



Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Requirements for Underwriters and Processors

February 2, 2015

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Materials Referenced During This Session

- *HECM Financial Assessment and Property Charge Guide*
 - Go to www.hud.gov/lenders
 - Click on “Mortgage Programs”
 - Click on HECM Lenders
 - On the right side of the page, under “Reference Materials”, click on “Revised HECM Financial Assessment and Property Charge Guide”
- Mortgage Letters 2014-21 and 2014-22
- This presentation may be accessed and printed from the “Materials” tab of this Webinar.



Today's Session

- Financial Assessment Requirements and Fundamentals
- Credit History Review
- Documentation and Verification Standards
- Income, Expenses, Residual Income
- Financial Assessment File Documentation
- Extenuating Circumstances and Compensating Factors
- Life Expectancy Set-Asides
- Financial Assessment Worksheet



A Note About Time...

This session is currently planned for 90 minutes. However, based on the amount of content and the number of questions received, we may continue this session for all interested participants for an additional 30 minutes.



Financial Assessment Requirements and Fundamentals





Financial Assessment Requirements

- Fundamentals
 - Assess credit history
 - Assess property charge payment history
 - Calculate residual income
- Determine if:
 - A fully funded or partially funded Life Expectancy Set-Aside for the payment of property charges is required; and
 - The HECM represents a sustainable solution for the mortgagor's financial situation.



Financial Assessment Requirements

- Financial Assessment requirements apply to all HECMs:
 - Traditional
 - Refinance
 - Purchase
- Financial Assessment must be performed for each mortgagor:
 - No “fast track” procedures
 - Borrower requested Life Expectancy Set-Aside does not mean that the full financial assessment requirements do not have to be met.



Underwriting and Documentation Standards

- HECM *Financial Assessment and Property Charge Guide* content for basic documentation and verification standards is modeled on HUD Handbook 4000.1 rather than on HUD Handbook 4155.1:
 - Provides better definition of terms and greater clarity in policy
 - Revised to address unique aspects of a HECM
- **IMPORTANT:** The Guide contains the underwriting policy for HECM financial assessments, not HUD Handbook 4000.1 for forward mortgages.



Underwriting and Documentation Standards

- The HECM Guide will eventually be incorporated into Handbook 4000.1 along with all other HECM requirements.
- HECM Handbook provisions relating to HECM will be posted on Single Family Housing's Drafting Table for public review and feedback at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/SFH_policy_drafts.
- Following analysis of public feedback, new Handbook provisions will be published with a future effective date.
- Initial draft expected to be posted later in 2015.



HECM Counseling





Counselor Role in Financial Assessment

- Will **NOT** make determinations of Client Eligibility.
- Will advise clients that final decisions on eligibility are the sole responsibility of the mortgagee and not the counselor.
- Will cover Financial Assessment requirements with the client “during” the session.
- Will explain documentation requirements and terms (i.e., residual income, compensating factors, non-cash benefits.)
- Will highlight areas that could require further review by the mortgagee and may impact their potential eligibility.



Credit Reports

- Counselors **not** required to pull client credit reports.
- Counselors may ask the client to bring in credit reports on their own, especially if intake reveals it may be beneficial.
- Mortgagees are now permitted to pull credit reports prior to application; if the mortgagee did so, encourage the client to provide that report.
- Ask client of any “known” credit issue, key ones being housing-related debt and expenses, including property charges such as taxes, insurance, and HOA dues.



Credit History Review





Credit History Review (Mortgagors)

- Section 2.12 of Guide (page 21).
- The mortgagee must evaluate the credit history of all mortgagors.
- Credit report required for each mortgagor: Tri-Merged Credit Report (TRMCR) or Residential Mortgage Credit Report (RMCR).
- Standards for credit report are provided in Section 2.4 of Guide (page 17).
- If TRMCR or RMCR generates a credit score (3 scores are not required), mortgagor has *traditional credit history*.



Credit History Review

Eligible Non-Borrowing Spouse/Non-Borrowing Household Member

- The mortgagee must not review the credit history of an Eligible Non-Borrowing Spouse or Other Non-Borrowing Household Member, even in community property states.
- The credit history of an Eligible Non-Borrowing Spouse or an Other Non-Borrowing Household Member will not affect the HECM loan decision.
- Mortgagee must obtain a credit report for an Eligible Non-Borrowing Spouse or an Other Non-Borrowing Household Member only where their residual income will be used in the financial assessment (calculation of residual income requires calculation of monthly payments that are available only on credit report.)



Credit History Review

Credit Report Requirements

- If TRMCR or RMCR does not generate a credit score, mortgagor has *non-traditional credit history*.
- Non-traditional credit history must be developed only for mortgagors seeking a HECM for purchase.
- Credit report required for Eligible Non-Borrowing Spouse or Other Non-Borrowing Household Member in order to calculate residual income-must meet the same standards as that for mortgagor.



Review of Payment Histories

- Section 2.13 of guide (page 21).
- Evaluate payments histories in the following order:
 - Current or previous mortgage debt and housing-related expenses
 - Installment debts
 - Revolving accounts



Satisfactory Credit History

- Section 2.15 of Guide (page 22).
- The mortgagee may make a determination that the mortgagor has satisfactory credit, where:
 - The mortgagor has made all housing and installment payments on time for the previous 12 months, and has no more than two 30-day late housing or installment payments in the previous 24 months.
 - The mortgagor has no major derogatory credit on revolving accounts in the previous 12 months.



Satisfactory Credit History

- Major derogatory credit on revolving accounts is defined as:
 - Any revolving credit payments within the last 12 months more than 90 days late, and/or
 - Three or more revolving credit payments within the last 12 months more than 60 days late.
- Derogatory credit includes late payments that meet these standards, even if account was subsequently paid off or closed.



Specific Credit Issues

- Guide provides specific guidance on the treatment of:
 - Collections and charge-off accounts (Sections 2.17 and 2.18).
 - Disputed derogatory accounts (Section 2.19).
 - Judgments (Section 2.20).
 - Delinquent federal debt (Section 2.21).
 - Delinquent FHA-insured mortgages (Section 2.22).
 - Delinquent Federal Tax Debt (Section 2.23).
 - Bankruptcy on HECM Purchase (Section 2.24 and 2.25).
- If these items appear on the credit report or other records, they must be addressed, even if more than 24 months old.



Collections and Charge-Off Accounts

- Sections 2.17 and 2.18, page 23 in Guide.
- Do not have to be paid off or placed under a payment plan, but mortgagee must determine why these accounts were placed in collection or charged off.
- A letter of explanation from the mortgagor is required for each collection or charge off account.
- Mortgagee must document reasons for approving a mortgagor with collection or charge off accounts.
- These accounts are not mandatory obligations and may not be paid off at HECM closing using HECM proceeds.



Judgments

- Section 2.20 in Guide (page 24).
- Judgments must be resolved or paid off prior to or at closing.
- If not paid off, mortgagor must:
 - have entered into valid agreement with creditor to make regular payments, and
 - have made timely payments for at least three months.
- Mortgagor may not prepay three months of payments to meet requirement.
- Judgment may not supersede HECM first lien.
- Judgments are not mandatory obligations and may not be paid off at HECM closing using HECM proceeds.



Delinquent Federal Non-Tax Debt

- Section 2.21 in Guide (page 25).
- Mortgagees must determine if mortgagor has delinquent federal non-tax debt:
 - Must check credit report and public records.
 - Must check against Credit Alert Verification Reporting System (CAIVRS).



Delinquent Federal Non-Tax Debt

- If delinquent federal non-tax debt is reported, mortgagees must verify with creditor agency.
- If creditor agency verifies debt is valid and delinquent, mortgagor is ineligible until delinquency is resolved.
- 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

- Section 2.22, page 26 in Guide.
- Mortgagor not eligible until delinquency is resolved.
- Delinquent FHA-Insured mortgage on principal residence.
 - If HECM proceeds used to pay off mortgage at HECM closing, borrower is eligible.
- Other delinquent FHA-Insured mortgages:
 - Must be resolved before application can continue to be processed.
 - Not mandatory obligations and may not be brought current or paid off at HECM closing using HECM proceeds.



Delinquent Federal Tax Debt

- Section 2.23 in Guide (page 26).
- Mortgagors with delinquent federal tax debt are ineligible.
- To become eligible, mortgagor must either pay off the debt (before or at closing), or:
 - Have entered into valid agreement to make regular payments; and
 - Have made timely payments for at least three months.
- Mortgagor may not prepay three months of payments to meet requirement.
- Delinquent Federal tax debt may be considered a mandatory obligation and may be paid off at HECM closing using HECM proceeds.



Satisfactory Property Charge Payment History

- Sections 2.27 (page 29) and 2.28 (page 30) of Guide.
- The mortgagee may make a determination that the mortgagor has a satisfactory property charge payment history where:
 - All property charges are current and there are no property tax arrearages in the last 24 months.
 - Homeowners/hazard insurance and, if applicable, flood insurance, were current and in place for a minimum of prior 12 months (if the mortgagor did not have homeowners/hazard insurance and, if applicable, flood insurance, mortgagor must obtain and prepay for 12 months at loan closing); and
 - All HOA, Condominium or PUD fees are current and there were no arrearages in the last 24 months.



Exemption or Deferral from Property Charges

- Section 2.26 of Guide (page 28).
- Where taxing authority has exempted or deferred tax payments, lower amount may be used in financial assessment:
 - Must not result in lien on property.
 - Approval of HECM must not jeopardize eligibility for exemption or deferral.



Credit and Property Charge Payment History Requiring Additional Analysis

- Sections 2.16 (page 22) and 2.27 (page 29) in Guide.
- Failure to meet satisfactory standard is not necessarily a reason to reject a mortgagor.
- Instead, it means that mortgagees 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.



Documentation and Verification Standards



Documentation and Verification Standards for Income and Debts

- Chapter 3 provides documentation and verification standards for various types of income, assets, and debts.
- Sections 3.8 through 3.67 establish verification and documentation requirements for calculating effective income.
- Sections 3.71 through 3.75 establish verification and documentation requirements for assets.



Documentation and Verification Standards for Income and Debts

- Sections 3.81 through 3.95 establish verification and documentation requirements for expenses.
- These standards do not deal with residual income per se, but rather with the information needed to calculate residual income.
- Mortgagees may rely upon third-party verification services for income and debts, provided standards specified in Section 1.10, page 14 in Guide (Handling of Documents) are met.



Income



Definition of Effective Income

- Section 3.4, page 31 in Guide.
- Effective income is defined as income that meets these standards:
 - Is legally derived.
 - If mortgagor is required to file tax returns, is reported on mortgagor's tax returns.
 - Meets documentation and verification standards in Guide.



Types of Mortgagor Income

- Employment-related Income:
 - Regular
 - Seasonal
 - Part-time
 - Overtime and bonus
 - Commission
- Two-year history required.
- Mortgagee must verify employment through pay stubs, and:
 - A written verification from employer; or
 - Tax returns.



Types of Mortgagor Income

- Non-Employment-Related Income:
 - Rental income.
 - Disability.
 - Pension/Retirement/Annuity.
 - Military, VA, SSI, Other Public Assistance.
 - Investment Income.
 - Other Sources.
- Must be documented by award letters or other documentation from the source of the income.



Boarder Income

- Section 3.55, page 51 in Guide.
- Boarders refer to individuals renting space in mortgagor's home.
- Boarder income must be documented on two years of tax returns.
- Mortgagee is not obligated to determine if boarders are permitted under state or local ordinances.



Government Assistance Non-Cash Benefits

- Section 3.68 in Guide (page 54).
- Government benefit programs such as Supplemental Nutrition Assistance Program or SNAP (food stamps) may be treated as income provided that:
 - Benefits are already being received, or will be received within 60 days;
 - Benefits are not subject to any specific termination date other than the death of the mortgagor or the sale of the property; and
 - Approval of the HECM will not jeopardize eligibility for the benefits.



Imputed Income from Asset Dissipation

- Section 3.69 in Guide (page 55).
- We say “imputed” because we are not requiring that assets be actually dissipated; it is a theoretical calculation of income available if assets were dissipated.
- Two categories of assets: taxable and non-taxable.
- Non-taxable assets are not discounted; the entire principle amount may be converted to income.
- In order to be considered for dissipation, asset must be verified and documented (Sections 3.71 through 3.75, pages 57-58, in Guide).



Imputed Income from Asset Dissipation

- Section 3.70 in Guide (page 56).
- Provides a table that mortgagees may use to calculate imputed income from dissipated assets.
- Jointly-held assets may be used, provided mortgagor has unrestricted use of them.
- Mortgagees must document in the file the specific assets they used and their calculations of the income derived from those assets.



Imputed Income from Asset Dissipation

- Taxable assets must be discounted before converting them to income; discount is the lesser of:
 - 15%, or
 - Mortgagor's actual tax rate.
- If there are cash investment requirements (as with a HECM for purchase), those funds must be subtracted before calculating income.



Example of Imputed Income from Asset Dissipation

- Assume:
 - Mortgagor is 69 years old.
 - Has \$40,000 in savings account.
 - Has \$62,000 in 401(k).
 - Is taxed at 8.0% tax rate.
- Life expectancy for a 69 year old is 16 years/192 months (per Appendix 2 of Guide).



Example of Imputed Income from Asset Dissipation

Asset	Amount	Discount	Discounted Amount	Divided by 192	Monthly Imputed Income
Savings	\$40,000	0%	\$40,000	/192	\$208.33
401(k)	\$62,000	8%	\$57,040	/192	\$297.08
Total					\$505.41



Eligible Non-Borrowing Spouse Income

- Section 3.5 in Guide (page 32).
- Definition and requirements for an Eligible Non-Borrowing Spouse are found in Mortgagee Letters 2014-07 and 2015-02.
- Only income from an Eligible Non-Borrowing Spouse may be used.
- Residual income from an Eligible Non-Borrowing Spouse may not be included in the calculation of the mortgagor's residual income. However, it may be used in one of two ways:
 - As a compensating factor when the mortgagor's residual income falls below the standard; or
 - To reduce family size when determining if the mortgagor's residual income meets the standard.



Eligible Non-Borrowing Spouse Income

- Eligible Non-Borrowing Spouse income may not include imputed income from dissipated assets.
- Eligible Non-Borrowing Spouse must voluntarily provide information on his or her income and expenses.
- Standards for underwriting and documentation are the same as for the mortgagor.



Other Non-Borrowing Household Member Income

- Section 3.6 in Guide (page 32).
- Defined as occupant of property who is not a spouse and who is not a mortgagor.
- Residual income from an Other Non-Borrowing Household Member may not be included in the calculation of the mortgagor's residual income.
- Residual income from an Other Non-Borrowing Household Member may only be used to reduce family size when determining if the mortgagor's residual income meets the standard.



Other Non-Borrowing Household Member Income

- Income may not include imputed income from dissipated assets.
- Other Non-Borrowing Household Member must voluntarily provide information on his or her income and expenses.
- Standards for underwriting and documentation are the same as for the mortgagor.



Expenses



Expense Analysis

- Sections 3.76 through 3.94 in Guide (pages 59-67).
- Lists monthly obligations that must be counted as expenses when calculating residual income.
- Some benefit programs serve to reduce expenses, e.g., discounted insurance rates:
 - These reduced rates may be used when calculating expenses.
 - May be used to increase income or to reduce expenses, but not both.
- Payments associated with liens being extinguished with HECM proceeds do not have to be counted as expenses.



Verifying Property Charges

- Section 3.95 (page 67) in Guide.
- Provides requirements for documenting amount of property charges.
- May be verified through written statements from taxing authority or association, management companies or other sources.
- Calculate property charges as percentage of gross income, key indicator for default (Section 3.98, page 68 in Guide).
- Mortgagees may rely upon third party verification services provided standards specified in Section 1.10, page 14 in Guide (Handling of Documents) are met.



Utility and Maintenance Expense

- Section 3.94 (page 67) in Guide.
- Mortgagees may rely on the formula established by the 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:

$$\begin{array}{r}
 1,500 \text{ square feet gross living area} \\
 \times \$ 0.14 \\
 \hline
 \$210.00 \text{ per month}
 \end{array}$$



Expense Analysis for Eligible Non-Borrowing Spouse and Other Non-Borrowing Household Member

- If residual income from an Eligible Non-Borrowing Spouse will be used as a compensating factor or to reduce family size, the same expense analysis as that for mortgagors must be completed.
- If residual income from Other Non-Borrowing Household member will be used to reduce family size, the same expense analysis as that for mortgagors must be completed.



Residual Income



Residual Income

- Section 3.100 in Guide (page 69).
- Identify the geographic region in which the property is located (Section 3.101).
- Calculate the family size:
 - All persons who live in the property, *except*
 - Those persons whose residual income equals or exceeds the required amount for a one-person family in the applicable geographic region.
- Documentation required when using one-person family size revised to take into account mortgagors who do not file tax returns.



Residual Income Example

- Assume:
 - Husband and wife – both mortgagors.
 - Living in West Region.
 - Social Security and pension are only sources of effective income.
 - Mortgage on property to be paid off with HECM.



Residual Income Example

Effective Monthly Income

- Imputed Income: \$ 866
- Social Security: 1,100
- Pension: 300
- Total Effective Income \$2,266**

Monthly Expenses

- Utilities & Maintenance: \$ 210
- Property Charges: 450
- Credit Cards: 275
- Car Loan: 170
- Federal Income Taxes: 105
- Total Monthly Expenses: \$1,210**



Residual Income Example

- Residual Income = \$1,056 (effective income of \$2,266 – (minus) total expenses of \$1,210).
- Go to Table of Residual Income (Section 3.100, page 69 in Guide).

Family Size	Northeast	Midwest	South	West
1	\$ 540	\$ 529	\$ 529	\$ 589
2	\$ 906	\$ 886	\$ 886	\$ 998
3	\$ 946	\$ 927	\$ 927	\$1,031
4 or more	\$1,066	\$1,041	\$1,041	\$1,160





Using Eligible Non-Borrowing Spouse Residual Income

- Assume a mortgagor in the Northeast region has monthly residual income of \$500 per month, and Eligible Non-Borrowing Spouse has monthly income of \$600 per month.
- Residual income standard for one-person household is \$540; for two-person household, it's \$906.
- If Eligible Non-Borrowing Spouse residual income is used to reduce family size, mortgagor still does not meet standard; income of \$500 is less than required \$540.
- If Eligible Non-Borrowing Spouse residual income is used as a compensating factor, combined income of \$1,100 exceeds two-person standard of \$906.



Financial Assessment File Documentation



Financial Assessment Required Documents for Endorsement

- HECM Financial Assessment worksheet signed by DE Underwriter (#2, Right Side of Binder).
- Part VI of Fannie Mae Form 1003, or equivalent (#16, Right Side of Binder).
- Financial Assessment Documentation (#19, Side of Binder).
- Evidence of calculations for Life Expectancy Set-Aside (#22, Side of Binder).



Extenuating Circumstances and Compensating Factors



Extenuating Circumstances and Compensating Factors

- Extenuating Circumstances: Section 4.1 in Guide (page 71).
 - Designed to address issues of derogatory credit or property charge payment history.
 - Guide provides examples only, not inclusive list.
- Compensating Factors: Section 4.2 in Guide (page 72).
 - Designed to address residual income shortfall.
 - Limited to list in Guide.



Life Expectancy Property Charges and Property Charge Set Asides



Life Expectancy Property Charges

- Sections 5.2 (page 75) and 5.3 (page 76) in Guide.
- Projected Life Expectancy Property Charges are based on a formula which includes:
 - The projected sum of:
 - Current property taxes,
 - Current homeowners/hazard insurance premiums, and
 - Flood insurance premiums (if applicable).
 - A factor to reflect increases in tax and insurance rates.
 - The expected mortgage interest and annual Mortgage Insurance Premium (MIP) rate.
 - The life expectancy of the youngest mortgagor.



Life Expectancy Property Charges Example

- Formula for Calculating Projected Life Expectancy Property Charge Cost equals:

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

- Assume:
 - Youngest mortgagor is 74 years old.
 - Annual property charges = \$3,000



Life Expectancy Property Charges Example

Annual Property Charges = \$3,000

Starting Annual Property Charges (PC):	\$3,000.00
Monthly Property Charge (PC/12):	\$ 250.00
TALC Life Expectancy (Yrs):	12
Life Expectancy in months (m):	144
Life Expectancy Property Charges:	\$28,971.52

Annual Property Charges = \$5,000

Starting Annual Property Charges (PC):	\$5,000.00
Monthly Property Charge (PC/12):	\$ 416.67
TALC Life Expectancy (Yrs):	12
Life Expectancy in months(m):	144
Life Expectancy Property Charges:	\$48,285.87



Life Expectancy Set-Aside

- Section 5.1 in Guide (page 75).
- If a mortgagor has a satisfactory credit history and property charge payment history, and residual income meets the standard, a Life Expectancy Set-Aside is not required.
- If the mortgagor does not have:
 - A satisfactory credit history, and/or
 - A satisfactory property charge payment history, and/or
 - Adequate residual income
- Then, a Life Expectancy Set-Aside must be funded as a condition of HECM approval.
- 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.



Mortgagor Meets Financial Assessment Requirements

- Where the mortgagee determines that credit history, property charge payment history, and residual income are satisfactory, a Life Expectancy Set-Aside is not required.
- “Satisfactory” includes situations where extenuating circumstances and/or compensating factors have been documented.
- Mortgagors may voluntarily decide to establish a Life Expectancy Set-Aside, or select other options for the payment of property charges.



Fully Funded Life Expectancy Set-Aside

- Section 5.4 in Guide (page 76).
- Required when, even after taking into account extenuating circumstances, the mortgagor has not demonstrated the willingness to meet his or her financial obligations, even if residual income is sufficient.
- Property charges will be paid by the mortgagee out of the Life Expectancy Set-Aside.
- Required Set-Aside amount is equal to the Projected Life Expectancy Property Charges.



Partially Funded Life Expectancy Set-Aside

- Sections 5.5 and 5.6 in Guide (page 77).
- Required when the mortgagor has demonstrated the willingness to meet his or her financial obligations but, even after taking into account any compensating factors, residual income is not sufficient.
- Mortgagor will receive semi-annual payments designed to bring residual income up to the standard.
- Mortgagor is responsible for the payment of all property charges.



Partially Funded Life Expectancy Set-Aside Example

- Single mortgagor in West Region is 74 years old.
- Residual Income = \$428.
- Projected Life Expectancy Property Charges = \$28,971.52.
- Table of Residual Income (Section 3.100, page 69 in Guide).

Family Size	Northeast	Midwest	South	West
1	\$ 540	\$ 529	\$ 529	\$ 589
2	\$ 906	\$ 886	\$ 886	\$ 998
3	\$ 946	\$ 927	\$ 927	\$1,031
4 or more	\$1,066	\$1,041	\$1,041	\$1,160



Partially Funded Life Expectancy Set-Aside Example

Monthly Residual Income Shortfall = \$170

What if Monthly Residual Income Shortfall = \$210?

Monthly Residual Income Shortfall:	\$ 170.00
TALC Life Expectancy (Yrs)	12
Life Expectancy in months (m)	144
Partially Funded LESA	\$19,700.63

Monthly Residual Income Shortfall:	\$ 210.00
TALC Life Expectancy (Yrs)	12
Life Expectancy in months (m)	144
Partially Funded LESA	\$24,336.08



Partially Funded Life Expectancy Set-Aside

- In example, Monthly Residual Income Shortfall of \$170 resulted in Partially Funded Life Expectancy Set-Aside of \$19,700.63.
- Divided by Life Expectancy Property Charges of \$28,971.52 = 68.0%.
- If Monthly Residual Income Shortfall is \$210 it results in Partially Funded Life Expectancy Set-Aside of \$24,336.08.
- Divided by Life Expectancy Property Charges of \$28,971.52 = 84.1%.



Partially Funded Life Expectancy Set-Aside

- Section 5.7 in Guide (page 78).
- Additional requirement for a Partially Funded Life Expectancy Set-Aside.
- Where the Partially Funded Life Expectancy Set-Aside is greater than 75% of the Projected Life Expectancy Property Charges, a Fully Funded Life Expectancy Set-Aside is required.
- In our example, Monthly Residual Income Shortfall of \$210 would require a Fully Funded Lifetime Expectancy Set-Aside.



Decision Process





Life Expectancy Set-Aside Decision Matrix

- Section 5.9 in Guide (page 78).
- Even if one, two, or even three of the financial assessment criteria - credit history, property charge payment history, and residual income – are unacceptable, the HECM may still be approved.
- Provides scenarios where a Life Expectancy Set-Aside is not required (Table 1, page 79 in Guide), must be fully funded (Table 2, page 80 in Guide), or partially funded (Table 3, page 81 in Guide).
- Not designed to cover every situation, but to provide guidance on factors that mortgagee should take into account when making its decision.



Life Expectancy Set-Aside Decision Example 1

- Assume mortgagor:
 - Meets residual income standard.
 - Meets property charge payment history standard (but payments were made through mortgagee-administered escrow account).
 - Has active judgments on record.
 - Is delinquent on car loan.
 - Has no documented extenuating circumstances.
- What would you require?
 - No set-aside?
 - Partially Funded Set-Aside?
 - Fully Funded Set-Aside?



Life Expectancy Set-Aside Decision Example 2

- Assume mortgagor:
 - Has residual income of 78% of standard.
 - Has no compensating factors.
 - Meets property charge payment history standard and has made payments directly.
 - Meets installment and revolving credit standard.
 - Property charges are 5% of income.

- What would you require?
 - No set-aside?
 - Partially Funded Set-Aside?
 - Fully Funded Set-Aside?



Life Expectancy Set-Aside Decision Example 3

- Assume mortgagor:
 - Has residual income of 81% of standard.
 - Has income which has remained stable over last 24 months.
 - Has paid all of their own property charges for the past 4 years.
 - Meets credit and property charge payment history standards.
- What would you require?
 - No set-aside?
 - Partially Funded Set-Aside?
 - Fully Funded Set-Aside?



Making the Loan Decision

- If credit history, property charge payment history, and residual income meet standard – including where standard is met after taking into account extenuating circumstances and compensating factors, HECM may be approved without funding a Life Expectancy Set-Aside.
- Even after determining that a Life Expectancy Set-Aside must be funded, mortgagee must still make a determination that the HECM is a sustainable solution to mortgagor's financial circumstances.



Financial Assessment Worksheet



Model HECM Financial Assessment Worksheet

- Section 3.102 (page 70) and Appendix 1 (page 82) in Guide.
- Designed to capture key information from financial assessment.
- Mortgagee must record whether it has determined if credit history, property charge history, and residual income meet standard.
- Will provide a basis for entering financial assessment data in FHA Connection (details to follow prior to effective date of Mortgagee Letter 2014-22).
- Model worksheet only; mortgagees may use this model or design their own.



Model HECM Financial Assessment Worksheet

- In Section A (Property Charge Payment History) Column Heading entitled *Delinquent Last 24 Months* does not apply to hazard and flood insurance; mortgagees must simply check “Yes” or “No” if insurance was in place for last 12 months.
- Section B (Credit History) asks for entry of delinquent payments over previous 24 months; for revolving accounts mortgagees need only enter delinquencies over previous 12 months.
- In Section J (Monthly Property Taxes as % of Monthly Income) mortgagees should calculate property charges as a percentage of income, not property taxes.



Questions



Appendix 1

Proposed FHA Connection Data Entry Requirements For Financial Assessment



Financial Assessment and FHA Connection

- New data entry requirements for FHA Connection (FHA-C) to capture key financial assessment information.
- Over time, data will provide FHA with the ability to analyze different aspects of financial assessment and impact on loan performance.
- Financial assessment data entry required only for loans with case numbers assigned on or after March 2, 2015.
- Financial assessment data will probably be entered in a new Financial Assessment screen.
- Insurance application screen will be largely the same.



FHA Connection – Insurance Application Screen

- Some data fields previously optional will be mandatory for case numbers issued on or after March 2, 2015.
- Revised definition for *Real Estate Debts*: Do not include in amount entered any real estate debt to be extinguished at closing with HECM proceeds.
- Add fields for the entry of credit scores for mortgagors.



FHA Connection - Financial Assessment Screen

Credit Characteristics

Real Estate taxes current	Yes	No	NA	Real estate taxes delinquent last 24 months	Yes	No	NA
HOD, PUD, Condo fees current	Yes	No	NA	HOA,PUD Condo fees delinquent last 24 months	Yes	No	NA
Real Estate debt current	Yes	No	NA	Real estate debt: no lates last 12 months, <3 30 day lates last 24 months	Yes	No	NA
Non-real estate debt current	Yes	No	NA	Non-real estate debt: no lates last 12 months, <3 30 day lates last 24 months	Yes	No	NA
Revolving debt current	Yes	No	NA	Revolving debt: no 90 day lates and < 3 60 day lates last 12 months	Yes	No	NA



FHA Connection - Financial Assessment Screen

Monthly Effective Income

Imputed monthly income from dissipation of assets	\$
Monthly income from all other sources	\$
Total monthly income	\$



FHA Connection - Financial Assessment Screen

Monthly Expenses

Real Estate debt monthly payments	\$
Debts (non-real estate) monthly payments	\$
Other monthly expense payments	\$
Total monthly expense payments	\$



FHA Connection - Financial Assessment Screen

Monthly Property Charges

Monthly real estate taxes	\$
Monthly hazard insurance	\$
Monthly flood insurance	\$
Subtotal	\$
Monthly HOA, PUD, Condo Fees	\$
Monthly other property charges	\$
Total monthly property charges	\$



FHA Connection - Financial Assessment Screen

Projected Life Expectancy Property Charges

1.2 X Annual RE Taxes and Insurance/12	\$
TALC life expectancy in months	months
Expected rate	%
Compounding rate	%
Projected life expectancy property charges	\$



FHA Connection - Financial Assessment Screen

Monthly Residual Income

Family size	
Residual income standard	\$
Total monthly income	\$
Total monthly expense payments	\$
Total monthly property charges	\$
Monthly residual income	\$
Residual income standard	\$
Monthly residual income	\$
Monthly residual income shortfall	\$



FHA Connection - Financial Assessment Screen

Compensating Factors

Property charge payment history		Access to other income or resources	
Non-Borrowing Spouse income		Expected SSI, pension income	
Overtime, bonus, seasonal, part-time income		Imputed income from HECM	
Assets equal to life expectancy property charge		HECM sufficient to pay off debts	



FHA Connection - Financial Assessment Screen

Life Expectancy Set-Aside Requirement

Not required		\$0
Voluntary fully-funded		\$
Required fully-funded		\$
Required partially funded		\$