for another FHA insured mortgage.

- Increase in Family Size
 - The borrower may be permitted to obtain another home with an FHA-insured mortgage if the number of legal dependents increases to the point that the present house no longer meets the family's needs.
 - The borrower must provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's Needs.
 - The borrower also must pay down the outstanding FHA mortgage (secondary liens do not need to be paid off or paid down) on the present property to a 75 percent or lower loan-to-value (LTV) ratio.
 - A current residential appraisal must be used to determine LTV compliance. Tax assessments, market analyses by real estate brokers, etc., are not acceptable as proof of LTV compliance.
- Vacating a Jointly Owned Property
 - If the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another FHA-insured mortgage. Acceptable situations include instances of divorce, after which the vacating ex-spouse will purchase a new home, or one of the co-borrowers will vacate the existing property.
- Non-Occupying Co-Borrower
 - A non-occupying co-borrower on property being purchased with an FHA-insured mortgage as a principal residence by other family members may have a joint interest in that property as well as in a principal residence of their own with a FHA-insured mortgage. (See HUD Handbook 4155.1 for additional information).
 - Under no circumstances may investors use the exceptions described above to circumvent FHA's ban on loans to private investors and acquire rental properties through purportedly purchasing "principal residences".

Buy and Bail

- "Buy and bail" is prohibited.
- "Buy and bail" is the buying of a new property with the intention of bailing on the current property. "Buy and bail" is considered mortgage fraud; even extenuating circumstances do not give a homeowner the right to commit mortgage fraud.
- Mortgage fraud happens when a borrower withholds information, such as deliberately stopping mortgage payments to another creditor, or falsifying information which would cause the new lender to reject the loan application if the lender were aware.
- Buy and bail scenarios typically involve drawing up a phony rental agreement and presenting the false documentation to the lender.

Buying Down in Value

Buying down involves a borrower who is retaining ownership of his/her current primary residence and is purchasing another primary residence of lesser value in the same area.

- The Mortgage Underwriter is to review for probability of the new property being the primary residence
- If the probability of primary occupancy cannot be met, the new loan will be ineligible.
- See **Occupancy**.

CAIVRS

CAIVRS is a federal government database of delinquent federal debtors. The database also reports if the individual has had a claim paid by a reporting agency.

- A CAIVRS report must be pulled on every borrower and **cannot be older than 90 days at closing.**
- If CAIVRS screening indicates that the mortgagor has had a **claim paid** within the **previous three years** on a loan insured on the mortgagor's behalf by FHA, the lender may submit a request for waiver or resolution of the unresolved CAIVRS indicator.
 - **Any claims must be researched and may be required to be satisfied prior to closing if not tied to the subject property.**
 - ‡ *If claim is tied to the subject property claim may be able to be paid through the HECM proceeds as per HUD's direction.*
 - Prior to submitting the request for waiver or resolution, the DE underwriter must fully underwrite the application to determine all other eligibility requirements have been met.

Community Property / Homestead/ Dower Rights/ Domestic Partnership States

The signature of a Non Borrowing Spouse is typically required, in the states listed below, on the Security Instrument (Mortgage or Deed of Trust and any Riders to the Security Instrument), TIL, HUD-1, Right to Cancel, Bankruptcy statement (if applicable) and for Case Assignments on or after 8/4/12, the NBS Certification and Authorization to Release (at application) and NBS Closing Certification.

NOTE: The Title Company insuring the loan should advise if a state grants property rights to a Non Borrowing Spouse or Domestic Partner. In addition, since State laws are subject to change, this list may change without notice. For this reason, always confirm the requirements with Title Company on the loan transaction.

(Also see **Non Borrowing Spouse**)

- o Community Property States - a form of property ownership, in some states, which assumes that property acquired during a marriage is owned jointly

Alaska	Idaho	Nevada	Wisconsin
Arizona	Louisiana		Texas
California	New Mexico	Washington	

- o Homestead Property States - a legal status in certain states which provides protection from creditor claims or forced sale of a homeowner's primary residence

Alabama	Massachusetts*	Montana	Tennessee
Arkansas	Michigan	New Hampshire	Utah
Colorado	Minnesota	North Dakota	West Virginia
Iowa	Mississippi	Vermont	

**Although Massachusetts is a Homestead state, due to recent changes in MA law, the NBS only has to sign the upfront NBS Certification and Authorization to Release and, at closing, the NBS Certification.*

- 0 Dower Rights/Homestead Property States - the rights of a widow, in certain states, during her lifetime to the real property of her deceased husband

District of Columbia		New Jersey	Pennsylvania**
Florida	Kentucky	North Carolina	South Carolina***
Illinois	Missouri	Ohio	South Dakota
Kansas	Nebraska	Oklahoma	Wyoming

***PA – Typically only required to sign if search discloses or one has knowledge of pending divorce. An affidavit will be signed by the one spouse stating that there is no pending divorce. Confirm with Title Company insuring the loan.*

****SC – Is considered a Homestead for tax purposes only, not for rights to property.*

- 0 Registered Domestic Partners

California
District of Columbia
New Jersey
New Hampshire

NOTE: If the Borrower owns title in a property and the Warranty Deed specifically states that the ownership is "SOLE AND SEPARATE" property, the Non Borrowing Spouse does not need to sign any documents at closing. Texas: a Non Borrowing Spouse is not allow (see non-Borrowing Spouse section)

Compensating Factors and Extenuating Circumstances

Extenuating Circumstances – To address derogatory credit / property charge payment history:

- If the mortgagor's credit and/or property charge history does not meet the criteria and therefore raises concerns about the mortgagor's capacity or willingness to meet their obligations, extenuating circumstances that led to the credit/financial issues should be considered.
- Extenuating circumstances beyond the borrower's control may include, but are not limited to:
 - loss of income due to the death or divorce of a spouse that directly resulted in late payment of obligations;
 - loss of income due to the mortgagor's or spouse's unemployment, reduced work hours or furloughs, or emergency medical treatment or hospitalization that directly resulted in late payments of obligations; or
 - increase in financial obligations due to emergency medical treatment or hospitalization for the mortgagor or spouse, emergency property repairs not covered by homeowners or flood insurance, divorce, or other causes that directly resulted in late payments of obligations.
- Mortgagees **must document** the presence of any extenuating circumstances as part of the financial assessment. Documentation of extenuating circumstances must demonstrate:
 - the connection between the specific occurrence(s) and the measurable impact of the occurrence(s) on the mortgagor's finances;
 - that no other actions taken by the mortgagor contributed to the derogatory incident(s) (*e.g., assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.*);

- the likelihood that these circumstances will not recur.
 - ✦ *In assessing the likelihood that the circumstances will not recur, mortgagees may consider the impact of the HECM on the mortgagor's circumstances, through the elimination of financial obligations and/or through an increase in mortgagor income; and*
 - ✦ *The mortgagor demonstrates financial liquidity through non-HECM assets, additional sources of income, access to revolving credit or other factors that are present that enhance his or her ability to endure financial challenges.*
- For example, if a mortgagor cited loss of income due to unemployment as the cause of late payments, the documentation should show that:
 - the credit report indicates that the mortgagor had satisfactory credit prior to being unemployed;
 - the mortgagor's documented income, including any unemployment compensation received, was insufficient to make timely payments on all outstanding accounts;
 - the credit report indicates that the mortgagor did not incur new debt that contributed to the mortgagor's inability to meet all obligations in a timely manner; and
 - the mortgagor is employed again and/or has alternate sources of income.
- Documentation includes the credit report, W-2s, tax returns, statements from the mortgagor and other information.

Compensating Factors – Residual Income Shortfall:

In assessing whether the mortgagor has demonstrated the capacity to meet financial obligations the mortgagee may consider one or more of the following compensating factors:

- The mortgagor meets all of the following:
 - mortgagor residual income is 80%-99% of the applicable amount for his or her family size and geographic region on the Table of Residual Income;
 - mortgagor has paid his or her own property charges directly for at least the last 24 months (i.e., they were not paid by a mortgagee from an escrow account) and meets the standards;
 - all property charge payments have been made without incurring penalties during the last 24 months; and

- current income is not less than income during the previous 24 months.
- Mortgagor has documented residual income from a Non-Borrowing Spouse that, if counted, would result in the mortgagor and Non-Borrowing Spouse having a combined residual income equaling or exceeding the applicable amount for their family size and geographic region on the Table of Residual Income.
- Mortgagor has documented overtime, bonus, part-time or seasonal income that meets the following requirements: the mortgagor has received this income for at least six months and it will likely continue; and
- if counted the mortgagor's total residual income would be equal to or exceed the applicable amount for his or her family size and geographic region on the Table of Residual Income.
- The mortgagor has assets equivalent to the anticipated property charge payments for the life expectancy of the mortgagor that were not dissipated or considered in the residual income calculation;
- The mortgagor will begin receiving pension or Social Security income within the next 12 months and the amount specified in the award letter would, if counted, result in total residual income equal to or exceeding the applicable amount for his or her family size and geographic region on the Table of Residual Income;
- An increase in monthly income from dissipating available HECM proceeds based on the remaining principal balance after the First 12-Month Period that, if counted, would result in a residual income equal to or exceeding the applicable amount for the mortgagor's family size and geographic region found on the Table of Residual Income;
- HECM proceeds (*based on original principal limit less required Repair or Life Expectancy Set-Asides*) in excess of the 60% maximum draw during the First 12-Month Period, or in excess of initial draw plus maximum of 10% if over 60% at closing (*including any required set-asides*), that were not dissipated and counted as income, that are sufficient to pay off outstanding obligations such as revolving and installment debt that would reduce monthly payments; and
- The mortgagor has access to revolving credit or other sources that provide the mortgagor with financial liquidity that would enhance his or her ability to endure a financial crisis.

Documenting Compensating Factors and Extenuating Circumstances:

- Mortgagees must document any extenuating circumstances to address derogatory credit and property charge payment history, and/or compensating factors to support residual income shortfalls.
 - Mortgagees must identify in writing on the Financial Assessment Worksheet all specific circumstances and factors it relied upon to make its favorable determination.
 - Supporting documentation must be included in the origination case binder.
-

Contract of Sale

See Purchase Transactions.

Counseling Policy

All loans must comply with the Department of Housing and Urban Development Handbook 7610.1: Housing Counseling Program.

Who must or should be counseled?:

- All Vested Owners: **All persons with interest in the property at the time of application or counseling must be counseled**, regardless of whether they are borrowers on the loan. This includes but is not limited to:
 - Life Estate: As required by FHA, persons with a life estate must go to a HUD-Approved counseling agency to familiarize themselves with the program.
 - Trustees: It is recommended but not required for trustees to be counseled.
 - Trust Contingent Beneficiaries: It is recommended but not required for contingent beneficiaries of the trust to be counseled. These individuals will neither receive any benefit from the trust, not have any control over trust assets until the primary HECM borrower is deceased or the mortgage is released.
 - Remainderman: It is recommended but not required for remainderman to be counseled except if the property is located in a state where remainderman counseling is required by state law (*i.e. Texas and 5 day waiting period prior to close applies to the remainderman counseling*).
 - HECM Borrower's Children: Counseling for child of a prospective HECM borrower is not required if being removed from title prior to closing. However it is permissible, and will be made available by a HUD-approved counseling agency if the child requests it.
- Non Borrowing Spouse: Counseling is required to ensure that the borrower and the non-borrowing spouse of a prospective HECM borrower both understand the implications of a HECM, and the risks posed by the non-borrowing spouse relinquishing rights to the real estate. Note: Non Borrowing spouses are allowed on an exception basis only. (*See **Non Borrowing Spouse** section for details.*)
- **Any owner occupant being removed from title at closing must be counseled.**

- Borrowers: Individuals or current trust beneficiaries who are eligible and seeking a HECM Purchase, Refinance or Streamline Refinance¹ loan must receive HECM counseling. If a borrower lacks competency, individuals with durable power of attorney, or court appointed conservators or guardians receive the counseling, and then execute the counseling certificate on the borrower's behalf.

¹ Counseling Waiver – For Streamline Refinances, HUD will waive this requirement and allow a mortgagor to opt out of the HECM Housing Counseling Requirement only if State law does not require and all three of the following conditions are met:

- The mortgagor has received the required HUD Anti-Churning Disclosure form (attached to this Mortgagee Letter),
- The increase in the mortgagor's principal limit (as estimated by the lender and provided to the borrower in Block #2 of the Anti-Churning Disclosure form) exceeds the total cost of the refinancing by an amount equal to five (5) times the cost of the transaction (Block #1 on Anti-Churning Disclosure Form), and
- The time between the closing on the original HECM that is to be refinanced and the application for refinancing does not exceed 5 years, even if less than five years have passed since a previous refinancing.

In all cases where the borrower opts out of the counseling requirement, the case binder must include documentation that the conditions for such a waiver have been met.

Counseling Certification:

- All counseled parties must sign/date counseling certification.
 - A copy is required for initial underwriting
 - Counseling certification must reflect the borrower's name(s) and correct address.
 - ‡ *Slight variations in name and/or address are allowed at underwriter discretion.*
 - ‡ *Data on certificate must match exactly the data inputted in FHA Connections.*
 - **Purchase Transactions**
 - ‡ *If contract date is prior to counseling, the subject property address must be listed on the counseling certificate.*
 - ‡ *If counseling date is prior to the contract date, listing the current residence address on the counseling cert is acceptable. A certificate reflecting TBD is unacceptable.*

Providing List of Counseling Agencies:

- Reverse mortgage consultants must provide the prospective borrower with a list of HUD-Approved counseling agencies.
 - The list must include five local agencies and all national agencies receiving HUD grant funds.
 - The national agencies that receive grant funds are updated by HUD each year, usually in January.
 - At least one of the local agencies must be located within a reasonable driving distance with the intention of providing a face to face counseling option.
- FHA requires all counseling referrals to be entered into FHA Connection within one business day of ordering case #.

Lender and Counselor Interaction Rules: (As stated in Mortgagee Letter 2009-10)

- HUD Handbook 7610.1 requires that the borrower receive the following documents **at least 24-48 hours** prior to counseling:
 - Loan Comparison
 - TALC
 - Amortization Schedule
 - “Use your home to stay at home” booklet
 - “How to prepare yourself for a Counseling Session” booklet
- The Counselor is ultimately responsible for providing these documents to the borrower. However, if the lender provides a HECM client with the required counseling information packet, the lender must provide a copy of the loan print-outs to the counselor prior to the client’s session.
 - HighTechLending Inc. has decided not to partner with or use the tools offered by companies such as; Reverse Vision, IBIS Software, Reversepackage.com and Counselingdocs.org. Instead, HTL will directly provide the counselors with the documents tailored to individual borrowers directly.
 - HUD permits the lender to mail, fax or email a copy of what was provided to the borrower once a counselor has been selected by the client.
- The following rules are in place regarding requesting counseling:
 - The reverse mortgage consultant may not contact a counselor or counseling agency to refer a client; discuss a client’s personal information, including the timing or scheduling of the counseling; or request information regarding topics covered in a counseling session.
 - The reverse mortgage consultant may not attend or listen in to the borrower’s counseling session.

- The prospective borrower must initiate communication with the counseling agency on his or her own, without the assistance of the reverse mortgage consultant when he or she is comfortable commencing with the counseling process.
 - ‡ *Example 1: The reverse mortgage consultant may not dial the counseling agency's phone number and hand the phone to the borrower to schedule counseling.*
 - ‡ *Example 2: The reverse mortgage consultant may not enter the borrower's contact information into a web-based system which automatically puts the borrowers name in a queue to be called by a counselor.*
- Counseling must be performed by an independent 3rd party that is neither directly or indirectly associated with the mortgage transaction.
- RMC's are only permitted to communicate with FHA Approved HECM counselors under one of the following conditions:
 - ‡ *A borrower has scheduled a counseling session and needs the required documentation for counseling to be sent directly to the counselor in advance of the counseling session. The RMC is then permitted to mail, fax or email the documentation directly to the counselor.*
 - ‡ *A borrower has rescheduled a counseling session and updated documentation must be sent directly to the counselor in advance of the counseling session. The RMC may mail, fax or email the documentation directly to the counselor.*
 - ‡ *A borrower has made a change to the original documentation provided in advance of counseling (including but not limited to: home value, date of birth, product type), and the updated documentation must be sent directly to the counselor in advance of the counseling session. The RMC is then permitted to mail, fax or email the documentation directly to the counselor.*

Counseling Delivery Methods:

Face – to – Face Counseling

- Counselors should make every effort to provide HECM counseling on a face to face basis, which allows for greater participation by the homeowner, and also allows the counselor to more accurately determine the homeowner understands of the program.
 - **North Carolina** - The state of North Carolina requires that the borrower(s) receive face to face counseling.
 - **California** – Assembly Bill 2010 requires counselor’s to provide face to face counseling unless the borrower elects to receive the counseling in another manner.
 - ‡ *The following properly completed forms are required to meet the requirements of the Bill and should be obtained by the Loan Reverse mortgage consultant:*
 - **Certificate of HECM Counseling** with the face to face or telephone box checked off as appropriate by the counselor.
 - **CA Addendum to Certificate of Counseling** indicating the borrower(s) was fully advised of the available counseling options and chose the one indicated on the Certification of HECM Counseling.
 - *The addendum is only required if counseling was not completed face to face.*
 - *The addendum is to be provided by the Counselor.*
 - **Vermont** – The state of Vermont requires face to face counseling sessions. If the borrower chooses not to travel to a counselor, and cannot receive an in home visit from a counselor, telephone counseling is acceptable provided the counseling agency is authorized by the Department of Banking, Insurance, Securities and Health Care Administration.

Telephone Counseling

- Telephone counseling is an alternative only when face to face counseling is not feasible.
- Do not mention telephone counseling as an alternative unless the homeowner completely rules out face to face counseling.

Telecommunications Device for the Deaf (TTD Services)

- Borrowers who are mentally competent but have a hearing impairment must still be counseled. The borrower may wish to locate a counselor who provides this service.

Counseling prior to application:

- Counseling requirements
 - The following states require the borrower(s) to receive counseling prior to application:
 - ‡ *Rhode Island*
 - ‡ *Tennessee*
 - ‡ *Vermont*
 - ‡ *California*
 - *The final and complete application or assessing of any fees cannot occur until the 8th day after counseling. The initial application may be taken.*
- In these states, applications may be taken any time after the date counseling was performed.
- Services cannot be ordered prior to the date the counseling certificate was signed.

Date of Counseling:

There are two dates used when discussing HECM Counseling.

- Date Counseling Completed – For states where applications must be taken AFTER counseling, this is the date used to determine compliance with that regulation.
- Homeowner Signature & Date – This date is used to determine when services are allowed to be ordered. Services resulting in a cost to the borrower that are ordered prior to this date cannot be charged.

Timing of Counseling:

FHA Connection, Case # Assignment and Application (Excludes Case Transfers)

- In all states, a borrower must receive counseling prior to issuance of an FHA case # unless Counseling is waived. (*See HECM to HECM Streamline refinance requirements.*) The case assignment MUST occur after completion of the application.
- If the case # is ordered prior to counseling or the application is dated after case assignment, the case # needs to be canceled and a new case # must be ordered.
- The Case Number Assignment must be issued within 180 days of the Counseling Certificate. If an application was taken within that period, but a Case # was not ordered, FHAC will return an error message stating that the counseling is expired. The appropriate HOC can override the FHAC error message as long as the application was taken within 180 days of counseling.
 - **Texas: HECM counseling cannot be completed more than 180 days prior to the loan closing.** While HUD may not require the loan to close before "expiration" of the counseling certificate, Texas law requires the loan to close no later than 180 days after counseling was completed. In addition, counseling cannot be completed less than 5 days prior to closing.
- If the borrower was re-counseled, it is not necessary to contact the HOC. However, evidence of previous and current counseling (*the old and the new certificate*) must be supplied or the borrower will not be permitted to pay for services ordered prior to the date of new counseling completion.
- In order to avoid unnecessary delays and ensure ability to charge for services, best practice is to order the case number within 180 days of the counseling date, but after application.
- Counseling info must be input into the FHA Connection case assignment section and be validated.

Ordering of Services

- Most services may not be ordered prior to confirmation that:
 - The counselor is on FHA's Approved Counselor Roster
 - The borrower was counseled and has executed AND DATED the counseling certification.
- If it is determined that services were ordered prior to the required criteria being met, the borrower may not be charged for services, such as flood, appraisal, etc.

Exceptions:

Automated Valuation Model (AVM)

FHA will now permit lenders to use automated valuation models (AVMs) to perform a preliminary estimation of the value of the real estate that will serve as security for the FHA-insured HECM. The AVM, however, does not take the place of the FHA appraisal. **If the prospective borrower obtains a HECM, then the cost of the AVM is charged to the borrower should be included in the origination fee. If the prospective borrower DOES NOT obtain a HECM, the cost cannot be charged to the borrower.**

Preliminary Title Search

A HECM lender may order a preliminary title search prior to the prospective HECM borrower receiving counseling. However, the prospective HECM borrower may choose to seek counseling prior to or after the lender orders a preliminary title search. A prospective HECM borrower does not have to wait until the HECM lender orders and reviews the preliminary title search to receive counseling.

The costs associated with the preliminary title search will be paid at closing. If a prospective HECM borrower does not proceed to closing on the HECM, the borrower may not be charged for this service.

Credit Report

FHA will permit mortgagees to order a credit report prior to the completion of HECM counseling if the mortgagee wishes to perform a preliminary credit review of the mortgagor's financing obligations.

Mortgagees may only collect the cost of the credit report at loan closing. If the HECM does not close, the mortgagor may not be charged.

Competency

See Power of Attorney.

Credit Report

- A Credit Report is required for all prospective mortgagors who will be obligated on the note.
- A Credit report is only required for a non-borrowing spouse in Community Property states or where his or her income is used as a compensating factor or to reduce family size when calculating residual income. (See Non Borrowing Spouse requirements.)
- A Credit report is only required other non-borrowing household member where his or her income is used as a compensating factor or to reduce family size when calculating residual income. (See Non Borrowing Spouse requirements.)
 - The credit history of the Other Non Borrowing Household Member must not be considered.
- The Credit Report cannot be older **120 days** at the time of funding/disbursement. However, each trade line reporting date must be **within 90 days** of Underwriting or a credit report supplement updating the trade line is required.
- A tri-merged Credit Report (*TRMCR*) with three (3) repositories or a Residential Mortgage Credit Report (*RMCR*) and HAWK Alert and Public Records checked is required on all loans.
 - If a traditional credit report is available, the mortgagee must use a traditional credit report.
 - However, if a traditional credit report is not available, and the mortgagor is applying for a HECM for Purchase, the mortgagee must develop the mortgagor's credit history using the requirements for non-traditional credit.
 - Mortgagees are not required to develop non-traditional credit for mortgagors seeking a traditional or refinance HECM. The mortgagor may be deemed to have an acceptable credit history.
 - Any additional social security numbers linked to our borrower(s) on the Credit Report must be researched and cleared.
 - Any HAWK Alerts must be researched and cleared.
 - Any OFAC hits must be researched and cleared.
 - Individuals with joint accounts should have a joint Credit Report.
 - Individuals without joint accounts should each have an individual Credit Report.

- An updated credit report or a supplement is required if the mortgagee identified inconsistencies between any information in the mortgage file and original credit report.
- Address Discrepancies on the credit report must be researched and resolved.
 - ‡ *Additional documentation may be required to confirm occupancy at underwriter discretion.²*
 - ‡ *See **Occupancy**.*

Office of Foreign Assets Control (OFAC):

- If a credit report indicates a positive OFAC hit, escalate the loan to the Underwriting manager who will research using the OFAC website and further escalate if there is a match.

² For Correspondent loans, occupancy and supporting documentation must meet HUD guidelines. In the event of occupancy verification discrepancies, further review may be required.

Traditional Credit Report Requirements:

- If the TRMCR or RMCR generates a credit score, the mortgagee must utilize traditional credit history.
- Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format, and not require code translations.
- The credit report may not contain whiteouts, erasures, or alterations.
- The mortgagee must retain copies of all credit reports.

The credit report must include:

- name of the mortgagee ordering the report;
- name, address, and telephone number of the consumer-reporting agency;
- name and SSN of each mortgagor; and primary repository from which any particular information was pulled, for each account listed.

(Note: A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full 9-digit SSN.)

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding;
 - ‡ *bankruptcies;*
 - ‡ *judgments;*
 - ‡ *lawsuits;*
 - ‡ *foreclosures;*
 - ‡ *tax liens; and*
- for each mortgagor debt listed, the:
 - ‡ *date the account was opened;*
 - ‡ *high credit amount;*
 - ‡ *required monthly payment amount;*
 - ‡ *unpaid balance; and*
 - ‡ *payment history*

Residential Mortgage Credit Report Requirements:

For a Residential Mortgage Credit Report (*RMCR*) only the following additional items are required:

- provide a detailed account of the mortgagor's employment history;
- verify each mortgagor's current employment and income through an interview with the mortgagor's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each mortgagor and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

Information Not Listed on Credit Report

Any open debt listed on the mortgage application but not referenced on the Credit report must be verified using methods outlined under Non-Traditional Credit History.

Non Traditional Credit History – (Purchase Transactions only)

For mortgagors without a credit score, a Non-Traditional Mortgage Credit Report (*NTMCR*) from a credit reporting company is required or the mortgagor's credit history can be independently developed.

A Non-Traditional Mortgage Credit Report (*NTMCR*) is designed to access the credit history of a mortgagor who does not have the types of trade references that appear on a traditional credit report and used either as:

- a substitute for a TRMCR or an RMCR;
- or a supplement to a traditional credit report that has an insufficient number of trade items reported.

Mortgagees may use a NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the mortgagor; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as “satisfactory” or “acceptable,” must be formatted in a similar fashion to traditional references, and provide:

- creditor’s name;
- date of opening;
- high credit; current status of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (*for example, 0x30 and 0x60*).

Non-Traditional Credit – Independent Verification

(Purchase Only)

Independently verify the mortgagor’s credit references by documenting the existence of the credit provider and that the provider extended credit to the mortgagor.

To verify the existence of each credit provider, review public records from the state, county, or city or other documents providing a similar level of objective information.

To verify credit information, the mortgagee must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the mortgagor; and
- obtain the most **recent 12 months of cancelled checks**, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

To verify the mortgagor’s **rental payment history**, the mortgagee must obtain a rental reference from the appropriate rental management company, provided the mortgagor is not renting from a family member, demonstrating the timing of payment of the most **recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment**.

Non-Traditional Credit – Sufficiency of Credit References

(Purchase only)

To be sufficient to establish the mortgagor's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (*subject to independent verification if the mortgagor is a renter*);
- telephone service; or
- utility company reference (*if not included in the rental housing payment*), including:
 - gas;
 - electricity;
 - water;
 - television service; or
 - Internet service.

If the mortgagee cannot obtain all three credit references from the list above, the mortgagee may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (*for example, medical, auto, life, renter's insurance*);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (*for example, from department, furniture, appliance stores, or specialty stores*);
- rent-to-own (*for example, furniture, appliances*);
- payment of that part of medical bills not covered by insurance;
- a documented 12 month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
 - were made at least quarterly;
 - were not payroll deducted; and caused no insufficient funds (*NSF*) checks;
- automobile lease; or
- a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments.

Credit History Analysis

Purpose:

The purpose of the credit history analysis is to determine if the mortgagor has demonstrated responsible management of debt, finances and homeownership obligations and a willingness to meet their financial obligations.

The mortgagee must analyze the mortgagor's credit history, liabilities and debts and loan application to identify debts/obligations that must be included in the residual income analysis and to determine if the mortgagor has:

- delinquent Federal debt;
- any unpaid liens against the subject property resulting from a State or
- court-ordered judgments;
- a satisfactory payment history on revolving credit, installment accounts,
- and mortgages; and
- a satisfactory history of timely payment of property charges

Mortgagees must pay particular attention to situations where serious derogatory credit such as foreclosures, defaults, late mortgage payments and late property charge payments are on the mortgagor's record. Absent documented extenuating circumstances, serious derogatory credit under such circumstances must be viewed as especially significant events that call into question the ability of the mortgagor to manage his or her financial obligations.

Credit History Assessment:

Evaluate the mortgagor's payment history in the following order:

- Current or previous mortgage debt and housing-related expenses;
- Installment debts; and
- Revolving accounts.

Satisfactory Credit:

- The mortgagor is considered to have satisfactory credit if:
 - The mortgagor has made all housing and installment debt payments on- time for the previous 12 months and no more than two 30 day late mortgage or installment payments in the previous 24 months; and
 - The mortgagor has no major derogatory credit on revolving accounts in the previous 12 months.
 - Major derogatory credit on revolving accounts shall include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

Credit Requiring Additional Analysis:

- If a mortgagor's credit is not "satisfactory", the payment history requires additional analysis.
- The mortgagee must analyze the mortgagor's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

Derogatory Credit:

The presence of significant derogatory credit information dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. The mortgagee must:

- determine the cause and significance of derogatory information;
- verify whether sufficient time has elapsed since the date of the last derogatory information;
- confirm that the applicant has resolved issues and re-established an acceptable credit history, or that the mortgagor has chosen not to incur new credit obligations;
- Analyze the payment history on existing conventional or FHA-insured mortgages or for prior residences and address any derogatory credit (*explanations, resolution*);
- Consider circumstances beyond the mortgagor's control when reviewing derogatory credit.

Derogatory Credit Explanations:

- **Minor derogatory** information occurring two or more years in the past **does not require an explanation.**
- **Major indications of derogatory credit, such as judgments, collections, bankruptcies, foreclosures and other recent credit problems, require sufficient written explanation and documentation from the borrower even if more than 24 months old. The explanation must make sense and be consistent with other credit information in the file.**

Disputed Derogatory Credit Accounts:

- Disputed Derogatory Credit Account refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.
- The mortgagee must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the financial assessment.
- The following items need not be considered by the mortgagee:
 - **Disputed medical accounts, and**
 - **Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.**
- If the credit report indicates that the mortgagor is disputing derogatory credit accounts, the mortgagor must provide a letter of explanation and documentation supporting the basis of the dispute.
- If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

Housing Obligations Payment History:

- The mortgagee must determine the mortgagor's housing obligation payment history through:
 - the credit report;
 - verification of rent received directly from the landlord (*for landlords with no identity-of-interest with the mortgagor*);
 - verification of mortgage received directly from the mortgage servicer; or
 - a review of canceled checks (*front and back*) that cover the most recent 12- month period.
- The mortgagee must verify and document the previous 12 months' housing history.
 - For mortgagors who indicate they are living mortgage or rent-free, the mortgagee must obtain verification through the title report or other information, or if they are not the owner, from the property owner where they are residing, that the mortgagor has been living rent-free and the amount of time the mortgagor has been living rent free.
- A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

Property Charge Payment History:

- The mortgagee may consider the mortgagor to have a satisfactory property charge payment history where, at the time of loan application:
 - All property charges **are current** and there are **no property tax arrearages in the prior 24 months** as documented through written statements or on-line print-outs from the taxing authorities, or through copies of bills and canceled checks;
 - Homeowners/hazard insurance and, if applicable, flood insurance, were **current** and were in place for a minimum of the **prior 12 months**. If the mortgagor did not have homeowner's and flood insurance, mortgagors must obtain and prepay for 12 months at loan closing (*NOTE: Verification of Payment history is not required per HUD.*); and
 - all HOA, condominium, or PUD fees **are current** and there were **no arrearages in the prior 24 months**.
 - ✦ *Obtain verification evidencing timely payment from*
 - Insurance company; or
 - If there is a mortgage evidence insurance is escrowed is acceptable.
- The mortgagee must determine and document the reason for any late payments, e.g., disregard for financial obligations, an inability to manage debt, or if there were extenuating circumstances.
- Mortgagees must also assess the mortgagor's direct experience paying taxes and insurance, rather than relying upon a lender administering an escrow account to make these payments.
 - Situations where mortgagors have a proven history of personal responsibility for maintaining property taxes and insurance may be a factor in determining that a Life Expectancy Set-Aside is not required.
 - Lack of experience in managing payment of taxes and insurance combined with other risk factors, may support requiring a Life Expectancy Set-Aside.
- Failure to meet satisfactory standard is not necessarily a reason to reject a mortgagor. Instead, mortgagors must conduct a further analysis of the mortgagor's accounts to determine the reason for the late payments or arrearages, and whether there are extenuating circumstances.

- Results of the analysis must be documented and must be consistent with other information in the file.

Collection Accounts:

- A collection account is a mortgagor's loan or debt that has been submitted to a collection agency through a creditor.
- The mortgagee must determine if collection accounts were a result of:
 - the mortgagor's disregard for financial obligations;
 - the mortgagor's inability to manage debt; or
 - extenuating circumstances.
- The mortgagee must document reasons for approving a mortgagor for a HECM when the mortgagor has any collection accounts.
- The mortgagor must provide a **letter of explanation (LOE), supported by documentation, for each outstanding collection account.** The explanation and supporting documentation must be consistent with other credit information in the file.
- **Do not have to be paid off or placed under a payment plan.**
- These accounts are NOT Mandatory obligations and may not be paid off at HECM closing using HECM proceeds.

Charge Off Accounts:

- A Charge Off Account refers to a mortgagor's loan or debt that has been written off by the creditor.
- The mortgagee must determine if charge off accounts were a result of:
 - the mortgagor's disregard for financial obligations;
 - the mortgagor's inability to manage debt; or
 - extenuating circumstances.
- The mortgagee must document reasons for approving a mortgagor for a HECM when the mortgagor has any charge off accounts.
- The mortgagor must provide a **letter of explanation, which is supported by documentation, for each outstanding charge off account.** The explanation and supporting documentation must be consistent with other credit information in the file.
- **Do not have to be paid off or placed under a payment plan.**
- These accounts are NOT Mandatory obligations and may not be paid off at HECM closing using HECM proceeds.

Judgments (not including Federal Tax Liens):

- A Federal judgment must be paid-in-full or a satisfactory repayment plan between the prospective mortgagor and the Federal agency owed must be in place prior to closing of the HECM.
- A prospective HECM mortgagor's credit report must be reviewed to check for any claims, defaults or debts owed to the Federal government, and any existing debts against the real estate that will serve as collateral for the HECM.
- Any delinquent Judgments that are liens against the real estate must not be in excess of the mortgagor's net principal limit, unless the mortgagor has a separate source of funds from which to draw and pay those debts.
- Liens against the real estate resulting from outstanding Federal obligations must be satisfied and removed, or subordinated to the first and second HECM liens at closing.

Reference: HUD Handbook 4235.1 REV-1 Section 4-3 A and Mortgagee Letter 2009-49.

- Judgment refers to any debt or monetary liability of the mortgagor created by a court, or other adjudicating body.
- The mortgagee must verify that court-ordered judgments are resolved or paid off prior to or at closing.
- Regardless of the amount of the outstanding judgment, the mortgagee must determine if the judgment was a result of
 - The mortgagor's disregard for financial obligations;
 - The mortgagor's inability to manage debt; or
 - Extenuating circumstances
- A judgment is considered resolved if
 - the mortgagor has entered into a valid agreement with the creditor to make regular payments on the debt,
 - the mortgagor has made timely payments for at least three months of scheduled payments and
 - the judgment will not supersede the FHA-insured mortgage lien.
- The mortgagor cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

- The mortgagee must include the agreed payment amount in the mortgagor's expenses when calculating residual income.
- The mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.
- The mortgagee must provide the following documentation:
 - Evidence of payment in full, if paid prior to settlement; or
 - Payoff statement, if paid at settlement; or
 - Payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.
- Judgments (*non-lien on subject*) are not mandatory obligations and may not be paid off at HECM closing under HECM proceeds.
 - **Note:** Judgment liens showing on subject property title may be considered a Mandatory Obligation.

Delinquent Federal Non-Tax Debt:

- All delinquent Federal non tax debt (i.e. student loans, SBA loans, etc.) must be brought current, paid-in-full or a satisfactory repayment plan (in writing and in existence for a minimum of 6 months) between the prospective borrower and the Federal agency owed must be in place prior to closing of the HECM.
- Provide evidence of satisfactory payment for at least 6 months.

Reference: HUD Handbook 4235.1 REV-1 Section 4-3 A and Mortgagee Letter 2009-49.

- Mortgagees are prohibited from processing an application for an FHA-insured mortgage for mortgagors with delinquent federal non-tax debt. Mortgagees are required to determine whether the mortgagors have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent federal debts from public records, credit reports or equivalent, and must check all mortgagors against the Credit Alert Verification Reporting System (CAIVRS).

- If a delinquent federal debt is reflected in a public record, credit report or equivalent, CAIVRS or an equivalent system, the mortgagee must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the borrower's CAIVRS report.
- If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the mortgagor is ineligible for an FHA-insured mortgage until the mortgagor resolves the debt with the creditor agency.
- The mortgagee may not find a mortgagor ineligible solely on the basis of CAIVRS information that has not been verified by the mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the mortgagee may continue to process the mortgage application.
- In order for a mortgagor with verified delinquent federal debt to become eligible, the mortgagor must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.
- The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act. The mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.
- Delinquent Federal Non-Tax debt may be considered a Mandatory Obligation and may be paid off at HECM closing using HECM proceeds.

Delinquent FHA Insured Mortgages:

If the mortgagor is currently delinquent on an FHA-insured mortgage on their principal residence, and the HECM will pay off the delinquent mortgage, the mortgagor may be eligible provided they meet all other HECM requirements. If the mortgagor is currently delinquent on an FHA-insured mortgage that is not on their principal residence, the mortgagor may be eligible provided they pay-off the debt with their own funds prior to closing.

Principal Residence

- If the mortgagor is currently delinquent on an FHA-insured mortgage on their principal residence, and the HECM will pay off the delinquent mortgage, the mortgagor may be eligible provided they meet all other HECM requirements.

Other delinquent FHA-Insured Mortgages

- If the mortgagor is currently delinquent on other FHA-insured mortgages associated with investment properties, they are **ineligible** for a new FHA insured mortgage unless the delinquency is resolved.
- Not a Mandatory Obligation and may NOT be brought current or paid off at HECM closing using HECM proceeds.

Delinquent Federal Tax Debt:

- All delinquent Federal tax debt or liens must be brought current, paid-in-full or a satisfactory repayment plan (in writing and in existence for a minimum of 6 months) between the prospective borrower and the Federal agency owed must be in place prior to closing of the HECM.
- Liens against the subject property resulting from delinquent Federal tax debt must be satisfied or resolved.
 - Any delinquent Federal tax debts or liens against the subject property must not be in excess of the mortgagor's net principal limit, unless the mortgagor has a separate source of funds from which to draw and pay those debts.

Reference: HUD Handbook 4235.1 REV-1 Section 4-3 A and Mortgagee Letter 2009-49.

- **Mortgagors with delinquent federal tax debt are typically ineligible unless:**
 - The debt is paid off (can be considered a Mandatory Obligation), or
 - the mortgagor has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt;

- the mortgagor has made timely payments for at least three months of scheduled payments; and
 - ✦ *The mortgagor cannot prepay scheduled payments in order to meet the required minimum of three months of payments.*
- The debt is subordinated.
- The mortgagee must include the agreed payment amount in the mortgagor's expenses when calculating residual income.
- Mortgagees must check public records and credit information to verify that the mortgagor is not presently delinquent on any Federal Debt and does not have a tax lien placed against their property for a debt owed to the federal government.
- The mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.
- Delinquent Federal Tax debt being paid off may be considered a Mandatory Obligation and may be paid off at HECM closing using HECM proceeds.

Delinquent Non-Federal Tax Debt/Liens:

- All state, city and county tax delinquencies are not required to be paid unless they also show as a lien on subject property title.
- State, city, county judgments are not required to be paid unless they also show as a lien on subject property title.

Foreclosure / Short Sale:

- Payment of an insurance claim by HUD on a previously insured mortgage does not automatically preclude the borrower from qualifying for a reverse mortgage if the following requirements are met:
 - There is a valid extenuating circumstances that caused the foreclosure.
 - Foreclosures or short-sales or deeds in lieu on FHA, VA or USDA loans require three years seasoning before applying for another FHA-insured loan.

- Three years seasoning is also required for prior foreclosures, short- sales and deeds in lieu of foreclosure of a Conventional loan if the borrower is applying for a **HECM for purchase loan**. If less than 3 years seasoning, the loan is generally not acceptable and will require a Borrower explanation to determine if circumstances are acceptable for lending.
- Otherwise, no seasoning is required after completion of the foreclosure or short sale process for refinances.
- Clear CAIVRS.
- On a short sale, the borrower cannot receive cash proceeds at closing.
- The borrower cannot close on a HECM loan while currently in default on another FHA mortgage tied to a **separate property**.
- The borrower cannot close on a HECM loan while currently in default or in negotiations for a short-sale on a conventional mortgage tied to a separate property. Explanation will be required.
- The mortgagee must analyze the mortgagor's foreclosure / short sale to determine whether it occurred due to a disregard for financial obligations, an inability to manage debt, or extenuating circumstances.
- The mortgagee must document this analysis in the mortgage file. Any explanation or documentation must be consistent with other information in the file.
- Where the mortgagor has not demonstrated the willingness to meet his or her financial obligations and no extenuating circumstances can be documented, the mortgagee must require a fully funded Life Expectancy Set-Aside.
- When a previously owned property was sold for less than what was owed (*short sale*), borrowers are considered eligible for an FHA insured mortgage if, as of the loan application date, all mortgage and installment debt payments were made within the month due for the twelve months preceding the short sale.
- Borrowers that were in default at the time of the short sale (or pre- foreclosure sale) are not eligible for three years from the date of the sale.
- Borrowers who sold their property under the FHA pre-foreclosure sale program are not eligible for three years from the date that FHA paid the claim associated with the pre-foreclosure sale.

- Lenders may make exceptions for borrowers in default at the time of short sale if:
 - The default was due to circumstances beyond the borrower's control (such as death of a primary wage earner, long term uninsured illness, etc.); and
 - The credit report reflects satisfactory credit prior to the circumstances (*beyond the borrower's control*) that caused the default.
- Borrowers who pursued a short sale agreement on their principal residence to take advantage of declining market conditions and purchase a similar or superior property within a reasonable commuting distance are **NOT eligible** for a new FHA insured mortgage.

Delinquent Federal Non Tax Debt and Obligations:

- All delinquent Federal non-tax debt or liens (student loans, SBA loans) must be brought current, paid-in-full or a satisfactory repayment plan (in writing and in existence for a minimum of 6 months) between the prospective borrower and the Federal agency owed must be in place prior to closing of the HECM.
- Liens against the subject property resulting from delinquent Federal tax debt must be satisfied or resolved.
 - Any delinquent Federal debts or liens against the subject property must not be in excess of the mortgagor's net principal limit, unless the mortgagor has a separate source of funds from which to draw and pay those debts.

Reference: HUD Handbook 4235.1 REV-1 Section 4-3 A and Mortgagee Letter 2009-49.

- Mortgagees are prohibited from processing an application for an FHA-insured mortgage for mortgagors with delinquent federal non-tax debt.
- Mortgagees are required to determine whether the mortgagors have delinquent federal non-tax debt.

- Mortgagees may obtain information on delinquent federal debts from public records, credit reports or equivalent, and must check all mortgagors against the Credit Alert Verification Reporting System (CAIVRS).
- If a delinquent federal debt is reflected in a public record, credit report or equivalent, CAIVRS or an equivalent system, the mortgagee must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed.
 - If the debt was identified through CAIVRS, the mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the borrower's CAIVRS report.
 - If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act (<https://www.fms.treas.gov/news/factsheets/dcia.html>), then the mortgagor is ineligible for an FHA-insured mortgage until the mortgagor resolves the debt with the creditor agency.
- The mortgagee may not find a mortgagor ineligible solely on the basis of CAIVRS information that has not been verified by the mortgagee.
 - If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the mortgagee may continue to process the mortgage application.
- In order for a mortgagor with verified delinquent federal debt to become eligible, the mortgagor must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.
 - The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.
 - The mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt.
 - For debt reported through CAIVRS, the mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

Outstanding Mortgage Liens:

- All outstanding liens secured by the subject property must be paid off at closing or subordinated to the HECM first and second liens at closing.
 - Any subordinated liens must adhere to HUD guidelines.
- For mortgages not associated with subject property, the borrower will also need to provide verification for any other properties owned and their associated mortgages and other charges whether listed on credit report or not (*i.e. payment coupon, statement, or any other documentation to show property address tied to the mortgage*).
- **The borrower cannot close on a HECM loan while currently delinquent on a conventional mortgage tied to a separate property, explanation will be required.**

Delinquent Mortgage Payments:

- Borrower(s) cannot currently be delinquent on any FHA Mortgage or subject property related expenses. All delinquencies must be brought current prior to or at the time of closing.
- **Any FHA mortgage or subject property related delinquencies in the past 12 months requires a written explanation and documentation of extenuating circumstances from the borrower and may result in the establishment of a Life Expectancy Set-Aside. Underwriting reserves the right to request further documentation.**
- The borrower cannot close on a HECM loan while currently delinquent on a conventional mortgage tied to a separate property, explanation will be required.

Bankruptcies:

General Information

- Evidence that all bankruptcy types reflected on borrower's credit report have been dismissed or discharged must be included in loan submission.
 - If the credit report says the bankruptcy was dismissed or discharged, no additional documentation is required.
- Any bankruptcy type not showing "dismissed" or "discharged" must be paid off through closing unless written approval for the borrower to enter into a reverse mortgage from the court is provided from the Bankruptcy trustee.
- **A letter of explanation will be required.**
- **If exists may result in the establishment of a Life Expectancy Set-Aside**

Chapter 7 & 13 Bankruptcy:

- Chapter 7 (*Purchase and Refinance*) - An outstanding Chapter 7 bankruptcy must be fully discharged or dismissed prior to closing.
- Chapter 13 (*Purchase and Refinance*) - HUD permits a borrower to remain in an open Chapter 13 bankruptcy. However, **a written statement from the bankruptcy trustee will need to be provided which acknowledges it is permissible for the borrower to proceed with the reverse mortgage. Upon receipt of the written acknowledgement from the bankruptcy trustee, the processor will need to read it carefully and thoroughly, as typically the written acknowledgement from the bankruptcy trustee will be "subject to" conditions (i.e. pay off the Chapter 13 with the loan proceeds).** If the Chapter 13 must be paid off, a payoff statement will need to be obtained, as with any other lien payoff.

Note: The lender must document that the mortgagor's current situation indicates that the events which led to the bankruptcy are not likely to recur.

Reference: HUD Handbook 4155.1, Chapter 4, Sections C.2.g and C.2.h.

Chapter 7 Bankruptcy (Purchase only):

- A Chapter 7 bankruptcy (*liquidation*) does not disqualify a mortgagor from consideration for a HECM for purchase if, **at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge.** During this time, the mortgagor must have:
 - re-established good credit; or
 - chosen not to incur new credit obligations.
- **An elapsed period of less than two years, but not less than 12 months,** may be acceptable, if the mortgagor:
 - can show that the bankruptcy was caused by extenuating circumstances beyond the mortgagor's control; and
 - has since exhibited a documented ability to manage his or her financial affairs in a responsible manner.
- If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.
- **The mortgagee must also document that the mortgagor's current situation indicates that the events which led to the bankruptcy are not likely to recur.**

Chapter 13 Bankruptcy (Purchase only):

- A Chapter 13 bankruptcy does not disqualify a mortgagor from consideration for a HECM for purchase, **if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.**
- The mortgagee must determine that during this time, the mortgagor's payment performance has been satisfactory and all required payments have been made on time; and the mortgagor has received written permission from bankruptcy court to enter into the mortgage transaction.
- The mortgagee **must include the payment amount in the court-approved payment plan in the mortgagor's expenses when calculating residual income.**

- If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.
- The mortgagee must also document that the mortgagor's current situation indicates that the events that led to the bankruptcy are not likely to recur.

Lack of Credit History:

Refinance

- Mortgagees are not required to develop non-traditional credit for mortgagors seeking a traditional or refinance HECM. The mortgagor may be deemed to have an acceptable credit history.

Purchase

- If a traditional credit report is available the mortgagee must use a traditional credit report.
- If a traditional credit report is not available, the mortgagee must develop the mortgagor's credit history using the requirements for non-traditional credit.

Property Charge Payments:

Document the payment of property charges as follows:

- Property taxes.
 - All property charges are current and there are no property tax arrearages in the prior 24 months.
 - Document that property taxes from all taxing authorities meet payment history criteria above through written statements or on-line print-outs from the taxing authorities, or through copies of bills and canceled checks.
- Hazard insurance.
 - Obtain the declaration sheet of the insurance policy covering previous 12 months to ensure that policy is current and was in place for a minimum of the prior 12 months.
 - ✦ *If the mortgagor did not have the homeowner's insurance, mortgagors must obtain and prepay for 12 months at the loan closing.*

- Flood insurance.
 - Obtain the declaration sheet of the insurance **policy covering previous 12 months** to ensure that policy is current and was in place for a minimum of the prior 12 months.
 - ‡ *If the mortgagor did not have the homeowner's insurance, mortgagors must obtain and prepay for 12 months at the loan closing.*
- HOA, PUD and Condominium fees
 - Confirm all fees are current and there were no arrearages in the prior **24 months**.
 - ‡ *If there are delinquencies, determine if there are any liens on the property as a result of delinquent HOA, PUD and Condominium fees.*
 - Obtain from managing agent a written statement documenting payments, or copies of bills and canceled checks.
- Other assessments.
 - Confirm all fees are current and there were no arrearages in the prior **24 months**.
 - Obtain from the party levying the assessment or its management agent a written statement documenting payments, or copies of bills and canceled checks.
- Ground rents.
 - Confirm all fees are current and there were no arrearages in the prior **24 months**.
 - Obtain from the lessor or its management agent a written statement documenting payments, or copies of bills and canceled checks.

Recent or Undisclosed Debts or Credit Inquires:

- Determine the purpose of any recent debts, to ensure that borrowed funds were not used to meet the cash investment requirement for a property being purchased with a HECM. The mortgagee must include documentation in this regard in the origination case binder.
- Written explanation is required for all inquiries shown on the credit report for the last **90 days**.
- The mortgagee must document all undisclosed debt and support for its analysis of the mortgagor's debt.

Date of Birth Verification (DOB)

- All borrowers must be **at least 62 years of age or older at closing.**
 - Note: All borrowers must be within **90 days of their 62nd birthday at time of application.**
- Date of birth must be verified for all borrowers.
- Acceptable documentation includes but is not limited to:
 - Copy of Birth Certificate
 - Copy of current Driver's License (not expired)
 - Copy of Passport
 - Written verification from Social Security Administration
 - Government issued ID

Death Certificate

- A death certificate is required when a person is being removed from title is deceased. This includes any person named in a trust.
- The death certificate should be submitted with the file at submission.
- An affidavit of death may also be required, based on state requirements.
- The settlement agent or title company must state in writing that the deceased party can be removed from the title at closing, without probate.

Application (1009)

- The Residential Loan Application for Reverse Mortgages (FNMA form 1009, FNMA 2/2010) is the standard application used with FHA reverse mortgage products. **Effective APRIL 27, 2015, the 1009 has been revised to capture all fields necessary to perform the financial assessment.**
- The information used on this form must be obtained directly from the borrower. (See **Power of Attorney.**)

- All fields on the upfront 1009 application are to be completed.
 - The Interviewer should complete all sections of the application and sign/date page four of seven and disclose how the application was taken.
 - The borrower(s) must sign and date page four and five of seven, as well as **page one if applying jointly**.
 - The 1009 **must list a monthly income** for each borrower and all declarations questions on page three must be completed.
 - **If the borrower(s) chooses not to disclose their race, ethnicity or sex, the Interviewer must fill in this information to the best of their ability based on the surname and visual observation.**
 - If incorrect Date of Birth and/or Social Security Number are provided on the 1009, a hand-written correction from the borrower will be requested and supporting documentation should validate.
 - A final 1009 application will be prepared at closing.
-

Good Faith Estimate (GFE)

- The GFE must be included in all loan submissions.
- The GFE should be sent to the Borrower(s) within three (3) days of the Application per RESPA.
- The GFE should include an estimate of all allowable fees being charged to the Borrower(s) at closing.
 - **The charge to run a 4506 is an allowable fee.**
- The initial GFE must be signed & dated by the Borrower(s) and the Loan Officer. Any cross outs, white outs, etc. must be initialed by the Borrower(s), and an explanation provided by Borrower(s).
- The GFE includes a Provider of Services List.
 - The Provider of Services List is a list of any Third Party providers used to process the loan (i.e. Credit Agency, Title Company, Flood Determination Company, etc.

Deed Changes

For non-arms-length transactions where the title to the property has recently changed and there is a mortgage on the property, the following is required:

Children have deeded property to parent living in subject property

- Title must be in borrower's name prior to application
- Face to face interview to further verify owner occupancy in subject property
- Evidence borrower has lived in subject property for a minimum of 30 days
- **Payoff of any lien(s) in which the applicant is not the mortgagor is not permitted.**

Builder/Speculator buys foreclosed/tax sale property and deeds into senior's name

- Seasoning requirement minimum of 12 months in title to subject property
- 90 day occupancy
- Use of POA will be permitted only in cases where borrower is competent
- Single family homes only
- Explanation of how Senior was chosen or how marketing to Senior borrower was done
- Review borrower's ability to pay taxes/insurance
- Explanation of how sales price/mortgage held by builder/speculator was determined
- Appraisal must mention all upgrades made to subject property
- If subject property located in a high foreclosure rate area, appraisal must contain foreclosure comparable sales
- Desk/field review on all appraisals
- Any lien paid with HECM proceeds must be existing and in the borrower's name

Disbursement Limits

Determining and Tracking:

The mortgagee is responsible for determining the maximum Initial Disbursement Limit dollar amount that may be disbursed to the mortgagor (or legal representative) and/or used for Mandatory Obligations (which includes Set Asides) and other charges incurred with originating the HECM at:

- loan closing for Single Disbursement Lump Sum payment option; or
- during the First 12-Month Disbursement Period for Adjustable Rate HECMs.

For Adjustable Rate HECMS, mortgagees must monitor and track all disbursements that occur during the First 12-Month Disbursement Period and that are added to the loan balance, to ensure the total amount of the disbursements does not exceed:

- the maximum Initial Disbursement Limit or
- Principal Limit dollar amount.

Where a mortgagor has a Servicing Fee Set-Aside, the disbursement of the fixed monthly servicing fee charges may exceed the Initial Disbursement Limit or First 12-Month Disbursement Period restrictions.

Tracking Disbursements Made During the First 12-Month Disbursement Period for ARM HECMs

The Initial Disbursement Limit and First 12-Month Disbursement Period are Applicable to payment plan changes that occur during the First 12-Month Disbursement Period.

Line of Credit: During the First 12-Month Disbursement Period, if a requested disbursement would exceed the Initial Disbursement Limit, the mortgagee may make a partial disbursement to the mortgagor for the amount that will not exceed the limit. Once the First 12-Month Disbursement Period ends, the mortgagor may request subsequent disbursements up to the available Principal Limit.

Tenure and Term Payments: Mortgagees must ensure Tenure and Term monthly payments made to the mortgagor during the First 12-Month Disbursement Period do not exceed the Initial Disbursement Limit.

Upon the expiration of the First 12-Month Disbursement Period, adjustments to Term and Tenure payments may be recalculated using the available Principal Limit by having the mortgagor sign the appropriate paperwork to change the payment amount and/or payment option.

If the mortgagor makes a partial repayment of the principal balance (outstanding loan balance) during the First 12-Month Disbursement Period, the mortgagee must increase the amount of principal available to the mortgagor by the amount applied toward the outstanding loan balance, up to an amount not to exceed the Initial Disbursement Limit, as applicable, and the Principal Limit.

If the mortgagee receives repayment from insurance or condemnation proceeds after restoration or repair of the damaged property, then the available Principal Limit and mortgage balance shall be reduced by the amount of such proceeds.

Disbursements Included in First 12- Month Disbursement Period and Initial MIP Calculations

The following items must be included in the First 12-Month Disbursement Limit, Borrower's Advance, and initial MIP calculations:

Adjustable Rate HECM

- The amount of Mandatory Obligations;
- The amount disbursed to Mortgagor made at closing; and
- The amount of the Initial Disbursement Limit not taken by the Mortgagor at closing.

Fixed Rate HECM

- The amount of Mandatory Obligations;
- The amount disbursed to Mortgagor made at closing;

For both adjustable and fixed interest rate HECMs, the Servicing Fee Set-Aside is not included in the Initial Disbursement Limit, Borrower's Advance or the initial MIP calculation.

Calculation of Initial Disbursement Limit at Closing and during 1st 12 months

Fixed

- The maximum disbursement allowed at loan closing is the greater of:
 - ‡ *60% of the Principal Limit; or*
 - ‡ *The sum of Mandatory obligations plus 10% of the Principal Limit*

Adjustable

- The maximum disbursement allowed at loan closing **and during the First 12 month disbursement period** is the greater of:
 - ‡ *60% of the Principal Limit; or*
 - ‡ *The sum of Mandatory obligations, plus 10% of the Principal Limit*
- The Initial Disbursement Limit shall not exceed the Principal Limit established at loan closing.

Eligibility for an additional 10% of Principal limit

When the mortgagor's Mandatory Obligations exceed 50% of the Principal Limit, the mortgagor is eligible to take an additional 10% of the Principal Limit amount. Mortgagors may, but are not required, to take all or part of the additional 10% (*up to the full Principal Limit*) at loan closing or during the First 12-Month Disbursement Period or after the First 12-Month disbursement Period. At loan closing, mortgagors must notify the mortgagee of the amount of the additional 10% of the Principal Limit that they intend to draw at the time of loan closing or during the First 12-Month Disbursement Period so that the correct amount of initial MIP is collected.

Initial Disbursement Limit Examples

The examples below demonstrate the application of the new policy limiting disbursements at loan closing and/or during the First 12-Month Disbursement Period to the greater of 60% of the Principal Limit or sum of Mandatory Obligations plus 10% of the Principal Limit.

Initial Disbursement Limit Example 1: Mandatory Obligation of 60% or less of the Principal Limit

- Principal Limit: \$100,000
- Mandatory Obligations: 40,000
- Repair Set Aside: \$0
- 60% of the Principal Limit: 60,000
- Initial Disbursement Limit Amount: \$60,000, includes \$40,000 in Mandatory Obligations and \$20,000 to Mortgagor

The Mortgagor can draw the \$20,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$20,000 that exceeds the Mandatory Obligations including Set Aside.

Initial Disbursement Limit Example 2: Mandatory Obligations in excess of 60% of the Principal Limit

- Principal Limit: \$100,000
- Mandatory Obligations: \$65,000
- Repair Set Aside: \$0
- 10% of Principal Limit: \$10,000
- 60% of the Principal Limit: \$60,000
- Initial Disbursement Limit Amount: \$75,000, includes \$65,000 in Mandatory Obligations and \$10,000 to Mortgagor

The Mortgagor can draw the \$10,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$10,000 that exceeds the Mandatory Obligations including Set Aside at loan closing or during the First 12-Month Disbursement Period.

Initial Disbursement Limit Example 3: Mandatory Obligations of 60% or less of the Principal Limit

- Principal Limit: \$200,000
- Mandatory Obligations: \$17,000
- Repair Set Aside: \$33,000
- 60% of the Principal Limit: \$120,000
- Initial Disbursement Limit Amount: \$120,000, includes \$17,000 in Mandatory Obligations, \$33,000 Set Aside and \$70,000 to Mortgagor

The mortgagor can draw the \$70,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the mortgagor is limited to a single draw at loan closing for the \$70,000 that exceeds the Mandatory Obligations including Set Aside.

Initial Disbursement Limit Example 4: Mandatory Obligations in Excess of 60% of the Principal Limit

- Principal Limit: \$200,000
- Mandatory Obligations: \$140,000
- Repair Set Aside: \$13,000
- 10% of the Principal Limit: \$20,000
- 60% of the Principal Limit: \$120,000
- Initial Disbursement Limit Amount: \$160,000, includes \$140,000 Mandatory Obligations, \$13,000 Repair Set Aside and \$7,000 to Mortgagor.

The Mortgagor can draw the \$7,000 exceeding Mandatory Obligations (*including Set Aside*) at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$7,000 that exceeds the Mandatory Obligations including Set Aside.

First 12 Month Disbursement Period Definition

The First 12-Month Disbursement Period begins on the day of loan closing and ends on the day before the anniversary date of loan closing. When the day before the anniversary date of loan closing falls on a Federally-observed holiday, Saturday or Sunday, the end period will be on the next business day.

Example 1:

If the loan closed on December 9, 2013, the First 12-Month Disbursement Period begins on December 9, 2013 and ends on December 8, 2014.

Example 2:

If the loan closed on January 2, 2014, the First 12-Month Disbursement Period begins on January 2, 2014 and ends on January 2, 2015.

Documents and Disclosures

See Appendix A

Documentation

- All loan files must properly document the income (*if required*), credit, debts, and assets (*if required*) used in underwriting the loan application. HTL is accountable for the integrity and accuracy of all information used to qualify the borrower.
- Any pertinent documentation received for an application by HTL is considered part of the permanent loan file. The documentation must be retained and may not be discarded.
- Documentation must be legible.
- Documents can not contain any alterations, erasures, white-outs or similar indications that changes have been made.
- Copies of originals are acceptable.
- Information received electronically: The mortgagee must authenticate all documents received electronically by examining the source identifiers (*e.g., fax banner header or the sender's email address*) or contacting the source of the document by telephone to verify the document's validity. The mortgagee must document the name and telephone number of the individual with whom the mortgagee verified the validity of the document.
- Information received via Internet: The mortgagee must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the uniform resource locator (*URL*) address, as well as the date and time the documents were printed. The mortgagee must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the mortgagee's visit to the URL and website. Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.
- Photocopy, fax, or computer generated forms are acceptable as long as the documents include all essential information that is available on hard-copy original documents. This includes on-line bank and investment statements that the borrower downloads from the Internet, as well as verifications of employment, income and assets that are received by the lender via e-mail or fax directly from the employer, bank, etc.

- Computer-generated forms received via e-mail or fax must indicate the name and address of the information source. If there is a doubt regarding the source of the information, a verbal verification is required. **See also Bank Statements.**
- Borrower faxed copies of other verification documents (*bank statements, stock and/or securities statements, authentic bills of sale, settlement statements, mortgage payment histories, or canceled checks*) are acceptable if the borrower provides written certification that the copies provided to HTL are true, complete and correct copies made from the originals.
- HTL personnel must represent and warrant the accuracy of the information obtained on the fax, photocopy, or computer generated documents and will remain fully liable.
- FHA prohibits the use of verification documents that have been handled by or transmitted from or through interested third parties (e.g. real estate agents, builders or sellers)
- Notes or comments written on the documentation by the Processor/Coordinator or Underwriter are acceptable if:
 - The documentation is still legible.
 - Notes/comments are only factual (*non-subjective*) information relating to the transaction.
 - Derogatory comments regarding customers are never acceptable; any personal feelings should be excluded.
 - Subjective comments that have no bearing on making an objective credit decision should not be included in the loan file.

Age of Documentation

- A loan must **disburse/fund** prior to the document expiration date.
- **For purposes of counting days, Day one is the Day after the effective or issue date of the document, whichever is later.**
- The date on the documents must comply with the time frames shown below.
 - **Exception: If the nature of the documents is such that their validity for underwriting purposes is not affected by the prescribed time frame, such as**
 - ‡ *divorce decrees, or*
 - ‡ *tax returns.*
- **If the age of documents exceeds the limits below, updated written verification of the documentation must be obtained.**

No Expiration Date

The following documentation does not expire:

- Flood determination (certificate)
- Divorce Decree
- Tax Returns

60 Day Expiration

The following documentation is valid for 60 days:

- Preliminary title binder/title commitment

90 Day Expiration

The following documentation is valid for 90 days:

- Termite

120 Day Expiration

The following documentation is valid for 120 days:

- Documentation used in Financial Assessment (Income, Assets, etc.)
- Credit Report
- CAIVRS
- Appraisal (with possibility of a 30-day extension)
 - ✦ *Appraisal Extension*
 - The 120 Day validity period for an appraisal may be extended at the option of the DE Underwriter for 30 Days if:
 - 1) the mortgagee approved the mortgagor or HUD issued the firm commitment before the expiration of the original appraisal; or
 - 2) the mortgagor signed a valid sales contract prior to the expiration date of the appraisal.
- HTL does not accept updated appraisals to extend beyond the additional 30 days.
- *See Appraisal > Appraisal Expiration.*

180 Day Expiration

The following documentation is valid for 180 days.

- FHA Case #

Domestic Partnership Rights

See Community Property.

Dower Rights

See Community Property.

Electronic Signatures

Not permitted.

- Exceptions:
 - Non HUD REO sales contracts are permitted if in compliance with the requirements set forth in HUD Mortgagee Letters 2010-14 and 2014-03.
 - Counseling Certificate

Employment History

The mortgagee must verify the mortgagors most recent two years of employment and income for all employment related income.

Gaps in Employment

- For mortgagors with **gaps in employment of six months or more** (*an extended absence*), the mortgagee may consider the mortgagor's current income as effective income if it can verify and document that:
 - the mortgagor has been employed in the current job for at least six months at the time of case number assignment; and
 - a two year work history prior to the absence from employment using standard or alternative employment verification.
- Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the lender.
(See Seasonal income.)

Frequent Changes in Employment

- If the mortgagor has changed jobs more than three times in the previous 12-month period, or has changed lines of work, the mortgagee must take additional steps to verify and document the stability of the mortgagor's employment income. The mortgagee must obtain:
 - transcripts of training and education demonstrating qualification for a new position; or
 - employment documentation evidencing continual increases in income and/or benefits.

Temporary Reductions in Income

- For mortgagors with a temporary reduction of income due to a short-term disability or similar circumstance, the mortgagee may consider the mortgagor's current income as effective income, if it can verify and document that:
 - the mortgagor intends to return to work;
 - the mortgagor has the right to return to work; and
 - the mortgagor can meet their financial obligations taking into account any reduction of income due to the circumstance.

Employment Verification

Traditional Current Employment Documentation:

- The mortgagee must obtain the **most recent pay stubs covering a minimum of 30 consecutive days** that show the mortgagor's year-to-date earnings, and one of the following to verify current employment:
 - a **written** Verification of Employment (*VOE*) covering two years; or
 - an electronic verification acceptable to FHA.
- **Re-verification of employment must be completed within 10 Days prior to mortgage disbursement.** Verbal re-verification of employment is acceptable but if unavailable a written re-verification (*VOE*) is required.

Alternative Current Employment Documentation:

- Obtain the following:
 - Copies of pay stub(s) covering the most recent 30 consecutive day period (*if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days*) that shows the mortgagor's year to date earnings; and
 - Copies of the original IRS W-2 forms from the previous two years; and
 - A verbal verification, by telephone, of all current employers, and
 - ‡ *include in the loan file a certification stating the name, title, and telephone number of the person with whom employment was verified*
 - ‡ *sign and date the verification*
 - **Re-verification of employment must be completed within 10 Days prior to mortgage disbursement.** New *VOE* or verbal re-verification is acceptable.

Notes:

- An electronic retrieval service to obtain W-2 and tax return information is acceptable.
- **Use standard employment documentation if W-2(s) and/or pay stub(s) indicates inconsistencies.**
 - For example, FICA payments not reflecting earnings.

Past Employment Documentation:

- Direct verification of the mortgagor's employment history for the previous two years is not required if all of the following conditions are met:
 - the current employer confirms a two year employment history, or a paystub reflects a hiring date;
 - only base pay is used in calculating effective income (no overtime or bonuses); and
 - the mortgagor executes IRS Form 4506, Request for Copy of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years.
- If the mortgagor has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the mortgagor's employment history:
 - W-2(s);
 - VOE(s);
 - electronic verification acceptable to FHA; or
 - evidence supporting enrollment in school or the military during the most recent two full years.

Federal Income Tax Returns

- Obtain the following:
 - federal income tax returns for the most recent two years, both individual and business, including all applicable schedules, for self-employed borrowers, and
 - individual federal tax returns for commissioned individuals.
 - Signed forms IRS 4506, IRS 8821, Tax Information Authorization, or whatever form or electronic retrieval service is appropriate for obtaining tax returns directly from the IRS for any loan that requires the borrower's tax returns.

Financial Assessment Overview

Effective for all case numbers assigned on or after APRIL 27, 2015, loans must comply with requirements outlined in Mortgage Letters 14-21 and 14-22 and the HECM Financial Assessment and Property Charge Guide.

The purpose of the Financial Assessment is to evaluate the mortgagor's willingness and capacity to timely meet his or her financial obligations and to comply with the mortgage requirements. In conducting this financial assessment, mortgagees must take into consideration that some mortgagors seek a HECM due to financial difficulties, which may be reflected in the mortgagor's credit report and/or property charge payment history. The mortgagee must also consider to what extent the proceeds of the HECM could provide a solution to any such financial difficulties.

The HECM Financial Assessment and Property Charge Guide includes specific guidance on:

- performing the credit history/property charge payment history and cash flow/residual income analysis;
- documenting and verifying credit, income, assets and property charges;
- evaluating extenuating circumstances and compensating factors;
- evaluating the results of the Financial Assessment in determining eligibility for the HECM;
- determining whether a Life Expectancy Set-Aside will be required and whether the Set-Aside must be fully or partially funded; and
- completing a HECM Financial Assessment Worksheet. (This must be signed by the DE Underwriter.)

The Financial Assessment must be conducted in a uniform manner that shall not discriminate because of race, color, religion, sex, age, national origin, familial status, disability, marital status, actual or perceived sexual orientation, gender identity, source of income of the mortgagor, or location of the property.

A Direct Endorsement (DE) underwriter must document its assessment of required financial information and sign the financial assessment worksheet. The Mortgagee must place this worksheet on the right-hand side of the HECM endorsement case binder directly after the request for late endorsement (*if applicable*).

Flip Transactions

- Flip transactions are ineligible for financing by HighTechLending Inc. as there may be an inflation of the sales price, a financial bailout, misrepresentation, and/or straw buyers.
- A flip transaction is generally defined as a purchase transaction for a property that has recently been acquired by the Seller and is being sold for a quick profit. A flip transaction is a possibility if the title reveals several changes in ownership in the course of a few months.
- If the seller is not in title at the time the purchase contract is executed, the contract may not be valid.
- **Red flags of improper flip transactions include but are not limited to:**
 - Appraisal lacks sufficient analysis of all pertinent offerings or listings for the subject property, the contract of sale for the subject property, and the sales/transfer or listing history of the subject property and comparable sales.
 - Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market.
 - Transactions in which the property seller or any other party claims that the property was significantly renovated since being acquired by the property seller but the claimed renovations were not actually performed or cannot be sufficiently documented. Improper transactions often use inflated appraisals that falsely claim to be justified renovations.
 - Transactions in which there appear to be unusually large profits for the property's market area without appraisals that provide a reasonable explanation and justification for the large increase in property value.
 - Transactions in which the property was acquired by the property seller as a part of a distress sale in which the property seller, or a related party was a party to an option contract to purchase the property from the prior owner for an option price substantially below actual full market value. The option contract and the true market value of the property are typically not fully disclosed to the prior lender.

- Transactions in which the property seller, or an agent representing the seller, arranges or assists in arranging financing, settlement services or the appraisal, including some cases where the property buyer and seller are represented by the same real estate agent or broker (*dual agency*). Some improper transactions result from collusion between the seller, real estate broker, lender/loan officer, and appraiser to defraud an unwitting buyer.
- Transactions in which the contract seller is not the current owner of record.
- Undisclosed "simultaneous", "double" or "back to back" closings or escrows.
- Purchase transactions with undisclosed secondary financing, in which part of the purchase price is refunded to the buyer, or is quickly followed by a cash-out refinance. Such payments may or may not be reflected on the HUD-1.
- In order for a purchase application property to be eligible for financing, the requirements below must be met.
 - The subject property must be purchased from the owner of record, and the transaction cannot involve any sale or assignment of the sales contract.
 - Documentation is required to verify that the seller is the owner of record (*i.e. title commitment or binder reflecting the seller as owner and the date the property was acquired*).
- **The property is NOT ELIGIBLE for financing if the re-sale date** (*date of execution of the sales contract by a buyer intending to finance a property with an FHA-insured loan*) **is 90 days or less following the date the seller acquired the property** (*based upon the settlement date on page 1 of the HUD-1*).

Example: Buyer's signature on sales contract (*that will result in an FHA loan*) is dated May 22; the seller's signature is dated May 23rd. The sales contract is fully executed by all parties on May 23, 2003. The Seller acquired the property on March 21, 2003. The transaction is not eligible for FHA financing, unless exception below applies, because only 64 days have elapsed since the seller acquired the property.

Exceptions to the 90-day restriction:

- REO (Repo) sales by government agency (*includes HUD*).
- Sales by non-profit organizations approved to purchase HUD REO properties at a discount.
- Sales where the property was acquired by inheritance.
- Sales where the property was purchased by an employer or relocation agency in connection with the relocation of an employee.
- Sales of foreclosed property by state and federally-chartered financial institutions, Fannie Mae and Freddie Mac.

To determine if state or federally-chartered financial institution, access the FDIC's Institution Directory (www2.fdic.gov/idasp/main.asp). Input institution name (*partials acceptable*) and click "Find". Institutions with a "Class" (*bank charter class*) of N, SM, NM, SB, or SA are state or federally-chartered.

Primary Residence Only - (Sales contract must be fully executed by the seller and the buyer on or before May 10, 2010.)

Sales of foreclosed property by lenders that are NOT state or federally-chartered financial institutions.

Sales of foreclosed properties where title has been transferred by the original lender to a subsidiary or a property disposition entity. Transfer of title must be documented.

Sales by local and state government agencies.

As announced specifically by HUD, sales located in areas designated by the President as federally declared disaster areas.

See Mortgagee Letter 2008-37 - applies to fully-executed sales contracts dated from date of Presidential disaster declaration to September 30, 2009.

For fully executed sales contracts dated from September 14, 2009 through September 13, 2010, sales of previously foreclosed or abandoned properties acquired and resold by for-profit and non-profit entities using funding from and performing under agreements with state and local government agencies under the Neighborhood Stabilization Program (*NSP*). Note: The FHA Commissioner may withdraw this waiver immediately at his discretion.

Resale 91 – 180 days from seller acquisition date

- If the re-sale date (*date of execution of the sales contract by a buyer intending to finance a property with an FHA-insured loan*) is 91 days to 180 days following the date the seller acquired the property, a copy of the title binder from the purchase transaction is required and documentation showing the seller's purchase price.
- If current purchase price is 100% greater or more than what the seller originally purchased the property for as evidenced by the original HUD-1, additional documentation is required. Documentation includes the following:
 - A second full appraisal supporting the value from a FHA Roster Appraiser. The value used for the transaction must be the lower value of the two appraisals.
 - ‡ *FHA will NOT accept an AVM.*
 - ‡ *The borrower CANNOT be charged for the second appraisal. Either the seller or the lender must pay for the second appraisal.*
 - Optional: Documentation supporting the increase in value was the result of renovation of the subject property. (*A second appraisal is still required.*)
- Appraisal must note the improvements/rehabilitation that were made
- Renovation costs can be documented with the following:
 - Executed construction contract
 - Lien waivers
 - Cancelled checks or bank statements with corresponding paid receipts for valid construction expenses

Valid construction expenses include:

- Materials
- Architectural fees
- Supplies, labor, liability insurance on laborers
- Installation costs for water, sewer, well, etc.
- Permits
- Non-recurring costs of obtaining financing including origination fees, discount points, title search, recording fees

Example: A fully executed sales contract is dated May 23, 2011, with a sales price of \$80,000. The Seller acquired the property on January 17, 2011 for \$40,000. 127 days have elapsed and the buyer's purchase price is 100% greater than the seller's purchase price therefore a second full appraisal supporting the value is required from a FHA Roster Appraiser.

These procedures may not apply to Land Contract (Contract for Deed) transactions. *See Land Contract.*

High Cost Testing

- Reverse Mortgage Funding does not originate High Cost Loans.
- Testing to determine if a loan is High Cost is required in the following states:
 - Vermont
 - Utah
- High Cost worksheet must be included in the submission file.

Homestead States

See Community Property.

Income Sources - Employment

- Income from any and all sources should be calculated and documented for all **mortgagors to the extent necessary to determine that the mortgagor has residual income equal to, or exceeding, the required amount based on geographic region and family size. (See Residual Income Table.)**
- **Income from a Non-Borrowing Spouse or other Non-Borrowing Household Member may be used as a compensating factor or to reduce the family size by 1 and must meet same documentation and verification standards as mortgagors.**
- Effective Income refers to income that may be used in the calculation of residual income.
- **Effective income must be reasonably likely to continue through at least the first three years of the mortgage.**
- The mortgagee must document the mortgagor's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as effective income in accordance with the requirements listed below.
- The mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the mortgagor's tax returns.
- Negative income must be subtracted from the mortgagor's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.
- Non-taxable income may not be "grossed up."

The DE underwriter must verify and document any income used in the cash flow/residual income analysis including, but not limited to:

- Employment Income;
- Rental Income;
- Disability benefits;
- Pension/Retirement Benefits (based on period of continuance);
- Annuity income;
- VA Benefits;
- Interest, dividend and trust income; and
- Social Security, disability, workman's compensation, public assistance.

Note: Since the cash flow/residual income analysis will take into account Federal taxes, non-taxable income may **not** be "grossed up."

Employment Income

- Employment income is received as an employee of a business that is reported on IRS Form W-2.
- Employment related income includes:
 - Regular
 - Seasonal
 - Part-time
 - Overtime and Bonus
 - Commission
- Verify the mortgagor's most recent two years of employment and income.
- Current Income Documentation Requirements:
 - Traditional
 - ‡ *Obtain the most recent pay stubs covering a minimum of 30 consecutive days that show the mortgagor's year-to-date earnings, and one of the following to verify current employment:*
 - A written VOE covering 2 years; or
 - An electronic verification acceptable to FHA
 - ‡ *Re-verify employment within 10 Days prior to mortgage disbursement. A new written VOE or a verbal re-verification of employment is acceptable.*
 - Alternative
 - ‡ *Obtain copies of the pay stubs covering the most recent 30 consecutive day period (if paid weekly or bi-weekly); pay stubs must cover a minimum of 28 consecutive days) that show the mortgagor's year-to-date earnings;*
 - ‡ *Obtain copies of the original IRS W-2 forms from the previous two years; and*
 - ‡ *Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.*
 - ‡ *Re-verify employment within 10 Days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.*

- Past Employment Documentation
 - Direct verification of the mortgagor's employment history for the previous two years is not required if all of the following conditions are met:
 - ‡ *the current employer confirms a two year employment history, or a paystub reflects a hiring date;*
 - ‡ *only base pay is used in calculating effective income (no overtime or bonuses); and*
 - ‡ *the mortgagor executes IRS Form 4506, Request for Copy of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years.*
 - If the mortgagor has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the mortgagor's employment history:
 - ‡ *W-2(s);*
 - ‡ *VOE(s);*
 - ‡ *electronic verification acceptable to FHA; or*
 - ‡ *evidence supporting enrollment in school or the military during the most recent two full years*

Calculation of Effective Income - Salary

- For employees who are salaried and whose income has been and will likely be consistently earned, the mortgagee must use the current salary to calculate effective income.
- If a borrower has a 401K deduction or health insurance deductions on paystubs, these do not need to be deducted from the borrower's income.

Calculation of Effective Income – Hourly

- For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the mortgagor's current hourly rate to calculate effective income.
- For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

Part-Time Income:

- Part-Time Employment refers to employment that is not the mortgagor's primary employment and is generally performed for less than 40 hours per week.
- Part-time and seasonal income can be used if the borrower has worked the part-time job uninterrupted for the past two years, and is reasonably likely to continue.
- Part-time income received for less than two years may be considered as long as it can be documented that it is likely to continue.
- Average the income over the previous two years.
 - If the mortgagee can document an increase in pay rate the mortgagee may use a 12-month average of hours at the current pay rate.

Seasonal Employment Income:

- Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the mortgagor works on the job.
- Seasonal income may be used to qualify the borrower, with documentation that the borrower:
 - has worked the same job for the past two years, and
 - expects to be rehired the next season.
- Unemployment income may be used to qualify the borrower with documentation that the unemployment income has been received for 2 full years and there is a reasonable assurance that this income will continue.
- Average the income earned over the previous two full years to calculate effective income.
- Seasonal employment includes:
 - umpiring baseball games in the summer, or
 - working at a department store during the holiday shopping season.

Overtime and Bonus Income:

- Overtime and Bonus Income refers to income that the mortgagor receives in addition to normal salary.
- Overtime and bonus income can be used to qualify the borrower if he/she has received this income for the past two years, and it is reasonably likely to continue. If the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.
- Develop an average of bonus or overtime income for the past two years.
- Periods of overtime and bonus income less than two years may be acceptable, if the mortgagee documents that the overtime and bonus income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
- For employees with bonus or overtime income, the mortgagee must average the income earned over the previous two years to calculate effective income or if received for less than 2 years but at least 1 year, the income may be averaged over the number of months received.
 - If the overtime or bonus income from the current year decreases by 20 percent or more from the previous year, the mortgagee must use the current year's income.

Commission Income:

- Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.
- Commission income may be counted as effective income if the mortgagor earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.
- For commission income less than or equal to 25 percent of the total earnings, use traditional or alternative employment documentation.
- For commission income greater than 25 percent of total earnings, the mortgagee must obtain signed tax returns including all applicable schedules, for the last two years.
 - In lieu of signed tax returns from the borrower, the mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.

- The mortgagee must calculate effective income for commission by using the lesser of (a) the average net commission income earned over the previous two years, or the length of time commission income has been earned if less than two years; or (b) the average net commission income earned over the previous one year. The mortgagee must calculate net commission income by subtracting the unreimbursed business expenses from the gross commission income.
- The mortgagee must reduce the effective income by the amount of any unreimbursed employee business expenses, as shown on the mortgagor's Schedule A.

Projected Income for a New Job:

- Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- The loan is not eligible for endorsement if the loan closes more than 60 days before the borrower starts the new job. To be eligible for endorsement, obtain from the borrower a pay stub or other acceptable evidence indicating that he/she has started the new job.
 - **Examples:** A teacher whose contract begin with the new school year, or a physician beginning his/her residency fall into this category.
- **HTL will only consider Projected Income on a case-by-case basis.**

Employed by Family-Owned Business:

- Family-Owned Business Income refers to income earned from a business owned by the mortgagor's family, but in which the mortgagor is not an owner.
- A borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business by using official business documents showing ownership percentage, which may include any one of the following:
 - copies of signed personal tax returns,
 - corporate resolutions,
 - Other business organizational documents,
 - a signed copy of the corporate tax return showing ownership percentage
 - K-1s,
 - An official letter from a certified public accountant on their business letterhead.

- In addition to traditional or alternate documentation requirements, obtain copies of signed personal tax returns or tax transcripts.
 - **Note:** A tax transcript obtained directly from the Internal Revenue Service (*IRS*) may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the borrower.

Calculating Income from Employment with Family Owned Business:

Salary

- For employees who are salaried and whose income has been and will likely continue to be consistently earned, the mortgagee must use the current salary to calculate effective income.

Hourly

- For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the mortgagor's current hourly rate to calculate effective income.
- For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

Self Employed:

- A borrower with a 25% or greater ownership interest in a business is considered **self-employed** for FHA loan underwriting purposes.
- There are four basic types of business structures. They include:
 - sole proprietorships,
 - corporations,
 - limited liability or "S" corporations, and
 - partnerships.
- Income from self-employment may be considered effective if the borrower has been self-employed for two or more years.
 - If self-employed between 1 – 2 years, to consider the income, the individual must have at least two years of documented previous successful employment in the line of work in which he/she is self-employed, or in a related occupation.
 - If self-employed less than 1 year, income cannot be considered.

- Income obtained from businesses with annual earnings that are stable or increasing is acceptable.
 - If the income from businesses shows a greater than 20 percent decline in effective income over the analysis period, the mortgagee must document that the business income is now stable.
 - Income may be considered stable after a 20 percent reduction if the mortgagee can document the reduction in income was the result of an extenuating circumstance, and the mortgagor can demonstrate the income has been stable or increasing for a minimum of 12 months.

Self-Employment Documentation

- Self-employed borrowers must provide:
 - The mortgagee must obtain complete federal income tax returns, including all schedules.
 - In lieu of signed individual or business tax returns from the mortgagor, the mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.
 - The mortgagee must obtain a year-to-date profit and loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the mortgagor.
 - ✦ *A balance sheet is not required for self-employed mortgagors filing Schedule C income.*
 - If income used to calculate residual income exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return obtained from IRS is required.
 - The mortgagee must obtain a business credit report for all corporations and "S" corporations.

Calculating Self Employed Income

- The mortgagee must analyze the mortgagor's tax returns to determine gross self-employment income.
 - The mortgagee must calculate gross self-employment income by using the lesser of:
 - the average gross self-employment income earned over the previous two years; or
 - the average gross self-employment income earned over the previous one year.
-

Income Sources – Non Employment

Disability Benefits:

- Disability benefits refer to benefits received from the SSA, Department of Veterans Affairs (VA), or a private disability insurance provider.
- The mortgagee must verify and document the mortgagor's receipt of benefits from the SSA, VA, or private disability insurance provider. The mortgagee must obtain:
 - a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the mortgagor's eligibility for disability benefits; or
 - equivalent documentation that establishes award benefits to the mortgagor.
- If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as effective income.
- The mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.
- If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee may consider the income effective and reasonably likely to continue.
- Under no circumstance may the mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the mortgagor.
- Calculating Disability Income
 - Use the most recent amount of benefits received to calculate effective income.

Social Security Disability Benefits

- For Social Security Disability income, including Supplemental Security Income (*SSI*), the mortgagee must obtain one of the following documents:
 - federal tax returns;
 - the most recent bank statement evidencing receipt of income from the SSA;
 - a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
 - a copy of the mortgagor's Social Security Benefit Statement, Form SSA-1099/1042S.
- Calculating Disability Income
 - Use the most recent amount of benefits received to calculate effective income.

Veterans Affairs Disability Benefits

- For VA disability benefits, the mortgagee must obtain VA Form 26-8937 Verification of VA Benefits, showing the amount of the assistance and the expiration date of the benefits, if any.
- Calculating Disability Income
 - Use the most recent amount of benefits received to calculate effective income.

Private Disability Benefits

- For private disability benefits, the mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.
- Calculating Disability Income
 - Use the most recent amount of benefits received to calculate effective income.

Retirement Income:

- Retirement income must be verified from the former employer, or from Federal tax returns.

Interest and Dividends:

- Interest and dividend income may be used for qualifying as long as tax returns or account statements support a two-year receipt history.
 - This income must be averaged over two years.
 - The underwriter should subtract any funds derived from these sources that are required for the cash investment, before calculating the projected interest or dividend income.

Employer Housing Subsidy:

- Employer Housing Subsidy refers to employer provided housing assistance.
- The mortgagee may utilize employer housing subsidy as effective income.
- The mortgagee must verify and document the existence and the amount of the housing subsidy.
- For employees receiving an employer housing subsidy, the mortgagee may add the employer housing subsidy to the total effective income.

Alimony, Child Support and Maintenance Income Criteria:

- Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the mortgagor's minor dependent.
- The mortgagee must obtain a fully executed copy of the mortgagor's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.
- When using a final divorce decree, legal separation agreement or court order, the mortgagee must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.
- The mortgagee must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

- The mortgagee must provide evidence that the claimed income will continue for at least three years.
- The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

Calculating Alimony, Child Support, Maintenance Income

- When using a final divorce decree, legal separation agreement or court order, if the mortgagor has received consistent alimony, child support or other maintenance payments for the most recent three months, the mortgagee may use the current payment to calculate effective income.
- When using evidence of voluntary payments, if the mortgagor has received consistent alimony, child support or other maintenance payments for the most recent six months, the mortgagee may use the current payment to calculate effective income.
- If the alimony, child support or other maintenance payments have not been consistently received for the most recent six months, the mortgagee must use the average of the income received over the previous two years to calculate effective income. If alimony, child support or maintenance income has been received for less than two years, the mortgagee must use the average over the time of receipt.

Military Income:

- Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:
 - base pay,
 - Basic Allowance for Housing,
 - clothing allowances,
 - flight or hazard pay,
 - Basic Allowance for Subsistence, and
 - proficiency pay.
- The mortgagee may not use education benefits as effective income.
 - The mortgagee must obtain a copy of the mortgagor's military Leave and Earnings Statement (*LES*).
 - The mortgagee must verify the Expiration Term of Service date on the LES.
 - If the Expiration Term of Service date is within the first 12 months of the mortgage, military income may only be considered effective income if the mortgagor represents their intent to continue military service.

Calculating Military Income

- The mortgagee must use the current amount of military income received to calculate effective income.

Public Assistance

- Public Assistance refers to income received from government assistance programs.
- Mortgagees must verify and document the income received from the government agency and that the income is reasonably likely to continue for three years.

Calculating Public Assistance Income

- The mortgagee must use the current rate of public assistance received to calculate effective income.

Automobile Allowances

- Automobile Allowance refers to the funds provided by the mortgagor's employer for automobile related expenses.
- The mortgagee must verify and document the automobile allowance received from the employer for the previous two years.
- The mortgagee must also obtain IRS Form 2106, Employee Business Expenses, for the previous two years.

Calculating Automobile Allowance Income

- The mortgagee must determine the portion of the allowance that can be considered effective income.
- The mortgagee must subtract automobile expenses as shown on IRS Form 2106 from the automobile allowance before calculating effective income based on the current amount of the allowance received.
- If the mortgagor uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:
 - the mortgagor's monthly car payment; and
 - any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.
- Automobile Allowance refers to the amount of the automobile allowance that exceeds the mortgagor's actual automobile expenditures.

Social Security Retirement Income:

- Social Security Income or Supplemental Security Income (*SSI*) refers to income received from the SSA other than disability income.
- The mortgagee must verify and document the mortgagor's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.
 - For SSI, the mortgagee must obtain any one of the following documents:
 - federal tax returns;
 - the most recent bank statement evidencing receipt of income from the SSA; a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
 - a copy of the mortgagor's Social Security Benefit Statement, SSA Form-1099/1042S.
- In addition to verification of income, the mortgagee must document the continuance of this income by obtaining from the mortgagor (1) a copy of the last Notice of Award letter, which states the SSA's determination on the mortgagor's eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the mortgagor (*equivalent document*).
 - If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used in calculating residual income.
- If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee must consider the income effective and reasonably likely to continue. The mortgagee should not request additional documentation from the mortgagor to demonstrate continuance of Social Security income.
- If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

Calculating Social Security Retirement Income

- The mortgagee must use the current amount of Social Security income received to calculate effective income.
- **Note: You do not need to consider the Medicare deduction when calculating income.**

Pension Income:

- Pension refers to income received from the mortgagor's former employer(s).
- The mortgagee must verify and document the mortgagor's receipt of periodic payments from the mortgagor's pension and that the payments are likely to continue for at least three years.
- The mortgagee must obtain any one of the following documents:
 - federal tax returns;
 - the most recent bank statement evidencing receipt of income from the former employer; or
 - a copy of the mortgagor's pension/retirement letter from the former employer.

Calculating Pension Income

- The mortgagee must use the current amount of pension income received to calculate effective income.

Individual Retirement Account and 401(k) Income:

- An Individual Retirement Account (IRA/401(k)) Income refers to income received from an individual retirement account.
- The mortgagee must verify and document the mortgagor's receipt of recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.
- The mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:
 - federal tax returns; or
 - the most recent bank statement evidencing receipt of income.

Calculating IRA and 401(k) Income

- For mortgagors with IRA/401(k) income that has been and will be consistently received, the mortgagee must use the current amount of IRA/401(k) income received to calculate effective income.
- For mortgagors with fluctuating IRA/401(k) income, the mortgagee must use the average of the IRA/401(k) income received over the previous two years to calculate effective income.
- If IRA/401(k) income has been received for less than two years, the mortgagee must use the average over the time of receipt.

Investment Income:

- Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.
- The mortgagee must verify and document the mortgagor's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

Calculating Investment Income

- The mortgagee must calculate the Investment Income by using the lesser of:
 - The average Investment Income earned over the previous two years; or
 - The average Investment Income earned over the previous one year.
- The mortgagee must subtract any of the assets used for the required cash investment for a HECM for Purchase from the mortgagor's liquid assets prior to calculating any interest or dividend income.

Capital Gains and Losses:

- Capital gains refers to is a profit that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.
- Capital losses refers to a loss that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.
- Capital gains or losses must be considered when determining effective income, when the individual has a constant turnover of assets resulting in gains or losses.
- Three years' tax returns are required to evaluate an earnings trend. If the trend:
 - Results in a gain, it may be added as effective income, or
 - Consistently shows a loss, it must be deducted from the total income.

Expected Income:

- Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be **received within 60 Days of mortgage closing**.
- The mortgagee may consider Expected Income as effective income, except when expected income is to be derived from a family-owned business.
- The mortgagee must verify and document the existence and amount of expected income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing.
- For expected retirement income, the mortgagee must verify the amount and that it is guaranteed to begin within 60 days of the mortgage closing.

Calculating Expected Income

- Expected income is calculated in accordance with the standards for the type of income being received. The mortgagee must also verify that the mortgagor will have sufficient income to meet his or her financial obligations between mortgage closing and the start of employment.

Trust Accounts Income:

- Trust Income refers to income that is regularly distributed to a mortgagor from a trust.
- The mortgagee must verify and document the existence of the Trust Agreement or other trustee statement.
- The mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.
- The mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

Calculating Trust Accounts Income

- The mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate effective income.

Annuities or Similar Income:

- Annuity Income refers to a fixed sum of money periodically paid to the mortgagor from a source other than employment.
- The mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage.
- The mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

Calculating Annuities and Similar Income

- The mortgagee must use the current rate of the annuity to calculate effective income.
- The mortgagee must subtract any of the assets used for the required for the cash investment for a HECM for purchase (*or if funds needed at closing on a refinance*) from the mortgagor's liquid assets prior to calculating any annuity income.

Notes Receivable Income:

- Notes Receivable Income refers to income received by the mortgagor as payee or holder in due course of a note.
- In order to include notes receivable income to qualify a borrower, he/she must provide
 - a copy of the note, to establish the amount and length of payment, and
 - evidence that these payments have been consistently received for the last 12 months, in the form of
 - ‡ *deposit slips*
 - ‡ *cancelled checks, or*
 - ‡ *tax returns.*

Calculating Notes Receivable Income

- For mortgagors who have been and will be receiving a consistent amount of notes receivable income, the mortgagee must use the current rate of income to calculate effective income.
- For mortgagors whose notes receivable income fluctuates, the mortgagee must use the average of the notes receivable income received over the previous year to calculate effective income.

Government Assistance Non-Cash Benefits:

- Mortgagees may count as income non-cash benefits being received by the mortgagor through Federal, state or local government programs, e.g., Supplemental Nutritional Assistance Program or SNAP (*food stamps*), energy assistance, etc.
- In determining whether such benefits may be counted as income the mortgagee must:
 - verify that the benefits are being received at the time of loan application, or that an award letter has been issued, and benefits will begin to be received within 60 days.
 - ✦ *Mortgagees may not count benefits for which the mortgagor is potentially eligible and intends to apply;*
 - verify that the benefits are not subject to any specific termination date other than one related to the death of the mortgagor or the sale of the property; and
 - verify that approval of the HECM will not jeopardize continued eligibility for the benefits, e.g., HECM proceeds would trigger disqualification based on program income or asset requirements.
- Some benefit programs may result in a reduction in the mortgagor's expenses rather than increasing their income (*e.g., the mortgagor is charged a lower rate for insurance*). In these cases the reduced amount may be used in calculating expenses and must not be treated as income.

Rental Income from Subject Property:

- Rental Income from the Subject Property refers to income received when the subject property has 2-4 units.
- The mortgagee may consider rental income from existing and prospective tenants if documented in accordance with the following requirements.

Limited or No History of Rental Income

- Where the mortgagor does not have a history of rental income from the subject property since the previous tax filing:
 - The mortgagee must verify and document the proposed rental income by obtaining an appraisal showing fair market rent [**use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report**] and the prospective leases, if available.

History of Rental Income

- Where the mortgagor has a history of rental income from the subject property since the previous tax filing, the mortgagee must verify and document the existing rental income by obtaining the **current lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months** (*such gaps could be explained by student, seasonal or military renters, or property rehabilitation*), and **the mortgagor's most recent tax returns, including Schedule E, from the previous two years.**
- For properties with less than two years of rental income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or other legal document

Calculating Rental Income from Subject Property

- Add the net subject property rental income to the gross income.
- To calculate the effective income from the subject property where the mortgagor **does not have a history of rental income** from the subject property since the previous tax filing, the mortgagee must use the lesser of:
 - the monthly operating income reported on Fannie Mae Form 216, or
 - 75 percent of the lesser of:
 - ‡ *fair market rent reported by the appraiser; or*
 - ‡ *the rent reflected in the lease or other rental agreement*
- To calculate the effective income from the subject property where the mortgagor **does have a history of rental income**, average the amount shown on the Schedule E.
 - Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.
 - If the property has been owned for less than two years, the mortgagee must annualize the rental income for the length of time the property has been owned.

Rental Income from Other Real Estate Holdings:

- Rental income from other real estate holdings may be considered effective income if the documentation requirements listed below are met.
- If rental income is being derived from the property being vacated by the mortgagor, the mortgagor must be relocating to an area more than 100 miles from the mortgagor's current principal residence.
 - The mortgagee must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.

Limited or No History of Rental Income

- Where the mortgagor does not have a history of rental income since the previous tax filing, including property being vacated by the mortgagor, the mortgagee must obtain:
 - an appraisal evidencing market rent and
 - that the mortgagor has at least 25 percent equity in the property. The appraisal is not required to be completed by an FHA Roster appraiser.
 - ‡ *Two to Four Units*
 - The mortgagee must verify and document the proposed rental income by obtaining an appraisal showing fair market rent [use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report] and the prospective leases if available
 - ‡ *One Unit*
 - The mortgagee must verify and document the proposed rental income by obtaining a Fannie Mae Form 1004, Uniform Residential Appraisal Report, Fannie Mae Form 1007, Single Family Comparable Rent Schedule, and Fannie Mae Form 216, Operating Income Statement, showing fair market rent and, if available, the prospective lease.

History of Rental Income

- Where the mortgagor has a history of rental income from other Real Estate Owned, obtain the mortgagor's last two years tax returns with Schedule E.

Calculating Rental Income from Other Real Estate Holdings

- To calculate the effective net rental income from other real estate holdings where the mortgagor **does not have a history of rental income since the previous tax filing**, the mortgagee must deduct the principal, interest, taxes and insurance payment (PITI) from the lesser of:
 - The monthly operating income reported on Fannie Mae Form 216, or
 - 75 percent of the lesser of:
 - ‡ *fair market rent reported by the appraiser; or*
 - ‡ *the rent reflected in the lease or other rental agreement.*
- To calculate the effective income from the subject property where the mortgagor **does have a history of rental income**, average the amount shown on the Schedule E provided the mortgagor continues to own all properties included on the Schedule E.
 - Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.
 - If the property has been owned for less than two years, the mortgagee must annualize the rental income for the length of time the property has been owned.

Income from Boarders

- Boarder refers to an individual renting space inside the mortgagor's dwelling unit.
- Rental income from boarders is **only acceptable if the mortgagor has a two year history** of receiving income from boarders **that is shown on the tax return** and the mortgagor is currently receiving boarder income.
 - Mortgagee is not obligated to determine if boarders are permitted under state or local ordinances.
- The mortgagee must obtain two years of the mortgagor's tax returns evidencing income from boarders and the current lease.

Calculating Rental Income from Boarders

- The mortgagee must calculate the effective income by using the lesser of the two-year average or the current lease.

Asset Dissipation / Imputed Income:

- Regular income from interest, dividends, or other returns from the mortgagor's investments may be included in the calculation of residual income provided that such income is properly documented.
- Alternatively, mortgagees may estimate imputed income from dissipation of liquid assets, defined as assets that can be converted to cash within one-year without payment of an IRS penalty, using the applicable discount in the table below

Asset Source	Amount to be Counted
Savings and Checking Accounts	100%
Certificates of Deposit	100%
Roth IRA	100%
Any assets that are NOT subject to Federal taxes	100%
Any assets that are subject to Federal taxes	85%*

***Mortgagees may use the mortgagor's actual tax rate based on Federal tax returns from the prior tax year if tax rate is lower than 15% or no discount if mortgagor does not have a Federal tax obligation.**

Calculate the combined value of assets and calculate income from these sources and divide the total adjusted value by the remaining life expectancy (*in months*) of the mortgagor(s) from Loan period 2 in the Assumed Loan Periods for Computations of Total Annual Loan Cost Rates.

If the asset is jointly held with a Non-Borrowing Spouse or other party not obligated for the mortgage, the asset may be counted provided that the mortgagor provides documentation that the mortgagor has unrestricted access to that specific asset.

- A letter from the joint owner stating the mortgagor has access is acceptable documentation.

Note: Where income from the dissipation of an asset is being used to calculate residual income, mortgagees may not include interest income from that same asset in the analysis.

Asset Dissipation Calculation Table

Asset Type	Account Value		Discount Rate		Discounted Value
Savings and Checking Accounts	\$	X	100%	=	\$
Certificates of Deposit	\$	X	100%	=	\$
Roth IRA	\$	X	100%	=	\$
Any assets that are NOT subject to Federal taxes	\$	X	100%	=	\$
Any assets that are subject to Federal taxes	\$	X	85%	=	\$
Total Discounted Value					\$
Minus Borrower Funds Needed to Close					-
Adjusted Discounted Value					\$
Life Expectancy of Youngest Mortgagor In Months					Mos.
Life Expectancy in Years _____ X 12 =					
Adjusted Discounted Value / Life Expectancy in Months =					\$
Total Monthly Income from Assets					

If monthly income from asset dissipation is included in the residual income analysis, documentation identifying the specific assets used and the calculation of the monthly amount must be attached to the financial assessment worksheet.

Income from an Eligible Non-Borrowing Spouse:

- An **ELIGIBLE** Non-Borrowing Spouse may voluntarily provide information on his or her income (*and expenses*) and mortgagees may use the residual income of the **ELIGIBLE** Non-Borrowing Spouse in **one of two ways**:
 - as a **compensating factor** when the mortgagor's residual income falls below the standard; or
 - to **reduce the family size by one** when determining if the mortgagor's residual income meets the standard. (*see Residual Income Table*)
- To be used as a compensating factor or to reduce family size, the Non-Borrowing Spouse must disclose and have his or her SSN verified and must meet the same documentation standards as required for mortgagors income.
- Non-taxable income may NOT be grossed up, and **imputed income from dissipated assets may not be included.**

Income from a Non-Borrowing Household Member:

- A Non-Borrowing Household Member may voluntarily provide information on his or her income (*and expenses*) and mortgagees may use the residual income of the **NBHM** in one way:
 - **to reduce the family size by one** when determining if the mortgagor's residual income meets the standard. (*see Residual Income Table*)
- To be used as a compensating factor or to reduce family size, the Non-Borrowing Spouse or **other Non-Borrowing Household Member** must **disclose and have his or her SSN verified and must meet the same documentation standards as required for mortgagors income.**
- Non-taxable income may NOT be grossed up, and **imputed income from dissipated assets may not be included.**

Income (Residual)/ Cash Flow Analysis

Purpose:

The purpose of the cash flow/residual income analysis is to determine the **capacity** of the mortgagors to meet their documented financial obligations with their documented income.

Effects of paying off defaulted liens on residual income / cashflow:

While conducting the cash flow/residual income analysis mortgagees must:

- Determine if the property has a delinquent mortgage or mortgage in default and determine if the HECM is being used to pay off the defaulted property liens;
- Evaluate the circumstances leading to the default and determine whether the HECM pay-off represents a sustainable solution; and

Expense Analysis:

Using the credit report, Fannie Mae Form 1009, Part VI of the URLA (1003) or equivalent, most recent Federal and state income tax returns, and other documents that may be available to the mortgagee (*e.g., bank statements*), the mortgagee must identify all secured and unsecured debts. The mortgagee must calculate:

- **Federal and State Income Taxes;**
 - Mortgagees may use current pay stubs, tax tables, or federal, state and local tax returns from the most recent tax year, to document federal, state and local taxes.
- **FICA;**
- **Property charges for the subject property;**
 - Property Taxes.
 - ‡ *Mortgagees must document the amount of property taxes due from all taxing authorities through written statements or on-line printouts from the taxing authorities, or through copies of bills.*
 - ‡ *See Section 2.18 for information on property tax waivers or deferrals.*

- Homeowners/Hazard Insurance. *(includes Wind and Hail, Earthquake, etc.)*
 - ‡ *Mortgagees must obtain the current year's declaration sheet of the insurance policy.*
 - Where no homeowners/hazard insurance policy was previously in place, mortgagees shall base the cost of homeowners/hazard insurance upon the insurance quote provided to the mortgagor for the cost of homeowners/hazard insurance under the HECM.
- Flood Insurance.
 - ‡ *Mortgagees must obtain the current year's declaration sheet of the insurance policy.*
 - Where no flood insurance policy was previously in place, mortgagees shall base the cost of flood insurance upon the insurance quote provided to the mortgagor for the cost of flood insurance under the HECM.
- HOA, PUD and Condominium Fees.
 - ‡ *Mortgagees must obtain from the appraisal, or from a written statement from the association or its management agent, documentation on the amount of the monthly fees.*
- Other Assessments.
 - ‡ *Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting the amount of any other assessments.*
- Ground Rents.
 - ‡ *Mortgagees must obtain from the deed, the lessor or its management agent a written statement documenting the amount of the ground rent payment.*
- **Estimated utility and maintenance expenses;**
 - Mortgagees may rely on the formula established by Department of Veterans Affairs (VA) for estimated maintenance and utilities in all states. Mortgagees should multiply the gross living area (from page 1 of appraisal) of the property (in square feet) by \$0.14.

Example: 1,500 square feet x .14 = \$210.00 per month

- **Installment account payments;**
- **Any other owned property mortgage obligations** (*debt and property charges*)
- **Revolving credit account payments;**
- **Alimony and child support payments;**
- **Judgments under payment plans against the mortgagor;**
- **Payments required under any bankruptcy plans;**
- **Co-signed Obligations;**
 - the debt must be included in the underwriting analysis, if the applicant is a cosigner/co-obligor on a
 - ‡ *car loan*
 - ‡ *student loan*
 - ‡ *mortgage, or*
 - ‡ *any other obligation.*

Note: If the borrower provides documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations. (*i.e. 12 months cancelled checks – front and back*)

- **Deferred / Projected Obligations;**

Where the mortgagor benefits from Federal, state or local benefit programs that reduce borrower expenses the reduced amounts may be used to calculate expenses

Liens Paid off using HECM Proceeds

- Where a lien against the property, such as a mortgage, is being paid off with HECM proceeds, the monthly payment associated with that lien is not included in the expense analysis.

General Liabilities and Debts

- The mortgagee must determine the mortgagor's monthly liabilities by reviewing all debts listed on the credit report, Part VI of URLA or equivalent, tax returns, bank statements, and pay stubs. The mortgagee must document the reasons for exclusion of any debt listed on these documents.
- All applicable monthly liabilities must be included in the expense analysis.
- Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the mortgagor's gross monthly income.
 - **The mortgagor may NOT pay down the balance in order to meet the 10-month requirement.**
- Accounts for which the mortgagor is an authorized user must be included in an expense analysis unless the mortgagee can document that the mortgagor is not making payments on the account.
- **Negative income must be subtracted from the mortgagor's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted. (i.e. Capital loss, Schedule C or E loss)**
- Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the mortgagor's assets, do not require consideration in the expense analysis

Undisclosed Debts and Inquiries

- When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the mortgagee must:
 - verify the actual monthly payment amount; and
 - include the payment amount in the agreement in the expense analysis;
- The mortgagee must obtain a written explanation from the mortgagor for all inquiries shown on the credit report that were made in the last 90 Days.
- The mortgagee must document all undisclosed debt and support for its analysis of the mortgagor's debt.

Federal Debt

- Federal Debt refers to non-delinquent debt owed to the federal government for which regular payments are being made.
- The amount of the required payment must be included in the expense analysis.
- The mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

Alimony, Child Support and Maintenance

- Alimony, child support, and other maintenance are court-ordered or otherwise agreed upon payments.
- For alimony, if the mortgagor's income was not reduced by the amount of the monthly alimony obligation in the mortgagee's calculation of the mortgagor's gross income, the mortgagee must verify and include the monthly obligation in its calculation of the mortgagor's debt.
- Child support and other maintenance are to be treated as a recurring liability and the mortgagee must include the monthly obligation in the expense analysis.
- The mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.
- The mortgagee must also obtain the mortgagor's pay stubs covering no less than 28 consecutive days to verify whether the mortgagor is subject to any order of garnishment relating to the alimony, child support, or other maintenance.
- The mortgagee must calculate the mortgagor's monthly obligation from the greater of:
 - the amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or
 - the monthly amount of the garnishment.

Deferred Obligations:

- Deferred obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.
- The mortgagee must verify and include deferred obligations in the expense analysis.
- The mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability.
- The mortgagee must obtain evidence of the anticipated monthly payment obligation, if available.
- The mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.
 - If the actual monthly payment is not available for installment debt, the mortgagee must utilize the terms of the debt or **five (5) percent** of the outstanding balance to establish the monthly payment.
 - **For a student loan**, if the actual monthly payment is zero or is not available, the mortgagee must utilize **two (2) percent** of the outstanding balance to establish the monthly payment.

Installment Loans

- Installment loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest.
 - **A loan secured by an interest in a timeshare must be considered an installment loan.**
- The mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement in the expense analysis.
- **If the credit report does not include a monthly payment for the loan, the mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.**
- If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.
- **If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.**

Revolving Charge Accounts

- Revolving Charge Accounts refers to a credit arrangement that requires the mortgagor to make periodic payments but does not require full repayment by a specified point of time.
- The mortgagee must include in the expense analysis the monthly payment shown on the credit report for the revolving charge account.
- Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance.
- The mortgagee must use the credit report to document the terms, balance and payment amount on the account, if available.
- Where the credit report does not reflect the necessary information on the charge account, the mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.
- The mortgagee must include the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement.

30 Day Accounts

- 30-Day Accounts refer to a credit arrangement that requires the mortgagor to pay the outstanding balance on the account every month.
- The mortgagee must verify the mortgagor pays the outstanding balance in full on every 30-Day account each month for the past 12 months.
 - 30-Day accounts that are paid monthly are not included in the expense analysis.
- If the credit report reflects any late payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the borrower's monthly debt to be included in the expense analysis. The mortgagee must use the credit report to document that the mortgagor has paid the balance on the account monthly for the previous 12 months.
- The mortgagee must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance and close the loan.

Business Debt in Mortgagor's Name

- Business debt in mortgagor's name refers to liabilities reported on the mortgagor's personal credit report, but payment for the debt is attributed to the mortgagor's business.
- When business debt is reported on the mortgagor's personal credit report, the debt must be included in the expense analysis, **unless the mortgagee can document that the debt is being paid by the mortgagor's business, and the debt was considered in the cash-flow analysis of the mortgagor's business.**
- When a self-employed mortgagor states that debt appearing on their personal credit report is being paid by their business, the mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the mortgagor's business.

Non-derogatory Disputed Account and disputed Accounts not on the Credit Report

- Non-derogatory disputed accounts include the following types of accounts:
 - disputed accounts with zero balance
 - disputed accounts with late payments aged 24 months or greater
 - disputed accounts that are current and paid as agreed
- If a mortgagor is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the mortgagee must analyze the effect of the disputed accounts in the expense analysis.

Contingent Liabilities

- A contingent liability is a liability that may result in the obligation to repay only where a specific event occurs.
 - For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment.
 - Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

- The mortgagee must include monthly payments on contingent liabilities in the expense analysis unless the mortgagee verifies that there is no possibility that the debt holder will pursue debt collection against the mortgagor should the other party default, or the other party has made 12 months of timely payments.

Mortgage Assumptions

- The mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the mortgagor's name.

Cosigned Liabilities

- If the cosigned liability is not included in the monthly obligation, the mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

Court Ordered Divorce Decree

- The mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

Calculation of Monthly Obligation

- The mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

Charge-Off Accounts

- A Charge-Off Account refers to a mortgagor's loan or debt that has been written off by the creditor.
- **Charge- Off Accounts do not need to be included in the expense analysis.**

Collection Accounts

- A collection account is a mortgagor's loan or debt that has been submitted to a collection agency by a creditor.
- If the credit reports used in the analysis show **cumulative outstanding collection account balances of \$2,000 or greater**, the mortgagee must:
 - verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds, or
 - verify that the mortgagor has made payment arrangements with the creditor, or
 - if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the expense analysis.
- The mortgagee must provide the following documentation:
 - Evidence of payment in full, if paid prior to settlement
 - Payoff statement, if paid at settlement
 - Payment arrangement with creditor, if not paid prior to or at settlement
- **If the mortgagee uses 5% of the outstanding balance as the monthly payment, no documentation is required.**

Private Savings Clubs

- Private Savings Clubs refers to non-traditional methods of saving by making deposits into a member-managed resource pool.
- If the mortgagor is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be included in the expense analysis.
- The mortgagee must verify and document the establishment and duration of the mortgagor's membership in the club and the amount of the mortgagor's required contribution to the club.

Federal and State Income Taxes

- Mortgagees may use current pay stubs, tax tables, or federal, state and local tax returns from the most recent tax year, to document federal, state and local taxes.
- If the mortgagor's most recent tax return is more than two years old, the mortgagee must estimate current taxes using available guidance and tax tables.

Maintenance and Utility Charges

- Mortgagees may rely on the formula established by Department of Veterans Affairs (VA) for estimated maintenance and utilities in all states.
- Mortgagees should multiply the living area of the property including finished below grade (square feet) by \$0.14.

Expense Analysis – Non Borrowing Spouse:

- Mortgagees must analyze a Non-Borrowing Spouse's obligations if a Non-Borrowing Spouse's income is used as a compensating factor or to reduce family size.
- The Non-Borrowing Spouse's expenses must meet the same documentation and verification standards and expense analysis as required for the mortgagor's expenses.

Expense Analysis – Other Non Borrowing Household Members:

- Mortgagees must analyze Other Non-Borrowing Household Member's obligations if his or her income is used to reduce family size.
- The Other Non-Borrowing Household Member's expenses must meet the same documentation and verification standards and expense analysis as required for the mortgagor's expenses.

Property charges as a Percentage of Gross Income:

- There is a greater level of risk of default when property charges exceed 10% of the mortgagor's gross income therefore property charges as a percentage of gross income must be calculated and entered on the financial Assessment Worksheet.

Residual Income:

Mortgagees must perform a cash flow/residual income analysis, in accordance with FHA guidelines, to determine the capacity of the mortgagor to meet his or her documented financial obligations with his or her documented income.

Residual income is calculated by summing the total monthly income from all sources for the mortgagors obligated on the mortgage, and subtracting from that amount the total monthly expenses.

Calculating Residual Income

To determine if residual income is sufficient to demonstrate the financial capacity of the mortgagors to meet their financial obligations, select the applicable family size, and region from the table below.

Table of Residual Incomes by Region				
Family Size	NorthEast	MidWest	South	West
1	\$540	\$529	\$529	\$589
2	\$906	\$886	\$886	\$998
3	\$946	\$927	\$927	\$1031
4 or more	\$1066	\$1041	\$1041	\$1160

Count **all** members of the household/all persons who live in the property (without regard to the nature of the relationship) when determining "family size," including:

- a Non-Borrowing Spouse, and
- Other Non-Borrowing Household Members

Exception: The lender may omit a Non-Borrowing Spouse and/or Other Non-Borrowing Household Members from "family size" provided that their residual income is equal to or exceeds the income required for a one person family size for the geographic area in which the property is located.

The 1 person family size may only be used where:

- Fannie Mae Form 1009 indicates that the mortgagor is single or unmarried; and
- For mortgagors required to file tax returns, the results of 4506-T verification or copies of tax returns confirm that the mortgagor files tax returns as a single person, or for mortgagors not required to file tax returns, the property title, credit report, or other information supports the marital status claimed by the mortgagor; and
- The mortgagor identifies him or herself as unmarried in the certification regarding marital status required by ML14-07.
- This documentation is not required where the Non-Borrowing Spouse or Other Non-Borrowing Household Member has been excluded from household size based on the criteria defined in this section.

The Regions on the Table of Residual Income include the following states:

- Northeast Region: CT, MA, ME, NH, NJ, NY, PA, RI, VT
- Midwest Region: IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
- South Region: AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, VI, WV
- West Region: AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

Incompetency

See Power of Attorney.

Land Contract

- All land contracts must be structured as Purchase transactions.
- No Rent Credits are allowed and are not an acceptable source of funds.
- All other purchase guidelines apply.

Land Trusts

- A land trust is an agreement whereby one party, the trustee, agrees to hold ownership of a piece of real property for the benefit of another party, the beneficiary.
- Property owners use land trusts to keep information about their assets private. The value of the property is available through public records, but the records reflect the name of the trust as the owner. A land trust is most common in Illinois.
- Eligible land trusts must meet the following requirements:
 - **All beneficiaries of the trust are HECM borrowers at the time of loan origination**, and until the mortgage is released. *(Contingent beneficiaries do not need to be eligible HECM borrowers as they receive no benefit from the trust and have no control over assets.)*
 - The borrower and beneficiary must occupy the property as a principal residence.
 - **No new beneficiaries can be added to the trust.**
 - The Note and mortgage include the number of the trust, and the date the trust was created.
 - The borrower/beneficiary signs the standard closing package and the following documents:
 - ‡ *Land Trust Documents: Beneficial Interest Agreement or Assignment and Beneficial Interest for Collateral Purposes.*
 - ‡ *Direct to Execute*
 - ‡ *For anonymous land trusts, the beneficiary does not sign the mortgage.*
 - The trustee must sign the following documents:
 - ‡ *Note*
 - ‡ *Security Instrument and all riders to the security instruments*
 - ‡ *Right to Cancel*
 - ‡ *Truth in Lending*

- The trustee does not sign:
 - ✦ *Loan Agreement*
 - **Note:** The borrower and beneficiary may issue instructions to the lender to permit the trustee to exercise one or more rights stated in the loan Agreement on behalf of the beneficiary, such as the right to receive loan advances, or to request changes in the payment plan.
- Verify that the trust
 - ✦ *Is valid and enforceable*
 - ✦ *Notifies Lender of any change of occupancy or transfer of beneficial interest.*
 - ✦ *Ensures that each borrower and beneficiary has the legal right to occupy the property for the remainder of his/her life.*
- **A full copy of the living trust agreement with any amendments or addendums must be reviewed and approved by HTL approved outside counsel. Outside counsel must provide an Attorney Opinion letter.**

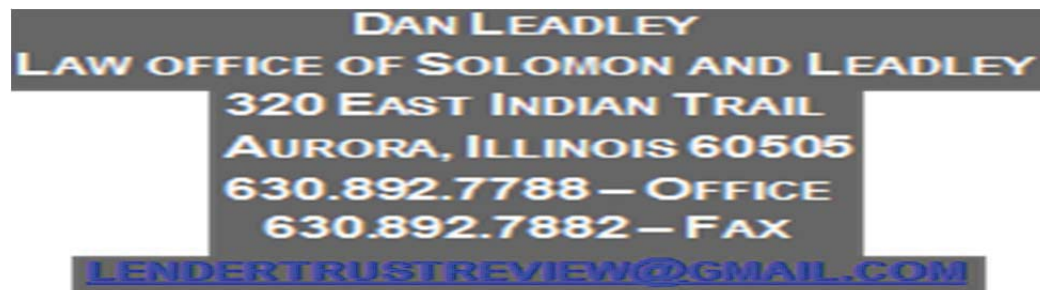
Land Trust Review Attorney

All States except Illinois

Paul Lovegrove, Esq. 444 Route 111
Smithtown, NY 11787

Phone: 631-669-4370
plovegrove@lovegrovelaw.com

Illinois only



An email containing the following information and a pdf of required documents should be sent to the above attorney for review and approval:

- Borrower name and marital status;
- Security property address and indication of transaction type (*refinance or purchase*);
- Complete copy of the Trust with all modifications and amendments;
- Preliminary title commitment;
- Copies of death certificates for any parties in chain of trust title;
- Lender's file reference number (*either Case number or lender's internal reference number*);
- Identity of expected investor, if known.

The cost of the review is \$250.00 and is the borrower's responsibility.

LDP/GSA

- Clear LDP/GSA using the System for Award Management (*SAM*) required on all parties to the transaction:
 - Borrower(s)
 - Reverse Mortgage Consultant / Loan Originator
 - Broker/Correspondent Lender
 - Appraiser
 - Appraisal company
 - Title company
 - Closing agent
 - All Notaries
 - Seller
 - Builder/Contractors
 - Inspectors
 - POA, Guardian or Conservator
 - Realtor – Selling
 - Realtor – Listing
- **If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance or a HECM loan.**

Liabilities Matrix

(See also Income/Cash Flow > Expense Analysis)

Liability Type	Allowable	Suggested Documentation/Notes
Property Taxes <i>Section 2.26-2.27 pages 28-29</i>	<ul style="list-style-type: none"> • Must be current with no arrearages within prior 24 months. • Include all taxes (school, city, county, state, etc.) • Property tax deferment programs must be documented and can be excluded from the analysis as long as the deferral period will be in place until the death of the borrower or the sale of the property, whichever occurs first and that any lien will not supersede the HECM 	<ul style="list-style-type: none"> • Written statements, online printouts, copies of bills and canceled checks
Hazard/Flood Insurance* <i>Section 3.95 page 67</i>	<ul style="list-style-type: none"> • Policy must be current and in effect for a minimum of 12 months. 	<ul style="list-style-type: none"> • Declaration page for prior 12 months • VOI may be required if deck page does not indicate the policy is paid. • <i>*Borrowers without previous HOI must obtain & prepay 12mo. premium at Closing.</i>
HOA, PUD, or Condo Dues, Special Assessments or Ground Rents <i>Section 2.26-2.27 pages 28-29</i>	<ul style="list-style-type: none"> • Current with no arrearages in the prior 24 months 	<ul style="list-style-type: none"> • Managing agent statement or copies of bills and canceled checks

Liability Type	Allowable	Suggested Documentation/Notes
Mortgages/ Installment <i>Section 2.15 page 22</i>	<ul style="list-style-type: none"> • Must be on time for previous 12 months and no more than 2-30-day lates in past 24 months. • Closed end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the mortgagor's gross monthly income. 	<ul style="list-style-type: none"> • Tri-merged credit report or residential mortgage credit report and/or canceled checks. VOM as applicable.
Collections or Charge-offs <i>Section 2.17-2.18 pages 23</i>	<ul style="list-style-type: none"> • Must determine reason for collection or charge-off 	<ul style="list-style-type: none"> • Letter of explanation and supporting documentation must be consistent with credit information in file.
Revolving <i>Section 2.15 page 22</i>	<ul style="list-style-type: none"> • Must use minimum monthly payment from credit report. If no payment is listed, use 5% of the balance. • No major derogatory credit in previous 12 months. • Major derogatory credit shall include any payments made more than 90 days after the due date, or three or more payments more than 60 days after the due date. 	<ul style="list-style-type: none"> • Tri-merged credit report or residential mortgage credit report
Judgments <i>Section 2.20 pages 24-25</i>	<ul style="list-style-type: none"> • HECM proceeds cannot be used to satisfy the judgment. • If valid payment agreement, must have made at least three timely scheduled payments. Lien cannot supersede HECM lien 	<ul style="list-style-type: none"> • Must determine reason for judgment and must verify that court ordered judgments are paid off or resolved prior to or at Closing. • Borrowers cannot prepay the scheduled payments to meet guidelines.

Liability Type	Allowable	Suggested Documentation/Notes
<p>Delinquent Federal Tax Debt</p> <p><i>Section 2.23 pages 26-27</i></p>	<ul style="list-style-type: none"> Borrowers with delinquent Federal tax debt are ineligible until resolved. The debt can be paid off at Closing with HECM proceeds. The borrower is also eligible if he/she has entered into valid repayment agreement showing 3 months of timely scheduled payments. 	<ul style="list-style-type: none"> Borrowers cannot prepay the scheduled payments to meet guidelines.
<p>Bankruptcy (H4P only)</p> <p><i>Section 2.24 pages 27-28</i></p>	<ul style="list-style-type: none"> For H4P only, a minimum of 2 years seasoning required since discharge of Chapter 7 bankruptcy. Chapter 13 must have a minimum of 12 months payout period. 	<ul style="list-style-type: none"> Borrowers cannot prepay the scheduled payments to meet guidelines. <p><i>*Guidelines remain the same for refis and H2H</i></p>
<p>Maintenance and Utilities</p> <p><i>Section 3.94 page 67</i></p>	<ul style="list-style-type: none"> \$.14 per square foot 	<ul style="list-style-type: none"> Use square footage from page 3 of the appraisal report.

Mandatory Obligations

Mandatory Obligations are Fees and charges incurred in connection with the origination of the HECM that are permitted, under Mortgagee Letter 2014-21, to be:

- paid at loan closing or during the First-12 Month Disbursement Period that are a condition or a requirement for loan approval; or
- any disbursements for a Repair Set-Aside, including the cost of repairs and the repair administration fee.

Refinance Transactions:

Mandatory Obligations include:

- initial MIP;
- loan origination fee;
- HECM counseling;
- reasonable and customary amounts, but not more than the amount actually paid by the mortgagee for any of the following items:
 - recording fees and recording taxes, or other charges incident to the recordation of the insured mortgage;
 - credit report;
 - survey, if required by the mortgagee or the mortgagor;
 - title examination;
 - mortgagee's title insurance;
 - fees paid to an appraiser for the initial appraisal of the property
- repair administration fee;
- Repair Set-Asides;
- delinquent Federal debt including Government insured Student loans;
 - **Note: Non-federal collection accounts and charge-offs are NOT Mandatory Obligations.**
- Amounts required to discharge any existing liens on the property (*including mechanics liens*);
- Court approved divorce settlement buy-outs;
- customary fees and charges for warranties, inspections, surveys, engineer certifications;

- funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by appraiser;
- Property Tax and Flood and Hazard Insurance Payments scheduled for payment during the First 12-Month Disbursement Period **from a Fully-Funded Life Expectancy Set-Aside**. Mortgagees must use the actual insurance premium and actual tax amount.
- Property Tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing; and
- Other charges as authorized by the Secretary; and
- For adjustable rate HECMs:
 - The total amount of property charge payments scheduled for payment from the mortgagor authorized option as set forth in §206.205 during the First 12-Month Disbursement Period; and
 - **The total amount of semi-annual disbursements scheduled to be made during the First 12-Month Disbursement Period to the mortgagor from a Partially-Funded Life Expectancy Set-Aside.**

Purchase:

Mandatory Obligations include:

- initial MIP;
- loan origination fee;
- HECM counseling;
- reasonable and customary amounts, but not more than the amount actually paid by the mortgagee for any of the following items:
 - recording fees and recording taxes, or other charges incident to the recordation of the insured mortgage;
 - credit report;
 - survey, if required by the mortgagee or the mortgagor;
 - title examination;
 - mortgagee's title insurance;
 - fees paid to an appraiser for the initial appraisal of the property
- delinquent Federal debt including Government insured Student loans;
 - **Note: Non-federal collection accounts and charge-offs are NOT Mandatory Obligations.**
- Fees and charges for real estate purchase contracts, warranties, inspections, surveys, engineer certifications;
- **The total amount of property tax and flood and hazard insurance charges scheduled for payment during the First 12-Month Disbursement Period from a Fully-Funded Life Expectancy Set-Aside. Mortgagees must use the actual insurance premium and actual tax amount;**
- Property Tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing; and
- The amount of the Principal that is advanced towards the purchase price of the subject property;
- Other charges as authorized by the Secretary; and
- For adjustable rate HECMs:
 - The total amount of property charge payments scheduled for payment from the mortgagor authorized option as set forth in §206.205 during the First 12-Month Disbursement Period; and
 - **The total amount of semi-annual disbursements scheduled to be made during the First 12-Month Disbursement Period to the mortgagor from a Partially-Funded Life Expectancy Set-Aside.**

Life Estate

A life estate is a legal arrangement to transfer property automatically upon a person's death. The holder of a life estate is called a life tenant and is given ownership in the property for his or her lifetime. Upon the death of the life tenant, ownership in the property transfers to one or more other individuals called remaindermen. **A remainderman must be an individual or multiple individuals, no Trusts, LLCs or other entities are permitted as remaindermen.**

Closing in a Life Estate is permitted for Refinance transactions only, however, to encumber fee simple interest in the property the following requirements apply:

- The life tenants are the reverse mortgage applicant and execute all origination and closing documents.
- The promissory note must be executed by the holder of the life estate (*the holder of the "life estate" is the borrower*).
- The security instrument must be executed by the holder of the life estate and any future interests.
- The intervening assignments must reflect such mortgagors.
- The title insurance must list such mortgagors as holding title.
- The remaindermen must execute the Security Instruments and any riders, Notice of Right to Cancel and the Truth-in-Lending disclosure.
 - **Underwriters must add the following at closing condition to the loan approval where title is vested in a life estate: "All parties on title must sign the Mortgage/Deed of Trust, Notice of Right to Cancel and Truth In Lending Disclosure, HUD1 and Compliance Agreement."**
 - If the subject property is located in the state of **New York**, the remaindermen must also execute the **252/255 Affidavits**.
 - In some states the settlement agent may require additional documents be executed (*i.e. HUD-1*).
- **A remainderman must be an individual or multiple individuals, no trusts, LLCs or other entities are permitted as remainderman.**
 - The Nearest Living Relative document must be completed with all remainderman information on every loan vested in a life estate.
- **Texas: Remainderman in Texas are required to be counseled.**

Non-Borrowing Spouse (NBS) for Case Numbers Assigned on or after 8/4/14

Principal Limit Calculation

Where a HECM borrower has identified a Non-Borrowing Spouse, the Principal Limit will be based on the age of the youngest borrower or Non-Borrowing Spouse, if applicable, and the corresponding Principal Limit Factor.

Note: The Non-Borrowing Spouse's age will be used in the Principal Limit calculation even if they are not eligible to receive the deferral of the due and payable clause upon the death of the last surviving borrower.

Due and Payable Status Change for Married Borrowers

The HECM documents must contain a provision deferring the due and payable status that occurs because of the death of the last surviving borrower, if the borrower was married at the time of closing and the Non-Borrowing Spouse was identified and occupied the subject property as their principal residence at the time of closing.

Qualifying Attributes of the Deferral Period for the Non-Borrowing Spouse

In order to defer the due and payable status until the death of the last surviving Non-Borrowing Spouse, the following conditions must be met:

- The Non-Borrowing Spouse must have been the spouse of the HECM borrower at the time of loan closing and have remained the spouse of such borrower for the duration of the HECM borrower's lifetime;
- The Non-Borrowing Spouse must disclose their name to the Lender at origination in the HECM documents; and
- The Non-Borrowing Spouse must have occupied at the time of closing and continue to occupy the property securing the HECM as their Principal Residence.

Requirements for the Deferral Period after Death of Borrower

If the last surviving borrower predeceases a Non-Borrowing Spouse, the due and payable status will be deferred for as long as the Non-Borrowing Spouse continues to meet the qualifying attributes stated above in addition to the following:

- Within 90 days from the death of the last surviving HECM borrower, establish legal ownership or other ongoing legal right to remain (*e.g., executed lease, court order, etc.*) in the property securing the HECM;
- After the death of the last surviving borrower, ensure all other obligations of the HECM Borrower contained in the loan documents continue to be satisfied (*i.e. payment of taxes and insurance, maintenance of the property*); and
- After the death of the last surviving borrower, ensure that the HECM does not become eligible to be called due and payable for any other reason.

If a Non-Borrowing Spouse fails to meet any of the qualifying attributes or should any of the requirements for deferral of the due and payable status cease to be met, the Deferral Period ends and the HECM loan becomes immediately due and payable as a result of the death of the last surviving borrower.

Availability of HECM Proceeds during Deferral Period

No funds may be disbursed to the Borrower, Borrower's estate or the Non-Borrowing spouse once the loan is in the due and payable status Deferral Period. However, the following terms are not affected:

- Interest accrual
- MIP payments remittance to FHA
- Servicing Fee collection, if applicable
- Repair Set Aside disbursements for the sole purpose of paying the cost of repairs that were specifically identified prior to origination as necessary to the insurance of the HECM. **(Note: No unused funds may be disbursed nor can funds be disbursed for maintenance of the property not included on the Repair Rider at closing.)**

Borrower and Non-Borrowing Spouse Documentation and Certifications

At Counseling

The Counselor must obtain a signed statement from the Non-Borrowing Spouse, as currently required by HUD Mortgagee Letter 2011-31, and from any “common-law” spouse.

At Application and during Processing

The following documents are required for all Non-Borrowing Spouses:

- Non-Borrowing Spouse Application Certification and Authorization to Release³ - Includes NBS name, SSN, DOB, place of marriage celebration, Principal Residence address, primary telephone number, name of spouse and authorization to obtain a credit report;
- Date of Birth Verification;
- Social Security Number (*SSN*) verification;
- Address of principal residence;
- Completed and executed Counseling Certificate; and
- Clear CAIVIRS print-out
 - If the report indicates that there are outstanding debts, the Non-Borrowing Spouse may be required to pay those debts prior to or at closing (*depending on the state the subject property is located in and the corresponding HOC*) or the loan may be deemed ineligible.

In addition to the above, the following documents are required for all Non-Borrowing Spouses **where the Non-Borrowing Spouses income and liability information is needed to reduce family size:**

- Credit Report

³ If the NBS is not disclosed at application and closing and does not occupy the subject property as their principal residence, the NBS will not have the right to defer the due and payable status upon the death of the last surviving borrower.

At Closing

The following new certifications must be executed at closing:

- Unmarried Borrower Certification, if borrower states he/she is unmarried (executed by Borrower)
- Married Borrower with a Non-Borrowing Spouse Certification (*executed by Borrower*)
- Non-Borrowing Spouse Certification (*executed by Non-Borrowing Spouse*)

In addition to the above documents, in states that allow for property rights for non-vested spouses, Non-Borrowing Spouses must be present at closing to sign documents. (*See **Community Property/Homestead /Dower Rights and Domestic Partner section for specific requirements.***)

Note: Effective with case numbers assigned on or after August 4, 2014, revised Notes, Mortgages, Loan Agreements and Repair Riders will print from both BayDocs and Reverse Vision, incorporating all required changes outlined in HUD Mortgagee Letter 2014-07 and this Lender Alert.

Post-Closing

Borrowers that identified themselves as being married to an eligible Non-Borrowing Spouse at closing and must submit the following certification on an annual basis:

- Married Borrower with a Non-Borrowing Spouse Certification

The eligible Non-Borrowing Spouse must submit the following certification, on an annual basis, if the borrower has died:

- Principal Residence Certification

The eligible Non-Borrowing spouse must submit the following certification, within 30 days of the death of the last surviving borrower and no less than annually thereafter, for the duration of the Deferral Period:

- Non-Borrowing Spouse Certification

In the event of a divorce between a HECM borrower and his/her Non-Borrowing Spouse, the Lender must be provided with the following:

- A copy of the final divorce decree

Changes to Counseling Requirements

Non-Borrowing Spouses must attend Home Equity Conversion Mortgage (*HECM*) counseling and must sign and date the certificate to acknowledge their participation and completion of HECM counseling. In addition, Counselors are required to discuss implications of marital status in states that recognize common law marriage the same as they were previously directed to in HUD Mortgagee Letter 2011-31 for any spouse who is not also a borrower.

Counselors shall counsel prospective borrowers and Non-Borrowing Spouses about the requirement that a eligible Non-Borrowing Spouse obtain ownership of the property or other legal right to remain in the property upon the death of the last surviving borrower. Counselors must emphasize that the failure to obtain ownership or other legal right to remain in the property will result in the HECM becoming due and payable and the Non-Borrowing Spouse will not receive the benefit of the Deferral Period.

Counselors should advise prospective borrowers and any Non- Borrowing Spouse to consult with a qualified attorney if questions arise related to state law.

FHA Connection System Changes

The following information must be entered into the Case Number Assignment Screen:

- Married to a Non-Borrowing Spouse Y/N
- Non-Borrowing Spouse Full Name
- Non-Borrowing Spouse Date of Birth
- Non-Borrowing Spouse Social Security Number

Non-Borrowing Spouse (NBS) for Case Numbers Assigned prior to 8/4/14

- HighTechLending Inc. does not close on, or purchase files where there is a non-borrowing spouse, unless the non-borrowing spouse either meets one of the below exceptions OR meets all documentation requirements.

Exceptions include:

- The non-borrowing spouse has never been on the title to the home, and does not have any community property rights to the property.

Note: This exception cannot be applied to purchase loans, since the borrower and non-borrowing spouse will not have a vesting history in the subject property they are purchasing. Therefore, purchase transactions with a non-borrowing spouse are not eligible.

Or,

- The non-borrowing spouse does not reside in the subject property and does not have any community property rights to the property. For example, the non-borrowing spouse lives in a nursing home.

Note: The underwriter requires sufficient, verifiable documentation in order to approve this exception.

- ‡ *Your title company can advise if a state allows for community property rights.*
- ‡ *State laws are subject to change, and this list may change without notice. For this reason, always confirm with the title company on the loan transaction.*

Documentation

- Non-borrowing spouses who do not meet the above exceptions are allowed, with an Attorney Letter in addition to all additional required documentation.

Note: An Attorney Letter is not required if one of the exceptions is met.

- Attorney Letter -A letter from the borrowers' attorney explaining to the borrower and non-borrowing spouse that the following events will require them to pay the loan in full:
 - ‡ *All borrowers cease to occupy the property as their primary residence.*
 - ‡ *All borrowers pass away before the non-borrowing spouse.*
 - ‡ *The property charges, including taxes, insurance, HOA dues or any other property charges are not paid.*
 - ‡ *Required repairs are not completed or the property is not maintained.*

The letter should explain that:

- ‡ *If the loan cannot be paid in full, the lender may foreclose on the property and evict all residents, including the non-borrowing spouse.*
- ‡ *There is no guarantee that the non-borrowing spouse will be able to refinance and be added back onto the title in the future, even if a deed is filed placing him or her in title after the reverse mortgage is closed.*
- ‡ *The non-borrowing spouse waives any right, including homestead, community property, or other marital rights, to remain in the property or to contest a foreclosure arising from a default of the loan terms by the borrower(s).*
- ‡ *The borrower and non-borrowing spouse acknowledge and understand all of these items that have been discussed with them and want to proceed with the loan.*

Additional Required Documentation

- Any time a non-borrowing spouse is present on the loan, the following documentation is required, regardless of whether an exception is met:
 - Letter of Explanation
 - ‡ *A signed and notarized letter from the non-borrowing spouse describing the reason he or she is not participating in the transaction. This letter can be notarized either at closing or prior to closing.*
 - Non-Borrowing Spouse Certificate
 - ‡ *Fully-executed Non-Borrowing Spouse Certificate.*
 - Credit Report (only if NBS Income is being used to reduce family size).
 - FHA Connection Case Query and CAIVRS Printouts.
 - Date of birth and Social Security Number (SSN) verification.
 - Completed and executed Counseling Certificate.

Note: These requirements apply to non-borrowing spouses with property in states that allow for homestead or community property rights for non-vested spouses. However, even in states where homestead and community property requirements do not apply, , Case Query and CAIVRS are required to ensure that no other FHA loans or delinquent federal debt exist under only the spouse's name.

Counseling

- Non-borrowing spouses must attend Home Equity Conversion Mortgage (HECM) counseling, and must sign and date the certificate to acknowledge their participation and completion of HECM counseling, regardless of the state homestead or community property rights.
- The HECM counselor inserts the date of counseling and the certificate expiration date. All signatories must date the certificate with the date they sign it. Signatories include:
 - Counselor
 - Homeowner(s)
 - Non-borrowing spouse
 - Power of Attorney (POA), or guardian/conservator, if applicable

Note: If the borrower has a POA, the name of the POA appears at the top of the certificate, along with the name of the homeowner. The POA signs and dates the certificate the Homeowner Signature & Date field at the bottom of the document.

Date of Birth and SSN verification

- When we receive date of birth (*DOB*) and SSN verifications, we run a case query and a [Credit Alert Verification Reporting System \(CAIVRS\)](#) report through FHA Connection on the non-borrowing spouse.
 - If these reports indicate that there are outstanding debts, the borrower must pay these at closing.

Closing

- In states that allow for homestead or community property rights for non-vested spouses, non-borrowing spouses must be present at closing and are typically required to sign⁴:
 - The top of Page 1 of the loan application form Fannie Mae 1009
 - First and second security instruments and riders
 - Notice of Right to Cancel
 - Truth in Lending Statement
 - Bankruptcy Statement

⁴ The Title Company is responsible for insuring that the proper documents are signed in accordance with each state's specific guidelines. As these requirements may change, please contact the Title Company for NBS signature requirements.

Occupancy

The borrower must occupy the property as their primary residence to qualify for a reverse mortgage.

- All applications should be evaluated for the borrower's intent to occupy the subject property.
 - It is a federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning the loan as applicable under the provisions of Title 18, United States Code, and Section 1014.
 - If it is determined that a HTL employee knowingly allowed a borrower(s) to make false statements, the action will be treated as misrepresentation and appropriate action will be taken.
- On a refinance transaction, the borrower(s) applying for the refinance must demonstrate ownership and occupancy of the property for a minimum of 30 days prior to date of loan application. Loans with less than 30 days occupancy will be considered on a case by case basis. Note: Loans where ownership is less than 12 months will be closely scrutinized.
- On a purchase transaction, the borrower must occupy and use the property as a primary residence within 60-days of execution of the Security Instrument and the borrower must continue to occupy the property as his/her/their primary residence.
- FHA defines a principal residence as the dwelling where the borrower maintains his or her permanent place of abode and typically spends the majority of the calendar year. A person may have only one principal residence at any one time.
- The reverse mortgage becomes due and payable at the time the last remaining borrower permanently leaves the home, the borrower(s) defaults on the terms of the loan or the borrower is divested of ownership.

Occupancy Discrepancies:

Potential occupancy discrepancies include, but are not limited to the following:

- Driver's license address differs from subject property or is recently issued
- ID recently issued or having different address from subject property
- Credit history shows a different address as current
- 1009 phone number tied to a different address
- Documents in file show a different mailing address (*hazard policy, payoff demand(s), bank statements, SSA award letter, etc.*)
- Borrower owns multiple properties
- P.O. Box listed as mailing address
- Homestead exemption claimed on another property
- Property recently listed for sale
- History Pro shows mailing address different from subject
- Interthinx report alerts to address discrepancy, or reverse directory alert

In those circumstances when file documentation raises concerns that the borrower's primary occupancy is in question, **underwriting reserves the right to request additional supporting documentation along with a written letter from the borrower explaining discrepancies or disposition of other residences and/or real estate owned.**⁵ A loan approval cannot be rendered until primary occupancy can be determined with certainty and adequately supported.

Acceptable evidence to support occupancy by the borrower(s) in the subject property, all dated prior to application, can be obtained by providing HTL with one item from List A and two items form List B.

LIST A	LIST B
Copy of borrower's driver's license (if not recently issued)	Copy of Borrower's voided check
Copy of SS award letter or copy of SS Check, if not direct deposited	Copy of borrower's mortgage statement
Copy of borrower's bank statement where SS funds are direct deposited	Copy of borrower's auto insurance policy page
Copy of state issued ID	Copy of borrowers credit card statements
	Copy of borrower's voter registration card
	Copy of borrower's Utility statements/bills (phone, cable, electricity, gas, etc.)
	Copy of Tax Returns
	Voter Registration Information

Payment Plans

- The following payment plans are available for both Fixed and Adjustable products:
 - Term or Modified Term
 - ‡ *Mortgagees must ensure Tenure and Term monthly payments made to the mortgagor during the First 12-Month Disbursement Period are equal and do not exceed the Initial Disbursement Limit.*
 - Tenure or Modified Tenure
 - Line of Credit
 - ‡ *During the First 12-Month Disbursement Period, if a requested disbursement would exceed the Initial Disbursement Limit, the mortgagee may make a partial disbursement to the mortgagor for the amount that will not exceed the limit. Once the First 12-Month Disbursement Period ends, the mortgagor may request subsequent disbursements up to the available Principal Limit.*
 - Single Disbursement /Lump Sum Payment
 - ‡ *This payment option is limited to a single disbursement at loan closing. Set-asides requiring distribution after close are allowed.*

Payoffs

- All taxes, liens, judgments and outstanding mortgages listed on title must be paid off or removed from the title commitment at closing. The only exception is a mortgage that is subordinated. (*See Subordination liens section.*)
- Payoffs must include:
 - The payoff statement expirations date should extend 10 days past the funding date. If the payoff statement does not extend 10 days past the date of funding, per diem is required.
 - No expired payoff statements will be accepted. The payoff statement must be valid through 10 days past the date of funding, unless per diem is included.

Photo Identification

Retail, Wholesale and Principal Agent

- Valid photo identification for all borrowers is required.
- Note: Loan Officer Certifications are not permitted.

Un-expired photo ID requirements:

- One of the following unexpired items **must** be collected from all borrower(s) to verify their identity:
 - State Issued Driver's License
 - State Issued I.D. Card
 - Military I.D. Card
 - Passport
 - U.S. Alien Registration Card
 - Or other acceptable documentation as approved by Underwriting.
- CIP Procedures must be followed at closing.

Expired Photo ID requirements (Expired within last 5 years):

- The following items must be collected from all borrower(s) to verify their identity:
 - Two forms of expired government ID as listed above.
 - Or other acceptable documentation as approved by Underwriting.
- A clear FraudGuard report
- CIP Procedures must be followed at closing.

CIP Requirements:

The closing agent (notary public) must comply with Customer Identification Program (CIP) requirements at closing.

- If the photo ID is expired, validate the borrower's identity according to the laws of the state in which the loan closing occurs.
- If state law is silent, HTL requires establishing the borrowers' identity at closing by means of oaths from
 - Two credible witnesses if photo ID expired more than 5 years.
 - One credible witness if photo ID expired 5 years or less.

- ✦ *The oath for each credible witness must affirm that all of the following are true:*
 - The borrower signing the loan documents is the person named in the documents.
 - The credible witness knows the signer.
 - The credible witness believes that the borrower would have difficulty or an impossible time obtaining un-expired photo identification.
 - The borrower does not have any unexpired documents authorized by law to establish the borrower's identity.
 - The credible witness does not have a financial interest and is not named in the loan closing documents.
- The Closing Agent must validate the borrower's identity at closing.
- If a discrepancy is noted, the closing agent must contact the Fulfillment Center and the loan may NOT close without further instruction from the Fulfillment Center.
- The loan can NOT close unless the discrepancy is resolved and a detailed resolution is documented in the loan file.
- HTL and the closing agent must be fully satisfied that there is no deception or mistake concerning the true identity of the borrower.
- In cases where an individual borrower is not physically present at the loan closing, the mortgage cannot be closed unless there is a properly executed and HTL approved **Power of Attorney**. The closing agent must validate the identity of the attorney-in-fact as per this policy.

No Photo Identification

If borrower does not have any photo identification (*expired or unexpired*), Underwriting to review documentation provided to determine if it is acceptable.

Correspondent

Prior to purchase, the **Loan Reviewer** must:

- Review the loan file for evidence the identity of the borrower has been validated.
- Run the Interthinx FraudGUARD report, review all variances on the report, and obtain necessary documentation to clear the variances. All variances must be cleared in order for the loan to be purchased.
- Check data integrity of information input to produce the Interthinx FraudGUARD report.

Power of Attorney/Conservatorship/Guardianship

Power of Attorney:

If borrower or non borrowing spouse is considered incompetent a POA, conservator or guardian may be used. If using a POA it must clearly be established that the borrower was of sound mind at the time of executing the POA document(s), but is currently not of sufficient mental competency to handle his or her own affairs. Some POA's will require two physician's letters to establish mental incompetency.

The Title Company must review and provide written approval for use of the POA.

Power of Attorney (POA) Requirements

General Power of Attorney (*POA*) Guidelines:

- The POA must be irrevocable, or if revocable, the POA (i) provides a specific expiration date that is at least 90 days after the closing date or (ii) states that it is revocable only by a written revocation recording in the real property records in the county in which the property is located. The closing agent must confirm that no such revocation has been recorded.
- The POA grants the power to execute a mortgage real estate transaction, complies with state law and allows for the mortgage note to be enforced in the jurisdiction. Preferably, the POA should grant the POA the right to mortgage, sell or transfer property rights in the subject property.

- The POA must be acknowledged by a notary public authorized under applicable law.
- The POA must be reviewed and approved by an authorized agent of the title insurer and the DE underwriter.
- The POA must be durable (*continues to be in effect if the borrower becomes incompetent after execution of the POA*).
- The original POA must be recorded with the mortgage instrument.
- The Attorney in Fact must be directed to sign the loan documents as indicated in the following example: "John Doe, by Jane Doe as attorney in fact".
- The POA must provide identification.
- POA is not permitted for Purchase transactions.

Springing Power of Attorney

Not permitted.

Convenience Power of Attorney

This POA is utilized for a mentally competent borrower or non borrowing spouse who is unavailable on the date of the scheduled closing or who has difficulty signing more than the 1009, 92900a and counseling certificate.

In order for the Attorney in Fact to execute all disclosures and the closing documents, the General POA criteria listed above, plus the following must be met:

- The borrower must execute the 1009 and HUD 92900A.
- The borrower or non borrowing spouse must be counseled and must execute the counseling certification.
- A letter of explanation from the borrower or non borrowing spouse indicating the reason they are having the POA sign on their behalf.
- A notarized copy of the fully executed Durable POA. (*Title may require the original POA to be recorded at the time of closing.*)
- An acknowledgement from the Title Company indicating the POA is acceptable to insure.
- Per Mortgagee Letter 2004-25 the vested owners name should appear at the top of the Counseling Certificate.

Incapacitated Borrower Power of Attorney

This POA is utilized for a mentally competent borrower or non borrowing spouse who has a physical limitation or limited ability to sign loan documents.

In order for the Attorney in Fact to execute all disclosures and the closing documents, the General POA criteria listed above, plus the following must be met:

- A doctor's letter certifying the borrower or non borrowing spouse is unable to sign and the nature of the borrower's physical incapacity. Please make sure a date (*month/year*) of incapacity is included.
- The POA will sign the 1009 and the HUD 92900A.
- The counseling session must be conducted with the borrower and the POA; the POA will sign the counseling certificate.
- A notarized copy of the fully executed Durable POA. (Title may require the original POA to be recorded at the time of closing.)
- An acknowledgement from the Title Company indicating the POA is acceptable to insure.
- Per Mortgagee Letter 2004-25 the vested owners name should appear at the top of the Counseling Certificate.

Signing with a Mark

If the borrower or non borrowing spouse is mentally competent but can only make a mark or utilize a signature stamp, we will accept the mark or stamp on the 1009 and counseling certificate as long as a Subscribing Witness Affidavit is executed which indicates two disinterested parties (*one of which may be the notary*) witness the mark or stamp and attest this is the mark or stamp of the borrower.

HTL recommends, but does not require, that a POA be utilized for the execution of the closing documents. If the borrower prefers to close and make their mark on all documents, an attestation must identify each document signed with the mark or stamp indicating the borrower has read (*or the document was read to the borrower*) and understands the content of the document.

POA - Mentally Incompetent Borrower

This POA is utilized for a mentally incompetent borrower or non borrowing spouse.

In order for the Attorney in Fact to execute all disclosures and the closing documents, the General POA criteria listed above, plus the following must be met:

- Physician's letter (*on letterhead, signed and dated*) from the borrower's or non borrowing spouse's primary care physician, another physician who regularly treats the borrower for medical issues OR an American Board of Medical Specialties certified specialist in geriatrics or neurology who has completed a recent physical examination of the borrower.
 - The letter must state that the physician has completed an examination of the borrower's or non-borrowing spouse's physical and mental competency and the borrower or non borrowing spouse is not competent to make his/her own business decisions.
 - The letter should indicate the approximate date of the diagnosis of incompetency (*which must be AFTER the POA was executed*) and the date of the physician's most recent examination of the borrower.
 - If the POA is executed within a short time period prior to the application, the letter should verify that the Borrower or non borrowing spouse was capable of handling their financial affairs on the date the POA was signed
- If POA is used in conjunction with a Trust Agreement additional documentation maybe required as outlined in the Trust Agreement.
- The POA must execute ALL application and closing documents.
- A notarized copy of the fully executed Durable POA. (*Title may require the original POA to be recorded at the time of closing.*)
- An acknowledgement from the Title Company indicating POA is acceptable to insure.
- The POA must receive the required HUD Counseling and execute the counseling certificate.
- Per Mortgagee Letter 2004-25 the vested owners name should appear at the top of the Counseling Certificate.

Power of Attorney used at closing, not at application

- A letter of explanation from the borrower and non borrowing spouse or independent third party indicating the reason they are now using the POA – other conditions may apply depending on the reason.
- A notarized copy of the fully executed POA (*General or Specific POA will be allowed for closing documents for competent borrowers*).
- POA must be approved by underwriting and the Title Company prior to funding.

Power of Attorney General Requirements Matrix

	General Requirement	Competent Borrower Requirements	Incompetent Borrower Requirements
Attorney in Fact HECM Counseling	Competency/Incompetency must be established to determine	Not Required	Required
Physician's Letter	Competency/Incompetency must be established to determine	Not Required	Required
Original POA recorded at closing	Required	Required	Required
Title and HTL approval of POA	Required	Required	Required
Attorney in Fact executes the HECM Counseling cert., 1009 & 92900a	Competency/Incompetency must be established to determine	Not Required	Required
Borrower executes the HECM Counseling cert., 1009 & 92900a	Competency/Incompetency must be established to determine	Required	Not Required
Attorney in Fact executes initial disclosures and closing documents	Competency/Incompetency must be established to determine	Allowed	Required
Subscribing Witness Affidavit	Physical Competency/Incompetency must be established to determine	Required if applicable	Not Applicable

Conservatorship/Guardianship:

- In the case of an incompetent borrower or non borrowing spouse and an insufficient POA, a Guardian or Conservator can act on behalf of the incompetent borrower(s) or non borrowing spouse to obtain a reverse mortgage loan.
- A guardianship or conservatorship must be valid, and in force with no expiration date so the borrower has a legal representative for the life of loan.
 - Temporary guardianships or conservatorships are not allowed.

If the borrower has a guardian the file must contain the following documents:

- A copy of the court order/approval of the conservator/guardian to enter into the reverse mortgage on the behalf of the borrower.
- A copy of the letter of Conservatorship and Guardianship.
- LDP/GSA print-outs for the Guardian
- Title Insurer must review and provide written approval for the use of the Conservator or Guardian.
- Conservator/Guardian must attend counseling and provide copy of identification.

Principal Residence

- The subject property must be the principal residence of each borrower, which is defined as the dwelling where the borrower maintains his or her permanent place of abode and typically spends the majority of the calendar year (*a minimum of 183 days of the calendar year*).
- A person may only have one principal residence at any one time.
- Married spouses or other co-borrowers may be living apart because one of them is temporarily or permanently in a health care facility; however at least one borrower must be living in the home in order for the HECM loan to close

See Occupancy.

Principal Limit

- The Principal Limit is established at closing and is the maximum amount that a mortgagor may receive from the HECM before any disbursements are made.
 - The Principal limit is determined by multiplying the maximum claim amount by the principal limit factor corresponding to the age of the youngest mortgagor and the expected average interest rate.

Important: The Principal Limit will continue to “increase” by the Mortgage Note Interest Rate on a monthly basis; however, the increased amount will not be available for the mortgagor to draw against until the expiration of the First 12-Month Disbursement Period.

Principal Limit Protection:

- Adjustable Rate
 - This protection is effective for 120 days from the date the FHA Case Number is assigned.
 - It allows the borrower to receive the principal limit at the time of application or principal limit at Closing, whichever gives the borrower the greatest amount of proceeds.
 - If the product is changed or eliminated during Underwriting, the borrower will receive the highest Principal Limit based on the new product’s Expected Rate at application or closing.
- Fixed Rate
 - There is no Principal Limit Lock available for the Fixed Rate product.

Look Up Floor:

HUD places a lookup floor on the Expected Interest Rate when calculating the Principal Limit. Currently, that limit is 5%. This means anytime a product’s Expected Rate is at or below that rate, the borrower will receive the same amount of proceeds.

Property Charge Definition

Property charges include:

- All property taxes – school, city, county, state, etc.
 - Where a taxing authority has permanently waived or otherwise permanently exempted the mortgagor from payment of property taxes, i.e., taxes are not due and payable and do not accrue or result in a lien against the property, such taxes may be excluded from the financial assessment. Documentation for the waiver or exemption must be placed in the case binder
 - ‡ *Must not result in lien on property*
 - ‡ *Approval of HECM must not jeopardize eligibility for exemption.*
 - Where a taxing authority has deferred the payment of property taxes, i.e., liability for taxes remains, but payment is deferred until a certain point in the future, such taxes may be excluded from the financial assessment provided:
 - ‡ *that the deferral period will be in place until the death of the mortgagor or the sale of the property, whichever occurs first;*
 - ‡ *that a lien senior to the HECM first and second mortgages will not be created upon the termination of the deferral period; and*
 - ‡ *documentation on the deferral is placed in the case binder.*
 - ‡ *the mortgagor shall not participate in a real estate tax deferral program or permit any liens to be recorded against the property, unless such liens are subordinate to the insured mortgage and any second mortgage held by the Secretary;*
 - ‡ *Approval of HECM must not jeopardize eligibility for exemption.*
- homeowners/hazard insurance and flood insurance;
- homeowners association (HOA), condominium and planned unit
- development (PUD) fees;
- ground rents; and
- other assessments levied by municipalities or under State law.

Property Charge Documentation

Mortgagees must verify and document the amount of property charges in accordance with the following requirements:

- Property Taxes.
 - Mortgagees must document the amount of property taxes due from all taxing authorities through written statements or on-line printouts from the taxing authorities, or through copies of bills.
 - See Section 2.18 of the HECM Financial Assessment and Property Charge Guide for information on property tax waivers or deferrals.
- Homeowners/Hazard Insurance.
 - Mortgagees must obtain the current year's declaration sheet of the insurance policy.
 - ✦ *Where no homeowners/hazard insurance policy was previously in place, mortgagees shall base the cost of homeowners/hazard insurance upon the insurance quote provided to the mortgagor for the cost of homeowners/hazard insurance under the HECM. (If mortgagors did not have in place, they must prepay for 12 months at loan closing.)*
- Flood Insurance.
 - If required, mortgagees must obtain the current year's declaration sheet of the insurance policy.
 - ✦ *Where no flood insurance policy was previously in place, mortgagees shall base the cost of flood insurance upon the insurance quote provided to the mortgagor for the cost of flood insurance under the HECM. (If mortgagors did not have in place, they must prepay for 12 months at loan closing.)*
- HOA, PUD and Condominium Fees.
 - Mortgagees must obtain from the party levying the fees or its management agent a written statement, documenting payments or copies of bills and cancelled checks.
- Other Assessments.
 - Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting payments, or copies of bills and cancelled checks.

- Ground Rents.
 - Mortgagees must obtain from the lessor or its management agent a written statement documenting payments, or copies of bills and cancelled checks.

Note: Third party verification services may be used to verify Property Charges provided standard specified in Section 1.10 (*Handling of Documents*) of the HECM Financial Assessment and Property Charge Guide are met. Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through, any Interested Third Party or the mortgagor.

Property Charge Funding Requirements

- If the results of the financial assessment indicate that the applicants do not have the capacity or willingness to pay property charges, a Life Expectance Set-Aside is required.
- A Life Expectancy Set-Aside is an amount withheld from the mortgage proceeds for the payment of property charges during the life of the mortgagor.
- The need for a Life Expectancy Set-Aside, the funding amount of the Life Expectancy Set-Aside, and the structure of the Life Expectancy Set Aside, are based on the results of the financial assessment.
- The Life Expectancy Set-Aside will be used for the sole purpose of paying **1) property taxes 2) hazard insurance premiums, and 3) flood insurance premiums.**
(Note: Per clarification from HUD, special assessments levied by Municipalities and State Law are not included in the LE Set-Aside calculation.)
- In no event shall the mortgagee require any Life Expectancy Set-Aside to be funded in excess of the projected cost of the property charge amount.
- If HECM proceeds are insufficient to meet all mandatory obligations, including the required Life Expectancy Set-Aside, the mortgagor may provide funds at closing to meet the shortfall.

Life Expectancy Set Aside Options:

Fully-Funded Life Expectancy Set-Asides

- Available for ARM and Fixed HECMs.
- Required when, even after taking into account extenuating circumstances, the mortgagor has not demonstrated the willingness to meet his or her financial obligations even where residual income is sufficient, or where the mortgagor has not demonstrated the willingness and capacity to meet his or her financial obligation or if voluntarily requested by mortgagor.
- The mortgagee's Servicer will use the HECM proceeds to pay property taxes and insurance premiums on behalf of the mortgagor. The mortgagor is still responsible for payment of all other property charges.
- The Borrower must be provided the following information about the Set-Aside:
 - Funds will be used to pay the taxing authority or insurance carrier directly;
 - The mortgagee is responsible for making timely payments to the taxing authority or insurance carrier when funds are sufficient;
 - The projected amount of funds required to cover the allowed property charges over the estimated life expectancy of the youngest mortgagor may be insufficient to cover property charges for the full length of that specified amount of time;
 - No funds will be available during any applicable Deferral Period for an eligible Non-Borrowing Spouse;
 - The mortgagor is responsible for payment of all property charges over the life of the loan when funds are insufficient or the balance of the Set-Aside is zero; and
 - Life Expectancy Set-Aside funds are exhausted or the annual analysis shows that the remaining funds will not be sufficient to pay the next year's allowed property charge payments and the mortgagor will be responsible for paying all future property charges.
- Required Set-Aside amount is equal to the Projected Life Expectancy Property Charges.

Partially-Funded Life Expectancy Set-Asides

- Available for ARM HECMs only.
- Required when the mortgagee determines, based on the results of the Financial Assessment, that the mortgagor has demonstrated the willingness to meet his or her financial obligations but, even after taking into account any compensating factors, the residual income is not sufficient.
- Where the projected Partially Funded Life Expectancy Set-Aside is greater than 75% of the Projected Life Expectancy Property Charge Cost, the mortgagor is not eligible for a Partially Funded Life Expectancy Set-Aside. The mortgagee must require, as a condition of mortgage approval, a Fully Funded Life Expectancy Set-Aside.
- Borrower cannot voluntarily elect to have a Partially Funded LE Set-Aside if Financial Assessment results do not require one to be established.
- Through the Partially-Funded Life Expectancy Set-Aside the mortgagor will receive semi-annual payments from HECM proceeds to be used to pay property taxes and insurance premiums. The mortgagor remains responsible for timely payment of all property charges.
- The Borrower must be provided the following information about the Set-Aside:
 - The mortgagor will receive semi-annual payments from the Set- Aside, which must be used to pay the taxing authority and/or insurance carrier;
 - **The mortgagor is responsible for making timely payments to the taxing authority and/or insurance carrier over the life of the loan;**
 - The projected amount of funds required to cover defined property charges over the estimated life expectancy of the youngest mortgagor and the income assumptions used to project semi-annual distributions to the mortgagor may be insufficient to cover property charges for the full length of that specified amount of time;
 - No funds will be available during any applicable Deferral Period for an eligible Non-Borrowing Spouse;
 - The mortgagor will no longer receive semi-annual payments and will continue to be responsible for the payment of all property charges over the life of the loan when funds are insufficient or the balance of the Set-Aside is zero; and
 - Life Expectancy Set-Aside funds are exhausted or the annual analysis shows that the remaining funds will not be sufficient to pay the next year's semi-annual distributions.

Voluntary Property Charge Funding Options

Adjustable Rate HECM

If the mortgagee does not require a Life Expectancy Set-Aside, a mortgagor who selects an adjustable interest rate HECM may:

- Elect to have a Fully-Funded Life Expectancy Set-Aside; or
- Elect to have the mortgagee pay such charges in accordance with existing requirements at §206.205 (*Note: Escrowing of Taxes/Insurance for payment by HTL is not available*); or
- Elect to be responsible for independent payment of all property charges.

Any voluntary election to have funds withheld by the mortgagee to pay property charges cannot be cancelled by the mortgagor.

Fixed Rate HECM

If the mortgagee does not require a Life Expectancy Set-Aside, a mortgagor who selects a fixed interest rate HECM may:

- Elect to have a Fully-Funded Life Expectancy Set-Aside; or
- Elect to be responsible for independent payment of all property charges.

Any voluntary election to have funds withheld by the mortgagee to pay property charges cannot be cancelled by the mortgagor.

Calculating the Projected Cost of Property Charges

The projected cost of property charges that will be required over the life expectancy of the youngest mortgagor shall be calculated based on:

- The sum of the current property taxes and hazard and flood insurance premiums;
- A factor to reflect increases in tax and insurance rates;
- The HECM expected average mortgage interest rate and annual MIP rate; and
- The life expectancy of the youngest mortgagor.

Calculating the Fully-Funded Life Expectancy Set-Aside Amount

The amount withheld from the mortgage proceeds will equal the projected cost of current property taxes and hazard and flood insurance premiums as defined above.

Calculating the Partially-Funded Life Expectancy Set-Aside Amount

The amount withheld from the mortgage proceeds is based on a calculation of the gap in residual income and may not exceed the projected cost of property charges defined above.

FORMULA FOR CALCULATING PROJECTED LIFE EXPECTANCY PROPERTY CHARGE COST

Projected Life Expectancy Property Charge Cost =

$$(1.2 \times PC \div 12) \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^m\}$$

PC (Property Charges) ÷ 12 is the current total monthly Property Charge for property taxes, homeowners insurance and flood insurance.

m is the TALC life expectancy in years of the youngest mortgagor x 12 (e.g., for a 75 year old mortgagor, TALC life expectancy is 12 years x 12 months = 144).

c is the monthly compounding rate which is defined as the expected rate plus the annual Mortgage Insurance Premium (MIP) rate ÷ 12.

The **PC ÷ 12** is multiplied by 1.2 to take into account expected increases in property taxes and hazard and flood insurance over the life expectancy of the youngest mortgagor.

FORMULA FOR CALCULATING PARTIALLY FUNDED LIFE EXPECTANCY SET-ASIDE

Partially Funded Life Expectancy Set-Aside =

$$(1.2 \times MRIS) \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^m\}$$

MRIS (Monthly Residual Income Shortfall) is the residual income gap - the difference between the mortgagor's monthly residual income, and the applicable amount of residual income for the mortgagor's geographic region and family size, based on the Table of Residual Income in Section 3.82.

m is the TALC life expectancy in years of the youngest mortgagor x 12 (e.g., for a 75 year old mortgagor, TALC life expectancy is 12 years x 12 months = 144).

c is the monthly compounding rate which is defined as the expected rate plus the annual mortgage insurance premium (MIP) rate ÷ 12.

The **MRIS** is multiplied by 1.2 to take into account expected increases in property taxes and hazard and flood insurance over the life expectancy of the youngest mortgagor.

Life Expectancy Table

The figure used for life expectancy is taken from the U.S. Decennial Life Tables for 1979-1981 females found at Title 12, Appendix L. The life expectancy figures to be used are provided in Appendix 2 in the fourth column titled Loan Period 2 (*life expectancy*) (*in years*). Mortgagees must select the age of the youngest mortgagor (*rounded to the nearest whole year*) and use the corresponding life expectancy figure found in the fourth column of the table for the mortgagor's life expectancy.

Life Expectancy Set Aside Decision Matrix

When determining the need for a Life Expectancy Set-Aside, the mortgagee must evaluate whether the mortgagor meets residual income and credit eligibility requirements including use of extenuating circumstance criteria, compensating factor criteria and how HECM proceeds may be used in assessing income and credit qualifications.

The following tables provide guidance on when a Life Expectancy Set-Aside is not required (*Table 1*), a Life Expectancy Set-Aside must be fully funded (*Table 2*) and a Life Expectancy Set-Aside must be partially funded (*Table 3*).

There may be other scenarios where, based on the specific characteristics of the transaction, a Life Expectancy Set-Aside must be funded. Mortgagees must comply with the requirements reflected in the tables below, but must also evaluate carefully transactions that have different risk characteristics than those provided on Tables 1, 2 and 3. Mortgagees must provide well documented reasons for the amount by which a Life Expectancy Set-Aside has been funded when mortgagors do not meet HECM residual income, property charge payment history, and credit history standards, and financial assessment policies.

Life Expectancy Set Aside Not Required

TABLE 1: Life Expectancy Set-Aside Not Required

Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.	
Key Considerations	Compensating Factors
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge Payment History Standard • Meets Mortgage and Installment Debt Credit History Standard • Meets Revolving Debt Credit History Standard • Residual Income \geq 100% of Standard 	
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge Payment History Standard • Meets Mortgage and Installment Debt Credit History Standard • Meets, or does not meet Revolving Debt, Credit History Standard; now current on obligations • Base Residual Income 80% - 99% of Standard 	<ul style="list-style-type: none"> • Mortgagor has paid property charges directly (no escrow account) demonstrating ability to manage on lower income - see other criteria associated with this compensating factor in Section 4.2 (first bullet) or • Other Compensating factors defined in Section 4.2 supporting additional income are available
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge History Standard • Does Not Meet Mortgage and Installment Debt Credit History but <ul style="list-style-type: none"> ○ No foreclosure, judgments, bankruptcy and ○ Is now current on obligations and/or • Meets or does not meet Revolving Debt Credit History Standard but <ul style="list-style-type: none"> ○ Is now current on obligations • Residual Income \geq 100% of Standard 	<ul style="list-style-type: none"> • Mortgagor has paid property charges directly (no escrow account) and one or more of the following • HECM proceeds are sufficient to pay off outstanding obligations during initial disbursement period and/or after First 12-Month Period • Mortgagor non-housing assets are sufficient to pay off outstanding obligations (not included in residual income calculation) • Non-housing assets equivalent to projected Life Expectancy Set-Aside

Life Expectancy Set Aside Must be Fully Funded

Table 2: Life Expectancy Set-Aside Must Be Fully Funded	
Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.	
Key Considerations	Life Expectancy Set Aside Funding Conditions
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Does not meet required Property Charge Payment Standards and/or • Does not meet required Mortgage and Installment Debt Credit History Standards and <ul style="list-style-type: none"> ○ Foreclosure, judgments, or bankruptcy on record and/or ○ Is not current on obligations • Meets, or does not meet, Revolving Debt Credit History Standards • Does not meet Extenuating Circumstance Criteria 	<ul style="list-style-type: none"> • Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met • Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside • Mortgagor justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge payment history standard, (Property Charges were paid through escrow account, not by borrower directly) and • Does not meet required Mortgage and Installment Debt Credit History Standards and <ul style="list-style-type: none"> ○ Foreclosure, judgments, or bankruptcy on record and/or ○ Is not current on obligations • Meets or does not meet Revolving Debt Credit History Standards • Does not meet Extenuating Circumstance Standards 	<ul style="list-style-type: none"> • Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met • Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside • Mortgagors justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge payment history standard (Property Charges were paid through escrow account (not by borrower directly) and • Incurs monthly property charges that exceed 10% of mortgagor monthly income and • Does not meet all Mortgage, Installment Debt Standards; indication of revolving credit issues 	<ul style="list-style-type: none"> • Life Expectancy Set-Aside must be fully funded regardless of whether Residual Income standard is met • Principal Limit must be sufficient to fully fund the Life Expectancy Set-Aside • Mortgagors justify reasons this is a sustainable solution for mortgagor, e.g., meets Residual Income standard or compensating factor criteria, has additional non-HECM assets or income available to cover outstanding debt obligations

Life Expectancy Set Aside Must be Partially Funded

Table 3: Life Expectancy Set-Aside Must be Partially Funded	
Note: If mortgagor meets extenuating circumstance criteria to address credit issues, the credit is considered acceptable.	
Key Considerations	Life Expectancy Set-Aside Funding Conditions
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge Payment History Standard(Property Charges Paid Through Escrow Account) • Meets Mortgage, Installment and Revolving History Standards • Has Residual Income < 80% of standard and compensating factors are not sufficient to meet Residual Income Standard 	<ul style="list-style-type: none"> • Projected partially funded Life Expectancy Set-Aside does not exceed 75% of projected fully funded Life Expectancy Set-Aside. • Monthly Property Charges 6% or less of Monthly Mortgagor Income • Principal Limit must be sufficient to partially fund Life Expectancy Set-Aside
<p>Mortgagor:</p> <ul style="list-style-type: none"> • Meets Property Charge Payment History Standard • Monthly Property charges =>10% of Monthly Mortgagor Income • Meets Mortgage and Installment Debt Credit History Standard • Does, or does not, meet revolving debt credit history standard • Has Residual Income of 80 - 99% of Residual Income Standard 	<ul style="list-style-type: none"> • Mortgagor has paid property charges directly (no escrow account) • HECM proceeds remaining after Initial 12-Month Period and/or Mortgagor Available Assets (not used in Residual Income Calculation) are sufficient to pay-off outstanding obligations; • Projected partially funded Life Expectancy Set-Aside does not exceed 75% of projected fully funded Life Expectancy Set-Aside; and • Principal Limit must be sufficient to partially fund the Life Expectancy Set Aside

Purchase Transactions – HECM for Purchase Program

On a HECM purchase, in addition to the standard HECM requirements, the following are required:

- Fully executed real estate purchase contract
- Seller's property Condition Disclosure, provided by the realtor and signed by selling party
- Source of funds to close
- Other Real Estate Owned Addendum
- Lead Paint Sellers disclosure
- Additional documentation based on specifics of the purchase transaction.

Eligible Property Types:

See eligible and ineligible property types on page 141 – 142.

Occupancy Requirements:

The borrower must occupy the property within 60 days of closing. The lender must confirm occupancy prior to submission of the case-binder to the local HOC for endorsement.

Current HECM mortgagors that plan to sell their existing residence and use the HECM for purchase program to obtain a new principal residence must pay-off the existing FHA-insured mortgage before the HECM for Purchase mortgage can be insured.

Borrower Retaining Current Residence and/or investment properties:

- The borrower must indicate all properties owned and evidence their monthly expenses (*principal, interest, taxes and insurance*) on the Schedule of Real Estate Owned.
- All properties held by the borrower must be in good standing with payment of any debts associated with other properties retained by the borrower. This includes payment of principal, interest, taxes and insurance of the other properties, along with any other associated charges, such as HOA fees, PUD fees, and/or assessment charges. Each property must be documented in its entirety.

- Per HUD: Qualified investor entities are limited to a financial interest (*i.e any type of ownership, regardless of type of financing*) in seven rental dwelling units, when the subject property is part of, adjacent to or contiguous to a property, subdivision or group of properties owned by the investor. Each dwelling unit in two-, three- and four-family properties counts toward the seven-unit limitation. The rental units in an owner- occupied two-, three-, or four unit property also count toward this limitation. (*See HUD guide 4155.1: 4.B.4.d & 6.C.3.a*).
- **The borrower may have more than 7 properties as long as they are not adjacent to or contiguous to a property, subdivision or group of properties owned by the borrower.** (*For example, if the borrower owns 8 properties scattered throughout one or multiple states, it would generally be acceptable.*)
- When prospective mortgagors intend to retain their existing home as a rental property and or other investment properties, the borrower must be able to verify that they have sufficient income to:
 - cover the expenses related to all properties being retained, in addition to the taxes, insurance and HOA, if applicable of the new property;
 - satisfy the monetary investment for the HECM for purchase transaction; and
 - continue to make the mortgage payment and tax and insurance payments on the existing mortgage(s).

In order to verify sufficient income, obtain the following:

- Last two year's 1040's with proof of full PITI + HOA amounts for all properties being retained.
 - Income not showing on 1040s will be considered with evidence that
 - ‡ *A minimum 12 months proof of receipt and its further continuance.*
 - Documentation evidencing regular, consistent deposits along with source of those deposits is required.
 - ‡ *Reason not showing on returns is due to timing of filing or tax-free income.*
 - PITI can be validated with tax and insurance bills and mortgage statement.

- The borrower's total combined monthly housing expenses cannot exceed their monthly income.
- Additional reserves, or lack thereof, will also be taken into consideration during the "affordability" evaluation, as will any recent derogatory credit trends.
- Buy and bail transactions will not be considered for loan approval. *(See Buy and Bail section.)*
- Borrower cannot currently be late on any other mortgage tied to any other property at the time of closing on a HECM purchase.
- If borrower is short-selling or in foreclosure on any other property, including the current residence, the sale or foreclosure must be final before borrower can proceed with closing a HECM purchase.
 - Any short sale or foreclosure on an FHA or VA loan requires 3-years seasoning before approval for a HECM purchase.
 - Any conventional foreclosures, short-sales or deeds-in-lieu in the last 3 years are generally not eligible and will require Borrower explanation to determine if circumstances are acceptable for lending.
- If borrower's intention to occupy the subject property is in question additional documentation may be required *(i.e. listing agreement or rental/lease agreement with cancelled check for 1st month's rent or security deposit for residence being retained)*.
Maximum seller rent-back period is 30 days.

Borrower Selling Current Residence:

- If sale is closing prior to the closing of the HECM purchase, a final HUD will be required before closing.
 - If proceeds from the sale of the current residence are being used for closing funds on the HECM purchase, a paper trail will be required.
- If the sale will not close before the closing of the HECM purchase, follow the "*Borrower Retaining Current Residence*" guidelines above.

Maximum Claim Determination:

- The maximum claim amount will be the "lower" of actual sales price, appraised value or FHA county loan limit.

Sales Contract:

- A copy of the sales contract and any amendments, modifications, or other agreements must be included in the loan file.
Note: Copies of sales contracts created using **electronic signatures are acceptable** with the exception of HUD REO sales which require original signatures. Electronically signed sales contracts must comply with the requirements of HUD Mortgagee Letter 2010-14 and 2014-03 on FHA transactions.
- The following must be included in the Contract of Sale:
 - Amendatory/Escapes Clause
 - ✦ *Exception: Not required on HUD REO, sales where the seller is Fannie Mae, Freddie Mac, the department of Veterans Affairs, Rural Housing Services, other Federal, State and local government agencies, mortgagees disposing of REO assets, or sellers at foreclosure sales or those sales where the borrower will not be an owner occupant.*
 - FHA Real Estate Certification
 - Language indicating Seller is responsible for completing and paying for structural repairs that affect the safety and soundness of property prior to closing.
 - It is recommended that the COS also include:
 - ✦ *Mortgage Contingency*
 - ✦ *Contingency for the sale of existing residence (if proceeds needed to complete this transaction.) Please note this becomes a mandatory requirement if the existing residence has FHA financing.*
- Any amendments or addendums to the contract must be initialed by all parties and reviewed by the Underwriter. If the loan has already been final approved, the loan must be returned to the Underwriter for review.
 - Provide a copy of the sales contract, and any amendments, on the subject property to the appraiser/AMC.
- An individual who is a party to the sales contract / purchase contract, but is not a borrower on the loan, will need to be removed from the sales contract / purchase contract. The contract of sale must be in the borrowers name only. Non-Borrowing spouses are not permitted unless they meet the exceptions outlined in the Non Borrowing Spouse section of this guide.

Sales Price:

- The sales price can only exceed the appraised value by the lesser of \$25,000 or 10%.
 - Exceptions granted on a case by case basis by Risk Committee.
- If the sales price exceeds the appraised value, the borrower must write a letter acknowledging that the appraised value is less than the sales price and express his or her intent to proceed with the reverse mortgage at the sales price.

Property Flipping (See Flipping):

- Lenders must take the following additional steps to ensure that the senior has not been coerced into obtaining a reverse mortgage:
 - Confirm only current owners of record may sell properties that will be financed using FHA-insured mortgages;
 - Any resale or a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing; and
 - For re-sales that occur between 91 and 180 days where the new sales price exceeds 100% of the previous sales price, additional documentation validating property's value must be obtained.
- Any large increase in value must be supported by documented improvements since last purchase and be well supported by the appraisal comparable sales. (See **Flipping**.)

Counseling Certificate:

If contract date is prior to counseling, the subject property must be listed on the counseling certificate. If counseling date is prior to the contract date, listing the current residence on the counseling cert is acceptable.

(See **Counseling**.)

Inspections:

- A Home or Pest Inspection is not typically required unless requested at underwriter discretion or when required by any of the following:
 - State Regulations
 - Signed contract
 - Appraiser

Repairs:

Seller must complete and pay for structural repairs that affect the safety and soundness of property prior to closing. No Repair Set-Asides allowed.

Power of Attorney:

A POA or guardianship is NOT permitted. (See Power of Attorney.)

Life Estate:

A life estate is a legal arrangement to transfer property automatically upon a person's death. The holder of a life estate is called a life tenant and is given ownership in the property for his or her lifetime. Upon the death of the life tenant, ownership in the property transfers to one or more other individuals called remaindermen.

Life Estates are not permitted in the HECM for Purchase program.

Non-Arms-Length Transaction:

- A non-arms-length transaction is not permitted.
- A non-arms-length transaction is one where the parties to the loan and/or sales transaction are related, such as family member, employer/employee, or principal /agent. This relationship may influence the transaction.
- With non-arms-length transactions, it is sometimes difficult to determine the specific details of the transaction. The additional risks that may occur with non-arms-length transactions include:
 - Absence of equity or down payment
 - Financial bailouts or attempts to hide poor credit
 - The purchase price may not represent actual consideration given
 - Occupancy concerns
 - Financing of unsold builder inventory, especially in soft real estate markets
 - Inflated appraised value

Family Sales

- This is a transaction where one family member is selling to another family member. Often there is not a real estate agent involved or the agent may also be a family member. These transactions carry the potential for high risk as they may be bailout situations (e.g. the selling party has financial problems and is unable to refinance).
- **HECM Purchase loans will not be granted if it is a family member selling to a HECM applicant.**
- Exceptions may be granted on a case by case basis.

Monetary Investment:

- The required monetary investment is the difference between the principal limit and the sales price plus the total of the any HECM loan related closing costs, the repair set-aside amount and the servicing set aside amount.
- Borrower may provide a larger investment amount (*aka Optional additional down payment*) amount in order to retain a portion of the HECM proceeds for future draws

Source of Funds:

- Prospective mortgagors must use their own money (*money obtained from sale of assets, and/or sale of current home*) or gift for the required monetary investment and to pay for all closing costs typically associated with purchasing a property and obtaining financing.
 - The seller must pay all costs typically associated with selling a property.
- A verification of deposit, along with the most recent bank statement OR the two most recent, consecutive original bank statements, belonging to the borrower, which cover the most recent three-month period and previous month's balance, may be used to verify savings and checking accounts. (**See Asset Verification section.**)
 - If there is a large increase in an account, or the account was opened recently, a credible explanation and documentation of the source of those funds must be obtained.

- If a gift is being used, a gift letter, evidence of donors ability to provide gift and evidence that funds have been transferred into Borrower's account prior to closing or a certified check showing remitter at closing. (*See Asset Verification.*)
 - Gift from a friend or other unrelated party
 - ‡ *An outright gift of the cash investment is acceptable if the donor is a close friend with a clearly defined and documented interest in the borrower.*
 - ‡ *No repayment of the gift may be expected or implied.*
 - ‡ *The gift donor may not be a person or entity with an interest in the sale transaction.*
 - ‡ *The gift funds must be documented in accordance with HUD Handbook 4155.1 and meet all restrictions of the referenced section.*
- A copy of the HUD-1, Purchase Contract executed by all parties and cashiers or certified check bearing the name of the borrower can be used to verify funds from the sale of a home. A wire transfer statement showing Settlement Agent as sender and Borrower as recipient can also be used.

Verification of Earnest Money Deposit:

Any deposit paid at time of sales contract must be sourced.

Ineligible Funding Sources:

The monetary investment requirement can also be met by the use of approved funding sources as defined in HUD Handbook 4155.1 REV-5, section 2-10, with the exception of the following funding sources which may not be used:

- credit card advances
- bridge loans
- personal loans
- subordinate liens
- new loans against other REO
- loan discount points
- interest rate buy downs
- closing cost assistance

- builder incentives
- gifts or personal property given by the seller or any other interested party
- seller concessions or financing
- Loans against borrower assets (*401K accounts, life insurance policies, brokerage accounts*)
- Down payment assistance programs (*DAPs*) are prohibited
- Sweat Equity
- Trade Equity
- Rent Credit
- Cash or its equivalent, in whole or in part, from the following parties, before, during or after loan closing
- Concessions or financing from any other person or entity that financially benefits from the transactions, or
- Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in the previous bullet.

Purchase Incentives:

Any personal items beyond the “typical and customary” items may require a 3rd party estimate and reduction from lenders accepted sales price. As an exception, the underwriter may allow the personal property transfer if all parties (*buyer, seller and listing/closing agents*) state that the personal property had no bearing on the final negotiated sales price and is conveying solely out of convenience for both parties.

Allowable Fees:

Only fees typical to the market may be charged. Therefore,

- Costs associated with the HECM loan (*e.g. origination fee, MIP, etc.*) must be paid by buyer/borrower.
- Any 3rd Party Title fees must be paid by the buyer/borrower. This includes Transfer Tax, CPL, Owner’s Title, Recording Fees and Doc Stamps.
- Seller cannot pay any pre-pays;
- Taxes and HOA fees must be prorated.
- Fees that are true “seller” fees such as Seller Attorney Fees, Seller’s Realtor Fees, Liens or Assessments paid for clear title to be transferred would not be on the GFE but can be on Seller side of the HUD1.

New Construction:

Certificate of Occupancy (*CO*) must be provided in the loan file. Loan application cannot be taken until after issuance date of a CO.

Late Payments and Current Defaults:

If borrowers have late payments or are in default on their current mortgage, they may be ineligible. Loans will be reviewed on a case-by case basis to determine eligibility.

Prior Foreclosure, Short-sale, Deed-in-lieu of Foreclosure:

- There can be no FHA or VA or USDA foreclosures, short-sales and or deed- in-lieu in the last 3 years.
- Any conventional foreclosures, short-sales or deeds-in-lieu in the last 3- years are generally not eligible and will require Borrower explanation to determine if circumstances are acceptable for lending.
- The three year period begins on the date of the foreclosure completion or recorded deed in lieu of foreclosure, and ends on the date of the loan application.

Bankruptcies

- Bankruptcies discharged over 12 months may be eligible if credit has been re-established and will require Borrower explanation to determine if circumstances are acceptable for lending.

Right to Cancel:

Funds will be disbursed at the closing table for the proceeds being used to complete the Purchase of the subject property. Any remaining funds will require an executed Right to Cancel and will not be available until the rescission period has expired.

Refinance – HECM to HECM Streamline

When borrowers consider refinancing a HECM, we must compare their expected principal limit increase from the previous HECM against their cost to refinance.

Requirements:

HighTechLending Inc. will accept streamline refinance transactions if all the following conditions, in addition to any other applicable requirements as set forth by FHA, have been met:

1. The Loan Comparison shows at least one Adjustable Rate Mortgage product and one Fixed Rate Mortgage product with **at least 3 total products shown**;
2. The existing HECM loan that is being refinanced must have closed at least 18 months prior to application (*18 months seasoning is required*);
3. The loan transaction and lender practices relating to any such loan transaction complies with any applicable state laws and regulations that may impose additional or related obligations to determine if a "net tangible benefit" or similar bona fide advantage is realized by the consumer, including without limitation those laws and regulations relating to "steering" and unfair, abusive or deceptive lending practices;
4. Borrower(s) sign the Anti-Churning Disclosure;
- 5a. **If the accrual rate⁶ on the proposed HECM is greater than the accrual rate on the existing HECM, the increase to the NEW net principal limit must be at least five times (5x's) the total cost of refinancing.** All closing costs for the refinancing must be included in this calculation, regardless of who pays those closing costs. In other words, if closing costs are paid by the lender or broker, they should still be included when performing this calculation.

Note: Loans not meeting the 5x's rule will be considered if a bona fide advantage to the consumer is documented.

⁶ accrual rate = note rate + MIP rate

Example

	Existing	Proposed
Accrual Rate	6.06%	6.24%
Cost of Refinancing		\$8,000
The borrower's new net principal limit must increase by at least \$40,000 (\$8,000*5) to meet HTL's HECM to HECM refinance guidelines.		

OR

5b. If the accrual rate on the proposed HECM is less than or equal to the accrual rate on the existing HECM, the increase to the NEW net principal limit must be at least five times (5x's) the total cost of refinancing of the NEW HECM, excluding closing costs paid by the lender or broker.

Note: Loans not meeting the 5x's rule will be considered if a bona fide advantage to the consumer is documented.

Example

	Existing	Proposed
Accrual Rate	6.5%	6.24%
Cost of Refinancing	\$8,000	\$8,000
Lender/Broker Credit		\$5,000
Cost of Refinancing		\$3,000
The borrower's new net principal limit must increase by at least \$15,000 (\$3,000*5) to meet HTL's HECM to HECM refinance guidelines.		

AND

6. All competent borrowers must be counseled if:
 - o the time between the closing on the existing HECM and the application for refinancing exceeds five years;
 - o the net principal limit on the new HECM is less than five times the total cost of refinancing; or
 - o **mandated by state law.**
 - o **See Counseling Requirements** for any additional requirements.

For example: California state law always requires that counseling be received before a final and complete application for a reverse mortgage loan may be accepted or any fees may be assessed.

7. The borrower cannot be delinquent or in default on the existing HECM loan due to any of the following.

(Note: They are ineligible until the default is satisfied).

- o Delinquent taxes
- o Past due or Force-placed Hazard or Flood Insurance
- o Repair set asides that have not been completed or satisfied.

Disclosures

- Anti-Churning Disclosure
- HECM Refinance Worksheet and Payoff statement from previous lender.

(See Counseling Requirements)

Exceptions:

- If the borrower's refinance factor is less than five times the cost of the loan, the borrower must write a letter of explanation that
 - o Acknowledges that the benefit factor is not greater than five times the cost of the loan.
 - o Indicates the reason they are refinancing. *(i.e. Adding the spouse to the loan, changing programs is not a benefit)*
 - o States that they wish to proceed with the transaction.

MIP

- For all refinance transactions, mortgagees and counselors must determine the amount of initial MIP due to HUD by calculating the initial MIP due on the new HECM and subtracting the initial MIP paid (*Refinance Credit*) in connection with the existing HECM. If the result is positive, the amount must be remitted to HUD as the initial MIP on the refinance. No refunds will be given if the amount is negative.
- Refinance credit is upfront MIP that was paid but not earned by HUD. Any refinance credit from the old case is applied to the new case when an upfront MIP payment is remitted for the new case. Please note the following:
 - Refinance credit is calculated based on the closing or disbursement date provided.
 - In cases where multiple streamline refinances have been originated, the MIP is calculated on a cumulative basis and all previous case #s must be provided to accurately determine current MIP amount required for new case.
 - For the new case, a \$0 payment can be sent to (a) get any credit left on the old case applied to the new case (*refinance credit*) and (b) flag the old case for insurance termination when the new case is endorsed for FHA insurance.
 - On the FHA Connection, **Refinance Credit Query** on the Case Processing menu provides the refinance credit available for an active FHA- insured case that is being refinanced (*old case*). **Case Master Summary** on the Upfront Premium Collection menu and **Refinance Authorization** on the Case Processing menu provide the Refinance Authorization Number and refinance credit amount applied to the new case. The Refinance Authorization Number indicates approval to refinance the old FHA-insured loan as a new FHA-insured loan.
- Formula for Initial MIP on Streamline Refinance
 - 1) New MCA multiplied by new initial MIP (%) = New MIP
 - 2) Old MCA multiplied by old initial MIP (%) = Old MIP
 - 3) Subtracting the result of (2) from the result of (1) yields the MIP owed to HUD.

See also Mortgagee Letter [2005-03](#) on the elimination of a refund for the refinance credit amount.

Right to Cancel / Right of Rescission

HighTechLending Inc. requires the borrower(s) to execute a right of rescission for all non-purchase money transactions.

- This requirement cannot be waived by the borrower or any other party.
-

Seasoning

Refinance Transactions:

- Existing Non HECM Liens (effective for case #s assigned on or after 12/15/14)
 - Payoff of existing non-HECM liens using HECM proceeds is only permitted if:
 - ‡ *the liens have been in place for more than 12 months prior to date of the initial HECM loan application as evidenced by the credit report or title policy or HUD-1; or*
 - ‡ *if liens have been in place for 12 months or less, resulted in less than \$500 cash to the mortgagor, whether at closing or through cumulative draws (e.g., as with a Home Equity Line of Credit (HELOC)) up to the date of the closing of the new HECM (Note: Payoff of a mechanics lien is not considered cash to the mortgagor and is allowed.)*
 - Review the HUD-1 from the transaction that resulted in a lien that is to be paid off using HECM proceeds, the payoff statement and, if applicable, the most recent HELOC statement or its equivalent, to ensure that it resulted in less than \$500 to the mortgagor, whether at closing or through cumulative draws. The HUD-1, payoff statement, and if applicable, most recent HELOC statement or its equivalent, must be included in the case binder.
- On a refinance transaction, the borrower(s) applying for the refinance must demonstrate ownership and occupancy of the property for a minimum of 30 days prior to date of loan application. Loans with less than 30 days occupancy will be considered on a case by case basis. Note: Loans where ownership is less than 12 months will be closely scrutinized.

- Payoff of any existing liens for which the applicant is not the mortgagor is not permitted. This does not apply to:
 - Spouses added to title.
 - Situations where the applicant has:
 - ‡ *Lived in the subject property for a minimum of 12 months and*
 - ‡ *Recently inherited the subject property from a family member, with the existing lien still in the family member's name. Documentation demonstrating the inheritance and proof of uninterrupted occupancy is required.*
 - An exception can be made if there is a case in which the chain of title demonstrates that title had been transferred from the applicant to an applicant's family member for estate purposes during the previous 12 months and then was transferred back into the HECM applicant's name. In this situation, the applicant must demonstrate uninterrupted occupancy by the HECM applicant. These exceptions will be reviewed on an individual basis.
- Recently Acquired Property where the Borrower(s) have acquired the subject property in the **last 90 days** via a cash acquisition.
 - **A copy of the fully executed HUD-1 from acquisition and evidence of source of funds to purchase is required.**

Purchase Transactions:

- HECM purchase loans will not be granted if a family member is selling to the HECM applicant.
- Arms-length⁷ purchase transactions are excluded from this policy.

Sales Contract

See Purchase Transactions.

⁴ An arms-length transaction is a transaction in which the buyers and sellers of a product act independently and have no relationship to each other.

Short Funds to Close

Retail Originations

- If the borrower shortage amounts to 15% or less of Maximum Claim Amount, the loan will be “approved subject to sufficient funds to close” and will follow 30 day commitment letter expiration policy.
- **If the borrower shortage amounts to greater than 15% of Maximum Claim Amount, the loan file will be recommended for denial and proceed with a second look meeting.**
 - Note: Additional information solving the asset shortage must be received within 10 days of second look meeting or loan will be declined for “inadequate assets to close”. The borrower must be notified of a credit decision within 30 days or a letter of incompleteness should be issued requesting verification of funds for loans submitted for a second look.

Wholesale Originations

- If a loan is determined to be “short to close” the loan will be “approved subject to sufficient funds to close” and will follow 30 day commitment letter expiration policy.

Signature Lines on Closing Documents

- Individual Borrower(s)
 - The borrower’s signature must match exactly the vesting on Title.
- Non-Borrowing Spouse
 - The signature line must include the language indicating the signer is a non- borrowing spouse. *(i.e. John Doe, a non-borrowing spouse)*

At this time, Texas loans with a non-borrowing spouse are ineligible if the case # is assigned on or after 8/4/14. For Texas loans with a case # assigned prior to 8/4/14, contact TX counsel for assistance.

- Trust
 - The signatures must match exactly the vesting on Title.
 - ‡ *Trustee the same as borrower*
 - The borrower signs as both the Trustee and the borrower. (*i.e. John Doe, Trustee on Borrower line and John Doe, Trustee on the trustee signature line*)
 - ‡ *Trustee someone other than the borrower*
 - The Trustee signs the legal documents including:
 - Mortgages/Deed of Trusts and riders
 - Notes
 - Right to Cancel
 - Truth-in-Lending
- Power of Attorney
 - The signatures must match exactly the vesting on Title.
 - ‡ *John Doe, by Joan Doe as attorney in fact*
- Conservator
 - The signatures must match exactly the vesting on Title.
 - ‡ *John Doe, by Joan Doe as Conservator*
- Guardian
 - The signatures must match exactly the vesting on Title.
 - ‡ *John Doe, by Joan Doe as Guardian*
- Land Trust
 - The signatures must match exactly the vesting on Title however only the trustee signs the Mortgages/Deed of Trusts and riders. The borrower does not sign these security instruments.
 - The borrower signs all the other documents.
 - ‡ *John Doe, by Joan Doe as attorney in fact*
- Life Estate
 - The borrower's signatures must match exactly the vesting on Title.
 - The remainderman signature must match exactly the vesting on Title.
 - ‡ *John Doe, is a married man, as to a life estate with remainder to Joan Doe.*
 - John Doe signs on the borrower signature line and Joan Doe signs on the remainderman line.

Social Security Number Requirements

- All HECM Loans must have government issued social security numbers.
- HighTechLending Inc. does not allow loans to close if a borrower provides and Individual Tax Identification Number (*ITIN*) in lieu of a valid SSN.
- The Social Security Number (SSN) for each borrower must be BOTH (1) validated with FHA/Pre-funding QC tool and (2) documented.
 - If the borrower does not have any verification of social security number, a letter from social security or a duplicate card is required.
- The borrower(s) Social Security Number must be consistent on all documents provided by the borrower.
- The SSN must be valid or the loan cannot be closed.

Source of Funds

See Assets.

Subordinate Liens

Prohibited Subordinate Liens:

No outstanding or unpaid obligations*, either unsecured or secured, incurred by the HECM mortgagor in connection with the HECM transaction on either the subject property or any other properties owned by the borrower, are allowed. Therefore, any excess balance due on an existing lien must be paid in full, forgiven, or otherwise extinguished prior to or at closing of the HECM loan transaction. To clarify, if a borrower has an existing first mortgage lien prior to applying for a HECM loan, the loan must be satisfied in full.

*Exceptions: Required repairs to the property and/or mortgage servicing charges.

Example 1:

A homeowner has an existing forward mortgage and seeks HECM financing to pay off that mortgage and some other debts. The HECM proceeds, however, will be insufficient to cover a payoff of the forward mortgage, HECM closing costs and other debts. In such a case, if the borrower, in order to close the HECM transaction, obtains subordinate financing which then gives rise to a third or other subordinate lien against the property, the subordinate financing would be prohibited by FHA/HUD because it is made in connection with the HECM transaction. Any excess balance due on the existing first lien must be paid in full, forgiven, or otherwise extinguished prior to or at closing of the HECM loan transaction.

Example 2:

A homeowner negotiates a modification of the amount needed to satisfy a first lien (*sometimes referred to as a "short-pay"*) with the original lien holder because the HECM proceeds are insufficient to cover a payoff of the forward mortgage, HECM closing costs and other debts. The existing lien holder requires the placement of a new junior lien on the subject property representing the difference between full amount owed and the negotiated shortage. This newly created lien, resulting from any shortage of payment owed to first lien holder, is considered an unpaid obligation incurred in connection with this mortgage transaction and is unacceptable. In addition, the borrower may never receive cash proceeds at closing in a "short pay" situation.

Note: HTL strongly advises that the borrower consult with their Attorney, Accountant and/or Financial Advisor about the potential financial/credit ramifications associated with this type of transaction. RMCs and Brokers are cautioned against counseling the borrower on this topic.

Allowable Subordinate Liens at HECM Origination:

Existing junior liens may be subordinated.

The following subordinate liens are allowed.

- State and Local Court Judgments and Judgment Liens
 - FHA does not require a prospective HECM mortgagor to satisfy an unpaid or local court-ordered judgment prior to or at closing, although the mortgagee may impose such a requirement. Liens against the real estate resulting from outstanding state or local court judgments must be satisfied and removed or subordinated to the HECM first and second liens at closing.
- Federal Judgments and Debts
 - A Federal judgment or debt must be paid-in-full or a satisfactory repayment plan between the prospective mortgagor and the Federal agency owed must be in place for 12 months prior to closing of the HECM. In addition, a prospective HECM mortgagor's credit report must be reviewed to check for any claims, defaults or debts owed to the Federal government, and any existing debts against the real estate that will serve as collateral for the HECM. Any delinquent Federal debts or liens against the real estate must not be in excess of the mortgagor's net principal limit, unless the mortgagor has a separate source of funds from which to draw and pay those debts. Liens against the real estate resulting from outstanding Federal obligations must be satisfied and removed, or subordinated to the first and second HECM liens at closing.
- Existing Junior Liens
 - A pre-existing subordinate lien may be re-subordinated. For example, forgivable grants or HELOCs.

Lien Priority and Access to Other Financing:

It is the mortgagee's responsibility to ensure that the HECM first and second liens are the first and second liens of record, and that those other liens, where permitted, do not intervene between the HECM first and second liens. After a HECM is endorsed for insurance by the FHA, the mortgagor may seek a home equity loan, or another type of real estate financing transaction. Liens required by the additional financing must be subordinated to the HECM first and second liens.

References: Federal Code 24CFR206.32(a), 24CFR206.47 and 24CFR206.207(b), HECM handbook, Mortgagee Letter 09-47: Subordinate Liens, Mortgagee Letter 06-20: Subordinate Financing

Survey Requirements

- A survey from a licensed surveyor is required at underwriter's discretion and always required when:
 - There is a discrepancy in the legal description, lot size or the ingress or egress.
 - Well and septic distances are in questions.
 - Encroachments are present.
 - The appraiser requests.
- If surveys are not commonly required in particular jurisdictions, obtain a survey endorsement to title.
- If it is not customary in a particular area to obtain either a survey or an endorsement, as long as the title policy does not have an exception, it is acceptable.
- Survey exceptions in the Title Policy are not permitted.

State-specific requirements:

- The title company determines the survey requirements necessary to issue the title policy without a survey exception.

Tax and Insurance Set-Asides

Borrower is responsible for paying property taxes in full when annual assessments are due and for paying hazard or flood insurance premiums as each is due either in full or through a payment plan they set up with the insurance company.

Tax Identification Numbers (ITIN)

HTL does not allow loans to close if a borrower provides an ITIN in lieu of a valid SSN.

See Social Security Number.

Trusts

- Title may be held in a HTL approved revocable or irrevocable inter-vivos Trust.
- A full copy of the trust document, all addendums, and amendments must be included in the file at time of submission
- The trust must be reviewed and approved by Underwriting, the Title Company and an HTL approved Attorney.
- If the Trust is altered in any way after it has been reviewed and approved, it will need to be re-evaluated.

Trust: An arrangement whereby legal title to property is transferred by the grantor (*or trustor*) to a third person called a trustee. The trustee holds and manages the property for the benefit of another, called a beneficiary. The grantor and trustee may be the same person.

Types of Trusts:

- **Revocable Trust** – A trust that is created by an individual during his or her lifetime and can be changed or cancelled by its creator (*grantor*) at any time, for any reason, during that individual's lifetime. The trustee is typically the same person as the grantor. This type of trust is also known as a revocable inter-vivos trust.
- **Irrevocable Trust** – A trust that cannot be changed or cancelled once it is set up without the consent of the beneficiary. An irrevocable trust is an arrangement in which the grantor permanently departs with the ownership and control of the property. Irrevocable trusts are eligible on an exception basis only. **(Not allowed on H4P Transactions.)**

Eligibility Requirements:

Trusts must meet HUD guidelines for HECM loans as set forth in the HECM Handbook [Chapter 4-5] In general, an inter-vivos (*Living*) trust will be allowed if it meets the following eligibility requirements:

- A natural person must establish the trust by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime. It may be established solely by one individual or jointly by more than one individual.
- All current beneficiaries of the trust must be “eligible HECM borrowers” and meet the minimum age requirements for eligible borrowers from the time of closing until the mortgage is released [i.e., borrower/current beneficiary must occupy the property as a principal residence and new beneficiaries may not be added to the trust]. Contingent or successor beneficiaries receiving no benefit from the trust and without possessing any control over the trust assets until the beneficiary is deceased need not meet eligibility requirements.
- The trust document must name one or more trustees to hold legal title to manage the property that has been placed in trust.
- The trustee(s) must have the power to encumber the subject property for the purpose of securing a loan for the party (*or parties*) who are the “borrower(s)” under the note.
- The lender must be satisfied the trust is valid and enforceable, providing the lender with a reasonable means to assure it is notified of any subsequent change of occupancy or transfer of beneficial interest. The trust must ensure each borrower/current beneficiary has the legal right to occupy the property for the remainder of his or her life.
- If title is to be held in a trust, the full title to the secured property must be vested in the trust. There may be no other owners. The title insurance policy must assure full title protection to the lender and must state that title to the secured property is vested in the trustee(s). It must not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust. **(Texas properties are ineligible.)**
- Each trustee must separately execute the Note (*in all instances*), Truth-In-Lending, Right to Cancel, HUD-1, the Security Instrument and any applicable riders necessary to create a valid first mortgage lien under state law. Note: Trustee is specifically prohibited from signing the Loan Agreement.

- Each borrower/current beneficiary/grantor must sign all documents including the Note, Security Instrument and any applicable riders necessary to create a valid first mortgage lien under state law.
- The trust must be one in which the individual establishing the trust has reserved, to himself or herself, the right to revoke the trust during his or her lifetime.

Trust Documents:

A full copy of the trust is required; however, if the borrower is hesitant to furnish the complete Trust, due to the sensitive nature of other personal information contained within the complete Trust, a Certification of Trust or an Abstract of Trust may be utilized, on an exception basis, as long as the following partial trust documentation is provided:

- The section of the trust that establishes the trust (*the name, the date, settlor(s) name*),
- and trustee(s) name.
- The signature lines (*with dates*) of the trust as well as the notary acknowledgment. 3. The section of the trust that says, "this trust shall be effective as of..." (*and includes the date*).
- The section of the trust that establishes the settlor(s) or grantor(s) as the primary beneficiary.
- The section of the trust that gives the trustee the power to hypothecate, pledge, mortgage or encumber the trust property.
- The section of the trust that says it is both revocable and amendable, if it is a revocable trust.
- The section of the trust that states the law of the state that is applicable to the trust

For revocable trusts, the trust documents must be submitted with the title order to the Title Company and a HTL Approved Attorney. For irrevocable trusts, the trust documents must be submitted to a HTL Approved Trust Review Attorney for preliminary review. If the irrevocable trust does not allow for principal distribution, secondary approval is required by HTL Legal Counsel.

Trust Review and Approval:

Title Company Review

The trust must be reviewed and approved by the Title Company issuing title insurance on the loan. If the trust is acceptable and full title insurance without exceptions for the trust or trustees is granted, the Title Company will issue a special title endorsement that is commonly referred to as the Trust Mortgage Endorsement.

Attorney Review

- For revocable trusts, the trust documents must be reviewed and approved a HTL Approved Trust Review Attorney *.
- For irrevocable Trusts, the Trust documents must be preliminarily reviewed and approved by a HTL Approved Trust Review Attorney**. In addition, if the trust does not allow for principal distribution, the preliminary attorney opinion letter/approval must be sent for secondary review and approval by HTL Legal Counsel.
- The purpose of the review is to ensure that the Trust 1) is valid, 2) complies with the laws of the state in which the property is located, 3) can legally enter into the transaction and 4) meets HUD guidelines.
- An Attorney Opinion and Trust Review letter must be provided to the Lender prior to the closing documents being drawn.

Since a HTL Approved Trust Review Attorney is reviewing the Trust, the documentation should be sent to the Processor at time of application who will coordinate the review with the appropriate HTL Attorney.

Note: All irrevocable trusts must be sent to an HTL Approved Trust Review Attorney.

*Paul N. Lovegrove, PC and Maria Greco are approved to review revocable trusts.

**All irrevocable trust must be reviewed and approved by Paul N. Lovegrove, PC.

A copy of the bill must be provided to the Closer prior to drawing closing documents.

Underwriting Review:

- A HTL Underwriter must review the trust to validate borrower(s) are eligible borrowers, are 62 year old, are owner-occupants, and are vested as beneficiary (*ies*).
- The loan will not be: a) allowed to close (*wholesale/retail*) or b) purchased (*correspondent*) if the Trust documents are not reviewed and approved by the necessary parties as indicated above.

Closing Documents:

- The Amendment to Trust (*Revocable*) or Addendum to Trust (*Irrevocable*) must be completed and executed by the Trustee and Beneficiary at or prior to closing for Revocable Trusts.
- HTL's Approved Trust Review Attorney shall prepare an Amendment between Borrower and Trustee to be executed by the Trustee and Beneficiary at or prior to closing for Irrevocable Trusts.
- The Title Company must issue the Trust Mortgage Endorsement.

Transfer of the Property into or from a Trust:

- The borrower may transfer the property to a revocable inter-vivos trust without causing the mortgage to become due and payable if the Lender and or Servicer agree that the Trust meets all requirements that would have applied if the Trust owned the property at closing. The Lender may require the trust to formally assume the borrower's obligation to repay the debt as stated in the Note if considered advisable to avoid difficulty in enforcement of the Note and mortgage.
- If the trust is terminated, or the property is otherwise transferred from an eligible trust holding the property, the mortgage will not become due and payable, provided that one or more of the original borrowers who signed the Note and Loan Agreement continue to occupy the property as a principal residence and continue to retain title to the property in fee simple or on a leasehold interest as set forth in 24 CRF Section 206.45(a).

Sample Attorney Opinion Letter

Exhibit A — HECM Attorney Opinion Letter

Paul N. Lovegrove, Esq.

ATTORNEY AT LAW

398 Route 111

Smithtown, NY 11787

Phone: 631-669-4370

Fax: 631-587-6347

E-Mail: plovegrove@lovegrovelaw.com

Paul N. Lovegrove

Of Council:

Donald B. Smith

December 12, 2013

HighTechLending Inc. 175 Pinelawn Road
Melville, NY 11747 Attention: Kim

Re: TRUST AGREEMENT OF THE XXXXX FAMILY REVOCABLE LIVING TRUST DATED
AUGUST 10, 1993.

To Whom It May Concern:

I have reviewed the TRUST AGREEMENT OF THE XXXXX FAMILY TRUST DATED AUGUST 10, 1993. The purpose of my review was to ascertain if the trust satisfies the requirements of Paragraph 45 of HUD Handbook 4235 (Rev.-1) dated November 18, 1994. **If MICKEY MOUSE AND MINNIE MOUSE is (are) an eligible borrower(s) and the trust is amended to assure the lender is notified of any subsequent change of occupancy or transfer of beneficial interest and if the mortgage is signed by the trustee(s) and beneficiary(ies), it appears that the requirement of Paragraph 45 of HUD Handbook 4235 (Rev.-1) dated November 18, 1994 will be satisfied.**

If you have any questions please do not hesitate to contact me.

Very **truly yours,**

Paul N. Lovegrove

Sample Trust Amendment

AMENDMENT TO TRUST AGREEMENT

Dated:

WHEREAS, ON AUGUST 10, 1993 MICKEY MOUSE and MINNIE MOUSE (Grantor/Trustor) established the XYZ FAMILY REVOCABLE LIVING TRUST.

WHEREAS, THE BENEFICIARY (IES) OF THE Trust, MICKEY MOUSE and MINNIE

MOUSE, ("Beneficiary"), has applied for HUD-insured Home Equity Conversion Mortgage ("HECM") loan from **HighTechLending Inc.**, ("Lender"), and

WHEREAS, the Beneficiary is an eligible HECM borrower, and

WHEREAS, the Beneficiary's principal residence, which will be encumbered or conveyed to secure payment of the HECM loan, has been transferred to the Trust, and

WHEREAS, the HECM loan may not be insured unless the Trust provides the Lender with a reasonable means to assure the Lender it will be notified of any subsequent change of occupancy or transfer of beneficiary interest in the property, and

WHEREAS, the Lender is unwilling to make the HECM loan unless the loan is insured by HUD. NOW THEREFORE, the Trust is amended by the addition of the following provisions

In the event any Trust property is encumbered or conveyed as security for a Home Equity Conversion Mortgage ("HECM") loan to the Beneficiary, the Trustee will immediately, in writing, notify the lender and any servicer of the HECM loan of any of the following events:

The death of any Beneficiary, or

Any change of occupancy by any Beneficiary, or

Any conveyance of the property, or

Sample Trust Amendment – Page 2

The Trustees shall also ensure that the Trust will abide by written instruments or Agreements executed by the Beneficiary in connection with any such HECM loan.

_____ Date: _____
MICKEY MOUSE TRUSTEE WITNESS

_____ Date: _____
MINNIE MOUSE TRUSTEE

_____ Date: _____
MICKEY MOUSE BENEFICIARY

_____ Date: _____
MINNIE MOUSE BENEFICIARY

STATE OF

ss.:

COUNTY OF

On the _____ of _____ before me the undersigned, an Notary Public in and for said State, personally appeared _____ personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(s), and that by his/her/their signature(s) on the instrument, the individual(s) or the person upon behalf of which the individual(s) acted, executed instrument.

Notary Public

Trust Acknowledgement/Hold Harmless

For properties vested in a trust at time of application that are being taken out of a trust, the Trust Acknowledgement/Hold Harmless must be executed by borrower prior to closing. This document ensures the borrower is aware of any consequences surrounding taking vesting out of a trust.

Sample

BORROWERS ACKNOWLEDGEMENT OF RAMIFICATIONS OF REMOVING RESIDENCE OUT OF TRUST

WHEREAS _____, (hereafter "THE BORROWER(S)")
HAVE APPLIED FOR A REVERSE MORTGAGE WITH HIGHTECHLENDING INC. (hereafter "HTL").

WHEREAS THE PRINCIPAL RESIDENCE OF THE BORROWER(S) IS CURRENTLY OWNED BY
_____, (hereafter the "TRUST"). AND,

WHEREAS IT IS THE DECISION OF THE BORROWER(S) TO REMOVE THE BORROWER(S) PRINCIPAL
RESIDENCE FROM THE TRUST IN ORDER TO MOVE FORWARD WITH THE REVERSE MORTGAGE.

NOW THEREFORE THE BORROWERS HERBY ACKNOWLEDGE THE FOLLOWING:

WE HAVE BEEN ADVISED BY HTL, THEIR SUCCESSORS AND ASSIGNS, TO SEEK THE OPINION OF
OUR ATTORNEY REGARDING THE TRANSFER OF OUR PRINCIPAL RESIDENCE OUT OF THE TRUST.
AFTER CONSULTING WITH OUR ATTORNEY WE HAVE BEEN MADE AWARE OF THE
RAMIFICATIONS OF TAKING VESTING OF THE PRINCIPAL RESIDENCE OUT OF THE TRUST AND
HAVE MADE THE INFORMED DECISION TO TRANSFER OUR PRINCIPAL RESIDENCE OUT OF THE
TRUST AND INTO OUR NAMES INDIVIDUALLY. WE HAVE ALSO CONSULTED OUR ATTORNEY ON
MATTERS RELATING TO THE TIMING OF THE TRANSFER OF OUR PRINCIPAL RESIDENCE OUT OF
THE TRUST, AND THE OPTIONS WE SHOULD CONSIDER IN THE EVENT WE HAVE TRANSFERRED
OUR PRINCIPAL RESIDENCE OUT OF THE TRUST BUT WE DO NOT CLOSE ON THE REVERSE
MORTGAGE OR WE EXERCISE ANY RIGHTS OF RESCISSION THAT WE MAY HAVE AFTER CLOSING
ON OUR REVERSE MORTGAGE.

Signature

ADD NOTARY

GUIDELINES

INSURANCE

Flood Determination Certification

- A Flood Determination Certification, including life of loan, must be included in every loan submission to determine if subject property is located in a flood zone and therefore requires insurance coverage.
 - For Retail loans, the flood certification including life of loan, must be ordered from one of the following companies:
 - ‡ *Federal Flood Certification Corp*
800.449.3322
www.fedflood.com
 - ‡ *CoreLogic*
800.447.1772 x8104
www.floodcert.com
 - ‡ *LPS National Flood (formerly Fidelity / LSI)*
800.833.6347
www.lpsnationalflood.com
 - For Wholesale, Correspondent and Principal Agent loans, can order the Flood certification from a vendor of their choice.
- Review the Standard Flood Hazard Determination (*SFHD*) and ensure the following:
 - The subject property address reflected on the SFHD matches the subject property address reflected on the application, appraisal, survey (if applicable) and sales contract (*if applicable*).
 - The correct Lender address and loan number are populated on the determination.
 - ‡ *Handwritten loan numbers or Lender IDs are not acceptable.*
 - ‡ *If the Standard Flood Hazard Determination (SFHD) is issued without these fields being populated or populated with incorrect information, the determination must be reissued with the required information.*
 - The SFHD has not been altered.

Disputing a Flood Zone:

If a borrower feels the subject property is located outside of a flood hazard area, they must obtain a Letter of Map Revision (*LOMR*) or Letter of Map Amendment (*LOMA*) from FEMA and the flood certification determination must be updated.

- Any disputes to the findings must be reconciled with the flood certification provider and not HighTechLending Inc..
- A dispute or re-determination should only be requested when there is verified documentation to support the request (*survey, appraisal, city or county flood reports, elevation certification, etc.*).
 - Additional information/documentation must enable a Letter of Map Amendment (*LOMA*) or Letter of Map Revision (*LOMR*) request to be reviewed and approved by Federal Emergency Management Agency (*FEMA*).
 - ✦ *A LOMA or LOMR is a letter issued by FEMA that officially addresses whether an existing structure or parcel of land is or is not located in a Special Flood Hazard Area (SFHA).*
 - ✦ *A LOMA deals with structures or land that has not been elevated by fill and a LOMR deals with structures or land that has been elevated by fill. Fill is any material, usually soil, which is placed on a property to elevate the grade so that any structure(s), existing or proposed, located on the property meet(s) FEMA's criteria for removing a structure(s) located on the property from the Special Flood Hazard Area (SFHA).*
 - ✦ *If the property is not removed from the SFHA by a LOMA or LOMR, a FEMA National Flood Insurance Program Elevation Certificate (FEMA form 81-31 "elevation certificate") prepared by a licensed engineer or surveyor documenting must be obtained and indicate that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the property is built at or above the 100 year flood elevation in compliance with the National Flood Insurance program criteria as required in 44 CFR 60.3 through 60.6.*
Note: *The LOMA, LOMR removal letter or flood elevation certificate must be submitted with the case for endorsement. See Mortgagee Letter 2009-37.*

- Possible sources for this information would be a Community Flood Plain Administrator, City Engineer, or Surveyor who has "shot" the topography of the site (*a written statement by the surveyor is not acceptable; the survey must show the elevations*).
- Retain a copy in the loan file of all material used by the Flood Determination Certification vendor to make the final flood determination, including a copy of the effective NFIP map (*Flood Hazard Boundary Map [FHBM] or Flood Insurance Rate Map [FIRM]*) panel for the community in which the building is located with the location of the building indicated.
- Documentation must be supplied to the flood determination vendor to evaluate and provide a revised certificate (*if applicable*).

Flood Insurance

Flood Zones requiring Insurance:

- Flood insurance is required if the Flood Determination Certificate states the subject property is in one of the following flood zones:
 - A, AE, A4, AR, AR/A, AR/AE, AR/AO, D, V, VE, V12, AH, AO
 - ‡ *If the property is located in a special Flood Hazard Area (SFHA) and insurance under the national flood insurance program (NFIP) is not available in the community (non-participating community), the property is not eligible for FHA mortgage insurance. See Chart below.*
 - ‡ *If the Flood Zone is "none", the area has not been mapped by FEMA. The loan may be originated, subject to underwriting review of the area for annual rainfall, last flood, and proximity to bodies of water, assuming all other product and policy parameters are met. See Chart Below.*
 - ‡ *Properties in a Coastal Barrier Resource System (CBRS) or an Otherwise Protected Area (OPA) are ineligible. Refer to Mortgage Letter 2010-43. See Chart below.*

Flood Zone	Mapped/Not Mapped	NFIP Participating	Is Property Eligible?
In a Flood Zone	Mapped	YES	Eligible
In a Flood Zone – CO issued < 12 months	Mapped	YES	Ineligible
In a Flood Zone (except D)	Mapped	NO	Ineligible
Not in a Flood Zone	Mapped	NO	Eligible
In Flood Zone D	Mapped	NO	Eligible with Private Insurance
Undetermined/None	Not Mapped	YES	Subject to UW review
Undetermined/None	Not Mapped	NO	Subject to UW review
Coastal Barrier (CBRS) / Protected Area (OPA)	Mapped / Not Mapped	YES or NO	Ineligible

Note: Although a property may be noted as being in a special flood hazard area, flood insurance would not be required if the improvements on that property fall outside of the mapped designation. Consequently, the location of the principal structure is of utmost importance in terms of determining whether flood insurance is required. If all or any part of the principal structure is located within a special flood hazard area, flood insurance coverage is required. Alternatively, if the unimproved portion of a property is designated as being in a flood hazard area, but the principal structure is not, flood insurance is not required. Detached buildings other than the principal structure (*stand-alone garages, sheds, greenhouses, etc.*) that are located within an area designed as a special flood hazard area, will require flood insurance coverage only if they have been ascribed values which contribute to the overall appraised value of the subject property and serve as part of the mortgage collateral.

Policy Effective Period:

- Policy must have 90 days remaining before renewal at closing.
 - If policy is expiring 31 – 90 days past the closing date, evidence of renewal is required.
 - If policy will expire **30 days or less past the closing date, a renewal policy must be paid in full at closing and show on the HUD-1 settlement statement.**
 - **Texas Exception:** A borrower cannot be required to provide evidence of insurance more than 15 days before the termination date of an existing policy.

Evidence of Flood Insurance:

- Acceptable evidence of flood insurance includes either of the following:
 - Copies of the flood insurance application and proof of premium payment must be obtained prior to closing - **OR**
 - Copy of the flood policy or declaration page is required. The policy must verify that the annual premium has been paid in full or proof of premium payment must be obtained prior to closing. - **OR**
 - For refinance transaction only, a certificate of insurance including all critical information (*i.e., a state that the policy is in force, the insurer(s), dates in force, the entity and address of insured, types of coverage, limits purchased, deductibles, and signature of certificate provider*).
- Loan/Borrower Information must be accurate
 - Name(s) of borrower(s) is the same as on Note and vested names as they appear on the final title policy.
 - Property address is the same as the property address reflected on the appraisal, Note and Security Instrument.
 - The flood zone reflected on the evidence of flood insurance must match the flood zone reflected on the Standard Flood Hazard Determination (*SFHD*).
 - ✦ *The source document to validate the flood zone is the Standard Flood Hazard Determination.*

Deductible:

- The maximum NFIP deductible is \$5,000 for all property types excluding condominiums, unless a higher maximum amount is required by state law. (*This applies to federal and private flood insurance.*)

Condominium Flood Insurance

- If the condo project is located in a flood hazard zone, the condo association must carry flood insurance on all common buildings and common areas within the project.
- If the homeowners association does not carry flood insurance on the common buildings and/or areas, we will not be able to close the loan. **There are no exceptions.**
- Up to a \$25,000 deductible is allowed, unless a higher maximum amount is required by state law.
- The building coverage must be at least 100% of the Building Replacement Cost as defined in the Hazard Policy or \$250,000 per unit. If there is insufficient building coverage, adequate coverage can be calculated by the amount of building coverage divided by the number of units per building.

Mortgagee Clause:

- HIGHTECHLENDING INC
It's successors and/or assigns
2030 Main Street, Suite 350
Irvine, CA 92614

Required Flood Disclosures/Notices:

- If the subject property is **IN a flood zone** the SFHD will include the following two notices which must be mailed to the borrower advising that the property is located in a flood hazard area:
 - **Notice of Special Flood Hazards and Availability of Federal Disaster Assistance**
 - ‡ *This notice must be given whether the community participates or not.*
 - ‡ *This notice must be given in writing to the borrower a reasonable period of time in advance of the loan closing.*
 - A reasonable period of time is typically considered 10 calendar days; however, a shorter period of time is acceptable if evidence shows that the borrower was given adequate time to understand his/her responsibilities and obtain flood insurance, if necessary. *(N/A, if borrower currently retains insurance.)*
 - ‡ *The notice must include*
 - A warning stating that the building or improved real estate securing the loan is in an area having special flood hazards.
 - A description of the flood insurance requirements under section 102(b) of the Flood Disaster Protection Act of 1973.
 - A statement that flood insurance coverage may be purchased under the national flood insurance program is also available from private insurers.
 - **Evidence of Flood Disclosure Notice**
 - ‡ *The notices must be*
 - Signed by the borrowers,
 - Executed noticed returned to the Fulfillment Center, and
 - ‡ *Retained in the loan file.*
 - ‡ *If the Notices are not signed prior to closing, the borrowers may sign the Notices at loan closing.*

Flood Insurance Coverage Amounts:

- Ensure that the policy includes the minimum amount of flood insurance coverage.
 - Coverage amount is the lesser of:
 - ‡ *The max claim amount and any other liens.*
 - ‡ *The estimated cost new of the improvements (as listed on the appraisal), i.e. 100% of replacement cost;*
 - ‡ *Appraised value minus site value; or*
 - ‡ *The maximum insurance available under the National Flood Insurance Act, currently \$250,000 for residential real estate. If Emergency Program see below.*
- A Flood Calculation Worksheet and source documentation must be in the file to indicate if the value of improvements or the replacement cost was used to calculate coverage, i.e. appraisal or an insurance document showing replacement cost. If such document is not available, the method used (*value or replacement*) should be clearly notated in the file and the HTL employee's name that confirmed the coverage information.
 - Flood Calculation Worksheet – 1-4 Family
 - Flood Calculation Worksheet - Condominium

Emergency Program:

- The Emergency Program is the initial phase of a community's participation in the NFIP if no flood hazard information is available or the community has a Flood Hazard Boundary Map (*FHBM*), but no Flood Insurance Rate Map (*FIRM*). During this phase, the maximum flood coverage available to residents of the community under the National Flood Insurance Act is \$35,000 for residential real estate.
- Private insurance meeting at least one of the minimum rating categories must be obtained in an amount equal to the difference between the maximum coverage available under the Emergency Program (*\$35,000*) and the lesser of the following:
 - The loan/line amount of the proposed extension of credit plus total outstanding principal balance(s) of all installment loan(s) and the total line amount(s) of all outstanding line(s) of credit secured by the property;

- The value of the improvements (*defined as property value minus the value of the land on which the property is located*), i.e. 100% of replacement cost; or
- The maximum insurance available under the National Flood Insurance Act, currently \$250,000 for residential real estate.
 - ‡ *To calculate the amount of private flood insurance coverage needed under the Emergency Program, use the Flood Insurance Coverage Form.*
- The private flood insurance policy must meet all of the FEMA criteria described below:
 - ‡ **Licensure**- *The insurer must be licensed, admitted, or otherwise approved to do business in the jurisdiction where the building is located, by the insurance regulator of that jurisdiction.*
 - ‡ **Requirement of 45-Day Cancellation/Non-Renewal Notice** - *The private flood insurance policy should include a requirement for the insurer to give 45 days' written notice of cancellation or non-renewal to the insured with respect to the flood insurance coverage. The policy should also state that, to be effective, such notice must be mailed to both the insured and the lender or Federal agency lender, and must include information about the availability of flood insurance coverage under the NFIP. The policy should be as restrictive in its cancellation provisions as the SFIP.*
 - ‡ **Breadth of Policy Coverage** -*The policy must guarantee that the flood insurance coverage, considering deductibles, exclusions, and conditions offered by the insurer, is at least as broad as the coverage under the SFIP.*
 - ‡ **Strength of Mortgage Interest Clause** - *Lenders must ensure that a mortgage interest clause similar to that contained in the General Conditions section of the SFIP is contained in the policy.*
 - ‡ **Legal Recourse** - *The policy must contain a provision that the insured must file suit within 1 year after the date of written denial of all or part of the claim.*
- If private insurance is not available, the loan cannot be closed.

Lapse in National Flood Insurance Program (NFIP):

- Periodically, the National Flood Insurance Program's authority to issue new flood insurance policies expires and there is a lapse of time before the program is reinstated. The result is the National Flood Insurance Program experiences a period of time operating without the authority to issue new policies, issue increased coverage on existing policies or issue renewal policies until Congress re-authorizes the program. The NFIP is generally extended retroactively to account for the time period it expired, however this cannot be guaranteed. The following guidance should be followed when the NFIP program experiences a lapse in authority.

Evidence of Interim Insurance

- Acceptable evidence pending issuance of a final NFIP policy must include one of the following:
- A completed and executed NFIP Flood Insurance Application plus a copy of the borrower's premium check or agent's paid receipt;
- A completed and executed NFIP Flood Insurance Application plus the final HUD-1 form reflecting the flood insurance premium collected at closing;
- A completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower; or an agent-executed NFIP Certification of Proof of Purchase of Flood Insurance.
- Servicing will follow up to ensure that, after the NFIP has been reauthorized, they receive acceptable final evidence of flood insurance.

Private Flood Insurance

- A borrower may choose to obtain private flood insurance, in excess of the amount provide by NFIP. Private flood insurance cannot be obtained in lieu of NFIP.

Servicing Guidance

- When NFIP experiences a lapse in authority, servicing will monitor the status of the NFIP and track the loan for evidence of flood insurance to be provided within 90 days of closing.
- As long as the loan was closed in compliance with HTL policy, forced placed coverage will not apply once the NFIP is reinstated.
- However, if the loan file does not contain acceptable Evidence of Interim Insurance **OR** if the program is not reinstated retroactive back to the date of the lapse, force placed coverage will be applied.
- If forced placed coverage is applied, this may lead to a default of the loan. The borrower will be responsible for the cost of the forced placed insurance. Note: Content coverage is not available through the forced placed insurance policy.

Hazard Insurance

Evidence of hazard insurance for all properties must be included in every loan submission.

Policy Effective Period:

- Effective date of policy must be equal to or earlier than the date of funding and cover a 12-month period.
 - **Refinance**
 - ‡ *Policy must have at least 90 days remaining before renewal at closing.*
 - If policy is expiring 31- 90 days past the closing date, evidence of renewal is required.
 - If policy will expire 30 days or less past the closing date, a renewal policy must be paid in full at closing.
 - **Texas:** A borrower cannot be required to provide evidence of insurance more than 15 days before the termination date of an existing policy.
 - **Purchase**
 - ‡ *The policy must verify that the annual premium has been paid in full or the balance will be paid in full at closing.*

Evidence of Insurance:

- Original policy or declaration page is required.
 - Binders and applications are acceptable unless prohibited by law. *(Contact insurance agent to determine if a binder or application is acceptable.)* If allowed by law, the binder/application must contain the following information:
 - ‡ *Agent certification that all inspections have been paid and state there is no chance for cancellation except for non-payment of premium.*
 - ‡ *If a binder is acceptable under state law, **term cannot exceed 60 days**, unless otherwise addressed by stated law.*
- The policy must verify that the annual premium has been paid in full or the balance will be paid in full at closing.
- All requirements for standard declaration page must be shown.
- The policy is properly countersigned.

- Policy provides for at least 30 days prior written notice of any cancellation, reduction in amount or material change in coverage.
- Borrower Information must be accurate.
 - Name(s) of borrower(s) is the same as on Note.
 - Property address is the same as the property address reflected on the appraisal, Note and Security Instrument.
- **Texas:** A HO-B Texas Homeowner's policy is preferred. If HO-A policy is obtained, Operations must ensure that it has an endorsement to add back additional perils covering sudden and accidental discharge, leakage, overflow or release of water or steam, fall of trees or limbs, objects falling from the weight of ice, snow or sleet, collapse of building and breakage of glass.

Coverage:

- Property insurance for a home mortgage is required and must protect against loss or damage from fire and other hazards covered by a Standard Extended Coverage Endorsement.
 - Policies that exclude or limit coverage (in whole or in part) for windstorm, hurricane, hail damages, earthquake, or any other perils normally included under an extended coverage endorsement are unacceptable, unless able to obtain a separate policy or endorsement that provides adequate coverage for the limited/excluded coverage.
 - Hawaii: Separate hurricane policy issued by the Hawaiian Hurricane Relief Fund is acceptable as long as accompanied by acceptable fire and extended coverage policy
- Declaration page must specifically state the policy includes wind coverage in coastal areas.
 - Coastal areas are areas surrounded by or that meet the sea or water. The insurance company will make this determination.

Amount of Coverage:

- Coverage must be in an amount equal to the lesser of the maximum claim amount and the estimated cost new (*replacement cost*) or the lesser of the maximum claim amount and the appraised value minus land value. Condominium: Condominium coverage is typically handled by the homeowner's association. A Certificate of Insurance is required reflecting all borrowers as named insured, matching the vested names as they will appear on the final title policy, along with the unit number and the Mortgagee Clause.
 - Condominium coverage must include full replacement coverage for all buildings and liability of \$1,000,000.
 - HO-6 coverage at 20% of appraised value is required for all condominiums where the blanket policy does not include "walls-in" coverage.
 - *"Walls-In" coverage may also be referred to in one of the following manners:*
 - all inclusive
 - All risk policy=all in 100% to replacement value, blanket building coverage
 - Includes betterments & improvements
 - This policy includes coverage for floor and wall coverings of all living units
 - Coverage is "walls in" per condo documents
 - All in-Includes Improvements & Betterments; excludes personal belongings
 - Building coverage blanket OR Blanket Building coverage
 - For policies covering the common elements, up to the maximum of \$3,000 deductible is allowed unless a higher maximum amount is required by state law.
 - Gap Insurance is not permitted.
 - Projects over 20 Units: Fidelity bond is required and the amount must be equal to at least 3 months the annual income from HOA dues only plus the reserves balance at the time of Condominium Approval.

Coinsurance

- HUD does not allow Coinsurance as an acceptable form of hazard insurance.
- Coinsurance is the joint assumption of risk between the insurer and the insured, it is a penalty imposed on the insured by the insurance carrier for under reporting/declaring/insuring the value of tangible property or business income. The penalty is based on a percentage stated within the policy and the amount under reported.

Example:

A building actually valued at \$1,000,000 has an 80% coinsurance clause but is insured for only \$750,000. Since its insured value is less than 80% of its actual value, when it suffers a loss, the insurance payout will be subject to the underreporting penalty. For example: It suffers a \$200,000 loss. The insured would recover $\$750,000 \div (.80 \times 1,000,000) \times 200,000 = \$187,500$ (less any deductible). In this example the underreporting penalty would be \$12,500.

Deductible Amount:

The maximum deductible is \$3,000, unless a higher maximum amount is required by state law.

Mortgagee Clause:

HTL must be listed as the lien holder in the mortgagee clause.

HIGHTECHLENDING INC
It's successors and/or assigns
2030 Main Street, Suite 350
Irvine, CA 92614

- Policy is properly countersigned.
- Policy provides for at least 30 days prior written notice of any cancellation, reduction in amount or material change in coverage.

Mortgage Insurance Premiums

- HUD will charge an **initial MIP of 0.50 percent (0.50%)** of the Maximum Claim Amount (MCA) when the Initial Disbursement **Limit** or **the Borrower's Advance is 60% or less of the Principal Limit**.
 - Where the mortgagor elects to take an Initial Disbursement Limit or Borrower's Advance of 60% or less and HUD charges an initial MIP of 0.50%, the sum of disbursements made during the First 12- Month Disbursement Period must not exceed 60% of the Principal Limit.
 - When the mortgagor's Mandatory Obligations exceed 50% of the Principal Limit, at loan closing, the Borrowers must notify the mortgagee of the amount of the additional 10% of the Principal Limit that they intend to draw at the time of loan closing or during the First 12-Month Disbursement Period so that the correct amount of initial MIP is collected.
- HUD will charge an **initial MIP of 2.50 percent (2.50%)** of the MCA when a mortgagor's initial disbursement **Limit or Borrower's Advance is greater than 60% of the available Principal Limit**.
 - Where the mortgagor elects to take an Initial Disbursement Limit or Borrower's Advance of 60% or less and HUD charges an initial MIP of 0.50%, the sum of disbursements made during the First 12-Month Disbursement Period must not exceed 60% of the Principal Limit.
 - When the mortgagor's Mandatory Obligations exceed 50% of the Principal Limit, at loan closing, the Borrowers must notify the mortgagee of the amount of the additional 10% of the Principal Limit that they intend to draw at the time of loan closing or during the First 12-Month Disbursement Period so that the correct amount of initial MIP is collected.
- To calculate initial MIP, mortgagees must first calculate the "Disbursements Included in the First 12-Month Disbursement Limit". (See **Refinance – HECM to HECM** for additional information on calculating MIP.)

- The existing annual MIP rate of 1.25% will continue to be in effect for all HECMs.

Initial Disbursement at Closing and During The First 12 Month Disbursement Period	Initial MIP	Annual MIP
Amounts of 60% or less of the Principal Limit	0.50 percent	1.25 percent
Amounts greater than 60% of the Principal Limit	2.50 percent	1.25 percent

General MIP Example 1:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$20,000
- Repair Set Aside: \$0
- Cash to Mortgagor at Loan Closing: \$20,000
- Initial Disbursement Limit Amount: \$60,000
- Disbursement Amount at Loan Closing: \$40,000, includes cash to mortgagor and
- Mandatory Obligations
- Initial MIP: \$1,000 (The initial MIP calculation is 0.50% of MCA)

Note: If Mortgagor does not take cash at loan closing, the sum of additional draws during the First12-Month Disbursement Period may not exceed \$40,000 because HUD charged an initial MIP of 0.50%.

General MIP Example 2:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Repair Set Aside: \$1,000
- Mandatory Obligations: \$70,000
- 10% of the Principal Limit: \$10,000
- Cash to Mortgagor at Loan Closing: \$9,000
- Initial Disbursement Limit Amount: \$80,000
- Disbursement Amount at Loan Closing: \$80,000, includes cash to mortgagor, the Repair Set Aside and Mandatory Obligations
- Initial MIP: \$5,000 (The initial MIP calculation is 2.50% of MCA)

General MIP Example 3:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$59,000
- Repair Set Aside: \$0
- 10% of the Principal Limit: \$10,000 (Mortgagor opts to limit to 1% to stay within 60% of Principal Limit)
- Cash to Mortgagor at Loan Closing: \$1,000
- Initial Disbursement Limit Amount: \$60,000
- Disbursement Amount at Loan Closing: \$60,000, includes cash to mortgagor and Mandatory Obligations
- Initial MIP: \$1,000 (The initial MIP calculation is 0.50% of MCA)

Note: If Mortgagor had opted to take the full 10% of Principal Limit of \$10,000 at loan close or have it available for disbursement during the First 12-Month Disbursement Period, the total Initial Disbursement Limit Amount during First 12- Month Disbursement Period would total \$69,000 and the initial MIP would have been 2.50% (\$5,000)

General MIP Example 4:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$51,000
- Repair Set Aside: \$0
- 10% of the Principal Limit: \$10,000
- Cash to Mortgagor at Loan Closing: \$10,000
- Initial Disbursement Limit Amount: \$61,000
- Disbursement Amount at Loan Closing: \$61,000, includes cash to mortgagor and
- Mandatory Obligations
- Initial MIP: \$5,000 (The initial MIP calculation is 2.50% of MCA)

Note: If the mortgagor limited the initial disbursement to \$60,000 (cash to the mortgagor of \$9,000 instead of \$10,000), HUD would charge an initial MIP of 0.50%)

Title Report

A title commitment (preliminary title report) and 24-month conveyance/deed history is required for every loan submission and must show clear and marketable title

Date of Commitment:

The commitment date must not be older than 90 days at the time of closing.

Proposed Insured:

HIGHTECHLENDING INC
It's successors and/or assigns
2030 Main Street, Suite 350
Irvine, CA 92614

Title Coverage Amount:

Minimum amount of Title Insurance coverage required is the maximum claim amount.

Vesting:

- The vested owner, as reflected on the preliminary title report, must be the same as our borrower and as reflected on the Mortgagee/Deed of Trust.
- In the case of co-borrowers, if the property does not reflect at least one borrower as the vested owner, the appropriate grant deed will need to be recorded and a title supplement issued to reflect at least one borrower as a vested owner. This will need to be done prior to application.
- Conversely, if at least one borrower is currently a vested owner, and an additional borrower is to be added, the appropriate instrument can be recorded simultaneously with the closing of the reverse mortgage.
- Copy of most recent Warranty Deed/Quit Claim/Grant Deed may need to be provided by Title to insure the current vesting of subject property. (*See Signatures.*)

Property Address and Legal Description:

The property address and legal description must match the Appraisal. If there is a discrepancy, the applicable exhibits must be corrected and submitted to Underwriting.

Taxes/Liens:

- The reverse mortgage must be in first lien position at closing.
 - For ARM loans, a second lien position is also granted to the Secretary of Housing and Urban Development and recorded simultaneously.
- All outstanding property taxes, assessments, mortgage and federal liens and/or judgments on title must be paid off or removed from title at closing.
- All taxes, water, sewer fees, HOA dues, special assessments, etc. due within 30 days of funding must be paid in full with evidence of payment provided at closing.
- Second liens can be subordinated, however, they cannot be modified and no new mortgages can be initiated or subordinated simultaneously with a reverse mortgage. (Mortgagee Letter 09-32)
- Government grants may be subordinated on a case-by-case basis.
- Tax Certificate must be current, indicate correct name/address and indicate all tax data. (**See Payoffs.**)

Deferred/Delinquent Property Taxes:

- All taxes must be brought current at closing and borrower must opt out of deferment program.
- If property taxes are delinquent borrower must provide a letter of explanation to explain why they have not paid their property taxes and confirm/state their willingness and ability to pay in the future upon closing the HECM loan. (**See Financial Assessment.**)

Easements, Restrictions and Encroachments

The impact of all easements, restrictions, or encroachments on the market value of the subject property must be considered.

Easements

- The following easements under the Title Company's General Waiver guidelines will not cause the property to be uninsurable by FHA:
 - An easement grants rights to access or use the real property of another person without possessing it. Customary easements in general will not cause the property to be uninsurable.
 - Customary easements for public utilities, party walls, driveways and other purposes.
 - Easements for public utilities along one or more of the property lines and extending not more than 100 feet from and for drainage or irrigation ditches along the rear 10 feet of the property – provided the exercise of the rights there does not interfere with any of the buildings or improvements located on the subject property.
 - Easements for underground conduits which are in place and do not extend under any buildings on the subject property.
 - Mutual easements for joint driveways constructed partly on the subject property and partly on adjoining property – provided the agreements creating such easements are of record.
- Restrictions are general limitations as to the use or placement of real estate. HTL may allow the following restriction under the General Waiver guidelines without causing the property to be uninsurable by FHA.
 - Customary building and use restrictions which:
 - ‡ *Are coupled with a reversionary clause – provided there has been no violation prior to the date of the deed to the Commissioner; or*
 - ‡ *Are not coupled with a reversionary clause and have not been violated to a material extent.*
- If the restrictions set forth is being violated, HTL will review for one of the following allowable exceptions:
 - Violations or cost or set back restrictions which do not provide a penalty of reversion or forfeiture of title, or lien for liquidated damages which may be superior to the lien of the insured mortgage.

- Violations of such restrictions which do not provide for such penalties- provided such penalty rights have been duly released or subordinated to the lien of the insured mortgage, or provided a policy of title insurance is furnished expressly insuring the Commissioner against loss by reason of such penalties.
- Violations of such restrictions based on race, color or creed; even where such restrictions provide for a penalty of reversion or forfeiture of title or a lien for liquidated damages.

Encroachments

- Property encroachment occurs when one property's home or other property owned by the homeowner, such as a pool or driveway, extends from the one property onto another. **As a general rule, a property with an encroachment is ineligible for FHA Insurance.**
- The appraiser should identify encroachments, either from the subject property onto an adjacent property, or from an adjacent property onto the subject property such as:
 - Right of way
 - Utility easement
 - Dwelling
 - Garage
 - Physical structure or improvement
 - Setback requirements
- An encroachment may be acceptable if the adjoining landowner, or the local governing authority, provides a perpetual encroachment easement filed in the County Clerk and Recorder's office.
- The following encroachments under the General Waiver guidelines may be allowed and would not cause the property to be uninsurable by FHA:
 - Encroachments on the subject property by improvements on adjoining property where such encroachment do not exceed 1 foot – provided such encroachments do not touch any buildings or interfere with the use of any improvements on the subject property.
 - Encroachments on adjoining property by eaves and overhanging projections attached to improve on subject property, where such encroachments do not exceed 1 foot.

- Encroachments on adjoining property by hedges, wooden or wire fences belonging to the subject property.
- Encroachments on adjoining property by driveways belonging to subject property where such encroachments do not exceed 1 foot – provided there exists a clearance of at least 8 feet between the buildings on the subject property and the property line affected by the encroachment.
- Encroachments by garages or improvements other than those which are attached to or a portion of the main dwelling structure over easements for public utilities – provided such encroachment does not interfere with the use of the easement or the exercise of the rights of repair and maintenance.

Title Endorsements

- ALTA extended coverage policy must be obtained with all required endorsements.
- Below is a list of common endorsements. Additional endorsements may be required by the Title Company.
 - CLTA 100/ALTA 9, Comprehensive
 - CLTA 110.9/ALTA 8.1 Environmental Protection Endorsement (T-36 in Texas)
 - CLTA 118/ALTA 116 Property Address
 - CLTA 115.1/ALTA 4, Condominium, if applicable
 - CLTA 115.2/ALTA 5, PUD, if applicable
 - CLTA 111.8/ALTA 6.2, Variable Rate with Negative Amortization and Line of Credit or Reverse Mortgage Endorsement, in states where available (T-43 in Texas)
 - CLTA 107.5, leasehold estates on policies that don't cover both the land and improvements
 - ALTA 9, Survey, if applicable
 - Tax Deletion, if applicable
 - Texas Only: T-19 Restrictions, Encroachments, Minerals, etc.
 - Texas Only: T-33 Adjustable Rate Mortgage
 - ALTA form revised 1970 of title policy or CLTA 100 in California
 - Trust Mortgage Endorsement

GUIDELINES

PROPERTY

Appraisals

Appraisal Independence

- All FHA, USPAP and Appraiser Independence requirements must be followed at all times.
- Complete appraisal guidelines can be found in Mortgagee Letters 2005-34 and 2005-48, along with Appendix D, on HUDCLIPS.

Appraisal Management Companies

- To comply with Appraisal Independence requirements, HighTechLending Inc. requires that the appraisal be ordered through an HTL-Approved Appraisal Management Company for Wholesale and Retail Channels.
- The actual appraisal must be performed by an FHA approved appraiser.
- See HTL-Approved Vendor list for current listing.

Appraisal Requirements

- UAD format is required.
- Case number must be reflected on all pages of the report.
- Address must also match United States Postal Service (*USPS*).
- Appraiser name and License Number must match FHA Connection.
- Appraiser must confirm/state property meets minimum HUD guidelines.
- Appraiser must provide a well written narrative within the body of the report that addresses any property deficiencies or repair requirements which are directly related to health and safety of the occupants, or soundness of the property.
- Floor plans which are atypical or functionally obsolete require an exterior building sketch or a floor plan sketch with dimensions and calculated gross living area.
- Location map of subject property and all comparable sales.

- Photographs
 - At a minimum, photos of the front, rear, and street scene of subject property, and front views of all comparable sales are required.
 - Additional photos required for views which lend value to property.
 - If an adverse influence on subject property exists which may affect value, photos should also be provided but are not required.
 - Original or electronic imaging photos are acceptable as well as black and white photos if they are clear and sharp.
 - All photos must be taken by the appraiser.
- Statement of Assumptions and Limiting Conditions and Appraiser's Certification
- Date of Signature and Report
 - The actual appraiser must sign all applicable pages of the report and include his/her license number and expiration date.
 - An electronic signature is acceptable.
 - Supervisory signatures alone on appraisals will not be accepted.
- The Appraisal is issued one of 4 ways:
 - As Is
 - ‡ *C of O must be issued prior to application*
 - ‡ *There are no repairs, alterations, or inspections conditions noted by the appraiser.*
 - Subject to Completion per Plans and Specs
 - ‡ *Proposed construction where construction has not started (NOT ACCEPTABLE FOR HECM LENDING)*
 - ‡ *Under construction but less than 90% completed (NOT ACCEPTABLE FOR HECM LENDING)*
 - Subject to Repairs
 - ‡ *Under construction more than 90% complete with only minor finish work remaining (i.e. floor coverings, appliances, fixtures, landscaping, etc.) or completed with repairs needed.*
 - ‡ *If the report is completed subject to repair requirements, then the appraiser must state that the property will meet HUD guidelines upon completion of repairs and supply cost to cure estimates.*

- Subject to Required Inspection
- Other underwriting tools/resources available to validate the report's quality and accuracy include the use of AVM's, desk reviews, field reviews, property profiles, deed/ownership history, neighborhood reviews and satellite images.

Property Overview:

Neighborhood Section

The purpose of the neighborhood section is to identify a contiguous area that is subject to the same influences as the subject property. This section should clearly define the area where comparable sales are located and provide boundaries such as streets, rivers, etc.

- Urban (*relates to a city*) Suburban (*an area adjacent to a city*), or Rural (*anything beyond the suburban area*)
- Areas built up less than 25% (*typical in rural areas only*)
- Growth rate (*should be detailed comments if "Slow"*)
- Property Values (*should be adequate explanation if declining values*)
- Supply/Demand (*oversupply should be adequately explained, including impact on value and marketability*)
- Marketing time (*marketing times over 3 months indicate declining values*)

An appraised value of subject property outside the area range of home values, requires additional comments.

Site Section

The purpose of the site section is to identify any unusual or atypical characteristics for the subject site and that any favorable or unfavorable situations have been addressed.

- Dimensions/Site Area - should be size, shape, and usage that is reasonably conforming and acceptable in the neighborhood
 - Excess land must be separate from property unless HUD Waiver is received.

- Zoning Classification - if the improvements do not represent a legal, conforming use, the appraiser must address this issue – Illegal uses are not permitted
- Highest and Best Use - the use which would produce the greatest current value – if not Residential, there would be a concern for lending on a reverse mortgage
- Utilities - must have public, private or community services

Valuation Analysis:

Cost Approach

The cost approach is a method of valuing the property by estimating the replacement cost of the dwelling, deducting the estimated depreciation, and then adding in the site (*land*) value. The cost approach is optional and not required on a property appraisal for a reverse mortgage. However, a site value must be furnished in all cases (*except on a condo*). Land to improvement values exceeding 40% must be addressed by the appraiser.

Market Approach

The market approach is a method of valuing the property by analyzing comparable properties (*comps*) located in the subject's marketing area. The comparable sales should represent as much similarity to the subject as possible, ideally requiring minimal adjustments. The subject property is the standard against which the comparable sales are evaluated and adjusted. A comparable sale with a superior feature requires a negative dollar adjustment; conversely, an inferior feature of a comp would require a positive dollar adjustment.

Comparable Sales:

- A minimum of three sales is required.
- Generally, the comp sales should have closed within the past 0-3 months. Sales 6-12 months old should be adequately explained. For each comp used with a sales date over 12 months, the appraiser should provide additional comp(s) and a reasonable explanation as to why it was necessary to use older sales. Sales over 12 months old should be a very limited practice.

- Comps should be a minimal distance from subject property, and within the boundaries of the area as described in the Neighborhood section of the report.
- Appraisals of rural properties often require the use of comp sales located a considerable distance from the subject. The appraiser should discuss the selection and use of comps, which are a distance away from the subject property.
- Total gross adjustments should not exceed 25% of indicated sales price
- Total net adjustments should not exceed 15% of indicated sales price
- Total line item adjustment should not exceed 10% of indicated sales price
- Verification must be from public record, not Multiple Listing Service (*MLS*) only
- Comps must bracket the low and high of value (*sales price and final estimate of value*)
- The underwriter reserves the right to require additional or replacement comps and/or listings, if the comps furnished do not appear to support the estimate of value. Underwriting will review all comparable sales on every report and compare to other comparable sales that were available at the time of the appraisal. Any discrepancies must be addressed by the appraiser. Underwriting may request that the appraiser explain in detail why certain other like comparable sales are omitted from value consideration

Inspections:

Inspections for the following items and/or conditions will be required if deficiencies are readily observable and/or noted on the appraisal report.

- Flat or unobservable roof
- Wood Destroying Insects/Organisms
- Septic test or inspection, unless there is evidence of system failure

- Private wells where there is:
 - Unusually objectionable taste, smell, or appearance of well water
 - Knowledge the well water may be contaminated
 - Relies on a water purification system
 - Where there is evidence of corrosion of plumbing pipes
 - Areas of intensive agriculture within ¼ mile
 - Coal mining or gas drilling operations within ¼ mile
 - Dump, junkyard, landfill, factory, gas station or dry cleaners within ¼ mile

If the appraiser reports a potential property deficiency, which may pose a threat or risk to the safety of the occupants or the security and soundness of the property, the lender will require an inspection of the condition to determine whether repairs are necessary to resolve the problem. Situations that will require further inspection include, but may not be limited to:

- Evidence of standing water or excessively damp basements
- Hazardous materials on the site or within the dwelling
- Faulty or defective electrical, plumbing or heating
- Settlement or bulging foundation wall(s)

Appraisal Forms:

- Appraisers are required to use the following report forms based on property type. If the incorrect form is used, the appraiser must reissue the report prior to submission to Underwriting.
 - Fannie Mae Form 1004, Uniform Residential Appraisal Report – All 1 unit single family dwellings and PUDs (*including 1 unit accessory apartments*)
 - Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report – All individual condominium units or a condo with a PUD
 - Fannie Mae Form 1025, Small Residential Income Property Appraisal Report – All 2-4 unit dwellings

Ordering of Appraisal:

- Appraisals are to be ordered from a HighTechLending Inc. approved Appraisal Management Company (AMC). (See *HTL Approved AMC Vendor list*.)
- Other vendors are allowed if the file is a case transfer where the appraisal was ordered before the transfer.
- Reverse mortgage consultants, any member of the lender's staff that would earn commission on the loan, and/or any persons who report in any capacity to an officer of the lender whose area encompasses loan production and loan processing, cannot communicate with the appraiser on any topics related to or having an impact on the value of the property.

This includes ordering or managing an appraisal assignment.

Transferred in Appraisal /Case Transfer:

- A desk review of the "transferred in" FHA appraisal is required upon receipt of an appraisal report if the appraisal was:
 - originally ordered for a lender other than HTL (*commonly referred to as a "transferred-in" appraisal*); and
 - not completed by an approved HTL Appraisal Management Company (AMC) or appraiser
- A DE Underwriter upon review and at their discretion may determine that a desk review is necessary. The desk review must be ordered through a HTL Approved AMC.
- In the event the desk review does not support the appraiser's value, both the appraisal and desk review will be subject to reconciliation by Credit Committee.
- For Retail and Wholesale loans, the lender/client name on page 1 should reflect HighTechLending Inc. or the original lender if file is a case transfer. The lender/client section of page 1 should not reflect the name of a broker. For Correspondent loans, the Correspondent's name should appear in lender client section.

Second Appraisals:

- Second appraisals are only permitted under the following circumstances:
 - The DE Underwriter determines that the initial appraisal contains material deficiencies.
 - The appraiser who performed the first appraisal is on our E-List.
 - The first appraisal expires. *(Note: If first appraisal expires, a new case # must be obtained.)*
- The first appraisal must be included in the case binder.

Appraisal Expiration:

- Appraisals are valid for **120 calendar days** from the original appraisal effective date.
- HUD allows **extensions**, if the loan is approved, for up to **30 calendar days at DE underwriter's discretion**.
- HighTechLending Inc. will consider a 30-day extension on a case-by-case basis if a **sales contract is signed or the loan is submitted and approved prior to expiration date of the appraisal**.
- **The loan must fund before the original expiration date or at the end of the 30-day extension date, if extension has been granted.**
- When an appraisal is **considered expired, the case number tied to the appraisal must be cancelled** and then a new application must be obtained, and a new case number and appraisal can be ordered. *(The same HTL loan number can be used if the Counseling Certificate has not expired. If Counseling Certificate has expired, the original loan number must also be cancelled.)*
- See Age of Documents.

Declining Markets Appraisal Reporting Requirements

A declining market is considered to be any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times.

Requirements:

- Appraisals of properties located in declining markets must include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal.
 - In some markets compliance with this requirement may be difficult or not possible due to the lack of market data and, in these cases, a detailed explanation is required.
- The appraiser is expected to include at least two sales that are as similar as possible to the subject and which sold within 90 days of the effective date of the appraisal in order to show recent market activity.
- In order to ensure that FHA receives an accurate and thorough appraisal analysis, the inclusion of comparable listings and/or pending sales is required in appraisals of properties that are located in declining markets. Specifically, the appraiser must:
 - Include a minimum of two active listings or pending sales on the appraisal grid of the applicable appraisal reporting form in comparable 4-6 position or higher (*in addition to the three settled sales*).
 - Ensure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales.
 - Reasonable market exposure is reflected by typical marketing times for the neighborhood.
 - The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.
 - Adjust active listings to reflect list to sale price ratios for the market.
 - Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.

- Include the original list price, any revised list prices, and total days on the market (*DOM*).
- Provide an explanation for DOM that do not approximate time frames reported in the Neighborhood section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the settled sales provided.
- If the adjusted values of the settled comparable sales are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate.
- The final value conclusion should not be based solely on the comparable listing or pending sales data.
- Include an absorption rate analysis, which is critical to developing and supporting market trend conclusions, as mandated by the Market Conditions Addendum.
 - For example, assuming 36 sales during a six month period, the absorption rate is 6 sales per month (36/6).

Market Conditions Appraisal Addendum (1004MC)

- The 1004MC should identify a declining trend in the market.
- The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market.

Market Trends:

Data regarding market trends is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data.

- The appraiser must verify data via local parties to the transaction: agents, buyers, sellers, lenders, etc. *(if the sale cannot be verified by a party then public records or other impartial data source that can be replicated may be used)*. A Multiple Listing Service (MLS) by itself is not considered a verification source.
- Unacceptable data sources include local and national media and other sources considered not readily verifiable. Appraisal results should be able to be replicated.
- Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.

References:

- ML 2009 - 09: Adoption of Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71) and Appraisal Reporting Requirements for Properties located in Declining Markets
- ML 2007 - 11: Guidance on Appraisal Practices in Declining Markets

Additional structures located on subject property:

HTL requires the appraiser to inspect, photograph the interior and exterior of any additional structure and thoroughly comment on borrower usage of additional structures.

Condominiums

- HighTechLending Inc. will only lend on condominiums from FHA approved projects, verified in FHA Connection.
 - For approved projects, the underwriter reviews and verifies investor ownership, percentage of owners arrears for condominium association fees and owner occupancy ratio to ensure continued compliance with FHA requirements
 - ‡ *Underwriter to sign the Certification for Individual Unit Financing – Appendix B and include in the case binder.*
 - The executed (signed / dated) certification must have been executed within the 30 days prior to the date of closing, or a new certification must be executed (signed/dated – signature stamps or electronic signatures are not permitted).
- The following documents will be required. FHA Connection condominium print-out showing FHA approval.
 - HOA Questionnaire dated within 30 days.
 - Blanket Insurance Policy in the amount of \$1,000,000.
 - H0-6 Coverage (if required) covering 20% of the appraised value at the underwriter's discretion, if the master hazard insurance policy does not contain "walls-in" coverage.
 - Flood Insurance Policy (if applicable)
 - Proof of Fidelity Bond Coverage
 - Current Budget (10% allocation to reserve fund), if deemed necessary by Underwriter.
 - Pending Legal Action Documentation (if applicable)

All other FHA condominium requirements will also apply. See Condo Processing Guide at:

<http://portal.hud.gov/hudportal/documents/huddoc?id=11-22mlguide.pdf>

- Site condominiums do not require the review but must meet the HUD's definition.
 - Single family totally detached dwellings with no shared garages or any other attached buildings or breezeways.
 - They are encumbered by a declaration of condominium covenants or condominium form of ownership.
 - The condominium unit consists of the entire structure as well as the site and air space.
 - The unit is not considered to be a common area or limited common area.
 - Insurance and maintenance costs are totally the responsibility of the unit owner.
 - Any common assessments collected are for amenities outside of the footprint of the individual site
 - ADP Codes are:
 - ‡ *For case numbers assigned prior to September 30, 2013 and closed by December 31, 2013*
 - 957 – Fixed
 - 958 – ARM
 - ‡ *For case numbers assigned on or after September 30, 2013 or closed on or after January 1, 2014*
 - 967 – Fixed
 - 968 – ARM

Disaster Area Declarations

- The Federal Emergency Management Agency determines if a county is declared a federal disaster area.
- The full effect of an incident may not be known at the time of FEMA's initial publication, so the list of individual counties may expand as the incident progresses and damage is re-evaluated.
 - The FEMA Website must be checked immediately following an event, at time of approval and prior to closing to ensure that the subject property has not been impacted.

Declared Disaster Area Re-Inspection Requirements:

- A “Property Inspection or Condition Report” with front/back exterior photos and interior photos (*only if there is exterior damage*) is required if
 - the property is located in one of the Federal Disaster Areas where assistance to individuals and households is being provided by FEMA and
 - The appraisal report was completed on or before the date of the disaster.

Property Inspection and Condition Report

The inspection report

- Must be performed by an appraiser.
 - ‡ *For Retail loans, the original appraiser should perform the re-inspection.*
 - ‡ *For Wholesale loans that have not closed, the original appraiser should perform the re-inspection.*
 - ‡ *For Wholesale loans that have closed but are not yet purchased, an HTL approved appraiser should perform the re-inspection.*
- Must certify the property is free from damage and is in the same condition as previously appraised.
 - ‡ *The Underwriter must determine applicable steps if property has been damaged.*
- Must certify the property maintains the same marketability and value as originally appraised.
 - ‡ *The Underwriter must determine applicable steps if property marketability and or value has been compromised.*

Appraisal Requirements (90 days post disaster declaration):

Appraiser must comment on any damage as well as the effect on marketability and value for 90-days after the date the disaster declared.

Potentially Impacted Areas (not yet declared a disaster):

- If an area has not yet been declared a disaster but has been declared a state of emergency, HTL's **Credit Committee** will publish a list of locations that must follow the Declared Disaster Area Requirements above.
- As FEMA declares disaster areas, HTL's **Credit Committee** may remove locations from the list that must adhere to the Disaster Area Requirements.

Pipeline Management:

In Process

- Loans scheduled to close during the disaster or immediately following should be postponed.
- A property Inspection and Condition reporting meeting the above requirements is required for loans with properties located in a disaster area.

Closed, Not Funded

- Credit Committee must review file prior to disbursing funds on closed loans located in a disaster area.
- To avoid re-closing,
 - Fixed rate loans carrying over into the next month must fund within 7 business days of original funding date.
 - The following types of loans must fund in the same month they close:
 - ‡ Tenure/Term payment ARMS
 - ‡ All Purchases
 - Borrower to provide additional funds to cover per diem interest that has accrued due to the funding delay.

Funded, Not purchased

- Funded loans, not yet sold, that are located in a disaster area require a Property Inspection and Condition report meeting the above requirements.

Property Charges

- Property charges include:
 - Sum of all property taxes – school, city, state, county, etc.;
 - hazard insurance and flood insurance;
 - homeowners association (*HOA*), condominium and planned unit development (*PUD*) fees;
 - ground rents; and
 - other assessments levied by municipalities or under State law.

Eligible Properties

The following property types are eligible for a reverse mortgage:

- 1-4⁸ unit dwellings, including modular homes
- 1 unit dwelling only for H4P
- Manufactured homes
- Condominiums in FHA approved projects
- 1-unit Leasehold
- Attached or detached PUD
- New Construction with Certificate of Occupancy (*CO*) issued prior to application.
- Log homes with log home comparable sales. (min of 2 comparable sales)

⁵ 2-4 Units: The Hotel and Transient Use Disclosure is required.

In-Eligible Properties

The following property types are not eligible for a reverse mortgage:

- Manufactured Home in a Condominium project that is not HRAP approved.
- New Construction with Certificate of Occupancy (CO) issued after application.
- Existing properties where the CO was issued less than 12 months prior to the Appraisal order date that are located in a Special Flood Hazard Area.
- Berm homes
- Geodesic homes
- Homes located on Indian tribal land
- 2-4 unit Leaseholds
- 2-4 unit properties under the HECM for Purchase product
- Properties with illegal accessory units
- 2-4 unit properties with accessory unit
- Investment properties
- Vacation homes
- Second homes
- Mixed use properties where **more than 25%** is used for non-residential purposes
- Commercial properties (*non-residential use is primary use*)
- Properties served by dug wells, springs, lakes, rivers or cisterns (*Exception: Cisterns are allowed in Hawaii or if local HOC allows and grants a waiver.*)
- Newly constructed principal residences where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority
- Boarding houses
- Bed and breakfast establishments
- Cooperative units
- Condotels
- Properties located in Coastal Barrier Resources Act (CBRA) areas
- **Subject property that is listed for sale after the HECM mortgage application**
- Hawaiian Homelands

The list of ineligible properties is not necessarily exhaustive and is subject to amendment, without notice, at any time.

Leasehold:

- Leasehold properties consist of an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others and usually consists of the right to receive rent and the right to repossession at the termination of the lease.
- The leasehold estate may consist of both the improvement and the land, but typically the improvement is purchased in fee simple, subject to ground rent.
- In the event the mortgage is secured by a leasehold estate rather than a fee simple estate, the following criteria must be met:
 - Single family homes only
 - Lease must be 99 year renewable or the remaining term must be at least 50 years beyond the 100th birthday of the youngest borrower.
 - The value or replacement of the property shall be the value or replacement cost of the leasehold estate which shall in all cases be less than the value or replacement cost of the property in fee simple.
 - The appraisal must be completed using at least 2 sold properties in the last year held in Leasehold Estate. The appraiser must demonstrate Fee Simple value versus Leasehold utilizing a 6% capitalization rate as required by HUD 4150.1. Other comparable sales to complete the appraisal held in fee simple are acceptable and will demonstrate the difference in the market acceptance and differential of fee and leasehold ownership.
 - When the leasehold is held in a PUD or Condominium project the feasibility for an option to purchase in a fee simple state is an exception and not required as part of the executed lease as per the 4150.1. The appraisal must state the property meets HUD guidelines as per the 4150.1.

Manufactured Housing:

A Manufactured Home is a structure that is transportable in one or more sections. A manufactured home is designed and constructed to the Federal Manufactured Construction and Safety Standard and is so labeled. The structure must be designed for occupancy as a principal residence by a single family.

The Manufactured home must meet and adhere to HUD guidelines 4150.2 Chg-1 sec. 8-0 including but not limited to:

- Constructed on or after June 15th, 1976.
- Built and remains on a permanent chassis
- Designed to be used as a dwelling with a permanent foundation built to FHA criteria.
- Minimally 400 square feet.
- The site must be served by permanent water and sewer facilities approved by the local municipal authority, if available at the site.
- An all-weather roadway must serve the site.
- The entire property must be taxed as real estate.
- The towing hitch or running gear must have been removed.
- No part of the finished grade level under the home is below the 100 year flood level.
- Structural integrity must have been maintained during transportation and sufficient anchoring, support and stability must be evident. A structural engineer's certification evidencing compliance with HUDs Manufactured Home permanent foundation guidelines effective Sept. 1996.
- Manufactured Condominium projects must be HRAP approved and at least one comparable sale must be located outside of the subject project.
- Evidence that DMV Title has been relinquished. (In CA, a 443a is required.)

All manufactured homes must have an affixed seal(s) located on the outside of the home. If the home is a multi-wide unit, each unit must have a seal. These seals will be numbered sequentially.

Note: HTL may require desk reviews on manufactured homes for Retail, Wholesale and Principal Agent channels, at Underwriter discretion. In addition, comparable sales must be located within 1-mile of subject property for urban locations, within 5 miles for suburban locations and within 10 miles for rural locations.

New Construction / Recently Constructed:

- The Certificate of Occupancy (CO) must be issued prior to application.
- HUD NPCA 99a - Termite Protection Builder's Guarantee form.
- HUD NPCA 99b - New Construction Termite Service Record.
- If located in a SFHA, not eligible.

Property Listed for Sale:

If Primary Residence is or has been listed for sale within the last 12 months the following will be required:

- Proof of MLS listing cancellation/expiration AND
- Explanation/documentation from borrower(s) verifying that the intent is to occupy the property after refinancing and no longer needs/wants to sell property AND
- Prior to closing, Borrowers will be required to execute the Owner Occupancy Affidavit stating any misrepresentation will result in the loan being called due.

Note: A subject property that is listed for sale after the HECM mortgage application is ineligible.

Heating Systems:

All habitable rooms must have a heat source. This does not mean that each room must contain a heating device, but that each room must receive sufficient heat (**at least 50 degrees Fahrenheit**). Heat rising from the first floor to the second floor bedrooms is not acceptable unless a licensed HVAC professional certifies they have inspected the dwelling's heating system and it adequately heats the entire dwelling to at least 50 degrees Fahrenheit and the heating system meets local jurisdiction guidelines. If dwelling's heating system cannot adequately heat the second floor, an acceptable heating system must be installed on the second floor to count the rooms as finished square footage.

Exception: Homes located in Hawaii do not require heat if the lack of it is "typical" for the market area and does not adversely affect the marketability of the property. (Note: HUD minimum property standards state that a heat source is required when an outside temperate could fall below 55 degrees.)

- **Wood Stoves**: Dwellings with wood burning stoves as a primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations. If a furnace or wood stove inspection is required, a qualified HVAC technician is to perform the inspection and issue a certification stating the furnace or wood stove is installed to code, and operating correctly. If the unit is faulty, an estimate will be required to repair the furnace or wood stove. In either case, we do require the initial furnace or wood stove inspection report. In some states the local gas or electric company will inspect a furnace at no charge.
- **Solar Heating Systems**: Dwellings with solar heating systems as a primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. The system must be installed in accordance with the manufacturer's recommendations.
- **Floor/Space Heaters**: Must be permanently affixed to be acceptable. Plug-in space heaters not considered an acceptable heating source.
- **Non-Conventional Heating Systems**: All non-conventional heating systems must comply with local jurisdictional guidelines. Often these are not acceptable as the primary source of heat. An inspection of the heating system and local code compliance may be required.
- **Propane Tanks**: Must be common / typical for the area and not affect marketability of subject. Propane fired furnaces located in a crawl space area are NOT acceptable.
- **Hot water heater**: Earthquake double-strapping may be required per state requirements (cannot be a set-aside).

Oil Tanks:

- Oil Tanks require inspection only if the appraiser notes a problem with the system.
- Leakage will need to be corrected per local and EPA standards prior to closing.
- An unused oil tank located on the subject property requires proper removal or abandonment in line with county or state jurisdiction's established requirements. The appraiser should indicate the location of the tank and require evidence the tank has been removed or properly abandoned.

Oil and Mineral Rights:

HTL may allow outstanding oil, water or mineral rights, or damage caused by the exercise of such rights if they are common to the area. Damage is typically covered under the actual recorded oil or mineral lease, or else the title company insures against it.

Well/Septic:

- Appraiser must confirm well and /or septic is typical for the market area and meets minimum HUD guidelines.
- Appraiser must also comment if public water and or sewer are available to the subject property.
 - If access for hook-up is available and cost is less than 3% of appraised value hook-up is required.
 - If costs exceed 3% of appraised value hook-up is not required.
 - ‡ *If the underwriter waives the connection requirement, documentation must be included in the HUD Case Binder which supports the waiver.*
 - ‡ *Acceptable documentation includes, but is not limited to, appraiser comments within the report, or actual bids of cost to hook up which includes connection charges, applicable permits, trenching and laying the lines/pipes to the residence.*

- If appraiser is unable to identify location of well and/or septic and their compliance with HUD guidelines a survey will be required to disclose locations and compliance.
- Private wells within foundation walls are typically not acceptable to HUD, except in perma-frost states and existing construction.

Minimum Distances between Well and Septic

- The distances must meet minimum HUD requirements found in Mortgagee Letter #2002-25 which are: **Well is located a minimum of 10' from any property line, well is a minimum of 50' from the septic, and there is a minimum of 100' between the well and the septic drain field.**
- As an exception, HUD will allow a minimum distance of 75', if there is evidence in the file that the lesser distance(s) meets local code.
- The appraiser is required to comment if distances appear to be such that there could be potential for contamination.
- The appraiser must note any adverse site conditions, which might warrant further inspections.
- The appraiser is not required to include a site sketch showing the locations of a well, septic, drain field, and property lines, or the distance measurements.

Shared Well

- Shared Wells may serve existing properties (not new construction) that:
 - Cannot feasibly be connected to an acceptable public or community water system.
 - Have a separate valve on each dwelling service line as it leaves the well.
 - Service a maximum of 4 units
 - Have a recorded Shared Well Agreement which is binding upon all signatory parties and their successors in title.

Community Well

- Community water systems are owned, operated and maintained by a private corporation or a non-profit property owners association.
- Homeowners pay the association for their water.
- The operating entity maintains the records, water tests, and operating permit issued by the state.
- At a minimum, a copy of the valid, current operating permit and proof of good standing with local water authority will be required.

Artesian Well (requires HOC waiver)

The waiver request will need to include the following:

- Copy of the appraisal
- Evidence from the local health authority that the well, at the subject property, is acceptable, meets all their requirements, is common to the area, and that the subject property is unable to connect to a public or community water system. If connection is available and the costs to the public or community systems are reasonable (*3% or less of the property value*), connection must be made.
- A water test that conforms to the requirements of the local jurisdiction and a mortgagee's certification that the water has been tested in accordance with the requirements of the local jurisdiction. If the local authority does not have any requirements, the maximum containment levels established by the EPA (*refer to Mortgage Letter 95-34*) apply. The water analysis report must reflect the fact that the water sample was picked up and collected by a representative of either the laboratory or the local Health Authority.
- Describe well type and include as much information regarding well as possible (*when was it dug, how deep etc.*)
- A sketch that shows the location of the well and the exact distances separating the well and the septic tank, the well and the septic tank's drain field, and the well and the property line.
- Evidence whether a supplement to the artesian well for the subject property, such as a holding tank is available where in the event of a drought, the borrowers will have the opportunity to obtain hauled water.
- Artesian wells are susceptible to seasonal highs and lows, there must be a water delivery company available to deliver to the property should the well dry up from time to time. Provide a signed statement from one of the water haulers, on their letterhead, that they will be able to provide and deliver water to the subject property, upon request from the occupants.
- A sketch that shows the location of the spring and the exact distances separating the spring and the septic tank, the spring and the septic tank's drain field, and the well and the property line.
- A signed letter from the borrowers stating that they request the waiver to allow them to refinance the property with an artesian well, even though they are aware that a property with an artesian well does not meet HUD's Minimum Property Standards, and is not eligible for FHA mortgage insurance.

Water Portability Testing

- Well must meet standards of local or state health authority, as applicable. If none, water must be tested for lead and acute contaminants in accordance with ML 1995-34 and including but not limited to: e-coli, coli forms, nitrates, nitrites, lead, and total nitrate/nitrite.
- The borrower cannot provide the water testing samples to the testing lab. All test samples should be taken by a state-certified private laboratory designee in accordance with the state drinking water regulations.
- The water testing report is to be current within six months of the appraisal report, reflect the property address where water sampling was obtained, and clearly show water is safe, potable drinking water. If the property is connected to public water, but has a well that is only used for irrigation purposes, no water testing is necessary.
- Water purification equipment must comply with ML 1992-18.
- Testing is not required unless:
 - Mandated by state or local jurisdiction
 - Well believed to be contaminated
 - Relies on purification system due to contaminants
 - Unusual taste, smell or appearance
 - Corrosion in pipes
 - Located within ¼ mile of intensive agricultural, coal mining, gas drilling, landfill, junk yard, factory, gas station or dry cleaning.

Other Water Sources:

- Any properties served by dug wells, springs, lakes, rivers or cisterns are not eligible for financing.
 - Exception: Cisterns are allowed in Hawaii
- Hauled water is not acceptable to HUD.
- If water source is a private water provider, proof of good standing with local water authority will be required.

Private Roads:

If property is not a PUD, a copy of the recorded easement will be required to confirm legal access to the subject parcel.

Defective Conditions:

If the Appraiser notes that the property is in fair condition, repairs must be completed to bring the property up to at least average condition.

Attics:

The appraiser must inspect the attic and report any deficiencies.

Crawl Space:

A minimum distance of 18 inches from the ground to the bottom of the joists is highly recommended but not mandated. Actual height should be enough to allow for routine maintenance of support systems (*floor joists*) and repair of any ductwork and plumbing in Crawl Space. Appraiser must have access to the crawl space, and enter to the extent of head and shoulders at a minimum. The appraiser must look for evidence of infestation, rot or any other detrimental conditions. Crawl Space must not be excessively damp and any ponding of water in Crawl Space must be corrected.

Accessory Dwelling Unit (ADU):

An Accessory Dwelling Unit (ADU) is defined as a habitable living unit that includes a separate kitchen with range/oven, sleeping and bathroom facilities, attached or detached from the primary residential unit, on a single-family lot. An ADU is usually subordinate in size, location and appearance to the primary unit and may or may not have separate means of ingress or egress. Attached units, contained within a single-family home, known as “mother-in-law apartments” are the most common type of ADU.

An ADU may or may not have separate utility services. The appraiser is in the best position to make the determination if the property is a two-unit dwelling or a single-family dwelling with an ADU. A tenant occupied ADU that is income producing must be considered a 2-unit property, which would then require a 1025 unit appraisal with multi-unit comps and the multi-unit designation must meet local zoning requirements.

The ADU must be smaller in size than the primary housing structure and the HECM borrower must occupy the primary home, not the ADU. If the ADU includes a kitchen with range/oven, this 2nd kitchen must be in compliance with local zoning/buildings codes for an SFR, to be considered a one unit + ADU for underwriting and appraisal purposes.

Single family with accessory dwelling units

- Single family homes with accessory dwelling units are permitted as long as the following conditions are met:
 - Square footage of accessory unit is subordinate to gross living area square footage.
 - Accessory dwelling unit is legal and permitted by the town or removal will be required.
 - Must be common and customary to the area as evidenced by comparable sales.
 - Accessory dwelling unit is not rented.
 - Borrower does not reside in accessory unit.
 - Existence of the accessory unit must not jeopardize any future hazard insurance claims.

2-4 unit properties with an accessory unit

- HUD does not permit 2-4 unit properties that contain an additional accessory unit.
- HUD also does not permit approval of loan subject to the removal of the accessory unit.

Remaining Economic Life:

Properties with less than 30 years remaining economic life may be ineligible.

Hazards:

The property must be free of all known hazards and adverse conditions which may:

- Affect the health and safety of the occupants.
- Affect the structural soundness of the improvements.
- Impair the customary use and enjoyment of the property.

Repairs and Minor Conditions:

- All repairs that are necessary for the property to meet the Minimum Property Standards as outlined in HUD Handbook 4905.1 must be noted on the Appraisal.
- All required repairs must be addressed either by showing that the repairs are completed and inspected prior to closing or by planning a repair set-aside at closing.
 - Repairs that affect the health, safety, structural soundness or security of the property must be completed prior to closing.
 - Repairs that are deemed cosmetic in nature can be completed post- closing using a repair set-aside.

- Minor conditions that do not automatically require repair include but may not be limited to:
 - Missing handrails
 - Cracked or damaged exist doors which are otherwise operable
 - Cracked window glass
 - Defective paint surface on home post 1978
 - Minor plumbing leaks, such as leaky faucets
 - Worn or soiled floor coverings
 - Rotten or worn countertops
 - Damaged plaster, sheetrock, or other wall/ceiling materials inside home post-1978
 - Trip hazards such as cracked sidewalks or poorly installed carpeting
 - Crawl space with debris or trash
 - Lack of all-weather driveway surface

Repairs Completed prior to Closing

- Any repairs determined to pose an immediate health/safety risk to the occupants are required to be completed prior to closing and a set-aside bid for later repair is not allowed.
- Repairs that affect the health, safety, soundness or security include but are not limited to:
 - Structural problems such as foundation damage.
 - Defective paint surfaces in home depending on the year built, and whether or not children reside in the home. (*See Paint Defects below.*)
 - Window bars with no safety latches.
 - Missing smoke detectors.
 - Missing hand rails on steps.
 - Worn out or leaking roofs.
 - Unfinished additions or remodels.
 - Inadequate exits from bedrooms to exterior of house.

- The property must be inspected before closing.
 - An Appraisal Update and/or Completion Report (1004D/CIR) or Compliance Inspection Reports with photos must be completed, certifying that the required repairs are completed.
 - ‡ *Photos must be provided by an appraiser, not the borrower or any other party.*
 - The borrower can have the repairs completed with the intention of paying the contractor with mortgage proceeds. However, all amounts must be paid at closing, and all liens removed at closing.
 - ‡ *Any proceeds payable to contractors for repairs cannot exceed the borrower's net principal limit at closing.*

Repair Set Asides at Closing

- In some instances, the amount necessary to complete the required repairs can be withheld from the proceeds (*repair set-aside*) and then paid toward repairs within 12 months.
 - The dollar amount of the set aside cannot exceed 15% of the maximum claim amount.
 - ‡ *If applicable, the portion of Repairs that are estimated to exceed 15% of maximum claim amount must be completed and a final inspection performed prior to drawing closing documents so that the remaining repair work does not exceed the 15% limitation.*
 - ‡ *If required repairs are estimated to cost more than 30% of the maximum claim amount, the appropriate HOC needs to review the appraisal to determine if it is acceptable for a reverse mortgage.*
 - Repairs must be considered cosmetic in nature.
 - ‡ *Note: Minor deficiencies typically recognized as normal wear and tear on a property that is otherwise in average or better condition, do not require repair.*

- Total set-aside must be \$500 or greater
 - ‡ *Set-aside amount equal to after 1.5x contractor estimate or 2x appraiser cost-to-cure "gross-up").*
 - ‡ *If set-aside amount after "gross-up" is less than \$500 completion prior to closing is required.*
 - ‡ *Appraiser cost-to-cure can typically be used for a set-aside bid if repairs are considered minor and do not require an expert in the field.*
 - If a borrower obtains a bid for minor repairs from a handyman (rather than using an appraiser's estimate) the estimate from a handyman should also be provided on proper letterhead or job sheet, with all identifying contact information of the handyman, and license information, if applicable. (NOTE: Licensing requirements for work performed varies from state to state.)
 - ‡ *HTL may require contractor estimates on minor repairs at the sole discretion of the DE Underwriter.*
 - ‡ *For more detailed and/or major repairs, a qualified licensed and bonded contractor bid may be required when underwriting determines an expert in the specific field should provide an inspection (i.e. foundation, roof and plumbing repairs). Any noted settlement or dampness in the foundation will require a foundation inspection.*
 - The bid shall be on the contractor's company letterhead, which includes the contractor's name and signature, the company name and license information, company address, and telephone number.
 - If a contractor is bidding on several items, the bid must break down the cost per repair item. A grand total without detailing is not acceptable.

- (Effective for all case numbers assigned on or after November 10, 2014) For fixed and adjustable interest rate HECMs, the mortgagee may reimburse the mortgagor for the actual cost of materials from the Repair Set-Aside, provided that the following requirements are met first:
 - ♣ *Mortgagee receives invoices or sales receipts for materials ordered and paid for by mortgagor;*
 - ♣ *Mortgagee ensures that the property is inspected one or more times by an Inspector approved by the Secretary;*
 - ♣ *Form HUD 92051, Compliance Inspection Report, is completed and signed by the mortgagee; and*
 - ♣ *A copy of the completed and signed Form HUD 92051 and a copy of the invoices or sales receipts for materials ordered are uploaded to the Home Equity Reverse Mortgage Information Technology (HERMIT) System.*
 - ♣ *Mortgagees may not reimburse mortgagors for any labor the mortgagors performed.*
- For ARM loans, the borrower can add additional funds to the repairs set-aside but cannot withdraw the funds until repairs are complete. For Fixed Rate loans, funds remaining after completion and disbursement, will not be available to the borrower.

Assisting Borrower in Obtaining Repair Bids

If assisting the borrower in obtaining Repair Bids by supplying a contractor name to the borrower, a list of not less than 3 contractors should be furnished. HTL does not endorse nor is it affiliated with any contractors and cannot be held liable by the borrower.

Repair Administration Fee

The lender will also charge a repair administration fee not to exceed the greater of one and one-half (1 1/2) percent of the funds used for repairs or \$50 for the administration of this agreement. This fee is paid to the lender and is independent of the fees paid by the borrower for compliance inspections.

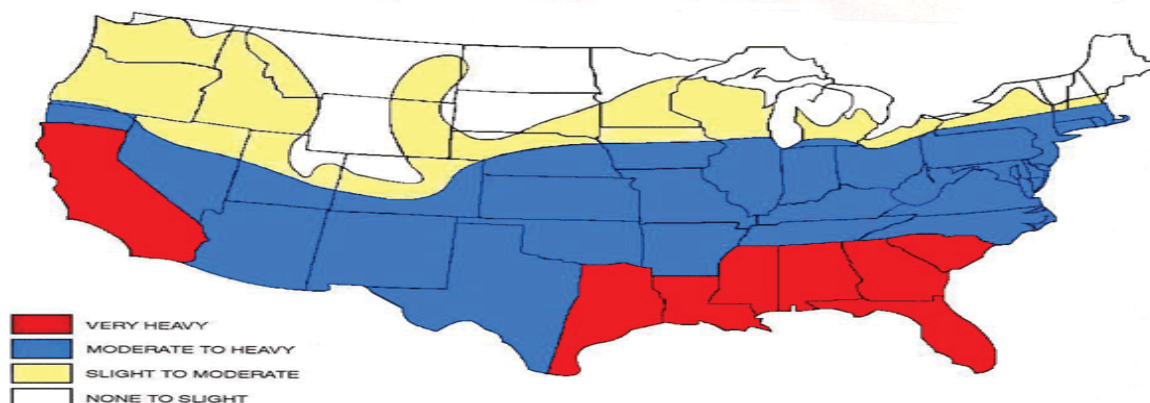
The amount of the repair set-aside will be deducted from the amount of the borrower's available proceeds and will be reflected on the Loan Agreement and the Repair Rider, which is signed at closing.

Paint Defects

- **Exterior Paint** - Raw, exposed wood located on the exterior of the home must be repaired regardless of whether or not children will reside in the home and regardless of the age of the property.
 - For properties built before 1978, a repair set aside is allowed for minor chipping or peeling of paint provided no children under the age of seven reside in the property.
 - ‡ *If children under age seven will be living in the property, the repairs must be completed before closing.*
 - For properties built in 1978 or later, if there is minor chipping or peeling paint the underwriter determines if a set aside is required or if it can be waived.
- **Interior Paint**
 - For properties built before 1978, peeling paint located in the interior of the home where children under the age of 7 reside, must be repaired prior to closing.
 - For properties built in 1978 or later, there are no requirements to repair peeling paint.

Termite Inspection:

- The appraiser must observe all areas of the property that have potential for termite infestation, including the bottoms of exterior doors and frames, and wood siding in contact with the ground and crawl spaces.
- If the appraiser notes that there is any active infestation or damage from previous infestation, a termite inspection will be required.
- HUD also requires a Termite Inspection or the NPMA 99A or NPMA 99B if a property is located in a Moderate or HIGH termite prone areas (*See Chart below*)
 - Note: This requirement applies to all properties including properties that were recently built and a certificate of Occupancy was issued.
- The HUD-NPMA-99A, called the Subterranean Termite Protection Builder's Guarantee, is completed by the builder and specifies whether the work was done by the pest control company or the builder (*in the rare case of using extensive pressure treated lumber as termite prevention*). The form clearly delineates the responsibilities of the builder and the builder must guarantee that any work done complies with the building code.
- HUD-NPMA-99B, now called the New Construction Subterranean Termite Service Record, is completed by the pest control company and now includes all code-accepted methods into one service record. The code- accepted methods include Soil Applied Liquid Termiticide, Wood Applied Liquid Termiticide, Bait System Installed, and Physical Barrier System Installed.



Roof Inspections

- Based on visual observation of disrepair, the appraiser may call for a roof inspection.
- An inspection report from a qualified, licensed roofer will be necessary.
 - The roofer's inspection results should reflect there is a minimum remaining roof life of 2 or more years.
 - If less than 2 years remaining life, an estimate will need to be provided to replace the roof.
 - If a repair, rather than a complete new roof, is warranted, an estimate for repair would be needed.
 - In either case (replace or repair), it is necessary for the initial roof inspection report to be in the file.
 - A certification and/or warranty is not required.

Unpermitted Additions/Conversions (exception for Los Angeles County, CA below*:

If all of the conditions below are met, the unpermitted addition/conversion may be included in the value:

- Appraiser must confirm addition/conversion was done in a workmanlike manner and conforms to the original structure.
- Additional square footage may be used in the GLA if appraiser determines it is acceptable and appropriate.
- Any additional living space must have access to a permanent heating source.
- Town allows unpermitted additions
- The addition must comply with local zoning and appraiser must confirm same.

***Exception in Los Angeles County:**

- If the town does not allow unpermitted additions, a permit must be obtained or the addition must be removed.

Garage conversions (except California--see below*):

- Appraiser must confirm the conversion complies with zoning.
- Any additional living space must have access to a permanent heating source
- Appraiser must confirm conversion was done in a workmanlike manner and conforms to the original structure.
- If the garage door is in place, appraiser should treat as a garage on the appraisal report.
- If the garage door has been removed, conversion complies with zoning and was done in workmanship manner appraiser should give value as a separate line item but not include in the total GLA.

Garage conversion (California only):

- In some areas of CA zoning requires that you have covered parking. In these cases appraiser must indicate what other covered parking is available to subject in lieu of converted garage to evidence the subject complies with local zoning.
- If no other covered parking is available and zoning requires same the subject is not eligible.
- Appraiser must confirm the conversion complies with zoning.
- Appraiser must confirm conversion was done in a workmanlike manner and conforms to the original structure.
- Any additional living space must have access to a permanent heating source
- If the garage door is in place, appraiser should treat as a garage on the appraisal report.
- If the garage door has been removed, conversion complies with zoning and was done in workmanship manner appraiser should give value as a separate line item but not include in the total GLA.

Zoning Compliance:

- Zoning compliance must be legal, legal non-conforming or no zoning.
 - No zoning: Appraiser must provide breakdown for “other” land use listed in the Present Land Use % section.
 - Legal non-conforming zoning: Allowed if appraiser confirms that property can be rebuilt to its current specifications and use. If appraiser is unwilling or unable to confirm that rebuilding is allowed then confirmation must come directly from the local zoning/building department.
 - Commercial or Agricultural zoning:
 - ‡ *The appraiser must confirm the highest and best use is as a single family dwelling. Commercial influence in the surrounding area may still pose a marketability issue that may impact loan approval.*
 - ‡ *Agricultural zoning: Allowed if the property is not being used for any agricultural purposes.*
 - ‡ *Commercial zoning:*
 - The property must be predominantly residential in use and appearance.
 - Any nonresidential use of the property must be subordinate to its residential use, character and appearance. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type or extent of the nonresidential use does not impair and/or remove the property's residential character and appearance.
 - Areas designed or used for nonresidential purposes shall not exceed 25 percent of the total floor area. Storage areas or similar spaces which are integral parts of the nonresidential portion shall be included in the total nonresidential area. For example: Properties that are primarily commercial in nature such as a bed and breakfast, boarding house, large commercial enterprises exceeding 25% of floor space are ineligible.
 - The appraiser must confirm that the highest and best use is as a single family dwelling.
 - ‡ *Commercial influence in the surrounding area may still pose a marketability issue that may impact loan approval.*

Excess Land:

The FHA requires that the property title exclude acreage or lots that are not included in the value. The appraiser must rely on what is typical for the area in order to determine how much land should be included in the value. There currently is no maximum acreage limitation, so the underwriter must review the appraisal and make the final determination for additional lots, or properties over five acres.

Large properties must

- Be zoned and used as residential property.
 - Property cannot be income producing (*i.e. No farms or commercial use*)
- Have acreage common for the area.
- Have acreage that is entirely contiguous, and included on the legal description.
- Be taxed as one parcel
- Include amenities, such as
 - ‡ *Septic tank*
 - ‡ *Garage*
 - ‡ *Anything else that could contribute to the marketability of the property.*

If the property has excess land that does not meet these requirements, the excess land cannot be included in the property value. Borrowers have a choice to legally mortgage the entire land, but not receive the benefit of the value in the mortgage (*encumber it*), or split off the excess land so that they can sell it at any time without having to pay off the mortgage. The borrowers must state in writing their intentions in writing.

- Encumber the land
 - Nothing further is required
- Deed the land
 - A survey is necessary, and the deeded land must be removed from the legal description. A new parcel number is required for the encumbered lot.
 - If the county cannot assign a new parcel number until its next tax roll, obtain a letter from them that states they will assign the parcel number during the next tax roll.
 - Land may not be removed from the title if this would limit or prevent the encumbered property from accessing public roads, wells and septic tanks.

External Influences/Adverse Site Conditions:

Items such as railroad tracks, high voltage power lines, traffic noise and proximity to commercial and/or industrial structures will be reviewed by underwriter. Acceptance of these influences will be determined by underwriting based on its impact on marketability, safety of the occupants and the appraiser's ability to provide comparable sales with similar influences.

Rural Properties:

Special attention will be paid to rural properties.

Rural properties often have larger lot sizes and their locations can be relatively undeveloped. As a consequence, there may be a shortage (*or absence*) of recent comparable sales in the immediate vicinity.

This may cause the appraiser to select comparable sales that are located a considerable distance from the subject property. In those instances, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value for the subject property. In these situations, the appraiser must include an explanation of why the particular comparable sales were selected.

Only closed (*settled*) sales may be used as comparable sales 1, 2 or 3. If a sale is over six months is used, an explanation must be provided. 4150.2

No sales over one year old are permitted except as "additional comparable sales" and would be identified as comparable sale(s) 4, 5 or 6. Properties under contract may be also be submitted as additional comparable sales 4, 5 or 6 to support trends or value conclusions observed.

Additional Structures on Subject Property Lot:

See Appraisal.

About the Manual

This manual is designed for the exclusive use of HighTechLending Inc. employees and business partners and is a source of reference for general information regarding reverse mortgages. Refer to FHA HUD and HECM Handbooks for information regarding any lending guidelines not specifically addressed in this manual.

While every precaution has been taken in the preparation of this manual, HighTechLending Inc. assumes no responsibility for errors or omissions.

We expressly reserve the right to add, withdraw, or change any of the information at any time. HighTechLending Inc. retains the right to interpret, apply, and make exceptions to policy and/or procedures as deemed necessary.

Confidentiality Statement

In the context of this manual, confidentiality means persons in receipt of this manual may not discuss nor divulge in any manner any identifying information, contents, policies, or procedures with anyone who is not authorized and approved by HighTechLending Inc.. In addition, such persons may not discuss this confidential information in a place where such a discussion may be overheard.

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Questions and Feedback

If you have questions or feedback about this manual, please email your Manager, Account Executive or Relationship Manager.

Appendix A

Alternate Contact Disclosure:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Anti-Churning Disclosure (HUD Form 92901):

The disclosure must be included with every HECM to HECM refinance loan, signed and dated by the Borrower(s) and Loan Officer.

Application (1009):

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Addendum to Application (92900a):

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Amendatory Clause and Real Estate Certification (Purchase only):

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

- Exception: Not required on HUD REO, sales where the seller is Fannie Mae, Freddie Mac, the department of Veterans Affairs, Rural Housing Services, other Federal, State and local government agencies, mortgagees disposing of REO assets, or sellers at foreclosure sales or those sales where the borrower will not be an owner occupant.

Annuity Disclosure:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Borrower Certification and Authorization:

The Authorization must be included with every loan submission and must be signed and dated by the borrower(s).

Borrowers Contract with Respect to Hotel and Transient Use of the Property:

The disclosure must be included for all 2-4 family properties. The form must be signed and dated by the borrower(s).

Choice of Insurance:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Consent and Authorization for Lien Payoff:

The disclosure must be included with every loan submission and be signed and dated by the borrower(s).

Consumer Protection Measures Against Excessive Fees:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Customer Identification Policy Notice:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Election of Tax and Insurance Impound / Escrow:

The disclosure must be included with every loan submission. HTL cannot set-aside funds to establish a tax and insurance escrow account at this time. The appropriate box should be selected. Note: Borrowers may set up an Escrow account with the Servicer post-closing.

Federal Disclosure Notices:

The disclosure (or equivalent separate disclosures) must be included with every loan submission and must be signed and dated by the borrowers. The disclosure includes the Flood Insurance requirements, Credit Report Notification, Notice of Right to Receive the Appraisal Report and the Anti-Coercion Statement.

Flood Certification – Life of Loan:

The certification must be included in every loan submission.

General Disclosure:

The disclosure (or equivalent separate disclosures) must be included with every loan submission and must be signed and dated by the borrowers(s). The disclosure includes Statement of Consequences of Placing a Second Lien, HECM Borrower's Certification, Appraisal and Inspection Waiver, Face to Face Counseling disclaimer, and Courier/Overnight Mail fees disclosure.

Good Faith Estimate and Acknowledgment:

Must be included with every loan submission and must be signed and dated by the borrower(s) and loan officer. It must reflect issuance to the borrower(s) within three business days of the Application date per RESPA law. It should include an estimate of all fees to be charged to the borrower(s) at Closing. A change of product or discrepancy in fees will require re-disclosure.

Provider of Services List:

The Providers of Services List is a list of any third party providers used to process the loan (i.e. credit agency, title company, flood determination company, etc.). This must be included with every loan submission and initialed by the borrower(s).

HECM Print Screens

These printouts include HECM Print Screen with Application annotation 99-2, Amortization Schedule, Total Loan Costs Worksheet and Comparison Sheet and should be prepared at the time of Application, re-disclosure and again at Closing. The printouts must be included with every loan submission and must be signed and dated by the borrower(s). They must reflect issuance within three days of the Application date or valid changed circumstances per RESPA law.

Home Inspection – For Your Protection

The disclosure must be provided to the borrower(s) at application and included with every loan submission.

Important Terms Disclosure:

The Important Terms disclosure must be included with every adjustable rate loan submission and must be initialed, signed and dated by borrower(s).

Intent to Purchase an Annuity Disclosure

The disclosure must be included with every loan submission and must be signed and dated by the borrowers(s).

Lead Base Paint Certification:

In certain situations, the borrower will be required to treat any defective paint surfaces after closing for properties built before 1978, and comply with the Lead-based Paint Poisoning Prevention Act (LPPPA) requirements.

- When children under the age of seven will be residing in the property, the borrower must treat the defective paint surfaces in accordance with LPPPA requirements.
- If children under the age of seven will not be residing in the property, the borrower can certify to that fact in writing, and the treatment of defective paint surfaces will not be required. This certification can accompany the appraisal or the approval of the property can be conditioned on the receipt of this certification.

Nearest Living Relative:

The disclosure must be included with every loan submission and must be signed and dated by the borrowers(s).

Non-Borrowing Spouse or Resident Notice:

The disclosure must be included with every loan submission and must be signed and dated by the borrowers(s) and the non-borrowing spouse or resident.

Notice to Applicants:

The disclosure (or equivalent separate disclosures) must be included with every loan submission and must be signed and dated by the borrowers(s). The disclosure includes ECOA Notice, Responsibility for Expenses Incurred, Right to Privacy Act, and Co-applicant information.

Opt Out of Sharing Information:

The disclosure must be provided at application and included with every loan submission.

Patriot Act Disclosure:

The disclosure must be included with every loan submission and must be signed and dated by the borrower(s).

Privacy Policy Notice:

The HighTechLending Inc. Privacy Policy Notice should be given to the borrower at Application. It does not require a signature. (Note: This disclosure is Lender specific and reflects the Lender's specific policy.)

Right to Receive a Copy of an Appraisal:

The disclosure must be included with every loan submission and must be signed and dated by borrower(s).

Servicing Transfer Statement:

The disclosure must be included with every loan submission and must be signed and dated by the loan officer and the borrower(s). The disclosure is Lender specific and reflects the Lender's specific history related to servicing transfers.

State Disclosures:

Several states have individual state specific disclosures required.

Truth-in-Lending (TIL):

The disclosure must be included with every fixed rate loan.

Third Party Fees Certification:

The disclosure must be included with every loan submission and must be signed and dated by the borrowers(s).

Use of Proceeds Disclosure:

The disclosure must be included with every loan submission and must be signed and dated by the borrowers(s).

Closing Documents

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Application (Final)

Assignment of Mortgage

Compliance Agreement

Conditional Commitment

Electronic Funds Transfer

HUD-1

Lien Exhibit 2

Loan Agreement

Name Affidavit

Note - First (with Allonge, if applicable)

Note - 2nd

Payment Plan – Exhibit 1

Repair Rider, if applicable

Right of Rescission (Refinance only)

Security Instrument

Security Instrument – 2nd

Security Instrument Riders (i.e. Pud, Condo)

Submission Schedule

Truth-in-Lending (Final)