CHAPTER 1: SYSTEM OVERVIEW

1. SYSTEM OVERVIEW

This chapter is an introduction to the HERMIT Servicing Module:

- **Program Overview**
- **HERMIT Modules and Functionalities**
- **HECM-Key Business Process Flow (Simplified)**
- **System Functionality Overview**

1.1 Program Overview

The Home Equity Conversion Mortgage (HECM) program was introduced to enable eligible borrowers (those who are at least 62 years old) to convert their home equity into cash assisting the borrowers to meet their individual needs without requiring to repay the loan, as long as the borrower resides in the mortgaged home and keep up the obligations of the mortgage. To increase the liquidity of these loans and to protect the lenders from incurring losses due to non-repayment, the Federal Housing Administration (FHA) provides mortgage insurance to private lenders.

This application provides an end-to-end solution (origination to disposition) on the HECM Case processing activities and assists FHA in efficiently managing the HECM portfolio.

1.1.1 About the System

HUD's Home Equity Reverse Mortgage Information Technology (HERMIT) application is the centerpiece of a newly designed and streamlined business service that manages and tracks the loans in HUD's Mutual Mortgage Insurance (MMI) fund. HERMIT consists of a Servicing Module, and an Accounting Module to track loans, calculate and record associated financial transactions. This user guide is focused on the Servicing Module only. The Accounting Module has a separate user guide for the HUD Accounting General Ledger Division (GLD) staff.

1.1.2 Background

The HERMIT Servicing Module is built on a Commercial Off-The-Shelf (COTS) product, STORM (Servicing Technology on Reverse Mortgages). It is licensed from Reverse Mortgage Solutions (RMS) and is maintained by Quality Software Services Inc. (QSSI), a Capability Maturity Model Integration (CMMI) Level 3 organization. It manages the service for HUD as a HECM Business Service Provider (BSP). The application is hosted and maintained by QSSI in Virginia. The HERMIT Servicing Module:

- Manages servicing activities throughout the loan lifecycle
- Accurately manages HECM Cases by case status and sub-status
- Calculates and collects Mortgage Insurance Premiums (MIP)
- Manages HUD-assigned Notes
- Supports management/budgetary reporting
- Supports monthly loan balance reconciliations
- Supports repair administration
- Calculates Claims payments
- Terminates insurance for a loan

These and other functions will be explained in detail within this User Guide.

1.1.3 About this User Guide

This document is a business service guide which provides instructions on the use of the HERMIT system's Servicing Module and is not intended to establish or disseminate HUD program policy.

1.2 HERMIT Modules and Functionalities

As mentioned earlier, HERMIT has two modules, and key functionalities of each are listed below.

- The Servicing Module includes the following major components:
    - Loan Setup/Premiums Collection
    - General Servicing activities for Insurance-In-Force cases and Assigned loans
    - Claims processing
- The Accounting Module includes the following major components:
    - Recording the general ledger impact of financial transactions originating in the Servicing Module, payoffs and reporting

Both modules are tightly coupled together and exchange data pertaining to receivables and collections; and payables and disbursements on a daily basis. They are interfaced with key legacy systems such as Computerized Home Underwriting Management System (CHUMS) for loan setup, Treasury (Pay.gov) for collections and disbursements, and FHA Subsidiary Ledger (FHASL) for the recording of General Ledger (GL) entries amongst other systems.

In the below sections, the constituents of the two modules are briefly explained.

1.2.1 Loan Setup/Premiums Collection

The Servicing Module exchanges data with CHUMS to receive and process HECM Cases. The system allows lenders/servicers to perform loan setup that will trigger collection of IMIP and refunds, where applicable. The high-level functions within this component are:

- The system receives the case details from CHUMS daily into the module
- Loan setup functions are performed by the user prior to the collection of the Initial Mortgage Insurance Premiums (IMIP)
- Information is exchanged for the collection of IMIP via Pay.gov with Accounting
- Notifications are sent to CHUMS that IMIP has been collected
- CHUMS completes the endorsement process and sends the endorsed case to the Servicing Module
- Refunds of MIP and IMIP can also be performed in the application, which is explained in detail within the guide

Each of these functions is explained in detail in Chapter 4.

1.2.2 General Servicing Activities for Insurance-in-Force Cases and Assigned Loans

The Servicing Module allows lenders/servicers (for insurance-in-force loans) and HUD (for assigned loans) to perform general servicing (example: MIP collections, monthly accruals, unscheduled disbursements) until the disposition of the loan. Timelines within the system allows for tracking of key business events. The high-level functions within this component are:

- Transactions:
    - The system allows the user to enter amounts for items as unscheduled disbursements, corporate advances, payoffs, refunds and other types of transactions. Monthly accrual transactions are also tracked here.
- Track compliance:
    - The system allows the user to track the compliance of occupancy, hazard and flood insurance, delinquent taxes, among other events. They are tracked through timelines within the system.
- Track due and payable events:
    - The system allows the user to track several due and payable events, such as death of the borrower and default. They are tracked through timelines within the system.
- Track loss mitigation and disposition options:
    - The system allows the user to track several loss mitigation and disposition events such as family sale pending, short sale, deed-in-lieu, and pre-foreclosure. They are tracked through timelines within the system.
- Terminations (Non-Claims):
    - The system allows the user to terminate a loan through reasons other than Claims such as a refinance, write-off, borrower moved, and borrower paid.
- Track release:
    - To release the mortgage and automatically initiate release timeline, a termination transaction for payoff must be initiated in the system. The release process is managed through a timeline in the system.
- Track reassignments:
    - In cases of a discrepancy such as a title issue, non-payment of property charges, non-occupancy or any activity that could have prevented the loan from being assigned to HUD, a HUD National Servicing Center (NSC) Contractor initiates a timeline in the system and notifies the servicer of the title defect or mortgage default.

Each of these functions is explained in detail in Chapters 5, 6, and 7.

1.2.3 Claims Processing

The Servicing Module allows servicers to electronically submit a claim on behalf of lenders/investors. Additionally, the HUD Claims staff can review and manage claims processing in the Servicing Module. The high level functions within this component are:

- Claims submission:
    - Claim Type (CT) 21 (**Deed-In-Lieu/Foreclosure**): The system allows for the submission of a sale-based or appraisal-based Claim Type 21 due to acquisition of title of the property through Foreclosure or Deed-in-Lieu proceedings. The system allows for the automated submission of a CT 21 that will be approved by the Claims Branch. This is managed through a timeline in the system.
    - Claim Type 22 (**Assignment**): The system allows for the submission of a CT 22 assignment. The loan will be assigned to HUD when it reaches the threshold percentage (as established by HUD) of the maximum claim amount. This is managed through a timeline in the system.

  - Claim Type 23 (**Short Sale**): The system allows for the submission of a CT 23 due to a short sale. The system allows for the automated submission of a CT 23 that will be approved by the Claims Branch. This is managed through a timeline in the system.
  - Claim Type 24 (**HECM Supplemental**): The system allows for the submission of a CT 24 Supplemental. This claim type is filed for reimbursement of expenses that are not covered on the original claim.
- Review and process claims:
  - Once a claim is submitted, the HUD Claims staff can use the Endorsed Claims search screen to review and process Claims. Only the authorized user with the proper permissions will be able to review and update a Claim's status.
- Terminations (Claims):
  - The case status is updated to Terminated after the claim payment confirmation is received from the Accounting Module (Claim is submitted by a servicer and approved by HUD Claims staff).
- Track release:
  - To release the mortgage, a release timeline is automatically initiated in the system upon claim payment confirmation. The release process is managed through a timeline in the system.

Each of these functions is explained in detail in **Chapter 8**.

1.2.4 Accounting Module

The Accounting Module records and processes accounting related transactions within the functional modules like GL, Receivables, Payables, reporting, and data exchange with FHASL and Treasury.

The high-level components within this module are:

- Record GL entries and maintain all HECM-related proprietary and budgetary general ledger account balances.
- Data exchange with the Servicing Module to establish vendors/customers; and to provide interface transactions and related response, error, and status files for accounts payable, accounts receivable, and adjustment transactions (Premiums, Notes, and Claims).
- Data exchange with Treasury Secure Payment System (SPS) and Pay.gov to process disbursements of accounts payable and the collection of accounts receivable, respectively (Premiums and Claims).
- Update FHASL with accounting entries.
- Financial Reports.

1.2.5 Data Exchange with External Systems

HERMIT receives/sends transactions, data and status with key external systems. Their primary purpose, the frequency and the direction (Outbound from/Inbound to HERMIT), is listed below.

- CHUMS (Computerized Homes Underwriting Management System) (Bi-directional daily)
  - Assists and supports Home Ownership Centers (HOCs) staff in the processing of Single Family mortgage insurance applications, from initial receipt through endorsement.
- SFHEDW (Single-Family Housing Enterprise Data Warehouse) (Outbound monthly)

  - Allows queries and provides reporting tools to support HUD's business needs. The HERMIT Servicing Module will send monthly files containing the Claim, Lender and Case Details along with payment plan information and transactions.
- SAMS (Single-Family Acquired Asset Management System) (Outbound monthly)
  - Tracks property acquisition, maintenance and disposition, as well as processes collections, disbursements, and tax payments.
- Ginnie Mae - RFS (Reporting and Feedback System) (Outbound monthly)
  - The central processing system for monthly reporting of pool and loan level data from issuers of mortgage-backed securities.
- REKON (Release of Liens) (Bi-directional daily)
  - Mortgage releases are initiated by the HUD NSC Contractor in the Servicing Module and transmitted for execution within the release of liens software.
- FARETS (Track Delinquent Tax Activity) (Bi-directional weekly)
  - Enables the HUD NSC Contractor to monitor taxes on the assigned and endorsed loans that have completed CT 22-Preliminary Title Approval step.
- BANKO (Bankruptcy and Deceased Information)
  - Enables the HUD NSC Contractor to review information about bankruptcy cases and deceased debtors. The service consolidates and updates bankruptcy cases and death records from all 50 states, the District of Columbia, the U.S. Virgin Islands, Guam, and Puerto Rico daily. It supplies timely, accurate, and complete bankruptcy and death information.
- Imaging (Inbound daily)
  - Allows importation of documents from the HUD NSC Contractor so that the documents can be attached to loans using a predefined naming convention.
- Pay.gov (Bi-directional Daily)
  - Processes collection request files in Pay.gov non-interactive batch format. Receives notification of successful posting by Pay.gov.
- SPS (Bi-directional Daily)
  - Generates disbursement schedule files in Treasury Secure Payment System format for premium refunds and claim payments.
- FHASL (Outbound Daily)
  - The HERMIT system provides aggregated disbursement and collection activity each business day using the FHASL journal import process. HERMIT will store case-level accounting details which, prior to interfacing with FHASL, will be summarized at the unique level of chart field structure and entry events.

1.3 HECM-Key Business Process Flow (Simplified)

The business process flow documented below shows the lifecycle of a HECM Case.

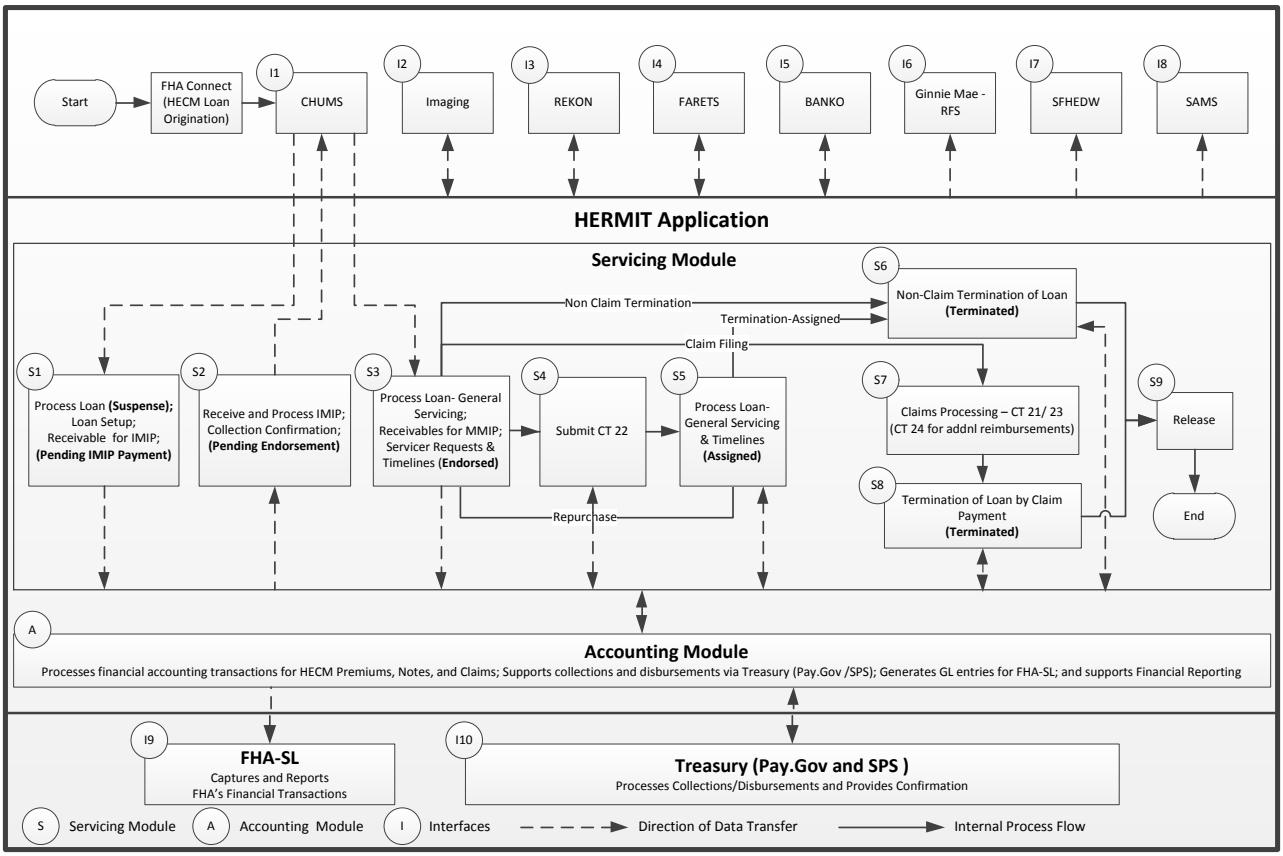

Figure 1-1: Business Process Flow

The boxes labeled I1 to I10 are the interfaces for the Servicing and Accounting Modules. They exchange relevant data and statuses during the loan life cycle to provide the up to date loan status and details.

Details about the process are provided below, starting from top left side:

- **S1:** New loan information is received from CHUMS. The Servicing Module then validates IMIP, Maximum Claim Amount (MCA), and principal limit calculations. It enables lenders/servicers to perform loan setup.
- **S2:** Processes collection of the IMIP due through the Accounting Module and sends a confirmation to CHUMS that collection was successful. The loan is now eligible for endorsement.
    - **A:** The Accounting Module generates payable transactions for refunds (if applicable) and collection transactions for IMIP and sends them to Treasury/Pay.gov. Upon confirmation of disbursements/collections, the status gets sent to the Servicing Module. It then updates the payment status for the transactions.
- **S3:** Calculates payment schedules and related MMIP based on the loan parameters upon confirmation of endorsement from CHUMS. It records all servicing transactions that impact the unpaid loan balance, including Line Of Credit (LOC) withdrawals, scheduled payments, special assessments, set-aside amounts, and other payments on behalf of the borrower. The recorded

transactions are sent to the Accounting Module for payments/collections. Servicer requests also occur here (example: Extensions, Due and Payable, Preservation and Protection).

- **S4:** For Claims submission, it calculates the claim amount and sends the payables (Assignment) transactions to the Accounting Module.
- **S5:** For Assignments, it records all servicing transactions that impact the unpaid loan balance, including LOC withdrawals, scheduled payments, set-aside amounts, and other payments on behalf of the borrower. These transactions are sent to the Accounting Module. For Claims submission, the Servicing Module calculates the claim amount and sends the receivables (Repurchase) transactions to the Accounting Module.
    - **A:** The Accounting Module generates payable and receivable transactions for general servicing transactions (Insurance In Force and Assigned) and sends them to Treasury/Pay.gov. Upon confirmation of disbursements/collections, the status gets sent to the Servicing Module. It then updates the payment status for the transactions.
- **S6:** In the event of non-claim termination activities for endorsed loans, it updates the case status, case sub-status, and loan balance.
- **S7:** For Claims submission, it calculates the claim amount and sends the payables (Foreclosure/Deed-in-Lieu, Short Sale, and Supplemental) and receivables (Repurchase) transactions to the Accounting Module.
    - **A:** It generates transactions for payables and receivables and sends them to Treasury/Pay.gov. Upon confirmation of disbursements/collections, the status gets sent to the Servicing Module. It then updates the payment status for the transactions.
- **S8:** For termination activities (for example: payoff or Foreclosure/Deed-In- Lieu Conveyed) for Assigned loans, Servicing Module calculates the pay-off amount, sends the transactions to the Accounting Module, updates the case status, case sub-status, and loan balance.
    - **A:** The Accounting Module generates notes transactions for collections and sends them to FHASL.
- **S9:** The Servicing Modules allows release of liens as needed. Release are initiated by the HUD NSC Contractor in the Servicing Module and transmitted for execution within the release of liens software.

1.4 System Functionality Overview

1.4.1 Desktop/System Requirements

To effectively use the HERMIT Servicing Module, a Personal Computer that is web-enabled with Internet Explorer version 7 or later, Windows XP operating system, and a minimum of broadband-speed connectivity to the Internet are required. Microsoft Excel or an Excel Viewer and an Adobe Acrobat Reader are also required. To get the free Acrobat Reader, which enables viewing of PDF files, go to **http://get.adobe.com/reader/.**

To get a free Microsoft Excel viewer, which enables viewing of spreadsheets as read-only files, go to **http://www.microsoft.com/download/en/confirmation.aspx?id=10.**

1.4.2 Recommended Browser Settings

The following browser settings must be enabled to the view the PDF documents:

Step 1. Click **Internet Options** from the browser menu.

Step 2. On the **Internet Options** window, select **Security** tab.

Step 3. Select **Custom Level** button on the **Security** tab. This opens **Security Settings – Internet Zone** window.

Step 4. On this window, under **Downloads** section enable the following fields:

- Automatic prompting for file downloads
- File download
- Font download

Step 5. Click **OK** to save the changes or click **Cancel** to exit without saving the changes.

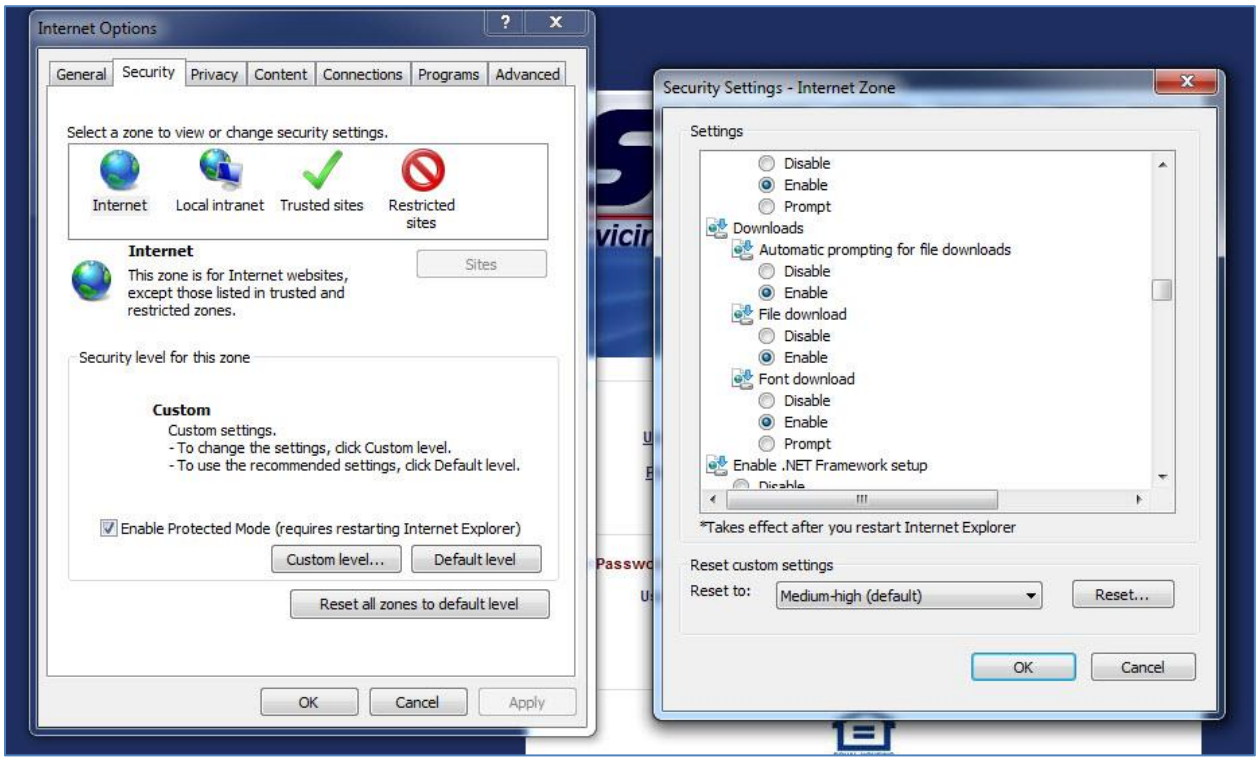

Figure 1-2: Browser Settings

1.4.3 Security

Access to the Servicing Module is governed by user roles and permissions provided during user registration. A variety of personnel use HERMIT, and while many job functions overlap, users are restricted to only the functions that their job requires. Your login credentials govern the activities you can perform in HERMIT. Your supervisor will approve the user form that contains your user role. The next chapter will guide you to the content described in this document that are most relevant to the tasks you perform including the user form and related process.