



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

September 21, 2010

MORTGAGEE LETTER 2010-34

**TO: ALL APPROVED MORTGAGEES
ALL HUD-APPROVED HOUSING COUNSELING AGENCIES**

**SUBJECT: Home Equity Conversion Mortgage Program – Introducing HECM Saver;
Mortgage Insurance Premiums and Principal Limit Factor Changes for
HECM Standard**

The U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) is pleased to announce a second option for the Home Equity Conversion Mortgage (HECM) Program. FHA designed HECM Saver as a second initial mortgage insurance premium (MIP) option for the purpose of lowering upfront loan closing costs, for mortgagors who want to borrow a smaller amount than what would be available with a HECM Standard¹. For all HECM case numbers assigned on or after October 4, 2010, mortgagors may select either HECM Saver or HECM Standard as an initial MIP.

This Mortgagee Letter provides policy guidance for HECM Saver and HECM Standard by describing:

1. The amount of initial and monthly MIP due to the Secretary;
2. The availability of all existing program features for both options;
3. How to calculate initial MIP due on HECM refinance transactions;
4. How to access new principal limit²factor (PLF) tables;
5. Changes to FHA Connection; and
6. How to manage pipeline loans.

This Mortgagee Letter also reiterates HUD’s long standing policy of requiring mortgagees to adapt the legal documents as necessary to ensure compliance with the program requirements.

Initial and Monthly Premiums

For HECM Saver, the initial MIP will be **0.01** percent (0.01% or 0.0001) of the maximum claim amount³ (MCA), and is collected at time of loan closing. For HECM Standard, the amount of initial MIP will continue to be **2** percent (2% or 0.02) of the maximum claim amount, which also is collected at the time of loan closing.

	HECM Saver	HECM Standard
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¹ The collection and remittance of initial MIP that is determined by 2% of the maximum claim amount must be identified as a separate and distinct premium option from HECM Saver; and therefore will be known as HECM Standard.

² Principal limit is the maximum amount made available to the mortgagor.

³ Maximum claim amount is the least of the appraised value, national mortgage limit, or sales price.

Initial MIP	0.01 Percent	2.0 Percent
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MIP for both HECM Saver and HECM Standard will be charged monthly at an annual rate of **1.25** percent (1.25%) of the outstanding loan balance.

	HECM Saver	HECM Standard
Annual MIP	1.25 Percent	1.25 Percent

As the result of Public Law 111-229, signed by the President on August 12, 2010, HUD is authorized to adjust the amount of the annual mortgage insurance premiums through Federal Register Notice or Mortgagee Letter. Consistent with this statutory authority, this Mortgagee Letter makes this adjustment. The revised annual mortgage insurance premiums announced in this Mortgagee Letter are applicable in lieu of those currently provided in 24 CFR part 206. Through rulemaking to be subsequently undertaken, HUD will conform its HECM regulations to reflect this adjustment.

Availability of HECM Saver and HECM Standard

HECM Saver and HECM Standard are available for:

- all HECM transaction types (traditional, purchase and refinance);
- all five payment plans (tenure, term, line of credit, modified tenure and modified term);
- all interest rate indices (Constant Maturity Rate and London Interbank Offered Rate);
- adjustable rate mortgages (monthly and annual); and
- fixed interest rate mortgages.

Initial MIP Calculation for Refinance Transactions

For all refinance transactions, mortgagees and counselors must use the formula below to determine the amount of initial MIP due for both HECM Saver and HECM Standard. This provision replaces the “Initial Mortgage Insurance Premium” section of Mortgagee Letter 2009-21, Home Equity Conversion Mortgage Refinancing of Existing Loans, dated June 30, 2009. The remaining guidance provided in Mortgagee Letter 2009-21 is still in effect.

Formula:

- (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 amount owed to HUD

Refinance Examples:

Saver to Saver:

New MIP: \$250,000 x 0.01% = \$25

Old MIP: \$200,000 x 0.01% = \$20

MIP Amount Owed to HUD: \$5

Refinance Examples Continued

Standard to Standard:

New MIP: \$250,000 x 2% = \$5,000

Old MIP: \$200,000 x 2% = \$4,000

MIP Amount Owed to HUD: \$1,000

Standard to Saver:

New MIP: \$250,000 x 0.01% = \$25

Old MIP: \$200,000 x 2% = \$4,000

MIP Amount Owed to HUD: \$0

Note: If New MIP less the Old MIP is a negative number, the amount owed is zero

Saver to Standard:

New MIP: \$250,000 x 2% = \$5,000

Old MIP: \$200,000 x 0.01% = \$20

MIP Amount Owed to HUD: \$4,980

Saver to Saver:

New MIP: *\$200,000 x 2% = \$4,000

Old MIP: *\$250,000 x 0.01% = \$25

MIP Amount Owed to HUD: \$3,975

**Note: If New MCA is less than the Old MCA, the amount owed can be greater than zero*

The HUD regulation at 24 CFR §206.53(c) sets a regulatory limit on the amount of change in the initial MIP that may be collected on HECM loan refinancings. When a mortgagor refinances from a HECM Saver to a HECM Standard, the initial MIP due may exceed the amount of MIP charged that is allowed under 24 CFR §206.53(c). Thus, through this Mortgagee Letter, HUD will permit the collection of the higher amount as provided by §206.105(a), and HUD will amend §206.53(c) to reflect the authorization to establish a higher MIP.

Principal Limit Factor Table

Effective October 4, 2010, the amount of HECM loan proceeds made available to all mortgagors will be reduced. New principal limit factor tables for HECM Saver and HECM Standard are available to mortgagees, counselors and others involved in the origination of HECMs on HUD's web site. The new tables may be uploaded or copied from the site directly into any reverse mortgage technology system or tool used to support the HECM program. The new PLF tables are accessible from the following web site: <http://www.hud.gov/offices/hsg/sfh/hecm/hecmhomelenders.cfm>

FHA Connection Case Number Assignment Screen Changes

Several changes have been made to FHA Connection to accommodate HECM Saver and HECM Standard. To ensure the HECM transaction is successfully entered into FHA Connection, mortgagees must follow the instructions below.

Mortgagees must use the following ADP codes for HECM Saver and HECM Standard:

ADP Description	HECM Saver ADP Codes	HECM Standard ADP Codes
HECM Assignment/Fixed	971	951
HECM Assignment/ARM	972	952
HECM Condominium/Fixed	977	957
HECM Condominium/ARM	978	958

Case Number Assignment Screen

System Field
ADP Code

Lender Entry
Select ADP for HECM Saver or HECM Standard that corresponds to the ADP description listed above.

Housing Program

Select HECM Saver or HECM Standard

Pipeline of HECMs

All loans that have not closed and the FHA case number was assigned as of October 3, 2010, may be processed using an initial premium of 2 percent (2%), a monthly premium of 0.50 percent (0.50%) and the fiscal year 2010 principal limit factor table. The lender need not change the principal limit calculation or re-disclose to the mortgagor since there is no change to the amount of the HECM loan proceeds the mortgagor will receive.

However, FHA will permit mortgagors with case numbers that were assigned on or before October 3, 2010, but the loan has not closed, to convert to HECM Saver. Conversions to HECM Saver will change the amount of the mortgagor's initial MIP and principal limit amount, thus requiring re-disclosure. Mortgagees must update the "ADP Code" and "Housing Program" data fields located on the Case Number Assignment Screen in FHA Connection in order to convert a loan to a HECM Saver.

Adaption of Legal Documents

FHA also reminds mortgagees that they are permitted to make the necessary and appropriate modifications to HECM legal documents to ensure compliance with FHA requirements as well as other Federal, State and local laws. Due to the MIP changes provided in this Mortgagee Letter, mortgagees must update the model HECM Loan Agreement that was previously issued as an attachment to Mortgagee Letter 2010-07, in the following manner:

Replace Section 1.7 with:

1.7. Principal Limit means the amount indicated on the attached payment plan (Exhibit 1) when this Loan Agreement is executed, and increases each month for the life of the loan at a rate equal to the sum of the applicable monthly interest rate charge, plus one-twelfth the annual MIP. The Principal Limit is calculated by multiplying the Maximum Claim Amount by a factor supplied by the Secretary, which is based on the age of the youngest Borrower and the Expected Average Mortgage Interest Rate.

If you have any questions regarding this Mortgagee Letter, please contact the FHA Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TTD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

David H. Stevens
Assistant Secretary for Housing-
Federal Housing Commissioner